

ness inventories. Despite mergers, the competitive pressures of large concerns and marketing problems, it remains very much alive.

Experience over the recent past indicates that small business will continue to grow at least in pace with the general economy. As a rule, small firms tend to gain more than proportionately in periods of business expansion; conversely, they tend to suffer disproportionately in periods of contraction. In addition, there are certain favorable indications which point to realistic opportunities to improve the relative position of small business in a progressively expanding economy:

Higher individual and family incomes will increase demands for more personalized, custom-type goods and services which often are produced most efficiently by small firms.

Growing mass markets—which stimulate the growth of large firms for certain functions—create new opportunities for specialized small firms in other parts of the production and distribution process, as has been the experience in the automotive industry.

The drift of technology and growing diversification of the mass market tend, in general, to favor smaller units.

Long-term growth prospects are most favorable for trade and service industries, in both of which small concerns predominate.

The progressively higher level of education of the general population should generate an increasing supply of entrepreneurs more capable of coping with the challenges of the modern urbanized economy than their counterparts in the present and earlier generations.

Government expenditures for goods and services have been rising dramatically since 1960. In 1966, the National Planning Association projected these expenditures to rise from \$100 billion in 1960 to \$287 billion in 1976. Of these amounts, NPA estimated that *purchases from business* would increase from \$52 billion in 1960 to \$138 billion in 1976 and that the State and local expenditures would exceed the Federal purchases from business:

[In billions of 1966 dollars]

	1960	1965	1971	1976
Purchases from business:				
Federal.....	31.6	37.9	44.9	54.4
State and local.....	20.5	29.8	52.3	83.6
Total.....	51.2	67.7	97.2	138.0

These projections indicate that we can expect a product mix more favorable to small business and that the absolute and relative share of small concerns in Government purchases should progressively increase.

While encouraged by these favorable indications, we are not oblivious to certain unfavorable situations or trends which will continue to pose challenges to small business in the years ahead.

The total number of firms in manufacturing has been declining slowly over most of the past ten years, in a period of extraordinary growth of total output. While there are some indications that the downward trend has been arrested or reversed in the past two years, grave problems persist for small manufacturers in major segments of the industry. Recent studies by the Federal Trade Commission shed some new light on developments in the industry. A study of 213 categories of manufacturing revealed that the number of firms increased from 95,000 to 99,000—a growth of 4.6 percent in 16 years. Within the groups, however, the number of firms manufacturing producer goods—where technology has had a major impact and where successful marketing is subject to rigorous cost and quality tests—the number of firms actually increased by 23.3 percent in the same period. Meanwhile, the number of firms manufacturing consumer goods declined by 8.1 percent. These widely divergent trends appear to reflect the influence of brand name and other forms of product differentiation, practiced by large manufacturers and conglomerates, powerfully reinforced by television advertising. Dr. Blair, Chief Economist for the Senate Subcommittee on Anti-Trust and Monopoly, stated the problem succinctly in the following words. "It would indeed be ironic if the potential for greater decentralization and stronger competition inherent in the new technologies of production were to be more than offset by the