

First Congressional Investigation in Quarter Century Into Economic Concentration

Senate Antitrust Examines A New Kind of Corporate Super Monster

For the first time in a quarter-century Congress is taking a look at economic concentration in American industry. Its last study was in 1939 when the Temporary National Economic Committee began work on 40 volumes of hearings and monographs. Now the Senate Antitrust Committee under Senator Hart is in the midst of a new set of hearings. Although virtually unmentioned in the press, the revelations have been as striking as any uncovered by Senator Kefauver when he led the Committee into price-fixing in the steel and drug industries.

The hearings have established the first broad consensus behind the opinion that concentration has been increasing and increasing rapidly since the end of World War II. Findings of the Federal Trade Commission, the Census Bureau and the Committee's own chief economist (Dr. John Blair) all indicate that the 100 largest U.S. manufacturing corporations control about 25% more of the nation's net capital manufacturing assets than they did 15 years ago. This means they now hold 57% or just short of three-fifths of all property used in U.S. manufacturing.

The Conglomerate Giant

Even more startling (and one does not startle easily after so many years of bigness) is the way these corporate giants have grown. At the time of the TNEC investigation, the giants confined themselves to activity within a single industry. They expanded horizontally to acquire competitors and vertically to acquire firms within their stream of production and distribution. John Blair's testimony reveals the growth of a new kind of super-giant, the conglomerate. It expands by diversifying into industries totally unrelated to its major field of production (*see box below*). Textron, for example, is now engaged in practically every U.S. industry except textiles, the one in which it began. At least one of the 100 largest manufacturing corporations is now among the 4 largest producers in more than half the product classes of U.S. industry. Since product class (rather than products) is the category that most closely approximates the market, these figures show the giants in direct "competition"

How Much Bigger The Big Have Grown

"In 1962, the population of American manufacturing enterprises consisted of about 180,000 corporations and 240,000 partnerships and proprietorships. These 420,000 business units had combined assets of about \$296 billion. The 20 largest manufacturing corporations had \$73.8 billion in assets, or an estimated 25% of the total. The 419,000 smallest companies accounted for only 25.2% of total assets. Thus the total assets of the 20 largest corporations were approximately the same as those of the 419,000 smallest. Concentration, when measured in terms of net profits or net capital assets, is greater. For example, the 20 largest manufacturing corporations, with 25.4% of total assets, accounted for 38% of profits after taxes. The net profits of the 5 largest corporations were nearly twice as large as those of the about 178,000 smallest corporations."

—W. F. Mueller, head of Bureau of Economics at FTC, before Senate Antitrust Comm., July 2 (*abr.*)

with the majority of U.S. manufacturing firms.

These figures really underestimate the extent of concentration and conglomeration. They are based upon the assumption that a company must own more than 50% of the stock of another in order to control it. This standard has long been obsolete. Even the conservative SEC presumes control with the ownership of 25% or more of the stock. In large corporations, where ownership is widely diffused, control often comes with as little as 10% of the stock. "One is the recipient of so many slings and arrows in this work," one Committee staff member explained, "that we lean over backwards to use the most conservative statistics."

The corporate giants, unwilling to risk smaller profits by lowering costs and expanding production, have turned instead to investments in conglomerate mergers. The Justice Department and the FTC have been reluctant to fight these. (The FTC's recent decision against Proctor & Gamble's acquisition of Chlorox is the one exception and may indicate a new policy.) If Senate Antitrust decides on legislation to break up the conglomerates, it will be attacking a major barrier to full employment of machines and manpower.

Economist Asks For New Antitrust Law To Break Up Giant Conglomerates

"A firm possesses conglomerate power when its operations are so widely diversified that its survival no longer depends on success in any given product market. Its absolute size, its sheer bigness, is so impressive that it can discipline or destroy its more specialized competitors. It occupies a position much like the millionaire poker player who, in a game of unlimited stakes, can easily bankrupt his less opulent opponents.

"General Dynamics, for example, turns out a diversified product line ranging from Atlas missiles to sand and gravel. Martin-Marietta produces aero-space equipment, cement and concrete, printing inks, dyestuffs, adhesives and resins, and household cleaning products. Textron, perhaps the greatest conglomerate in U.S. industry, is an amalgam of 27 separate divisions and 113 separate plants—making such widely dissimilar products as helicopters, chicken feed, mailboxes, paints and optical machinery.

"Since the conglomerate firm is composed of functionally unrelated enterprises, it loses the advantages of specializa-

tion and economies of scale. It cannot claim to be society's benefactor through greater efficiency.

"Since conglomerate bigness is relatively new in American manufacturing, neither economic theory nor public policy has yet devised effective means of coping with it. Certainly, it is doubtful whether the Sherman and Clayton Acts are adequate to the task. Nevertheless, we do have a precedent of a specialized antitrust law—the Public Utility Holding Company Act of 1935—which addressed itself to the phenomenon of conglomerate bigness in a single industry. Section 11, the heart of the statute, required holding companies to divest themselves of widely scattered utility properties which had no operating relationship with respect to each other.

I suggest that this Committee explore the feasibility of adapting the Public Utility Holding Company Act provisions to conglomerate bigness in manufacturing.

—Dr. Walter Adams, Prof. of Econ., Mich State U., before the Sen. Antitrust Subcom., Sept. 10 (*abr.*)

How "Cultural Exchange" Became A Propaganda Operation At Home As Well As Abroad

USIA Secretly Subsidizes Books and Writers to Spread Its "Line"

In 1948 Congress passed a U.S. Information and Educational Exchange Act. It authorized the Secretary of State to provide for the exchange of books, periodicals "and other educational materials" with foreign countries and for the dissemination abroad of "information about the United States." In 1953 these powers were transferred to the newly created U.S. Information Agency. It now appears, from testimony taken in executive sessions (see box below) by the House Appropriations Committee, that this authorization has been stretched by the USIA secretly to subsidize the writing and publication of books at home as well as abroad.

Buying Stature to Get Credibility

Thanks to Glenard P. Lipscomb (R. Cal.), a member of the Appropriations Committee, more information has been elicited about this "book development program." Lipscomb questioned USIA's authority to engage in such activities, and has released the Comptroller General's reply. This letter discloses that the book contracts with USIA "provide publication shall be without attribution to the Agency [USIA] and that there shall be no publicity of the Government's connection with the book." The names of books thus bought were censored out of the committee hearing record at the USIA's request. One of them, as the reader will see below, was described by Reed Harris, the USIA official in charge as covering "the whole Communist strategy of deception." Mr. Harris seemed unaware that he was describing our own gov-

Comic Strips, Too

Mr. Lipscomb (R. Cal.): I was interested in an article that appeared in the Washington Star Sunday magazine of Jan. 12, 1964, which refers to a 'Comic Strip Mill' and states that 'USIA [US Information Agency] artists in Washington turn out material for thousands of publications abroad.' . . . It says, 'Five seemingly innocent comic strips are slipped into some 5,000 publications around the world every week. Although their readers and sometimes even their editors don't know it, the comic strips carry a hidden message; they are American propaganda.'

—House Appropriations Committee, March 3

ernment's strategy of deception. The USIA does not employ writers on its staff but seeks out "commercial writers who have stature in the literary world" because this "results in greater credibility." Despite this prized stature, "we control the *thing*," [our italics] Mr. Harris explained, "from the very idea down to the final edited manuscript."

The Comptroller General's letter upholding this stretches the law and misses the point. Congressman Lipscomb has promised to sponsor legislation either to stop the practice or require that books subsidized by the USIA be so labelled. Otherwise the reader has no way of distinguishing between objective scholarship and paid propagation of the government's line. Milton described a book as "the life-blood of a master spirit." Nowadays it may also be a custom-made masterpiece, cut to the government's cloth.

The Testimony Which Disclosed Our Own Government's Strategy of Deception

Mr. (John) ROONEY (D. N.Y.): At page 18-7 entitled "Book Development" you would seek an increase from \$90,000 in the current year to \$195,000 in the coming year. What is the alleged necessity for that?

Mr. (Reed) HARRIS (Information Center Service, USIA): That is the program under which we can have books written to our own specifications, books that would not otherwise be put out, especially those books that have strong anti-Communist content and follow other themes that are particularly useful for our purposes. Under the book development program, we control the thing from the very idea down to the final edited manuscript.

Mr. ROONEY: What are the details?

Mr. HARRIS: Mr. Chairman, we would be able to go into the titles if we might be allowed to do it off the record because our interests in certain of these books should not become a matter of general public information.

Mr. ROONEY: Tell us about this book.

Mr. HARRIS: This book, sir, covers the whole Communist strategy of deception.

Mr. ROONEY: How many books have been written on this subject?

Mr. HARRIS: I could not tell you all of them but this is a very down-to-earth book and is the kind of thing that warns people —

Mr. ROONEY: There is nothing new about this subject is there? I can remember reading about it over 30 years ago. What did it cost?

Mr. HARRIS: In this case, it cost \$14,952.

Mr. ROONEY: How many writers do you have in the USIA?

Mr. Louis FANGET (Chief, Publications Division): We do not employ any writers, sir, on the staff. We try to reach outside commercial writers who have stature in the literary world, we try to get them to do books. This results in greater credibility, sir.

Mr. (Glenard) LIPSCOMB (R. Cal.): How many books do you have of the nature of * which were financed by USIA but are now being put out by American publishers for sale in the United States?

Mr. FANGET: Sir, it is our intent to have all the books published by the American publisher for sale commercially not only in the United States but we hope overseas so that the book has the credibility we want it to have.

Mr. LIPSCOMB: I am having a hard time understanding why USIA must finance a book and then have it go on the market for sale. If a publisher thinks a book is good —

Mr. FANGET: The kinds of books we support are those that would not be published ordinarily.

Mr. LIPSCOMB: Why not?

Mr. FANGET: Because they would be difficult to sell. An American publisher would not ordinarily publish an anti-Communist book because they do not sell commercially. And even those published commercially sometimes have some Federal support behind them. An American publisher will only publish those books on which he believes he can make a profit. These books habitually do not make a profit. For example,*—. If we had not invested money in it, it would not have come to light. It is considered by authorities to be one of the best books on the expose of the Communist system.

—Before the House Appropriations Comm., March 5 (abr.)

*Indicates book title was censored.