Unhappy events abroad have retaught us two simple truths about the liberty of a democratic people.

The first truth is that the liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself. That, in its essence, is Fascism -- ownership of Government by an individual, by a group, or by any other controlling private power.

The second truth is that the liberty of a democracy is not safe if its business system does not provide employment and produce and distribute goods in such a way as to sustain an acceptable standard of living.

Both lessons hit home.

Among us today a concentration of private power without equal in history is growing.

This concentration is seriously impairing the economic effectiveness of private enterprise as a way of providing employment for labor and capital and as a way of assuring a more equitable distribution of income and earnings among the people of the nation as a whole.

I. The Growing Concentration of Economic Power

Statistics of the Bureau of Internal Revenue reveal the following amazing figures for 1935:

Ownership of corporate assets:

Of all corporations reporting from every part of the nation, one-tenth of 1% of them owned 52% of the assets of all of them;

and to clinch the point:
Of all corporations reporting, less than 5% of them owned 87% of all the assets of all of them.

Income and profits of corporations:

Of all the corporations reporting from every part of the country, one-tenth of 1% of them earned 50% of the net income of all of them;

and to clinch the point:

Of all the manufacturing corporations reporting, less than 4% of them earned 84% of all the net profits of all of them.

The statistical history of modern times proves that in times of depression concentration of business speeds up. Bigger business then has larger opportunity to grow still bigger at the expense of smaller competitors who are weakened by financial adversity.

The danger of this centralization in a handful of huge corporations is not reduced or eliminated, as is sometimes urged, by the wide public distribution of their securities. The mere number of security-holders gives little clue to the size of their individual holdings or to their actual ability to have a voice in the management. In fact the concentration of stock ownership of corporations in the hands of a tiny minority of the population matches the concentration of corporate assets.

1929 was a banner year for distribution of stock ownership.

But in that year

three-tenths of 1 per cent of our population received 78% of the dividends reported by individuals. This has roughly the same effect as if, out of every 300 persons in our population, one person received 78 cents out of every dollar of corporate dividends while the other 299 persons divided up the other 22 cents between them.

The effect of this concentration is reflected in the distribution of national income.

A recent study by the National Resources Committee shows that in 1935-36:
47% of all American families and single individuals living alone had incomes of less than $1,000 for the year;

and at the other end of the ladder a little less than 1½% of the nation’s families received incomes which in dollars and cents reached the same total as the incomes of the 47% at the bottom;

Furthermore, to drive the point home, the Bureau of Internal Revenue reports that estate tax returns in 1936, show that:

33% of the property which was passed by inheritance was found in only 4% of all the reporting estates. (And the figures of concentration would be far more impressive, if we included all the smaller estates which, under the law, do not have to report.)

We believe in a way of living in which political democracy and free private enterprise for profit should serve and protect each other -- to ensure a maximum of human liberty not for a few but for all.

It has been well said that “The freest government, if it could exist, would not be long acceptable, if the tendency of the laws were to create a rapid accumulation of property in few hands, and to render the great mass of the population dependent and penniless.”

Today many Americans ask the uneasy question: Is the vociferation that our liberties are in danger justified by the facts?

Today’s answer on the part of average men and women in every part of the country is far more accurate than it would have been in 1929 -- for the very simple reason that during the past nine years we have been doing a lot of common sense thinking. Their answer is that if there is that danger it comes from that concentrated private economic power which is struggling so hard to master our democratic government. It will not come, as some (by no means all) of the possessors of that private power would make the people believe -- from our democratic government itself.
II. Financial Control over Industry.

Even these statistics I have cited do not measure the actual degree of concentration of control over American industry.

Close financial control, through interlocking spheres of influence over channels of investment, and through the use of financial devices like holding companies and strategic minority interests, creates close control of the business policies of enterprises which masquerade as independent units.

That heavy hand of integrated financial and management control lies upon large and strategic areas of American industry. The small business man is unfortunately being driven into a less and less independent position in American life. You and I must admit that.

Private enterprise is ceasing to be free enterprise and is becoming a cluster of private collectivisms: masking itself as a system of free enterprise after the American model, it is in fact becoming a concealed cartel system after the European model.

We all want efficient industrial growth and the advantages of mass production. No one suggests that we return to the hand loom or hand forge. A series of processes involved in turning out a given manufactured product may well require one or more huge mass production plants. Modern efficiency may call for this. But modern efficient mass production is not furthered by a central control which destroys competition between industrial plants each capable of efficient mass production while operating as separate units. Industrial efficiency does not have to mean industrial empire building.

And industrial empire building, unfortunately, has evolved into banker control of industry. We oppose that.
Such control does not offer safety for the investing public. Investment judgment requires the disinterested appraisal of other people’s management. It becomes blurred and distorted if it is combined with the conflicting duty of controlling the management it is supposed to judge.

Interlocking financial controls have taken from American business much of its traditional virility, independence, adaptability and daring -- without compensating advantages. They have not given the stability they promised.

Business enterprise needs new vitality and the flexibility that comes from the diversified efforts, independent judgments and vibrant energies of thousands upon thousands of independent business men.

The individual must be encouraged to exercise his own judgment and to venture his own small savings, not in stock gambling but in new enterprise investment. Men will dare to compete against men but not against giants.

III. The Decline of Competition and its Effects on Employment:

In output per man or machine, we are the most efficient industrial nation on earth.

In the matter of complete mutual employment of capital and labor we are among the least efficient.

Our difficulties of employing labor and capital are not new. We have had them since good free land gave out in the West at the turn of the century. They were old before we undertook changes in our tax policy or in our labor and social legislation. They were caused not by this legislation but by the same forces which caused the legislation. The problem of bringing idle men and idle money together will not be solved by abandoning the forward steps we have taken to adjust the burdens of taxation more fairly and to attain social justice and security.
If you believe with me in private initiative, you must acknowledge the right of well-managed small business to expect to make reasonable profits. You must admit that the destruction of this opportunity follows concentration of control of any given industry into a small number of dominating corporations.

One of the primary causes of our present difficulties lies in the disappearance of price competition in many industrial fields, particularly in basic manufacture where concentrated economic power is most evident -- and where rigid prices and fluctuating payrolls are general.

Managed industrial prices mean fewer jobs. It is no accident that, in industries like cement and steel where prices have remained firm in the face of a falling demand payrolls have shrank as much as 40 and 50 per cent in recent months. Nor is it mere chance that in most competitive industries where prices adjust themselves quickly to falling demand, payrolls and employment have been far better maintained. By prices we mean, of course, the prices of the finished articles and not the wages paid to workers.

When prices are privately managed at levels above those which would be determined by free competition, everybody pays.

The contractor pays more for materials; the homebuilder pays more for his house; the tenant pays more rent; and the worker pays in lost work.

Even the Government itself is unable, in a large range of materials, to obtain competitive bids. It is repeatedly confronted with bids identical to the last cent.

Our housing shortage is a perfect example of how ability to control prices interferes with the ability of private enterprise to fill the needs of the community and provide employment for capital and labor.
On the other hand we have some lines of business, large and small, which are genuinely competitive. Often these competitive industries must buy their basic products from monopolistic industry, thus losing, and causing the public to lose, a large part of the benefit of their own competitive policy. Furthermore, in times of recession, the practices of monopolistic industries make it difficult for business or agriculture which is competitive and which does not curtail production below normal needs, to find a market for its goods even at reduced prices. For at such times a large number of customers of agriculture and competitive industry are being thrown out of work by those non-competitive industries which choose to hold their prices rather than to move their goods and to employ their workers.

If private enterprise left to its own devices becomes half-regimented and half-competitive, half-slave and half-free, as it is today, it obviously cannot adjust itself to meet the needs and the demands of the country.

Most complaints for violations of the anti-trust laws are made by business men against other business men. Even the most monopolistic business man disapproves of all monopolies but his own. We may smile at this as being just an example of human nature, but we cannot laugh away the fact that the combined effect of the monopolistic controls which each business group imposes for its own benefit, inevitably destroys the buying power of the nation as a whole.

IV. Competition Does Not Mean Exploitation.

Competition, of course, like all other good things, can be carried to excess. Competition should not extend to fields where it has demonstrably bad social and economic consequences. The exploitation of child labor, the chiseling of workers’ wages, the stretching of workers’ hours, are not necessary, fair or proper methods of competition. I have consistently urged a federal
wage and hours bill to take the minimum decencies of life for the working man and woman out of the field of competition.

It is of course necessary to operate the competitive system of free enterprise intelligently. In gauging the market for their wares businessmen, like the farmers, should be given all possible information by government and by their own associations so that they may act with knowledge and not on impulse. Serious problems of temporary overproduction can and should be avoided by disseminating information that will discourage the production of more goods than the current markets can possibly absorb or the accumulation of dangerously large inventories for which there is no obvious need.

It is, of course, necessary to encourage rises in the level of those competitive prices, such as agricultural prices, which must rise to put our price structure into more workable balance and make the debt burden more tolerable. Many such competitive prices are now too low.

It may at times be necessary to give special treatment to chronically sick industries which have deteriorated too far for natural revival, especially those which have a public or quasi-public character.

But generally over the field of industry and finance we must revive and strengthen competition if we wish to preserve and make workable our traditional system of free private enterprise.

The justification of private profit is private risk. We cannot safely make America safe for the businessman who does not want to take the burdens and risks of being a businessman.
V. **The Choice Before Us.**

Examination of methods of conducting and controlling private enterprise which keep it from furnishing jobs or income or opportunity for one-third of the population is long overdue on the part of those who sincerely want to preserve the system of private enterprise for profit.

No people, least of all a democratic people, will be content to go without work or to accept some standard of living which obviously and woefully falls short of their capacity to produce. No people, least of all a people with our traditions of personal liberty, will endure the slow erosion of opportunity for the common man, the oppressive sense of helplessness under the domination of a few, which are overshadowing our whole economic life.

A discerning magazine of business has editorially pointed out that big business collectivism in industry compels an ultimate collectivism in government.

The power of a few to manage the economic life of the nation must be diffused among the many or be transferred to the public and its democratically responsible government. If prices are to be managed and administered, if the nation’s business is to be allotted by plan and not by competition, that power should not be vested in any private group or cartel, however benevolent its professions profess to be.

Those people, in and out of the halls of government, who encourage the growing restriction of competition either by active efforts or by passive resistance to sincere attempts to change the trend, are shouldering a terrific responsibility. Consciously, or unconsciously, they are working for centralized business and financial control. Consciously or unconsciously, they are therefore either working for control of the government itself by business and finance or the other alternative -- a growing concentration of public power in the government to cope with such concentration of private power.
The enforcement of free competition is the least regulation business can expect.

VI. A Program.

The traditional approach to the problems I have discussed has been through the anti-trust laws. That approach we do not propose to abandon. On the contrary, although we must recognize the inadequacies of the existing laws, we seek to enforce them so that the public shall not be deprived of such protection as they afford. To enforce them properly requires thorough investigation not only to discover such violations as may exist but to avoid hit and miss prosecutions harmful to business and government alike. To provide for the proper and fair enforcement of the existing anti-trust laws I shall submit, through the budget, recommendations for a deficiency appropriation of $200,000 for the Department of Justice.

But the existing anti-trust laws are inadequate -- most importantly because of new financial economic conditions with which they are powerless to cope.

The Sherman Act was passed nearly forty years ago. The Clayton and Federal Trade Commission Acts were passed over twenty years ago. We have had considerable experience under those acts. In the meantime we have had a chance to observe the practical operation of large-scale industry and to learn many things about the competitive system which we did not know in those days.

We have witnessed the merging-out of effective competition in many fields of enterprise. We have learned that the so-called competitive system works differently in an industry where there are many independent units, from the way it works in an industry where a few large producers dominate the market.

We have also learned that a realistic system of business regulation has to reach more than consciously immoral acts. The community is interested in economic results. It must be
protected from economic as well as moral wrongs. We must find practical controls over blind economic forces as well as over blindly selfish men.

Government can deal and should deal with blindly selfish men. But that is a comparatively small part -- the easier part -- of our problem. The larger, more important and more difficult part of our problem is to deal with men who are not selfish and who are good citizens, but who cannot see the social and economic consequences of their actions in a modern economically interdependent community. They fail to grasp the significance of some of our most vital social and economic problems because they see them only in the light of their own personal experience and not in perspective with the experience of other men and other industries. They therefore fail to see these problems for the nation as a whole.

To meet the situation I have described, there should be a thorough study of the concentration of economic power in American industry and the effect of that concentration upon the decline of competition. There should be an examination of the existing price system and the price policies of industry to determine their effect upon the general level of trade, upon employment, upon long-term profits and upon consumption. The study should not be confined to the traditional anti-trust field. The effects of tax, patent and other government policies cannot be ignored.

The study should be comprehensive and adequately financed. I recommend an appropriation of not less than $500,000 for the conduct of such comprehensive study by the Federal Trade Commission, the Department of Justice, the Securities and Exchange Commission, and such other agencies of government as have special experience in various phases of the inquiry.
I enumerate some of the items that should be embraced in the proposed study. The items are not intended to be all inclusive. One or two of the items, such as bank holding companies and investment trusts, have already been the subject of special study, and legislation concerning these need not be delayed.

(1) Improvement of Anti-Trust Procedure. A revision of the existing anti-trust laws should make them susceptible of practical enforcement by casting upon those charged with violations the burden of proving facts peculiarly within their knowledge. Proof by the Government of identical bids, uniform price increases, price leadership, higher domestic than export prices, or other specified price rigidities might be accepted as prima facie evidence of unlawful actions.

The Department of Justice and the Federal Trade Commission should be given more adequate and effective power to investigate whenever there is reason to believe that conditions exist or practices prevail which violate the provisions or defeat the objectives of the anti-trust laws. If investigation reveals border-line cases where legitimate cooperative efforts to eliminate socially and economically harmful methods of competition in particular industries are thwarted by fear of possible technical violations of the anti-trust laws, remedial legislation should be considered.

As a really effective deterrent to personal wrong-doing, I would suggest that where a corporation is enjoined from violating the law, the court might be empowered to enjoin the corporation for a specified period of time from giving any remunerative employment or any official position to any person who has been found to bear a responsibility for the wrongful corporate action.
As a further deterrent to corporate wrong-doing the Government might well be authorized to withhold government purchases from companies guilty of unfair or monopolistic practice.

(2) **Mergers and interlocking relationship.** More rigid scrutiny through the Federal Trade Commission and the Securities and Exchange Commission of corporate mergers, consolidations and acquisitions than that now provided by the Clayton Act to prevent their consummation when not clearly in the public interest; more effective methods for breaking up interlocking relationships and like devices for bestowing business by favor.

(3) **Financial controls.** The operations of financial institutions should be directed to serve the interests of independent business and restricted against abuses which promote concentrations of power over American industry.

(a) **Investment trusts.** Investment trusts should be brought under strict control to insure their operations in the interests of their investors rather than their managers. The Securities and Exchange Commission is to make a report to Congress on the results of a comprehensive study of investment trusts and their operations which it has carried on for nearly two years. The investment trust, like the holding company, puts huge aggregations of the capital of the public at the direction of a few managers. Unless properly restricted, it has potentialities of abuse second only to the holding company as a device for the further centralization of control over American industry and American finance.

The tremendous investment funds controlled by our great insurance companies have a certain kinship to investment trusts, in that these companies invest as trustees the savings of millions of our people. The Securities and Exchange Commission should be authorized to make an investigation of the facts relating to these investments with particular relation to their use as an instrument of economic power.
(b) Bank Holding Companies.

It is hardly necessary to point out the great economic power that might be wielded by a group which may succeed in acquiring domination over banking resources in any considerable area of the country. That power becomes particularly dangerous when it is exercised from a distance and notably so when effective control is maintained without the responsibilities of complete ownership.

We have seen the multiplied evils which have arisen from the holding company system in the case of public utilities, where a small minority ownership has been able to dominate a far-flung system.

We do not want those evils repeated in the banking field, and we should take steps now to see that they are not.

It is not a sufficient assurance against the future to say that no great evil has yet resulted from holding company operations in this field. The possibilities of great harm are inherent in the situation.

I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies; prevent holding companies from acquiring control of any more banks, directly or indirectly; prevent banks controlled by holding companies from establishing any more branches; and make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from or sell securities to a bank in which it holds stock.

I recommend that this bank legislation make provision for the gradual separation of banks from holding company control or ownership, allowing a
reasonable time for this accomplishment - time enough for it to be done in an orderly manner and without causing inconvenience to communities served by holding company banks.

(4) **Trade associations.** Supervision and effective publicity of the activities of trade associations, and a clarification and delineation of their legitimate spheres of activity which will enable them to combat unfair methods of competition but which will guard against their interference with legitimate competitive practices.

(5) **Patent laws.** Amendment of the patent laws to prevent their use to suppress inventions, and to create industrial monopolies. Of course such amendment should not deprive the inventor of his royalty rights, but generally speaking, future patents might be made available for use by any one upon payment of appropriate royalties. Open patent pools have voluntarily been put into effect in a number of important industries with wholesome results.

(6) **Tax correctives.** Tax policies should be devised to give affirmative encouragement to competitive enterprise.

Attention might be directed to increasing the inter-corporate dividend tax to discourage holding companies and to further graduating the corporation income tax according to size. The graduated tax need not be so high as to make bigness impracticable, but might be high enough to make bigness demonstrate its alleged superior efficiency.

We have heard much about the undistributed profits tax. When it was enacted two years ago, its objective was known to be closely related to the problem of concentrated economic power and a free capital market.

Its purpose was not only to prevent individuals whose incomes were taxable in the higher surtax brackets from escaping personal income taxes by letting their profits be accumulated as
corporate surplus. Its purpose was also to encourage the distribution of corporate profits so that
the individual recipients could freely determine where they would reinvest in a free capital
market.

It is true that the form of the 1936 tax worked a hardship on many of the smaller
corporations. Many months ago I recommended that these inequities be removed.

But in the process of the removal of inequities, we must not lose sight of original
objectives. Obviously the nation must have some deterrent against special privileges enjoyed by
an exceedingly small group of individuals under the form of the laws prior to 1936, whether such
deterrent take the form of an undistributed profits tax or some other equally or more efficient
method. And obviously an undistributed profits tax has a real value in working against a further
concentration of economic power and in favor of a freer capital market.

(7) Bureau of Industrial Economics. Creation of a Bureau of Industrial Economics
which should be endowed with adequate powers to supplement and supervise the collection of
industrial statistics by trade associations. Such a bureau should perform for business men
functions similar to those performed for the farmers by the Bureau of Agricultural Economics.

It should disseminate current statistical and other information regarding market
conditions and be in a position to warn against the dangers of temporary over-production and
excessive inventories as well as against the dangers of shortages and bottleneck conditions and to
encourage the maintenance of orderly markets. It should study trade fluctuations, credit facilities
and other conditions which affect the welfare of the average business man. It should be able to
help small business men to keep themselves as well-informed about trade conditions as their big
competitors.
No man of good faith will misinterpret these proposals. They derive from the oldest American traditions. Concentration of economic power in the few and the resulting unemployment of labor and capital are inescapable problems for a modern “private enterprise” democracy. I do not believe that we are so lacking in stability that we will lose faith in our own way of living just because we seek to find out how to make that way of living work more effectively.

This program should appeal to the honest common sense of every independent business man interested primarily in running his own business at a profit rather than in controlling the business of other men.

It is not intended as the beginning of any ill-considered “trust-busting” activity which lacks proper consideration for economic results.

It is a program to preserve private enterprise for profit by keeping it free enough to be able to utilize all our resources of capital and labor at a profit.

It is a program whose basic purpose is to stop the progress of collectivism in business and turn business back to the democratic competitive order.

It is a program whose basic thesis is not that the system of free private enterprise for profit has failed in this generation, but that it has not yet been tried.

Once it is realized that business monopoly in America paralyzes the system of free enterprise on which it is grafted, and is as fatal to those who manipulate it as to the people who suffer beneath its impositions, action by the government to eliminate these artificial restraints will be welcomed by industry throughout the nation.
For idle factories and idle workers profit no man.

Franklin D. Roosevelt

The White House,

April 29, 1938.