
COST OF DISTRIBUTION FOR ESSENTIAL PRODUCTS

ADDRESS

by

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BEFORE ANNUAL SPRING MEETING

of the

AMERICAN MARKETING ASSOCIATION

HOTEL BENJAMIN FRANKLIN, PHILADELPHIA

10 A.M., FRIDAY

JUNE 9, 1944

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I

IMPORTANCE OF DISTRIBUTION COSTS

A most important problem confronting the American people today is that of providing adequate post-war employment to maintain the traditional American standards of living. Millions of returning soldiers will join millions of civilians in wanting a wide variety of commodities. The quantities of such commodities bought by these tens of millions will depend upon the post-war price level. Full employment in manufacture, in transportation and in distribution may prove to be dependent upon a reduction of distribution costs.

Until Victory, production is still our paramount concern. Rome has fallen but Uncle Sam remains a primary customer of Production. With Pearl Harbor, Distribution likewise exchanged "tweeds" for "khaki or denim," Distribution, in uniform or in civies, also vitally concerns us all. We are all consumers and the costs of distribution are a surtax on costs of production, borne by the consumer. Because costs of distribution often are fully as large as, or larger than, costs of production, and because less has been accomplished before and during the war toward making distribution more efficient, the cutting of marketing costs offers the broader avenue to lower consumer prices and a higher standard of living for all of us.

In the April 28th, 1944, issue of Printers' Ink, the president of a Boston advertising agency introduces an article on "Four Major Evils of Distribution," as follows:

"It costs too much to distribute merchandise and services. For every dollar of product value the consumer pays an average of two dollars and ten cents. Sixty percent of labor earnings are lost in the process of exchanging labor product for labor product. Is the maintenance of that kind of free enterprise all that business can offer to the world of tomorrow?"

In the March 23, 1944, issue of the American Wool and Cotton Reporter the leading article cites the costs of getting taffeta in the hands of the consumer as "several times" the original cost of the fabric and concludes:

"From a manufacturing standpoint the important thing is to get busy on improved and more economical methods of distribution if production levels are to be maintained and employment held at full 100 percent for those who need it."

II

THE COMMISSION'S REPORTS ON METHODS AND COSTS OF DISTRIBUTION

The topic, Cost of Distribution For Essential Products, probably was assigned to me because the Commission recently has submitted to Congress Parts I, III and IV of a Report on Distribution Methods and Costs. Essentially studies of the peacetime distribution of some twenty odd industry groups for the years 1939 and 1940, the last pre-war years, Part I covers food and food products; Part III treats of lumber, paints and cement; and Part IV deals with petroleum products, automobiles, rubber tires, electric household appliances and agricultural implements.

The broad scope of the report is responsive to a Commission resolution adopted in 1940, directing inquiry into the methods and costs of distributing commodities in the United States together with such practices, usages, trade barriers, etc., as affect such methods or costs, and its sources of information were (1) previous general investigations of the Commission respecting particular industries or commodities; (2) data received directly from manufacturers of particular products, chain store grocers and department stores; (3) Bureau of Internal Revenue files respecting wholesalers and retailers of selected groups of commodities; and (4) certain Commission cases involving the distribution methods or practices of specific industries.

MANUFACTURERS' COST OF DISTRIBUTION

As many of you know first hand, it is not easy to ascertain the manufacturer's exact cost of distribution even for companies with detailed accounting systems. Depreciation and obsolescence, repairs and maintenance, corporate taxes, and research and development, usually should be prorated partly to production and partly to distribution. Administrative and general office expenses always are incurred partly in production and partly in distribution. Moreover, the channels of distribution used by a corporation materially influence its distribution cost. The baker engaging in house-to-house bread selling, for example, and the dairy delivering its milk to the consumer's door have much higher distribution costs than the wholesale baker or dairy selling to distributors and retail dealers.

Selling and delivery, wholly distribution expenses, vary widely from industry to industry. For example, in 1940, for 91 industry and subindustry groups, selling and delivery expense varied from a minimum of 32 one-hundredths of a cent for crude petroleum producing companies, to a maximum of 35.55 cents per dollar of sales for sewing machine manufacturers. For the 91 groups, selling and delivery expense was under 2½ cents per dollar of sales in 6 industries, from 2½ to 5 cents in 22 industries, from 5 to 10 cents in 35 industries, from 10 to 20 cents in 23 industries, and over 20 cents in 5 industries.

Advertising, also wholly a distribution expense, ranged for the 91 industries from a minimum of 6 one-hundredths of one cent for the shipbuilding industry, to 13.94 cents per dollar of sales for drugs and medicines. The combined items of selling and advertising aggregated only seven-tenths of one cent per dollar of sales for shipbuilding, and

25.35 cents out of each dollar of sales for drugs and medicines. For the entire group of 91 industries, 42 spent less than one cent per dollar of sales on advertising, 31 from 1 to 2½ cents, 10 from 2½ to 5 cents, 4 from 5 to 10 cents, and 4 in excess of 10 cents.

The total for advertising and selling and delivery for the 91 industry groups ranged from a low of only seven-tenths of one cent per dollar of sales for the shipbuilding industry and four-tenths of one cent per dollar of sales for crude petroleum producers, to a maximum of 36.53 cents for sewing machines. In 1940, of course, the shipbuilding industry did not need to have a costly sales organization to sell the Government all the ships it could build. Crude petroleum producers, on the other hand, sold at the oil well, the buyer taking delivery at their tanks and piping it into his gathering lines.

Other manufacturing industries in which the manufacturer performs a large part of the distributing functions and in which the combined selling, delivery and advertising exceeded 25 cents per sales dollar were office and store machines, (29.35) drugs and medicines, (27.35) bread and bakery products, (26.87) biscuits and crackers, (25.83) and clothing manufacturers selling through their own retail stores (25.1). Of the whole group of 91 manufacturers, 25 had combined advertising, selling and delivery expense under 5 cents per dollar of sales; 24 had from 5 to 10 cents, another 24 had from 10 to 15 cents, 9 had from 15 to 20 cents, 3 had from 20 to 25 cents, and 6 had over 25 cents, per dollar of sales.

TOTAL MANUFACTURERS' COST OF DISTRIBUTION

The Commission obtained detailed distribution costs from a large sample of manufacturers. The average results for each of these industries, however, varied widely, ranging from a low of 4.53 cents per dollar of sales for cane sugar to a high of 34.93 cents for packaged cereal preparations with biscuits and crackers running 34.66 cents. The high cost of distribution for these two classes of packaged foods is a reflection in part of the care exercised in getting them to the consumer in a fresh condition, and in part of the competitive selling and sales promotion expenses incurred in their distribution. In the case of cereal products such as farinas, rolled oats, corn flakes, packaged flour, crackers, and cookies, the high distribution expenses reflect the sales promotion efforts of different manufacturers of similar cereals to sell the consumer on their particular brands.

National advertising has been part and parcel with manufacturers competitive selling of packaged foods. Where, for example, a few decades ago corn meal, rolled oats, and middlings were sold in bulk, and the purchaser had an opportunity to inspect the goods and to supplement by the perception of his own senses the corner grocer's representations as to quality, such commodities today are sold so packaged that neither the consumer nor the storekeeper can make physical comparison without breaking the seal. Such packaged foods generally bear a brand or trademark, and the manufacturer's advertising is directed to creating in the minds of the consumer and the retailer the idea that his brand is superior to all others on the market.

WHOLESALE'S COST OF DISTRIBUTION

In many industries the manufacturer performs some of or all the functions of wholesale distribution. Particularly in food lines, associated retailers have formed wholesale organizations, while wholesalers supplement the distribution organizations of manufacturers. Most manufacturers sell at least part of their products direct to the retail and large consuming trade.

In the food trade, cooperative wholesale grocers--that is, wholesalers buying for associated grocers--have achieved much lower distribution costs than old-line wholesalers. In 1939 the cost of the former was 5.87 cents per dollar of sales compared with 9.65 for the latter. The one item salaries and wages, 4.54 cents for the old-line wholesalers approached closely the total cost of distribution for cooperative wholesalers.

Wholesalers' cost of distribution are found to be high in a number of industries when compared with the manufacturer's distribution cost. For example, the average for 42 petroleum refiners and marketers with net sales F.O.B. refineries in excess of one billion dollars, in 1939, was 21.92 cents per dollar of sales, as compared with 20.52 cents for 54 wholesalers with sales of over 27 million dollars. The 21.92 cents average cost for refiners and marketers included 1.5 cents per dollar of sales as commissions to brokers, factors, etc., while 8 of these refiners, selling largely through wholesalers, had a distribution cost of 8.93 cents per dollar of sales.

For 21 manufacturers of agricultural implements, with aggregate sales of more than \$646,000,000, in 1940, the manufacturer's cost of distribution was 15.83 cents per dollar of sales, exclusive of the cost of transportation. In 1936, wholesalers' costs were 17.6 cents. In the farm machinery industry, by far the larger proportion of sales are made by the manufacturer direct to the retailer, and wholesalers as a rule are unimportant except in the more sparsely settled agricultural States.

RETAIL COST OF DISTRIBUTION

Retail dealers in most trades handle a large variety of commodities, consequently, unless specific shipments are traced from producer to consumer as was done with bread and clothing and particularly with fresh fruits and vegetables, only averages for numerous products are available.

For food products the average cost of distribution for consumer cooperative groceries, in 1939, was 19.5 cents per dollar of sales, for retail grocery chains 20.62 cents, and for independent retail groceries 22.58 cents. Since publication of the Commission's report, certain super market chain stores have reported much lower costs.

AGRICULTURE'S STAKE IN DISTRIBUTION

For a long period following the Civil War, and again following World War I, American agriculture experienced long periods of declining prices. Agriculture is always one of the first industries to develop large production following a war. While every segment of our population

is interested in efficient low-cost distribution to match our development in production techniques, no part of our population has a greater stake in low-cost distribution than agriculture.

The operations of American farmers today are highly specialized. Corn, cotton, tobacco, wheat, apples, cherries, citrus fruits, peaches, and special truck garden farming predominate in certain sections of the country, while other sections produce livestock and dairy products. Where products are usually produced far from centers of large consumption, it usually is easy for a complicated system of distribution to develop. The American farmer sells in the wholesale (or processor) market and purchases in the retail market. High distribution costs reduce farm income and thus restrict the sales of those industries that sell largely to farmers. For example, the average rates of profit in the fertilizer and the agricultural implement industries were found to be relatively low in comparison with the profits of between 75 and 85 other manufacturing industries reflected in the Commission's Industrial Corporation Reports for 1939 and 1940.

The Commission in 1938 reported to Congress on the Agricultural Implement and Machinery Industry, in part as follows:

"Agricultural stability is not endangered as much by farm tenancy, or by the amount of farm mortgage debt at certain specified dates as it is by the continuing disparity between the prices of farm products and the prices of many things farmers purchase. This disparity results not only in decreased earning capacity and market value of farm lands, but also in decreased ability of the farmer to meet interest payments and payments on the principal of his outstanding mortgage notes, thus still further endangering his equity in the dwindling value of farm land which is his principal capital asset.

"The primary importance of farm income to the farm implement and machinery industry is strikingly illustrated by the fact that when farm income available for operators' labor, capital and management expenditures decreased from approximately 5.7 billion dollars in 1929 to 1.5 billion dollars in 1932, the value of farm implement production decreased from approximately \$607,000,000 to a sum estimated at about \$95,000,000."

DISTRIBUTION OF THE CONSUMER'S DOLLAR FROM THE FARMER TO THE CONSUMER

Three examples will suffice to illustrate the manner in which the consumer's dollar has been traced back to the farmer.

1. Bread - For the period 1922-1924, and again in September, 1942, the Commission made a study of the proportions of the cost of a 1-pound loaf of white bread from the farmer to the consumer. In 1922-24, the average price of a loaf of bread was 8.55 cents; in September, 1942, 9.27 cents. Of this amount, in the earlier period the farmer received 13.40 percent and in the latter, 11.11 percent. The country and terminal elevators retained as their margin for handling the wheat 1.82 percent of the cost of a loaf of bread in 1922-24, and 1.51 percent in September, 1942. The flour miller's production and distribution costs were 3.87 percent in 1922-24, and 3.45 percent in September, 1942. Transportation agencies handling wheat and flour received 5.30 percent in 1922-24, and 2.80 percent in September, 1942. This lower transportation cost was the result of two factors: first, somewhat lower

freight rates, and second, the increased development of flour milling near important wheat producing areas.

The baker's cost of ingredients, other than flour, was 10.77 percent in the earlier period, and 11.44 percent in September, 1942; the baker's production and distribution cost, 41.38 percent in 1922-24, and 41.10 percent in September, 1942. The miller's and baker's profit combined was 8.50 percent in 1922-24, and 6.04 percent in September, 1942; and the retailer and other distributors' gross margin, 14.96 percent in 1922-24, and 22.55 percent in September, 1942.

2. Suits - For the year 1939, for a \$35 ready-to-wear man's or boy's suit, the farmer or wool grower received \$2.31 for the raw materials going into the suit, which was 6.6 cents out of each dollar of sales. The transporting, marketing and warehousing agencies handling the raw wool obtained \$0.57, or 1.63 cents out of each dollar of sales. The scouring, topping and spinning wool costs and profits were \$2.78, or 7.94 cents out of each dollar of sales. The worsted cloth manufacturer's costs and profits were \$4.19, or 11.97 cents per dollar of sales, of which his cost of production amounted to 8.57 cents per dollar of sales, his cost of distribution 1.72 cents, and his profit 1.68 cents.

The cost and profits of the ready-to-wear suit manufacturer aggregated \$12.35, which was 35.29 cents out of each dollar of sales. The suit manufacturer's cost of production accounted for 26.03 cents, his cost of distribution 7.26 cents, and his profit 2 cents per dollar of sales. The average clothing retailer's costs and profits were \$12.80 for a \$35 suit, of which his cost of distribution was 32.26 cents per dollar of sales, and the compensation of officers and profits 4.31 cents.

3. Fresh Vegetables - In an earlier inquiry shipments of potatoes made during 1935 and 1936 from three regions were traced from the producer to the consumer, namely, Maine and Idaho and Eastern Shore of Maryland and Virginia. The first two were marketed as mature potatoes and the others as immature or new potatoes.

For example, for Maine potatoes the proceeds to the grower out of each dollar of sales for delivery in Philadelphia in those years were 43.85 cents per dollar of sales; margins for retail dealers, wholesalers and other middlemen were 27.22 cents; packing and loading was 7.83 cents and freight was 21.10 cents.

For Idaho potatoes, the proceeds to the grower were much smaller. For example, for sales in Philadelphia it was 25.47 cents per dollar of sales. The proportion of the sales dollar absorbed by wholesale, retail and other middlemen was 37.72 cents per dollar of sales made in Philadelphia. The remainder of the sales dollar went for packing and loading 8.64 cents and transportation 28.17 cents.

For sales in Philadelphia the proportion going to transportation agencies exceeded the proceeds for the grower, transportation charges absorbing 28.17 cents per dollar of sales as compared with the grower's 25.47 cents.

New potatoes produced in the Eastern Shore of Maryland and Virginia and shipped in 1936 to the Philadelphia market show a higher proportion of the consumer's dollar going to the grower than for potatoes grown in any other section. For such shipments to Philadelphia, the grower received 59.08 cents out of each consumer's dollar. Retailers, wholesalers and other middlemen had total margins of 26.54 cents for sales

in Philadelphia, packing and loading absorbed 7.69 cents, while the transportation charges were only 6.69 cents.

III

IMPORTANCE OF ADEQUATE REPORTS REGARDING PRODUCTION AND DISTRIBUTION COSTS AND PROFITS

As stated at the outset, a most important problem confronting the American people today is that of providing full employment in the post-war period. High business activity may require investment in new ventures. All of our periods of maximum business activity have coincided with the development of important new industries. However, new ventures should be carefully chosen. Under the free enterprise system an individual or a group of individuals is free to engage in any new venture, even if it be foredoomed to failure. Only successful ventures, however, are a permanent benefit to the country. And only the Federal Government can collect and currently furnish facts and figures, sufficiently comprehensive with respect to the aggregate profitableness of existing business enterprises, as will minimize the risks of sowing venture capital and vital energy on unproven ground.

Business men constantly want information with respect to production, prices, consumption, etc. Many industrial trade associations sporadically gathering such information for the use of their members, including those in such important industries as lumber, cement, and drugs, have been charged with misusing such information in violation of the anti-trust laws.

The Commission's comprehensive Industrial Corporation Reports Series, while discontinued owing to the war, was unanimously recommended by The Temporary National Economic Committee for continuation and expansion. That Committee's final report (1941) states:

"One of the striking facts of experience in national economic policy formulation during the past decade, amply demonstrated by the experience of this committee, and more recently emphasized by the pressing problems of industrial mobilization confronting the national defense authorities, is the inadequacy of factual information concerning the structure and functioning of our industrial economy."

"Looking to the post-war period we all know that business and Government will be confronted with a new, complex and difficult situation. We shall be able to make the necessary adjustments and keep the economy functioning at a high level only if we anticipate and provide the factual requirements which are essential for intelligent appraisal and proper action. Fact gathering must be continuous so that essential economic information will be available to businessmen, to Government, and to the public."

Our business leaders indicate today a laudable desire to undertake the major responsibility for the functioning of our general post-war economy after reconversion is complete. The degree of their success in my opinion depends upon the boldness with which they attack the problem of reducing the costs of distribution, the solution of which will insure an expanding production of consumer's durable goods. The Commission hopes to continue to furnish statistical grist for grinding in the research mills of those who solve this and other post-war economic problems.

The Federal Trade Commission has consistently taken the position that what is needed is not less but more comprehensive trade statistics, available to business and the public alike; and to the extent that the Commission, continuing in the footsteps of its predecessor, the Bureau of Corporations, has publicized business facts and figures gathered in more than one hundred general investigations made for Congress, the President or upon its own motion, it has promoted technological efficiency in both production and distribution.

IV

GOVERNMENTAL CLIMATE

A talk on the subject of costs of distribution by the Chairman of the Federal Trade Commission would appear to call for some forecast as to the Governmental climate in which goods and services must be distributed after the war.

The Commission's legal activities are concerned with preventing distribution methods "regarded as opposed to good morals because characterized by deception, bad faith, fraud or oppression or as against public policy because of their dangerous tendency unduly to hinder competition or create monopoly." Unfair methods of competition and unfair or deceptive acts and practices in commerce as well as discriminatory discounts and allowances are chiefly sins of distribution despite the expanding nature of recent judicial definitions of interstate commerce.

The Federal Trade Commission and Robinson-Patman Acts, as well as the other antitrust statutes, are based on this underlying philosophy that competition, if free and fair, will provide in and of itself all the general regulation necessary, and the Department of Justice and the Commission, therefore, are not given large regulatory powers but charged merely with seeing that there is competition and that it is fair.

If illegal price cutting, if misbranding, if misrepresentation, are stopped; if large distributors are precluded from arbitrarily favoring certain customers; if there is an end to commercial bribery, inducing breach of contract, bogus independents, of "lifting" and then advertising a competitor's product at greatly reduced prices to the injury of the product's reputation, exclusive sales and purchasing agreements, rebates and preferential contracts, acquisition of exclusive or dominant control of machinery or raw materials used in manufacturing; if there is an end to stealing copyrights, imitating patented articles, mergers to suppress competition, or interlocking directorates to create monopoly; if there is an end to these and to the other practices of a similar character which have been condemned judicially from time immemorial, -- and if there is an end to combinations in restraint of trade -- that is, combinations in which members of an industry voluntarily agree to restrict unduly their own right to trade, as well as those combinations which effect an undue extraneous restraint, -- will not distribution be so invigorated as to enjoy the rigors of a competitive climate?

To the extent that the Commission has challenged and impeded the development and operation of monopolistic practices, it has promoted both technological efficiency and social efficiency in distribution. I refer to several cases now in progress through the courts in which a challenge is directed to the legality of certain systems of delivered prices -- three types, actually -- the basing point system, the delivered price zoning system and the so-called "f.o.b. plant freight

equalized system." The systems have in common the deprivation to customers of advantage in delivered costs in dealing with nearby producers who must sell f.o.b. destination under a program of matching and equalizing delivered prices; they differ only in the manner of accomplishing equalization of their costs of delivery. Those hothouse breaths -- "uniform delivered prices" and "identical delivered price quotations" -- have as their companions such uneconomic ill winds as excessive cross hauling and phantom freight. In my opinion the post-war Governmental climate may be forecast as continued cold towards freight equalization.

What of the cumulus clouds of surplus war goods? We are all in accord when we express the hope that there will be such surpluses. Certainly wise military planning presupposes abundance -- an abundance of the infinite variety of things needed to wage costly modern warfare -- inasmuch as it is only a defeated nation which has no problems of surplus. The Government's tentative disposal plan is aimed not only to salvage taxpayer dollars from surplus jeeps, for example, but also to least interfere with the normal post-war distribution of competitive cars and tractors.

V

OUR NATIONAL OBJECTIVE

Expanding production, efficient distribution and nonwasteful consumption should be the goal of our post-war planning. In no other way can we contribute to the maximum in the gigantic task of rebuilding that will confront the post-war world. Under the pressure of wartime demand our manufacturing and processing industries have learned valuable lessons in production economies. This progress in the field of production should be matched in the field of distribution. The change from a single to a dual shift enabled the manufacturer to more efficiently utilize his investment in plant and equipment and thereby greatly reduce overhead costs. The importance of volume of production upon overhead is well illustrated by the results of a recent Commission study of the cost of production of farm implements. From 1929 to 1933 the sale of farm implements decreased from \$607,000,000 to \$85,000,000. In 1929 the average material and direct labor cost to manufacture a disk grain drill was \$72.44 and in 1933 it was \$68.45, a decrease of \$3.99, but the indirect manufacturing costs increased from \$27.05 in 1929 to \$118.52 in 1933, an increase of \$91.47, selling, collection and administrative expenses properly allocable to the manufacture and sale of a grain drill increased from \$26.58 in 1929 to \$71.15 in 1933, an increase of \$44.57, notwithstanding reductions in the numbers and wages of office and sales employees, and the total cost to manufacture and sell a grain drill increased from \$126.07 in 1929 to \$258.12 in 1933, an increase of \$132.05, or 104.7 percent.

A moment ago I mentioned the more efficient use of our manufacturing and processing facilities and have just illustrated the effect of reduced volume of business upon costs. The question may well be asked whether increased income and excess profits taxes have not absorbed all of the savings resulting from increased manufacturing and processing efficiency. For the five years 1939 through 1943, twelve representative food processors increased their annual sales from approximately \$538,000,000 to \$999,000,000, partly, of course, the result of higher prices. For these twelve companies the State and Federal income taxes increased yearly as follows:

1939	\$ 7,357,000
1940	9,757,000
1941	18,434,000
1942	43,900,000
1943	46,199,000

Net profits after all interest, income and excess profits taxes were:

1939	\$25,188,000
1940	28,148,000
1941	32,522,000
1942	30,942,000
1943	31,675,000

This picture is quite typical of industries having a large war demand for their products, namely, an increase in profits of large and medium-sized companies notwithstanding higher taxes through 1941 and then a leveling off in 1942 and 1943 with net profits, however, remaining above the 1939 level.

It appears that out larger manufacturing, processing and transportation companies will emerge from this war generally in a strong financial condition so that they can turn their attention to the problem of developing a more efficient and therefore cheaper system of distribution.

In the last analysis, the quantity of production and distribution of any given commodity depends upon consumption. The manufacturer cannot long continue to produce and distribute his product unless the consumer will buy. Buyers strikes following World War I caused by high prices paralyzed some trades. In protest against high clothing prices a United States Senator appeared in Congress dressed in overalls.

Balance is an essential element in efficiency of any kind, whether in the process of producing, distributing, or consuming goods. If we systematically produce and attempt to distribute more than we can consume, we destroy the balance between those three basic functions of our economy. We create a buyers' market and a stagnant industry. Likewise the systematic consumption of more than current production and surplus stocks upsets the balance in the opposite direction and we have a sellers' market with its hectic activity.

In a seller's market there is always a tendency for manufacturers to increase their prices, but the greatest increase frequently comes in distribution. For example, following World War I, there was a shortage of anthracite coal; prices rose to such heights that the Commission was directed to make an inquiry as to the causes, and it was found that through pyramiding of middlemen's charges, the customary wholesaler's margin of not to exceed 25 cents per ton for anthracite coal was increased to as much as \$5 and \$6 per ton.

Whatever be our accomplishments in enhanced technological efficiency of production or distribution as such, there is no real social efficiency when we thus alternate between "boom and bust" with the consumer tormented by unemployment in the buyers' market and plagued by a zooming cost of living in the sellers' market. So just as there is need for the engineering and pioneering type of mind in the search for technological efficiency in the production and distribution of goods, there is need of engineers and pioneers in the search for efficiency in maintaining a proper balance between such production and distribution and

consumption. After all, our individual interests as consumers in any long range view are necessarily paramount to our individual interests as producers or distributors.

The greatest spur to consumption is low price and the lowest price consistent with maintenance of productive and socially desirable enterprise is the Hallmark of efficiency. Therefore, whatever tends to lower prices tends to create efficiency through increased consumption. This in turn tends to stimulate production and distribution and to maintain all three in efficient balance. The theory underlying the competitive system is that it is the best method of inducing men of superior mental endowment to work efficiently to the end that society in general thereby may reap the benefit. Unless it does reap that benefit, organized society is merely maintaining a system under which the efficient may exploit the inefficient and the strong may exploit the weak. When men who are supposed to be competitors cease to make an effort to obtain business by offering more favorable terms in proportion to their respective efficiencies, they cannot be engaged in what the dictionary defines as competition. By so ceasing they have relieved themselves of the competitive necessity of being efficient for the benefit of the consumer or society as a whole, and used their efficiency merely as a device for more efficient monopolistic exploitation.

Efficiency is a term that requires definition. There may be a sort of efficiency in profit taking that rests upon the existence of high profit margins per unit of goods produced, thereby maintaining or increasing prices, restricting output, decreasing consumption and creating unemployment. Such efficiency is best promoted by cooperation and collusion among groups of organized competitors. Judging from the great number of antitrust proceedings in which our courts have condemned it, the cultivation and pursuit of that sort of efficiency has been popular in many of our principal American industries.

On the other hand, increased profits may result from reducing the profit margin per unit of goods produced, thereby reducing price and increasing consumption. This is the true theory of efficiency as a competitive economy. The efficiency that thus reduces costs and then spreads the benefit throughout the whole social organism by reducing prices does not flourish in the hothouse climate of private monopoly. Even though such a monopoly may reduce its costs by more efficient methods, it has a strong incentive to monopolize the benefits unless prodded by the spur of competition.

In competitive sport we have no difficulty in understanding that the game is for one competitor to outdo the other and that the contestants are expected to call upon their varying abilities and reserves of efficiency for that purpose. We would regard the game as fixed and fraudulent if this were not so. We also readily understand that it is the effort to outdo the competitor that creates and releases unsuspected reservoirs of ability and efficiency in all the contestants. I hope we are not prepared to abandon that principle in business and have it become a mere routine like book-chess wherein White knows in advance every move Black may be expected to make.

And let not free enterprise deceive itself that it can remain free and at the same time deny to society the benefits of competitive efficiency, thereby periodically putting the mass of small consumers through the wringer of depression and unemployment and progressively wiping out the small producer.