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THE FTC IN THE PRESENT DEFENSE PROGRAM

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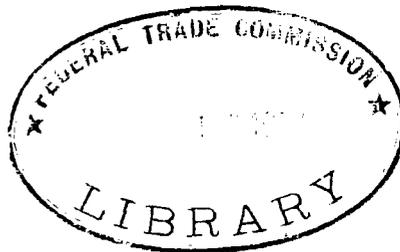
JAMES M. MEAD, CHAIRMAN,  
FEDERAL TRADE COMMISSION

Before the

SALES EXECUTIVE CLUB OF NEW YORK

Hotel Roosevelt, New York

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Mark Twain once pointed out that a cat who sits down on a hot stove lid readily learns not to do so again but that she makes the mistake of also thinking it dangerous to sit down on a cold stove lid. The cat draws a false analogy between the two kinds of stove lids because they look alike. We should avoid drawing a similar false analogy between the present defense emergency and the emergency of World War II.

Though the industrial targets of the present defense program are not as high as those of the Second World War, the strain which they place upon our economy is becoming severe at an earlier stage. We began the Second World War with 8 million people unemployed, and in consequence the work force had fallen by only one and one-half million in 1945 though 12 million were in uniform. We began the current emergency period with substantially full employment. There is no slack to take up, except through longer hours and attracting more women to the labor force.

Moreover, the controls of the Second World War were intended to operate for a limited period of time until there was a military decision, whereas, the present emergency, being neither total war nor peace, offers little prospect of a quick termination, and the controls that are being established today are designed to deal with a problem that is expected to continue, in its broad outlines, for a decade, or a generation.

These two differences in the nature of the emergencies, taken together, mean that the United States faces a task of inventing political and economic institutions which is as formidable as any that has ever confronted us. We proved in the Second World War and are now proving again that we can solve the problems of production on an unprecedented scale. No nation has yet proved that it can convert itself semi-permanently into a military economy, adopt the economic controls that are appropriate to the conversion, and still keep its business enterprise private, free, and competitive. It is for our generation to supply this proof.

The Federal Trade Commission is in a peculiar sense a guardian of private, free, competitive enterprise. That's our responsibility - it's your business. Not only was it established to stop monopolistic practices in their incipiency; it was set up as a bi-partisan body with staggered tenure of office; it was equipped with unusual powers of fact-gathering in order that it might act as an arm of the Congress to keep abreast of new threats to competitive private enterprise and to suggest new remedies as they became necessary. No other agency of Government has been assigned this job or given the means to perform it. Today the Commission, carrying out the mandate of Congress, continues its efforts to curb monopolistic practices, such as price-fixing, unlawful price discrimination, tying contracts, and unfair practices such as deceptive advertising. It does this not only because these old evils still need to be checked and the law requires us to do so, but also because some of them are drags upon the defense effort which should be tolerated today less than ever. But the principal measure of the Commission's performance during this period will not be its success in doing its accustomed job, but rather its success in preserving the competitive private enterprise system for the deflecting tendencies that are inherent in a vast mobilization for defense.

We are approaching this job humbly and without pat formulas. We have the advantage that the President is keenly aware that competition would suffer if the defense program were developed without care to preserve it and he has,

therefore, given instructions that there shall be conferences between the defense agencies, our Commission, and the Department of Justice. We have the further advantage that the Defense Production Act provides that the defense agencies shall clear with the anti-monopoly agencies of which we are one in authorizing types of joint activity which might jeopardize competition. These advantages assure us sympathetic support and machinery to work through but do not of themselves tell us what to do.

Thus far we are urging a few key ideas and I want to tell you about them; The first is that this ought to be everybody's defense program, a program participated in by big business, independent business and little business alike. To place defense contracts with little business or get emergency expansion by little business is harder than to do the job through large enterprises alone, but it is the only way to use all our muscle. Moreover, it is the only way to make sure that the defense program shall not so distort the economy as to bring us out of the emergency either with an excessive concentration of economic power or with excessive Government control designed to limit or reverse the concentrating tendency.

Second, the needs of defense should be met so far as possible by industrial expansion. Only if we can meet a large part of defense requirements from new production can we hope to get rid of allocations, priorities, and price controls before they are permanently built into our economy. And that we hope to do.

Third, since we start without a reserve of manpower and with scarcities of important basic materials, the expansion should employ, so far as possible, new technology, - technology that saves or prevents waste of labor and materials. This means that special incentives should be provided for the appropriate kind of technological development, and that special care should be taken to uncover technological possibilities that are in the hands of those who cannot or will not develop them quickly. It means, too, that the pooling of technology should be encouraged where there is a danger that the separate ownership of complementary new developments may prevent them from being adequately used.

Through measures such as these, both the severity and the duration of controls can be minimized. This will be a great advantage during the period of the defense effort; - it will mean higher living standards when the peace is assured for all our people.

There is also need to make the controls that are applied fair, simple, and effective. Our Commission is not a control agency and has no desire to try to usurp the functions of other agencies. However, it is already developing programs of friendly aid which give us some influence upon the trend of events. We are helping to make the orders of the National Production Authority effective by making, at NPA's request, industry-wide surveys of compliance with these orders. Such surveys not only contribute to the enforcement of sound orders but also enable NPA to identify more quickly any portions of such orders that may be unworkable or unfair. Two such surveys have already been undertaken and others are in immediate prospect.

We are also helping to make the orders of OPS more appropriate by supplying a solid basis of information upon which these orders can be founded. Eric Johnston announced on April 23, that, after certain price adjustments

have been made, further price increases will be allowed only in industries whose profits, on the average, are less than 85 percent of their profits in certain peak years since the Second World War. For this sort of program to work, there must be an accurate knowledge about rates of profit, and this knowledge must cover all kinds of enterprises, big and little, urban and rural, integrated and not integrated. The Federal Trade Commission supplies most of the profit data upon which this program relies.

We began to collect financial statistics before the Second World War, and, together with the Securities and Exchange Commission, have acted as the Government's agency to provide summary balance sheet and income statement data every quarter since the beginning of 1947. The program began modestly, to cover manufacturing industries only.

Before the present emergency began, these figures about manufacturing profits were proving their worth. They have been the Government's only reliable source of information about the profits of small business. They have given businessmen in any line of manufacturing the opportunity to compare their own operating results with those of other concerns in the same line; and with those of other concerns of the same size in order to locate points where performance might be improved. They have informed the Council of Economic Advisers about the trend of business sales and profits, and have been the largest single source of estimates by the Department of Commerce about the trend of the national income. They have assisted the Federal Reserve Board in its analysis of bank loan expansion and have thus contributed to the use of selective credit controls to curb inflation. Now they are becoming the basis upon which the industry divisions of OPS determine the trend of sales and profits in particular industries. We are receiving a growing number of requests to make special tabulations of data for the price control agencies. At the request of these agencies, we are also expanding our reports to cover wholesale and retail trade, since there is no other source of data about profits in distribution. It is inevitable that with the growing demands on this reporting program it will become more detailed, more comprehensive, and more carefully accurate. It will, thus, become more useful to businessmen as well as to Government agencies.

Our reporting program has been repeatedly praised by the officials of the Bureau of the Budget who supervised it. Moreover, comparison of our estimates made about three months after the close of a quarter, with the figures which become available from the Bureau of Internal Revenue three years later shows a degree of accuracy much higher than either we or the Bureau of the Budget had expected. On net income before taxes, for example, our total for 1947 was within four tenths of one percent of the Bureau of Internal Revenue total. We are proud of our record and we invite criticism from every interested source.

The facts as to the present revision are as follows:

We have long desired to make reports in greater detail than is possible with the sample we have used. Accordingly, on our initiative and with the hearty approval of the Bureau of the Budget, we have drawn a new sample of manufacturing corporations which is to be used for the first time in the report for the second quarter of 1951. It is not expected that this sample will appreciably increase the accuracy of our national totals because they

are already very accurate. It is expected, however, that the sample will allow us to report accurately the profits of more industries than we now feel justified in reporting, and will allow us to report separately the profits of large and small corporations within each major industry, whereas, we now can make such separate reports by size only for manufacturing as a whole.

The use of facts to deflate political controversies is a slow process, but it does take place. Today employers and labor unions would not think of settling a controversy about wages by conflicting assertions about the trend of the cost of living. Instead they use the cost of living index of the Bureau of Labor Statistics, and thus start their disagreements from certain solidly agreed facts. So long as profits are controlled, it will be important to give the Federal Trade Commission's financial reports the same status as those given the Bureau of Labor Statistics.