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FEDERAL TRADE COMMISSION

WASHINGTON

REPORT

ON

MOTOR VEHICLE INDUSTRY

PURSUANT TO JOINT RESOLUTION No. 87

(H. J. RES. 594)

SEVENTY-FIFTH CONGRESS, THIRD SESSION

JUNE 5, 1939.—Referred to the Committee on Interstate and Foreign Commerce and ordered to be printed with illustrations

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FEDERAL TRADE COMMISSION

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LETTER OF SUBMITTAL

Federal Trade Commission,
Washington, June 5, 1939.

The Speaker of the House of Representatives,
Washington, D. C.

Dear Sir: Herewith I have the honor to submit the report, including conclusions, of the Federal Trade Commission on the motor-vehicle industry, made pursuant to Public Resolution No. 87, Seventy-fifth Congress, third session (H. J. Res. 594), approved April 13, 1938, directing the Federal Trade Commission to investigate the policies employed by manufacturers in distributing motor vehicles, accessories, and parts, and the policies of dealers in selling motor vehicles at retail, as these policies affect the public interest.

By direction of the Commission.

R. E. Freer, *Chairman.*

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In the printing of this report the appendixes have been omitted, but they are a part of the public record thereof which is available for examination at the offices of the Federal Trade Commission.

REPORT ON MOTOR VEHICLE INDUSTRY

CHAPTER I.—ORIGIN AND SCOPE OF THE INQUIRY AND ECONOMIC ASPECTS OF THE INDUSTRY

SECTION 1. SCOPE OF INQUIRY AND METHOD OF PRESENTATION

Origin of the inquiry.—On April 13, 1938, the President signed Public Resolution No. 87, Seventy-fifth Congress (H. J. Res. 594), "directing the Federal Trade Commission to investigate the policies employed by manufacturers in distributing motor vehicles, accessories, and parts, and the policies of dealers in selling motor vehicles at retail, as these policies affect the public interest." The resolution, introduced in the House of Representatives by the Honorable Gardner R. Withrow, of Wisconsin, was passed on March 21, 1938, and, sponsored in the Senate by Senator Sherman Minton, of Indiana, it was passed by that body on March 31, 1938.

Before the resolution was adopted by the Congress, extensive hearings were held by a subcommittee of the Committee on Interstate and Foreign Commerce of the House of Representatives. Executive officers of the National Automobile Dealers Association and other interested persons appeared in favor of the resolution, and representatives of the Automobile Manufacturers Association testified in opposition to it. After carefully considering a mass of testimony and exhibits presented by these parties, the Committee on Interstate and Foreign Commerce recommended the adoption of the resolution, the text of which, insofar as it relates to the scope of the inquiry, is as follows:

> *Resolved by the Senate and House of Representatives of the United States of America in Congress assembled,* That the Federal Trade Commission be, and is hereby, directed and authorized under the Act entitled "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," approved September 26, 1914, to investigate the policies employed by manufacturers in distributing motor vehicles, accessories, and parts, and the policies of dealers in selling motor vehicles at retail, as these policies affect the public interest.
>
> The purpose of this investigation shall be to determine—
>
> 1. The extent of concentration of control and of monopoly in the manufacturing, warehousing, distribution, and sale of automobiles, accessories, and parts, including methods and devices used by manufacturers for obtaining and maintaining their control or monopoly of such manufacturing, warehousing, distribution, and sale of such commodities, and the extent, if any, to which fraudulent, dishonest, unfair, and injurious methods are employed, including combinations, monopolies, price fixing, or unfair trade practices;
>
> 2. The extent to which any of the antitrust laws of the United States are being violated.

General subject matter of the report.—In accordance with the direction of Public Resolution No. 87, attention has been given in the conduct of this inquiry to the history of the growth of the automobile industry, to the degree of concentration existing, and to the methods and devices by which this concentration has been attained and is maintained at the present time. Attention has also been given, as directed by the resolution, to the question of unfair or injurious methods used in the industry, both by manufacturers and by distributors and dealers, and to whether the antitrust and other laws of the United States have been violated.

Automobile trade associations.—Since all of the manufacturers of passenger cars and trucks, except Ford Motor Co., are members of a trade association known as Automobile Manufacturers Association, a study was made at the offices of this association in New York and in Detroit covering the records and activities of this association. Similar studies were made of the activities and records of the principal trade association of automobile dealers known as the National Automobile Dealers Association. In addition, special studies were made by representatives of the Commission of the policies of dealers in selling motor vehicles at retail as embodied in used-car valuation plans and bureaus conducted by numerous local-dealer associations. The studies made of association activities do not include several associations of manufacturers of parts and accessories, nor do they cover more than a relatively small number of State and local-dealer associations.

The principal results of these studies, together with a discussion of certain legal aspects of cooperative activities of manufacturers and dealers, constitute the subject matter of chapters II, X, and XI of this report. Chapter II describes the organization and activities of the Automobile Manufacturers Association, and chapter X describes in a similar manner the organization of the National Automobile Dealers Association and certain typical State and local-dealer associations. Chapter XI discusses typical cooperative efforts of automobile dealers to control competition in the retailing of automobiles, especially by the use of used-car valuation manuals and the operation by local-dealer associations of used-car valuation bureaus. In this chapter special attention is given to economic and legal aspects of these cooperative activities to control competition in the granting of allowances on cars offered in trade by car buyers.

Manufacturer-dealer relations.—Since the adoption of the resolution arose largely out of complaints of dealers that they were treated unfairly or inequitably by the motor-vehicle manufacturers, with whom the dealers and distributors had contracts, particular attention was given in all phases of the inquiry to developing the facts respecting manufacturer-dealer relations.

Information on this subject was gathered from several sources. The first includes examination by representatives of the Commission of manufacturers' records having to do with the formulation of manufacturers' policies respecting their relations with dealers and distributors, and with practices carried out under these policies. Special attention was given to the terms of manufacturer-dealer agreements which constitute the basis for relations existing between automobile manufacturers and their distributors and dealers.

The second source of information was interviews had by examiners of the Commission with representative dealers most of whom were selected at random from among the dealers representing the different manufacturers in some 65 cities and towns from Los Angeles to Boston and from St. Paul and Minneapolis to Jacksonville, New Orleans, and Dallas.

The third source of information on this subject consisted of replies received from dealers doing business in every State, in response to a special report form for dealers which requested answers to specific questions regarding the conditions under which they operate. In order to overcome as far as possible reluctance on the part of dealers to discuss these matters for fear of reprisals by manufacturers in case the manufacturer learned a particular dealer had furnished information, dealers addressed were requested to consider their replies confidential as between the Commission and themselves. This precaution was taken because many dealers interviewed by the Commission's examiners stated they feared reprisals if the manufacturer learned they had furnished information. In order to protect such dealers, the only cases in which dealers' names or addresses are given are in connection with quotations from correspondence or other documents obtained from the files of manufacturers of which the respective manufacturers have full knowledge.

A fourth source of information was the mass of correspondence and exhibits furnished by dealers and others to the subcommittee of the Committee on Interstate and Foreign Commerce of the House and the record of hearings held when that committee was considering the Withrow resolution which, as subsequently revised and amended, became Public Resolution No. 87, Seventy-fifth Congress, directing that the present inquiry be made.

A fifth source of information consisted of letters voluntarily addressed to the Commission by dealers describing conditions under which they operate. Complaints made by dealers to certain Members of Congress were forwarded to the Commission. Some dealers and distributors called at the Commission's offices to relate their experiences. Other dealers, fearing that the fact that they had furnished information might reach their manufacturers, wrote anonymously and furnished documentary evidence such as originals of correspondence with manufacturers or with manufacturers' respresentatives from which the dealers, however, removed their names and addresses. One dealer, in particular, who had been visited by a Commission examiner, not only wrote anonymously, but mailed his letter on a train in order that it would bear only a railway post-office postmark. Information received from such sources furnished definite suggestions of subjects for further inquiry. In the report, however, only small use was made of information furnished anonymously, and that use was confined to definite documentary evidence regarding the authenticity of which there can be no doubt.

A sixth source of information was found in the records of closed cases and investigations of the Commission's legal department, and of its Trade Practice Division. Other sources included published reports of congressional hearings, and other published materials.

Information from these sources served as the basis for chapters III to IX, inclusive, of the report, all of which deal with manufacturer-dealer relations. Chapter III discusses the nature and basis for manufacturer-dealer relations with special attention to the dealer operating conditions set out in the dealer agreements that manufacturers insist that their dealers shall sign before they can become dealers. Other chapters deal, respectively, with manufacturers' requirements respecting dealer capital and facilities, with pressure on dealers to take and sell new cars, with manufacturers' used-car policies and practices, with the exclusive handling of the manufacturer's line, both of new cars and of repairs and accessories, and with certain other policies of manufacturers.

Difficulty was met in obtaining the information necessary to answer the inquiry after Federal indictments were returned against General Motors Corporation, Chrysler Corporation, and Ford Motor Co. and installment finance companies which are, or were, affiliated in the past with these three manufacturers. These indictments, returned on May 27, 1938, about 6 weeks after the Congress directed the Commission to make the present inquiry, charged violations of law in connection with the insistence on the part of the manufacturers concerned that their dealers finance time sales with particular finance companies. Ford Motor Co., however, did not withhold any dealer files requested.

In addition, the Commission has pending certain complaints issued against certain automobile manufacturers which involve alleged relationships existing between the manufacturers and their dealers. In conducting the present inquiry, therefore, considerable care was exercised in the treatment of information obtained in order to avoid prejudgment of issues involved in these unfair competition cases.

Growth of concentration and financial results for manufacturers.—In connection with the growth of concentration of manufacturers, attention was given not only to the history of the growth of large automobile manufacturing companies but also to a study of the investments and profits of seven of the principal manufacturers whose combined production of passenger cars for the year 1937 represented about 98 percent of the total made in the United States and approximately 93 percent of passenger cars and trucks combined.

Under the general subject of financial results for manufacturers, four chapters are devoted to the presentation of the facts developed by studies made by the Commission's accountants respecting the investments and profits, and other pertinent financial facts concerning seven important manufacturing companies. Separate chapters are devoted to the investments and financial results for General Motors Corporation, Chrysler Corporation, and Ford Motor Co. Another chapter sets forth similar facts for Hudson Motor Car Co., Packard Motor Co., Nash-Kelvinator Corporation, and the Studebaker Corporation, which are the remaining four manufacturers whose accounts and records were examined by the Commission.

Financial results for dealers.—In addition, another chapter is devoted to the investments and profits of dealers and dealer-distributors. This study covers the reports of 425 dealers and distributors for the year 1935, 479 for the year 1936, and 527 for the year 1937. Other reports were received too late to analyze. For many of these dealers the discussion is based on copies of annual reports made to their respective manufacturers which were furnished to the Commission by the dealers either in response to requests made by examiners of the Commission or in response to written requests for financial and operating reports addressed directly to them. In nearly every case additional facts had to be obtained from the dealers in order to ascertain all of the information needed.

Manufacturers' prices and improvements in the quality of cars.—In view of the marked improvements that have been made in automobiles, a study was made of this subject in relation to the trend of prices paid by the public for automobiles. A summary of information obtained for typical cars made by the seven different manufacturers included in the Commission's inquiry constitutes the subject matter of chapter XVII.

Finance company operations.—Sale of automobiles on time has become the accepted method of automobile distribution. The large part performed by automobile finance companies in the distribution of automobiles through wholesale financing of retailers and by the purchase of customers' installment sales paper, and the vital relationship of the operations of these companies to the prices paid by automobile purchasers, are made the subject of study from two angles; namely, from the angle of profits involved in the financing of installment sales, and from the angle of the effects of installment finance rates upon the prices paid by the automobile buying public.

Chapter XVIII describes the results of a study of the investments and profits of thirty representative installment financing companies and chapter XIX discusses the cost to consumers of installment purchasing based largely on a sample study made of many thousands of individual installment sales.

In this part of the report, no attempt was made to go into subjects relating to installment financing that were involved in the indictments returned by a Federal grand jury on May 27, 1938, against General Motors Corporation, Ford Motor Co., and Chrysler Corporation and certain finance companies named therein. Incidentally, it is to be noted that Ford Motor Co. and Chrysler Corporation entered into consent decrees under these indictments, which decrees were approved by the District Court of the United States for the Northern District of Indiana on November 15, 1938. Therefore, of the three companies originally indicted in May, only General Motors Corporation, which owns outright General Motors Acceptance Corporation, elected to stand trial under the indictments. This case is still pending.

Conditions affecting the conduct of the inquiry.—The reluctance of manufacturers to permit examination of their records respecting subjects involved either under Federal indictments or under complaints issued by the Commission, occasioned a great deal of delay in the progress of the inquiry, particularly during the period from June 1 to November 15, 1938, the last-named date marking the approval of consent decrees entered into by Ford Motor Co. and Chrysler Corporation in connection with the Federal indictments returned on May 27, 1938.

The existence of the indictments not only made the three large manufacturing companies concerned reluctant to furnish information but also raised legal questions that made it necessary to proceed with extreme care in the Commission's inquiry. For this reason, the Commission's study of records at the offices of these three manufacturing companies was purposely limited to avoid inquiries on subjects involved in the indictments and was conducted under conditions involving cooperation between the Commission's examiners and attorneys for the three largest manufacturers in order to avoid inquiries which might prejudice the interests of manufacturers or of the Department of Justice in connection with matters at issue in cases not yet brought to a conclusion. Under these circumstances Ford Motor Co. and Chrysler Corporation cooperated in an excellent manner throughout the inquiry, while in the case of General Motors Corporation, which elected to stand trial under the South Bend indictment of May

27, 1938, there was an improvement in the cooperative attitude shown as the inquiry drew to a close. Notwithstanding the improvement in cooperative attitude of the General Motors Corporation, important information requested as early as the middle of 1938 was still being received after April 13, 1939—too late for use in the report.

Due to pressure to complete the inquiry within the time limit set, and with the limited funds and personnel available, it was necessary to concentrate effort on what were considered to be the more important phases of the inquiry as directed by the resolution.

Section 2. Growth of Motor-Vehicle Industries as Shown by the Census of Manufactures

The phenomenal growth of the motor-vehicle industries may be traced from Census of Manufactures' data which has been published since 1899. The economic importance of the motor vehicle and motor-vehicle bodies and parts industries, as well as their rapid development, is concisely shown by census data covering the average number of wage earners, wages paid, value added by manufacture, cost of materials, value of products, and other pertinent information.

In any consideration of census data certain general considerations affecting them should be kept in mind. Price changes may distort the real change from one census period to another in comparing such categories as value of products, cost of materials, and value added by manufacture. The stage of technological development may materially affect the comparability of the average number of wage earners for one census period with another. That is, there may be increased productivity without any real increase in the number of wage earners. The decreasing length of the working day must also be considered as a factor affecting the comparability of census data.

When data covering value of product and cost of materials are used to show the importance of an industry from one census period to another, the large element of duplication involved should be given due weight. The Census of Manufactures, 1927, comments on this factor, as follows:

> * * * Copper ingots made in the copper smelting and refining industry are sold to copper-rolling mills, which roll them into rods. The rods are sold to copper-wire mills, which draw them into wire. Wire made by these mills is sold to establishments in the "Electric machinery, apparatus, and supplies" industry, which use it in the manufacture of ignition apparatus for internal-combustion engines. These establishments sell the ignition apparatus to manufacturers of automobile engines. The engines in turn are sold to automobile manufacturers, who install them in complete automobiles. The value of the automobiles, as reported by the automobile manufacturers, includes, of course, the value of the engines; similarly, the value of the engines includes the value of the ignition apparatus; and so on. Thus in the aggregate of the values of products reported by the copper smelters and refiners, the rod mills, the wire mills, the manufacturers of ignition apparatus, the engine manufacturers, and the automobile manufacturers, the value of the copper ingots is included six times, of the rods five times, of the wire four times, of the ignition apparatus three times, and of the engines twice; and corresponding duplications occur in the aggregate cost of materials. As a result of this large but indeterminable amount of duplication, the aggregate value of the products of all manufacturing establishments is much in excess of the aggregate value of manufactured products in the form in which they reach the ultimate consumer.[1]

The following table strikingly portrays the rapid growth of the motor vehicle and motor-vehicle bodies and parts industries since

[1] U. S. Department of Commerce, Bureau of the Census, Census of Manufactures, 1927, p. 10.

1899 for census years. It shows the average number of wage earners, wages, and value added by manufacture for the combined groups, the cost of materials, and value of products for each group, and the number of motor vehicles produced by the motor-vehicle group.

TABLE 1.—*Average number of wage earners, amount of wages, cost of materials, supplies, fuel, power, etc., value of products and value added by manufacturer for the motor vehicles and motor-vehicle bodies and parts industries, by census years 1899–1937*

Year	Motor vehicle and motor-vehicle bodies and parts industries			Motor-vehicle industry			Motor-vehicle bodies and parts industry	
	Average number of wage earners	Wages	Value added by manufacture	Number motor vehicles produced	Cost of materials, supplies, fuel, power, etc.	Value of products	Cost of materials, supplies, fuel, power, etc.	Value of products
1899 [2]	2, 241	$1, 320, 658	$2, 943, 724	3, 723	$1, 804, 287	$4, 748, 011	([1])	([1])
1904 [2]	12, 049	7, 158, 958	16, 882, 171	22, 830	11, 658, 138	26, 645, 064	$1, 493, 227	$3, 388, 472
1909 [2]	75, 721	48, 693, 867	117, 556, 339	127, 287	107, 731, 446	193, 823, 108	23, 914, 290	55, 378, 967
1914 [2]	127, 092	101, 926, 874	276, 623, 544	573, 039	292, 597, 565	503, 230, 137	63, 610, 365	129, 601, 337
1919 [2]	343, 115	491, 121, 373	1, 139, 395, 103	1, 683, 916	1, 578, 651, 574	2, 387, 903, 287	362, 027, 302	692, 170, 692
1921 [2]	212, 777	318, 752, 665	758, 376, 606	1, 596, 339	1, 107, 062, 085	1, 671, 386, 976	213, 964, 817	408, 016, 532
1923 [2]	404, 886	659, 877, 336	1, 464, 869, 707	3, 901, 710	2, 147, 463, 352	3, 163, 227, 874	564, 107, 225	1, 013, 112, 410
1925 [2]	426, 110	713, 931, 334	1, 750, 489, 293	4, 177, 897	2, 108, 191, 812	3, 198, 122, 633	882, 721, 451	1, 523, 279, 923
1927 [2]	369, 399	612, 955, 061	1, 469, 136, 397	3, 355, 772	1, 889, 426, 249	2, 848, 442, 843	641, 306, 562	1, 151, 426, 365
1929 [3]	447, 448	733, 082, 618	2, 002, 225, 667	5, 294, 087	2, 394, 561, 000	3, 709, 515, 000	863, 937, 000	1, 551, 208, 000
1931 [3]	285, 515	350, 526, 346	951, 581, 634	2, 295, 063	1, 044, 405, 902	1, 567, 526, 262	516, 945, 000	945, 406, 758
1933 [4]	243, 614	252, 106, 467	648, 025, 693	1, 848, 013	767, 768, 278	1, 096, 946, 283	437, 186, 316	756, 034, 004
1935 [4]	387, 801	545, 414, 168	1, 124, 775, 887	3, 923, 052	1, 814, 132, 025	2, 391, 089, 954	1, 003, 106, 211	1, 550, 924, 169
1937 [4]	479, 158	755, 887, 379	1, 506, 444, 418	4, 732, 426	2, 394, 269, 305	3, 096, 218, 569	1, 274, 812, 733	2, 079, 307, 887

[1] Data included with motor vehicles.
[2] U. S. Department of Commerce, Bureau of the Census, Census of Manufactures, 1920, 1921, 1927, and 1931.
[3] U. S. Department of Commerce, Bureau of the Census, Census of Manufactures, 1933.
[4] U. S. Department of Commerce, Bureau of the Census, Census of Manufactures, 1937.

Wage earners and wages by census years.—In the decade from 1899 to 1909, the average number of wage earners in the motor-vehicle industries increased from somewhat over 2,000 to almost 76,000, while total wages increased from $1,321,000 to $48,694,000. During the next 10 years, significant employment and wage increases were again registered, for by 1914 the average number of wage earners was 127,000 receiving total wages somewhat over $100,000,000, and for 1919 the average of almost 350,000 wage earners received approximately a half billion dollars in wages. The period 1919–29 saw the average number of wage earners exceed 400,000 for the years 1923, 1925, and 1929, and total wages exceed $600,000,000 for 1923 and 1927, and $700,000,000 for 1925 and 1929. The decrease in both the number of wage earners and total wages paid from 1925 to 1927 is accounted for by the fact that one important motor-vehicle manufacturer (Ford) produced relatively few cars in 1927.

As would be expected, the average number of wage earners, as well as total wages, decreased abruptly as the depression, beginning the latter part of 1929, gathered momentum. From 1929 to 1933, the average number of wage earners decreased from almost 450,000 to approximately 244,000, and wages decreased from a little over $733,000,000 to approximately $252,000,000. Better business conditions were quickly reflected by an increased yearly average of wage earners and larger total wages. In fact, for 1937, the census reported approximately 480,000 wage earners and total wages of about $756,000,000, which were the highest figures reported to that date. This was an increase in the average number of wage earners over 1935 of 23.6 percent, and in wages paid of 38.6 percent.

The phenomenal growth of the industries under consideration from the standpoint of the average number of wage earners and total wages paid is concisely summarized by the use of index numbers in the following tabulation, which traces this development by census years, using the 1929 figures as 100:

Year	Index 1929=100		Average yearly wage	Year	Index 1929=100		Average yearly wage
	Average number of wage earners	Total wages paid			Average number of wage earners	Total wages paid	
1899	0.5	0.2	$589	1925	95.0	97.0	1,675
1904	3.0	1.0	594	1927	83.0	84.0	1,659
1909	17.0	7.0	643	1929	100.0	100.0	1,638
1914	28.0	14.0	802	1931	64.0	48.0	1,228
1919	77.0	67.0	1,431	1933	54.0	34.0	1,035
1921	48.0	43.0	1,498	1935	87.0	74.0	1,406
1923	90.0	90.0	1,630	1937	107.0	103.0	1,578

These data indicate in a general way that the average yearly dollar wage per worker in the motor vehicle and motor vehicle bodies and parts industries increased steadily during the period 1899–1925, and that the relatively high level of 1925 was maintained until 1929. The impact of the depression on average dollar wages is clearly shown by the sharp drop from $1,638 in 1929, to $1,035 in 1933. Improved employment and wage conditions are indicated in the averages for 1935 and 1937, which were $1,406 and $1,578, respectively.

Motor-vehicle production and value of production.—The rapid popular acceptance accorded the motor vehicle in the United States is shown by the number of units manufactured during the period 1899–1937. Fewer than 4,000 motor vehicles were produced in 1899, while 5 years later the census reported a yearly production in excess of 22,000 units, and by 1914, or 15 years later, yearly production passed the half-million-unit mark. In 1919, production of motor vehicles was 1,683,916 units, and for the next 10 years production continued to increase, irregularly from year to year, until by 1929 the all-time peak in yearly production of 5,294,087 units was attained. The force of the depression was soon felt by the motor-vehicle industry for by 1931 yearly production had dropped to 2,295,063 units, and by 1933 to somewhat less than 2,000,000 units. Improved economic conditions were reflected in the almost 4,000,000 units produced in 1935, and the 4,732,426 units produced in 1937.

The following tabulation of index numbers of production of motor vehicles, and the value of products (using 1929 as a base), by census years, concisely shows the industry's remarkable growth in productive capacity, particularly during the period 1899–1929:

Year	Index of production (1929=100)	Index of value of products (1929=100)	Year	Index of production (1929=100)	Index of value of products (1929=100)
1899	(1)	0.1	1925	79.0	86.0
1904	0.4	.7	1927	63.0	77.0
1909	2.0	5.0	1929	100.0	100.0
1914	11.0	14.0	1931	43.0	42.0
1919	32.0	64.0	1933	35.0	30.0
1921	30.0	45.0	1935	74.0	64.0
1923	74.0	85.0	1937	89.0	83.0

[1] Less than 0.1.

Relative rank with other manufacturing industries.—Since 1914 the motor-vehicle and motor-vehicle bodies and parts industries have ranked high in comparison with the other census manufacturing industry classifications for selected years during the period 1899–1937. This information is summarized in the following table, which shows the relative position of the motor-vehicle industries, complete and parts, with respect to average number of wage earners, wages, value added by manufacture, cost of materials, and value of product.

TABLE 2.—*Relative importance of the motor vehicle and motor-vehicle bodies and parts industries as compared with the Census of Manufactures list of manufacturing industries, for average number of wage earners, wages paid, value added by manufacture, cost of materials, and value of products, for selected census years 1899–1937*

Industry and year	Wage earners (average for the year)	Wages	Value added by manufacture	Cost of materials	Value of products
Motor vehicles and motor-vehicle bodies and parts:	*Rank*	*Rank*	*Rank*	*Rank*	*Rank*
1899 [1]					150
1904 [1]					77
1909 [1]	20		17		21
1914 [2]	15	7	6	7	7
1919 [3]	7	5	3	2	2
1925 [4]	3	1	1	1	1
1931 [5]	2	2	2	2	4
1935 [6]	1	1	1	1	1
1937 [7]	2	2	1	1	1
Motor vehicles:					
1914 [2]	22	16	12	9	8
1919 [3]	9	7	6	4	3
1925 [4]	10	8	4	2	1
1931 [5]	12	12	8	3	2
1935 [6]	8	6	4	2	1
1937 [7]	8	4	5	1	2
Motor-vehicle bodies and parts:					
1914 [2]	34	25	38	49	47
1919 [3]	18	13	20	29	25
1925 [4]	8	6	8	8	9
1931 [5]	11	9	9	7	11
1935 [6]	4	2	6	5	5
1937 [7]	4	2	4	5	5

[1] U. S. Department of Commerce, Bureau of the Census, Thirteenth Census of the United States, 1910, vol. VIII, p. 45.
[2] U. S. Department of Commerce, Bureau of the Census, Abstract of the Census of Manufactures, 1914, p. 516.
[3] U. S. Department of Commerce, Bureau of the Census, Fourteenth Census of the United States, 1920, vol. VIII, p. 16.
[4] U. S. Department of Commerce, Bureau of the Census, Biennial Census of Manufactures, 1925, p. 24.
[5] U. S. Department of Commerce, Bureau of the Census, Biennial Census of Manufactures, 1931, p. 30.
[6] U. S. Department of Commerce, Bureau of the Census, Biennial Census of Manufactures, 1935, p. 34.
[7] U. S. Department of Commerce, Bureau of the Census, Supplementary Report, Dec. 2, 1938, p. 2.

From twentieth in point of average number of wage earners employed in 1909, by 1925 the combined group was third, by 1935 it

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was first, and second in 1937. Ranking seventh and fifth in the amount of wages paid in 1914 and 1919, respectively, the combined motor-vehicle group rose to first place in 1925 and 1935, and ranked second in 1931 and 1937.

The motor-vehicle industry alone ranged in rank from twenty-second in 1914, to eighth in both 1935 and 1937, with respect to the average number of wage earners, while the motor-vehicle bodies and parts industry alone ranged from a rank of thirty-fourth in 1914, to fourth in both 1935 and 1937. Wages paid by the motor-vehicle industry alone ranked it sixteenth in 1914, but by 1937 it was fourth. For the motor-vehicle bodies and parts industry alone, wages paid by it ranked it twenty-fifth in 1914, but for 1935 and 1937 it had risen to second.

The value added by manufacture is a significant measure of the economic importance of an industry, for—

> products of one industry may be valued at the same amount as those of another, but the one may have added several times as much value to the materials as the other, and may therefore have been of correspondingly greater economic importance.[2]

Furthermore, value added by manufacture contains very little duplication. From a ranking of seventeenth in 1909, the combined industry rose to sixth in 1914, and to third in 1919. The group was first in value added by manufacture for the census years 1925, 1935, and 1937, and it ranked second in 1931.

The two categories of cost of material and value of products contain so much duplication that for the combined motor vehicle group rankings, such figures are of little significance. The same is true of the rankings for the motor-vehicle bodies and parts industry alone with respect to cost of material and value of product.

Proportion of total United States manufacturing industries.—Another indication of the importance of the motor-vehicle and motor-vehicle bodies and parts industries and their rapid growth is their proportion of the United States totals reported by all manufacturing industries of average number of wage earners, wages paid, value added by manufacture, and value of products. The following tabulation gives this information by census years, for the period 1899–1937.

Census years	Motor-vehicle and motor-vehicle bodies and parts industries			Motor vehicles—value of products (percent of United States total)
	Wage earners' annual average (percent of United States total)	Wages paid (percent of United States total)	Value added by manufacture (percent of United States total)	
1899	(1)	(1)	(1)	(1)
1904	0.2	0.3	0.3	0.2
1909	1.1	1.4	1.4	.9
1914	1.8	2.5	2.9	2.1
1919	3.8	4.7	4.6	3.9
1921	3.1	3.9	4.1	3.8
1923	4.6	6.0	5.7	5.2
1925	5.1	6.7	6.5	5.1
1927	4.4	5.7	5.3	4.6
1929	5.1	6.3	6.3	5.3
1931	4.4	4.9	4.9	3.8
1933	4.0	4.8	4.5	3.5
1935	5.3	7.2	5.8	5.2
1937	5.6	7.5	6.0	5.1

[1] Less than 0.1 percent.

[2] U. S. Department of Commerce, Bureau of the Census, Biennial Census of Manufactures, 1925, p. 8.

The proportions in the tabulation should not be considered as a specific measure of growth and importance, but rather as a relative measure of the motor-vehicle industries' rate and extent of development compared with the rate and extent of development of all manufacturing industries, as reflected in the various census categories. For example, in 1925 and in 1929, the proportion of the total average United States wage earners accounted for by the motor-vehicles industries was 5.1 percent, while in terms of wage earners employed there were 426,000 in 1925, and 447,000 in 1929. Yet relative to the United States totals for wage earners for 1925 and 1929 of 8,384,000 and 8,822,000, respectively, the proportions were approximately the same.

The proportion of the total annual average number of wage earners accounted for by the motor vehicles group increased from less than one-tenth of 1 percent in 1899, to 3.8 percent in 1919, or approximately 1 out of every 26 wage earners. Since 1919, the proportion of total United States wage earners employed by the motor-vehicle industries increased to 4.6 percent in 1923, and during the next 10 years, the proportion ranged from approximately 4 percent to 5.1 percent. The all-time high for the period was reached in 1937 with a proportion of 5.6 of the average number of wage earners reported by United States manufacturing industries, or approximately 1 out of every 18 wage earners.

The proportion of total United States wages reported by manufacturing industries paid by the motor-vehicles group increased from less than one-tenth of 1 percent in 1899 to 4.7 percent in 1919, or from approximately $1 out of every $1,500 paid in wages, to approximately $1 out of every $21 paid. After 1919, the proportions ranged from 3.9 percent in 1921, to 7.5 percent in 1937. In 1937, the motor-vehicles industries accounted for approximately $1 out of every $13 of total United States wages paid by manufacturing industries.

From 1919 to 1937, the proportion of total United States value added by manufacture accounted for by the motor-vehicle group ranged from 4.1 percent in 1921 to 6.5 percent in 1925. The 1937 proportion was 6 percent, or one out of approximately every $17 of total United States value added by manufacture. Relative to the total United States value added by manufacture, the motor-vehicle group lost ground during the depression periods of 1921 and 1931–33, and by 1937 had not attained in full the proportion shown for 1925.

The proportion of total United States value of product shown for the manufacturers of motor vehicles by census years for the period 1899–1937 represents in a general way the relative importance of this industry's output available for sale compared with total output. In 1899, only $1 of approximately every $2,400 of total United States value of product was accounted for by the motor-vehicle manufacturer. The highest proportion recorded for the period, 5.3, was attained in 1929 when the motor-vehicle manufacturers accounted for $1 of approximately every $19 of total United States value of product. After depression lows of 3.8 percent in 1921, and 3.8 percent and 3.5 percent in 1931 and 1933, respectively, the proportion of total United States value of product accounted for by the motor-vehicle manufacturers in 1937 was 5.1, or a ratio of 1 to about 20.

SECTION 3. GROSS AND NET INCOME OF MANUFACTURERS OF MOTOR VEHICLES, COMPLETE AND PARTS, AS REPORTED TO THE BUREAU OF INTERNAL REVENUE

The United States Bureau of Internal Revenue has published data since 1926 showing the number of corporations reporting net income and the number reporting a deficit, the amount of gross income of corporations reporting net income and of those reporting deficits, and the aggregate amount of net income or deficit of reporting corporations. These data are published for each industry group reporting, as well as a composite of all corporations reporting. This information does not show the exact profitability of a certain industry group, but it does show the trend of relative profitability of the individual industry groups as compared with the "All corporations" group. Before presenting the data for corporations manufacturing motor vehicles complete and parts, those for the "All corporations" group are shown to indicate the general trend of net income or deficits in the United States. Table 3, shows the number of corporations reporting net income, the number reporting a deficit, the gross income of corporations reporting a net income or a deficit, and the total aggregate gross income of all corporations reporting. In addition it shows the aggregate net income or aggregate deficit of corporations reporting either net income or a deficit, and combined net income or deficit for all corporations reporting.

TABLE 3.—*Number of corporations reporting net income, number of corporations reporting a deficit, aggregate gross income, net income and deficit, and consolidated net income and deficit for all corporations, 1926–36* [1]

Year	Number of corporations reporting				Gross income from corporations		
	Total	Net income	Deficit	Inactive	Reporting net income	Reporting deficit	Total
1926	455,320	258,134	197,186		$118,022,117,287	$24,107,735,570	$142,129,852,857
1927	475,031	259,849	165,826	49,356	115,324,339,717	29,074,011,729	144,398,351,446
1928	495,892	268,783	174,828	52,281	[4] 127,369,525,029	[4] 25,411,989,446	152,781,514,475
1929	509,436	269,430	186,591	53,415	129,633,791,720	30,987,717,461	160,621,509,181
1930	518,736	221,420	241,616	55,700	91,811,495,003	46,500,564,065	138,312,059,068
1931	516,404	175,898	283,806	56,700	52,051,035,000	55,464,204,000	107,515,239,000
1932	508,636	82,646	369,238	56,752	31,707,963,000	49,375,775,000	81,083,738,000
1933	504,080	109,786	337,056	57,238	46,752,366,000	36,890,055,000	83,642,421,000
1934	528,898	145,101	324,703	59,094	62,920,954,000	37,910,299,000	100,831,253,000
1935	533,631	164,231	312,882	56,518	77,441,506,000	36,494,664,000	113,936,170,000
1936 [3]	530,779	203,162	275,695	51,922	104,762,144,000	27,514,676,000	132,276,820,000

Year	Net income or deficit from corporations		Combined net income or deficit [2]
	Reporting net income	Reporting deficit	
1926	$9,673,402,889	$2,168,710,302	$7,504,692,587
1927	8,981,884,261	2,471,739,376	6,510,144,885
1928	10,617,741,157	2,391,124,248	8,226,616,909
1929	11,653,886,002	2,914,128,235	8,739,757,767
1930	6,428,812,710	4,877,594,854	1,551,217,856
1931	3,683,368,000	6,970,913,000	[1] 3,287,545,000
1932	2,153,113,000	7,796,687,000	[1] 5,643,574,000
1933	2,985,972,000	5,533,339,000	[1] 2,547,367,000
1934	4,275,197,000	4,181,027,000	94,170,000
1935	5,164,723,000	3,468,774,000	1,695,949,000
1936 [3]	9,477,980,000	2,156,055,000	7,321,925,000

[1] U. S. Treasury Department, Bureau of Internal Revenue, Statistics of Income.
[2] Net deficit.
[3] U. S. Treasury Department, Bureau of Internal Revenue, Statistics of Income, 1936 (preliminary report).
[4] U. S. Treasury Department, Bureau of Internal Revenue, Statistics of Income, 1930, p. 238 (revised figures).

Compared with table 3 are the following data as reported by corporations manufacturing motor vehicles, complete and parts:

TABLE 4.—*Number of corporations reporting net income, number of corporations reporting a deficit, aggregate gross income, net income and deficit, and consolidated net income and deficit for corporations manufacturing motor vehicles, 1926–36* [1]

Year	Number of corporations reporting				Gross income from corporations		Total
	Total	Net income	Deficit	Inactive	Reporting net income	Reporting deficit	
1926	1,753	826	927	----------	$4,883,720,693	$407,410,028	$5,291,130,721
1927	1,167	520	595	52	3,758,737,432	883,830,260	4,642,567,692
1928	1,122	560	481	81	4,598,926,939	840,961,848	5,439,888,787
1929	1,150	530	536	84	5,641,727,356	605,873,584	6,247,600,940
1930	1,045	353	636	56	3,151,948,382	841,904,142	3,993,852,524
1931	871	201	621	49	1,803,959,000	1,030,313,000	2,834,272,000
1932	702	68	601	33	19,296,000	1,454,773,000	1,474,069,000
1933	814	178	576	60	1,466,417,000	738,908,000	2,205,325,000
1934	951	287	593	71	2,544,890,000	401,051,000	2,945,941,000
1935	873	325	497	51	3,938,329,000	274,201,000	4,212,530,000
1936 [3]	801	367	390	44	4,621,105,000	163,117,000	4,784,222,000

Year	Net income from corporations		Combined net income or deficit [2]
	Reporting net income	Reporting deficit	
1926	$487,628,347	$45,335,004	$442,293,343
1927	397,988,234	77,467,572	320,520,662
1928	452,856,346	98,654,718	354,201,628
1929	505,759,011	32,052,283	473,706,728
1930	232,066,344	73,631,246	158,435,098
1931	149,323,000	123,534,000	25,789,000
1932	1,629,000	200,891,000	[2] 199,262,000
1933	102,525,000	69,053,000	33,472,000
1934	136,327,000	44,463,000	91,864,000
1935	262,782,000	22,218,000	240,564,000
1936 [3]	433,348,000	11,654,000	421,694,000

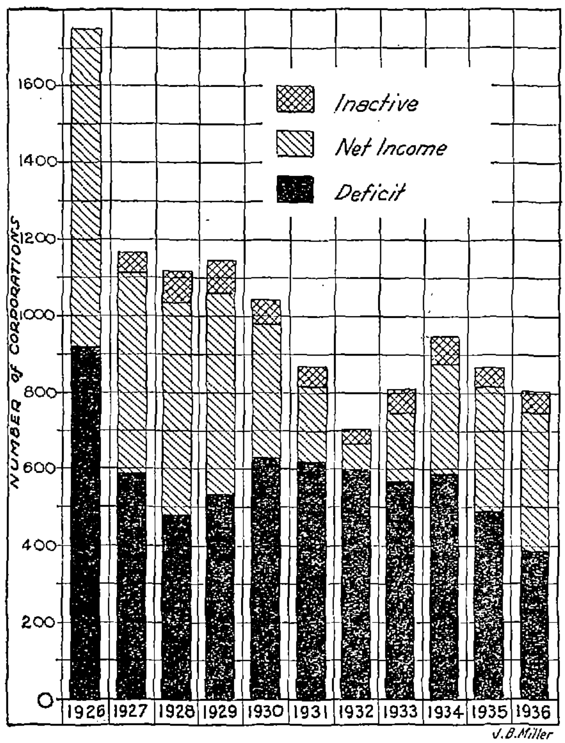
[1] U. S. Treasury Department, Bureau of Internal Revenue, Statistics of Income.
[2] Net deficit.
[3] U. S. Treasury Department, Bureau of Internal Revenue, Statistics of Income (preliminary report).

Number of corporations reporting.—The number of corporations in the motor-vehicles group, reporting for the period 1926–36 ranged from a high of 1,753 in 1926, to a low of 702 in 1932, with the trend downward. Marked decreases in the number of corporations reporting, of 586 and 174, took place between the years 1926–27 and the years 1930–31, respectively. For 1936, 801 reports were received, which was the lowest number for the 11-year period except for 1932.

The number of corporations reporting net income in 1926 was 826, the highest for the 11-year period, with an aggregate gross income of $4,884,000,000. By 1929, the number of corporations reporting a net profit had decreased to 530, with a peak gross income for the period of $5,642,000,000. The aggregate gross income reported by the 68 corporations reporting a profit in 1932, the lowest for the 11-year period, was only $19,296,000. A gradual increase in the number of corporations reporting net income, as well as an increase in the amount of gross income reported, took place from 1933 to 1936, so that in the latter year 367 corporations reported gross income of $4,621,000,000.

Corporations reporting deficits were most numerous in 1926 when 927 showed $407,000,000 gross income. The 390 corporations reporting deficits for 1936 with gross income of $163,117,000, was the lowest in both number and amount for the 11-year period. Chart 1 shows graphically the number of corporations manufacturing motor vehicles, bodies and parts, and the number reporting net income, deficits, or inactive, for the period 1926–36.

Chart 1 NUMBER OF MOTOR VEHICLE, COMPLETE OR PARTS, CORPORATIONS REPORTING NET INCOME, A DEFICIT, OR INACTIVE FOR THE YEARS 1926–1936.



Gross and net income.—The trend of total gross income, net income and deficits for the corporations manufacturing motor vehicles, complete or parts, as compared with all corporations, as shown in tables 3 and 4, is indicated in the following indexes for the 11-year period, using for both series the peak year 1929, as 100:

1929=100

Year	Motor vehicles, complete and parts			All manufacturing corporations		
	Gross income	Net income	Deficit	Gross income	Net income	Deficit
1926	85	96.0	141	88	83	74
1927	74	79.0	242	90	77	85
1928	87	90.0	308	95	91	82
1929	100	100.0	100	100	100	100
1930	64	46.0	230	86	55	167
1931	45	30.0	385	67	32	239
1932	24	.3	627	50	18	268
1933	35	20.0	215	52	26	190
1934	47	27.0	139	63	37	143
1935	67	52.0	69	71	44	119
1936	77	86.0	36	82	81	74

Compared with gross income reported by all manufacturing corporations, motor vehicles, complete and parts, showed a relatively lower level of total gross income previous to 1929, and the decrease in gross profits after 1929 to the depth of the depression in 1932, was also greater in extent than for the "all industries" group; likewise, recovery was more rapid for the latter group. This is further demonstrated by the fact that in 1929 corporations manufacturing motor vehicles, complete and parts, reported total gross income of $6,247,601,000, which was approximately 3.9 percent of the total gross income of $160,621,509,181 reported by all corporations. The proportion for 1932 was 1.8 percent and for 1936 it was 3.6 percent.

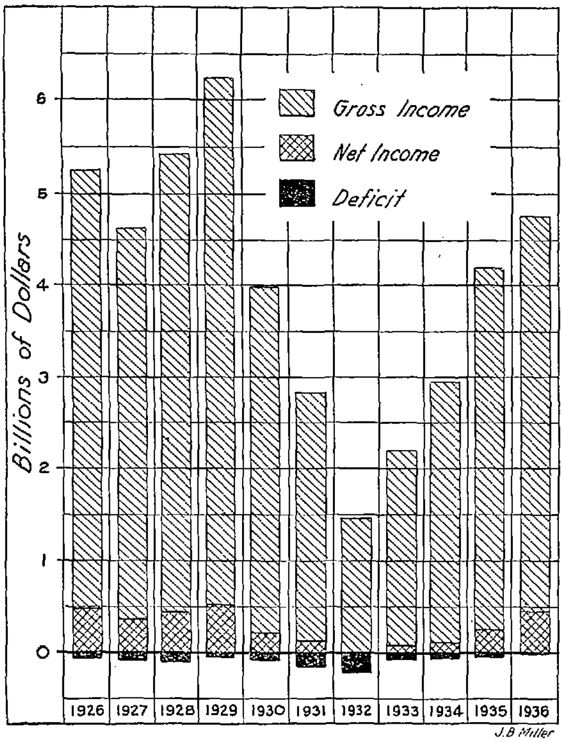
In terms of net income, corporations manufacturing motor vehicles, complete and parts, compared with "all corporations" reporting, fared relatively worse during the period 1929–34. Previous to 1929, the trend was about the same for both groups of corporations, but after 1929 the motor vehicles group dropped to a much lower relative level by 1932 than did the "all corporations" group, and considering the level from which net profits had to recover, the comeback in the former group was more rapid and spectacular.

The trend of net income for motor vehicles, complete and parts, demonstrates that the net profit position of this industry, with its heavy fixed investment, is directly and quickly affected by any change in general business conditions. This direct responsiveness to change in business conditions by any one industry group is obscured in the "all corporations" net profit data because of the diversity of industries represented in the group and the fact that not all of them are affected to the same degree by changes in business conditions.

The deficit index series for the two groups of industry classes shows the trend relative to 1929, and should not be considered without reference to the actual dollar deficits involved, as shown in tables 3 and 4. The deficit reported by the motor vehicles group for 1929 was about 1.1 percent of the "all corporations" group deficit for that year. In 1932, the proportion was about 2.6 percent, and in 1936, approximately 0.5 percent. Both for the number of motor vehicles, complete and parts, corporations reporting and their total amounts of deficit, 1936 was the lowest for the 11-year period. A relatively more rapid recovery from the business depression by the motor vehicles group than by the "all corporations" group is indicated by the deficit index series.

In terms of combined net income or deficit, the motor vehicles group showed a net deficit for the year 1932 only, while the "all corporations" group showed a net deficit for the years 1931, 1932, and 1933. The combined net income of $91,864,000 reported by the former group for 1934 was practically the same ($94,170,000) as for

Chart 2 GROSS INCOME, NET INCOME OR DEFICIT FOR CORPORATIONS MANUFACTURING MOTOR VEHICLES, COMPLETE OR PARTS, 1926-1936.



the "all corporations" group in 1934. It is apparent from this that the income data for the "all corporations" group is relatively less useful in portraying the impact of economic conditions on industry because such effects are obscured by the cross currents of the many industry groups included in the composite.

Chart 2 shows graphically the gross income, net income, or deficit for corporations manufacturing motor vehicles, complete or parts, for the period 1926–36.

SECTION 4. THE TREND OF MOTOR VEHICLE REGISTRATIONS

Registrations in the United States.—Motor vehicle registration figures as published yearly since 1913 by the Bureau of Public Roads, United States Department of Agriculture, attest to the rapid acceptance of the automobile by the American public. Although some duplication exists in the data, because of scrapping of cars, resales, and reregistrations, so that the total registration figures are somewhat in excess of the actual number of units in use, the extent of the duplication is not enough to materially affect their comparability from year to year.

There were approximately a million and a quarter motor vehicles registered in 1913, but by 1920 the number was almost 10,000,000, or over 7 times greater. By 1930 registrations had passed the 25,000,000 mark, which was 21 times the motor vehicles registered in 1913. Although the rate of increase in registrations was gradually slowing down, there were almost 30,000,000 in 1937, or almost 24 times the number of motor vehicles registered in 1913. Registrations lagged during the depression period, but somewhat more slowly and not to the same extent that production of motor vehicles did. While registrations between 1929 and 1933 only dropped approximately 10 percent, production in terms of units decreased approximately 65 percent, indicating that a large proportion of the cars in existence during 1929–33 were kept in use in spite of unfavorable economic conditions and for longer periods than normally was the case.

The steady increase in the number of motor vehicle registrations per 1,000 of United States population for the period 1913–37, is an index of the motor vehicle's increasing importance as a means of transportation. In 1913 there were 13 registrations per 1,000 of population, by 1920 the figure stood at 86, by 1925 at 172, by 1930 at 215, and by 1937 at 230, or about 18 times what it was in 1913. Preliminary estimates for 1938 indicate about 227 registrations per 1,000 population, or slightly less than in 1937. It is estimated that in 1937 the population per motor vehicle stood at 4.3, in 1929 at 4.6 persons, and in 1913, at 77 persons.

Chart 3 shows graphically the trend of motor vehicle registrations and the number of registrations per 1,000 of United States population for the period 1913–37.

World motor-vehicle registration.[3]—World motor-vehicle registration figures for 1937 totaled 42,677,948, of which approximately 70 percent were in the United States. The population for each motor vehicle registered in the world, excluding the United States, was approximately 149 in 1937, with the United States included, it was 48, and for the United States as a whole, 4.3. Canada ranked second with 8, England third with 18, France next with 19, and Denmark fifth with 26.

Geographical distribution in the United States of motor-vehicle registrations.—Of interest in connection with motor-vehicle registrations in the United States is their distribution by States and by geographic

[3] Automobile Facts and Figures, 1938, pp. 39, 82, and 84.

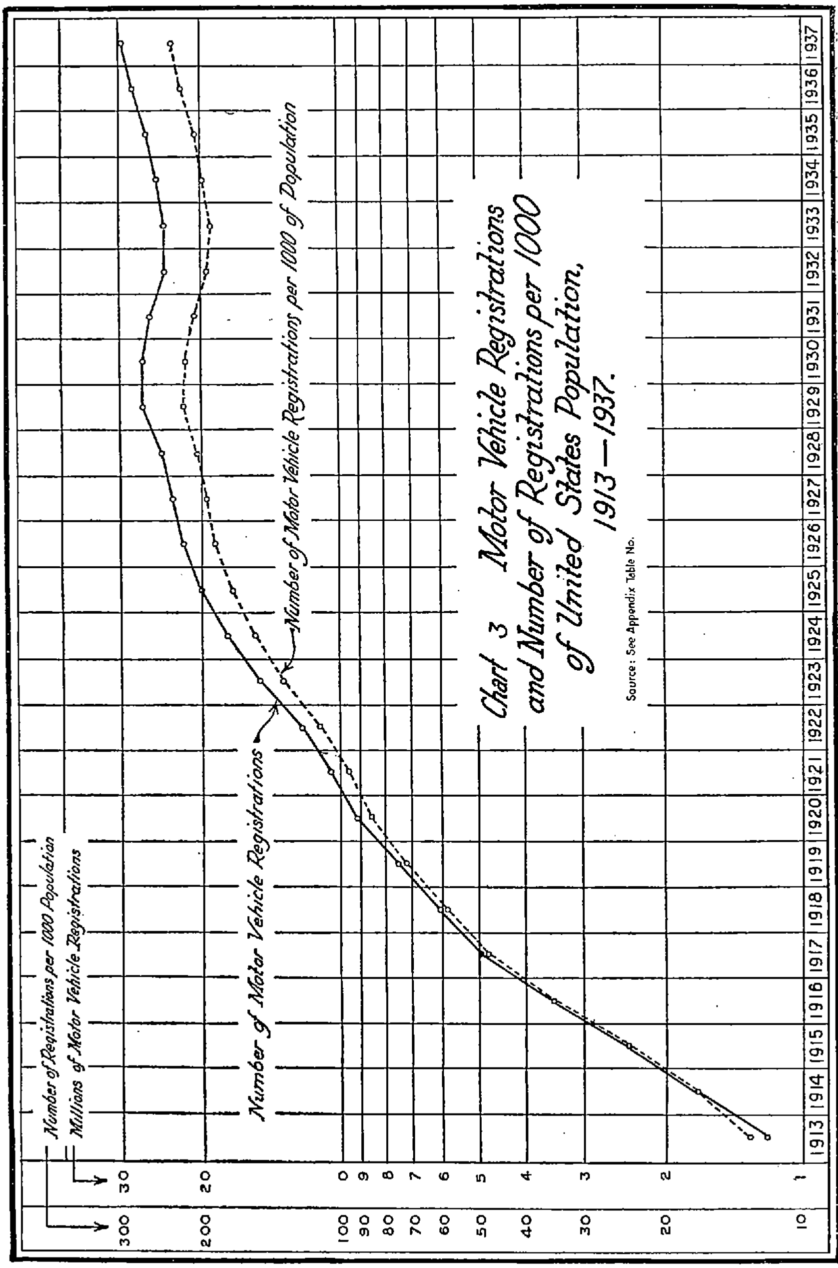


Chart 3 Motor Vehicle Registrations and Number of Registrations per 1000 of United States Population, 1913—1937.

Source: See Appendix Table No.

divisions. Table 5 shows for 1937, by State and by geographic division, the population, the number of motor-vehicle registrations, the number of persons for each motor-vehicle registration, and what proportion of total United States population and motor-vehicle registrations are accounted for by each geographic division.

TABLE 5.—*Population, motor-vehicle registrations, population per motor vehicle registered, by States and geographic divisions, for the year 1937*

Division and State	Estimated population as of July 1, 1937 [1]	Totol motor-vehicle registrations	Population per motor vehicle registered
			Number
New England	8,597,000	1,866,510	4.6
Maine	856,000	200,907	4.3
New Hampshire	510,000	125,939	4.0
Vermont	383,000	88,958	4.3
Massachusetts	4,426,000	846,556	5.2
Rhode Island	681,000	167,586	4.1
Connecticut	1,741,000	436,564	4.0
Middle Atlantic	27,478,000	5,541,021	5.0
New York	12,959,000	2,561,703	5.1
New Jersey	4,343,000	994,497	4.4
Pennsylvania	10,176,000	1,984,821	5.1
East North Central	25,841,000	6,960,579	3.7
Ohio	6,733,000	1,876,132	3.6
Indiana	3,474,000	956,016	3.6
Illinois	7,878,000	1,768,946	4.5
Michigan	4,830,000	1,505,111	3.2
Wisconsin	2,926,000	854,374	3.4
West North Central	13,819,000	3,761,437	3.7
Minnesota	2,652,000	822,598	3.2
Iowa	2,552,000	745,602	3.4
Missouri	3,989,000	835,895	4.8
North Dakota	706,000	173,188	4.1
South Dakota	692,000	184,743	3.7
Nebraska	1,364,000	412,726	3.3
Kansas	1,864,000	586,685	3.2
South Atlantic	17,260,000	3,048,244	5.7
Delaware	261,000	63,599	4.1
Maryland	1,679,000	387,410	4.3
District of Columbia	627,000	184,119	3.4
Virginia	2,706,000	440,713	6.1
West Virginia	1,865,000	290,837	6.4
North Carolina	3,492,000	525,350	6.6
South Carolina	1,875,000	296,224	6.3
Georgia	3,085,000	441,847	7.0
Florida	1,670,000	418,145	4.0
East South Central	10,731,000	1,344,484	8.0
Kentucky	2,920,000	404,455	7.2
Tennessee	2,893,000	400,384	7.2
Alabama	2,895,000	313,359	9.2
Mississippi	2,023,000	226,286	8.9
West South Central	12,900,000	2,652,742	4.9
Arkansas	2,048,000	229,867	8.9
Louisiana	2,132,000	323,498	6.6
Oklahoma	2,548,000	547,263	4.7
Texas	6,172,000	1,552,114	4.0

[1] U. S. Department of Commerce, Bureau of the Census.

TABLE 5.—*Population, motor-vehicle registrations, population per motor vehicle registered, by States and geographic divisions, for the year 1937*—Continued

Division and State	Estimated population as of July 1, 1937	Total motor-vehicle registrations	Population per motor vehicle registered
			Number
Mountain	3,792,000	1,149,719	3.3
Montana	539,000	173,892	3.1
Idaho	493,000	142,110	3.5
Wyoming	235,000	81,837	2.9
Colorado	1,071,000	337,217	3.2
New Mexico	422,000	118,106	3.6
Arizona	412,000	129,210	3.2
Utah	519,000	126,692	4.1
Nevada	101,000	40,655	2.5
Pacific	8,839,000	3,380,484	2.6
Washington	1,658,000	535,483	3.1
Oregon	1,027,000	360,348	2.9
California	6,154,000	2,484,653	2.5
Total	129,257,000	29,705,200	

Compared with the national figure of 4.3 persons, the number of persons per motor vehicle registered in each State ranged from 2.5 in California and Nevada to 9.2 in Alabama, while the range for geographic divisions was from 2.6 for the Pacific division to 8 for the East South Central division.

The number of persons per motor vehicle registered in any State or geographic division is only a ratio between registrations and population, giving no indication of its importance in terms of actual registrations. For example, both California and Nevada had 2.5 persons per registration, yet in the former State there were 2,484,653 registrations and an estimated population of 6,154,000, while in the latter only 40,655 registrations and an estimated population of 101,000. In terms of actual number of registrations the State of New York leads with 2,561,703 and California a close second with 2,484,653. However, while New York had a population of almost 13 million, California had only somewhat over 6 million. In addition to New York and California, Pennsylvania, Ohio, Illinois, Michigan, and Texas had over a million and a half registrations each, and all of the remaining States had fewer than a million. Vermont, Delaware, Wyoming, and Nevada all had fewer than 100,000 motor-vehicle registrations, which is not unexpected as the group also ranks lowest in point of population per State.

Of interest is the concentration of motor-vehicle registrations by geographic divisions. Almost one-fourth of all registrations were accounted for by the East North Central division and almost one-fifth by the Middle Atlantic division. The New England, Middle Atlantic, and the East North Central divisions accounted for approximately 50 percent of all United States motor-vehicle registrations in 1937, and, these 3 geographical divisions and the West North Central division had over 60 percent of all registrations in the United States. The 21 States in these 4 geographical divisions had about 59 percent of the total population. In contrast, the East South Central, West South Central, and Mountain divisions, made up of

16 States, accounted for approximately 17 percent of total motor-vehicle registrations in 1937, and approximately 21 percent of the total population.

Section 5. Unit-Sales Volume of Motor Vehicle Manufacturers

The unit-sales trend of the motor-vehicle industry is another indication of the growth of the industry and how it has been affected by changes in general economic conditions. Such information is deficient in that it gives no measure of the changes in design, construction, and power of motor vehicles that have taken place over a period of time. Certain aspects of this problem are, however, discussed in chapter XVII, of this report.

Table 6 shows factory unit sales of passenger cars and trucks, busses, etc., separate and combined, 1900–1938, by years; total unit sales by 5-year periods and percent each is of total sales; and total unit sales for each 5-year period accumulated and percent each is of total sales.

Total unit sales in 1900 were somewhat over 4,000; in 1902, over twice that number; and by 1905, 25,000. By 1909, sales exceeded 130,000 units, and 2 years later somewhat over 200,000 units were sold. That yearly increases in unit sales were rapid from this point on is indicated by the fact that almost a million motor vehicles were sold in 1915, and over a million and a half in 1916. In 1920, unit sales were well over 2,000,000. During the period 1900–1920 passenger-car sales ranged from a low of 4,192 in 1900 to a high of 1,906,000 units in 1920, each year showing an increase except during 1918 and 1919, when war activities took precedence over production of passenger automobiles.

The trend of motor-vehicle sales from 1900 to 1915 indicates the strength of the relatively unsatisfied demand for the new type of transportation, because in spite of periods of depresssion of varing intensity in 1903–4, 1907, 1911, and 1914, unit sales increased year by year, except for 1903–4, the percentage of increase was smaller in the depression years. The period 1922–38 shows a sales trend affected to a greater extent by years of adverse economic conditions, for each period of business depression or recession shows decreased unit sales as compared with the preceding year. In 1929 the all-time peak in unit sales to date was attained of almost 5,400,000. The serious depression years that followed were reflected in unit sales which decreased to not quite 1,400,000 in 1932, or approximately 200,000 units fewer than the unit sales volume in 1916 and 1921. Following 1932, unit sales in 1933 increased to almost 2,000,000, in 1935 to almost 4,000,000, and in 1937 to a high of approximately 4,800,000 units. Uncertain economic conditions again brought about a decrease in unit sales to approximately 2,500,000 in 1938.

Truck-unit sales were first shown for 1904, with a total under 500 and not until 1914 did unit sales exceed 25,000. For the period 1904–20, sales of trucks increased yearly until almost 325,000 units were sold in 1920. The post-World War slump in 1921 is reflected in sales of motor vehicles, for total sales dropped to 1,616,000 units, passenger-car sales to 1,457,000 units, and truck sales to 159,000 units.

TABLE 6.—*Factory unit sales of passenger cars and trucks, separate and combined, 1900–38, by years; total unit sales by 5-year periods and percent each is of total sales; and total unit sales for each 5-year period accumulated, and percent each is of total sales* [1]

Year	Total number of motor vehicles	Number of passenger cars	Number of commercial vehicles [2]	Total motor vehicles: Factory sales by 5-year periods: Number	Total motor vehicles: Factory sales by 5-year periods: Percent of total	Total motor vehicles: Cumulative factory sales by 5-year periods: Number	Total motor vehicles: Cumulative factory sales by 5-year periods: Percent of total	Passenger cars: Factory sales by 5-year periods: Number	Passenger cars: Factory sales by 5-year periods: Percent of total	Passenger cars: Cumulative factory sales by 5-year periods: Number	Passenger cars: Cumulative factory sales by 5-year periods: Percent of total	Trucks: Factory sales by 5-year periods: Number	Trucks: Factory sales by 5-year periods: Percent of total	Trucks: Cumulative factory sales by 5-year periods: Number	Trucks: Cumulative factory sales by 5-year periods: Percent of total
1900	4,192	4,192	------												
1901	7,000	7,000	------												
1902	9,000	9,000	------	54,257	0.07	54,257	0.07	53,846	0.09	53,846	0.09	411	(3)	411	(3)
1903	11,235	11,235	------												
1904	22,830	22,419	411												
1905	25,000	24,550	450												
1906	34,000	33,500	500												
1907	44,000	43,300	700	298,986	.41	353,243	.48	292,581	.47	346,427	.55	6,405	0.06	6,816	0.06
1908	65,000	63,500	1,500												
1909	130,986	127,731	3,255												
1910	187,000	181,000	6,000												
1911	210,000	199,319	10,681												
1912	378,000	356,000	22,000	1,829,054	2.51	2,182,297	2.99	1,741,498	2.78	2,087,925	3.33	87,556	.85	94,372	.92
1913	485,000	461,500	23,500												
1914	569,054	543,679	25,375												
1915	969,930	895,930	74,000												
1916	1,617,708	1,525,578	92,130												
1917	1,873,949	1,745,792	128,157	7,565,868	10.37	9,748,165	13.36	6,768,388	10.81	8,856,313	14.14	797,480	7.74	891,852	8.66
1918	1,170,686	943,436	227,250												
1919	1,933,595	1,657,652	275,943												
1920	2,227,349	1,905,560	321,789												
1921	1,616,119	1,456,963	159,156												
1922	2,544,176	2,274,185	269,991	14,024,196	19.23	23,772,361	32.59	12,447,306	19.87	21,303,619	34.01	1,576,890	15.31	2,468,742	23.97
1923	4,034,012	3,624,717	409,295												
1924	3,602,540	3,185,881	416,659												
1925	4,265,830	3,735,171	530,659												
1926	4,300,934	3,783,987	516,947												
1927	3,401,326	2,936,533	464,793	21,685,269	29.73	45,457,630	62.32	18,858,508	30.10	40,162,127	64.11	2,826,761	27.44	5,295,503	51.41
1928	4,358,759	3,815,417	543,342												
1929	5,358,420	4,587,400	771,020												
1930	3,355,986	2,784,745	571,241												
1931	2,389,738	1,973,090	416,648												
1932	1,370,678	1,135,491	235,187	11,789,570	16.16	57,247,200	78.48	9,644,757	15.39	49,806,884	79.50	2,144,813	20.82	7,440,316	72.23
1933	1,920,057	1,573,512	346,545												
1934	2,753,111	2,177,919	575,192												

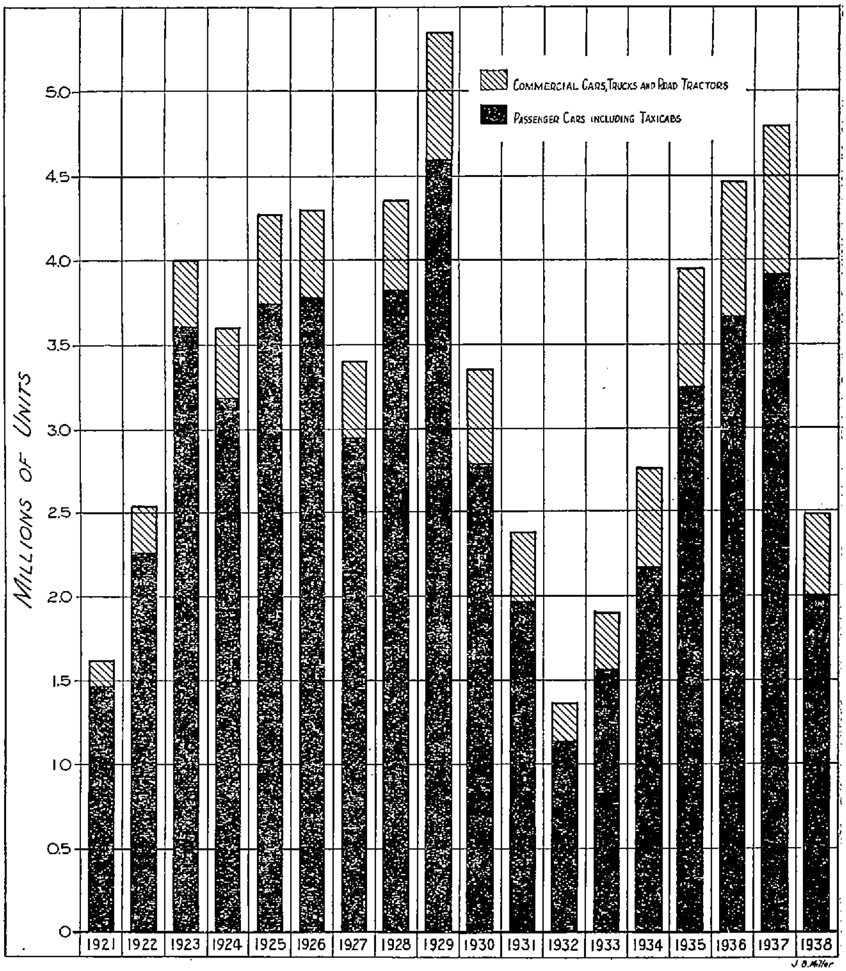
1934	2,753,111	2,177,919	575,192											
1935	3,946,934	3,252,244	694,690	15,699,658	21.52	72,946,858	100.00	12,838,646	20.49	62,645,530	100.00	2,861,012	27.77	10,301,328	100.00
1936	4,454,115	3,669,528	784,587												
1937	4,808,974	3,915,889	893,085												
1938	2,489,635	2,000,985	488,650												
Total	72,946,858	62,645,530	10,301,328	72,946,858	100.00			62,645,530	100.00			10,301,328	100.00		

[1] Automobile Facts and Figures, 1938, for the years 1900-21, inclusive.
[2] Includes busses, funeral cars, fire apparatus, street sweepers, commercial and bus chassis, and foreign assemblies.
[3] Less than 0.01 of 1 percent.

U. S. Department of Commerce, Bureau of the Census, for the years 1922-28, inclusive.

The unit sales of trucks, busses, etc., which up to 1922 had not exceeded 322,000 passed 400,000 units in 1923, 500,000 in 1925, and 770,000 in 1929. Unit truck sales from 1929 to 1932 decreased 69.5 percent or over half a million, while passenger-car unit sales decreased

Chart 4 FACTORY UNIT SALES BY TYPES, DOMESTIC AND FOREIGN, OF UNITED STATES MOTOR VEHICLE MANUFACTURERS FOR THE PERIOD 1921–1938.



75.2 percent. Unit sales of trucks had again exceeded 575,000 in 1934, attained almost 700,000 units in 1935, and by 1937 had reached almost 900,000 units, the nearest to 1,000,000 unit sales since trucks were first manufactured. In 1938 unit sales of trucks did not quite reach half a million units.

An analysis of total factory sales by 5-year periods shows that less than 1 percent of the estimated total sales of almost 73,000,000 units from 1900 to 1938 were made in the first 10 years, and less than 14 percent in the first 20 years, and up to 1925 less than one-third. The next 5 years accounted for approximately 30 percent of estimated total sales, or almost equal to sales for the preceding 25 years. Up to 1930, each 5-year period showed a marked increase over the preceding 5 years, but the depression period 1930–34 with a proportion of total sales of only approximately 16 percent was a little over 3 percent less than for the period 1920–24. The almost 22 percent of total sales accounted for during the 4-year period, 1935–38, shows an increase in sales, but considerably under the trend established during the period 1900–1929.

Sales of passenger cars analyzed by 5-year periods reveal a rapid increase in the proportion of total sales of passenger cars for each period from 1900 to 1929, but a marked decrease from 1930 to 1938, considerably under the sales trend as indicated by the preceding periods.

Of estimated total sales of passenger cars of approximately 63,000,000 units approximately one-third (34 percent) were sold from 1900 to 1924; somewhat less than one-third (30 percent) from 1925 to 1929; and somewhat over one-third (36 percent) from 1930 to 1938. The tremendous increase in truck and commercial motor-vehicle transportation in more recent years is shown by the fact that of estimated total sales since 1904 of approximately 10,000,000 units, less than 25 percent (24 percent) had been made by 1924, but over 25 percent (27 percent) were made in the next 5 years, and approximately half (49 percent) of all truck sales were made during the years 1930–38. In other words, approximately 75 percent of factory truck sales were made in the period 1925–38.

The greater sensitivity to economic conditions shown by the sales trend during the period 1921–38 as compared with that for the period 1900–20 is probably due to changed economic conditions involving a combination of income factors, population factors, employment conditions, foreign-trade conditions, and the steadily increasing number of motor vehicles in use as indicated by motor-vehicle registrations. In the early history of the motor-vehicle industry sales increased steadily in spite of economic depressions probably because of the relatively large unsatisfied demand that still existed in the higher income brackets. This could easily have been the case, for in 1913 there were 13 registrations per 1,000 population, 86, in 1920, and 230 in 1937.

Automobile Manufacturers Association estimates that the average life of motor vehicles has increased from 5 years in 1913 to approximately 8 years in 1936. A recent study by Marcus Ainsworth and Adolph F. Schwartz, for the Penn Mutual Life Insurance Co., estimated that 3,178,524 passenger cars or 12 percent of total passenger-car registrations, were of cars manufactured in 1928 or earlier;[4] and thus the factor of longer-lived cars enters the sales picture to intensify the so-called "used-car problem" in times of either economic stress or prosperity.

[4] See Automotive Industries, February 25, 1939.

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It is difficult to estimate the extent to which the declining rate of population growth has affected sales of motor vehicles in the period since 1920 as compared with the preceding two decades. The possibility that it will become an increasingly important factor in the future must be recognized.

The unit-sales trend of motor vehicles for more recent years seems to reflect the increasingly depressing effect of adverse economic conditions on unit sales as compared with the earlier decades of the industry's history. That changed economic conditions of a relatively permanent character must be faced by the motor-vehicle industry is readily apparent, but what their impact on the industry will be or the units comprising it, only the future will reveal.

Section 6. Concentration in the Sale of Motor Vehicles

As shown in section 5, page 22 of this chapter, there has been a tremendous increase in unit production of motor vehicles in the relatively short period since 1900. Also apparent was the increasing effect of fluctuating demand on the industry, particularly after the World War. As the total number of units produced by the industry was increasing, a declining trend in the number of motor-vehicle manufacturers was developing. An early study of manufacturer mortality showed that although many "paper" companies were formed that never engaged in actual passenger-car production, only approximately 181 different companies manufactured passenger cars commercially during the period 1903–26, that 137 had either gone out of business or had been acquired by a competitor during the period, and that 44 remained in 1926.[5] This appears essentially correct, for the Census of Manufactures in 1927 lists 40 separate manufacturers of passenger vehicles. That the trend toward fewer companies continued is shown by the 1935 Census of Manufactures which lists only 17 separate passenger-vehicle manufacturers not including makers of busses and taxicabs, and as of March 28, 1939, Automobile Manufacturers Association reported in a letter to the Commission that at the present time there were 11 companies manufacturing gasoline passenger automobiles on a commercial scale in the United States.

With the number of motor-vehicle producers decreasing through retirements from business, mergers, and consolidations and with rapid increase in demand, large-scale production has been the result. No attempt will be made to explain the marked decrease in the number of passenger-car manufacturers and the decrease in the number of manufacturers of most of the other types of motor vehicles, except to point out that economy of mass production, introduction of yearly models, and the increasing importance of the style factor, the large amount of capital required to finance new models in good and bad years, all favored the large manufacturing company with huge capital and equipment resources.

The extent and direction of concentration in the motor-vehicle industry, based upon data furnished by the companies, are clearly indicated in the following table which shows the number of motor vehicles (passenger and truck) sold by the principal motor-vehicle manufacturing groups during alternate years from 1911 to 1937, inclusive, as well as the proportion of total motor-vehicle sales accounted for by each:

[5] Epstein, R. C., The Automobile Industry, 1928, pp. 163-169.

TABLE 7.—*Comparison of number and proportion of motor vehicles (passenger and truck) sold by the principal manufacturers during alternate years from 1911 to 1937*

Year	Total number of motor vehicles sold by all manufacturers [1]	Chrysler Corporation sales	Ford Motor Co. sales	General Motors Corporation sales	Subtotal, Chrysler Corporation, Ford Motor Co., General Motors Corporation sales	Subtotal, Hudson, Nash, Packard, Studebaker sales	Total sales, 7 companies covered in Commission's inquiry	All other manufacturers' sales, except 7, covered in Commission's inquiry
		Units	*Units*	*Units*	*Units*	*Units*	*Units*	*Units*
1911	210,000	----------	40,402	35,752	76,154	31,298	107,452	102,548
1913	485,000	----------	182,809	57,270	240,079	45,582	285,661	199,339
1915	970,000	----------	355,276	102,388	457,664	64,408	522,072	447,928
1917	1,874,000	----------	802,771	203,119	1,005,890	87,999	1,093,889	780,111
1919	1,934,000	----------	782,783	362,679	1,145,462	118,740	1,264,202	669,798
1921	1,683,916	----------	933,720	198,487	1,132,207	121,914	1,254,121	429,795
1923	4,034,012	----------	1,917,353	754,713	2,672,066	309,284	2,981,350	1,052,662
1925	4,265,830	134,478	1,771,338	790,880	2,696,696	515,211	3,211,907	1,053,923
1927	3,401,326	182,627	359,907	1,472,721	2,015,255	554,016	2,569,271	832,055
1929	5,358,420	422,242	1,717,515	1,799,641	3,939,398	568,892	4,508,290	850,130
1931	2,389,738	261,898	626,486	997,742	1,886,126	166,442	2,052,568	337,170
1933	1,920,057	438,236	393,039	778,980	1,610,255	108,832	1,719,087	200,970
1935	3,946,934	820,553	1,123,698	1,504,599	3,448,850	244,445	3,693,295	253,639
1937	4,808,974	1,113,900	1,054,718	1,907,645	4,076,263	377,372	4,453,635	355,339
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
1911	100.00	----------	19.24	17.02	36.26	14.91	51.17	48.83
1913	100.00	----------	37.69	11.81	49.50	9.40	58.90	41.10
1915	100.00	----------	36.62	10.56	47.18	6.64	53.82	46.18
1917	100.00	----------	42.85	10.83	53.68	4.69	58.37	41.63
1919	100.00	----------	40.48	18.75	59.23	6.14	65.37	34.63
1921	100.00	----------	55.45	11.79	67.24	7.24	74.48	25.52
1923	100.00	----------	47.53	18.71	66.24	7.67	73.91	26.09
1925	100.00	3.16	41.52	18.54	63.22	12.08	75.29	24.71
1927	100.00	5.37	10.58	43.30	59.25	16.29	75.54	24.46
1929	100.00	7.88	32.05	33.59	73.52	10.48	84.00	16.00
1931	100.00	10.96	26.22	41.75	78.93	6.96	85.89	14.11
1933	100.00	22.82	20.47	40.57	83.86	5.67	89.53	10.47
1935	100.00	20.79	28.47	38.12	87.38	6.19	93.57	6.43
1937	100.00	23.16	21.93	39.67	84.76	7.85	92.61	7.39

[1] U. S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1936, p. 363, for year 1911–19 and Census of Manufactures 1921–37. Figures for 1911–21 represent production and 1923–37 represent sales.

The three leading producers of motor vehicles, Chrysler Corporation, Ford Motor Co., and General Motors Corporation, are called the "Big Three" by the industry. Of the 5,358,420 motor vehicles sold in the peak year of 1929, the three corporations accounted for 3,939,398 units, or almost 74 percent. In 1937, of the 4,808,974 units sold the "Big Three" accounted for 4,076,263 units, or about 85 percent. In comparison, the independents, covered by the Commission's inquiry, Hudson Motor Car Co., Nash-Kelvinator Corporation, Packard Motor Car Co., and Studebaker Corporation, accounted for 568,892 of the total sold in 1929, or approximately 11 percent, and for only 377,372 of the total units sold in 1937, or about 8 percent. Whereas motor-vehicle manufacturers other than the seven enumerated accounted for 16 percent of all vehicles sold in 1929, in 1937 the proportion had decreased to approximately 7 percent. The extent of concentration in more recent years is emphasized by data for 1911, when General Motors and Ford (Chrysler Corporation was not then in existence) accounted for only 36 percent of total motor-vehicle sales, the independents, excepting Nash (which was not in existence), accounted for about 15 percent, and all other companies, most of which are not now in business, accounted for about 49 percent of total sales.

The change in proportion of total sales from almost 50 percent in 1911 to less than 8 percent in 1937 accounted for by motor-vehicle manufacturers other than the seven companies included in the Commission's inquiry raises the question of how each of the seven companies have fared since 1911. Briefly, as shown above, increased sales by the "Big Three" accounted for their increased proportion of total sales, while the four independents have with difficulty maintained their own or shown some loss. Since the peak year of 1929, when the "Big Three" sold about 74 percent of total sales of motor vehicles and the independents sold less than 11 percent, the former group increased its proportion in 1931, 1933, and 1935 while the latter group showed a decrease to about 7 percent in 1931, another decrease in 1933 to less than 6 percent, and a slight increase over 1933 in 1935. While the "Big Three" showed a net increase over their proportion of 74 percent in 1929 to 85 percent in 1937 the independents showed a net loss dropping from approximately 11 percent to about 8 percent of the total.

Of the "Big Three" Ford Motor Co. was the dominant company in point of unit sales up to the change from model T to model A in 1927, accounting for a proportion of total sales as high as 55 percent in 1921 and 42 percent in 1925, but after 1927 it was unable to regain its former leading position. From a proportion of total sales in 1929 of 32 percent the company proportion decreased to 22 percent in 1937.

General Motors Corporation up to 1927 had not exceeded 19 percent of total sales, but in 1927, the year Ford Motor Co. production was low due to change of models, its proportion of total sales of motor vehicles abruptly increased to 43 percent. As would be expected, this increase was accounted for principally by an increase in the proportion of Chevrolets sold from 11 percent of total unit sales in 1925 to almost 28 percent in 1927. Much of this gain was retained by Chevrolet, for in subsequent 2-year periods its proportion of total sales did not fall below 23 percent, and in 1931 and 1933 somewhat exceeded 31 percent. Except for the Chevrolet division no other General Motors division showed any significant increase in its proportion of total motor-vehicle sales. In total number of motor-vehicle units sold, however, General Motors Corporation led all other companies, in 1937 accounting for about 40 percent of total sales.

Chrysler Corporation, which came into the picture in 1925, accounted for only about 8 percent of total sales in 1929, but by 1937 had almost tripled its proportion by accounting for approximately 23 percent of total motor-vehicle sales. The Plymouth division showed the greatest increase in proportion of total sales, rising from about 2 percent in 1929 to 13 percent in 1933 and showing a proportion in 1937 of 11 percent. The Dodge division showed a steady increase in proportion of total sales with an increase from 3 percent in 1929 to 8 percent in 1937. For the alternate year periods shown Chrysler exceeded the Ford proportion of total sales in 1933 and 1937.

Of the four leading independents only Studebaker Corporation and Packard Motor Car Co. showed an increase in the proportion of total sales since 1929. These increases were offset by even greater decreases in proportion of total sales suffered by Hudson Motor Car Co. and Nash-Kelvinator Corporation.

It is apparent that sales of motor vehicles in the United States are dominated by the "Big Three," General Motors Corporation, Chrysler

Corporation, and Ford Motor Co. That the remaining motor-vehicle manufacturers are of but minor importance is indicated by their relatively small proportion of total motor-vehicle sales, and the increasing difficulty involved in maintaining even their present relative positions.

Concentration in the sale of passenger cars.—As passenger cars comprise a large part of total motor-vehicle sales the proportion of total passenger-car sales sold by the leading manufacturing groups follows in general the trend shown for combined sales of passenger cars and trucks, except that the degree of concentration is more pronounced. The following table shows the number and proportion of total unit passenger-car sales based upon data furnished by the companies accounted for by the leading manufacturing groups by alternate years for the period 1911–37:

TABLE 8.—*Comparison of number and proportion of passenger motor vehicles sold by the principal manufacturers during alternate years from 1911 to 1937*

Year	Total number passenger motor vehicles sold by all manufacturers [1]	Chrysler Corporation sales	Ford Motor Co. sales	General Motors Corporation sales	Subtotal, Chrysler Corporation, Ford Motor Co., General Motors Corporation passenger-car sales	Subtotal, Hudson, Nash, Packard, Studebaker passenger-car sales	Total passenger-car sales, 7 companies covered in Commission's inquiry	All other manufacturers' passenger-car sales, except 7 covered in Commission's inquiry
		Units	*Units*	*Units*	*Units*	*Units*	*Units*	*Units*
1911	199,000	----------	39,640	35,459	75,099	30,524	105,623	93,377
1913	462,000	----------	182,311	56,118	238,429	44,004	282,433	179,567
1915	896,000	----------	342,115	97,937	440,052	57,998	498,050	397,950
1917	1,746,000	----------	740,770	195,945	936,715	75,348	1,012,063	733,937
1919	1,658,000	----------	664,482	344,334	1,008,816	107,187	1,116,003	541,997
1921	1,518,000	----------	845,000	193,275	1,038,275	120,459	1,158,734	359,266
1923	3,624,717	----------	1,669,298	732,984	2,402,282	308,491	2,710,773	913,944
1925	3,735,171	134,474	1,494,911	745,905	2,375,290	515,066	2,890,356	844,815
1927	2,936,533	182,627	273,741	1,277,198	1,733,566	551,945	2,285,511	651,022
1929	4,587,400	375,381	1,435,886	1,482,004	3,293,271	563,405	3,856,676	730,724
1931	1,973,090	245,005	490,546	865,724	1,601,275	160,877	1,762,152	210,938
1933	1,573,512	399,912	325,506	652,023	1,377,441	104,731	1,482,172	91,340
1935	3,252,244	739,371	911,837	1,276,117	2,927,325	238,406	3,165,731	86,513
1937	3,915,889	996,005	836,696	1,636,671	3,469,372	358,246	3,827,618	88,271
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
1911	100.00	----------	19.92	17.82	37.74	15.34	53.08	46.92
1913	100.00	----------	39.46	12.15	51.61	9.52	61.13	38.87
1915	100.00	----------	38.18	10.93	49.11	6.48	55.59	44.41
1917	100.00	----------	42.43	11.22	53.65	4.32	57.97	42.03
1919	100.00	----------	40.08	20.77	60.85	6.46	67.31	32.69
1921	100.00	----------	55.67	12.73	68.40	7.93	76.33	23.67
1923	100.00	----------	46.05	20.23	66.28	8.51	74.79	25.21
1925	100.00	3.60	40.02	19.97	63.59	13.79	77.38	22.62
1927	100.00	6.22	9.32	43.49	59.03	18.80	77.83	22.17
1929	100.00	8.18	31.30	32.31	71.79	12.28	84.07	15.93
1931	100.00	12.42	24.86	43.88	81.16	8.15	89.31	10.69
1933	100.00	25.41	20.69	41.44	87.54	6.66	94.20	5.80
1935	100.00	22.73	28.04	39.24	90.01	7.33	97.34	2.66
1937	100.00	25.44	21.37	41.79	88.60	9.15	97.75	2.25

[1] U. S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States 1936, p. 363, for year 1911–19, and Census of Manufactures 1921–37. Figures for 1911–21 represent production and 1923–37 represent sales.

Ford Motor Co. and General Motors Corporation accounted for almost 38 percent of total unit passenger-car sales of 199,000 in 1911, while three of the leading independents (Hudson, Packard, and Studebaker) sold approximately 15 percent, or a combined proportion for the five companies of 53 percent of total unit passenger-car sales. By 1929 total unit sales of passenger cars had increased to 4,587,400, and of this number the "Big Three" (General Motors, Ford, and Chrysler) sold almost 72 percent, the independents (Hudson, Nash, Packard, and Studebaker) sold 12 percent, and the remaining manufacturers approximately 16 percent. The trend toward concentration continued, for in 1937 of total unit sales of passenger cars of 3,915,889 the "Big Three" proportion had increased to almost 89 percent, the four leading independents had decreased to approximately 9 percent, and the remaining manufacturers of passenger cars accounted for somewhat over 2 percent. It is interesting to note that the seven motor vehicle manufacturing companies included in the Commission's inquiry accounted for 53 percent of total unit sales of passenger cars in 1911 (Chrysler Corporation and Nash Motor Car Co. were not in existence), for 84 percent in 1929 and almost 98 percent in 1937.

The Ford Motor Co., while dominant in sales of passenger cars until 1927, never regained its position after changing from model T to model A in that year. Its proportion of total unit sales of passenger cars reached a peak of almost 56 percent in 1921, but dropped to about 40 percent in 1925. After 1927, when Ford passenger-car sales comprised less than 10 percent of the total, the proportion of total unit sales of passenger cars by alternate years exceeded 30 percent only once (1929), and in 1937 accounted for about 21 percent.

Chevrolet Division of General Motors Corporation, with a proportion of total sales in 1925 of about 12 percent, abruptly increased to about 26 percent of total unit passenger car sales in 1927. In the intervening alternate years from 1927 to 1937 Chevrolet's proportion of total unit sales has not fallen below 20 percent, exceeded 30 percent in 1931 and 1933, and accounted for 23 percent in 1937. All of the remaining General Motors Divisions showed an increased proportion of total unit sales in 1937 over 1929, but only moderate in extent. Of the "Big Three" General Motors Corporation is by far the leading producer of passenger cars, accounting for approximately 42 percent of total unit sales in 1937.

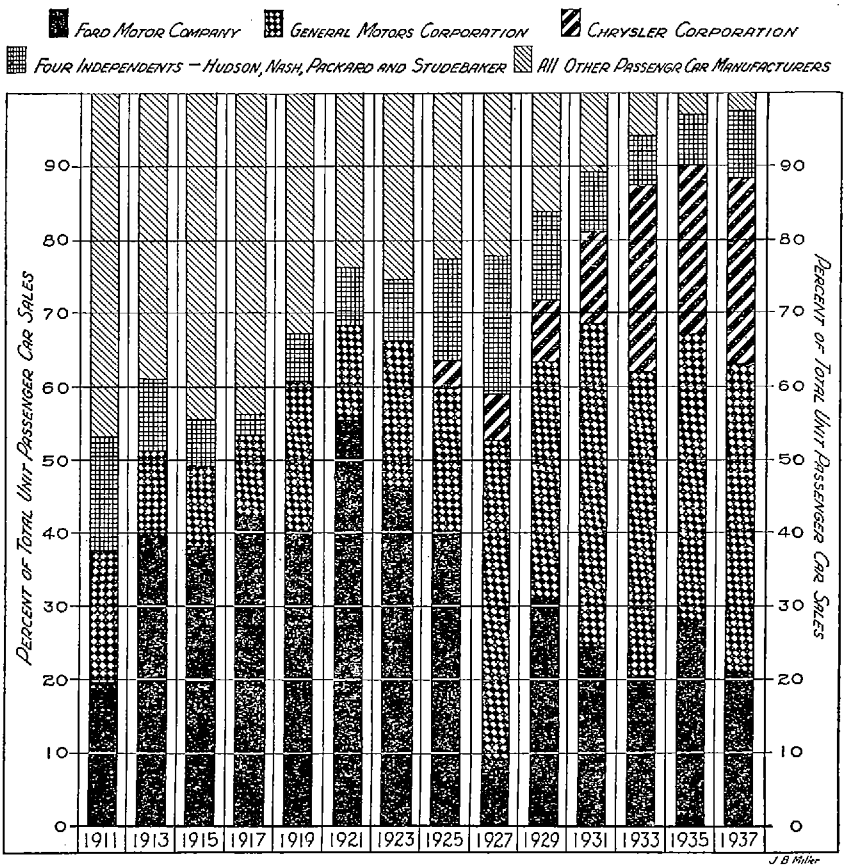
The Plymouth Division of Chrysler Corporation showed an increase in proportion of total unit sales of passenger cars from 2 percent in 1929 to 13 percent in 1937. The Dodge Division, accounting for about 3 percent of total unit sales in 1929, had increased its proportion to 7 percent in 1937. Chrysler Corporation, a relative newcomer in the passenger-car field, accounting for about 4 percent of unit passenger car sales in 1925, had by 1929 increased its proportion to 8 percent, and by 1937, with a proportion of 25 percent, again regained second place held in 1933, but lost to Ford in 1935.

New-vehicle registrations in 1938 point to even greater concentration in sales than had previously existed. Data reported in Automotive Industries, February 25, 1939, page 206, using R. L. Polk & Co. figures, show that the "Big Three" proportion of total unit new-passenger-car registrations was approximately 90 percent, or greater than their proportion of total sales in 1937; the four leading "Independents" show a combined proportion of about 9 percent, which was less than in 1937; and passenger-car manufacturers other than the seven included in the Commission's inquiry accounted for but 1 percent of total new-car registrations in 1938, as compared with over 2 percent of total sales of passenger cars in 1937. Of the "Big Three," General Motors continued to lead in 1938 with a proportion of total new-passenger-car registrations of 44.8 percent, Chrysler

Corporation ranked second with nearly 25 percent, and Ford Motor Co. third with 20.5 percent.

The following chart shows graphically the trend of concentration in manufacturer sales of passenger cars by alternate years, 1911–37:

Chart 5 PROPORTION OF TOTAL UNIT PASSENGER CAR SALES ACCOUNTED FOR BY EACH OF THE "BIG THREE", THE FOUR "INDEPENDENTS" (HUDSON, NASH, PACKARD, STUDEBAKER) COMBINED AND "ALL OTHER" MANUFACTURERS OF PASSENGER CARS FOR THE ALTERNATE YEARS 1911–1937.



Importance of low-priced car sales.—The Ford Motor Co. model T passenger car dominated the low-priced field until the change to model A was made in 1927, although General Motors' low-price car—Chevrolet—was becoming of increasing importance. Model T Ford accounted for 40 percent of total-unit passenger car sales in 1919, while Chevrolet accounted for about 7 percent, but in 1925, when model T accounted for about the same proportion of total unit sales as in 1919, Chevrolet had increased its proportion to almost 12 percent. In 1927, when the change to model A was being made, Ford sold only 9 percent of all passenger cars and Chevrolet sold almost 26 percent, but in 1929, when peak sales of 4,587,400 passenger units were made, Chevrolet's proportion dropped back to about 21 percent, Ford's increased to 31 percent, and a newcomer in the low-price field, Chrysler Corporation's Plymouth, accounted for approximately 2 percent of total unit passenger-car sales.

Subsequently Plymouth, although increasing its proportion of total-unit passenger-car sales substantially, still remained in third place in 1937 with a proportion of approximately 13 percent; Ford regained first place from Chevrolet in 1935 with a proportion of almost 28 percent but fell back to second place in 1937 with a proportion of about 21 percent; and Chevrolet held first place in the alternate year periods of 1931, 1933, and 1937 with proportions of total passenger-car sales of 32 percent, 31 percent, and 23 percent, respectively.

Combined unit sales of low-priced passenger cars by the "Big Three" show their increasing dominance in this field for in 1929 combined unit sales of Chevrolet, Ford, and Plymouth cars accounted for nearly 54 percent of total passenger-car sales, in 1931 for almost 62 percent, in 1933 for 67 percent, in 1935 for nearly 66 percent, and in 1937 for almost 57 percent. It is significant that the three low-priced cars, Chevrolet, Ford, and Plymouth, accounted for their largest proportion of total unit sales in 1933, a year of severe depression, while in 1937, with business relatively improved, the proportion of total-unit passenger-car sales for the three low-price cars decreased to approximately 57 percent.

R. L. Polk & Co. new-car-registration figures as reported in Automotive Industries, February 25, 1939, page 206, show that in 1938 Chevrolet led in the low-priced field with a proportion of 24.6 percent of total new-passenger-car registrations of 1,891,021, Ford was second with a proportion of 19.2 percent, and Plymouth was third with a proportion of 15.1 percent, or the combined new-passenger-car registrations accounted for by the "Big Three" low-priced cars was about 59 percent. Two other cars in the low-priced range, Willys-Whippet and Austin Bantam, together accounted for less than 1 percent of new-car registrations in 1938.

It is apparent that sales of new passenger cars since 1929 have been predominantly in the low-priced class, and that General Motors, Ford, and Chrysler dominate this field as they do the sale of new passenger cars in general. It should be pointed out, however, that whereas Ford Motor Co. dominated the low-priced field prior to 1927, now two additional powerful organizations—General Motors and Chrysler—are important contenders for this market. More recently, Studebaker Corporation announced its entrance into the low-priced passenger-car field, which is indicative of where the greatest sales possibilities are thought to exist.

Manufacturers' price competition in low-priced cars.—Notwithstanding the high degree of concentration in the sale of low-priced passenger cars, active competition for this market still exists. It appears that Ford Motor Co. is largely responsible for this competitive situation. Since introducing model T in 1908, the Ford Motor Co. followed the policy of decreasing the price of its product even when at times the demand was greater than production and there were no competitors in the low-priced field. Furthermore Ford has never been a member of the powerful motor-vehicle manufacturers' trade group, Automobile Manufacturers Association, or its predecessor organizations, but followed an indepeudent course with respect to production, price, and sales policies. This independence of action has been a keen disappointment to other more cooperative-minded motor-vehicle manufacturers in the industry, particularly in the low-price field, for it compelled them to price their cars lower than otherwise might have been the case. Excerpts from the minutes of meetings of the sales managers' committee of the National Automobile Chamber of Commerce (now the Automobile Manufacturers Association) substantiate this as well as indicate what might have taken place in the low-price field now dominated by Chevrolet, Ford, and Chrysler, had Ford Motor Co. been more cooperatively inclined.

At a meeting of the sales managers' committee of the manufacturers' association held on October 20, 1932, while the subject of "decreasing the number of passenger-car models and options" was being discussed, Mr. Grant, chairman of the committee and vice president of General Motors Corporation, made the following informative statement:

> * * * I noticed the spread between the sedan and coach, which is a very aggravating subject. We are pricing coaches too low in the low-priced field, in relation to the sedan. When the Ford model A came out, coaches were more potent than now. They were the keystone of the situation. He fixed the price of the coach $25 below the point at which it should have been fixed, from a cost standpoint. We followed suit and have been doing it ever since, and so has he. If we increased our coach price $25, it is quite certain the condition would change. * * *

Some months later, on December 9, 1932, at another meeting of the sales managers' committee, Mr. Grant made, in part, the following significant statements in the course of a committee discussion of "advertising delivered prices" and a proposed "car greasing plan":

> * * * I really can't visualize Chevrolet going in without Ford in the picture. Say, for example, Ford comes into the market next spring with a low-price car and we will say he follows his usual method of getting a lot of publicity, and we will say his present Ford is priced at $450, and say he should come out at $395 or $425, and we will say that Chevrolet decided to make a move to checkmate him or lower their prices. If we were bound by agreement, and if we couldn't go into the newspapers down in that area, where price is so vital a factor, with anything but delivered prices, we would be under a terrible handicap. * * *
>
> * * * My judgment is, that after talking with the officials of the Corporation, Chevrolet is not going to do it unless Ford comes in. That is my judgment after talking with these men, and Mr. Knudsen is going to probably win out, as they know he won't want to place himself in a position so that if Ford makes a move he can't make a move. * * *
>
> * * * Mr. Ford, who won't play, is pretty much the price setter in this industry. I'll bet if Mr. Ford's cars were $50 higher ours would be $50 higher. We care about Ford. We have been struggling with him for years. * * *

Ford Motor Co.'s independence with respect to price of passenger cars in the low-price field is illustrated by the price activities of General Motors Corporation Chevrolet Division and Chrysler Corporation Plymouth Division in 1934. Prices on certain Chevrolet and Plymouth models were increased effective in April of that year, due to claimed increase in production costs, but Ford made no change in his price schedule. In the month following, both Chevrolet and Plymouth fell off in sales, while Ford showed an increase. In order to regain their respective sales positions, both Chevrolet and Plymouth found it necessary to announce price reductions in June on the models previously increased in price.

In contrast to Ford Motor Co.'s independence of action, a willingness to cooperate on various policies pervades the membership of the Automobile Manufacturers Association, naturally dominated by the giants in that organization, General Motors Corporation and Chrysler Corporation. In the minutes of the sales managers' meeting, National Automobile Chamber of Commerce, held September 27, 1932, the following statement appeared:

> * * * *Price changes.*—The committee agreed that the members of the National Automobile Chamber of Commerce would not change prices on any car models from the day preceding the New York show until the closing date of the Chicago show. * * *

A statement made by Mr. Fields, a Chrysler Corporation executive, at a National Automobile Chamber of Commerce sales managers' committee meeting held December 9, 1932, in the course of discussing "advertised delivered prices," further illustrates the cooperative spirit of the association's membership. There is no reason to believe that the situation has changed, for in 1937, as well as in 1932, Mr. Grant, vice president of General Motors, was chairman of the committee and Mr. Fields (Chrysler Corporation), Mr. Gilman (Packard Motor Car Co.), and Mr. Hoffman (Studebaker Corporation) were members of this important committee. Mr. Fields' remark follows:

> * * * Plymouth will go if Chevrolet goes. We don't care about Ford. If we all stuck together the way we always have, we wouldn't care whether he came in or not, but eventually Ford would come in. * * *

Inertia of complex large-scale motor-vehicle manufacturing.—As early as 1925, when General Motors Corporation accounted for somewhat less than 20 percent of total unit motor-vehicle sales, great size was found to have definite limitations. The difficulty of overcoming the inertia of great size in an organization like General Motors Corporation was discussed by Alfred P. Sloan at a meeting of the company's sales committee held July 29, 1925, as follows:

> General Motors should be more progressive in this and other directions. In practically all our activities we seem to suffer from the inertia resulting from our great size. It seems to be hard for us to get action when it comes to a matter of putting our ideas across. There are so many people involved and it requires such a tremendous effort to put something new into effect that a new idea is likely to be considered insignificant in comparison with the effort that it takes to put it across.
>
> I can't help but feel that General Motors has missed a lot by reason of this inertia. You have no idea how many things come up for consideration in the technical committee and elsewhere that are discussed and agreed upon as to principle well in advance, but too frequently we fail to put the ideas into effect until competition forces us to do so. Sometimes I am almost forced to the conclusion that General Motors is so large and its inertia so great that it is impossible for us to really be leaders.
>
> Perhaps it would be safest for us to let the other fellow take the initiative and then be satisfied to follow him as best we can. It seems a pity, however, that with our resources and ability we can't be a little more aggressive.

Section 7. Exports and Imports of Motor Vehicles

In 1927, of 3,401,326 units sold, 384,195, or 11 percent, were exported. In the same year only 635 units (new and used) were imported. The importance of exports and imports of motor vehicles in terms of complete motor vehicle or chassis units is shown in the following tabulation covering the period 1927–38: [6]

[6] U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, Automotive Aeronautics Trade Division.

Year	Factory sales	Exports	Percent of production exported	Imports [1]
	Units	*Units*		*Units*
1927	3,401,326	384,195	11.3	635
1928	4,358,759	507,097	11.6	566
1929	5,358,420	536,207	10.0	750
1930	3,355,986	237,581	7.1	709
1931	2,389,738	128,357	5.4	736
1932	1,370,678	65,492	4.8	540
1933	1,920,057	107,031	5.6	534
1934	2,753,111	236,311	8.5	585
1935	3,946,934	271,383	6.9	591
1936	4,454,115	285,756	6.4	1,067
1937	4,808,974	[2] 395,196	8.2	1,941
1938	2,489,635	277,207	11.1	578

[1] Includes new and used cars. For those years for which separate figures are available, new car imports were as follows: 1936, 461; 1937, 1,442; and 1938, 188.
[2] Foreign assemblies exported as "parts for assembly" are not included.

Exports of complete motor-vehicle or chassis units during the period 1927–38 ranged from a high of 536,207 in 1929 to a low of 65,492 in 1932. During the 12-year period only for 3 years, 1931, 1932, and 1933, did export sales fail to exceed 200,000 units. Exports exceeded 375,000 units in 1927 and 1937 and 500,000 units in 1928 and 1929. The export of 11.3 percent of United States factory unit sales of 3,401,-326, attained in 1927, was only exceeded in 1928 when 11.6 percent was exported of total unit sales of 4,358,759. In the years following 1928 the proportion of factory unit sales exported decreased until a low of 4.8 percent was reached in 1932 when total factory sales were only 1,370,678. As economic conditions improved after 1932, the proportion of exports of motor vehicles increased somewhat but not to the same extent as previous to 1929 because of the relatively rapid increase in domestic unit sales as compared with export sales. The post-depression high of 11.1 percent attained in 1938 was due largely to the slump in factory unit sales as indicated by a decrease from 4,809,000 units in 1937 to 2,490,000 units in 1938, or a decrease or almost 50 percent, while the decrease from 1937 to 1938 in the number of units exported was about 30 percent.

Leading export markets.—The leading market for United States exports of motor vehicles in 1927 was Australia, whereas in 1937 Australia had dropped to third place and the Union of South Africa took the leading position. The tenth market in point of importance in 1927 was British West Africa, and in 1932 and 1937 it was Brazil.

Section 8. World Production of Motor Vehicles

One factor bearing on the decreasing proportion of United States production of motor vehicles exported is the decreasing proportion of world production accounted for by this country. Although the United States continues as the dominant producer of motor vehicles the proportion of world production has decreased from 85.3 percent in 1929, when world production was 6,277,451 units, to 75.7 percent in 1937 when world production was 6,352,525. In 1932 when world production was 1,976,963 units the United States accounted for approximately 69 percent. The trend in world production and the proportion accounted for by the United States is shown in the following tabulation for the period 1927–37:

Year	World production (units)	United States percent of world production	Year	World production (units)	United States percent of world production
1927	4, 158, 966	81. 6	1933	2, 675, 619	71. 7
1928	5, 203, 139	83. 7	1934	3, 735. 811	73. 8
1929	6, 277, 451	85. 3	1935	5, 126, 689	77. 0
1930	4, 126, 470	81. 3	1936	5, 799, 902	76. 8
1931	3, 048, 648	78. 4	1937	6, 352, 525	75. 7
1932	1, 976, 963	69. 3			

Source: U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, Automotive Aeronautics Trade Division.

The uncertain and changing nature of foreign trade is well illustrated by exports of motor vehicles. Australia, which ranked first as a market in 1927, fifth in 1932, and third in 1937, accounted for 65,361 units, 3,077 units, and 29,353 units, respectively. Brazil, which ranked fourth in 1927, dropped to tenth place in 1932 and 1937, took in the three periods 25,135 units, 1,293 units, and 14,297 units, respectively. The United Kingdom, Netherland East Indies, and British West Africa which ranked as motor-vehicle outlets sixth, seventh, and tenth, respectively, in 1927, dropped below the first 10 in importance in 1932 and 1937.

As compared with production in the United States and Canada in 1937 of 5,016,000 units, 17 other countries are estimated to have produced 1,337,000. Of the 17 countries only the United Kingdom, Germany, France, and Russia produced in excess of 100,000 complete motor vehicles or chassis. Whereas the United States and Canada combined exported 9.1 percent of their production, or 461,062 units, in 1937, the 17 countries combined exported 18 percent of their production, or 240,796 units.

Section 9. Distribution of Motor-Vehicle Sales From Manufacturing Plants

The following table shows the primary channels of distribution for the major proportion of manufacturers' net sales in 1935:

Table 9.—*Distribution of motor-vehicle sales from plants for 1935* [1]

Channels of primary distribution (total for industry)	1935		
	Amount of net sales in thousands	Percent total net sales	Percent distributed sales
To own wholesale branches	$484, 309	19. 4	22. 7
To industrial and other large users	72, 883	2. 9	3. 4
To wholesalers and jobbers	677, 708	27. 2	31. 8
To own retail stores	3, 535	. 1	. 2
To retailers (including chain stores)	877, 282	35. 2	41. 1
To household consumers	17, 017	. 7	. 8
Total distributed sales	2, 132, 734	85. 5	100. 0
Transfer to other plants in own organization	223, 119	9. 0	
Sales not allocated to usual channels	136, 883	5. 5	
Total	[2] 2, 492, 736	100. 0	100. 0

[1] U. S. Department of Commerce, Bureau of the Census, Distribution of Manufacturers' Sales, 1935, p. 184.
[2] Includes $132,965,000 purchased merchandise sold without processing.

Sales direct to retailers accounted for the largest proportion of distributed sales in 1935 with 41.1 percent. Next in importance were sales to wholesalers and jobbers of 31.8 percent. Sales to own wholesale branches ranked third in importance with 22.7 percent. These three channels accounted for 95.6 percent of distributed sales in 1935. The three remaining primary outlets of industrial and other large users own retail stores, and household consumers accounted for 4.4 percent.

A similar study for 1929 shows a marked increase in the proportion of distributed sales going to retailers and a decrease in the proportion going to wholesalers and jobbers.[7] This may reflect a practice complained of by certain distributors that after a profitable wholesale volume had been developed the manufacturers would deprive them of their distributorships and distribute direct to the retail dealers. Also of interest is the decrease in sales to own retail stores from 1929 to 1935 and the increase in direct sales to household consumers from 1929 to 1935. In general, however, the primary channels of distribution have remained fairly constant.

In 1935 the Bureau of the Census accounted for all net sales as reported by manufacturers. Distributed sales which were just discussed accounted for 85.5 percent and of the remainder 9 percent was accounted for by transfer to other plants within manufacturers' own organizations, 5.5 percent to sales not allocated to usual channels, and 0.2 percent to sales negotiated through agents, brokers, and commission houses. Comparable information was not furnished in 1929.

Number of motor-vehicle stores, retail sales and pay rolls, 1929, 1933, and 1935.—The remarkable expansion of the motor-vehicle industry during a period of approximately four decades is again demonstrated by the numerous automotive retail enterprises that have developed in all parts of the United States. According to the Bureau of the Census, in 1929 there were 257,685 retail dealers either selling motor vehicles, or serving in some other way the automotive needs of car owners. The sales of this so-called automotive group for the same year amounted to $9,615,810,000 and the total pay roll (full-time and part-time) was $934,402,000. Detailed data on each of the classes of stores in the automotive group is given in the following table for the years 1929, 1933, and 1935, with respect to number of stores, amount of sales, and total amount of pay roll (full-time and part-time):

[7] U. S. Department of Commerce, Bureau of the Census, Distribution of Sales of Manufacturing Plants, pp. 38-39. (Distribution No. IG-202.)

TABLE 10.—*Number of stores, amount of sales, and total amount of pay roll (full-time and part-time) for the automotive group and for each class of establishment in the automotive group for the years 1935, 1933, and 1929* [1]

Kind of business	Number of stores			Sales in thousands of dollars			Total pay roll, full-time and part-time, in thousands of dollars		
	1935	1933	1929	1935	1933	1929	1935	1933	1929
Automotive group:									
Motor-vehicle dealers (new)	30, 294	-------	42, 204	3, 725, 438	---------	6, 266, 580	314, 274	-------	537, 205
Used-car dealers	4, 751	-------	3, 097	122, 204	---------	140, 932	10, 769	-------	11, 805
New- and used-car dealers (combined)	35, 045	30, 646	45, 301	3, 847, 642	2, 127, 720	6, 407, 512	325, 043	204, 818	549, 010
Accessories, tire, and battery dealers	14, 343	16, 027	22, 313	373, 910	225, 970	599, 295	54, 557	29, 596	76, 104
Garages	66, 243	86, 454	66, 793	370, 064	519, 827	785, 001	55, 122	76, 216	145, 542
Filling stations	197, 568	170, 404	121, 513	1, 967, 714	1, 531, 724	1, 787, 423	177, 128	151, 938	159, 212
Other automotive	1, 071	1, 872	1, 765	15, 034	14, 008	36, 579	2, 271	1, 978	4, 534
Total	314, 270	305, 403	257, 685	6, 574, 364	4, 419, 249	9, 615, 810	614, 121	464, 546	934, 402

[1] U. S. Department of Commerce, Bureau of the Census, Census of Business, Retail Distribution of Summaries, 1935, 1933, 1929.

Many of the difficulties experienced by motor dealers may be traced to sharply reduced sales volume since the peak year of 1929. The total value of new- and used-car dealer sales in 1929 was $6,407,512,000, but in 1933 it dropped to a low of $2,127,720,000, and only increased by 1935 to $3,847,642,000. In 1929 sales of used-car dealers amounted to about $141,000,000 and in 1935 to approximately $122,000,000. As would be expected the terrific loss in sales, due to the adverse general economic conditions, resulted in great hardship to new- and used-car dealers. That many were unable to continue in business is shown by a reduction in the number of motor-vehicle stores from 45,301 in 1929 to 30,646 in 1933, or a decrease of 32.4 percent. Moreover, many who failed in business undoubtedly were succeeded by others; consequently, the business mortality was greater than indicated by these statistics.

During the period 1933–35 the number of motor-vehicle stores increased from the low in 1933 to 35,045 in 1935. The increase in used-car establishments from 1929 to 1935 probably is partly the result of new-car stores losing their new-car franchises but remaining in business as used-car dealers. The devastating effect on income of a general depression is illustrated by the decrease in motor-vehicle dealers' total pay roll. From over half a billion dollars in 1929 the pay roll dropped to less than half this amount in 1933, and in 1935 it only somewhat exceeded $300,000,000.

Other classes of dealers in the automotive group enter into the competitive situation as far as the new-car dealer is concerned. In 1929 there were about 67,000 garages and repair shops with sales somewhat over three-quarters of a billion dollars. Of interest is the fact that the number of garages increased to about 87,000 in 1933, but sales decreased to approximately a half billion dollars. The number of garages and repair shops in 1935 had decreased to about 66,000, and sales decreased still further to about $370,000,000. Accessories, tire, and battery dealers have decreased in number since 1929 when there were approximately 22,000; by 1935 there were less than 15,000. Sales of such dealers decreased from about $600,000,000 in 1929 to about $225,000,000 in 1933, and by 1935 recovered to about $374,000,000.

Filling stations show the greatest increase in growth of the number of stores and this is the only class showing greater sales in 1935 than in 1929. The number of stations increased from 121,513 in 1929 to 170,404 in 1933, and to 197,568 in 1935. Aggregate sales were $1,787,000,000 in 1929, $1,532,000,000 in 1933, and almost $2,000,000,000 in 1935.

Accessory, tire, and battery dealers, garages and repair shops and filling stations in most cases sell merchandise and service in competition with new-car motor-vehicle dealers, thus intensifying the struggle for a profitable volume of business.

Section 10. Retailer Sales Volume by Size of Business, 1929 and 1935

Of considerable interest and significance with respect to the unfavorable economic situation of many motor-vehicle dealers are data from the Census of Business on the number of establishments and sales by size of business for 1929 and 1935 as shown in the following table:

Table 11.—*Number of establishments and sales by size of business for motor-vehicle dealers (new and used) for the years 1935 and 1929* [1]

Size of business groups	1935				
	Number of establishments	Percent	Sales	Percent	Average sales per establishment
Establishments with sales of:					
More than $50,000	17,030	49.29	$3,304,442,000	89.56	$194,037
Establishments with sales of:					
More than $300,000	2,760	7.99	1,486,178,000	40.28	538,470
From $100,000 to $299,999	7,875	22.79	1,351,654,000	36.63	171,639
From $50,000 to $99,999	6,395	18.51	466,610,000	12.65	72,965
Establishments with sales of:					
Less than $50,000	17,521	50.71	385,147,000	10.44	21,982
Establishments with sales of:					
From $30,000 to $49,999	5,404	15.64	214,027,000	5.80	39,605
From $20,000 to $29,999	3,364	9.74	82,587,000	2.24	24,550
From $10,000 to $19,999	4,438	12.84	65,770,000	1.78	14,820
Less than $10,000	4,315	12.49	22,763,000	.62	5,275
Total [2]	34,551	100.00	3,689,589,000	100.00	106,787

[1] U. S. Department of Commerce, Bureau of the Census, Census of Business, U. S. Retail Distribution Summaries, 1935 and 1929, pp. 2-16 and pp. 57 and 61, respectively. Also for 1929 data: Census of Distribution, Automobile Trades, Distribution No. R-82, p. 17.

[2] Does not include automobile dealers with farm implements and machinery, nor wholesaler-retailers of automobiles and other motor vehicles. These classifications cannot be combined with the dealers shown in this table.

TABLE 11.—*Number of establishments and sales by size of business for motor-vehicle dealers (new and used) for the years 1935 and 1929*—Continued

Size of business groups	1929				
	Number of establishments	Percent	Sales	Percent	Average sales per establishment
Establishments with sales of:					
More than $50,000	26,981	61.48	$5,903,656,000	93.80	$222,500
Establishments with sales of:					
More than $300,000	5,056	11.52	3,087,122,000	49.05	610,586
From $100,000 to $299,999	12,490	28.46	2,133,605,000	33.90	170,825
From $50,000 to $99,999	9,435	21.50	682,929,000	10.85	72,400
Establishments with sales of:					
Less than $50,000	16,913	38.52	390,499,000	6.20	23,100
Establishments with sales of:					
From $30,000 to $49,999	5,684	12.95	221,429,000	3.52	39,000
From $20,000 to $29,999	3,566	8.11	87,216,000	1.39	24,400
From $10,000 to $19,999	4,086	9.31	59,454,000	.94	14,500
Less than $10,000	3,577	8.15	22,400,000	.35	6,500
Total [2]	43,894	100.00	6,294,155,000	100.00	143,400

[2] Does not include automobile dealers with farm implements and machinery, nor wholesaler-retailers of automobiles and other motor vehicles. These classifications cannot be combined with the dealers shown in this table.

Retail sales of motor vehicles were concentrated in the higher sales-volume groups in both 1929 and 1935, although to a somewhat lesser degree in the latter year. Approximately 61 percent of 43,894 dealers in 1929 had sales of $50,000 or more, and accounted for about 94 percent of total sales. The same volume group in 1935, although smaller in actual number, comprised almost 50 percent of the dealers and 90 percent of total sales. In contrast approximately 39 percent of all dealers in 1929 had a sales volume of less than $50,000, and accounted for only approximately 6 percent of sales, while in 1935 about 51 percent of the small-volume dealers accounted for approximately 10 percent of total sales. The relative sales importance of the two groups is also shown by the fact that average sales in 1929 and 1935 for the larger-volume group were $222,500 and $194,037, respectively, and for the smaller-volume group, $23,100 and $21,982, respectively. It should be noted that whereas average sales in the large-volume group decreased 12.8 percent from 1929, average sales for the lower-volume group decreased 4.8 percent.

The decrease in sales from 1929 to 1935 was suffered primarily by the $50,000 or higher sales-volume group, as is shown by the sales decrease from $5,904,000,000 to $3,304,000,000, while the sales of the $50,000 or lower-volume group only decreased from $390,000,000 to $385,000,000. The establishments showing sales from $300,000 and more, which in 1929 consisted of 5,056 and accounted for approximately 50 percent of sales, showed the greatest loss, for by 1935 the number of establishments had decreased to 2,760 and the proportion of a much smaller sales total accounted for was approximately 40 percent. In the $100,000 to $299,999 and $50,000 to $99,999 brackets the number of dealers showed a marked decrease from 1929 to 1935, but they accounted for a somewhat larger proportion of total sales. The effect of the depression is more apparent in the larger sales-volume group than in the smaller. While the 26,981 dealers in the larger volume group in 1929 had decreased in 1935 to 17,030, or a decrease of 36.9 percent, the 16,913 dealers in the lower volume group had increased to 17,521, or an increase of 3.6 percent. What apparently happened was that the larger volume dealers in 1929 dropped into lower sales-volume groups in 1935, or went out of business, and what lower volume dealers dropped out were then replaced from above.

Table 11 shows that a relatively small proportion of all motor-vehicle dealers account for the major proportion of total sales. The difficult task confronting motor-vehicle manufacturers of developing and maintaining efficient and profitable retail outlets where approximately half of the dealers do only in the neighborhood of 10 percent of the business, as was the case in 1935, raises the question of whether the sales results obtained justify the relatively high distribution cost involved.

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CHAPTER II.—AUTOMOBILE MANUFACTURERS TRADE ASSOCIATIONS

Section 1. Former Associations

During the early period of the automobile industry, manufacturers recognized the need or desirability of cooperative effort and this resulted in the formation of motor vehicle manufacturers trade associations. These associations were formed to meet varying problems or conditions and, as will be developed, it appears that the question of patents and patent infringements was one of the more important of these problems.

Alvin Macauley, president of the Automobile Manufacturers Association, Inc., in referring to cooperative efforts, stated:

> In the industry's infancy, the pioneer makers of motor vehicles encountered many problems too large to be dealt with effectively by individual action. Compelling an early recognition of the advantages of cooperative endeavor, this circumstance is responsible for the fact that the experience of automobile manufacturers in industrial cooperation is practically as old as the industry itself.[1]

National Association of Automobile Manufacturers.—What appears to be the first manufacturers' trade association in the automobile industry was the National Association of Automobile Manufacturers, which was formed on or about December 1, 1900. This association consisted of 24 active members who were manufacturers of motor vehicles, and of 14 associate members who manufactured tires and other goods applicable to motor vehicles. The membership of this organization increased rapidly until by the end of the year 1902 it consisted of 129 members. Soon after the formation of the association, standardization work was started, and in 1902 the association approved a standard guaranty on automobiles and certain standardizations for cars, such as rims, lamp brackets, etc.

The National Association of Automobile Manufacturers continued until the year 1913, when it was combined with the Automobile Board of Trade to form the Automobile Chamber of Commerce, Inc.

Selden patent.—A brief history of the Association of Licensed Automobile Manufacturers necessarily includes a discussion of the fundamental patent on gasoline automobiles, known as the Selden patent.

In the year 1879, G. B. Selden, a patent lawyer in Rochester, N. Y., worked out an invention with reference to the use of an internal-combustion engine on a self-propelled vehicle. By shrewd legal methods this application was continued in the Patent Office for 16 years and the patent was not granted until the year 1895, when, on November 5, Patent No. 549,160 was granted to G. B. Selden. The claims of patent, briefly stated, were for a self-propelled vehicle comprising steering wheels, a liquid hydrocarbon engine of the compression type with the engine shaft running at a speed greater than the driven wheels, a disconnecting means between the engine and the driven wheels, and a body adapted for persons or goods.

[1] Automobile Manufacturers Association publication At Your Service, p. 3.

This patent, which covered the essential features of gasoline-driven vehicles, resulted in years of litigation by automobile manufacturers. On November 4, 1899, four years after the patent was issued, G. B. Selden granted an exclusive license under the patent to the Electric Vehicle Co. This compamy promptly took action to protect its rights under this exclusive license, and brought infringement suits against manufacturers, dealers, and users of automobiles. A suit or action of particular interest was instituted in the year 1900 against the Winton Motor Carriage Co., which suit was continued until the year 1903.

I. Joseph Farley, patent counsel for the Ford Motor Co., in testifying before the Temporary National Economic Committee on December 5, 1938, referred to the suit against the Winton Motor carriage Co., as follows:

The first part of the litigation was conducted by suit against the Winton Co. and against various dealers and users of automobiles. Consent decrees were obtained against some people and particularly the suit against the Winton Co. was settled about a day or two before the consent decree was issued and there were provisions to the extent that the Winton Co. would have a rebate of $50,000 given to it on its future license payments.

The Winton Motor carriage Co. apparently acknowledged the validity of the Selden patent, as the company acquired a license to manufacture thereunder in the year 1903. This action by the Winton Motor Carriage Co. appears to have been a deciding factor with reference to the attitude of certain other manufacturers of gasoline motor vehicles in relation to the Selden patent, as 16 of the leading motor-vehicles manufacturers in addition to the Winton Motor Carriage Co. promptly acquired licenses to manufacture under the patent.

The following excerpts from a letter written March 3, 1936, by G. C. Arvedson, of the patent department of the Automobile Manufacturers Association, Inc., furnishes interesting information concerning the Selden patent.

In regard to the Selden suit, in a way, our association came into being by its use of the Selden patent.

Selden was a patent lawyer in Rochester and had worked out his invention, which he claimed to cover the use of an internal-combustion engine on a self-propelled vehicle.

The question was whether this patent covered the vehicles with the engines in use by the defendants in several different suits. The defendant in one of the cases was Mr. Henry Ford's company.

The patent was studied by counsel and it was decided by a good many manufacturers that their best course would be to recognize it. A group was formed which made arrangements with Mr. Selden. The plan was for the group to pay larger royalties than Selden called for, the excess to be used to pay for the collection and to pay for the running expenses of the group. The principal activity of the group was the improvement of business practices of the trade.

It was at a time when automobiles were being made by almost every large machine shop in New England. Competition was such that many were being made with inferior experience and possibly with inferior workmanship and material. The dissatisfaction experienced with such cars was affecting the reputation and progress of the good manufacturers. The Selden patent gave opportunity to exercise a certain amount of control and was, therefore, a highly desirable instrument.

But this power was never really exercised. The licensees were very large in number and were educated by the frequent meetings to appreciate long views. These meetings were very educational and very stimulating and gave a unity to the direction of the various policies that could not have been obtained otherwise. This exchange of experience was a great help to a young industry. There were so many new problems not only in making the cars, but in the relations to the dealers and to the public as to guaranties and the proper allowances.

In the end the patent was held sustained by the lower court. Over a million dollars additional was collected from nonlicensees who came piling in after the decision of the lower court.

The upper court confined the patent to the particular engine that Selden had used, namely, the Brayton engine. This meant that the defendants did not infringe and the destruction of the plan upon which the association of licensees was built.

Of course the group reorganized themselves immediately on different lines in order to continue the benefits of mutual association.

Our present association is a direct descendant of this early one. * * *

Association of Licensed Automobile Manufacturers.—On March 5, 1903, the Electric Vehicle Co. and 17 manufacturers of motor vehicles, including the Winton Motor Carriage Co., who had acquired licenses to manufacture under the Selden patent, formed the Association of Licensed Automobile Manufacturers, and by April 28, 1903, the membership of this association had increased to 30. Some of these members also were members of the National Association of Automobile Manufacturers, referred to heretofore in this chapter.

The purposes for which this association was formed, as set forth in its articles of agreement, were to—

* * * protect the rights of each party hereto under said letters patent against infringements thereof and against attacks upon the validity thereof, and also to protect each of the parties hereto in the right to manufacture and sell automobiles embodying inventions owned or controlled by the parties hereto * * *.

The royalty to be paid by members of the association and the percentage allocated to the Electric Vehicle Co., as shown by section 9 of the articles of agreement of the association, was as follows:

Each member of the association (including Electric Vehicle Co.) shall pay a royalty under the Selden patent of 1¼ percent on the catalog price of all vehicles manufactured by it under said patent, as provided in its form of license, a copy of which is hereto annexed, said royalty to be paid to the Electric Vehicle Co., and that company is to retain for its own use three-fifths thereof, and to pay over to the association two-fifths thereof, within 10 days after its receipt by Electric Vehicle Co., as provided in said license.

The articles of agreement provided that the executive committee of the association should determine to whom licenses from the Electric Vehicle Co. under the Selden patent were to be granted. The following excerpt is from section 11 of the articles of agreement:

No license shall be granted by said vehicle company under said letters patent without the unanimous consent in writing of the executive committee, nor at a less royalty rate than 1¼ percent of the catalog price of completed vehicles, as provided in article 4 of the license. The executive committee may furthermore determine and prescribe a limitation of future license to any particular type or types of vehicle which the licensee shall have the right to manufacture under said letters patent. Upon the grant of any such licenses under the Selden patent No. 549,160, the licensees shall be entitled to become members of this association, upon signing this agreement and upon making the payment required by article 16 hereof.

Article 16 is to the effect that each of the parties to the articles of agreement were to deposit $2,500 in the treasury of the association for general expenses.

The Association of Licensed Automobile Manufacturers was active from the time of its inception on March 5, 1903, until January 1911, when the Selden patent was disposed of by a decision of the United States circuit court of appeals, which decision is referred to in the following subsection. Following this decision, the association was reorganized as the Automobile Board of Trade.

American Motor Car Manufacturers Association.—The formation of the Association of Licensed Automobile Manufacturers did not, by any means, put an end to litigation over the Selden patent, as in the year 1905 certain automobile manufacturers who were not licensed under the Selden patent formed the American Motor Car Manufacturers Association with a membership of 19 manufacturers. Under its charter this association was formed to promote shows, publicity, sale of motor cars, etc. However, it was generally understood that the real purpose for forming this organization was for mutual defense against the Association of Licensed Automobile Manufacturers.

What was thought to have been the culmination of a long series of legal controversies between the Association of Licensed Automobile Manufacturers and the members of the American Motor Car Manufacturers Association occurred on September 19, 1909, when a court decision was rendered under which the validity of the Selden patent was upheld. As a result of this decision, the American Motor Car Manufacturers Association was allowed to terminate in the following year, 1910.

One member of this association, however, was of a more determined nature and was not satisfied to accept the decision upholding the validity of the patent. This member, the Ford Motor Co., which had been sued in October 1903, continued the fight and carried the case on appeal to the United States circuit court of appeals, and in January 1911 this court finally disposed of the *Selden Patent case* by a decision reversing that of the lower court.[2]

Automobile Board of Trade.—As a result of the decision in favor of the Ford Motor Co., the Association of Licensed Automobile Manufacturers was reorganized in the year 1911, and 40 of its members formed a new association known as the Automobile Board of Trade.

National Automobile Chamber of Commerce, Inc.—In 1913 the Automobile Board of Trade and the National Association of Automobile Manufacturers dissolved their respective associations and most of their members joined in forming the Automobile Chamber of Commerce, Inc., which was incorporated in March 1913. In the following year, 1914, the name of the association was changed to the National Automobile Chamber of Commerce, Inc. The National Automobile Chamber of Commerce, Inc., continued under that name until October 3, 1934, when, by direction of the board of directors, the name was changed to Automobile Manufacturers Association, Inc.

The Ford Motor Co., one of the members of the former National Association of Automobile Manufacturers, did not become a member of the Automobile Chamber of Commerce, Inc., and since the dissolution of the National Association of Automobile Manufacturers this company has pursued an independent course in the industry.

Section 2. Automobile Manufacturers Association, Inc.

Objects of the corporation.—The purposes of the Automobile Manufacturers Association, Inc., formerly the National Automobile Chamber of Commerce, Inc., as set forth in its constitution, are as follows:

> To foster the interests of those engaged in the trade or business of manufacturing automobiles and all other self-propelled vehicles;
> To reform abuses relative thereto;

[2] 184 Fed. 893-916.

To secure freedom of its members from unjust or unlawful exactions;

To diffuse accurate and reliable information as to the standing of merchants and others dealing with members, as to all inventions, patents, processes or devices designed or intended for use in, upon, or in connection with such vehicles and the manufacture thereof, as to the state of the art relative thereto, and as to the condition and development of the trade in which the members are engaged, in the United States and foreign countries;

To procure uniformity and certainty in the customs and usages of such trade;

To promote the construction of better highways;

To advocate the enactment of just and equitable laws affecting members;

To settle differences between members;

To promote a more enlarged and friendly intercourse among businessmen engaged in such trade or dealing with persons engaged therein;

To acquire by grant, gift, purchase, devise or bequest, to hold and to dispose of such property as the purposes of the corporation shall require, subject to such limitations as may be prescribed by law, including inventions, letters patent, and processes, or rights thereunder, for the benefit of its members and not for pecuniary profit.

Membership.—The membership of the Automobile Manufacturers Association, Inc., formerly the National Automobile Chamber of Commerce, Inc., increased from 63 members in 1913 to 131 members in 1922. Since 1922, the membership has steadily decreased, and in 1938 the Automobile Manufacturers Association, Inc., had a membership of 31. In computing this membership it has been necessary to eliminate duplications due to members being listed under different classifications. In 1938, for example, the membership of the association, classified according to the kind of vehicle manufactured, consisted of 17 passenger car manufacturers, 19 truck manufacturers, 9 bus manufacturers, 2 taxi manufacturers, 3 ambulance manufacturers, 4 motor fire apparatus manufacturers, and 4 trailer manufacturers. After eliminating duplications, because some members manufactured more than one kind of vehicle, the membership consisted of 31 different manufacturers.

Members of the Automobile Manufacturers Association, Inc., are separate manufacturing companies or manufacturing divisions of companies producing more than one make or kind of motor vehicle. For instance, each of the manufacturing divisions of the General Motors Corporation and of the Chrysler Corporation, such as the Chevrolet, Buick, Plymouth, Dodge, and other divisions are separate members of the association.

At the present time, all manufacturers of passenger automobiles in the United States, with the exception of the Ford and Lincoln Cos., the American Bantam Car Co., and possibly some small companies not actually manufacturing, are members of the Automobile Manufacturers Association, Inc. The membership includes motortruck manufacturers among which are the International Harvester Co., the Yellow Truck & Coach Manufacturing Co., and others. There are numerous motortruck manufacturers who are not members of the association, but the membership controls considerably more than half the total truck production in this country.

Management.—Directors and officers of the Automobile Manufacturers Association, Inc., usually are presidents or chairmen of the boards of manufacturing members. There is one exception, however, as the treasurer of the association is a former president of Dodge Bros. who is now retired.

The headquarters of the association are in New York City and branch offices are located in Detroit, Mich., and Washington, D. C.

Income and disbursements.—The income of the association is derived from dues assessed against members. The amount of the dues is based on but not necessarily in proportion to the sales of each member.

The minimum amount of dues per member is $500 and the maximum $40,000. Special assessments are levied for carrying on special activities such as "National Used Car Exchange Week," but all members do not necessarily subscribe to special activities and nonmembers may join in these activities.

A statement by the association of the number of cars manufactured by and the amount of dues received from members for the year ended June 30, 1937, shows the total number of cars manufactured by members as 3,610,501, and the total amount of dues received from members as $621,249.04. The association had 33 members during the year ended June 30, 1937, and it appears that 6 of these members were divisions of the General Motors Corporation and 4 were divisions of the Chrysler Corporation. The General Motors Corporation's divisions manufactured 1,838,396 cars during that year and their dues amounted to $213,690.70. The Chrysler Corporation divisions manufactured 1,114,617 cars and their dues amounted to $135,555.07. The remaining 23 members manufactured 657,488 cars and their total dues amounted to $272,003.27. From the above, it appears that manufacturing divisions of the General Motors Corporation contributed about 34 percent, that manufacturing divisions of the Chrysler Corporation contributed about 22 percent, and the remaining 23 members of the association contributed about 44 percent of the dues for the year ended June 30, 1937. The expenses of the association for the year ended May 31, 1937, totaled $559,652.24.

The income of the Automobile Manufacturers Association, Inc., for the year ended June 30, 1938, was as follows:

Dues received from members	$539, 473. 97
Interest from securities owned	16, 604. 04
Miscellaneous	9, 436. 18
Total income	565, 514. 19

The expenses of the association for the same period were:

Administrative expense; salaries, mileage, and fees of directors and members meetings	34, 363. 11
Departmental expense, including patent classification and publication of Facts and Figures	216, 418. 64
Legal expense	33, 323. 15
Highways	51. 53
International Road Congress	5, 782. 48
General expense, including office expense, taxes, equipment, and library depreciation	170, 869. 52
Contributions:	
Automotive Safety Foundation, Harvard University Traffic Bureau	54, 250. 00
National Highway Users' Conference	40, 000. 00
Society of Automotive Engineers	23, 102. 48
National Industrial Conference Board	1, 500. 00
Highway Education Board	10, 000. 00
American Standards Association	500. 00
Economic Policy Commission	12, 500. 00
Total expenses	602, 660. 91

Organization.—The Automobile Manufacturers Association, Inc., conducts its operations through various departments or committees which function as units, and the correspondence files as well as other records of the association are largely departmentized. Therefore, a discussion of the operations or activities of the association will be, to a considerable extent, on a departmental basis. The various departments or committees of the association are as follows:

Advertising committee.	Patents committee.
Export committee.	Public-relations committee.
Highways committee.	Safety traffic committee.
Insurance committee.	Sales managers' committee.
Legislative committee.	Show committee.
Manufacturers' committee.	Taxation committee.
Motortruck committee.	Traffic committee.

In addition to the above committees, two important departments of the association are the statistical department and the service and engineering department.

Section 3. Sales Managers' Committee

Functions of the committee.—Apparently the most interesting of the committees or departments of the Automobile Manufacturers Association, Inc., so far as this inquiry is concerned, is the sales managers' committee. The minutes of this committee, which are the basis for much of the discussion in this section, indicate that matters pertaining to pricing policies of the membership of the association are discussed in this committee.

With reference to pricing policies, Alfred Reeves, vice president and general manager of the association, has stated that the automobile industry, unlike industries in which the product is more or less standardized, does not lend itself to price-fixing activities. It is Mr. Reeves' opinion that competition is on the basis of style and performance, due largely to the fact that no two makes of automobiles are identical.

The functions or responsibilities of this committee, as set forth in the association publication entitled "At Your Service," are to develop plans which will make for greater efficiency and economy in the distribution of automobile products and thus effect further savings that can be shared by car buyers in the form of lower prices.

Minutes of the sales managers' committee.—An examination of the available copies of minutes of this committee for the years 1931 to 1938, inclusive, apparently shows but three verbatim reports of committee proceedings. These three verbatim reports are dated April 25, 1932, October 20, 1932, and December 9, 1932, respectively. Copies of the minutes of this committee for meetings other than those of April 25, 1932, October 20, 1932, and December 9, 1932, appear to consist of summaries of committee proceedings. J. W. Dineen of the General Motors Corporation, who has been secretary of the committee since 1933, has stated that since he became secretary, the minutes of the meetings have consisted only of summaries or decisions, and are not in the form of verbatim reports. In this connection however, it is significant that in addition to the verbatim report of the proceedings of the meeting of December 9, 1932, a summary report of proceedings of that meeting also was prepared, which summary appears to be similar to summaries of subsequent proceedings.

Membership.—Some of the personnel of the sales managers' committee of the Automobile Manufacturers' Association, Inc., have continued their positions on the committee over the entire period of time for which these committee minutes or summaries of proceedings are available. R. H. Grant, of the General Motors Corporation, has been chairman of the committee, and J. E. Fields, of the Chrysler Corporation, and M. M. Gilman, of the Packard Motor Car Co., have been members during this time.

Pricing policies.—Pricing and advertising policies as discussed in this section pertain, with a few exceptions, to policies discussed at meetings of the sales managers' committee of the Automobile Manufacturers Association, Inc. No attempt is made in this chapter to discuss general advertising policies of individual member manufacturers of the association or of other automobile manufacturers, other than with reference to association activities.

When investigational work on this inquiry was initiated, it was determined that no action should be taken which might tend to interfere with or prejudge any complaints issued by the Federal Trade Commission against automobile manufacturers.

With reference to advertising policies of the various automobile manufacturers, all of the passenger-car manufacturers, with the exception of the Ford Motor Co. and the General Motors Corporation, have stipulated with the Commission that their former type of advertising was false and misleading and that they would not reengage in that type of advertising. The Commission has issued complaints against the Ford Motor Co. and the General Motors Corporation, charging these companies with false and misleading advertising and hearings on these matters are pending.

Delivered price advertising.—At a meeting of the sales managers committee, April 25, 1932, the chairman, R. H. Grant of General Motors Corporation, dictated the following, representing the sentiment of the committee, on the question of delivered price advertising: [3]

At a meeting of the N. A. C. C. sales managers' committee on this date (April 25, 1932), it was the unanimous sentiment of the committee that the industry would be well advised to go to delivered price advertising instead of f. o. b. price advertising which now quite generally exists.

It was thought that such a movement would help reestablish the confidence of the public in quoted prices on automobiles, which, it was agreed has been pretty generally lost in the past few years.

The understanding of the delivered price is: What is known as the f. o. b. list price of the car, plus transportation, plus a handling charge, plus a minimum package of accessories which is made of bumpers, a spare tire, tire cover, and tire lock; and on models which have six wheels, two spare tires, two tire covers, and two tire locks, as well as bumpers.

* * * * * * *

At a meeting of the sales managers' committee held December 9, 1932, Chairman Grant, in referring to advertised delivered prices, stated:

This is the same problem we have had right along. It has been impossible for me to get the matter taken up with Chevrolet. * * * I have been thinking a great deal since I knew Mr. Knudson was opposed to the idea and naturally I wanted to be well equipped and well advised. I really can't visualize Chevrolet going in without Ford in the picture. Say for example, Ford comes into the market next spring with a low-price car and we will say he follows his usual method

[3] Advertising prices of automobiles delivered at dealers' selling points.

of getting a lot of publicity, and we will say his present Ford is priced at $450, and say he should come out at $395 or $425, and we will say that Chevrolet decided to make a move to checkmate him or lower their prices. If we were bound by agreement, and if we couldn't go into the newspapers down in that area, where price is so vital a factor, with anything but delivered prices, we would be under a terrible handicap.

J. E. Fields of the Chrysler Corporation, replied:

I have discussed this question of advertising delivered prices with Mr. Chrysler and we have discussed it from the angle that assuming that Ford would not go in, and he would stay out alone, it is our feeling and especially Mr. Chrysler's feeling, that if we decided that this advertising of delivered prices was the proper thing, then we should go in and disregard Ford entirely and develop our advertising to cover what we wanted to cover.

Summarizing delivered prices, Mr. Grant said:

This crowd is unanimous in favor of doing this, and also we are not unanimous in doing it unless Chevrolet is willing to come into the picture. I am going to get the definite answer regarding Chevrolet and I am inclined to hope after what Mr. Abbott has given me, and he has affected me a lot, and I think that by marshaling every force we have we could perhaps marshal the country and offset anything that Ford might do.

Apparently, the reference to "what Mr. Abbott has given me" pertains to a statement made by C. G. Abbott of the Hudson Motor Car Corporation as follows:

* * * I am of the opinion that if we throw the entire weight of our advertising, or say the portion as can be used for price, including radio, we could have the announcer give in a clear and concise manner, a short sentence which indicates that the one fellow who is standing out is kidding you. Every advertisement or newspaper would carry a little insert or box which makes it very clear. Then, I don't think it would take many months to make the public understand there was a careful distinction. One manufacturer can't do it alone, but I think we all can. * * *

At a meeting of the sales managers' committee May 8, 1933, the chairman, R. H. Grant, of General Motors Corporation, reported that General Motors was ready to adopt a policy of advertising delivered prices except in the case of Chevrolet. J. E. Fields, of the Chrysler Corporation, stated that the Chrysler organization would be unwilling to go to delivered prices without Chevrolet. Other members of the committee expressed themselves as favoring delivered prices as a practical and beneficial move.

At this same meeting each member of the committee related his company's practice in regard to options and extra charges for such items as special paint, wheels, upholstery, etc., on standard models.

Under date of December 17, 1936, the Automobile Manufacturers Association, Inc., issued a release or news item announcing a change in policy of its members with respect to the prices at which their products were to be quoted in national advertising. This release consisted of a statement by Alvan Macauley, president of the Automobile Manufacturers Association, Inc., which reads in part as follows:

Effective at once, the members of the Automobile Manufacturers Association will adopt a more simplified method of pricing motorcars. However, the intent of this action is not to change the price the customer will pay, and, except for some very slight modifications incidental to the details of its application, the price the customer pays will remain the same as before.

In the past, a list price, f. o. b. factory, has been used in advertising. That list price did not include such things as a charge for preparing the car for delivery, reimbursement for Federal tax, nor such accessories and extra equipment as the purchaser might have elected to buy.

Effective at once, the new simplified price will be a "delivered price" at point of manufacture, which will include the charge for delivery, reimbursement for Federal tax, and all essential accessories, such as the spare tire, and bumpers, which are now universally needed by all purchasers and have come to be known as standard equipment. To determine the retail price at any particular point of delivery, it will only be necessary under the new method for the purchaser to add the following charges to the advertised delivered price at the factory city:

1. Transportation from point of manufacture to point of delivery.
2. State and local taxes, if any, at point of delivery.

Should the purchaser elect to buy a more comprehensive group of accessories, these will be available at prices to be quoted by the dealer.

This change in policy with respect to prices quoted in national advertising followed the action of the Federal Trade Commission in investigating the advertising practices of the industry, which investigation was initiated in 1936. The first interview by a Federal Trade Commission examiner with a representative of the General Motors Corporation was on October 23, 1936, which was less than 30 days prior to the news release of December 17, 1936, referred to above. It appears, therefore, that the change in policy was the culmination, not only of agitation by the industry, but also of the investigation undertaken by the Federal Trade Commission.

Effect of advertised prices on foreign trade.—Under date of December 23, 1936, the Studebaker Export Corporation wrote the Automobile Manufacturers Association, Inc., with reference to establishing f. o. b. factory list prices in national advertising. This letter reads in part as follows:

* * * this is going to be extremely good news to all foreign dealers. One of the chief difficulties which they have encountered is in explaining to the public the apparent very large discrepancy between delivered local foreign prices and the advertised manufacturer's f. o. b. prices. This, in view of the fact that the f. o. b. prices formerly advertised did not include many items of equipment without which no cars are actually sold. I believe it is the practice of most firms nowadays to establish net export prices in which prices practically all extra equipment, such as bumpers, optional colors, etc., are included. In many cases where foreign customers read American magazines, it is necessary to explain this fact to them and, even then, there is apparently doubt in their minds as to the veracity of the dealer. * * *

The export department of the Automobile Manufacturers Association, Inc., prepared Bulletin E-459, June 16, 1937, which reads in part as follows:

* * * that members limit their price data on passenger cars to two columns for the export magazines.

The first column would comprise factory list prices as heretofore published in the export magazines. The other column would contain the advertised delivered at factory prices recently put into practice for domestic purposes, which include the standard accessories of each manufacturer and dealer handling charges and Federal, but not State, taxes.

This arrangement pertains to passenger cars only and not to trucks.

Exchange of price information.—At a meeting of the sales managers' committee on December 28, 1936, a pricing policy was discussed in part as follows:

In order to clarify the pricing situation, it was agreed that at the next meeting of the committee, each automobile company would present the build-up of its advertised delivered price (in the main factory city) for each series of cars, particularly with regard to the items included in the standard package of accessories. The chairman [4] suggested, as a basis for agreement by the committee, that any accessory which is attached to, or shipped with the car, and which the customer

[4] R. H. Grant of General Motors Corporation.

has to take, should be included in the standard package of accessories, and consequently in the advertised price.

On the same day, December 28, 1936, J. W. Dineen, of the General Motors Corporation, and secretary of the sales managers' committee, wrote to 10 member companies of the Automobile Manufacturers Association, Inc., as follows:

Confirming the understanding arrived at today in the sales managers' committee meeting of the Automobile Manufacturers Association, another meeting will be held at 10 o'clock in the morning, Monday, January 11, in the directors' room of the General Motors Building.

To the meeting, each sales manager, or his representative, should bring detailed break-downs showing how his company proposes to price its cars under the new pricing system. This is being done in order that we will all be on a comparable basis.

Please let me know by return mail whether or not you will be present.

On January 4, 1937, Alfred Reeves, vice president of the Automobile Manufacturers Association, Inc., wrote six truck manufacturer members of the association as follows:

Confirming the understanding arrived at by the sales managers' committee at Detroit on December 28, another session will be held at 10 o'clock on the morning of Monday, January 11, in the directors' room, General Motors Building, Detroit, Mich.

To the meeting each sales manager, or his representative, should bring detailed break-downs showing how each company proposes to care for the new pricing system on cars and trucks that has taken the place of the f. o. b. plan.

This is necessary in order that there be some sort of a comparable basis.

The sales managers' committee has voted to invite the sales managers of each of the companies to participate in the session.

Shall be glad to know if we can count on your attendance.

At a meeting of the sales managers' committee on January 11, 1937, each manufacturer gave a break-down of the advertised delivered prices of several typical models of each of his passenger-car lines. The minutes of the meeting contain this notation:

A copy of this information for each automobile company will be prepared by Mr. Reeves for distribution.

Price policies, 1938 and 1939.—The minutes of the sales managers' committee meeting of September 27, 1937, refer to the 1938 pricing policies as follows:

The pricing policies of each company with respect to their 1938 models were presented and discussed. A copy of the presentation of the pricing policy of General Motors' car divisions will be sent to the members of the committee. This presentation shows the items that make up (*a*) the list price, on which the dealer will receive a discount; (*b*) the advertised delivered price at main factory city; and (*c*) the local suggested delivered price.

The minutes of the sales managers' committee meeting of September 14, 1938, contained the following with reference to General Motors' proposed policy on pricing:

The chairman [5] informed the committee that General Motors is planning to change its pricing policy so as to eliminate the dealer's delivery and handling charge from the advertised price. Under this method the national advertised price will be called the "base price" which will consist of the list price (which includes standard equipment such as bumpers and spare tires) plus the e. o. h. charge (reimbursement for Federal tax).

When this "base price" is advertised there will be a notation in the price box that to arrive at the local delivered price, it is necessary to add (*a*) transportation charge (based on rail rates); (*b*) dealer's delivery charge; and (*c*) State and local taxes (if any).

[5] R. H. Grant, of General Motors Corporation.

The ad will also state that the amounts of these three items added by the dealer will be displayed on a wall chart in the dealer's place of business. However, this reference to the wall chart will not be used in the price box until the contract clause on local delivered price wall charts has been incorporated in the dealer contract about the first of the year.

The chairman stated further that this proposed pricing policy will come up for decision at the meeting of the General Motors distribution group on Tuesday, September 15, and that he will inform the members of the sales managers' committee of the corporation's decision.

It appears that this pricing policy was not effected as proposed, as a letter by the secretary, J. W. Dineen, of General Motors Corporation, addressed to members of the Automobile Manufacturers Association, Inc., reads as follows:

It was decided yesterday at the meeting of the General Motors Distribution group that the new plan of pricing, which was discussed at the sales managers' meeting of the Automobile Manufacturers Association, Wednesday, will not be put into effect at the present time. Instead, we will continue with advertised delivered prices made up on the same basis that we used last year.

The copy of this letter, which is from the committee records, is undated, but is followed by a letter from W. M. Packer, of the Packard Motor Car Co., to J. W. Dineen, director, sales section, General Motors Corporation, dated September 21, 1938, which reads as follows:

Thank you very much for your letter of the 16th advising that the General Motors distribution group will not put into effect at the present time the new plan of pricing which was discussed at the meeting of the Automobile Manufacturers Association last Wednesday.

In our own case, the pricing of new models has already been set up on the basis which has been in effect for the last year and we are glad to know that General Motors does not plan any change at this time.

Accessories.—During a discussion relative to advertising delivered prices at the sales managers' committee meeting of December 9, 1932, the question of the amount charged by distributors or dealers arose. With references to this matter, Chairman Grant, of General Motors, stated:

* * * I found some [6] listing accessories at $102 and with all the power I possess I couldn't get more than $45 out of them. I sent another fellow in and told him * * * you stay there until you find that $102 worth of accessories. He came back and said $45 was all he could find. What they have been doing is loading. That is what has been going on for years. The distributor loads up with accessories and then he sells them to the dealer. He gets his override on the car and also the accessories and sells the car to the dealers with clocks and all the other doodads. I am for the delivered price with only a small package of accessories, and if they sell more than a standard package I want them to sell the extras on the merits. My trouble is with the old-time distributors. They want to pack.

After considerable discussion, Mr. Fields, of Chrysler, stated:

Here, Mr. Grant, is something you can take for what it is worth in your talk with Mr. Knudson; you can say that if Chevrolet goes in, we will go along all the way with all our stuff, Plymouth and from there up, but only if Chevrolet will go along. * * * I put out a bulletin to our dealers telling them that when we introduced the Plymouth we contemplated with the industry to advertise delivered prices. * * * The minute that that got in the field, we got a protest from the "old-timers." They are the ones that like the leeway. * * * About half of the distributors have come in and told me the many great disadvantages.

They don't like us to do it. The dealer body don't like us to do it. I have two men out I use for shopping. They have shopped your (Mr. Grant) crowd, Nash, and our own dealers. It is ridiculous the stories they get. What you say about this $45 list of accessories, getting $105 or $107 is what they tell us and the distributors making up their own package. Some of these distributors will

[6] Dealers.

ship that package just as if it is a part of your routine practice, as if we can't build an automobile without the dealer making up a group of stuff he makes a profit on.

Cooperation by members.—During the sales managers' committee meeting of December 9, 1932, a long discussion was held concerning a greasing plan inaugurated by the B-O-P Division [7] of General Motors. R. H. Grant, of General Motors, opened the discussion as follows:

Here is a matter that isn't on the program. Mr. Fields called me up on this' something that I did. In B-O-P this subject came up: We have a new service department, and with that outfit they are full of pep, which naturally I like to see in an organization. They are always after schemes to improve their position. Before I went away, Mr. Blees came to me and stated that the service department wanted to sell a grease book with every car. He says the "pack," the handling charge, we raised last spring, is quite high; it is probably higher than it should be. We will charge the dealer $9 for a book on every car, for which the customer can get 12 greasings on his car, and the coupons will be torn out of the book by the customer and given to the dealer and the dealer in turn sends the coupons in to us. As a result he probably will make a little profit on the $9. It depends upon how much you put on the books as to whether or not he gets a profit out of it.

Mr. Fields says I should have taken it up before I went to California, but I did not think about it in that connection, but made a quick decision and the way I went.

* * * * * * *

In the automobile business the dealers don't make any money out of cars. He makes it out of the auxiliary end of the business. If there is going to be a shrinkage in that way, we have to find a way for him to get some money. Now it is very important, as I see the picture, to hold that gross profit up by anything that is legitimate. You can't do it by raising your price or they will go to the alleys. I agreed with the service department in what they conceived. It is bad, however, from the standpoint if the whole industry don't do it we are not on an even basis competitively. When I made this decision I didn't think about the industry. * * * Now I have done it, and we are committed to it. I have to go through with it now. I can switch my policy next year, if you men and I give you our experience in connection with this, if you feel you shouldn't have it in the industry, we could take it out within a year. But if you thought it good, if the whole industry did it, it would be like our service policy is today.

In reply, J. E. Fields, of the Chrysler Corporation, stated:

* * * I have no criticism from the standpoint of a competitive move. None whatever. My criticism is: This committee to me is going to accomplish a great deal if we stick together. I think this is the place to do it, and have us air all our troubles in here within four walls. If we are going to develop a new policy I think we ought to be bringing it up to this committee. It will be sold as a progressive move, as an extended warranty proposition. No matter what you want the salesman to say, you know what he is going to say. It brings up a variety of warranty. If we are going to make this committee mean what it ought to to our companies like competitive angles, then we ought to bring them in here. * * *

Pack.[8]—With further reference to the discussion of a greasing plan, Chairman Grant stated:

* * * I deliberately put more handling charges in because I had dealers going broke, and the easiest way to slip them $25 was in the pack. I did it deliberately during a depression, and I am committed to the corporation to take that pack out when times get better. I already took some pack out, this $9 takes something out. The customer pays the $9. I have taken the mark-up on freight out. I have already started the ball a rolling in getting the handling charge down. I am also cognizant of the fact that in this delivered price thing, if we have a little

[7] B-O-P is an abbreviation for Buick, Oldsmobile, and Pontiac Divisions of the General Motors Corporation.

[8] The term "pack" as used by Chairman Grant, evidently means any dealer return other than the difference between the dealers' buying and selling price.

more pack in here for this purpose, I am handicapping our men. I am trying to keep them alive with some money. I think it is more important to keep your dealers floating than any price question. If we are not careful, this mortality thing is going on and on and on. They go from one account to the other. We are milking the capital out of our dealerships. I'll take what handicap it brings in selecting the goods.

The $9 referred to in the above quotation is the amount charged dealers for a grease book for which the customer received 12 lubrications.

Competition with Ford Motor Co.—At a meeting of the sales managers' committee on October 20, 1932, a motion was made and carried that the committee inform the board of directors that it recognized a discrepancy between the prices of coaches and sedans and recommended that the best endeavors be used to get the matter on a more economical basis.

This action followed a lengthy discussion concerning the advisability of continuing the manufacturing of touring cars, roadsters, and coaches also ultra deluxe models and options on wheels, upholstery, etc. Chairman Grant stated:

I notice the spread between the sedan and coach, which is a very aggravating subject. We are pricing coaches too low in the low-price field, in relation to the sedan. When the Ford model A came out, coaches were more potent than now. They were the keystone of the situation. He fixed the price of the coach $25 below the point at which it should have been fixed, from a cost standpoint. We followed suit and have been doing it ever since, and so has he. If we increased our coach price $25, it is quite certain the condition would change.

At December 9, 1932, meeting of the sales managers' committee, Chairman Grant stated:

Mr. Ford, who won't play, is pretty much the price setter in this industry. I'll bet if Mr. Ford's cars were $50 higher ours would be $50 higher. We care about Ford. We have been struggling with him for years.

Overtrading in high-priced cars.—Chairman Grant stated at this same meeting:

We had a copy of Pierce-Arrow prices and they had a $100 trading allowance as part of the price scheme. I don't think that Paul Hoffman [9] and I will ever agree. If you start out with a trading allowance on January 1, you sure have to have a larger one before the season is over. We get faced with an emergency and in it goes.

* * * I don't know that this conversation would have happened if it had not been for that Cadillac affair when we were bound to unload those 31's. * * * Cadillac last year down there had a carry-over of about 34 automobiles. When I woke up I found I had too many Cadillacs and with a potential small, but now we are going into next season with a carry-over down there of about 18 or 20 cars. The market is small, but we will have to cut them to the quick. * * *

There was no depression on Cadillacs. It was the 3,000 cars. One of the largest operators had no sooner liquidated his 1931 stuff than he had to turn around as the market was in such a condition, and had to liquidate his 32's. I think it would be a very constructive thing in this situation. All the year, the Cadillac men have been saying, Mr. Gilman, that you (Packard) were giving $1,000 on your middle-priced Packard, and I told John Chick (Cadillac) that you told me it wasn't true, and I think if we would tell you when we had anything special, and how many cars we had for clean-up, and you told us the same, that it would help. Every Cadillac man I met said you are doing it, and it is almost as bad as if you were doing it competitively, because you are getting the credit for it.

[9] Mr. Grant evidently referred to P. G. Hoffman of the Studebaker Corporation, who was not present at the meeting.

After some further discussion by the members of the committee, Mr. Grant said:

Well, we will wait and see what Mr. Fisher and Mr. Macauley do, and as I said I'll talk to Mr. Fisher and you talk to Mr. Macauley. Would you, Mr. Gilman, be willing to tell us what that trading allowance was on that middle-priced car? I went through our organization to beat the band.

Mr. Gilman agreed to let Mr. Grant know.

Allowance for used cars.—On August 31, 1933, R. H. Grant of General Motors, chairman of the sales managers' committee, wrote the president of the National Automobile Dealers Association with reference to the Code of Fair Competition for the Industry of Automobile Retailing. In this letter Mr. Grant stated in part, as follows:

The National Automobile Chamber of Commerce committee believes that if the dealers of this country were to establish a policy of deducting 20 percent of the sales price from all used cars in determining the allowance that can be made for those cars, the volume of new car sales would be materially curtailed, and, simultaneously, of course, new-car production would decline. Looking at the matter from the dealers' standpoint, we are afraid that if the code is as drastic in setting low used-car allowances as the dealers have advocated, they will defeat their own purpose of making more profit because their volume will be reduced to the point where the loss of new-car revenue will overcome the benefit obtained from lower used-car losses.

Used-car allowances which were fixed on this basis would be so far below the allowances that the public has been getting, and consequently so far below the allowances that they expect, that the public would stop buying in present quantities. A drastic reduction in used-car allowances is, of course, an equivalent to an increase in the new-car prices. For this reason the National Automobile Chamber of Commerce committees do not feel that they can support any program which calls for an allowance price based on a deduction of 20 percent from the average sales price of a used car.

However, we do believe that the dealers' code should take steps toward reducing used-car losses, and we are willing to support a 10-percent deduction from average used-car sales prices for the purpose of setting allowances. The committee believes, and all of its statistical studies indicate, that a 10-percent deduction will be sufficient to bring about a tremendous reduction in dealer used-car losses, and yet at the same time will not mean so radical an increase in the cost of the automobile to the American public as to bring about a condition which would not only defeat the purpose of the code but the more fundamental purposes of the National Industrial Recovery Act as well.

Warranty.—At a meeting of the sales managers' committee October 23, 1931, the question of uniform warranty or owner-service policy was discussed. Chairman Grant stated the question, as follows:

Inspections within the warranty period, adjustments at no expense to the owner except oil and grease. This would not be compulsory but would be the limit beyond which no company could go. I am really for three inspections: (1) Inspection on cars up to $800; (2) inspections on cars from $800 to $1,200; and (3) inspections on cars above $1,200.

It was agreed to allow a reasonable amount of flexibility in the price divisions, disregarding small variations of $10 or $15.

Paul G. Hoffman, of the Studebaker Corporation, requested another vote in order that a unanimous recommendation could be made to the directors on the following:

(1) Include 4,000 miles.
(2) Eliminate all exceptions, except tires.
(3) Reword the warranty to conform to the new conditions created by the new dealer policy.

There was considerable discussion about whether accessories should be excepted and whether generators, ignition apparatus; etc., should not be called electrical equipment instead of accessories. However, all objections were finally withdrawn. Thereupon Mr. Grant stated that the committee could report to the National Automobile Chamber of Commerce directors that it favored including 4,000 miles; eliminating all exceptions except tires, and rewording the warranty in accordance with the new service policy.

"Dumping".—At the sales managers committee meeting of April 25, 1932, the chairman, R. H. Grant, of General Motors Corporation, raised the question of "dumping," which he defined as the "selling of goods at reduced prices through experts or other than recognized channels of trade." Mr. Grant stated:

I would like the committee to go on record to the directors of the National Automobile Chamber of Commerce that we don't believe that any member should dump these goods through outside channels, if that is the sentiment of the committee.

After some discussion, the chairman dictated a resolution to the board of directors of the association, as follows:

At the National Automobile Chamber of Commerce sales managers' meeting held April 25, 1932, it was the sentiment of the committee that the committee should go on record as opposed to what is known as dumping in the automobile business. What we understood to be "dumping" was when an outsider came in and purchased current or past model goods at reduced price and sold them at retail either through the dealers of the factory that sold the goods or through any other channels.

We recommend that the board of directors give careful consideration as to what action they should take in the case of a National Automobile Chamber of Chamber member that indulges in what is known as dumping.

Employees' discounts.—At the sales managers' committee meeting of December 9, 1932, Chairman Grant stated:

We hope that by giving a discount we will cultivate a loyalty so that the men will want to buy. We use no coercion. We don't check cars in the yard. The reason I mention coercion, is with particular regard to Ford.

J. E. Fields, of the Chrysler Corporation, then said:

We never have used it. What is your employee's discount? Have you established how high it is going, for example, a Buick?

Mr. Grant replied:

A Buick car to a Buick man—20 percent is the top. Six months would be 10 percent; longer, 15 percent; and longer, 20 percent. I'll tell you when we decide.

Thereupon Mr. Fields replied:

We have steps in ours. I would be very glad to give you what ours is.

Regulation.—At a meeting of the sales managers committee on April 25, 1932, Chairman Grant referred to a suggestion that a subcommittee of the National Automobile Chamber of Commerce sales managers committee be designated to deal with service matters, and stated as follows:

By this plan our service managers would meet at intervals and discuss that most intricate problem. In our case with three divisions and a small staff, I feel we are in a better position where we have one fellow checking one another.

J. E. Fields of the Chrysler Corporation replied:

I find that these men are already meeting. If we wake up and find out that they have discussed service plans among themselves that don't conform to the management's views, then you have to start and undo it. If you can have them a bit more official and know what they are doing and what the needs are * * *. There are a lot of intricate problems in this thing. I am glad we are talking about regulation. I think if we are smart, we will sit around and regulate some of these things. I would like to see even more regulation so we can make some more money out of the adjunct to this business as from the principal products.

Mr. Grant then said:

If we had a subcommittee, would we get a chairman of the subcommittee capable of tying the direction of the thing into the way the sales managers think? I am wondering, if we want to do service work would it not be better to have two or three service meetings of this committee and bring our service men in and let us hear them talk and let us see that they don't go haywire and have to get reversed. I hate to take the responsibility of a service subcommittee because I don't know if they will evolve things that we want or not.

Mr. Fields replied:

* * * I think the service men ought to be brought in so we can steer them.

Members of the committee agreed that they would bring their service managers to the next meeting.

Section 4. Patents Committee and Cross-Licensing Agreement

Patents committee or department.—The administration of the association's cross-licensing patents agreement plan is one of the principal functions of this department. Other functions consist of the collection of material and assistance in the preparation of cases of patent litigation involving members; organization of cases in patent suits being defended by the association; conduct of patent searches on behalf of member companies; and representation of the industry on all legislative proposals involving patents. This department maintains an extensive library which includes 10,000 volumes of automotive periodicals, 2,500 pamphlets, reference and text books, 450,000 copies of United States patents, as well as other material.[10]

Cross-licensing agreement.—In the early days of the National Automobile Chamber of Commerce, Inc., most of the members of the association formed a patent pool, which obviated the payment of royalty by one member to another. In order to form this pool an agreement known as the cross-licensing agreement was entered into by nearly all the members of the association. The Packard Motor Car Co., one of the members which did not sign the cross-licensing agreement, was in a very special position relative to patents, as it had patents which it did not wish to share with other manufacturers in the industry. This company has, however, cooperated with the signers of the cross-licensing agreement and they have permitted this company to use the pooled patents although in some instances Packard has had to pay for the privilege.

The first cross-licensing agreement was executed in the year 1915 and terminated January 1, 1925. Since the termination of the first cross-licensing agreement, three substitute agreements, or extensions, were entered into by nearly all the members of the association. These subsequent agreements were dated January 1, 1925, January 1, 1930, and January 1, 1935, and each was for a 5-year period.

Effect of cross-licensing agreements.—The signatories of the original agreement granted to the National Automobile Chamber of Commerce, Inc., the right to grant licenses and shop rights under letters patent, not expressly excepted, covering inventions capable of use in connection with motor vehicles, or parts or accessories therefor, or

[10] Automobile Manufacturers Association, Inc., publication entitled, "At Your Service."

in connection with the manufacture thereof, owned or controlled by the signatory or grantor, and the grantor authorized the association to execute licenses and shop rights in the name of the grantor.

With reference to granting of licenses and shop rights by the National Automobile Chamber of Commerce, Inc., section 7 of the agreement reads as follows:

> The chamber shall have the right, power, and authority hereunder to grant licenses and shop rights only to such manufacturing members of the chamber as may be at the time of such grant in good standing and shall have executed, in accordance with the provisions hereinafter contained in paragraph 11 hereof, an instrument substantially equivalent to this, giving to the chamber the same power and authority to grant licenses and shop rights under patents at the time of such execution or thereafter owned or controlled by such manufacturing members respectively, or under which such manufacturing members, respectively, may then or thereafter have the right to grant such licenses or shop rights as is given by this instrument in respect to patents in which the grantor has or may hereafter have corresponding rights.

The first substitute for or extension of the original agreement was executed in 1925 and extended the time of the agreement until January 1, 1930. The substitute agreement provided only for patents owned or controlled by parties to the agreement on January 1, 1925, and did not provide for the granting of patents acquired after the agreement was executed.

The second extension was executed in 1930 and extended the agreement until 1935. This extension included patents owned or controlled by parties to the agreement on January 1, 1930, and did not include patents obtained thereafter.

The third extension was executed in 1935 and continued the agreement until January 1, 1940, but does not include any patents acquired by parties to the agreement subsequent to January 1, 1930. Furthermore, the third extension contains a clause exempting patents developed by a corporation or division controlled by the signatory or grantor but which corporation or division is not itself engaged in the business of manufacturing complete motor vehicles. This provision reads as follows:

> It is understood and agreed, however, that there are excluded from the patents of the grantor licenses under which are granted or to be granted under this agreement, (*a*) any and all patents owned or controlled by, and (*b*) any and all patents whose inventions were developed in whole or in part by any existing corporation controlled by or related to the grantor which corporation is not itself engaged in the business of manufacturing complete motor vehicles, as well as (*c*) any patent or patents whose inventions are utilized by, and (*d*) any and all patents whose inventions were developed in whole or in part by the grantor in a distinct division engaged solely in continuing the business of a prior corporation which was itself not engaged in the business of manufacturing complete motor vehicles.

The above clause was injected into the third extension of the agreement as an inducement to the General Motors Corporation to become a party to the new agreement.

Alfred Reeves, vice president and general manager of the Automobile Manufacturers Association, Inc., in answer to an inquiry concerning the exclusion of patents owned by subsidiaries of members who are parties to the agreement, replied as follows:

> It was not thought fair to require a company like General Motors to include the patents of Delco or other similar subsidiary parts companies whose business and patents it had recently taken over, for to do so would operate to pass licenses on to the competitors of Delco (such as the Electric Autolite) or other companies

competing in the same field, without any return licenses from these competitors to Delco.

Where a subsidiary was a car maker, the subsidiary also signed the agreement.

The original cross-licensing agreement did not include the patents described as class B patents, which were designated as certain patents issued subsequent to the execution of the agreement which involved a radical departure or change from what was known. Inasmuch as the subsequent agreements or extensions to the original cross-licensing agreement did not provide for the inclusion of patents granted subsequent to the dates of execution, no provision was made for the exclusion of any so-called class B patents. Mr. Reeves, in answer to the question "Why were class B patents abolished in the second agreement?" stated:

> Inasmuch as class B patents refer only to patents that would be taken out subsequent to the signing of an agreement and the second agreement only covered patents that were in existence at the time of its signing, there could be, under this agreement, no such thing as a class B patent.

The same would apply to subsequent extensions of the agreement.

Alfred Reeves, in testifying before the Temporary National Economic Committee December 5, 1938, stated that no class B patents came into existence during the 10 years the first cross-licensing agreement was in effect. He referred to an application by the Hudson Motor Car Co. for a class B patent on their counterbalanced crankshaft, which was ruled as not being a class B patent.

With reference to patents included in and excluded from the present extension to the agreement, G. C. Arvedson, manager of the patents department, wrote James Cope, of the Washington office of the Automobile Manufacturers Association, Inc., November 9, 1937, as follows:

> The agreement now current is the third extension agreement and runs for 5 years, from January 1, 1935, as per copy enclosed in your file. This agreement applies to patents owned or controlled by the parties on January 1, 1930.
>
> The patents acquired subsequent to January 1, 1930, are not included.
>
> The classes of patents included are defined in clause 1 as those covering inventions capable of use in or in connection with motor vehicles or their manufacture. This definition is the same as in the previous agreements.
>
> The patents excluded are defined in clause 2; and this definition is the same as in the previous agreement.
>
> Briefly, the patents excluded are (*a*) design patents, (*b*) patents covering inventions exclusively capable of use in commercial vehicles, such as ambulances, fire apparatus, tractors and trucks, and (*c*) patents covering inventions exclusively capable of use in or in connection with certain parts of their manufacture, such as patents formerly owned by a company exclusively devoted to the manufacture of such parts.

Number of patents involved.—Mr. Reeves, in testifying before the Temporary National Economic Committee on December 5, 1938, stated that there were 547 patents in the first agreement; 1,066 in the agreement executed in 1925; 1,687 in the agreement executed in 1930; and 1,285 in the agreement executed in 1935; and that at the time of testifying, December 5, 1938, there were 1,058 patents still alive in the agreement.

Signatories to the agreement.—G. C. Arvedson, manager of the patents committee, under date of March 24, 1937, wrote to Mr. C. Gordon Minckler, Detroit, Mich., with reference to the cross-licensing agreement, in part, as follows:

> The parties to the agreement include our entire membership with a few exceptions, the chief of which are the Packard, Hudson, Sterling, Walter, and Mack companies.

As you know, the Ford and Lincoln companies are not members.

The patents included are all those under or controlled on January 1, 1930.

The patents excepted from the agreement are in clause 2 (mainly design patents and patents for inventions solely applicable to commercial vehicles).

About 1,500 patents were reported in 1930, of which perhaps 300 have expired.

The license, however, gives immunity in respect to these expired patents from any actions of law for infringement during their life. * * *

Packard Motor Car Co. and cross-licensing agreement.—Under date of February 18, 1935, Alvan Macauley, president of the Packard Motor Car Co., wrote Alfred Reeves, vice president of the Automobile Manufacturers Association, Inc., in part as follows:

* * * We have never brought suit against any member of the chamber and have no expectation of ever having to do so. But we have not signed a cross-licensing agreement in the past and think it not wise for us to do so.

Our greatest activity was prior to 5 years ago. The activity of the big companies has been within the last 5 years. These patents within the last 5 years are all excluded. But, on the other hand, the greatest number of our patents, in importance at least, would be included.

General Motors and the cross-licensing agreement.—The files of the Automobile Manufacturers Association, Inc., contain a memorandum dated October 4, 1934, entitled "Points for Talk with Mr. John Thomas Smith [11]—General Motors Situation." In part, this memorandum reads as follows:

At every renewal period, General Motors has had new features which it has hesitated to put into the X. L. A.[12] This year there are five or six as mentioned below. At one earlier period they had the air-cooled engine for the Chevrolet which cost the corporation millions, though it did not prevent renewal.

The patent section feel that the General Motors is doing more pioneer development work than any other company and leading the way for others to follow.

If the General Motors should wish to work out of the X. L. A. it could renew for the 1930 patents and keep on doing so until all these patents expire. This would give it a free hand on all patents acquired since January 1, 1930, and as to them, put it in the same position as Packard has been.

The above may explain why the third extension of the cross-licensing agreement did not include any patents obtained subsequent to January 1, 1930.

On November 19, 1934, Alfred Reeves, vice president of the association, wrote Alfred P. Sloane, Jr., president of General Motors Corporation, in part, as follows:

The question of renewing the cross-licensing agreement is up for consideration and all members of the patents committee, with the exception of Mr. McEvoy, have approved its continuance with either of the following:

No. 1 plan including all patents up to 1935.

No. 2 plan—all patents now in the pool which means patents up to January 1, 1930—this latter because many companies are using the patents that are now included in the arrangement. * * *

The following points may be of interest:

A. In 1925 the ratio of patents in the pool was about 50-50, covering your cars—half owned by General Motors and half by other members. Presumably it would be the same today.

B. In the present pool for patents owned January 1, 1930, of the total 1,685 patents, General Motors put in 518; Willys-Overland, 305; Studebaker, 182; Chrysler, 165; White, 87; Reo, 60; and Hup 59. Presumably the ratio would be about the same for patents owned January 1, 1935.

Claimed objectives of the cross-licensing agreement.—One of the objectives of the cross-licensing agreement was to enable manufacturers to devote their efforts to the production of better automobiles without

[11] General counsel and vice president of General Motors Corporation.

[12] The initials X. L. A. used in this section are an abbreviation for cross-licensing agreement.

having before them the constant fear of infringing on the patents of others which might result in expensive litigation, and without thought of others infringing on their patents.

Mr. Reeves, in testifying before the Temporary National Economic Committee December 5, 1938, concerning the circumstances which led to the making of the original cross-licensing agreement, stated:

Well, I think it came partially from the situation in the *Selden case,* the manufacturers were having great difficulty in getting out production, they didn't want to be bothered with patents, they didn't want to sue one another. They had had enough concern over the *Selden case* itself, and there seemed to be a need for keeping patents out of the situation and trying to develop as good cars as they could produce at prices at which the public could buy because at that time most of the cars were very high-priced cars.

Claimed benefits of the agreement.—An unsigned memorandum in the files of the Automoblie Manufacturers Association dated October 9, 1936, entitled "Cross Licensing Agreement," contains a reference to some of the advantages accruing to members by reason of the agreement. In part, this memorandum reads as follows:

No royalties are charged as the benefits contributed by any one manufacturer in respect to his patents will always be less than the benefits received in the way of a license to use the much larger number of patents contributed by others.

The agreement has made it possible for all manufacturers to profit by the experience and ingenuity of their fellow-manufacturers. The plan enabled the best possible cars to be manufactured by all members of the industry without any hindrance from each other on account of patents privately owned by any other member.

The members were also set free from the trouble and expense of struggling with patent problems. Their whole energies could be devoted to improving their product, its method of manufacture and improving methods of sale.

The first agreement was for 10 years and covered patents already acquired and patents to be acquired during the period of the agreement.

This agreement was renewed in 1925 for 5 years to cover patents owned at the beginning of the period. The feature of including patents to be acquired during the period was omitted.

In 1930 the agreement was extended for another 5 years to cover the patents owned at the beginning of this second extension.

On January 1, 1935, this second extension was extended for another 5 years to apply to the same patents.

On April 26, 1937, G. C. Arvedson of the patent department wrote to Prof. E. C. Lorentzen, Salt Lake City, Utah, in part as follows:

* * * the agreement which has been running since 1914 has engendered a feeling of cooperation and friendliness between the members which has prevented a single patent lawsuit between them, even indirectly; such as, by a suit against a parts maker supplying a member.

Incidentally, you may be interested to know that the operation of our agreement was referred to by the Supreme Court with approval in the antitrust litigation, *Standard Oil* v. *United States,* opinion in 283 U. S., page 163. * * *

A memorandum in the files of the Automobile Manufacturers Association, Inc., dated October 4, 1934, and entitled "Cross Licensing Agreement—Points for Talk With Mr. Thomas Smith" contains interesting data concerning the agreement. In part, this memorandum reads as follows:

The broad attitude of the industry in the past is best appreciated when it is known that many small companies have enjoyed free licenses under hundreds of patents, without owning a single patent to contribute.

About 32 million motor vehicles, valued in excess of 29 billions of dollars, have been made under the X. L. A. without a patent lawsuit among the members.

Most companies hold patents for protection rather than for any thought of suing fellow members.

The X. L. A. has been a harmonizer in the industry.

The X. L. A. eliminates jealousy and suspicion and bad feeling.

The X. L. A. restricts the competition between members to the basis of a well-made product produced at low cost and sold in the most efficient manner.

The X. L. A. permits each member to design freely, taking all that the known art offers and providing the public with the best and safest cars as the art advances.

American Trade Association Executives award.—The National Automobile Chamber of Commerce, Inc., received the award of achievement by the American Trade Association Executives for its cross-licensing of patents agreement. On April 30, 1930, Secretary of Commerce Robert P. Lamont, chairman of the jury of award, in announcing the award of American Trade Association Executives for the most outstanding achievement of a trade association, stated as follows:

The difficulties encountered in determining the association most deserving of recognition were complicated for this first year of award by the decision of the donor and the Committee of Award of the American Trade Association Executives that any associational activity continued in force since 1920 should receive consideration. This, of course, widened the field of review immeasurably, and practically required the jury to select the achievement most representative in all trade-association history.

* * * * * * *

Your jury reached a decision that was close to unanimous on the preliminary voting by mail and altogether unanimous in the succeeding conferences.

* * * And to give the award of achievement—the bronze medallion which the donor has had created by a famous artist—the award of the American Trade Association Executives for original and outstanding service to the public, to the National Automobile Chamber of Commerce for its national cross-licensing of patents agreement, which provides a pooling at present of about 1,700 patents. This results in great public benefit by allowing each manufacturer to use the latest improvements originated by any company. It works a step in advance of most associational work and is of dominant importance because of the magnitude of the automobile industry and the strength of the association representing it.

The application of the National Automobile Chamber of Commerce, Inc., for consideration of its cross-licensing patents agreement by the jury of award of the American Trade Association Executives contains a detailed analysis of the advantages of the agreement. Under the heading "How the Public Benefits" appears the following:

It is doubtful if any other cooperative activity of competitors in business has been so beneficial to the public as the cross-licensing of these 1,700 patents affecting automobiles.

It made certain that from a mechanical standpoint in cars, busses, and trucks, the public was assured of the best and safest forms of mechanism.

It enabled people to buy motor transportation at lower cost than if the makers were engaged in expensive litigation with possibly burdensome royalties added to car prices. It is estimated that outside royalties do not exceed $2 per car.

It assured each buyer that in the car he selected was incorporated the most modern inventions with no danger of having to accept substitutes that might be inefficient or unsafe.

It eliminated the possibility of citizens being threatened for using articles that infringed patents; a not unknown situation during the earlier days of the motor industry.

It permitted the incorporation of greater values in cars because the expanding production of the industry was in a large degree the result of this freedom to make the best in motor vehicles for an increasing number of citizens who entered the market as car prices went lower and lower.

Section 5. The Legislative Department, Automobile Manufacturers Association, Inc.

About the year 1918, a committee designated as the legislative committee was created by the National Automobile Chamber of Commerce, Inc. This committee was formed to meet and cope with problems of legislation which more and more were receiving the attention of Federal, State, and municipal law-making bodies.

Motor-vehicle conference committee.—In the early part of 1920, the effectiveness of the work of the legislative committee or department was increased by the uniting of its efforts with those of other national organizations identified with the automotive industry. Accordingly, a so-called motor vehicle conference committee was formed, composed of representatives of the following organizations:

National Automobile Chamber of Commerce (now Automobile Manufacturers Association, Inc.), National Automobile Dealers Association, Rubber Manufacturers Association, Motor and Equipment Association, and National Association of Motor Bus Operators.

For a number of years the functions of the motor-vehicle conference committee consisted mainly of the collection and dissemination of data regarding the introduction and progress of bills in State legislatures, the gathering of material having a bearing thereon, and the formulation of sound and equitable legislative policies and practices. As a means of disseminating information to lawmakers and the public in the various States, there was created in each State, so far as practicable, a counterpart of the motor-vehicle conference committee.

National Highway Users' Conference.—The motor-vehicle conference committee was terminated about the year 1933, but prior to the termination of its activities there was brought into being the so-called National Highway Users' Conference, the headquarters of which are located in Washington, D. C. This organization was formed for the following purposes:

1. The establishment of an equitable system of taxation, both with respect to the total cost levied and the distribution of the cost among the different groups involved.
2. Dedication of highway taxes solely to highway purposes.
3. Regulation to be such as to recognize, preserve, and promote the inherent advantages of highway transportation for both public and private use, on its own factual basis, irrespective of competitive methods.
4. Development of a continuing program of highway construction looking to the future, from the standpoint of both maintenance and use, based on economic needs and consistent with the ability to pay.

The officers and the advisory committee of the National Highway Users' Conference, as set forth in the conference publication of October 1937, are as follows:

OFFICERS

Chairman: Alfred P. Sloane, Jr., chairman of the board, General Motors Corporation.

Vice chairman: Thomas P. Henry, president, American Automobile Association.

Secretary-treasurer: L. J. Taber, master, the National Grange.

ADVISORY COMMITTEE

Axtell J. Byles, president, American Petroleum Institute.

Willard T. Chevalier, vice president, McGraw-Hill Publishing Co.

E. H. Everson, president, National Farmers' Union.

Arthur M. Hill, president, National Association of Motor Bus Operators.

R. J. O'Hare, chairman, transportation committee, International Association of Milk Dealers.

Emory Rice, American Bakers' Association.

Herbert P. Sheets, president, National Retailers Council.

A. L. Viles, president, Rubber Manufacturers Association, Inc.

William B. Warner, president, The National Publishers Association, Inc.
(And the three officers named above.)

Legislative department.—About the year 1935, the Automobile Manufacturers Association, Inc., revived the activities of the legislative department, and on or about January 1936, steps in this direction were taken. A report from this department concerning the activities of the legislative committee since the department was reorganized, reads as follows:

1. Predetermination by study and analysis of existing laws and bills introduced in recent sessions of State legislatures of a classified list of the subjects which directly or indirectly affect the component parts of the industry.
2. Gathering of facts relative to bill introductions, court decisions, committee reports, and rules and regulations of administrative bodies.
3. Drawing of conclusions and recommendations designed to supply members of the organization with a sound basis for adopting an attitude pro or con with reference to such matters.
4. Development in the various States of component elements of the various branches of the industry located therein for the purpose of presenting the facts and arguments relative to these subjects to the lawmakers of the public.
5. Acting for the purpose of coordinating, on both a State and National scale, the activities of National and State organizations identified with other members of the industry.

Activities.—The association publication, entitled "At Your Service," refers to the activities of the legislative committee or department, in part, as follows:

In cooperation with a number of other national organizations concerned with highway transportation, the association's legislative department—
Studies existing State motor-vehicle laws.
Analyzes motor-vehicle bills introduced in State legislatures.
Watches the progress of these bills in the legislatures.
Collects data having a bearing on such laws and bills.
Determines their consequence or probable consequence.
Aids in formulating policies pro or con with reference thereto.
In cases where actual or proposed State laws are of specific concern to motor-vehicle manufacturers, * * * the department acts directly and cooperates in the various States with the dealers' associations of those States.

A more comprehensive description of the activities of this department has been obtained from an examination of correspondence, bulletins, minutes of the committee, etc., and following are references to some of these data.

Harry Meixell, manager of the legislative department, in a report relative to the activities of the department during the year May 1, 1937, to June 30, 1938, stated in part as follows:

The activities of the Automobile Manufacturers Association as they have to do with Federal legislative matters are handled through our Washington office by Mr. Pyke Johnson.

Those who concern themselves with State legislation are cared for by our legislative department at New York headquarters, acting under guidance and instructions from the legislative committee (C. J. Jolly, General Motors, chairman; W. H. Brearley, Autocar; D. C. Fenner, Mack; R. P. Fohey, Chrysler; Milton Tibbetts, Packard).

Bulletin L. C. L. No. 4, dated July 29, 1936, contains a reference to a recommendation by the legislative contact officers that the legislative committee of the association should undertake the following activities:

(*a*) The predetermination of the subjects dealing with highway transportation and the motor vehicle which State lawmakers are likely to introduce in their legislatures for consideration and action.

(*b*) The development of ways and means whereby legislative contact officers may be kept completely, accurately, and promptly informed regarding the introduction and progress of bills involving a selected list of such subjects.

(*c*) The formation and adoption by Automobile Manufacturers Association of sound and equitable policies and practices which in their judgment should underlie State legislation on such a selected list of subjects.

(*d*) The obtaining in each State of individuals and organizations who understand and approve of the policies and practices of the Automobile Manufacturers Association on such subjects and will undertake to bring such policies and practices aggressively to the attention of the lawmakers and general public of their States.

An unsigned memorandum from the files of the legislative department, entitled "Memorandum for Mr. Carlos Jolly, chairman, legislative committee," dated July 15, 1936, reads, in part, as follows:

The 1935–36 cycle of State legislative sessions has seen the introduction of more than 10,000 bills, directly or indirectly affecting highway transportation in general, and the motor vehicle particularly. Hundreds of these have eventuated as laws.

The 1937–38 cycle will doubtless see a repetition of this great volume of introductions. The number of new enactments, and far more important, the character of these enactments, will depend largely upon the manner in which those who produce, distribute, exchange, and service motor vehicles, tires, parts, accessories, and supplies, and those who finance, insure, and use motor vehicles, handle the numerous and great problems presented.

This, in turn, will be dependent upon the intelligent, prompt, and aggressive leadership which the national and State organizations representing the highway transportation and motor-vehicle elements noted, supply in time for effective results. * * *

A letter from the secretary of the legislative department to Mr. Carlos J. Jolly, legal department, General Motors Corporation, dated December 22, 1936, reads, in part, as follows:

As you know, one of the fundamental policies of the Automobile Manufacturers Association is unqualified refusal to make money contributions to individuals or organizations for the purpose of bringing about or aiding in bringing about the defeat or enactment of any laws.

So far as the projected "6-percent trust interest bill" in the 1937 regular session of the North Dakota Legislature is concerned, it would seem that this is a matter of direct and serious concern to General Motors Acceptance Corporation, Commercial Investment Trust, Commercial Credit Corporation, and all of the other finance companies, who purchase motor-vehicle and other installment-sales contracts made in North Dakota.

Legislative Committee Bulletin No. 16, dated January 6, 1937, contains the following:

As occasion requires legislative contact, officers will be requested to ask their company's factory branches or other direct representatives in a State to bring to the attention of motor-vehicle industry and users' organizations of that State the viewpoint of Automobile Manufacturers Association—with sustaining data and arguments—relative to such serious matters as increased taxation, diversion, compulsory liability insurance, etc. It is therefore respectfully urged that you immediately select in each State where the lawmakers are scheduled to meet this year some properly qualified person identified with your company and resident in such State whom you can call upon for this purpose.

Alfred Reeves, vice president and general manager of the association, wrote the executive secretary of the North Carolina Automobile Dealers Association, Raleigh, N. C., on February 2, 1937, in part, as follows:

In cases of State laws or proposals for State laws, whose provisions specifically aim to regulate, restrict, or tax motor-vehicle manufacturers, we believe that we are obligated and have the privilege to protect the manufacturers' interests by presenting our views directly to the lawmakers and the public of the various States.

The situation, however, is entirely different regarding State laws or proposals for State laws which directly affect the motor-vehicle user or others, but indirectly concern motor-vehicle manufacturers.

In such cases the members of our association, drawn as they are from many different States and united in an organization having headquarters in New York, must refrain from advancing opinions or conducting activities in any particular State without specific invitation from lawmakers or others within that State.

While our policies and practices in the matter of State legislation indirectly affecting the interests of manufacturers will not permit our extending financial aid to organizations such as yours, nevertheless, at their request, qualified representatives from the staff of Automobile Manufacturers Association will go into such State to place at the disposal of interested parties whatever facts and conclusions we may have on important State legislative problems, and to deliberate and advise with them as to the most constructive means of solving such problems—as based upon our long and Nation-wide knowledge of and experience with such matters.

At a meeting of the sales managers committee of the Automobile Manufacturers Association, Inc., April 6, 1937, reference was made to a recommendation by the legislative committee that a reporting service be purchased by the Automobile Manufacturers Association, Inc., from the State dealer associations, to keep the manufacturers association informed of proposed legislation affecting the industry.

The files of the legislative department of the Automobile Manufacturers Association, Inc., contain bulletins to legislative contact officers of member manufacturers concerning pending State legislation relative to dealer contracts and other matters of moment to the manufacturers. Excerpts from some of these bulletins are as follows:

Legislative Bulletin No. 22, February 24, 1937, refers to Kansas House bill No. 318, which proposed State supervision and control over contracts between manufacturers and distributors. This bulletin contains the following recommendation:

It is suggested that you communicate with your direct contacts in Kansas with a view to ascertaining the interests that are sponsoring this bill, the demand there is for its enactment on the part of the public and their lawmakers, and the chances of its passage and approval.

Legislative Bulletin No. 30 of March 9, 1937, is with further reference to this measure and contains the following instruction:

It is imperative that you get into immediate contact with your Kansas distributors and others to whom you can point out the legal and economic defects which seem to be inherent in this proposal.

Harry Meixel, manager of the legislative department, in a memorandum to the legislative committee dated March 17, 1937, concerning Kansas House bill No. 318, referred to above, stated, in part, as follows:

* * * I am inclined to think that house bill No. 318 * * * will be found dead at adjournment * * *.

The swift, aggressive, and effective moves which the distributors, zone manager, and branch managers of the members of the Automobile Manufacturers Association and of the Ford Motor Car Co. in charge of the business activities of their companies in Kansas have made with their dealers throughout the State generally, have been well nigh 100 percent thorough and correct.

Without question, if all of the component elements of the motor-vehicle industry—that is, manufacturers of vehicles, tires, parts and accessories; distributors; dealers, finance companies, etc.—will predetermine between State legislative sessions the problems which they must cope with in State legislation; find the correct answer for these problems with supporting facts and arguments; coach their distributors, zone managers, and branch managers thereon, and through them win the support of State and local dealer associations, powerful media can be built up in any State for protecting the motor-vehicle industry in all its branches and ramifications from unfair and detrimental law and for securing those which are helpful and constructive.

Legislative Bulletin No. 24, dated February 25, 1937, pertained to Arkansas Senate bill No. 135, proposing State control and supervision over manufacturer-dealer contracts. The second paragraph of this bulletin reads as follows:

It is imperative that you get into immediate contact with your Arkansas distributors and others to whom you can point out the legal and economic defects which seem to be inherent in this bill.

Legislative Bulletin No. 43, dated April 12, 1937, pertains to Texas House bill No. 770, prohibiting manufacturer-dealer contracts which permit cancelation on the part of the manufacturer without giving 2 years' written notice. This bulletin contained a suggestion to legislative contact officers, as follows:

May we again suggest, as in Legislative Bulletin L-40, of April 5, 1937, that you urge your branch, zone, and division managers, as well as your distributors in Texas, to ask their dealers to point out to their legislators the serious economic and legal defects which seem inherent in this measure.

An interesting example of the legislative department activities was its action with reference to Maryland House bill No. 487 which was introduced March 16, 1937. This bill proposed that a new section be added to article 56 of the Annotated Code of Maryland, title "Licenses," subtitle "Motor vehicles," to further regulate the registration of manufacturers of and distributors and dealers in new motor vehicles. The third paragraph of section 1 of this measure reads as follows:

If any such contract so filed as aforesaid (1) permits the cancelation thereof by one of the parties thereto without the consent of the other party thereto, or (2) permits one of the parties thereto to appoint additional distributors or dealers who would be engaged in competition with the other party to such contract, without the consent of such other party, such Commissioner shall refuse to register all such parties under such contract.

On March 25, 1937, Bulletin No. L-37, which reads as follows, was sent to legislative contact officers:

1. State supervision and control of manufacturer-dealer contracts is proposed by Maryland House bill No. 487, introduced on March 16, 1937, by Assemblyman Marbury.

2. A similar bill has been introduced in Wisconsin, namely, Senate bill No. 206.

3. In connection with the Maryland bill it should be noted that this measure differs from other proposals of its type in that no contract could be filed which "(1) permits the cancelation thereof by one of the parties thereto without the consent of the other party thereto, or (2) permits one of the parties thereto to appoint additional distributors or dealers who would be engaged in competition with the other party to such contract, without the consent of such other party * * *."

4. A copy of this bill, which is pending in the judiciary committee as of the above date, is attached herewith. Upon receipt of the text of the Wisconsin bill a bulletin will be issued thereon.

5. With respect to both of these bills we strongly urge that you advise your branch, zone, and division managers, as well as your distributors in these States, to ask their dealers therein to point out to their legislators the serious social, economic, and legal defects which seem inherent in these bills, and where possible and desirable, to contact the lawmakers themselves.

On April 14, 1937, Bulletin No. L-45 was issued. This bulletin reads as follows:

To Legislative Contact Officers:

1. With passage of Maryland House bill 487 by both branches of the Maryland Legislature at adjournment, Tuesday, April 6, 1937, a telegram was sent by Chairman Jolly [13] to Governor Nice of that State expressing the opinion that the

[13] C. J. Jolly, of General Motors Corporation.

bill was defective in law and economics and that its approval might have detrimental implications and consequences to motor-vehicle dealers and manufacturers. He suggested that if Governor Nice, after carefully examining the bill, concurred in these views he might deem it advisable to veto the measure. (Please see Legislative Bulletins L–37, March 25, 1937; L–40, April 5, 1937; and L–42, April 9, 1937.)

2. In response to this telegram Governor Nice promptly and courteously granted the secretary of your legislative committee a hearing in the Governor's offices in Annapolis, Md., Monday, April 12, 1937, during which all of the bill's provisions and the possible results of its enactment as law were carefully and thoroughly examined.

3. At the conclusion of the conference, Governor Nice stated that he would be inclined to base his decision as to the veto or approval of the bill on the outcome of a referendum on the subject to be held by all of the dealers of Maryland, under the auspices of and at the headquarters of the Automobile Trade Association of Maryland on Thursday, April 15, 1937.

4. Attached hereto you will find the notice of this meeting and referendum which was mailed Monday, April 12, 1937, to every one of the 500 or more motor-vehicle dealers in the State of Maryland.

5. We will advise you promptly regarding the outcome of this meeting and the Governor's action in the matter.

AUTOMOBILE MANUFACTURERS ASSOCIATION,
HARRY MEIXELL,
Secretary, Legislative Committee.

This measure, which was passed by both Houses of the Maryland Legislature, was vetoed by the Governor. The second paragraph on page 1379 of the Regular and Special Sessions Laws of Maryland for 1937, which is preceded by the caption:

Vetoes: Bills passed by the legislature of 1937 and vetoed by Governor Nice and his reasons in each case for the same.

reads as follows:

Chapter 429, House bill 487, makes further regulations relative to the registration of manufacturers of and distributors and dealers in new motor vehicles. The attorney general has advised me that this bill is unconstitutional and I have, therefore, vetoed it.

On June 8, 1938, Harry Meixell, manager of the legislative committee, wrote a letter or memorandum to Mr. Reeves, vice president and general manager of the Automobile Manufacturers Association, Inc., in which reference was made to the Miller-Tydings Act. In this letter or memorandum Mr. Meixell states, in part, as follows:

In 43 States, all except Alabama, Delaware, Missouri, Texas, and Vermont, it is not illegal for a manufacturer of a commodity to stipulate in his contracts with dealers therein the minimum price at which such commodity shall be sold at retail.

In view of the contention of many motor vehicle dealers that the general welfare of the motor-vehicle industry and trade would be greatly benefited if manufacturers were to prescribe minimum resale prices for their products in their contracts with dealers, it is essential and timely that the possible application of the principles and practices involved be carefully examined in their relationship to the problems presented by the majority of retail sales of new cars—namely, those which involve part payment by something else besides cash—that is a used car.

Mr. Meixell then discussed the possibility of maintaining the retail sale price if part of the price consists of a used motor vehicle and he stated that it is hardly possible that Federal and State laws will be passed setting up and enforcing schedules of values for used motor vehicles used as part payment for new automobiles.

One of the functions of the legislative department is to inform legislative contact officers concerning laws which have a direct bearing on the construction of motor vehicles. For instance, Legislative

Bulletin No. 69 of August 4, 1937, pertains to a law passed in California, effective January 1, 1939, which prohibits the sale in that State of automobiles equipped with radiator caps or ornaments which extend or protrude to the front of the face of the radiator grill of the motor vehicle. Legislative Bulletin 89, dated January 8, 1938, refers to the equipping of new cars, for sale in the District of Columbia, with windshield wipers capable of wiping the left and right sides of windshields.

On November 23, 1937, Harry Meixell, manager of the legislative department, wrote R. P. Pohey, secretary, Chrysler Corporation, in part as follows:

> * * * I am coming more and more to the conclusion that if the motor-vehicle industry and the various phases thereof actively engaged in business enterprises in these various States are to have regulatory legislation, it should be legislation of their own making.
>
> Wherever I have gone in recent weeks, I have found increasing widespread and insistent demands for licensing laws patterned after the Wisconsin measure, and those making these demands are confident that they have the necessary legislative power in their State capitols to obtain the enactment of such measures.
>
> Consequently, might it not be wise for us to anticipate and prevent "half-baked" legislation along these lines in many of the States by setting up suggestions for the principles and practices that should underlie any State enactments along lines noted as well as suggested text for the laws' provisions designed to give expression to such principles and practices.
>
> If you feel that there is any merit in this thought I believe the subject should be reviewed at the next meeting of the legislative contact officers which should be held in Detroit some time the early part of next month.

Illustrative of the research work conducted by the legislative department is an analysis of dealer licensing laws of Wisconsin, Ohio, Nebraska, and Iowa, which were in force November 15, 1938. In this analysis the salient features of the laws of these four States are described in a tabular presentation from which a comparison may be made of the various dealer licensing laws of these States.

Motor vehicle industry conference.—On June 3, 1938, Alfred Reeves, vice president and general manager of the Automobile Manufacturers Association, Inc., prepared a letter to national associations whose members are interested in the automobile manufacturing industry, in which it was suggested that a conference of these industry associations on common legislative problems be held in September 1938. In this letter, reference was made to:

> A chart visualizing 50 or more national associations, whose members are engaged wholly or partially and directly or indirectly in every phase of the motor vehicle industry * * *.

This chart, which was prepared by the legislative department of the association to serve as a starting point for bringing about coordination in dealing with legislative problems of common interest and concern, lists manufacturers or producers of raw and processed materials, parts, and accessories, complete vehicles, operating supplies and highway materials, as well as transporters, dealers, financers, insurers, and servicers. The commodities handled by the members of these associations consist of iron, steel, glass, rubber, gasoline, oil, cement, etc.

Excerpts from the letter referred to above are as follows:

> September is selected because it will give those attending the conference ample opportunity, if they so determine, to act in advance of 1939 when, during the first half of the year, the legislatures of 44 States will go into regular session and

consider and pass upon many bills of general or specific concern and of direct or indirect consequence to each and every branch of the motor-vehicle industry.

Without question they will introduce many bills and enact laws on such general topics as antitrust; antidiscrimination (Little Robinson-Patman Acts); resale price maintenance; prohibition on sales below cost; general or specific licensing of business, and similar matters, while at the same time considering and acting upon such proposals of importance to some or all of the branches of the industry as increased taxes; compulsory liability insurance; periodic inspections; mandatory equipment; etc.

How do you feel about the holding of such a conference? Will you attend if it is called, bringing with you the chairman of your legislative committee and those in charge of legislative activities of your association?

The initial meeting of the motor vehicle industries conference was held September 27, 1938, and an organization committee was designated. On October 7, 1938, the organization committee held a meeting and adopted the following recommendations:

Pursuant to the resolution adopted at the initial meeting of the motor-vehicle industries conference, held in New York, N. Y., September 27, 1938, the special committee created to recommend the administrative mechanism necessary to realize the objectives of the conference held a meeting in New York, N. Y., October 7, 1938.

Four of the five members of the committee were present and unanimously arrived at the following decisions:

1. That, a basic committee be created from duly accredited representatives appointed by the following national trade associations directly and immediately concerned in the production, financing, and sale of motor vehicles, tires, parts, and accessories:

American Finance Conference.
Automobile Manufacturers Association.
Automotive Parts & Equipment Manufacturers, Inc.
Motor & Equipment Manufacturers Association.
Motor & Equipment Wholesalers Association.
National Association of Sales Finance Companies.
National Automobile Dealers Association.
National Standard Parts Association.
Rubber Manufacturers Association.

2. That, for the purpose of gathering facts and evaluating State laws or bills directly affecting the particular interests of branches of the motor-vehicle industry other than those noted in decision No. 1, the basic committee therein established request the trade association or associations representing the members of that branch of the industry to appoint an individual or a committee to consult with the basic committee.

3. For the purpose of gathering facts and evaluating broad, general State laws, or bills applicable to all industries, trades, and businesses generally, and involving such subjects as antitrust, resale-price maintenance, labor relations, selling below cost, etc., the basic committee shall call into conference from time to time the representatives of all national trade associations identified with the motor-vehicle industry.

4. That, it was the opinion of the committee that the headquarters of the motor-vehicle industries conference should be in the offices of Automobile Manufacturers Association and its activities be under the direction of a chairman, vice chairman, and other officers to be chosen by and from the duly accredited delegates comprising the basic committee.

The executive officers of the organization noted in decision No. 1 have been requested to appoint delegates and alternates to serve as the basic committee of the motor-vehicle industries conference.

Section 6. Public Relations Committee

The public relations committee is one of the more recently formed committees of the Automobile Manufacturers Association, Inc., as it was created during the early part of the year 1938. Bulletin No. 1 of this committee, which bulletin was issued April 21, 1938, refers to an expanded program of public-relations activity undertaken by the

Automobile Manufacturers Association, Inc., and to general suggestions adopted by the committee for the guidance of the program. These general suggestions, which include outlines of policy, allocation of functions as between the association and member companies, and specific objectives, are set forth in Public Relations Bulletin No. 1, and memoranda accompanying this bulletin and in part read as follows:

* * * making known to all elements of the population the extent of their group or individual stakes in the operations of the industry; and * * * the facts concerning its operations.

The industry undertakes to report on what is being done:

In the design, production, and distribution of better and safer vehicles at the lowest economic prices.

On rendering adequate living conditions to factory labor in its own and related plants.

On affording a reasonable opportunity for profitable and secure operation of capital and men involved in supply, distribution, and servicing of its products.

On keeping open a market for the supply of used vehicles, in economical and safe operating condition, to the millions who require individual transportation at minimum cost.

On the needs of motor transportation for opportunity, and for freedom from artificial restriction and imposts, or obstacles in the way of rendering the maximum of service.

* * * the industry pledges its support to its customers—the general public and the component user groups—in their search for maximum utilization of motor service.

Among specific objectives for the immediate future, the following appeared under the caption "Dealer questions":

(*a*) To develop an understanding that panaceas do not replace sound merchandising as a means to dealer profits.

(*b*) To establish the fact that destruction of used cars in junkable condition is a matter of safety law, but that junking to create economic scarcity is a device of limited value.

(*c*) To fix the concept—in the industry as well as out—that the used car is a major commodity in trade, and a fundamental asset to the creation of automotive and general prosperity.

Also among objectives for the immediate future, the following appeared, in part, under the heading "Consumer or general-public questions":

(*a*) To develop the fact that in the automotive market the user comes first; that the industry systematically works to attract him not only by improving usability of the product but by such means as:

(A) Development of the cheapest available financing credit;

(B) Payment for improvements in product out of economies rather than higher prices;

(C) Elimination of opportunities for waste and cost-packing in distribution;

(D) Broaden use of patents;

(E) Constant improvement of design in interest of safety and comfort.

(*b*) To emphasize constantly the importance of the industry to the economic fabric of the Nation; in employment, in service, in return to the investor—not only directly but through the entire related business fabric.

In the minutes of the second public relations committee meeting held May 10, 1938, at New York City, reference is made to the investigation of the automobile industry by the Federal Trade Commission. This reference reads as follows:

The suggestion was made that the committee should recommend a meeting of the board of directors as soon as possible with a view to considering the position of the association in reference to the forthcoming investigation of the automobile industry by the Federal Trade Commission, with particular reference to the question of employing suitable counsel and organizing association preparation of material to be presented to the Commission. No final action was taken.

One of the functions of the committee is the preparation of a publication entitled "Automobile Facts" and it was planned that this publication be issued on a monthly basis. The estimated initial circulation was 15,000 and extra copies were to be sold to members at cost. Material in this publication is to be limited to factual data, subject to human-interest treatment, and opinion and argument are to be excluded and controversy avoided. With the exception of pictures of technical data from within plants, reports by authoritative agencies of Government or other outside sources are to be given preference. Articles by members of the staff of the Automobile Manufacturers Association, Inc., are to round out these data and articles signed by technical men of the industry would be desirable contributions as long as they do not travel into opinions or result in the prejudicial treatment of controversial matter. The first issue of Automotive Facts was in June 1938.

The magnitude of the activities of this committee is indicated by a memorandum dated April 26, 1938, which pertains to mailing lists for public-relations material. This memorandum refers to mailing lists by groups and indicates the number on each list. Following is a tabulation of the groups and the number for each group:

Press	3, 768
Automobile manufacturers	621
Automotive retailers	48, 165
Organizations	3, 107
Governmental	1, 032
Banks and financial institutions	28, 624
Leaders of public opinion	444
Miscellaneous	238
Total	85, 999

The automotive retailers group includes 46,000 automobile dealers, which is the greatest single item, and 1,983 automobile finance companies. The banks and financial institutions group includes 12,205 stock and bond investment houses.

The memorandum indicates where lists which are not already in the department may be obtained. The dealer list, for example, was referred to as obtainable from Chilton Co., Philadelphia.

Section 7. Export Department

Activities.—As set forth in the Automobile Manufacturers Association, Inc., publication entitled "At Your Service," it is the responsibility of the export committee or department to develop and expand the markets for motor vehicles in all countries outside the United States.

To this end the export department sends representatives to foreign countries on lecture tours and to confer with government officials, automobile dealers and others on methods for increasing the use of the highways. The department endeavors to promote the increased purchase of motor vehicles in foreign countries; serves as a liaison agency between the industry and governmental departments concerned with various phases of foreign trade; cooperates with other national organizations in the export field on matters of common interest; assists foreign visitors to the United States in obtaining information concerning the industry, highway construction, traffic

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control, and other related subjects; works for the development of more efficient and economical transportation for the handling of export shipments; aids in developing methods for the collection of statistical data regarding overseas markets for motor vehicles; and organizes world motor transport congresses which provide for consideration of subjects that have interest to delegates connected with the many ramifications of automobile transportation in all parts of the world in order to make sound experience in these matters available.

This department maintains close contact with various governmental departments, particularly with the Department of State and the Bureau of Foreign and Domestic Commerce of the Department of Commerce, and it is claimed that the Automobile Manufacturers Association, Inc., has a considerable influence in the formation of export policies due to the magnitude of the industry.

One of the more important functions or interests of the export department is the obtaining of reductions in foreign duties on automobile parts and accessories. With this end in view, the department has been very active in its efforts to aid in the consummation of reciprocal-trade agreements, which activities are discussed later on in this section.

As stated above, representatives of the export department visit foreign countries and confer with officials, dealers, and others, and following are excerpts from an association letter of September 8, 1937, to export managers of member manufacturers concerning a report received from George F. Bauer, manager of the export department, who had reported from Helsingfors, Finland:

> Here there are no exchange restrictions, quotas, clearing agreements, or excessive duties.
>
> The distributors represented in the Finnish Automobile Dealers Association, which arranged a conference-luncheon on my behalf, are extremely contented. In fact, the automotive trade stands generally in very high regard.

On September 10, 1937, the export department sent a letter to export managers, which in part reads as follows:

> The following observations of Mr. George F. Bauer on automotive trade in Norway will be of interest to you:
>
> After visits to Finland and Sweden—the two freer trade countries—I am again in a country like Norway that likes freer trade but is subjected to outside pressures. The automotive trade is consequently under a quota system.
>
> The association [14]—like ours—has opposed the quota system in its entirety. As long as it continues, the Americans will require a better ratio than they have been given up to now.
>
> In values of the total, we fare well because our cars are of a better type; in number of imports, the smaller European cars have been improving; used-car imports seem also to thrive. These conditions are mostly traceable to the quota system which tends toward unbalance in price and availability of better type of automobiles.

One of the objectives of the export department is to assist manufacturers in the matter of producing cars which will comply with the laws of different countries. For instance, on June 9, 1938, a report was sent to export managers of member manufacturers with reference to a road traffic enactment in Singapore, which required that—

> Every motorcar shall be equipped with an efficient braking system or efficient braking systems in either case having two means of operation so designed and constructed that notwithstanding the failure of any part * * * there shall still be available for application by the driver to not less than half the number of

[14] Norwegian Automobile Dealers Association.

the wheels of the vehicle brakes sufficient under the most adverse conditions to bring the vehicle to rest within a reasonable distance.

With reference to the activities of representatives of the export department, the minutes of the export managers' meeting of June 15, 1938, read in part as follows:

* * * the members present expressed the hope that, as in the past, there would continue to be proper representation at Washington of the industry's position on exports, with the recommendation that Mr. George F. Bauer, beginning September 1, plan to devote additional time to this phase of the association's export work, working with Mr. Pyke Johnson and the Washington office.

At this meeting:

It was suggested that the activities of field men in the different territories abroad and later distributors handling American motor vehicles be coordinated with the export committee in such a way that policies once agreed upon here may be stressed by American representatives in the areas in which they are situated.

Also at this meeting it was agreed that the policy of the industry with reference to automotive aspects of the trade-agreements program be as follows:

The automobile industry will urge the State Department to seek maximum duty concessions on complete motor vehicles in every trade agreement negotiated.

The industry will also urge the State Department to insure in their negotiations that any percentage duty preference on C K D vehicles is not increased.

This department also is interested in ocean-freight rates and at the committee meeting of June 15, 1938, referred to above, the members expressed great interest in resumption of work which will make for lowering of freight rates. All felt that the export-rate committee had formerly done an excellent job in holding these freight charges at a proper level and that its work should be resumed. It was agreed that steps should be taken through the export committee to decide on a basis which will be equitable and which will permit resumption of contacts with the steamship conferences witn regard to freight rates on behalf of the industry as a whole.

Foreign quotas.—Most automobile-importing countries place a definite limit on the number of cars of foreign make which may be admitted annually. For instance, in 1938, under the Czechoslovakia quota, 1,600 cars of American manufacture were admissible. This quota was divided on the basis of previous years' shipments, and the manager of the export department of the Automobile Manufacturers Association, Inc., stated that the association takes no part in allocating quotas among manufacturers in this country as to do so would be the ruination of the association.

On April 15, 1938, George F. Bauer wrote the Willys Export Corporation, in part, as follows:

According to the official statement received from the Department of State, the quota of automobiles that may be imported from the United States into Czechoslovakia, and to which you refer in your letter of April 13, is listed at 1,600 units and not 1,600 metric tons.

It may interest you to know that our association as such has never consented to supervise the distribution of actual import permits but has preferred to leave this to each individual dealer and his contacts with the foreign government.

The export department sends information bulletins to the export managers of member manufacturers. For example, Bulletin No. E-460, issued July 26, 1937, referred to the increase in the Chilean automobile quota, and stated that under this quota the permissible shipments of passenger cars were divided among exporting countries as follows:

United States	1,330	France	55
Germany	166	Others	55

Reciprocal trade agreements.—The export department is interested in obtaining reductions in foreign duties on automobiles, and with this in view has been very active in its efforts to aid in the consummation of reciprocal trade agreements.

On October 3, 1935, the manager of the department wrote the export managers of member manufacturers in part as follows:

> The export committee believes it advisable to secure from your dealers and distributors located in countries with which trade agreements have not been consummated, latest data on tariffs, duties, and other trade barriers hindering the sale of American motor vehicles abroad.
>
> It is also proposed to use this information in familiarizing the State Department with any obstacles that may develop in countries with which no reciprocal agreements are in immediate prospect.

On March 20, 1936, the manager of the export department sent a communication to certain committee members which in part reads as follows:

> Attached is a suggested statement pertaining to the reciprocal trade program and which might be used as basis for a plank for consideration by both the Republican and Democratic Parties at their coming conventions.

The statement referred to reads in part as follows:

> The policy of negotiating trade agreements with other nations in accordance with the Reciprocal Trade Act now in effect is contributing to economic improvement in the United States by bettering conditions in both our domestic and export trade.

The statement then sets forth various benefits of the policy.

The first paragraph of a release to morning papers of May 25, 1936, from the Automobile Manufacturers Association, Inc., entitled "Automobile Manufacturers Association Requests Republican Support for Trade Agreements," reads as follows:

> In order that the tariff issue may take its place as a nonpartisan economic question, delegates to the Republican National Convention were requested today in a statement signed by Alvan Macauley, president of the Automobile Manufacturers Association, to write into the platform of that party a plank approving the principles of reciprocal trade agreements with foreign countries. The Democratic Party already is on record.

Apparently the efforts of the export department in behalf of reciprocal trade extend to the lawmakers themselves, as the files of the department contain a copy of a letter dated September 23, 1936, which reads:

> My Dear Senator: The attached booklet, entitled "Foreign Trade and Domestic Welfare," is sent to you with compliments of the export committee, Automobile Manufacturers Association.
>
> Step by step, the booklet graphically outlines the basic elements underlying the choice between a liberal interchange of goods between the United States with the rest of the world and economic isolation.
>
> It tends to bring out some of the reasons for a policy such as the reciprocal trade program, which was felt by our organization to be effective in restoring our international commerce.
>
> It is sincerely hoped that this graphic presentation showing the advantages of overseas commerce from both domestic and export angles may be helpful to all who like yourself are definitely interested in seeing a sound solution provided for our problem of trade between our country and other nations.
>
> Sincerely yours,
>
> Automobile Manufacturers Association,
> George F. Bauer, *Manager, Export Department.*

Similar letters were sent to Members of the United States House of Representatives, as a copy of an apparently identical letter, dated September 24, 1936, was addressed to "My Dear Representative."

On January 27, 1937, Bulletin No. E-449 was sent to export managers. In this bulletin, reference was made to a proposed agreement with Ecuador. Following are some of the recommendations of the committee:

> Present duties on passenger cars be reduced to a rate not exceeding 20 percent.
>
> As Ecuador is not a manufacturing country, there appears to be little justification for the existing rate of 45 percent on passenger cars.
>
> Present duties on busses be reduced to a rate not exceeding 15 percent.
>
> For the same reason as advanced with regard to passenger-car duties, it is felt that the duty rate of 35 percent on busses is too high.
>
> Elimination of import permit system.
>
> Reduction in the 6½-percent ad valorem consular fee for invoice services.
>
> Elimination of control over distribution and sale of gasoline.

Bulletin E-474, of April 7, 1938, to export managers, entitled "Directors Discuss Pending Negotiations With United Kingdom," reads in part as follows:

> *Resolved*, That the board of directors of the Automobile Manufacturers Association request the Department of State in the pending negotiations with the United Kingdom and the British Colonial Empire, to urge that:
>
> 1. Duties on cars, trucks, and parts to the countries included in these negotiations do not exceed 25 percent ad valorem.
> 2. Duties on cars, trucks, and parts of Empire production to the same countries shall not be less than four-fifths of the duties applied on similar articles of American origin.
> 3. No discrimination through internal taxation be made against American products.

National Committee for Reciprocal Trade.—The export department of the Automobile Manufacturers Association, Inc., through its manager, George F. Bauer, works through and with outside organizations interested in foreign trade. One of these organizations is the National Committee for Reciprocal Trade.

The national chairman and national secretary of the National Committee for Reciprocal Trade, were, respectively, George F. Bauer and Henry M. Halsted, Jr., as evidenced by a letter from the national secretary, dated March 10, 1936, to the National Industrial Conference Board, Inc., New York City, which contains certain information concerning this committee.

This letter reads, in part, as follows:

> The committee has no constitution or bylaws.
>
> The National Committee for Reciprocal Trade consists of a large body of citizens of the United States. * * * This membership is scattered throughout the entire country, and is entirely too voluminous to warrant the preparation of a membership list.
>
> The chairman of the national committee is Mr. George F. Bauer, and the secretary is the writer, H. M. Halsted, Jr. The national office is located at 330 West Forty-Second Street, New York City.
>
> Because the members of the national committee are individual citizens rather than companies or organizations, the committee does not have any elaborate form of organization; however, in varying degrees there are organizations in some of the different States. As I have said, these State organizations differ somewhat in their make-up and, as a result, it is difficult to give an outline of their set-up without going into a great deal of consideration.

A letter from H. M. Halsted, Jr., national secretary, dated February 25, 1936, a copy of which was prepared for Mr. Bauer, is illustrative of the work of the National Committee for Reciprocal Trade. The first two paragraphs of this letter read as follows:

Mr. Bauer has very kindly told me of your interest in the work of the National Committee for Reciprocal Trade. You, of course, are fully aware that there is a great deal of opposition to the marvelous work that Secretary Hull is doing in connection with reciprocal trade arrangements with foreign countries. Fortunately, the opposition comes from a numerically small group, but, unfortunately, this group is very powerful.

The National Committee for Reciprocal Trade is doing everything within its power to counteract the activities of the opponents and, at the same time, familiarize the Members of Congress and the citizens of the United States with the real import of foreign two-way trade, and its actual value to each and every citizen of this country.

On February 27, 1936, H. M. Halsted, Jr., wrote the business manager of the Charlotte Chamber of Commerce, in part, as follows:

For the past several months we have been creating a Nation-wide organization, headed up by the national committee. In addition to the national committee, our ultimate goal is to have a State organization in every State. The State organization is to consist of a State chairman, State secretary, and, wherever advisable, a congressional district chairman in each congressional district in each State. Although several States have been organized on this basis, to date we have been unable to create a State organization in North Carolina. * * * I am taking the liberty of writing you in the hope that you can suggest one or more people that might consider the State chairmanship.

The files of the export committee contain a report dated March 5, 1936, entitled "Activities of the National Committee for Reciprocal Trade." Section 5 of this report is entitled "Finances," and reads as follows:

The national committee for reciprocal trade at the present time is financed in the following manner:

The Automobile Manufacturers Association donate a part of Mr. George F. Bauer's time in order that he can serve as national chairman. They also are furnishing the stamps and addressed envelopes for the large mailings of literature which the national committee makes. They have paid the printing bill for some of the pamphlets. Finally, the Automobile Manufacturers Association has absorbed many small charges for such items as telephone calls, messengers, etc.

The balance of the expenses of the national committee is borne by the General Motors Export Division. This contribution includes the salary of the national secretary, his office rent, his secretary, and the expenses of his office, such as stationery, stamps, etc.

The national committee, in handling its daily work and in formulating future plans, naturally governs itself according to its resources.

Economic Policy Committee.—A communication from W. W. Waymack, chairman, Economic Policy Committee, of March 1, 1938, is to the effect that this committee was publicly announced about January 1, 1938, and its charter position is that of an objective educational institution, seeking through research and education to present the facts about the trade program of the Secretary of the United States State Department. In this communication reference is made to the financing of the committee as follows:

The economic policy committee is not being maintained by any "princes of privilege." We have received, so far, voluntary contributions totaling $6,600, in sums ranging from $2,500 to $100. We have additional valid promises of about $25,000, conditioned upon adequate support coming from other sources. A reasonable estimate of conservative total budget needs for effective operation over a period long enough to be important is $100,000, perhaps slightly more.

The committee does not have—and, I assume, does not want—the support of any public funds, though it affirms its belief in a State Department program, that of trade agreements as a facilitator of prosperity and peace.

The cause is a magnificent one. It includes the cause of maintaining social liberty and economic freedom in the largest possible degree in America.

One of the imperative needs of the committee is enlarged financial support. It is important for us to procure a substantial number of contributors as well as an adequate total amount. As members of this committee, you can assist materially in this matter not only through your personal contributions, but also by inviting friends to contribute, or by sending us the names of persons with whom we may communicate. A contribution of any amount will be of value to the committee as tangible evidence of moral support from a substantial number of persons. Checks should be mailed to G. S. Nollen, treasurer, economic policy committee, 415 Fleming Building, Des Moines, Iowa.

Under date of January 17, 1938, the Automobile Manufacturers Association, Inc., issued a special bulletin entitled "Directors Recommend Consideration by the Membership of a $25,000 Contribution From Association Funds to the Committee on Economic Policy." In part this special bulletin reads as follows:

1. Your directors, at their meeting January 5, have voted to recommend contribution by the association of $25,000 to the new committee on economic policy which is being formed to create a better understanding of the need of international commerce and of a policy as embodied in the trade-agreements program.

2. Robert C. Graham for the export committee presented the subject to the board.

3. The contribution is toward a budget of $150,000 for the first year, with other contributions to be sought from Carnegie Endowment, Ford Motor, various banks, farm associations, business machine industry, and others.

4. The Economic Policy Committee was organized by a group of industrialists, agriculturists, educators, editors, and economists interested in foreign trade from the standpoint of domestic welfare.

7. This committee will study the relationship of the United States to world economy and make public its findings.

8. A vote by the representative members is necessary before this proposed support for educational work which it is believed will be of constructive benefit not alone to the automobile industry but to industry generally, can be endorsed and given financial support by the association.

On February 4, 1938, the vice president and general manager of the Automobile Manufacturers Association, Inc., wrote to Gerald Nollen, president of the Bankers Life Insurance Co., Des Moines, Iowa, with reference to financial support for the Committee on Economic Policy in part as follows:

I take pleasure in informing you that the board of directors of the Automobile Manufacturers Association has approved a contribution to the work of the Economic Policy Committee in the amount of $25,000, the funds in question to be made available to the committee as, in our discretion, contributions from other sources in support of the work in which we are all interested, are committed for and paid in.

I believe you will understand that a new venture of this sort, no matter how enthusiastically we endorse it, must be supported in fair proportion by the interests throughout the country which are destined to benefit from it, and that it is undesirable, in the circumstances, for the automobile industry to carry the burden, even at the beginning, without this more generalized support.

However, in order to enable the activity to be put under way effectively, and at an earlier time than otherwise might be possible, I am enclosing our check in the amount of $2,500, with the understanding that subsequent payments up to the total amount of $25,000 authorized for the year will be forthcoming only upon receipt of assurances from you that the diversification referred to previously, up to the raising of funds totaling the budget of $125,000 being sought have been received.

Section 8. Safety Traffic Committee and Automotive Safety Foundation

As may be implied by its name, the safety traffic committee or department primarily is concerned with safety on the highways. Under highway safety policies recommended by this committee, the industry is pledged to continue cooperation with public officials in their efforts to curb accidents. This committee or department aids cooperating organizations in carrying out their projects; it meets with organizations of highway officials, motor vehicle administrators, police chiefs, educators, and other public bodies for interchange of information and developments bearing upon safety; and it keeps the industry informed concerning safety developments in the automotive field. It enlists the support of industry in behalf of sound safety programs and acts as a clearing house for automotive safety activities.

The entire automobile industry, including tire manufacturers and finance and discount companies, has joined in underwriting the cost of a series of projects which have been initiated and are being administered under the control and direction of a number of national organizations, with the active interest and participation of other official and private agencies. Among the projects which have been undertaken or expanded by these organizations are traffic officer training and assistance in the organization of police accident prevention bureaus; conduct of street traffic research projects and the training of men in the professional field of traffic control; and assistance to State and local groups in the organization of safety programs.[15]

Automotive Safety Foundation, Inc.—About the beginning of the year 1936 the activities of the safety traffic department apparently were merged into a safety program undertaken cooperatively by members of the automobile, oil, tire, and finance industries. On December 18, 1935, Alfred Reeves, vice president of the Automobile Manufacturers Association, Inc., wrote the presidents of member manufacturers as follows:

1. At their meeting on Wednesday, December 11, our directors unanimously approved a proposed safety program and budget to be undertaken cooperatively by members of the automobile, oil, tire, and finance industries.

2. The plan contemplates a total expenditure on safety projects of $299,250, of which $54,250 has already been given as a grant to Harvard University from the association's funds by the unanimous vote of our members.

3. Under this plan, in addition to the association's grant to the Harvard Bureau, the automobile manufacturers (including Ford) would contribute $145,000 allocated on the basis of their production. In addition, the American Petroleum Institute would contribute $50,000 to the program, and there would be contributions of $25,000 each from the National Association of Sales Finance Companies and the Rubber Manufacturers Association.

4. Members of our board are now conferring with representatives of these other industries. You will be duly advised of the results.

5. The growth of highway accidents is resulting in so much threatened legislation by well-meaning but not always well-informed lawmakers that the need for expansion of safety activities is imperative.

6. In setting up a program for the expenditure of the funds to be collected under the plan, it is the judgment of the directors that the most practical procedure that could be followed would be to divide such funds among existing large national organizations which have already demonstrated their ability to do effective work in the promotion of safety.

7. Consequently, after careful study it was decided that the funds should be allocated among such organizations as the National Safety Council, American Automobile Association, General Federation of Women's Clubs, International Association of Police Chiefs, Congress of Parents and Teachers, National Grange, the American Legion, and the highway education board.

8. All of these will be recognized as fully accredited organizations whose ability to produce results in their promotion of various phases of safety has been limited only by the amount of funds at their disposal.

9. We find in our studies no single answer to the problem. Involved in it are the law enforcement, creation of more adequate highway facilities, accident research, and education of drivers and pedestrians alike.

[15] From Automobile Manufacturers Association, Inc., publication entitled "At Your Service."

10. Members will be kept advised as to all developments in connection with this program.

Bulletin No. G–1779, issued by the Automobile Manufacturers Association, Inc., January 20, 1936, refers to an expanded safety educational program. This bulletin is to the effect that the entire automotive industry, without exception, is participating in underwriting the cost of safety educational activities.

On June 2, 1937, the Automotive Safety Foundation, Inc., was organized. The purposes for which the foundation was formed, as shown by the certificate of incorporation, in part, are as follows:

To foster the general welfare and to promote the mutual interests of the public and the automotive industries by encouraging the safe and efficient use of streets and highways; by stimulating research into the causes of street and highway accidents; and by disseminating information on the safe use of motor vehicles, on effective methods of preventing accidents, on ways and means of relieving congestion and facilitating traffic with safety, and on other matters affecting the motor vehicle and its use.

To apply for, acquire, hold, use, grant license in respect of or otherwise dispose of copyrights and letters patent of the United States or other countries relating to or useful in connection with any operations of this corporation in the furtherance of its purposes hereinbefore set forth.

The officers of the foundation as set forth in a publication entitled "Automotive Safety Foundation, Organized June 2, 1937," were as follows:

Paul G. Hoffman, president (president, the Studebaker Corporation).
C. C. Carlton, vice president (president, Automotive Parts & Equipment Manufacturers).
F. B. Davis, Jr., vice president (president, United States Rubber Co.).
A. O. Dietz, vice president (president, Commercial Investment Trust, Inc.).
Byron C. Foy, secretary-treasurer (president, DeSoto Motor Corporation).
Alfred Reeves, assistant treasurer (vice president and general manager, Automobile Manufacturers Association).
Norman Damon, director.

The trustees consist of officials of members of the Automobile Manufacturers Association, the Rubber Manufacturers Association, and the Automotive Parts & Equipment Manufacturers, and of officials of finance and discount companies.

The activities of the foundation are financed through voluntary contributions from automobile, bus, and truck manufacturers; parts and accessory manufacturers; rubber-tire manufacturers; and finance and discount companies.

The budget of the Automobile Manufacturers Association, Inc., for the year ended May 31, 1938, contains an appendix entitled "Safety Fund Receipts and Commitments," which is dated May 27, 1937. This appendix shows Receipts to date, Anticipated total receipts, and Commitments, as follows:

	Receipts to date	Anticipated total receipts
(1) Receipts:		
Automobile manufacturers (including Automobile Manufacturers Association treasury)	$217,658.82	$225,000
Finance companies	28,000.00	28,000
Rubber-tire manufacturers		25,000
Parts manufacturers	76,700.00	90,000
Total 1937 receipts	322,358.82	368,000

	Receipts to date	Anticipated total receipts
(2) Commitments:	*1937 Grant*	
American Automobile Association	$35,000	
American Legion	10,000	
Harvard Bureau for Street Traffic Research	56,650	
Highway Education Board	25,000	(1)
General Federation of Women's Clubs		(2)
National Congress of Parents and Teachers	10,000	
National Grange (included with Highway Education Board) National Safety Council	100,000	
International Association of Chiefs of Police	20,000	
Northwestern University	10,000	
Safety department, Automobile Manufacturers Association	35,000	
Total 1937 commitments	301,650	(3)

[1] Of this total, but $5,000 approved (for Grange contest).
[2] Balance from 1936 grant adequate for 1937 program.
[3] Total of 1936 commitments was $347,000.

Harvard Bureau for Street Traffic Research.—With reference to the Harvard Bureau for Street Traffic Research, referred to above, a publication entitled "A Rational Approach to an Emotional Problem" was issued in January 1938, by Paul G. Hoffman, president of the Automotive Safety Foundation. In this publication reference is made to the work of the Harvard Bureau for Street Traffic Research, in part, as follows:

* * * Founded in 1925, the bureau was dedicated to the principle that the street and highway traffic problem deserves the same type of scientific approach that has been applied to the solution of other major social and economic problems.

Through the grant of the Automotive Safety Foundation this program has been refined and expanded to a point commensurate with current requirements. The 15 annual fellowships have drawn the best young engineering brains from all parts of the country into traffic engineering and administration. Fifteen other engineers, at their own expense, took advantage of the opportunity provided by the courses of study. These men are then returned to administrative positions where they can give practical effect to the principles they have learned and where they may in turn become practical teachers of their administrative associates.

Research projects on police traffic administration, compulsory motor vehicle liability insurance, motor vehicle department administration, research on the driver and a special New York City research project were carried out.

Scientific equipment and devices developed by the Bureau have been put to numerous valuable uses and have developed information of value in driver research. Beyond this, the traveling clinics, consisting of various pieces of this equipment, visited nine States this year, working in conjunction with motor vehicle administrators to aid States in administering the driver license law. This has had educational influence in salvaging accident repeaters and raising the level of skill among the drivers who persistently fell afoul of the law.

In 1935 the Automobile Manufacturers Association, Inc., presented Harvard Bureau for Street Traffic Research with a gift for the purpose of reorganizing and expanding the activities of the Bureau. Bulletin No. G–1737, issued by the association February 26, 1935, refers to this gift, in part, as follows:

1. Acceptance of a gift voted by your board of directors on behalf of the Automobile Manufacturers Association for the purpose of reorganizing and expanding the activities of the University's Bureau for Street Traffic Research has been announced by Harvard University.

2. An enlarged program to promote greater safety on the highways and to eliminate costly traffic congestion will be undertaken by the Bureau under the exceptionally able direction of Dr. Miller McClintock and with the assistance of Maxwell Halsey, formerly traffic engineer of the National Bureau of Casualty and Surety Underwriters.

3. The Bureau's new program will include comprehensive studies of the causes of traffic accidents and highway congestion, police organization and enforcement of

traffic laws, efficient traffic engineering technique and organization, and the design of new and basic types of traffic facilities especially for urban areas.

4. Provision is made whereby responsible officials of State and local governments may call upon the Bureau staff for information and advice bearing upon local traffic problems.

5. Although all studies of accident causes have indicated that from 80 to 90 percent of traffic mishaps are traceable directly to some form of fallibility on the part of motorist or pedestrian, there is abundant evidence that through engineering, safeguards for the greater protection of highway users can be devised.

Association Bulletin No. G–1771, issued November 6, 1935, which refers to a recommendation for an increased financial grant to the Harvard Bureau for Street Traffic Research, reads, in part, as follows:

1. Pursuant to recommendations of the safety traffic committee for expanded association activity in technical and educational safety functions, the directors today voted to recommend to the members an increased financial grant to the Harvard Bureau for Street Traffic Research.

2. The enlarged program contemplates the establishment of a traffic engineering training center in Harvard University based upon 15 association fellowships and upon intensive technical instruction designed to provide qualified traffic administrators now seriously needed in all cities and States. Another phase of the Bureau's activities will be to stimulate official action along sound technical and administrative lines.

Section 9. Manufacturers Committee and Industrial Relations Department

A description of the manufacturers committee and the industrial relations department is set forth in a letter by William J. Cronin, secretary of the committee, to Alfred Reeves, vice president and general manager of the Automobile Manufacturers Association, Inc., dated June 9, 1937, as follows:

(1) The manufacturers' committee was appointed and the department of industrial relations under its direction was created in November of 1933. This was shortly after the Code of Fair Practice for the Automobile Manufacturing Industry became effective under the National Recovery Act of 1933. Since this code was limited to regulation of hours, wages, and working conditions of labor in the industry, the manufacturers' committee and this department under its direction became the agency for internal administration of the code, its interpretation and application under the nominal code authority, the board of directors of the Automobile Manufacturers Association. It assisted members of the industry in compliance with the code on a uniform basis, and in securing necessary exemptions and exceptions. It was the agency which formulated the views of the industry for presentation to National Industrial Recovery Act, and negotiated necessary changes and extensions of the code up to the time when the National Recovery Act was declared unconstitutional.

(2) The creation of this department coincided with the early manifestations of labor unrest in this industry, which accompanied the beginning of recovery from the depression. Traditionally, labor relations had been treated on an individual company basis in this industry from its beginning. The absence of any serious labor unrest throughout its history had made unnecessary joint consideration or action upon these matters. With the appointment of the manufacturers' committee and the creation of this department with a staff specialist in this field in charge, the opportunity was afforded to exchange views on those labor problems common to all, and to communicate to all members the concensus of opinion of the most experienced administrators in the industry for their guidance in meeting the problems presented by changing conditions. Similarly members were afforded an opportunity to consult the committee and the manager of the department concerning individual labor problems and policies.

(3) Labor legislation, including regulation of wages and hours, compensation for industrial accidents and disease, and relations with organized labor have been prominent in the programs of both National and State administrations. This department under the manufacturers' committee has been charged with developing the position of the industry concerning such legislation when pending and presenting that position to National and State law-making bodies.

(4) Conditions have required members to have more complete information than ever before concerning prevailing wage levels, hours of work, and other working conditions and personnel practices generally in the industry. This department has compiled and distributed regularly to members reports on prevailing wage rates, hours, methods of compensation, and personnel practices in this and other industries, as well as a great variety of pertinent information concerning developments bearing upon labor conditions throughout the country.

(5) Increased public interest in labor relations in the industry led the committee to expand its research activities to provide a foundation for release of pertinent information designed to keep the public, Government officials and legislators, and workers themselves informed concerning the facts of labor conditions in this industry. It is also a function of this department to furnish to public and private agencies information desired concerning all phases of the industry's operations affecting labor. The practice has been encouraged of having all such inquiries made to members cleared through this department thus relieving members of a burden of detail, and of simplifying and insuring the accuracy of information made available to the public concerning the industry.

The functions of the manufacturers' committee and the industrial relations department, as described in the association publication At Your Service, are substantially as follows:

Through the manufacturers' committee data are developed and exchanged for the information of members with respect to wages, working hours, conditions of employment, and other phases of industrial relations.

The industrial-relations department is under the direction of the manufacturers' committee and serves other association committees created to deal with matters in the field of labor relations such as social security, occupational diseases, and others. This industrial-relations department is the point of contact for the association with various governmental and private agencies concerned with labor matters. The compilation and analysis of employment data is the responsibility of the economic-research staff of this department. Among the economic analyses which have been published by this department are studies on the ages of automobile workers, the prices of automobiles per pound per unit and horsepower, the annual earnings of automobile workers, living costs and earnings in automobile centers, and other related subjects.

It is a function of the industrial-relations department to assist the manufacturers' committee in the compilation and distribution of information regarding prevailing wages, hours, and other working conditions; and in the preparation and presentation of the industry's views on National and State legislative proposals affecting labor relations and working conditions.

Section 10. Motortruck Committee

The purpose of the motortruck committee or department is to develop methods whereby the public can derive increased benefits from commercial motor vehicles. This department aids in the promotion of sound and equitable uniform laws governing motortruck and bus regulation and taxation; provides motortruck members with a bulletin service containing important information regarding motortruck production, sale, and use; coordinates truck and bus activities with national organizations representing shippers and commercial vehicle operators; maintains contacts with official agencies concerned with the administration of the Motor Carrier Act; analyzes reports from Government and transportation agencies; compiles factual data and pamphlet material and news stories reflecting the views of the industry; and disseminates educational literature in the interest of better commercial vehicle drivers, more effective safety regulations, and a better understanding between truck and bus operators and other highway users.[16]

Representation of truck manufacturers.—In the year 1938 there were approximately 63 motortruck manufacturers in the United States, of which 19 were members of the Automobile Manufacturers Association, Inc.

It is estimated by the manager of the motortruck committee that truck-manufacturer members of the Automobile Manufacturers Association, Inc., during the year 1937, produced 68.8 percent of the total truck production of the United States and Canada and that the Ford Motor Co. and other nonmember truck manufacturers produced 31.2 percent.

Truck manufacturers' mortality.—On November 27, 1936, Arthur C. Butler, secretary of the motortruck committee, wrote the White Motor Co., Cleveland, Ohio, with reference to the mortality of truck manufacturing companies in part as follows:

> * * * our records go back only to 1917. Since that time we find that about 372 motortruck companies have failed or lost their identity through merger or acquisition by another company.
>
> * * * There are about 60 companies building or assembling trucks at the present time.
>
> * * * There are 13 companies that distribute their products nationally. This is based on a survey of several years of new commercial car registrations published by Automotive Daily News. Five other companies distribute to the majority, but not all, of the States.
>
> * * * There are 30 companies that build trucks exclusively. (This includes 10 companies that manufacture engines, truck-tractors, fire engines, snow-fighters, and industrial equipment, besides motortrucks.) Also, there are 21 companies that build trucks and busses exclusively. (This includes 8 companies that also manufacture fire engines, truck-tractors, and ambulances.)

Activities of the motortruck committee.—One of the duties of the motortruck department is to furnish motortruck members of the association with information pertinent to their operations. For instance, on November 26, 1935, a letter was sent to motortruck members by the secretary of the committee which reads as follows:

> Supplementing our Motortruck Bulletin No. M–391 with regard to the sale of trucks to belligerents, we wish to call your attention to the following letter from our Washington office to a member company:
>
> "In the light of the administration's policy, copy attached, I should think that you would be well advised to weigh carefully the consequences before selling any trucks to any war participants.
>
> "Not only will those who engage in such actions face the consequences of publicity, but it may be reasonably expected that when Congress convenes this subject will be made one for searching investigation and further discussion."

Bulletin No. M–391 referred to above, is a bulletin addressed to motortruck members November 15, 1935, entitled "Secretary Hull Lists Trucks Among 'Essential War Materials'." The first paragraph of this bulletin reads as follows:

> Motortrucks are "essential war materials" and exporting them to warring nations is directly contrary to the policy of the Government and the Neutrality Act, Secretary of State Hull declared today in a 350-word statement.

[16] Automobile Manufacturers Association publication, At Your Service.

On May 20, 1937, the secretary of the committee wrote W. F. McAfee of the International Harvester Co. with reference to the *Texas Weight case* as follows:

Have your letter of May 12 regarding the Texas situation.

We note your wish to have International Harvester do anything possible in the way of cooperation with the Texas operators. But we do not see how anything can be done by an individual manufacturer in this case without breaking the agreement that was entered into by the manufacturers as a group at our last meeting.

It seems to us that you have already cited the most important point with regard to the *Texas case*, and that is that it best be deferred until the Interstate Commerce Commission enters the field of interstate regulation of sizes and weights.

As you know, the manufacturers have in the past spent considerable time, money, and effort on these weight cases affecting interstate commerce. This dates back to the *Texas case* of *Stephenson* v. *Binford* which was carried to the Supreme Court of the United States only to obtain an adverse ruling which was based, among things, on the fact that the State of Texas was within its rights in applying the 7,000-pound weight law to interstate as well as to intrastate operators because the Federal Government was not in the field.

Since the adverse ruling, local representatives of the manufacturers have cooperated with associations of operators in Texas as a means of having the weight law repealed and replaced with limitations that would be more liberal and still have adequate provisions for safety, preservation of highways, and consideration of rights of other highway users.

The Texas problem has always been foremost in our minds, in discussing unreasonable weight laws, and you will recall that when the manufacturers considered the injunction cases at our meeting the Texas question was thoroughly discussed. The opinion was that a much more effective course could be followed if a precedent were established in several of the other States where conditions are more favorable and that, in the meantime, a case be thoroughly prepared for Texas.

However, you may wish to have this subject discussed again at our meeting early in June.

We have material here at the association relative to other size and weight cases that we will gladly send the Texas operators. They may also wish to contact J. Ninian Beall, attorney for the American Trucking Associations, who has been devoting considerable time in studying and preparing data for cases similar to that in Texas.

On March 23, 1938, the secretary of the committee addressed a letter to members of the motortruck committee entitled, "Anti-Truck Attitude in Many Quarters May Adversely Affect Industry When Solution to Railroad Problem Is Considered." This letter reads as follows:

Coming on the heels of the report by the American Institute of Public Opinion, the attached quotation from the American Trucking Associations' service letter provides room for serious thinking on the part of all persons or groups concerned with motortruck transportation.

There is plenty of evidence that the antitruck attitude now being exhibited by legislators, highway officials, administrators, and passenger-car owners and the public generally might result in action by Congress in connection with the railroad problem that would seriously affect independent for-hire truck transportation and operation of shippers' trucks.

The quotation from the American Trucking Association's service letter, referred to above, was to the effect that antitruck sentiment was developing in Congress and contained the suggestion that before Congress acts on pending transportation bills it might be well for motor carriers to address a few pointed questions to their Senators and Congressmen, asking where they stand with respect to the trucking industry.

SECTION 11. NATIONAL AUTOMOBILE SHOW

All details of the national automobile show in New York City are arranged under the guidance of a national show committee of the Automobile Manufacturers Association, Inc.

Section 8 of the constitution of the association provides as follows:

> No contract for any purpose involving the expenditure of a sum of money in excess of ten thousand dollars in any one matter, shall be made or entered into by the officers or directors of the corporation, except upon the approval by a vote of at least two-thirds of the members present and voting at a regular or special meeting duly called and held as provided in the bylaws, but the corporation shall have no power or authority to make any member a party to a contract and the approval by a member of any contract, expressed by the members' voting to approve the same, shall be merely an approval of proposed action by the corporation and shall not constitute a consent or grant of authority to the corporation to make a member a party to a contract or to give power to the corporation to represent or act as agent for the approving member in respect to such contract in any way whatever.

Inasmuch as all of the members of the association do not participate in the national show, the show is conducted by a show-management partnership which is under contract with the Automobile Manufacturers Association, Inc. Under this contract or agreement the show-management partnership finances and operates the show. If the show should result in a financial loss, such loss would have to be assumed by the show-management partnership. Any surplus or profit is disbursed as follows:

First, to New York City automobile dealers for their services; then to automobile-equipment manufacturers in proportion to the show space taken by them; and finally to exhibitor members of the Automobile Manufacturers Association, Inc., in proportion to space taken.

SECTION 12. TAXATION, INSURANCE, ADVERTISING, AND HIGHWAYS COMMITTEES

These committees of the Automobile Manufacturers Association, Inc., are described in the association publication entitled "At Your Service," as follows:

Taxation committee.—Through its taxation committee the association collects and analyzes information regarding direct or indirect taxation of highway transportation; studies trends in taxation with a view to determining their probable consequences; analyzes proposed tax legislation and keeps members of the industry informed concerning its progress; and seeks to develop sound and equitable principles of taxation for the guidance of the industry.

Insurance committee.—Through the association's insurance committee, the industry maintains a point of contact with national organizations of insurance companies. Typical of problems that confront this committee are those that relate to the grouping of cars and trucks for insurance-rating purposes as effected by mechanical construction and design. These questions are considered by the committee and any necessary information is furnished and discussed with insurance executives.

Advertising committee.—This committee is known as the information department. It is the function of this committee or department to study all trends and developments in the field of advertising and to develop principles for the guidance of members in making advertising increasingly valuable to the public. Through this department the association collects data regarding the industry's developing activities and policies, keeping it available to the public and to those who require information for articles, addresses, radio talks, and other media. It is the responsibility of the information department to satisfy the demand of the public for information on all subjects with which the association is concerned.

Highways committee.—Under the direction of this committee, the Automobile Manufacturers Association, Inc., encourages sound world highway development by participation in the work of recognized agencies devoted to that cause; assists in placing the industry's point of view before congressional committees charged with highway matters; informs members of the industry on trends and changes in road progress; and aids in studies of fact and in broad surveys designed to bring out the effect of motor transport upon world living standards.

With reference to highway development, a report by the highways committee, dated June 30, 1937, contains a factual survey of the progress made in highway development throughout the world during the past decade, and also contains interesting descriptions of various important highways in Mexico, South America, and abroad. In this report is a tabular presentation of highway mileage and motor-vehicle registrations as follows:

Total world highway mileage and motor-vehicle registrations

Year	World highway mileage	Percent increase since 1929	World motor-vehicle registrations	Percent increase since 1929
1929	6, 582, 001	0. 0	32, 034, 572	0. 0
1930	7, 805, 629	18. 6	35, 127, 398	9. 7
1931	7, 959, 193	20. 9	35, 805, 632	11. 8
1932	8, 994, 034	36. 6	35, 263, 397	10. 1
1933	9, 152, 282	39. 0	33, 567, 295	4. 8
1934	9, 270, 052	40. 8	35, 352, 004	10. 4
1935	9, 599, 149	45. 8	37, 451, 798	16. 9
1936 [1]	9, 900, 000	50. 7	39, 800, 000	24. 2

[1] Figures estimated by Automobile Manufacturers Association.

SECTION 13. TRAFFIC COMMITTEE OR DEPARTMENT

This department aims to promote and maintain the maximum efficiency and economy in the handling of automotive traffic. Through the traffic department the industry presents a common and united viewpoint on traffic matters to carriers and, when necessary, to governmental agencies and officials. The department studies rate and classification proposals in order to aid decisions on tariff changes that would benefit the industry. It conducts regular meetings of member traffic managers and carries out the conclusions reached. Other activities of the traffic department include preparation of data and attendance at railroad and Commission hearings; issuance of preliminary monthly production statements; analysis of legislation and regulations affecting transportation; providing the railroads with data to insure an adequate supply of automobile freight cars; transmitting reports to railroads concerning the number of cars the industry will require, based on factory production schedules; assistance in the negotiations for satisfactory ocean rates; and maintenance of representation for the industry in recognized national transportation organizations. The department maintains an experienced staff at the Detroit office, where it has a complete file of railroad and motor-vehicle tariffs, Interstate Commerce reports, and similar data.[17]

The details of the work of the traffic department are attended to in the Detroit office of the association. The department, however, is under the direction of James S. Marvin, of the New York City office of the association.

Under date of May 23, 1938, Mr. Marvin received a letter from the Detroit representative of the traffic department, which described the work of this department as follows:

> Maintenance of files of tariffs of railroads, steamships lines, and trucking companies.
>
> Operation and distribution of bulletins issued by traffic department, and information circulars.
>
> Maintenance of complete file of all Automobile Manufacturers Association bulletins and other material.
>
> Preparation of monthly factory sales estimates for directors and members.
>
> Attendance at meetings of various traffic committees, clubs, and other organizations, keeping contact with those active in the automotive field.
>
> Preparation of dockets for, and holding of meetings of, Automobile Manufacturers Association traffic managers' conference and subcommittees.
>
> Meetings with railroads, steamship lines, and trucking lines in connection with transportation matters affecting the industry.
>
> Road trips, involving attendance at railroad classification meetings; trucking association meetings; member plant visits; railroad official calls; yard and shop inspection trips in connection with automobile loading devices; traffic organization activities; handling of Interstate Commerce cases before examiners at various points; and oral argument before the Commission at Washington, preparation of testimony, briefs, etc.
>
> Cooperation with railroads in connection with modernization of automobile loading devices, test loads at factories, etc.
>
> Contact with automobile transporting associations and dealer associations in connection with safe-and-sane highway operation. Issuance of highway safety and courtesy rules for automobile transporters.

The traffic committee holds meetings in the city of Detroit about every 2 months at which the members decide whether any changes proposed by the consolidated classification committee[18] would affect their shipping and whether they wish to make any presentation to the consolidated classification committee. If the traffic committee determines that a presentation is desirable, the traffic department procures and assembles the necessary data and presents them to the consolidated classification committee.

The traffic department or committee does not participate in general rate cases before the Interstate Commerce Commission, as the policy of the automobile industry has been to abide by general rate changes that affect all industry alike.

The traffic department collects data and prepares production reports which are now included in the Automobile Manufacturers Association, Inc., publication entitled "Automobile Facts."

Data pertaining to shipping needs of member manufacturers are furnished members by this department. Quarterly surveys to determine the number of automobile freight cars required to carry the product from factories to dealers are made and the results of these surveys are furnished to the railroads for their guidance in handling

[17] Automobile Manufacturers Association publication, At Your Service.

[18] The consolidated classification committee represents the railroads and prepares publications showing proposed classification changes.

their freight cars. Prior to the time this service was inaugurated, factories would be in need of shipping facilities and often, when their need was greatest, freight cars would be in parts of the country remote from factories. This resulted in dealers being unable to obtain automobiles unless they had them hauled by trucks or towed or driven from the factories.

This department is interested in legislation pertaining to traffic matters, and on December 8, 1937, the department issued Bulletin No. T–716, which reads, in part, as follows:

> Public reaction against the use of highways for delivering automobiles to dealers is being reflected in restrictive legislation.
>
> Although the automobile carriers comply with the State's weight and size specifications for trucks, legislation effective in Pennsylvania in 1940 contains special restrictions for loading automobiles on trucks that would destroy their economic usefulness.
>
> Through the National Automobile Dealers Association, the dealers will be requested to note this adverse legislative trend and require compliance with these recommendations by truckers employed by them.
>
> Our members are urged to insist on agreement with these recommendations by all truckers as a condition of employment by you and bring the matter to the attention of your dealers if they employ the truckers.

An enclosure with Bulletin No. T–731, dated June 8, 1938, entitled "Highway Restrictions Are Placed on Automobile Truckaways," reads as follows:

> Federal, State, and municipal restrictions on the use of highways for delivering automobiles from factories to dealers was discussed at recent meeting of our traffic managers and a special committee appointed to follow the subject. The discussion indicated that—
>
> (*a*) The new law in Pennsylvania prohibits at once trucks carrying an automobile over the driver's head. The courts have sustained this feature of the law. As loads of this character appear hazardous and "draw fire" from the public and legislators against all automobile carriers, our traffic group believes we should use only the modern type of automobile-carrying trucks.
>
> (*b*) However, the law goes further with restrictions that would prohibit the double deck on any automobile trucks after January 1, 1940.
>
> (*c*) The highways will be closed to a large part of our truckaway deliveries from the factories to eastern dealers unless this Pennsylvania law can be modified.
>
> (*d*) If similar legislation is progressed in a few more States surrounding the manufacturing territory, these restrictions will be substantially complete.
>
> (*e*) This presents a serious operating problem in prompt distribution of cars from the factories as well as higher costs.
>
> (*f*) While the member traffic managers feel they could correct this by using only the proper and approved types of trucks, which is now being done by the General Motors group and Ford, however, in the case of other factories, the matter is out of their control when cars are delivered into the possession of dealers and transporting agencies selected by dealers.
>
> (*g*) Any effort of States to eliminate hazardous vehicles should get the full endorsement of the industry.
>
> (*h*) There is urgent need, therefore, for centralized control of this commercial use of the highways by our industry.
>
> (*i*) More than half of the cars and trucks produced are moved from the factories over the streets and highways. In view of the importance of this outlet for our distribution and the necessity for prompt action, immediate control by all other factories is favored.
>
> Our traffic group will appreciate the views of the directors on whether this can be done.

Among the functions of this department is the furnishing of statistical information to association members relative to export shipping. Illustrative of this phase of the department's work is Export Shipping Advice No. 215, of March 30, 1938, entitled "Over 99,000,000 Cubic Feet of Steamship Space Used by Members for Motor-Vehicle Exports in 1937." This bulletin shows the steamship space used by members for exports of cars, trucks, and parts during the years 1935, 1936, and 1937 for shipments to various foreign ports throughout the world.

The traffic department of the Automobile Manufacturers Association, Inc., has effected a definite saving in the duplication of work, as this one department does the work which otherwise would have to be done by individual traffic organizations of each of the member manufacturers of the association.

Section 14. Statistical Department

The Automobile Manufacturers Association, Inc., in its publication entitled "At Your Service," describes the functions of the statistical department in part as follows:

> It is the responsibility of the statistical department to furnish member companies promptly with as much basic statistical data regarding the industry's operations. * * *
>
> As part of its work, the department provides members with regular monthly reports covering the following subjects:
>
> Production by makes.
>
> Retail sales.
>
> Advertising expenditures, by makes.
>
> Exports of passenger cars, by makes, models, and competitive price classes.
>
> Exports of trucks, by capacity classifications.
>
> Imports of American vehicles by the different countries of the world.
>
> In addition, the department sends member-company executives a regular monthly statistical bulletin analyzing passenger-car and truck production, by wholesale-price classes for passenger cars and by capacities for trucks, segregating sales in domestic markets from sales in export markets.
>
> * * * a special report is sent to member-company export managers monthly covering the number and value of motor vehicles exported from Canada to various countries.
>
> The department serves as a clearing house in providing information and counsel on economic and statistical matters pertaining to the automobile industry, * * *.
>
> To meet a demand for general economic and statistical facts about the automobile industry by the public as well as companies within the industry, the association publishes an annual 96-page statistical review, Automobile Facts and Figures.

Apparently one of the major functions of the statistical department is the assembling and analyzing of data for the publication Automobile Facts and Figures. On August 15, 1938, Pyke Johnson, vice president of the Automobile Manufacturers Association, wrote the Federal Trade Commission, with reference to the 1938 edition of Automobile Facts and Figures. In this letter Mr. Johnson referred to a number of new or revised charts and tables which the association believed to be of particular interest to officials of the Government. The charts and tables specifically referred to are as follows:

> The trend of automobile prices, related to wage rates, cost of living, motor taxes.
>
> The relationship of automobile sales volume to the national income.
>
> The increasing Federal, State, and local tax burden borne by the motor vehicle.
>
> The increase in new-car sales per retail dealer.
>
> The status of motor-sales financing through 1937.
>
> The decline in proportion of new patents which apply to the motor vehicle.
>
> A summary of special State laws which affect automobile marketing as well as use.
>
> The status of automobile-production cities during 1936 and 1937—at the top in proportion of families above minimum-income standards, and near the bottom in the matter of relief loads.

SECTION 15. SERVICE AND ENGINEERING DEPARTMENT—USED-CAR PROBLEMS

The service and engineering department administers matters relating to the service division of the industry and subjects of an engineering or technical character in which the association is interested. This department represents the members of the association in the cooperative fuel research project, sponsored jointly by the association, governmental agencies, organizations representing the petroleum industry, and engineers of the automobile industry. In addition, it serves the automobile industry in connection with all projects relating to the establishment of standards for automobile construction and testing.

The highway safety plan for the removal of old and unsafe vehicles from highway service, which plan is discussed in this section, was administered by the service and engineering department.[19]

Used-car problems.—The National Automobile Chamber of Commerce, Inc., now the Automobile Manufacturers Association, Inc., has conducted four separate studies with reference to used-car problems. The last of these studies was made in the year 1929. As a result of the first three studies, it was concluded that the used-car problem was solely a dealer problem and, up to the time of the fourth study, the problem of overallowance on used cars when taken in as part payment on new-car deals had not arrived at the degree of importance which it has since attained.

As a basis for the fourth study, referred to above, various used-car plans were considered and a number of different suggestions were taken under advisement, the two outstanding of which were cooperative advertising and junking.

A number of so-called junking plans have been in actual operation, the more important of which were known as the Chevrolet plan, the Ford plan, the Cleveland plan, the highway-safety plan, and the highway-safety plan extended. The two latter plans were administered by the National Automobile Chamber of Commerce, Inc.

The *Chevrolet plan.*—This plan was adopted by the General Motors Corporation about the year 1925 and under the plan the manufacturer added $5 to the price of new Chevrolet automobiles and allowed the dealer a rebate of $25 to apply on a junk [20] car when five new cars had been purchased. This ratio of five new cars to one used or junk car, was established upon the assumption that one new-car deal out of five involved a junk car. It is estimated by H. R. Cobleigh, manager of the service and engineering department, that at the present time one new-car deal out of three involves a trade-in of a junk car. The Chevrolet plan continued until the so-called highway-safety plan was adopted in 1930.

The Ford used-car plan.—Under the Ford plan dealers were allowed $20 for junk cars delivered to the Ford River Rouge plant, where the Ford Motor Co. operates an excellent salvage department and every usable part of the car is salvaged and the remainder placed in a press and reduced to scrap metal at a minimum cost. An analysis of the

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[19] From Automobile Manufacturers Association, Inc., publication entitled "Facts and Figures."

[20] H. R. Cobleigh, manager of the service and engineering department of the Automobile Manufacturers Association, Inc., described a "junk" automobile as an automobile which by age, wear, or damage is uneconomical to operate. In other words, the usable existence of a machine is limited, and eventually it will be more economical to replace the machine than to continue its operation.

returns from a salvaged or demolished car showed a net recovery of approximately $12.50 per car. It has been stated that in 1930 the Ford plant scrapped 40,755 cars and in January 1931, was handling junk cars at the rate of 375 cars every 16 hours.

Cleveland used-car plan.—In 1930 the manager of the Cleveland Automobile Manufacturers and Dealers Association, which is now the Cleveland Automobile Dealers Association, presented a recommendation to the General Motors Corporation in behalf of the so-called Cleveland plan for scrapping junk automobiles. Details concerning this plan are set forth in National Automobile Chamber of Commerce, Inc., Bulletin No. G–1358, of July 22, 1930, which reads in part as follows:

> The Cleveland (Ohio) Automobile Manufacturers and Dealers Association has completed arrangements with a local salvage company to purchase all of the "junker" automobiles from the Cleveland dealers on an exclusive contract basis. The details provide for a fair purchase price to the dealers with a bonded guarantee that no complete cars or parts thereof shall be sold by the salvage company except as scrap.

This bulletin sets forth some of the advantages claimed for the Cleveland plan as follows:

> By providing a ready market for all junkers taken in by dealers, not only does the disposal cease to be a problem but they may be removed from the premises as rapidly as they accumulate.
>
> It seems logical to expect that the dealers will receive more for junkers from a big volume scrapping concern having assured supply of junkers especially since the operation is on a profit-sharing basis. * * *
>
> It absolutely stops the "junker repeater" losses to the dealer. This refers to that type of car which the dealer has sold to a junk dealer and which is fixed up and resold as an operating vehicle to again appear on a dealer's lot as a trade-in. * * *

Highway-safety used-car plan.—On December 24, 1929, a used-car junking plan, known as the highway-safety plan was proposed by the National Automobile Chamber of Commerce, Inc. The highway-safety plan was a continuation of the Chevrolet plan, except that other manufacturers, together with divisions of General Motors Corporation, participated in the plan. Both plans provided for the complete demolition of the so-called junk cars to the end that no parts be resold as usable parts. With reference to the demolishing of these junk cars, it is claimed that in some cases the operator of the junk yard would endeavor to save a car from wrecking in order that he might be able to sell usable parts from the car or even sell the entire car as a usable automobile. However, wrecking under this plan was done under the supervision of factory representatives and, when carried out according to the intent of the plan, resulted in reducing the car to junk from which no salable parts were recoverable.

The principal difference between the Chevrolet used-car plan and the highway-safety used-car plan was that under the Chevrolet plan a definite amount, $5, was added to the price of each new car, and a definite allowance of $25 was made for demolishing each junk car when the dealer had purchased five new cars; while under the highway-safety plan, the amount added to the price of new cars was not the same for all makes and models, and the bounty for demolishing junk cars varied. Under the highway-safety plan, the junking allowance varied from about $25 per car to $40 or possibly more per car, depending largely upon the price class of the new cars handled by the dealers, and the manufacturers of higher-priced automobiles made a greater allowance for each junk car than did the manufacturers of popular-priced automobiles. Under this plan the amount to be added to the price of new cars to provide for payment for junk cars was left entirely to the manufacturers.

Association Bulletin No. G-1321, issued December 24, 1929, was accompanied by an outline prepared by R. H. Grant of the General Motors Corporation, chairman of the sales managers' committee of the Automobile Manufacturers Association, Inc., entitled "Proposed Highway Safety Plan." This outline reads, in part, as follows:

A fund will be accumulated for each dealer by the manufacturer by crediting him with a fixed amount for each new car he buys. This amount shall not exceed 1 percent of the list price of the new car. * * * This allowance to the dealer shall not exceed $40 per car scrapped.

It is necessary that each car be so damaged that it cannot be repaired and resold. To accomplish this purpose, smash starting motor, generator and coil, carburetor and manifolds, cylinder head, cylinder block, and transmission. * * * Break the radiator, head lamp, and instrument board, and drive the grease plug into the rear axle. The dealer may then sell the car for junk. To qualify for an allowance the car scrapped must have been a complete unit with the possible exception of tires, battery, and windshield glass.

In January 1931, the National Automobile Chamber of Commerce, Inc., applied for consideration of the highway-safety used-car plan by the jury of award of the American Trade Association Executives.

From this application it appears that this plan had been developed principally during the year 1930 and that in January 1931, manufacturers of 19 different makes of automobiles were actively participating in the plan, and it was estimated that 350,000 cars above the normal junking of probably 2,500,000 vehicles were scrapped in the year 1930 under the operation of the plan.

The purposes of the plan, as set forth in the application, were as follows:

1. To remove unfit, unsafe cars from the highways.

2. To do this by inducing "dealers to scrap and scrappers to deal," by providing a subsidy to cover the differential between what car dealers are willing to take and what scrap dealers are willing to pay for an old car.

3. By encouraging trading between car dealers and bona fide scrap merchants to—

(*a*) Reduce the business of small junk dealers in second-hand cars and parts that is prolonging the unsafe use of old cars.

(*b*) Reutilize the useful materials in old cars now wasted by small junk dealers who cannot profitably handle the baser metals.

(*c*) Reduce the nuisance of abandoned car remains in vacant lots and on lonely roadsides.

4. To relieve the dealers' used-car problem by assuming most of the loss in unsalable cars so that he may remove them, save storage expense, and concentrate selling efforts on the better used cars.

5. To increase the sale of cars—

(*a*) By making more people desire to drive when roads are safer and scenery more attractive.

(*b*) By enlarging the replacement market.

The advantages of the plan, as set forth in the application, were, in part, as follows:

1. Increased safety on the highways brought about by removing the old unfit cars that are a menace * * *.

2. Indirectly the plan opens the way to realization of these other public advantages:

(*a*) Utilization of waste.

(*b*) Conservation of natural resources.

(*c*) Preservation of landscaped beauty * * *.

3. It helps the dealer in three ways to meet what is commonly called the used-car problem:

(a) Reduces his loss in cars he feels in conscience bound to scrap.

(b) It definitely removes these cars from the market * * *.

(c) It moves the most unsalable part of his used-car stock. * * *

The advantages of the plan to the automobile industry were indicated as: Increased stability of dealer business, making it easier to meet and hold good dealers; an enlarged market through greater desire to drive when the highways are safer; and a somewhat increased replacement market.

Highway-safety plan extended.—After the Cleveland used-car plan had indicated the practicability of selling second-hand parts as well as scrap, the National Automobile Chamber of Commerce, Inc., proceeded with the "highway-safety plan extended," which was a variation from the original highway-safety plan in the following two main particulars: (1) The salvage of usable parts from demolished cars, and (2) the issuance of certificates of demolition.

Under the highway-safety plan extended, junk automobiles were not completely wrecked, but usable parts were salvaged and valuable savings were made from the salvage of salable parts. The realization from the junk after salable parts had been removed was nearly as much as though the car had been completely wrecked.

On October 31, 1932, the National Automobile Chamber of Commerce, Inc., issued Bulletin No. G–1555 with reference to the highway-safety plan extended. An outline of the plan, as described in an enclosure which accompanied this bulletin, is substantially as follows:

The National Automobile Chamber of Commerce, Inc., was to appoint official salvage yards throughout the country whose certificates of demolition would be accepted by the factories or manufacturers cooperating in the plan as evidence upon which their dealers were to be paid the junking bounty.

Salvage yards were to be appointed by the association upon nomination by the dealers to be served. The managements of the salvage yards were to sign agreements with the association to sell only scrap materials and parts and not to sell cars or chassis. They were to issue certificates of demolition for all cars purchased for scrapping and were to pay dealers for bountied cars at prices mutually agreed upon.

Under this plan the association was to notify factories or manufacturers when salvage yards were appointed and also was to supply salvage yards with demolition certificates at a price of 25 cents each.

It was provided that an agreement with the salvage yards could be canceled for failure on the part of the salvage yard to perform satisfactorily and that agreements could be canceled on request of local dealer groups for any cause of dissatisfaction. In Bulletin G–1555 advantages of the plan were set forth as follows:

I. Stops the waste of the present unspecified disposal of bountied cars.

(a) By insuring that scrap finds its way to mills.

(b) By saving car factories loss from supplying new parts for very old cars.

(c) By saving factories expense of witnessing demolition.

(d) By saving dealers labor and delay of demolishing cars.

(e) By increasing value of junk car.

II. Decreases the nuisance of uncontrolled dumping of junkers on the roadside and elsewhere.

III. Requires no added expense to factories or chamber, administration of the program being self-supporting.

A form letter prepared in 1932 by H. R. Cobleigh of the salvage division of the National Automobile Chamber of Commerce, Inc., pertaining to the highway safety plan extended, reads in part as follows:

Enough factories have already adopted the new program to insure its success. These include the makers of Buick, Cadillac, Chevrolet, Essex, Hudson, Hupmobile, LaSalle, Oldsmobile, Pontiac, and Stutz cars.

Now it is up to the chamber to appoint official salvage yards throughout the country, and to do it most rapidly we are relying on the cooperation of the dealer associations. (See p. 8 of the pamphlet.) [21] The faster we set up yards, the greater will be the appeal of the program to the factories not yet in it.

At the sales managers' committee meeting of December 9, 1932, Alfred Reeves, vice president and general manager of the association, stated with reference to this plan as follows:

Chevrolet, Buick, Cadillac, LaSalle, Graham, Hudson, Essex, Hupmobile, Olds, and Pontiac have agreed to this plan. Studebaker, Willys, Chrysler, and Dodge have not agreed.

In reply, R. H. Grant, of General Motors Corporation, stated as follows:

Paul Hoffman [22] says Studebaker was withdrawing. In a letter which I wrote to Paul, and then tore up, I made this point that I always took the position that I didn't care whether everybody was in it, and I didn't care if I were the only company that was in it. We are taking a lot of old cars off the street, and we are helping our dealers. What is a liquid profit sometimes sifts into used cars. Really what this amounts to is this: That the manufacturer is collecting from the public some money which helps the dealer financially from the standpoint of profit. From a sales advantage it puts the dealers in a position of taking a deal sometimes which he otherwise would not take. I would not think of running a sales department without it. On the contrary, I don't care whether anyone else does it or not, but if they do, I think it is an assisting plan.

On June 1, 1933, H. R. Cobleigh prepared a report to the effect that subsequent to December 1, 1932, salvage yards had been appointed in 27 cities. In this report Mr. Cobleigh stated that the "income from the yards has been $1,206.40, of which $614.86 has been expended for printing and postage leaving a balance against departmental overhead of $591.54."

About the close of the year 1933, cooperating members of the National Automobile Chamber of Commerce, Inc., abandoned the highway safety plan extended, for the disposal of obsolete or junk automobiles as it was believed that the dealer N. R. A. code, permitting the dealers to set prices on used cars, obviated the necessity for the continuation of the plan.

Suggested used-car plans.—It appears that during the comparatively short time that the highway safety plan extended was in operation, 116 salvage yards were designated, and H. R. Cobleigh, manager of the service and engineering department of the Automobile Manufacturers Association, Inc., is of the opinion that if a similar plan again were undertaken, new yards could be rapidly appointed until yards would be located in all the large cities or distributing centers of the country, and in isolated sections dealers could be appointed to handle their own and their neighboring dealers' junk cars. He estimated that some 3,000 salvage yards would be required to handle junk cars throughout the country. Furthermore, he is of the opinion that any plan for the disposal of obsolete or junk cars which does not

[21] P. 8 of the pamphlet refers to dealer cooperation in the appointing of salvage yards.
[22] P. G. Hoffman, Studebaker Corporation.

contemplate the salvage of parts would not work satisfactorily as the profitable operation of automobile junk yards depends upon the salvage and sale of usable parts.

Mr. Cobleigh claims that the sale of usable parts salvaged from junk automobiles does not affect the sale of new parts, as the purchasers of parts for automobiles in good condition are not interested in used parts. He believes also that it is feasible for junk yards to sell parts in assemblies, such as rear-axle assemblies, transmission assemblies, assembled motors, etc., and is interested in the development of outside markets for parts and assemblies. He referred to the use of automobile engines for farm power and for use in boats, and of wheel and axle assemblies for small farm trailers.

The Automobile Manufacturers Association, Inc., received reports from various dealers' associations concerning the results of the National Used Car Exchange Week,[23] a number of which contained comments regarding the need of a junking plan. Excerpts from some of these reports read as follows:

> I would like to see your association promote some sort of national junking fund that would eliminate the old models, thereby be of material assistance to the dealer body.
>
> * * * * * * *
>
> In our opinion the money spent in the advertising would have done more good by a junking plan of $50 a car, which would have removed a lot of $100 cars off the used-car lots, as these were the ones most interested in by the drop-ins.
>
> * * * * * * *
>
> I am confident that if the automobile manufacturers tied in a junking plan with their used-car exchange week plan, that it would be both beneficial to dealers and stimulating to business, as well as remove countless thousands of junk cars from the roads.
>
> * * * * * * *
>
> Some of our men think that the same amount of money expended by the factories in a junker plan would have achieved greater results.
>
> * * * * * * *
>
> Our association held a meeting this week, in which National Used Car Exchange Week was discussed. It was their opinion that much benefit was derived from it, but if the dealers are going to make any money this year, a junking fund from the manufacturers will be absolutely necessary, as they are taking a loss on their present junkers from $400 to $500 a month, with no sign of improvement.

Under date of April 21, 1938, Bulletin No. 97, pertaining to various junking plans, was sent to presidents and sales managers of member manufacturers. Accompanying this bulletin was an enclosure in which reference was made to the study by the association of 30 different plans which, due to agitation for an automobile junking bounty, had been proposed to the Government and to industry. In the enclosure referred to, it is stated that few of these plans are complete in specifying how all elements of a practical plan would be carried out, but that at least the elements of a practical plan should include the following: How a junking fund should be raised; junking allowance per car; by whom the junking fund should be administered; from whom junk cars should be purchased; control of junking-fund expenditure; source of administration cost; by whom cars should be scrapped; and salvage.

This enclosure refers to the four most publicized plans as those of the National Automobile Dealers Association, Inc.; L. J. Epps, president,

[23] National Used Car Exchange Week, March 5-12, 1938, is described in the section immediately following.

Consumer Steel Product Corporation; the Milwaukee Automotive Trades, Inc.; and Joseph E. Parker, Studebaker dealer of Butte, Mont. A brief summary of each of these plans as described in the enclosure are as follows:

National Automobile Dealers Association, Inc. plan.—Establish a motor-vehicle industry stabilization board with representation from factories, dealers, finance companies, and parts, accessory, and equipment manufacturers. Principal function to be administration of following junking program:

Approved yards to give demolition certificates to owners or dealers when receiving cars to be junked, good for $25 on purchase of new or used car from any dealer and on purchase of new car from factory by dealer. Yards to pay $1 apiece for certificates. Parts salvage included.

Epp's plan.—Form an automobile salvage corporation to buy all junk cars at $100 and completely scrap them, salvaging metal only. To be subsidized by manufacturers, dealers, and parts suppliers contributing 2 percent of their pay roll and their employees 2 percent of their pay. Estimated annual fund $500,000,000.

Milwaukee plan.—Factories to credit dealers with not less than 3 percent of their purchases at factory-delivered list, out of which fund dealers to draw junking bounties as follows:

For 1930 models, $65; for 1929 models, $50; for 1928 models, $35; all older models, $25. (Complete plan covering other elements not yet announced.)

Parker plan.—Government and factories to contribute equally to paying $40 per car junked and allowing dealers to junk one for each new car purchased. No provision for salvage except scrap. Government might raise its share by increasing excise tax 2½ percent. This would throw all of the burden on the new-car price.

The files of the Automobile Manufacturers Association, Inc., contain a copy of a used-car junking plan proposed by W. M. Packer, general sales manager, Packard Motor Car Co. Under this proposed plan, which is dated April 20, 1938, it is suggested that all automobile manufacturers set up a junking fund of 2 percent of the list price of automobiles sold, or $20 on a $1,000 car. Dealers would be credited by the manufacturer for the junking of one car for each two new cars purchased from the factory. This credit would amount to $40 if the new-car list prices are $1,000 each. Cars and their more important units would be destroyed in the presence of factory representatives so they would not be usable again and affidavits with proof of title covering each car junked would be required. In addition to the credit referred to above, dealers would receive $5 to $7.50 accruing from the sale of scrap.

On May 16, 1938, H. R. Cobleigh prepared a memorandum addressed to Alfred Reeves which is entitled "Is junking the best answer to the used-car problem?" In this memorandum Mr. Cobleigh states in part that:

Any junking program must be subsidized, but probably we are all agreed that we want the Government to have no part in it. It is our problem and it is for us to solve. The only practical way for the industry to underwrite its cost is to include an allowance for it in the new-car price.

Factories cannot produce cars unless dealers buy them. Dealers cannot buy them unless they sell them. Dealers cannot sell them unless they buy used cars in trade. Dealers cannot sell used cars taken in trade without buying more and older cars and so on until they have junk cars for which no market is left but the junk yards. Junk yards cannot under present salvage conditions, including the sale of second-hand parts, pay more than $5 to $10 for a junk car and usually nearer or below the lower figure. To owners of such cars they are worth more than their junk value and these owners will not trade them in for less than $25 to $50. So, to keep the process going, dealers have to take a loss of from $20 to $40 on every junk car.

If the manufacturers decide in favor of junking, the following is offered as a skeleton outline of the best plan yet studied. It is the only one that has been tried out. It was successfully operated on a small scale throughout 1933, being abandoned at the end of that year on the ground that the dealer N. R. A. code, permitting the dealers to set prices on used cars, made it no longer necessary. Since the dealer code minimum allowance was $25 its continuance would have been justified if more factories had been in it.[24]

H. R. Cobleigh believes that any general demolition plan by which usable parts of automobiles are salvaged and the remainder reduced to junk, should include the entire industry and that if General Motors Corporation, Ford Motor Co., and Chrysler Corporation undertook such a plan, the rest of the industry would do likewise. He suggested that should such a plan be undertaken, payment for obsolete cars could be derived from funds obtained by adding to the new car price.

Mr. Cobleigh does not claim that any plan for paying dealers more than the value of junk cars will cause dealers to allow just what they can realize from these cars, but he does claim that such a plan will tend to eliminate junk cars from commerce and from the highways.

Mr. Cobleigh referred to the fact that the consumer has been trained to expect liberal trade-in allowances for his used goods, and advertisers of various household commodities, such as radios, refrigerators, and other articles, often quote trade-in allowances, regardless of the condition of the used articles, obviously in excess of their value. He is of the opinion that in view of such consumer training, it is doubtful whether it would be practical to attempt to induce the buying public to accept the true value of their trade-in cars, and, if this cannot be done, then an attempt should be made to meet the situation in some other manner.

Section 16. National Used Car Exchange Week

On February 9, 1938, at a meeting of the sales managers of the Automobile Manufacturers Association, Inc., with the advertising managers of the industry, including the Ford Motor Co., and advertising agency representatives, Alfred Reeves, vice president and general manager of the Automobile Manufacturers Association, Inc., stated that a plan for a National Used Car Exchange Week had been approved by the board of directors of the Automobile Manufacturers Association, Inc., and that the board had referred the matter to the sales managers of the industry for further consideration and execution.

On February 14, 1938, the Automobile Manufacturers Association, Inc., prepared a bulletin with reference to National Used Car Exchange Week, with which an enclosure entitled, "Auto Manufacturers to Expend $1,250,000 on National Used Car Exchange Week," was transmitted to sales managers. This enclosure reads, in part, as follows:

> National Used Car Exchange Week, scheduled for March 5 to 12, is a cooperative plan which has been adopted by the automobile industry to break the jam of used-car stocks.
>
> The program provides for an expenditure of $1,250,000 by manufacturers in newspaper, radio, and outdoor advertising and in other promotional channels.
>
> It represents a desire on the part of manufacturers to assist dealers to "trade down" the inventory value of used-car stocks by selling the public on the advantages of "trading up" to a better car—while stocks are high, prices are low.
>
> Local activities would be carried on by civic committees comprising city officials, automobile dealers, local businessmen, and representatives of newspapers and radio stations.

[24] See "Highway safety plan extended," this section.

Local promotion would center about a downtown "Buy-a-Better-Car" exposition and used-car displays at dealer stores or lots.

Provision is made for cooperative effort by newspapers, radio stations, and various industries allied with the automobile industry.

Management.—National Used Car Exchange Week was under the general direction of the N. W. Ayer & Son, Inc., Advertising Agency. Funds were raised by assessing the manufacturers, including the Ford Motor Co., on the basis of their dollar volume of business for the year ended June 30, 1937, and each manufacturer was assessed his proportion of the $1,125,883.21 which was expended for the campaign.

The final accounting of National Used Car Exchange Week, as shown by Automobile Manufacturers Association, Inc., Bulletin No. 35, of July 5, 1938, was as follows:

The total cost of the campaign was $1,125,883.21, which represents a saving of $124,116.79 over the original budget of $1,250,000. Of the total cost, $1,073,090.37 went for newspaper space, radio time, and outdoor billboards. The remainder of the total was $52,792.84, which went for mechanical expense and which breaks down as follows:

Cost of publicity	$6, 438. 10
Outdoor paper and transportation	15, 938. 45
Preparation cost	5, 540. 00
Newspaper plates	24, 679. 29
Administration	197. 00
Total mechanical	52, 792. 84

You will note that the total mechanical figure is $485.40 less than the total given you in our letter of April 15. This is occasioned by the fact that cash discounts, in some cases, were not taken into consideration at that time.

The amounts for which each company is responsible, under the revised allocation supplied in your letter of April 5, line up as follows:

	Reallocation of total cost	Net total billed to manufacturers	Debits (−) and credits (+)
Ford	$235, 698. 81	$218, 018. 73	−$17, 680. 08
Chrysler	299, 750. 87	304, 811. 43	+5, 060. 56
General Motors	463, 051. 78	464, 422. 49	+1, 370. 71
Hudson	27, 510. 06	29, 557. 83	+2, 047. 77
Hupp	437. 97	619. 23	+181. 26
Nash	20, 812. 29	22, 441. 01	+1, 628. 72
Packard	40, 462. 10	41, 152. 69	+690. 59
Studebaker	24, 692. 98	29, 648. 76	+4, 955. 78
Willys-Overland	13, 466. 35	15, 211. 04	+1, 744. 69
Total		1, 125, 883. 21	1, 125, 883. 21

Benefits of National Used Car Exchange Week.—On March 21, 1938, an interoffice memorandum from Mr. Bryce, to Mr. Reeves, of the Automobile Manufacturers Association, Inc., was prepared with reference to the results of National Used Car Exchange Week. This memorandum reads in part as follows:

Study of all available data relating to the results of the used-car campaign reveals that the only Nation-wide figure that even carried the semblance of reliability are those which have been released by the Ford Co. covering its dealers.

Ford dealers are reported to have sold 57,894 used cars valued at $14,327,589 during the week of the campaign. In the process, their used-car inventory was reduced by 22,804 units.

If we assume that Ford dealers were representative of the entire industry, we would be justified in multiplying Ford results by a factor of 7.41. This would result in the following figures for the entire industry—428,974 cars sold; $106,163,070 value; reduction in inventory, 168,948 cars.

In the month of February, Ford dealers sold 67,733 used cars or 18.6 percent of the total sold by all new-car dealers. If we assume that Ford's share of the used-car business during the week of the campaign was no larger than it had been in February, we can justify the following estimates for the entire industry—308,756 cars sold; value, $76,411,000; reduction in inventory, 121,621 units.

Last year the Ford Co. sold 23 percent of all new cars sold in the United States. If their sales during the used-car campaign were in the same proportion as their new-car business last year then the following estimates for the entire industry are justified—250,862 cars sold; value, $62,084,000; reduction in inventory, 98,817 units.

A. D. N. reports used-car sales during the campaign week for 11 cities (Detroit, Seattle, Boston, San Antonio, Hartford, Bridgeport, South Bend, Kansas City, St. Louis, Harrisburg, and Washington) at 14,814. The population of these cities is approximately 5,150,000, or 7 percent of the total urban population of the United States. If we assume that sales in all cities throughout the United States were as good as they were in the 11 cities reported on, then the campaign accounted for the sale of roughly 200,000 cars.

Dealer reaction to National Used Car Exchange Week.—Various dealer associations wrote to the Automobile Manufacturers Association, Inc., with reference to the benefits of National Used Car Exchange Week, and the following copies of communications appear to be representative. The Omaha Automobile Trade Association, Inc., under date of March 21, 1938, wrote as follows:

A canvass of the dealers in Omaha would indicate that there was a used-car inventory reduction during the National Used Car Exchange Week of approximately $36,100, and 89 units.

We staged an outdoor used-car show on the sidewalks around the county courthouse, which is located right downtown in Omaha. We have a very wide sidewalk around the courthouse, which permitted this without interruption of traffic. We had a good deal of newspaper ballyhoo, as well as music, etc. The dealers feel that this was very helpful, and most of them sold some of the units that they had in this exhibit. We also procured permission from the city to display a used car on the sidewalk next to the curb in each dealer's place of business during the week.

It is the general consensus of opinion that the week was beneficial, not only from the standpoint of the volume of business actually obtained, but that there will be splendid accumulative results. People were made used-car conscious, and particularly our outdoor show brought a realization to many people of the very splendid units available in used-car inventories.

On March 16, 1938, the Arizona Automobile Dealers Association wrote the Automobile Manufacturers Association, Inc., as follows:

Referring to your letter of March 14, relative to the success of National Used Car Week in Arizona, a survey of the dealers throughout the State indicates that 10 percent of their total sales were clean deals. I do not have at hand the actual number of cars sold nor their volume.

Tucson and Phoenix dealers opened National Used Car Week with parades in their respective cities on Saturday morning, March 5, each dealer displaying two cars cleverly decorated with signs dealing with the fate of these cars. The parade was well advertised in advance, and ended at an advertised point just outside the city limits, where the cars were piled high one on another. In the early evening, before a huge audience, they were burned.

It is my opinion that this advertising feature, was well worth the venture, and obtained worthy results.

The Des Moines Automobile Dealers Association, Inc., reported to the Automobile Manufacturers Association, Inc., under date of March 18, 1938, as follows:

Replying to your circular letter dated March 14, beg leave to report in percentages only, due to the failure of most of the nonmember dealers and some member dealers to report their results but the following is based on actual figures furnished by those new-car dealers reporting:

(A) Sixty-six percent increase in number of units sold March 5–12, 1938, over like period in 1937.

(B) Eighty-six percent increase in dollar volume over like period in 1937.
(C) Fifty percent plus of deals were clean—no trade-ins.

We used the bonfire; a billboard (24 sheet) on a conspicuous downtown corner, listing names of participating new-car dealers and using the insignia; a motor-truck hauling a sample used car to be burned, carrying suitable banner signs, traveling the streets for 4 days following a loud speaker sound unit; a judicious amount of individual dealer advertising space in classified columns; used bombs and fireworks during the bonfire, etc.

Our activities were very effective and every dealer is very well satisfied with results.

Been suggested, to repeat annually, or even semiannually.

General impression on buyers, difficult to determine aside from effect already illustrated by actual sales made.

There are many more letters in the files of the Automobile Manufacturers Association, Inc., from dealer organizations in which the benefits of the used-car week are described.

In a special bulletin by the Automobile Manufacturers Association, Inc., dated March 18, 1938, reference was made to the approval of National Used Car Exchange Week as an outstanding success by automobile-dealer associations. An excerpt from this bulletin reads as follows:

The total number of cars sold and the dollar volume are not yet available, but a careful estimate indicates a sale in 12 days by dealers of 150,000 to 175,000 vehicles, or an average of 4 cars for each of the 46,000 dealers.

Section 17. Association Contacts With Dealers

Alfred Reeves, vice president and general manager of the Automobile Manufacturers Association, Inc., is of the opinion that all groups, whether of manufacturers, dealers, or consumers, should have common meeting grounds and their several associations should be continued. This applies to the National Automobile Dealers Association, the Automobile Manufacturers Association, Inc., and the American Automobile Association as well as to State or local associations or organizations.

Mr. Reeves believes that most of the motor-vehicle manufacturers have changed or modified their policies toward their dealers in one or more respects, although some manufacturers have been more liberal with regard to such changes in policy than others. He referred particularly to the dealers' relation board of the General Motors Corporation as being helpful to dealers and having great possibilities.

Dealers' problems.—Representatives of the Automobile Manufacturers Association, Inc., attend dealer meetings, where they answer questions pertaining to dealer problems and convey complaints to the manufacturers, and it is Mr. Reeves' opinion that the association has been helpful to dealers in connection with problems involving manufacturer-dealer relations.

On February 9, 1938, bulletin No. 88 was issued by the association. This bulletin is entitled:

Dealer Associations of Virginia, Maryland, Delaware, District of Columbia, Philadelphia, Newark, Brooklyn, and New York Appreciate Conferences on Factory-Dealer Relations with Association's Representatives.

Bulletin No. 88 was accompanied by a report entitled:

Dealers Present Problems of Distribution to Representatives of Manufacturers, Association.

The report, which accompanied bulletin No. 88, was prepared by Alfred Reeves, vice president and general manager of the association, and describes in considerable detail problems presented by dealers at these meetings.

With reference to the association's policy with respect to dealer problems, the report reads in part as follows:

At these various meetings scores of dealers representing every motor-vehicle manufacturer and every make of car were present, and in each instance we were informed that their viewpoints reflected generally motor-vehicle dealer opinion in their respective States and cities.

At the outset of all of the meetings it was evident that motor-vehicle dealers, in discussing their problems and the parts which they wished the manufacturers to play in solving these problems held the opinion that the manufacturers were accustomed, through the medium of Automobile Manufacturers Association to unite and coordinate their efforts for common objectives presumably beneficial only to themselves.

In consequence every meeting was prefaced with an explanation that in the formation of its merchandising policies and practices and in its relationship to wholesale and retail dealers, each and every motor-vehicle manufacturer, whether a member of Automobile Manufacturers Association or not, pursues and always will pursue an independent course which, in its judgment is best suited to produce beneficial results.

It was further emphasized that neither Automobile Manufacturers Association, nor any of its representatives had any power at any time to obligate motor-vehicle manufacturers, collectively, to any course of action without a definite and formal resolution on the subject by the board of directors, and that such resolution would then only be applicable to the members of the organization and could not in any way affect the policies and practices of a nonmember such as the Ford Motor Co.

With a thorough understanding of these premises therefore, every dealer at each one of the meetings came to a full realization that, so far as any of his own problems or grievances against factory policies were concerned, they would, of necessity, have to be taken up directly with the factory that he represented and could not be subjected to the concerted action of all members of the motor vehicle manufacturing branch of the industry, either through Automobile Manufacturers Association or otherwise.

The report contains a résumé of the more important questions raised by dealers, as follows:

I. Are the factories cognizant of dealer unrest and financial hardships caused by multiple dealerships and, if so, are they considering any constructive steps to alleviate this condition?

II. Should dealer contracts be liberalized by the addition of provisions providing for closed territories with infringement penalties, cancelation for cause only, and a definite time limitation?

III. Do the various manufacturers give active consideration to the establishment of sales potentials in order to avoid forcing or glutting the market?

IV. Is the present dealer discount—amounting to a mark-up of 33⅓ percent or a mark-down of 25 percent—adequate in amount, in view of the fact that there is no mark-up on freight, handling, advertising, etc., and in consideration of added handling charges in the form of Federal and State social-security taxes, etc.?

V. Are manufacturers taking active steps to prevent the bootlegging of new cars?

VI. Should any of the used car "junking" plans that had been advocated from time to time be put into operation?

VII. Is there any plan, such as a used-car appraisal-bureau system, which would work effectively to curb exorbitant used car losses in the larger trading areas of this country?

VIII. Why shouldn't the manufacturers help in the used-car problems?

These questions, as well as others raised by dealers, were discussed in the report from the standpoint of the dealers, and after this discussion the report concluded as follows:

FACTORY CONSIDERATION ESSENTIAL

Motor-vehicle manufacturers must individually determine whether or not the questions regarding factory-dealer relations raised in this report have any bearing upon their own activities in the States and cities noted.

In like manner each manufacturer must determine whether the recommendations of the dealers as to the betterment of factory-dealer relations are worthy of consideration and should be more thoroughly investigated with a view to their possible adoption.

The questions raised by the dealers and the answers which they have suggested for their solution and the part which the factories should play in such solutions clearly indicate a state of unrest which in the long run can hardly be advantageous, either to the dealers or their factories, if the troubles which they imply are not removed. This consideration is aside from responsibility for the problems or soundness of the dealers' suggestions for their solution.

Apropos of these observations, we are informed that to date only one of the manufacturers has made an intensive study of motor vehicle retailing conditions in the Seattle, Wash., area from its individual standpoint, as based upon the general findings of the association's representative as reported to member companies, October 19, 1937.

Likewise, the Automobile Dealers Association of Indiana have complained that manufacturers have failed to give any attention to dealer problems existing in that State and have ignored the constructive recommendations which they developed, as reported to you in our letter of November 16, 1937.

Contracts.—The minutes of the sales managers committee meeting of August 21, 1934, contain a recommendation by the committee that members give careful consideration to their contracts for the year following in order that they will be written in such a way as to allow freedom of action in negotiating with their dealers. This recommendation was with reference to the position of manufacturers in relation to the National Industrial Recovery Act Dealers' Code. The section of the minutes pertaining to this matter reads as follows:

It was decided that the question as to whether or not manufacturers should have any part in enforcing the dealers' code was a subject which could only come under the jurisdiction of the directors of the National Automobile Chamber of Commerce. The committee makes the recommendation, however, that all members give careful consideration to their contracts for next year in order that they will be written in such a way as to allow freedom of action in negotiating with their dealers.

The committee voted unanimously against cancelation of fleet buyers' contracts which were made following a specific agreement with the Motor Vehicle Retailing Code Authority, which was covered by National Automobile Chamber of Commerce Bulletin G–1665 dated January 12, 1934.

A reference to the liberalization of dealer contracts appears in Legislative Bulletin No. L–128, dated November 15, 1938. This bulletin refers particularly to the dealer licensing laws of Wisconsin, Iowa, Nebraska, and Ohio, and contains the following subheading: "Voluntary cooperation rather than governmental regulation in factory-dealer relations gaining favor."

Paragraph 4, which refers to liberalizing dealer agreements, reads as follows:

Reaction against State motor-vehicle licensing laws for dealers because of concern over the implications and possible consequences of governmental regulation and control over motor-vehicle retailing has set in rather generally throughout the country in recent weeks. Without question the many steps which most of the factories have taken to liberalize their contracts with dealers have convinced the latter that more will be gained by voluntary cooperation between the parties concerned than by governmental mandate in the betterment of factory-dealer relations.

Withrow resolution.—Under date of December 10, 1937, a general letter was sent to member presidents and sales managers by the Automobile Manufacturers Association, Inc., the first paragraph of which reads as follows:

> Executives of many companies believe that the Congressman Withrow (Wisconsin) resolution calling for a Federal Trade Commission investigation into automobile manufacturer-dealer relations should be welcomed by manufacturers because the industry has nothing to conceal and believes its present method of marketing motor cars is in the public interest.

This letter referred to a meeting of the executive committee on December 16 which had been called by President Macauley in order to make proper preparation to present the manufacturers' viewpoint before the subcommittee of the Interstate Commerce Committee of the House of Representatives on December 17. The purposes of the investigation as outlined in the resolution were set forth, and suggestions from the members of the association which they believed would be helpful to President Macauley were solicited.

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CHAPTER III. THE NATURE AND BASIS OF MANUFACTURER-DEALER RELATIONS

SECTION 1. EVOLUTION OF MOTOR-VEHICLE DISTRIBUTION

Nature and scope of discussion.—The evolution by which the functions performed by the automobile retailer have developed from those of a manufacturer's agent, with little or no investment in place of business, service equipment, stock of automobiles, repairs and accessories, to those of an independent merchant employing from a few thousands of dollars for the smallest dealers to half a million dollars or more for the largest dealers has been accompanied by very serious economic and legal results. For the purposes of this report, however, it is unnecessary to do more than indicate some of the principal changes that have taken place and then proceed directly to a discussion of the agreements signed between manufacturers and dealers which, along with practices that have become customs of the trade, serve as the basis for manufacturer-dealer relations. A comparative analysis of the principal subjects covered in the dealer agreements of the principal manufacturers is the subject matter covered by this chapter which is followed by other chapters that discuss in detail many of the policies and practices that have come to have practically the standing of customs of the trade respecting manufacturer-dealer relationships.

Development of motor-vehicle distribution.—It is important to note that the period during which the automobile industry grew to its present size was relatively short. For a number of years beginning about 1900, manufacturing companies were relatively small but quite numerous. Their individual productions often did not amount to more than a few hundred cars per year. During this period, the sale of automobiles was largely accomplished through manufacturers' agents who handled cars on consignment, and whose investment often included no more than the agent's personal car which he used as a demonstrator. The prices of automobiles were relatively high and sales volume was small, but the dealers' margins in the form of commissions were relatively large.

Development of wholesale agencies.—This form of distribution did not prove satisfactory for several reasons. Wider territorial distribution required more extensive wholesaling organizations to handle the ever-increasing number of retailers. Also, the automobile required special service to keep it in good mechanical operating condition. Automobile manufacturers generally had relatively small capital resources which were largely invested in factories, raw materials, and production.

With automobiles increasing in public demand, the manufacturer's principal problem was that of building enough machines to supply his trade. While this condition prevailed, expansion of producing facilities often was more important than development of a controlled wholesale organization. Therefore territorial expansion of market was often sought by giving the wholesale franchise to independently owned distributors who combined in their operations both wholesaling and retailing in their respective territories. These independently owned distributors sold at retail from their respective places of business and also entered into agreements with other independent persons or corporations who sold at retail in specified territories.

An outstanding instance of this type of distribution was that of the Everitt-Metzger-Flanders Co., manufacturers of the E. M. F. automobile, which, prior to 1910, contracted with the Studebaker Bros. Manufacturing Co. of South Bend, Ind., to purchase and distribute the output of the Flanders Co. through Studebaker's national distribution organization built up over a period of many years to handle Studebaker wagons and carriages. This arrangement had the advantage of giving the Flanders Co. a ready-made distribution organization but, at the same time, had the disadvantage that the Flanders Co. lacked control over the selling activities of its distributor. Somewhat later, factory production exceeded sales by the Studebaker Bros. Manufacturing Co. and the latter refused to take more automobiles with the result that the factory had no immediate outlet for further production.

After a period of litigation in which the Everitt-Metzger-Flanders Co. attempted to force the distributors to take cars, the Studebaker Corporation was formed in February 1911, as a consolidation of Studebaker Bros. Manufacturing Co. and Everitt-Metzger-Flanders Co.[1] The new company combined both the manufacturing and distribution interests of the two companies. At the present time Studebaker Corporation carries on wholesale distribution both through its owned branches and through independent distributors.

Over a period of from 20 to 30 years the wholesale distribution systems of the different manufacturers as they exist today have been developed. Some manufacturers built up distribution organizations combining in varying degrees owned wholesale branches, often in connection with local assembly plants owned by the manufacturer, and independent wholesale distributors. Some make large use of owned branches while others depend largely upon numerous independently owned distributors who generally combine in their operations local retailing in the city in which they are located and wholesale distribution in a larger territory surrounding the distributor's retail operations. The greater part of these developments occurred between 1900 and 1920.

Expansion of retail functions.—During the period from 1900 to 1920 the functions performed by retailers were undergoing radical changes by which the retailer ceased to be the manufacturer's agent and became an independent merchant. The need of automobile owners for special service to keep their machines in operating condition led to the establishment of garages and service stations, often owned and operated in the early days by the same men who sold automobiles as manufacturer's agents. Thus the manufacturer's agents acquired with their own capital places of business which could also be made to serve as display and salesrooms for automobiles.

In some instances cars so placed on display were sold on consignment from manufacturers, and in other instances they were purchased outright from the manufacturers by the dealers. The manufacturer's

[1] Moody's, 1912, p. 3622.

need for cash, previously mentioned, appears to have swung prevailing practice in the direction of outright purchase by the dealer. Thus, although in some cases the agreement under which the retailer sold automobiles continued to be, in form at least, an agency contract between the manufacturer and the retailer, the retailer's position was gradually becoming that of an independent merchant. For instance, as late as 1917, the contracts or agreements between Ford Motor Co. and its dealers were, in terms, specifically contracts of agency under which title to the automobiles handled by the dealer remained in the Ford Co. until the machines had been sold by the dealer. The dealer's functions, however, had been so extended that in a case initiated in 1917 a Federal court declared in its opinion that although the dealer agreement was in form a contract of agency, it was essentially a contract of absolute sale.[2]

Basis of dealer payment for new cars.—A survival of the system of agency distribution and of the manufacturer's need for money in the early days of the industry with which to continue manufacturing operations appears to be the requirement that dealers shall pay cash f. o. b. factory or manufacturer's wholesale delivery point, or on the basis of sight draft, bill of lading attached. With the transition of the retailer from a manufacturer's agent to an independent merchant, this requirement was retained as the custom of the trade and has become an important factor in both manufacturer-dealer and manufacturer-finance company relations.

Until about 1915 the dealer's principal sources of cash for the purchase of automobiles was the dealer's own capital and his ability to borrow at local banks. Bankers generally discouraged the sale of automobiles on time, and lack of capital on the part of dealers limited the dealer's ability to grant credit to customers. Time sales were necessarily made largely on the basis of notes that the dealer could discount at his local bank.

About 1915, however, the success of installment selling in other lines led manufacturers to give consideration to such selling as a means of increasing automobile sales. This resulted in the development of automobile time sales financing as it is at present known.

At first there was no past experience upon which to judge the extent of risks involved. Some manufacturers, therefore, paid to finance companies substantial sums of money over and above the finance rates charged by the finance companies to automobile purchasers. Automobile financing through the purchase of installment contracts involved in retail sales to customers proved highly profitable to the pioneering finance companies. The next step was to extend the financing activities of such companies to the wholesale financing of cars on dealers' showroom floors.

The profitableness of automobile financing promptly attracted to the business numerous finance companies that would purchase both dealers' wholesale paper and consumers' installment paper without payment or subsidy from the manufacturer. Still later each of the three largest manufacturers, namely, General Motors, Chrysler, and Ford, became interested financially in a finance company of its own. At the present time, however, only General Motors owns outright its own finance company.

[2] *Ford Motor Co.* v. *Union Motor Sales Co. et al.* (244 Fed. 156).

After the dealer has established a line of wholesale credit with a finance company, it becomes a simple matter for the finance company to act as the dealer's agent in settling promptly with the manufacturer for cars as they are shipped to the dealer. As this fits well into the manufacturer's requirement that cars shall be paid for as shipped, many finance companies maintain representatives at factories and factory-branch points to handle this business. In turn, manufacturers recommend that their dealers use the wholesale financing services of large finance companies whose volume of business is sufficient to maintain such factory-point representatives. Among manufacturers who owned their own finance companies this recommendation became practically a requirement that the dealers deal through the manufacturers' affiliated finance company.

This requirement on the part of the leading automobile manufacturers was made a matter of inquiry by the Department of Justice in 1937, with the result that criminal proceedings were instituted against the General Motors Corporation, General Motors Acceptance Corporation, the Chrysler Corporation, Commercial Credit Co., Ford Motor Co., and the Universal Credit Corporation, in the District Court of the United States for the Northern District of Indiana in May 1938. The case against General Motors Corporation and the General Motors Acceptance Corporation is still pending, but the other defendants entered into provisional consent decrees in November 1938,[3] whereby the manufacturers were required to permit any finance company to participate in the financing of automobiles by retail-dealer customers and to furnish the same information to such finance companies as had been furnished and was being furnished to the favored finance companies in the past; and the manufacturers were further required to not discriminate among their dealers in any manner for the purpose of influencing the dealer to patronize the favored finance company, or any finance company; nor to further continue any contract or agreement with any dealer which requires the dealer to patronize any particular finance company or to observe any plan for financing the purchase and sale of automobiles designated by the manufacturer; and the manufacturers were further required to not cancel or terminate any franchise with any dealer, or to threaten to do so, because of the failure of such dealer to patronize any particular finance company.

Two periods of development in manufacturer's distribution.—As long as the principal problem of manufacturers whose products won public favor was the production of enough automobiles to satisfy public demand, the principal duty of the manufacturer's sales manager was to apportion available production to retailers. This situation appears to have prevailed quite generally until after 1920. With resumption of pleasure-car manufacture after the war, however, this situation gradually changed, and it became easier to make cars than to sell them. The depression of the early twenties accentuated this situation, both with respect to new cars and with respect to used cars taken in trade. Many dealer failures, due to the freezing of dealer capital in inventories of used cars for which ready market could not be found, and which depreciated rapidly in value in the hands of dealers,

[3] *U. S.* v. *Ford Motor Co. et al.*, civil No. 8, in District Court of the United States, Northern District of Indiana. *U. S.* v. *Chrysler Corp. et al.*, civil No. 9, in District Court of the United States, Northern District of Indiana.

caused the principal manufacturers to give greater attention to the used car as a factor in the sale of new cars.

From this time on, manufacturers were compelled to give increasing attention to selling automobiles. Prior to 1923 the outstanding manufacturers, in point of size, were General Motors and Ford. After 1923 Chrysler began to stand out as a third rapidly developing large manufacturing organization, basing its appeal to public favor on style and performance of its products. Other manufacturers began to give more and more attention to style and performance, particularly in the lower-priced cars. Ford was the last to engage in this form of manufacturers' competition in 1928, when the model A was substituted for the outmoded model T.

From 1926 onward competition in performance and appearance became a most important factor in the improvement of automobiles, especially in the lower-priced and medium-priced classes. Model changes in which more and more power, speed, and safety were built into cars, and body styles likewise changed annually to appeal to the eye and exploit the customers' desire for the latest model, became characteristic of the automobile industry. In this connection also it is to be noted that high-priced cars were the first to approach the saturation point, as evidenced by stability in the number of new cars sold as sales went on a replacement basis. During the period, volume sales of low- and medium-priced lines became the backbone of the production of all successful large manufacturers. Gradually these lines, too, approached the basis of sales of new cars equaling replacements, and each manufacturer turned his attention to holding and increasing his proportion of total registrations of new cars in each price class in which he manufactured.

The manufacturer's interest in dealer operations.—The manufacturer's interest in the activities of his dealers centers about the fact that the dealer is his direct selling contact with the public. The manufacturer is directly interested in having each of his dealers give adequate representation to the products handled. The practice has grown up for manufacturers to insist that their dealers shall not handle competing automobiles, accessories, or repair parts made by other manufacturers; in other words, that the dealer shall give exclusive representation to one manufacturer's line.

Since the dealer normally is the manufacturer's direct contact with the purchaser, the manufacturer becomes vitally interested in the volume of his product sold by each of his dealers. For this reason he is interested in the quality of salesmanship maintained by the dealer and in order to keep dealers keyed up to the point of obtaining maximum volume of sales, periodic quotas or estimates are given to dealers; and manufacturers' representatives, by frequent contacts, attempt to stimulate dealers to the point of putting forth maximum efforts to attain such quotas. The least that a dealer is expected to do is to sell enough new cars to maintain his manufacturer's percentage of new car registrations in the area in which the dealer operates.

As previously indicated, the vital relationship of trade-ins to volume of sales and to the profits of dealers makes this also a matter of interest to the manufacturer. Since volume of sales is the manufacturer's primary interest in each dealer's operations, the position taken with respect to the dealer's trade-in policy and practice is likely to be one favoring the giving of high trade-in allowances rather than that of recommending conservative trade-ins that might mean loss of sales to other makes of automobiles.

Manufacturers are also interested in the matter of prices at which retailers sell their products. In general, the position taken by the manufacturer is that his product shall be retailed at the lowest possible price consistent with reasonable profit and permanence among his retailers. Formerly it was the practice of manufacturers to advertise widely to the public the prices of automobiles f. o. b. Detroit or other manufacturing point. For a number of years it was customary in the industry for the automobile manufacturers to advertise (in various newspapers and magazines, price lists, etc.), the f. o. b. price for passenger vehicles so illustrated or described in such advertisements as to convey the impression in the minds of members of the purchasing public that fully equipped cars so illustrated or described might be purchased complete and ready for operation at the factory or delivery points for the prices designated and featured in the advertisements. These prices, however, generally did not include the full equipment normally sold with automobiles and usually referred to the cheaper models whereas the expensive models were displayed or illustrated.

There had been agitation in the industry for a reform of these advertising practices and the Commission made a full investigation of this industry practice. All of the passenger car manufacturers except General Motors, Ford Motor Co., and the Willys-Overland Motors, Inc., entered into stipulations with the Commission and agreed to discontinue this practice. The General Motors Corporation, Ford Motor Co., and Willys-Overland Motors, Inc., refused to enter into a stipulation, and the Commission issued complaints against these three corporations, charging them with false and misleading advertising in violation of section 5 of the Federal Trade Commission Act in the use of the practice described above. In July 1938 the Willys-Overland Motors, Inc., filed an answer admitting the material allegations of fact in the complaint and an order to cease and desist was issued by the Commission. The proceedings on the Commission's complaints against General Motors and Ford were pending before the Commission at this time (1939).

Wherever this practice was followed by automobile manufacturers, it was impossible for the prospective customer to figure the price that he would have to pay for an automobile in the locality where he lived by adding to the f. o. b. price at Detroit an amount sufficient to cover transportation. The difficulty faced by customers in this respect opened the way for the possible padding of the price by the dealer by the inclusion of charges other than those listed by the manufacturer for accessories, services, advertising or other charges. The practice of padding by dealers, in arriving at cash selling prices, however, is generally discouraged by the manufacturer on the basis that such practices increase the price of automobiles to the customer. Likewise the practice of dealers padding in a similar manner the finance charges that are added to the cash price in time sales is also generally frowned upon by manufacturers for the reason that such padding increases the prices paid by installment buyers.

Services performed by dealers.—The services of the retail automobile dealer are by no means discharged when he has successfully made the sale of an automobile. In connection with that sale, he has obligated himself, under the plans of the various manufacturers, to give periodic inspections during what is known as the free service period. The object of this service, which is given at the direction of the manufacturer, is to see that the automobile is properly cared for during its initial period of service, thus forestalling possible consumer complaints by the correction of any poor adjustments that might exist in the machine's mechanism and of effectually carrying out the manufacturer's standard warranty respecting the replacement of defective parts.

After the warranty period has expired, the dealer's responsibility for making repairs and services becomes a matter largely between himself and the customer. The manufacturer, however, still continues to have a direct interest in the services given by the dealers as a means of creating customer satisfaction that will result in repeat orders for new cars of its manufacture. Therefore, the dealer continues to perform a distinct service for both the manufacturer and the customer after the warranty period has expired.

The automobile manufacturers express an interest in repair services not only as to the quality of mechanical attention given the cars but also to the type of repair parts sold by the dealer and installed in connection with his repair services. In general, the position taken by the manufacturer is that his dealers shall not use any parts other than those manufactured or approved by the automobile manufacturer. All other parts are regarded by the automobile manufacturer as "foreign," "pirate," "gyp," "bogus," or "counterfeit" parts, the use of which, it is claimed by the automobile manufacturer, may result in consumer dissatisfaction detrimental to the manufacturer's interest. Automobile manufacturers insist that dealers shall handle exclusively repair parts, and often accessories, manufactured or approved by the automobile manufacturer for use with his products.

In addition to these services performed by the retailer which affect both the customer's and the automobile manufacturer's interests, the retailer normally carries on a merchandising business in the sale of accessories, oil, gasoline, and automobile supplies other than those normally furnished by the automobile manufacturer. However, there has been a steady decrease in the number of accessories handled by automobile dealers, the manufacture or the distribution of which is not controlled by the manufacturers of automobiles. Thus, automobile manufacturers are gradually gaining control of the merchandising of accessories by their dealers and restricting the number of outlets available to other manufacturers and distributors of accessories.

Dealer supervision by manufacturers.—The amount of supervisory contacts maintained by manufacturers over their retailers in the automobile industry is considerably greater than in most lines of business. This supervision includes a close check on dealer activities through periodic reports of cars sold and in stock, orders, and, especially by the largest manufacturers, monthly reports covering balance sheets and profit and loss statements which are studied by the home office. Special importance attaches to periodic, sometimes weekly, reports of sales and stocks of both new and used cars which are used as the basis for checking the individual dealer's performance in relation to his sales estimates or quotas, and of ascertaining his financial position with respect to used car inventory and operations. In addition, the manufacturer's sales and service representatives make periodic visits to inspect the dealer's premises, displays, stocks of new and used cars, parts and accessories, new and used car merchandising and service organizations and operations and, in general, advise dealers regarding matters such as accounting, personnel, sales and servicing organization, activity and management which, in the opinion of the manufacturer's representatives, will enable the dealer to increase new car sales. Detailed attention is given to dealer location, lay-out of sales, repair and service areas and facilities, appearance and cleanliness of place of business, dress of employees, and their attitude in meeting the public.

The results of these surveys are made matters of reports to the main or zone branch office by the representatives following each call at the dealer's place of business and become the basis for judging the quality of the dealership and later for recommendations to the dealers from sales, service, used-car and consumer-relations supervisors at the manufacturer's main or zone branch offices.

The nature and extent of the manufacturer's field organization supervising dealer activities and performance varies with different manufacturers, and with the type of distribution organization used. Manufacturers using independent wholesale-distributors who in turn contract with retailers for the sale of automobiles exercise this control somewhat indirectly through the distributor while those manufacturers who operate their own wholesale organizations make supervisory contacts directly with their dealers.

These highly organized supervisory activities with dealers stem quite naturally from the days when the retailer was a manufacturer's agent rather than an independent merchant. In addition, they grow out of the fact that the development of the automobile trade has been so rapid, and the establishment of adequate repairs and other services by dealers has been so important that manufacturers have given special attention to them as a requirement for satisfactory dealership. In addition, supervision of dealer activities has become an integral part of the competition among manufacturers for volume of sales, as evidenced by the close check kept by manufacturers over the performance of dealers through their 10-day or other periodic reports of sales.

With the rapid rise of trade-ins in importance as a factor affecting sales of new automobiles, the merchandising of used automobiles by dealers became a subject of interest to manufacturers because unless used cars taken as part or all of the down payment on new automobiles are promptly and satisfactorily merchandised, the dealers' working capital and profit soon are represented by an inventory of used cars that may have a market value far less than the amount allowed for them in trade. The dealer who makes excessive allowances and then keeps his capital and profits tied up in an inventory of used cars that is rapidly decreasing in value, due to obsolescence if kept on hand, is headed for bankruptcy with consequent loss to the manufacturer of the dealer's volume of sales. If, on the other hand, the dealer trades too conservatively in making allowances on used cars and thereby loses trade to dealers handling another manufacturer's automobiles, he is likewise an undesirable dealer because he does not keep up his percentage of total new-car registrations for the manufacturer he represents. Therefore, the manufacturer gives attention through his field force to the used-car operations of his dealers to see that they are neither too conservative, nor too "wild" or careless in trading and merchandising of used cars taken in trade.

Contractual basis for manufacturer-dealer relations.—Aside from the general economic factors which have been indicated to some extent, the fundamental legal basis for manufacturer-dealer relations is to be found in the agreement entered into between the manufacturer, or the manufacturer's wholesale distributor, and the retail dealer. This agreement is, in effect, nothing more than an agreement on the part of the manufacturer to permit the dealer to purchase for cash and to resell for cash or whatever equivalent the dealer may choose to accept, automobiles made by the particular manufacturer during such period and under such conditions as are outlined in the agreement. In other words, the manufacturer-dealer agreement, commonly spoken of in the trade as a "franchise," merely sets out the conditions under which the dealer may buy and sell motor vehicles made by the manufacturer generally with the understanding, expressed or implied, that the dealer will handle exclusively the products of one manufacturer.

These agreements are between parties of very unequal economic strength and bargaining power. The terms of agreements are set up by the manufacturer, and neither the manufacturer's field representative nor the dealer is permitted to make any changes in the printed forms. Having been thus drawn and insisted upon by manufacturers with years of operating experience as a background, the agreements contain whatever clauses protecting the manufacturer's interest he chooses to put into them, and likewise only such clauses protecting the dealer's interest the manufacturer chooses to put into them. The only option open to the dealer when an agreement is presented to him is to sign it as presented or to refuse to sign it. Here the unequal positions of dealer and manufacturer are all in favor of the manufacturer. The dealer refusing to sign effectively puts himself out of business so far as that particular manufacturer is concerned for without a signed agreement he cannot purchase any automobiles from that manufacturer.

To the manufacturer, however, refusal of any particular dealer to sign means only the loss of one of the many dealer outlets on which the manufacturer's distribution is based, and there always is the opportunity to find another dealer outlet to replace the one refusing to sign. Loss of the dealer franchise is vital to the business of the dealer, so far as business in the products of that particular manufacturer is concerned, but loss of a particular dealer is by no means a vital loss to the manufacturer.

Another important factor to keep in mind throughout the ensuing discussion of the terms of manufacturer-dealer contracts is the fact that the agreements of various manufacturers are, and have been for many years, strikingly similar in intent and meaning of provisions that have to do with the protection of the respective interests of manufacturers and dealers, although the language in which the various provisions are stated may vary quite widely as they appear in the agreements of different manufacturers. This similarity is made the subject matter of section 2 of this chapter immediately following.

SECTION 2. PRINCIPAL PROVISIONS OF MANUFACTURER-DEALER AGREEMENTS AFFECTING DEALERS

Scope of presentation.—This analysis of the manufacturer-dealer agreements includes the more important clauses in each of the several manufacturer-dealer agreements. Each manufacturer's agreement deals with the same general problems and subject matter and many of the agreements of the different manufacturers cover the same subjects in a similar manner. This study sets forth the general provisions common to all agreements, disregards mere difference in phraseology and ignores technical distinctions. However, attention is called to all major differences and unique provisions in the several different agreements.

When this study was begun, the latest available agreements were those for 1938, which were the ones in effect when the resolution calling for this inquiry was passed, and they form the basis of this section. However, inasmuch as the 1939 agreements became available before the study was finished, they, too, are considered and appropriate reference is made to material differences between the 1939 agreements and those for 1938.

Inasmuch as the comparison and restatement of each of the 1938–39 factory-dealer agreements required that consideration be given to several types of dealer agreements of the seven independent passenger automobile manufacturers and the eight divisions of the big three manufacturers, as they affected dealer relations in the Nation as a whole and as they related to particular States, such as Texas and California, it was necessary to consider more than 100 different agreements for the year 1938 alone in order to make any authoritative comments thereon.

It was, therefore, concluded that the most that could be done in a detailed way was to consolidate and restate in simple language the more important clauses of the 1938 and 1939 factory-dealer agreements, calling attention to the noteworthy exceptions to the provisions prevailing generally in all agreements.

However, reference to several of the agreements of 4 or 5 years ago and discussion of the new and older agreements with the legal departments of both the National Automobile Dealers Association and the Automobile Manufacturers Association and the legal and sales departments of a majority of the manufacturers, including Ford and Chrysler, have developed that the present agreements contain several provisions that were not customarily found in factory-dealer agreements of about 1933, 1934, and 1935, although clauses similar to some of these recent clauses formerly were in the agreements of some of the manufacturers many years ago. A number of these points are mentioned in the course of the ensuing discussion.

Parties to the agreements.—The usual parties to the agreement are an automobile manufacturer and a dealer or distributor. General Motors Corporation, Chrysler Corporation, and Ford Motor Co. usually enter into agreements directly with retail dealers (sometimes called "direct dealers"), which dealers have the right and duty to appoint associate or subdealers subject to factory approval, and to which sub or associate dealers the direct dealer sells company products on a wholesale discount basis.

The larger manufacturers, General Motors, Chrysler, and Ford, have established factory branches or zone offices in various parts of the country to conduct factory distribution and dealer supervision in their respective areas. Some use is still made of distributors who have subdealers, but the tendency is for such use to decrease.

Independent manufacturers other than the three named above have established comparatively few factory branches. It is, therefore, necessary that they continue to administer many of their wholesale requirements through their primary dealers and since one of these functions is to assist in the distribution of company products as well as to partially supervise the selling activities of the smaller or secondary dealers, this group of manufacturers continues to designate their primary dealers as "distributors." If these distributors have associate or subdealers, they are given a somewhat larger discount, or so-called override, as compensation for the wholesale functions they perform. As the contractual relationship of the distributor with its manufacturer, and of the direct dealer with the manufacturer are quite similar, wherever the term "factory-dealer agreements" is used herein, it embraces all manufacturer-primary-dealer agreements whether they be designated as factory-distributor or factory-direct dealer.

Associate dealers.—Most of the agreements (but not those of the Ford Motor Co.), provide specifically that the distributor or dealer, with the approval of the manufacturer, agrees to appoint associate dealers at such places within the dealer's territory as the manufacturer may deem advisable. In case the dealer neglects to appoint associate dealers at the request of manufacturer, then the manufacturer shall have the right to appoint associate dealers at the places the manufacturer designates.

The agreement forms used by dealers and distributors with their sub or associate dealers are prepared by the factory, and are subject to factory approval, although in form they usually are between the dealer and the associate or subdealer. Some agreements are actually tripartite in form including the manufacturer as a party but usually the manufacturer is not a formal party despite the fact that the manufacturer prescribes the terms of the relationship, which, by the terms of the agreement, does not become effective until accepted by the manufacturer.

Most of the manufacturer-dealer agreements provide that if the dealer or distributor agreement is canceled by the manufacturer, the manufacturer shall have the right at his election to be subrogated to all the rights and relations of the dealer with the said dealer's associate or subdealers. The associate and subdealers are bound by the same general requirements and policies as the factory binds its direct dealers or distributors, and many manufacturers supervise associate and subdealerships in the same manner, though probably less stringently and by less frequent contacts than in the case of the larger direct dealers. Other manufacturers place the responsibility for associate and subdealer adherence to factory policy upon the distributor or direct dealer. Thus, while in form the associate or subdealer's relationship is with the direct dealer or distributor, in fact its contact with the factory is very close.

The manufacturer establishes the specific discounts at which the dealer is to sell the company's products to the associate dealer. Such discounts generally are the regular retail-dealer discounts.

Sales territory.—The majority of the manufacturer-dealer agreements designate the dealer sales area and provide that the dealer shall have the right (exclusive or nonexclusive) to purchase motor vehicles for resale in the described sales area and not elsewhere, and the further right to purchase parts and accessories for resale without limitation as to sales area. All company products are to be purchased at such prices as the manufacturer shall from time to time establish.

General Motors Sales Corporation and Chrysler Corporation, through their several selling divisions, grant the dealer the exclusive right to purchase motor vehicles for resale in the described sales area subject to certain exceptions and rights reserved to the manufacturer. The territory security plan is not in general use for all Chevrolet dealerships, but the Chevrolet division is gradually placing its territory security plan in use in various parts of the country.

The most notable exception is that the several selling divisions of both General Motors Sales Corporation and Chrysler Corporation reserve the right of designating certain territories as nonexclusive and do usually designate metropolitan areas as nonexclusive.

Chrysler Corporation zones the nonexclusive metropolitan areas and restricts by agreement the number of competing dealers therein handling the same make of car. Most of the General Motors agreements provide for factory surveys of the selling potential in multiple-dealer areas and for limitation of the number of dealers in those multiple-dealer metropolitan areas in proportion to the selling potential.

Another notable exception in the case of the selling divisions of the Chrysler Corporation is that the agreements of the Chrysler, DeSoto, and Dodge sales divisions provide that each Chrysler, DeSoto, and Dodge dealer shall also have the nonexclusive right to purchase and resell Plymouth motorcars.

Similarly, the various manufacturers, including Ford Motor Co., Nash-Kelvinator Corporation, Chrysler Corporation, Packard Motor Car Co., General Motors Corporation, the Studebaker Corporation, Hudson Motor Car Co., Graham-Paige Motors Corporation, Hupp Motor Car Corporation, and Willys-Overland Motors, Inc., grant exclusive territories to their distributors and some of their dealers, and limit the numer of dealers in a selling area as a matter of administrative policy, even though their agreements may not refer to the subject.

The Ford Motor Co. sales agreement provides that Ford dealers can resell its products anywhere within the boundaries of the United States, subject to the right reserved by the company to sell direct to other dealers and to retail purchasers in any part of the United States, and subject also to the provision that the dealer, on request by the company, must turn over to Ford Motor Co. orders received from the United States Government or any of its departments or from the American Red Cross, without remuneration. Ford Motor Co. also restricts, by administrative policy rather than by agreement, the number of dealers in a natural selling area.

Texas agreements.—All companies, except Ford Motor Co., have separate agreements applicable to the State of Texas only. Some of the companies prepare agreements on separate forms, and others merely strike out of their regular agreements any reference to subjects which might be violative of the Texas antitrust law, i. e., all reference to territorial restrictions or infringements, resale price maintenance, etc.

Territory infringement adjustments.—Many years ago several agreements contained restricted-territory provisions, as well as territory infringement penalty provisions. The practice of penalizing a dealer for infringing on another dealer's territory fell into disuse and very few agreements carried infringement penalty provisions and, in fact, many agreements failed to even describe a sales area during the early part of the decade. However, in recent years the trend has been to restrict a dealer to a described sales area and to actively enforce penalty provisions when a dealer sells a new car into another dealer's sales area.

The majority of the manufacturer-dealer agreements provide for some form of adjustment (so-called penalty) in case the dealer sells a new passenger automobile into the protected territory of another dealer handling the same make of automobile. While the precise nature and form of dealer infringement compensation varies with each agreement, the majority of the agreements provide that the dealer who sells an automobile into the protected territory of another dealer of the same make of automobile will pay a sum of money to that dealer directly or through the distributor or manufacturer as compensation (or so-called penalty), for the infringement.

Agreements of Chrysler Corporation provide in part that—

> Direct dealer agrees to confine his selling efforts entirely to the sales area assigned to him by Chrysler and agrees that he will not by personal solicitation, advertising, correspondence, resident salesmen, unofficial representation, or by any other connection or means, directly or indirectly, solicit, * * * the sale of new and unused Chrysler or Plymouth motor vehicles, or demonstrators, in any other sales area.

For each breach of the above-quoted provision the direct dealer agrees to pay to Chrysler for division between the injured dealer or dealers into whose sales area the offending dealer has trespassed the sum of $75 per car sold.

Ford Motor Co.'s 1938 sales agreement did not limit the dealer's territory, except that the dealer was to resell Ford products for use within the boundaries of the United States of America. The 1939 Ford agreements contain no territorial restrictions except that they provide for the payment of a service commission in case a Ford dealer sells a new Ford vehicle to a buyer (1) residing in another city where an authorized Ford dealer is located; (2) residing in another municipality where there is no Ford dealer, but which is contiguous to a city where an authorized Ford dealer is located. In such cases, the selling dealer shall pay a service commission of $30 to the Ford dealer in the locality where the purchaser resides with the understanding that the dealer receiving the service commission agrees to render to the purchaser the service which a new car purchaser ordinarily receives from a delivering dealer.

The General Motors Sales Corporation agreements (with the exception of Chevrolet) provide that in case a new motor vehicle is sold by an authorized General Motors dealer to a person, firm, or corporation whose legal residence is in the protected territory of another General Motors dealer of the same respective make, General Motors Corporation agrees to pay the dealer, in whose protected territory the purchaser has his legal residence, a specified sum per car unless the sale falls within certain minor types of sales that are specifically excepted. In order that General Motors may be reimbursed for such payments each General Motors dealer agrees that in case he makes such a sale, he will pay the factory, upon demand, the sums specified in the sales agreement.

Many of the Chevrolet agreements contain a territory security addendum which describes the dealer's territorial restrictions and imposes a specific infringement payment on dealers selling new motor vehicles in the protected territories of other dealers. This Chevrolet territory security plan is being gradually placed in operation over the country.

Summary of penalty provisions.—The following statement summarizes the amount of penalty for different makes and models:

Make of car, car models, and conditions of settlement

	Amount per car
General Motors cars:	
Chevrolet:	
Within 48 hours	$25
After 48 hours	35
Pontiac:	
1938: 6 and 8 models	50
1939:	
6 models	35
8 models	50
Oldsmobile:	
1938:	
6 models	50
8 models	75
1939:	
60 and 70 models	35
80 models	50
Buick:	
Model 40	50
Models 60 and 80	75
Model 90	100
Cadillac-LaSalle cars:	
LaSalle	75
Cadillac, model 60, 61	100
Cadillac, model 75	125
Cadillac, model 90	200
Chrysler cars:	
Chrysler models	75
Dodge	75
DeSoto	75
Plymouth	75
Hudson cars:	
1938 models	[1]
1929:	
Hudson, 112 or business car	25
Hudson, 6	35
Hudson, Club 6 and 8	50
Hudson, Custom 8	50
Packard cars:	
Packard 6, 50-mile radius	40
Packard 120, 50-mile radius	50
Packard Super 8, 200-mile radius	75
Packard 12, 200-mile radius	125
Nash cars:	
Nash-Lafayette:	
1938: All models	[2]
1939:	
Lafayette	25
Ambassador Six	30
Ambassador Eight	40
Willys cars: Willys-Overland, 1939, all models, 100-mile radius	25
Hupp cars: Hupmobile, all models	[3]

[1] 5 percent on list price.
[2] 3 percent on list price.
[3] 50 percent of discount.

In the Studebaker Corporation agreement, territorial infringement is prohibited but the agreement does not contain any provision for the payment of a penalty. In the Graham-Paige Motors Corporation agreement, the offending distributor or dealer submits to such penalties by way of division of profits as the manufacturer may prescribe.

The Willys-Overland Motors, Inc., agreement for 1938 assigned exclusive selling areas but made no reference to infringement, but, as shown before, an infringement penalty of $25 per car was provided for within a radius of 100 miles from the complaining dealer.

The agreements of Nash-Kelvinator Corporation and Hupp Motor Car Corporation contain the provision that no liability attaches to the manufacturer.

Principal exceptions to penalty provisions.—There are numerous exceptions to the penalty provisions. In many cases they do not apply "when purchaser's local residence is more than 200 miles from the selling dealer." This provision is found in the Pontiac, Oldsmobile, Buick, Cadillac, Hudson, Packard Super 8 and 12 cylinder cars, and Nash-Lafayette agreements. The penalties are not applicable beyond a 50-mile radius for the Packard 6 and Packard 120, and in the 1939 agreement, beyond 100 miles for Willys cars. Sales to State and Federal Governments and to fleet operators of 25 or more cars are exempt from penalties in the Chevrolet, Pontiac, Oldsmobile, Buick, and Cadillac contracts. Hudson exempts sales to the Federal and State Governments. Replacement of a wrecked automobile is exempt in the agreements of Pontiac, Oldsmobile, Buick, Cadillac, and Hudson. In the case of Pontiac, Oldsmobile, Buick, Cadillac, and Hudson, the penalty must be claimed within 60 days from the date of sale, and within 90 days for Chevrolet.

For all Chrysler cars, the Chrysler sales agreement exempts "sales to quantity purchasers whose main or branch office or authorized representative's headquarters are in selling dealer's territory."

The Hudson contract also provides that there shall be no penalty, "on sales to or for use by" traveling representatives whose business brings them into the selling dealer's territory. In the 1938 Hudson agreement, there was included the following exception to territory infringement provision:

> Where a used car is involved in the transaction covering the sale of the new car, provided no direct or indirect solicitation by the selling distributor or dealer is involved in such transaction.

This clause was not in the 1939 agreement.

The Packard Motor Car Co. outlines its territory protection policy in a trade letter which contains the following exemptions to territory infringement provisions: (1) On sales to quantity purchasers provided dealer notifies factory before sale; (2) on sales to United States or Canadian Government or any State or municipality, etc.; (3) on sales to body builders; (4) on sales where delivery is made by home distributor for selling distributor in which case only the regular delivery charge is to be paid.

In the Nash-Kelvinator Corporation 1938 agreement, the penalty is not applicable beyond a radius of 200 miles from selling dealer; not applicable unless the injured dealer has a new car of the same series in stock at the time of the sale; and it is not applicable unless the car is moved into the protected territory within 30 days after the sale and remains there for more than 90 days. In the Nash 1939 agreement to obtain the penalty the dealer must make the claim within 60 days and the car must remain in the infringed dealer's territory 30 days. The Nash 1939 agreement also provides that unsettled claims may be referred to the manufacturer. If a claim is allowed, the manufacturer is authorized to pay the amount of the claim plus $10, same from the dealer's reserve fund.

The Ford contract provides for the payment of a $30-service commission which does not apply to a sale (*a*) to a purchaser residing in the multiple dealer's area; (*b*) to owners of fleets of five or more vehicles; (*c*) to purchasers temporarily residing for more than 30 days in the place where the infringing dealer is located.

Manufacturer the final arbiter.—In regard to the above-described adjustments (or so-called penalties), all the agreements provide that the manufacturer shall be the final arbiter in deciding all questions arising under the infringement provisions; and that adjustments for infringements are made without liability attaching to the manufacturer, except that the agreements of Pontiac, Oldsmobile, Buick, and Cadillac Divisions of General Motors Sales Corporation provide that the company shall investigate and upon determining that a territorial infringement has occurred, shall immediately pay to the infringed dealer the sums named in the agreement. These agreements also provide that the infringing dealer pay to the company upon demand the sums named in the agreement.

It should be noted, as already stated, that Pontiac, Oldsmobile, Buick, and Cadillac Divisions agree to compensate the injured dealer, whether or not the infringing dealer pays the company, but the Chevrolet Division agreement and the other manufacturers' agreements in which penalties are named provide that the infringing dealer shall make the adjustment or penalty payment for infringement direct (or through the manufacturer) to the injured dealer, without any liability attaching to the manufacturer.

The Ford Motor Co. "will act as umpire between dealers in connection with" * * * the $30 "service commissions, but does not guarantee payment of any such service commissions."

Sale for resale by unauthorized persons.—Although several manufacturers have, for a number of years, had provisions in their agreements to the effect that the dealer was not to sell new automobiles to bootleggers (i. e., dealers not authorized to handle that make of automobile), these provisions were not enforced and, in fact, it is only recently that all manufacturers' agreements have prohibited selling new automobiles for resale to other than another authorized dealer handling the same make of car. Furthermore, present agreements make this prohibition effective by imposing severe penalties on a dealer who sells new cars, for resale, to other than another authorized dealer.

The General Motors agreements provide that if the manufacturer finds a General Motors dealer has sold a new car or demonstrator which has been subsequently resold by any new- or used-car dealer other than another authorized General Motors dealer, then, upon demand of the manufacturer, the General Motors dealer making the original sale of the said vehicle shall forfeit the entire commission to the manufacturer. The General Motors agreements further provide that upon the manufacturer ascertaining that an authorized dealer had sold to an unauthorized dealer, the corporation shall pay sums of money to the dealer in whose territory the "bootleg" sale was made, as follows:

	Amount
Chevrolet, Pontiac, Oldsmobile 6, Buick 40	$50
Oldsmobile 8, Buick models 60 and 80, LaSalle	75
Buick model 90, Cadillac model 60	100
Cadillac models 65 and 75	125
Cadillac model 90	200

The dealer in whose territory a "bootleg" sale is made is required to file a claim for remuneration for the sale within 60 days from the date of sale. The several General Motors agreements include minor administrative modifications concerning "bootleg" sales for multiple dealer territories.

The Chrysler Corporation agreements for all divisions (i. e., Plymouth, Dodge, etc.) provide that when any Chrysler motor vehicle is sold by a dealer to an unauthorized dealer or to any other unauthorized person or firm, and is thereafter offered for resale within 90 days as a new vehicle or as a demonstrator, the original selling dealer agrees to pay the manufacturer, upon request, $75 for each vehicle to compensate the authorized dealer for the loss of the sale. The various Chrysler agreements also have minor provisions covering collection of the penalty and concerning the distribution of these sums in multiple-dealer areas.

The Hupp Motor Car Corporation agreement provides that if a new Hupp automobile or chassis is sold by an authorized Hupp dealer to anyone other than another authorized Hupp dealer, and such merchant sells or offers for sale the said vehicle as a new car in another Hupmobile dealer's territory, the authorized dealer making the sale shall pay to the dealer in whose territory the car is sold to a consumer the full discount on the vehicle in question or such other sum as manufacturer shall determine.

The Packard agreement provides that if a sale is made to an unauthorized dealer the selling dealer shall pay the infringed dealer the following sums:

	Amount
On each Packard 6	$80
On each Packard 120	100
On each Packard Super 8	150
On each Packard 12	250

The Hudson 1939 agreement requires the authorized dealer selling to an unauthorized person for resale to pay 15 percent of the list price of any new Hudson to the dealer in whose territory such a car is sold by a used-car or other unauthorized dealer or by a competitive dealer.

In the 1939 Ford agreement the authorized dealer agrees—

> * * * to avoid in every way such trade practices in connection with dealers' competition with other Ford dealers and in selling company products to the public as are injurious to the company's good name and goodwill or are detrimental to the public interest.

Direct sales by manufacturer.—Most of the manufacturers reserve the right to sell their products to governmental bodies, the American Red Cross, subsidiaries and employees of the corporation, and to companies engaged in the manufacture and assembly of ambulances, busses, etc. Several of the manufacturers further reserve the right to sell direct to fleet users. Some of the more important clauses respecting such sales are as follows:

Agreements of Chrysler Corporation provide that—

Chrysler reserves the right to sell any products referred to in this agreement to its employees, to governmental bodies, to fleet buyers for their own use or for the use of their agents or representatives, to taxicab or drive-it-yourself companies, so-called, or to businesses purchasing chassis in quantities for installation of their own body equipment.

The Ford agreement provides that the "company agrees to sell" to the dealer—

* * * subject to the right reserved by company to sell other dealers and direct to retail purchasers in the United States without obligation of any kind to dealer on any such sale.

The General Motors Sales Corporation agreement for Chevrolet provides that—

dealer agrees that seller [i. e., manufacturer] and/or fleet sales division, General Motors Sales Corporation, has the right to sell new Chevrolet motor vehicles, chassis, repair parts, and accessories to any person, firm, or corporation within the territory covered by this agreement upon the terms and conditions now or hereafter set forth in what is designated by fleet sales division, General Motors Sales Corporation, as its fleet user's agreement, without any obligation to pay dealer any commission or other charges upon such sales.

Moreover, the General Motors agreements include a clause relating to dealer cooperation in sales to fleet users similar to the following:

Dealer agrees to cooperate with fleet sales division, General Motors Sales Corporation, in developing such fleet-user business to the fullest extent and on sales to fleet users handled by him dealer agrees to abide by and perform the terms and conditions of such agreement. New Chevrolet motor vehicles and chassis, other than trucks, truck chassis, and sedan deliveries, furnished dealer for resale to fleet users will be invoiced to dealer at a discount which shall be 3 percent less than dealer's regular discount as herein specified, and in the event that dealer shall appropriate to fleet-user business any motor vehicles or chassis already purchased, dealer agrees to pay forthwith to seller the 3-percent difference in discount on such motor vehicles and/or chassis. On sales of Chevrolet ½-ton and 1½-ton trucks, truck chassis, and sedan deliveries, to fleet users, dealer will grant fleet user a discount of 10 percent on the list price of such truck, truck chassis, or sedan delivery (but if there is a trade-in involved, the 10 percent should apply on the list price less the trade-in).

Dealer agrees to give fleet users having identification cards from fleet sales division, General Motors Sales Corporation, a discount of 25 percent from current list prices on all purchases of genuine new Chevrolet repair parts.

Duration of agreement.—All of the agreements except Ford provide that the agreement shall continue in force until canceled, terminated, or superseded by a new agreement. Similarly, all of the agreements provide that a new agreement shall supersede and annul all former agreements.

The Chrysler agreement states "it is the desire to establish lasting relations with the dealer" and then recites the conditions that may arise to make it impracticable for this agreement to continue in effect. The Ford agreement provides that the "agreement may be terminated at any time at the will of either party by notice."

Most of the agreements refer to a separate document (appendix) relating to terms, discounts, etc., which separate documents can be amended and revised without amending or revising the main agreement despite the fact that they are, by reference, made a part of the main agreement.

Cancelation of agreement.—All of the agreements provide for cancelation or termination by either party at will by the serving of a specified notice on the other party. All of the agreements provide for the cancelation thereof for certain reasons. The length of notice and the specific causes for cancelation without notice are provided for in the various contracts as follows:

Either party may cancel the 1938 and 1939 contracts by giving the following notice:

	Manufacturer	Dealer
General Motors	1, 2, or 3 months [1] (1939 same)	30 days (1939 same).
Chrysler	90 to 95 days (1939 same)	15 to 20 days (1939 same).
Ford Motor Co.	Immediate (1939, 60 days)	Immediate (1939 immediate).
Nash	45 days (1939, 90 days)	45 days (1939, 90 days).
Studebaker	10 days (1939 same)	10 days (1939 same).
Hudson	30 days (1939, 90 days)	30 days (1939 same).
Packard	60 days (1939 same)	Do.
Willys-Overland	30 days (1939 same)	Do.
Hupp	do	Do.
Graham-Paige	do	Do.

[1] Extra rental adjustment (1 or 2 months cancelation).

The length of notice for cancelation at will by the manufacturer has been extended in most contracts from the former 15 to 30 days' notice to a present maximum of 95 days' notice.

Causes for cancelation without notice.—The agreements of the different manufacturers provide for cancelation of the agreement without notice for some or all of the following reasons:

1. In case of death of dealer, if he be an individual.
2. In case dealer is a copartnership or a corporation, and disagreements of any nature shall arise between the members of the copartnership or the officers, stockholders, or managers of the corporation whereby manufacturer deems its interests may be imperiled.
3. In case of the incapacity or insolvency of dealer or the admitted insolvency of any member of the dealer organization if a partnership.
4. In case an application is made to have dealer declared bankrupt.
5. In case a receiver or trustee is appointed for dealer, or his estate.
6. In case dealer makes an assignment for the benefit of creditors.
7. In case dealer engages in the distribution of any other line of motor vehicles for sale by dealer without the written consent of the general sales manager or an executive officer of manufacturer.
8. In case of the discontinuance of dealer's distribution and resale in his sales area of the products affected by the agreements.
9. In case of attempted assignment of the agreement by dealer without the manufacturer's consent in writing.
10. If by attachment proceedings, injunction, or otherwise, dealer's business is made substantially inoperative, then and in such event the agreement shall, without any notice to dealer, automatically terminate and be at an end.
11. One agreement (Willys) provides:

In the event of a breach of this agreement by the distributor of any of the provisions hereof including, but not being limited to the violation of any of the lawful rules, regulations, and policies of the manufacturer, the manufacturer may, at its option, either (*a*) cancel and terminate this agreement forthwith by giving the distributor notice by registered mail or by personal delivery of such cancelation, or (*b*) withhold any moneys due the distributor until such breach is, in the opinion of the manufacturer, cured.

All agreements contain a clause providing that the cancelation or termination of the agreement operates as a cancelation of unshipped orders for motor vehicles, chassis, parts, and accessories and equipment, excepting orders for special cars or equipment entered for production or shipment prior to notice of cancelation.

Repurchase by manufacturer in case of cancelation.—All agreements contain some provision for repurchase by the manufacturer of a certain portion of dealer's stock of new automobiles, parts, equipment, etc., in case of cancelation of the agreement. Inasmuch as the several agreements differ as to just what each manufacturer will repurchase, the pertinent terms of the several agreements are summarized as follows:

General Motors.—When cancelation is by manufacturer—

(1) Repurchase by manufacturer of dealer's merchandise and equipment purchased from the manufacturer is provided respecting:

(*a*) New current model motor vehicles.

(*b*) Unused and undamaged repair parts for current and two preceding models (not including transportation charges) purchased from the manufacturer.

(*c*) Unused and undamaged accessories purchased from the manufacturer during 6 months preceding.

(*d*) Signs recommended by manufacturer which bear the name of manufacturer. (At a price to be mutually agreed upon, or if unable to agree at a price set by a sign company representative selected by both parties.)

(*e*) Special tools and shop equipment recommended by the manufacturer purchased during the preceding 12 months (if the dealer so desires to sell). Price to be mutually agreed upon or upon failure to agree the parties shall select a third party to set the price.

The foregoing provisions are obligatory. The manufacturer agree-to repurchase (subject to decision as to the condition of the mers chandise) and the dealer is obligated to sell and deliver upon tender of the price as above determined, with the exception noted in paragraph (*e*) respecting special tools and shop equipment.

When cancelation is made by dealer, the dealer agrees to sell and manufacturer agrees to repurchase all of the above-enumerated items on the same terms, excepting accessories, special tools, and equipment.

Hudson.—The Hudson Motor Car Co. agrees to repurchase upon cancelation by manufacturer—

(1) All new and unused current model motor vehicles.

(2) Repair parts in salable condition for current and three preceding models.

(3) The 1939 agreements provide for purchase of accessories upon termination by manufacturer.

No provision was made in the 1938 agreement for accessories, signs, or special tools.

Studebaker.—In case manufacturer cancels and refuses to enter a new agreement the Studebaker Corporation agrees to repurchase—

(1) All new and unused current model motor vehicles.

(2) Repair parts in salable condition purchased within preceding 6 months.

Chrysler.—The Chrysler contracts provide that when the cancelation is by the manufacturer the manufacturer shall repurchase merchandise and equipment purchased from manufacturer, including:

(*a*) New current-model motor vehicles.
(*b*) Unused and undamaged repair parts for current and three preceding models (not including transportation charges) purchased from manufacturer.
(*c*) Unused and undamaged accessories purchased from the manufacturer during 6 months preceding.
(*d*) Signs recommended by manufacturer which bear the name of manufacturer (at a price to be mutually agreed upon).
(*e*) Special tools of a type recommended by manufacturer purchased during the preceding 12 months at price to be mutually agreed upon.

No provision is made for the purchase by the manufacturer of accessories or special tools when the cancelation is by the dealer.

Nash.—Nash-Kelvinator Corporation does not obligate itself to repurchase, but merely reserves the option to do so as follows:

(1) All or any part of new and unused current-model motor vehicles.
(2) All new parts for current models at current net prices less 10 percent for handling.

There is no provision made for the repurchase of accessories, signs, or special tools.

Packard.—In case of cancelation by either party, Packard Motor Car Co. agrees to repurchase:

(1) All new and unused current-model motor vehicles.
(2) All unused and undamaged Packard repair parts of the current and two preceding models.
(3) All unused and undamaged accessories purchased from Packard during the 6 months' period immediately preceding.

If the manufacturer cancels, then Packard will repurchase the special tools and shop equipment the dealer desires to sell at a price mutually to be agreed upon, provided the tools and equipment were purchased in the preceding 12 months.

Ford.—The Ford agreement states that, at the company's option, it may repurchase all or any part of products.

The 1939 Ford agreement provides that, in the event of termination of the agreement by company, Ford Motor Co. shall repurchase immediately, and the dealer agrees to sell, all new and undamaged automobile parts and approved accessories purchased after the sixtieth day prior to notice less 10 percent, less transportation. The company has the further option, regardless of who terminates the agreement, to examine the dealer's stock and to select any such service parts and approved accessories then on hand no matter when purchased and to repurchase them on like terms.

Willys.—The Willys-Overland Motor Co., Inc., states in its agreement that the manufacturer shall repurchase:

(1) All new and unused motor vehicles, of models then current, purchased during previous 90 days.
(2) All new and unused parts for current and preceding model.

Hupp.—In case the Hupp Motor Car Corporation cancels the agreement, the manufacturer agrees to repurchase:

(1) All new, unused current-series Hupp automobiles in salable condition purchased during previous 6 months.
(2) All new, unused repair parts in salable condition purchased during preceding 12 months.

Graham.—If manufacturer cancels agreement, Graham-Paige Motors Corporation agrees to repurchase:

(1) All new and unused current-model automobiles.
(2) All new and unused repair parts for models not out of production for more than 3 years at stipulated net prices less a varying specified percentage depending on age of parts.

Reparation by manufacturer for losses sustained by dealer in case of cancelation.—The General Motors agreements further provide that in the event of cancelation by the manufacturer by notice but not for cause (except dealer's death), that the manufacturer will make certain reparation to the dealer to cover a portion of the loss on the premises owned or leased by the dealer and used by him in the sale or service of that manufacturer's vehicles. In case of leased premises, the General Motors agreements provide that the manufacturer will be liable to the dealer for one-half of the monthly rental specified in said lease as paid by dealer for balance of the term beyond 3 months from the date of receipt of notice of cancelation, but not to exceed 1 year from the date of receipt of notice of cancelation. Furthermore, the General Motors agreements make a similar provision in the event the dealer has been using his own premises.

The agreement by General Motors to make reparation to the dealer for rental loss on the premises used for his automobile business in case of cancelation is, however, subject to the following limitations:

(1) This liability shall not exceed one-half of the rent standard per car per month established by the manufacturer based on the number of motor vehicles and chassis purchased by the dealer in the 12 months preceding the date of notice of cancelation. The rent standards of the several General Motors divisions are established by the agreements as follows:

	Rent standard per car per month	Reparation		Rent standard per car per month	Reparation
(*a*) Chevrolet	$1.50	$0.75	(*d*) Buick	$2.50	$1.25
(*b*) Pontiac	1.70	.85	(*e*) Cadillac	3.50	1.75
(*c*) Oldsmobile	2.25	1.125			

(2) In the event the said premises or any part are occupied by anyone for any purpose after the expiration of the 3-month period following the date of receipt of notice, the dealer shall not be entitled to make claim for loss.
(3) The amount of dealer's claim shall be reduced pro rata in the event dealer secures a reduction in rent.
(4) In the event dealer makes a settlement with his lessor, such settlement shall be treated as a reduction in rent.
(5) In the event the dealer is not using his said premises, exclusively in the sale of General Motors products, the above agreement to make reparation for loss on lease does not apply; neither does it apply if the dealer continues to sell another line of General Motors cars.

Furthermore, under certain conditions, the General Motors agreements provide for cancelation on a 1- or 2-month notice instead of a 3-month notice, but, in the event of cancelation on less than 3-month notice, the manufacturer shall pay the dealer the full monthly rental as above specified (i. e., $1.50 per car per month, etc.) for the period between the effective date of such cancelation and the end of the 3-month period. At the end of the 3-month period, the reparation drops back to one-half the fair rental value as above established.

Protection against decline in manufacturer's price.—All of the agreements provide that the manufacturer reserves the right at any time to change its list price. Most of the agreements provide that in case the manufacturer reduces prices on current-model motor vehicles that the manufacturer will refund, or allow the dealer credit equal to the difference between the former and the reduced price. The agreements provide that this refund or allowance shall be paid upon current-model cars, in dealer's stock and paid for, which had been purchased by the dealer from the manufacturer within certain periods of time preceding the announcement of the price reduction if the dealer makes claim within a specified period of time. Inasmuch as these time periods vary with each agreement, they are set out in the following statement which summarizes the provisions in the different agreements covering the motor vehicles on which price change protection is given and the time limit within which the dealer must present his claim:

Name of company	New current cars received during preceding	Claims to be made within—
General Motors	12 months	30 days.
Chrysler	All in stock	Do.
Studebaker	6 months	Do.
Hudson	All in stock	Do.
Packard	do	No time limit.
Nash	6 months (1939 agreement—all current models).	30 days.
Graham	All in stock	Do.
Hupp	6 months	Do.
Ford [1]		10 days.

[1] 1938, no provision; 1939 agreements, 60 days.

General Motors agreements provide that in the event of a reduced price at annual model change-over, the manufacturer will refund or credit the dealer proportionately on all such changed and reduced price models which dealer may have in his possession and which are paid for, provided, however, that such refunds will not be paid in the case of such radical changes in size, design, and price that the new models constitute a new and different line of motor vehicles, in which case manufacturer will make only such refunds as it deems equitable.

The General Motors and Packard agreements further provide that in the event of the discontinuance of current models and the substitution therefor of new models and body types that manufacturer will make an allowance on such models discontinued and in dealer's possession limited to a certain percentage of the discontinued models sold by the dealer prior to the discontinuance.

Protection in case of model change.—Several agreements have provided for many years that the manufacturer could change the new automobile prices without prior notice to dealers, in which case, however, the manufacturer agreed to indemnify the dealer against loss on cars in stock by virtue of such a price change.

Resale price maintenance.—Although the agreements made by a number of manufacturers at various times in the past contained provisions to the effect that the dealer would maintain the manufacturer's suggested retail sale price, the agreements in recent years have not contained such provisions, nor have any of the manufacturers carried on resale price maintenance programs during the past several years except in a sporadic manner, and then usually in limited areas. The 1939 Ford agreements, however, contain a provision not found in the other manufacturer-dealer agreements, respecting the maintenance of retail prices as follows:

(*b*) Insofar as it is lawful for dealer so to agree, not to resell company products bearing company's trade-mark or trade name at less than retail prices established for dealer's city or town from time to time by company, except in cases where such goods have been damaged, or have become obsolete, or are about to become obsolete because of change in models, or in the case of sales to company or its nominees, or to other authorized Ford dealers, or associate Ford dealers, and except when a discount is warranted by quantity purchases unless such a discount is in violation of law. Dealer agrees, if requested by company, to display prominently in dealer's showroom a chart showing current minimum retail prices as established by company for dealer's city or town.

Customers' deposits.—The 1939 Ford agreement contains the following provision which is not found in other manufacturers' agreements. It requires that the dealer shall hold "in trust" for the prospective customer any cash down payments or any used automobiles traded in as part payment in anticipation of future deliveries of automobiles.

Trade practices.—The 1939 Ford agreement also contains a clause not found in other manufacturers' agreements, entitled "Trade Practices," under which the dealer further agrees:

(*a*) To avoid in every way such trade practices in connection with dealer's competition with other Ford dealers and in selling company products to the public as are injurious to company's good name and goodwill or are detrimental to public interest.

Exclusive representation.—Several of the manufacturers' factory-dealer agreements forbid their authorized dealers from representing in any way any other motor-vehicle manufacturer unless the dealer obtains the written consent of the manufacturer with whom he has a contract; and, in case such consent is obtained, the dealer agrees to discontinue the representation of any other make upon the request of the manufacturer. During the depth of the depression several manufacturers permitted their dealers to handle other makes, particularly when the cars made by the two manufacturers were not in the same price class.

The Nash agreement provides that it is understood that the net prices shown apply only in the event that the dealer does not engage in the sale of new automobiles except as are manufactured by the Nash-Kelvinator Corporation (Nash Motors Division) or its subsidiaries; should the dealer not provide such exclusive representation, the dealer's net purchase prices specified in the agreement shall be increased by $10 on the Ambassador eight series, $8 on the Ambassador six series, and $7 on the LaFayette series.

The agreements of the three larger manufacturers do not contain provisions prohibiting their respective dealers from handling automobiles manufactured by other companies.

However, the provisions in the General Motors agreements obligating the manufacturer to make certain reparations for loss on premises owned or leased by the dealer in case of cancelation are effective only if the dealer is using the premises exclusively for the sale and servicing of a single line of General Motors products such as Chevrolet, Pontiac, etc. This provision applies both to non-General Motors products and to General Motors lines. For instance, if a dealer who is handling more than one General Motors line, such as Chevrolet and Buick, or any other combination of General Motors lines, is canceled by all General Motors Divisions represented within the

3-month period, then the several divisions will jointly make settlement for the loss on lease as above described. However, if the General Motors dealer is handling cars made by a competing manufacturer, there is no reparation for loss on lease sustained by virtue of the cancelation of the General Motors agreement.

Basis of payment by dealer.—All agreements provide that motor vehicles shall be paid for on the basis of cash in advance of delivery or sight draft against bill of lading. Parts, accessories, and other products shall be paid for in cash with order or c. o. d. unless manufacturer has approved the dealer's credit.

Title.—Agreements in general provide that title to all products shall remain in the selling company until actually paid for by dealer in cash; nevertheless, nearly all agreements provide that all shipments shall be at dealer's risk from time of delivery to the carrier.

Methods of shipment and transportation charges.—Generally the agreements provide that the dealer shall pay the manufacturer's list price, other additional charges such as taxes, advertising, etc., and, in addition, either the actual freight or a "transportation charge" to be determined by the manufacturer. Several agreements are not specific regarding the method of transportation or the amount of transportation charge to be paid by the dealer, some of them merely providing that the terms are cash f. o. b. factory or sight draft with bill of lading attached payable with collection of transportation charges with no reference being made or right reserved to the manufacturer to determine the mode of transportation or the amount to be paid therefor. Some agreements state that the manufacturer will prepay the freight and be reimbursed by the dealer therefor. Certain agreements deal with the subject of transportation more specifically and those clauses which may be of particular interest are summarized as follows:

General Motors.—The different agreements of General Motors Corporation provide that:

1. The manufacturer has the right to ship vehicles by whatever mode of transportation and from whatever point it may select.
2. The manufacturer prepays all transportation charges on vehicles and dealer agrees to pay manufacturer the transportation charges to be determined by manufacturer based on all-rail-freight charges from factory to dealer.
3. The manufacturer has the right to establish average transportation charges on a national, regional, zone, or single market basis.
4. A reasonable charge for delivery at dealer's place of business may also be made by manufacturer.
5. The dealer assigns his right to any refund from any carrier arising out of payment of any unlawful freight rate and dealer releases manufacturer from any liability because of subsequent reduction in freight or change.

Chrysler.—The agreements of Chrysler Corporation state that:

1. The practice of Chrysler is to ship motor vehicles by the mode of transportation the dealer requests.
2. Chrysler reserves the right to ship by any means of transportation to assure prompt shipment under varying weather and other conditions affecting transportation agencies. Thus Chrysler agreements provide that manufacturer may deliver motor vehicles to a carrier of its own choosing either rail, haul-away, boat, or other means of transportation or deliver them for drive-away in conformance with Chrysler policy.
3. The dealer shall pay the freight differential in amount to be determined by Chrysler not to exceed railroad freight charges from Detroit, even if point of shipment be other than Detroit.

Ford.—The Ford Motor Co.'s 1938 agreement provides that:

> The dealer shall pay the company such amount as the company shall from time to time determine for transportation, crating, boxing, packing, double-decking, and other loading charges.

The 1939 agreements provide merely that the company will sell its products to dealer at prices from time to time established plus company's charge for distribution and delivery plus taxes.

Hudson.—Hudson Motor Car Co. agreements state that:

> The dealer may specify route of shipment but the manufacturer reserves the right when necessary to change routing provided the new route selected by the manufacturer will not require the dealer to pay a higher transportation charge than would have been assessed over route originally specified by the dealer.

Advertising charge.—Several manufacturers' agreements provide that the dealer shall pay to the manufacturer, in addition to the above-described amounts, an advertising charge. Some agreements fix amounts per car which vary with the list prices. Other agreements merely provide that the dealer will pay the manufacturer such amount as the manufacturer shall from time to time determine for advertising.

The former Ford agreements provided for an advertising charge, but the 1939 Ford agreement merely designates such extra charges by the factory to the dealer as a distribution charge.

Two manufacturers specifically stated in 1938 agreements that they would provide local and national advertising which would be placed and paid for by them. For 1939, however, one of these two companies modified its agreement to provide for the payment of a definite advertising charge.

Additional charges.—In addition to charges for transportation, most agreements contain provisions allowing the manufacturer to make additional charges, covering handling charges such as boxing, crating, etc., or factory delivery charges; and all agreements provide that the manufacturer may make additional charge for any Federal, State, or municipal tax which manufacturer is required to pay with respect to products sold to the dealer. The agreements generally provide that the above-described additional charges for transportation and taxes with an amount designated by the manufacturer as the dealer's handling or get-ready charge are to be passed along to the public by the dealer.

Dealer required to develop territory to manufacturer's satisfaction.—As previously stated, all of the agreements provide substantially that the dealer must develop his territory to the satisfaction of the manufacturer. Many of the agreements provide that the dealer must abide by all of the policies of the manufacturer as they shall be announced from time to time in trade letters, amendments, or appendixes to the agreements, or in dealer schedules to be presently or subsequently announced, etc.

Satisfactory salesroom or place of business.—Nearly all of the agreements require the dealer to maintain salesroom and service facilities satisfactory to manufacturer; similarly the agreements provide specifically or by implication that the manufacturer shall have the right to inspect the dealer's place of business.

Signs.—Nearly all agreements provide that the dealers shall erect and maintain such signs as are designated by the manufacturer, at the dealers' expense.

Use of manufacturer's name.—The dealer agrees in all company agreements that upon termination of the contract he shall cease using the name of the manufacturer in firm name, advertising, etc., and that he shall remove immediately or revise all signs containing reference to the manufacturer's name or trade-mark.

No variation from agreement.—All of the agreements provide substantially that each new agreement supersedes, cancels, or merges all prior agreements or understandings. Furthermore, all agreements provide that no change, additions, or erasures of any printed portion of the agreement shall be valid or binding on either party unless such amendment is executed in writing by the president, secretary, or some other designated high official of the company at the home office of the company.

Many of the agreements are even more specific, containing such terms as dealer agrees that no representations or statements have been made to him by the employees or officers of the company which would in any way tend to change the terms of the agreement. A few manufacturers' agreements contain clauses similar to the following:

> It is further agreed that there are no oral or other representations or understandings between the parties hereto affecting the relationship hereby or heretofore established; and that no traveling agent, field representative, or salesman shall have the power or authority to modify or change, either orally or in writing, the provisions hereof or to bind manufacturer in any way whatsoever.

Manufacturers disclaim responsibility for dealer's commitments.—Most of the agreements provide in substance that the manufacturer shall not be liable for any damages or loss on any account whatsoever, directly or indirectly sustained by reason of or arising from the cancelation or termination of the agreement, except as hereinbefore set forth. Some agreements specifically state that liability shall not attach to the manufacturer whether the alleged damage arises from failure to manufacture company products, failure to fill orders therefor, or from loss of present or prospective profits from sales or from expenses or investments made or incurred in the establishment or maintenance of dealer's business.

Some of the agreements go so far as to state that the manufacturer shall not be held responsible in any manner for obligations or liabilities incurred or assumed by dealer (notwithstanding the fact that the manufacturer or one of its employees may have suggested, urged, or recommended that dealer incur or assume same), unless manufacturer has agreed to assume the responsibility, either in whole or in part, by written agreement executed by its general manager or its general sales manager, except insofar as it is specifically provided otherwise in the agreement.

Assignment of agreement.—All agreements provide that the agreement is not assignable until after notice has been given the manufacturer and his written consent has been obtained.

Claimed relation of dealer and manufacturer.—All of the agreements state that the dealer is not the agent of the manufacturer and that he is not authorized or empowered to act in any way as such, or to create or incur any liability on behalf of the manufacturer. Many of the agreements specifically state that the relationship is not one of agency but is merely and solely that of vendor and vendee.

Uniform accounting, financial reports, and inspection of dealer's records.—Most agreements provide that the dealer shall maintain a uniform accounting system designated by, or acceptable to, the manufacturer. Most agreements also provide specifically that the dealer shall submit to the manufacturer a complete financial and operating statement at stated intervals or at such times as manufacturer may designate. Several of the agreements provide that the manufacturer's employees shall have the right to inspect or examine dealer's records of account insofar as they relate to selling or servicing manufacturer's products. In addition to the above-described requirements as to reports, etc., a few agreements specifically prohibit the dealer from reducing or impairing his capital without first notifying or obtaining the consent of manufacturer.

New car estimates.—All agreements provide for periodic estimates of new car requirements by dealers in one form or another. Some agreements require an annual estimate; others provide for a 10-day or semimonthly estimate. These agreement provisions relating to estimates usually contain general provisions to the effect that the estimates are merely to guide the factory in buying materials, scheduling production, etc., but only one agreement specifically provides that "such estimates are not to be regarded as orders."

Car orders.—A few agreements provide definitely that the manufacturer will not ship cars except on dealer orders. Most agreements provide, in addition to these periodic estimates, that the dealer shall place written orders for new car requirements on forms provided by the factory at definite dates, such as "prior to the 10th of the month," or "weekly," etc. Some agreements merely provide that orders will be submitted by the dealer "at such times and on a basis mutually satisfactory" to manufacturer and dealer.

Several of the agreements specifically provide that the dealers' orders are not cancelable, and most of the agreements provide that the orders are not binding until accepted by the manufacturer. All of the agreements carry a clause providing that delivery on all orders is subject to contingencies beyond the control of the manufacturer, such as fires, strikes, shut-downs, war, etc. The Chrysler agreement extends this last protection to the dealer.

General Motors agreements provide that orders not shipped during the particular month for which they are scheduled may be canceled by either party. If shipment is made during month scheduled the dealer is required to accept, but the manufacturer is merely required "to use its best efforts to fill its orders."

The Chrysler agreements provide that the dealer is expected to accept any vehicle ordered and scheduled for production. Orders are subject to approval and acceptance by Chrysler Corporation at its principal place of business.

The Ford agreement provides that—

> the company agrees to give careful consideration to orders but expressly reserves the right to follow or depart from orders according to its discretion.

The dealer is thus bound to accept the ordered motor vehicle or merchandise whereas the manufacturer is not bound to make shipment.

The Hudson agreement contains provisions similar in effect to those mentioned above for Ford Motor Co.

Minimum stock requirements.—Most of the agreements provide that the dealer shall stock an assorted supply of new vehicles sufficient to meet the requirements of the dealer's territory. Some agreements provide that this minimum stock shall be mutually satisfactory; others provide that the minimum shall be satisfactory to the manufacturer.

Several agreements provide (some in more detail than others) for a definite minimum stock of new cars. A few agreements require that a minimum working stock schedule shall be agreed to in a separate form, which is subject to revision quarterly. General Motors agreements provide that, in the event that dealer's stock of new vehicles shall be less than shown in the above-mentioned schedule, General Motors is authorized and directed, without any further order from dealer, to ship new motor vehicles and chassis to an extent, and of such models and body types, as may be necessary to bring dealer's stock up to the above schedule.

Other reports.—Many of the agreements provide that the dealer shall furnish such other reports as the manufacturer may request. Several of the agreements provide that the dealer will periodically advise the factory as to the retail sales of new and used cars during the period, and as to the new- and used-car stocks as well as the unfilled orders on hand. This report is the so-called 10-day report.

Parts and accessories.—All of the present manufacturer's dealer agreements rigidly restrict the dealer's use or sale of repair parts not manufactured, authorized, or sold by the automobile manufacturer with whom he has an agreement.

Furthermore, some of the agreements require the dealer to use and sell only accessories that are manufactured or approved by his automobile manufacturer.

Most of the agreements designate the minimum stock of "genuine" parts to be maintained by the dealer and one agreement requires the dealer to—

> maintain a stock of genuine ------ approved accessories ------ equivalent to one-sixth of the sales of ------ accessories by dealer during the previous 12 months, based on cost to dealer.

The General Motors agreements contain a clause whereby the dealer agrees not to sell, offer for sale, or use in the repair of the respective makes of motor vehicles, any part, whether new or second-hand, not manufactured or authorized by the respective manufacturing divisions of General Motors Corporation.

The Chrysler agreements contain a clause whereby the dealer agrees that he will not sell or use in a Chrysler-made motor vehicle any parts except those purchased from the Chrysler Corporation or having the written approval of Chrysler.

The Ford agreement contains a clause whereby the dealer agrees not to recommend parts other than those furnished by the company unless previously approved by the company, nor to substitute or sell parts not furnished by the company unless specifically requested by the customer.

New car warranty.—All of the agreements provide that there are no warranties made by the manufacturers other than the standard manufacturers' warranty, which is either reproduced in the agreement or made a part of the agreement by reference to the fact that the only warranty which is provided is that on the back of retail-purchase form or customer's service-policy certificate.

The standard warranty so referred to and printed in several of the agreements is as follows:

> The manufacturer warrants each new motor vehicle (including original equipment placed thereon by the manufacturer except tires), chassis or part manufactured by it to be free from defects in material or workmanship under normal

use and service, its obligation under this warranty being limited to making good at its factory any part or parts thereof which shall, within ninety (90) days after delivery of such vehicle to the original purchaser or before such vehicle has been driven 4,000 miles, whichever event shall first occur, be returned to it with transportation charges prepaid and which its examination shall disclose to its satisfaction to have been thus defective; this warranty being expressly in lieu of all other warranties, expressed or implied, and all other obligations or liabilities on its part, and it neither assumes nor authorizes any other person to assume for it any other liability in connection with the sale of its vehicles. This warranty shall not apply to any vehicle which shall have been repaired or altered outside of an authorized ---------- service station in any way so as in the judgment of the manufacturer to affect its stability and reliability, nor which has been subject to misuse, negligence, or accident.

Most of the agreements provide that the dealer will fulfill the terms of the warranty and of the owner's service policy. In furnishing service to the car purchaser, the dealers are required to install flat rate service charges, to install special tools and equipment suggested by the manufacturer and to maintain adequate stocking of genuine parts. The agreements also provide that if, upon inspection by the manufacturer of parts covered by the manufacturer's warranty, any parts are found defective that the manufacturer will replace the parts at no cost to the dealer except the cost of installation. Several of the agreements also provide that the manufacturer will compensate the dealer in whole or in part for the labor of installing any defective part furnished by the manufacturer.

Some of the agreements specifically provide that the dealer shall inspect and condition all new automobiles before delivery in accordance with factory requirements. Other agreements infer that the dealers are required to perform this function.

Most of the agreements provide that the manufacturer's warranty is null and void on any automobile where parts not made or sold by the manufacturer have been used as replacements.

Extent of revision in contract terms.—With the exception of the above noted recent changes in factory-dealer agreements, there have been no substantial recent changes in the legal import of the agreements, although there have been extensive recent revisions in the form of factory-dealer agreements.

Formerly the factory-dealer agreements consisted of several different documents including an agreement and several appendices and addendums thereto, as well as a separate document covering terms and discounts. All of these documents were by reference made a part of each other, and each had to be considered to obtain the meaning of the agreement.

Formerly these documents and the amendments and appendices, etc., were very involved and difficult to understand merely from the physical aspect, to say nothing of the complex language used in them. There has, however, been a decided trend within the past few years to make the manufacturer-dealer agreements much more readable and understandable. Most of the manufacturers have revised the forms of the agreements so that the various terms are developed more logically and clearly, and they have consolidated most of the provisions into one document. Some still contain additional documents in the form of appendices and separate schedules of discounts and terms of purchase. However, in such instances, the pertinent documents are often bound together in one volume and are indexed so that they may be more easily read.

Furthermore, the type used is much larger and the language used is much simpler, and these mechanical improvements in themselves materially facilitate a ready and more intelligent reading of the documents.

Section 3. Agreement Provisions Which Lend Themselves to Illegal Practices

Elements to be considered.—There are several provisions in the factory-dealer agreements that may be illegal or may cause or permit illegal practices to be carried on pursuant thereto. However, a mere reading of these provisions will not yield sufficient information to permit a determination as to their legality. In each instance the actual practices carried out under the agreement, together with the extent to which trade is restrained and competition lessened must be jointly considered with the actual language of the questioned provisions, in order to permit a determination as to whether any law is being violated. The provisions to which particular attention should be directed in this respect are discussed below.

Restricted sales area and penalties for infringement.—The majority of the manufacturer-dealer agreements designate sales area and provide that the dealer shall have the right to purchase motor vehicles for resale in a designated sales area and not elsewhere. This right to purchase motor vehicles for resale in the designated sales area is in many instances granted exclusively to the dealer for his sales area.

However, metropolitan sales areas are usually not granted exclusively to one dealer, but are designated as multiple-dealer areas. To enforce the dealer restriction as to sales area the majority of the manufacturer-dealer agreements provide that the dealer who sells a new passenger automobile into the prescribed territory of another dealer handling the same make of automobile must pay a designated sum of money to the dealer whose territory he has infringed, as a compensation for the loss of the sale.

Inasmuch as most of the agreements designate the manufacturer as the arbiter in deciding all questions rising in the infringement provisions and adjustments for infringements, the payment by the infringing dealer to the dealer whose territory has been infringed may well be construed to constitute more of a penalty than an adjustment.

Obviously, the purpose of restricted sales areas is to restrict the competition between dealers handling the same make of car. In addition to thus restricting the dealer to his prescribed sales area, a few of the agreements now provide for the restriction, by the manufacturer, of the number of dealers handling the same make of car in metropolitan areas. In thus limiting the competing dealers of the same make in metropolitan areas, the manufacturers have met the requests of the dealers that something be done to restrict cross-selling between dealers handling the same makes of automobiles.

The practice of limiting the number of outlets in a particular area is a common one. Its tendency is to restrict competition, and this effect must be given consideration in determining the extent to which the restricted sales-area clauses and penalty provisions may tend to unduly restrain competition, particularly in view of the large number of local dealer groups that conduct used-car valuation bureaus that are essentially schemes to fix and control the prices paid for used cars.

Sale for resale by unauthorized persons.—Several of the manufacturers' agreements prohibit the resale of new motor vehicles as new cars by a dealer through anyone other than another authorized dealer handling the same make of car. The agreements usually provide that if the manufacturer finds that one of his dealers has sold a new car which has subsequently been resold by any new- or used-car dealer or other person engaged in the automobile business other than another authorized dealer handling the same make of car, then the dealer making the original sale shall either forfeit the entire discount to the manufacturer or make such other payment as is specified in the several agreements.

The purpose of these clauses is to eliminate "bootlegging" (sale of new motor vehicles by an unauthorized dealer).

These clauses tend to restrict the dealer's privilege of reselling his new vehicles to whomsoever he desires on whatever conditions or terms he may choose to prescribe. Under the common law, and except where statute has provided otherwise in this country, the owner of property has the right to sell that property to anyone he selects and on satisfactory terms to himself.

However, it must be conceded that the restrictive clauses here considered attempt to eliminate what both the dealers and the manufacturers contend has been a bad trade practice. The practice of a used-car lot operator, filling station attendant, or other person not authorized to act as a new-car dealer, who has little or no overhead, and who frequently is a "fly-by-night" operator who purchases distress merchandise from dealers and resells it at cut prices, has long been bitterly complained against by dealers and deplored by the manufacturers as unfair competition.

It is contended that the amount of good done by this restriction in eliminating so-called cutthroat competition, far outweighs any tendency that the provision may have to lessen competition. It is contended that instead of lessening competition, competition on a legitimate basis will be promoted and encouraged.

In order to give appropriate consideration to this practice as it affects the public interest it would be necessary to carefully weigh the benefits derived from the elimination of bootlegging against the tendency to lessen competition in a way that has not been possible under the limits imposed upon this inquiry.

Fleet sales and terms and discount provisions.—Most of the manufacturers reserve the right to sell their products direct to fleet users without incurring any liability to the dealer for commission on such sales. It is understood that several manufacturers have separate fleet-user agreements in which the fleet user is granted a special quantity discount. These agreements were not examined in connection with this study.

The General Motors factory-dealer agreement, however, contains the following clause not found in the other manufacturers' dealer agreements:

FLEET-USER AGREEMENT

(4) Dealer agrees that company and/or fleet sales division, General Motors Sales Corporation, has the right to sell new Buick motor vehicles, chassis, repair parts, and accessories to any person, firm, or corporation within the territory covered by this agreement upon the terms and conditions now or hereafter set forth in what is designated by the fleet sales division, General Motors Sales

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Corporation, as its "fleet user agreement," without any obligation to pay dealer any commission or other charges upon such sales.

Dealer agrees to cooperate with fleet sales division, General Motors Sales Corporation, in developing such "fleet user" business to the fullest extent and on sales to "fleet users" handled by him, dealer agrees to abide by and perform the terms and conditions of such agreement. New Buick motor vehicles and chassis furnished dealer for resale to "fleet users" will be invoiced to dealer at a discount which shall be three percent (3%) less than dealer's regular discount as herein specified, and in the event that dealer shall appropriate to "fleet user" business any motor vehicles or chassis already purchased, dealer agrees to pay forthwith to company the three percent (3%) difference in discount on such motor vehicles and/or chassis.

Dealer agrees to give "fleet users" having identification cards from fleet sales division, General Motors Sales Corporation, a discount of twenty-five percent (25%) from current list prices on all purchases of genuine new Buick repair parts.

Attention is called to the fact that neither the fleet nor the dealer quantity discounts are based upon a single sale but on the contrary they cover sales accumulated over a period of time and in the case of fleets, cover sales from several dealers to one purchaser.

The nature and scope of this investigation did not permit a study to be made of the fleet users' agreements nor of the terms and discounts of the several manufacturers with reference to the Robinson-Patman Act.

Resale price maintenance.—Automobile dealers have urged the manufacturers for a long time to take steps to restrict price competition in the sale of new automobiles. The 1939 Ford Motor Co. factory-dealer agreement contains the following provision:

RETAIL PRICES

Insofar as it is lawful for dealer so to agree, not to resell company products bearing company's trade-mark or trade name at less than retail prices established for dealer's city or town from time to time by company, except in cases where such goods have been damaged, or have become obsolete, or are about to become obsolete because of change in models, or in the case of sales to company or its nominees, or to other authorized Ford dealers, or associate Ford dealers, and except when a discount is warranted by quantity purchases unless such a discount is in violation of law, dealer agrees, if requested by company, to display prominently in dealer's showroom a chart showing current minimum retail prices as established by company for dealer's city or town.

In all, 44 States have adopted State fair-trade acts, and the Miller-Tydings Act legalizes resale price-maintenance agreements in interstate commerce as provided in such State enactments. The above clause went into effect only in the fall of 1938, and no study has been made of any practices carried on by the Ford Motor Co. either in those States that have adopted, or in those that have not adopted, State fair-trade acts.

Exclusive dealing in parts and accessories.—All of the present manufacturer-dealer agreements provide definitely, but in somewhat varying form, that the dealer will not "sell," "offer for sale," "handle," "purchase and use," or "deal in" any parts not manufactured or approved by his automobile manufacturer. Furthermore, some of the agreements require the dealer to use and sell only those accessories that are manufactured or approved by his automobile manufacturer.

Inasmuch as the Commission has issued complaint against the General Motors Corporation in docket 3152, in which case testimony is being taken at the present time, it is not believed advisable that an attempt be made to pass upon this question other than to report that the Commission has issued a complaint charging that this type of clause in the General Motors contract is illegal under section 3 of the Clayton Act and that certain alleged coercive practices of the General Motors Corporation in requring its dealers to exclusively handle accessories made or sold by General Motors Corporation or an affiliate, are also illegal. Elsewhere in this report such information bearing on this point as has been developed in connection with this inquiry is presented.

Exclusive representation.—Several of the manufacturers' factory-dealer agreements forbid their authorized dealers from representing in any way any other motor vehicle manufacturer unless the dealer obtains the written consent of the manufacturer with whom he has a contract; and, in case such consent is obtained, the dealer agrees to discontinue the representation of any other make of automobile upon the request of the manufacturer. Furthermore, as is shown in a subsequent chapter, certain information developed in connection with this inquiry to the effect that while other manufacturers do not put this clause in their contracts, most of them make it a company policy to require a dealer to handle their make of car exclusively. In this connection it is to be noted that the Nash agreement provides for an increase in price to a dealer who does not give Nash exclusive representation.

The Commission has not as yet formally questioned the legality of this practice insofar as it applies to the sale of cars although it has issued complaint against General Motors Corporation (in which proceedings are now pending), with regard to the use of a similar practice in the sale of parts and accessories.

Section 4. Inequitable Requirements Imposed on Dealers

Any satisfactory study of the relationship existing between the manufacturer and his dealers should take into consideration the manner in which the agreements have been enforced and the interpretation placed on some of their important provisions by the courts of the land. The agreements apparently outline the terms under which the manufacturers will permit their dealers to order merchandise in such quantities and on such terms and for such period of time as the manufacturers may subsequently determine. The essential conditions under which the business is conducted by the retail dealers is a matter to be determined not only from the agreements themselves but also in the light of the manufacturers' general policies and practices as applied to their dealers.

An officer of one of the automobile companies summed up the situation in a letter to the Commission, in which he said:

> One thing which the enclosures [the 1939 sales agreements] do not show, is that "priceless ingredient" of prime importance—namely, the manner in which the contract is administered.

There are many provisions in the agreements which afford opportunities for the manufacturers to take unfair advantage of the dealers who are selling their products to the public. In commenting upon the nature of the usual franchise between an automobile manufacturer and his dealers, a Federal judge has stated:[4]

> At the outset it is to be observed that it is simply a question of an ordinary contract between the parties which they have the right to make; and whether they desire to establish the relationship of vendor and vendee, or to establish the

[4] *S. B. McMaster, Inc.*, v. *Chevrolet Motor Co.* (3 Fed. (2d) 469).

relationship of principal and agent, there being no ground of public policy to interfere, they are entirely within their rights in so framing their contract to carry out their intention. The intention of the parties in the absence of any grounds of public policy must prevail, and their intention must be gathered from the terms of the contract itself.

A further comment of the court is of interest:

As I view this contract, the case is simply this: The manufacturer desires to sell his products in such manner only that his interests may be promoted. He, therefore, demands as a part of the price in the making of the contract that the person to whom he sells his goods shall submit to certain restrictions. The person desiring to buy the manufacturer's goods is anxious to purchase them and in order to purchase them is willing to submit to the conditions and restrictions named.

In another case a Federal district judge, in commenting upon the contract between the Ford Motor Co. and its dealers, made the following comment:[5]

Summarizing this recital of the relations between the Ford Motor Co. and the residents of Maryland who handle its products, it appears that while the company does not maintain within the State an agent with power to bind it by contract, nevertheless the actual supervision and control exercised by it through its traveling representative is almost as complete as if the dealers were its agents in all respects. The privilege of handling Ford cars and other products is evidently valuable, and since the company may withdraw it at any time, it is not difficult to prevail upon the dealer to comply with the company's demands.

Bearing in mind that the dealer is always haunted by the possibility of cancelation of his dealership, with or without cause, it may be pointed out that the following agreement provisions afford opportunity for unfair treatment of a dealer:

Cancelation.—All the agreements provide for cancelation or termination by either party at will by the serving of a specified notice on the other party.

The respective provisions as to length of notice vary from no notice in the 1938 Ford agreement (which has been changed to 60 days in the 1939 agreement) to 90 to 95 days in the General Motors and Chrysler agreements. This cancelation clause has been the subject of litigation between manufacturers and dealers for many years. The courts have usually held that due to this clause the franchise agreements were executory and unenforceable from the standpoint of the dealer by reason of want of mutuality. In most cases where dealers have attempted to recover damages from manufacturers for breach of contract by refusal to ship cars ordered pursuant to the terms of the franchise, and defense is made by the manufacturer that the agreements were cancelable at will or upon a certain number of days' notice, the dealers have been unable to recover.[6]

In one case where the court found that the manufacturer had specifically agreed to sell automobiles to the dealer, who had agreed to buy a definite number within a certain period of time, and the manufacturer had argued that the cancelation clause which reserved in the manufacturer the right to cancel the contract "for violation of any of the conditions" or in case of dissensions in the dealer's organization, and other specific reasons, relieved the manufacturer of any obligation whatever and destroyed the consideration, the court held that it did not give him power to terminate the contract at his pleasure and that the complaint of the dealer set forth a cause of action.[7]

[5] *La Porte Heinekamp Motor Co.* v. *Ford Motor Co.* (24 Fed. (2d) 861).
[6] *Velie Motor Car Co.* v. *Kopmeier Motor Co.* (194 Fed. 324); *Ford Motor Co.* v. *Kirkmyer Motor Car Co., Inc.* (65 Fed. (2d) 1001); *Oakland Motor Car Co.* v. *Indiana Automobile Co.* (201 Fed. 499, 502).
[7] *Moon Motor Car Co. of New York* v. *Moon Motor Car Co., Inc.* (29 Fed. (2d) 3).

The following quotation from the leading case,[8] with respect to the interpretation of the cancelation clause of the automobile manufacturer-dealer franchises, indicates the attitude of the courts with respect to the ability of dealers generally to recover damages for breach of their franchises by the manufacturers:

> It appears that the plaintiff has been disappointed in its expectations and has been dealt with none too generously by the defendant; but while we sympathize with its plight, we cannot say from the evidence before us that there has been such a breach of binding contract which would enable it to recover damages. While there is a natural impulse to be impatient with a form of contract which places the comparatively helpless dealer at the mercy of the manufacturer, we cannot make contracts for parties or protect them from the provisions of the contracts which they have made for themselves. Dealers doubtless accept these one-sided contracts because they think the right to deal in the product of the manufacturer, even on his terms, is valuable to them; but after they have made such contracts, relying upon the good faith of the manufacturer for the protection which the contracts do not give, they cannot, when they get into trouble, expect the courts to place in the contracts the protection which they themselves have failed to insert.

Develop territory to satisfaction of manufacturer.—All of the agreements provide that the dealer must develop the territory to the satisfaction of the manufacturer.

This provision is so indefinite that it gives the manufacturer a basis for dictating to the dealer the number of cars that the dealer will purchase. As a matter of practice, the large manufacturers divide the country into zones and districts and assign to each zone and district certain quotas, which are broken down in detail to the point where each dealer is assigned a quota which may be described as the estimated number of cars which the manufacturer fixes as a sales goal for the dealer to strive to attain.

"Percentage of price class," which may be defined as the proportion, based on past performance, of the total estimated number of cars of similar or competing price that may be sold, is given consideration in the formation of estimated quotas. Changing business conditions may make it impossible for dealers to sell their full estimated quotas, or may make it possible for him to sell more than his quota as the season advances. Percentage of price class, however, becomes the means of checking currently whether the dealer is getting his share of the available volume as the season advances, irrespective of whether he fails to attain his quota or exceeds it. If it happens that a dealer who falls short of selling his quota also fails to sell his proportion of the total number of cars sold in his price class, he will be subjected to increased pressure to take and sell cars to maintain his percentage of price class.

The dealer has no redress under the terms of the contract against the manufacturer where his franchise has been canceled by the manufacturer because of the dealer's failure to satisfactorily develop the territory. Where the dealer has attempted to recover damages from the manufacturer for breach of the contract for this reason, and where the contract by its provisions may be canceled by either party by giving 5 days' notice, only nominal damages may be recovered, even where the breach took place before notice of cancelation was given.[9]

Where a dealer operating under a franchise which gave him exclusive territory, but which did not obligate him to buy, or the manufacturer

[8] *Ford Motor Co.* v. *Kirkmyer Motor Car Co., Inc.* (65 Fed. (2d) 1001).
[9] *Chevrolet Motor Co.* v. *McCullough Motor Co.* (6 Fed. (2d) 212).

to sell, any specified number of cars at any given price, and provided for termination if the manufacturer should believe the dealer was not diligent in selling cars, the courts have held that such franchise may be terminated by the manufacturer at will and the dealer has no right of action for damages because of such termination.[10]

Orders binding on dealer but not on manufacturer.—Several of the agreements specifically provide that the dealer's orders are not cancelable, and most of the agreements provide that the dealer's orders are not binding until accepted by the manufacturer.

The dealer is thus bound by the orders upon acceptance thereof. However, General Motors agreements provide that the manufacturer is merely bound to use its best efforts to fill dealer's orders, and Ford agreements provide that the company is required "to give careful consideration to orders but expressly reserves the right to follow or depart from orders according to its discretion."

In one case where a dealer attempted to recover damages for the failure of the manufacturer to deliver machines ordered prior to date of cancelation of franchise, the court held that the language in the franchise, to the effect that the company would use its best endeavors to deliver automobiles to the dealer in accordance with his orders but should not be liable for any damages by reason of such failure to deliver, prevented the dealer from recovering.[11]

In one case, where a dealer attempted to hold the Ford Motor Co. on breach of an oral contract for damages to the extent of approximately $24,000, which the jury found he had sustained, the court upheld the provisions in the Ford contract to the effect that while the company would give attention to estimates of the dealer for cars, no legal liability to fill such estimates or orders was incurred under any circumstances, and reversed the judgment of the lower court and rendered its judgment in favor of the Ford Motor Co.[12]

In another case, however, the court did not uphold the contention of the manufacturer where the dealer had received a part of his order of cars prior to the termination of the franchise and sought to recover damages for failure to deliver the number of cars that had been ordered prior to the date of cancelation, and the manufacturer contended that under the franchise, even if the cars were ordered and not delivered, there was no right of action unless the orders had first been accepted and that no suit could be maintained based upon failure to deliver cars after the termination of the franchise, since it was provided therein that all orders undelivered at its expiration were canceled. The court said, with respect to this defense, that the schedule attached to the franchise gave a definite right to the dealer to have shipped to him the specified number of cars at the times therein detailed.[13]

All of the agreements provide that the manufacturer's responsibility to make delivery on orders is subject to contingencies beyond its control, such as fires, strikes, shut-downs, war, etc. However, only the Chrysler agreement extends this protection to the dealer.

No variation from written agreement.—All the agreements provide that there shall be no variation from the written agreement, and in order to restrict the manufacturer's liability to the terms of the written

[10] *Huffman* v. *Paige-Detroit Motor Car Co.* (262 Fed. 116).
[11] *Studebaker Corp. of America* v. *Wilson* (247 Fed. 403). See also *Ford Motor Co.* v. *Maddox Motor Co.* (73 S. W. (2d) 517).
[12] *Ford Motor Company* v. *Maddox Motor Co.* (73 S. W. (2d) 517).
[13] *Ellis* v. *Dodge Bros.* (246 Fed. 764).

agreement, and to disclaim any responsibility for misrepresentation that may be made by the manufacturer's agent or employees, each agreement provides that all prior agreements or understandings are canceled and superseded.

Most of the agreements are even more specific, containing a provision that the dealer agrees that no representations or statements have been made to him by the employees or officers of the company which would in any way tend to change the terms of the written agreement.

When this restriction as to alteration of the written agreement is considered in conjunction with the afore-mentioned reservation, requiring the dealer to develop the territory and otherwise conduct his business to the satisfaction of the manufacturer, the inequity of the two provisions is at once apparent.

The foregoing provision has also been the subject matter of litigation between manufacturers and dealers of automobiles for a number of years, as it has been quite customary for dealers to get representatives of manufacturers to agree orally to modifications of the written franchise, but when the dealers have attempted to hold the manufacturers to these oral agreements, the manufacturers have usually resorted to this clause in the franchise as a defense. The courts have quite universally enforced the clause in favor of the manufacturer where dealers have attempted to recover damages for breach of oral agreements.[14]

Dealer's place of business to be satisfactory to manufacturer.—Nearly all the agreements require the dealer to maintain salesroom and service facilities satisfactory to the manufacturer.

Here, again, the unfair feature of this provision is the forcing of the manufacturer's will upon the dealer in matters which vitally concern the dealer, inasmuch as, under this provision, the dealer may be required to spend substantial sums of money in purchasing, equipping, and maintaining salesroom and service facilities often far beyond his means and his earning power, and thus be forced out of business.

In practice, the zone and district representatives of the major manufacturers, in their contacts, with the dealers in their respective territories, dictate to the dealers the amount of the expenditures, and the manner in which the expenditures are made by the dealers in the maintenance of salesroom and service facilities satisfactory to the manufacturer. As hereinbefore indicated, the dealers have no redress under such circumstances, due to the fact that most of the agreements contain provisions which release the manufacturer from any liability for damage incurred by the dealer which is not specifically provided for in the agreements, and the manufacturers are not bound by the oral representations of its representatives. There are numerous cases where dealers have attempted to recover from manufacturers for losses and damages sustained under such circumstances, where the courts have rigidly construed the franchise agreements in favor of the manufacturer.[15]

In the case cited in the footnote, the dealer had been required to change its place of business in order to continue to handle the products of the manufacturer, thereby sustaining a financial loss.

In another case a dealer was induced to expend substantial sums of money and to move a filling station that had been profitable to an

[14] *Ford Motor Co.* v. *Kirkmyer Motor Car Co.* (65 Fed. (2d) 1001); *Jordan et al.* v. *Buick Motor Co.* (75 Fed. (2d) 447); *Ford Motor Co.* v. *Maddox Motor Co.* (73 S. W. (2d) 517).
[15] *Ford Motor Co.* v. *Kirkmyer Motor Car Co., Inc.* (65 Fed. (2d) 1001).

unprofitable location, on the oral and written agreements of the manufacturer's representative that his franchise would not be canceled within a certain period of time. When the manufacturer canceled the franchise within that period of time, the dealer attempted to recover damages for cancelation of the agreement, but was not successful principally because of an erroneous instruction to the jury with respect to the evidence submitted to it to determine whether the original franchise had been modified by the alleged special agreement set up by the dealer in his suit. The court indicated, in its opinion, that the representatives of the manufacturer apparently had authority to modify the written franchise even to the extent of surrendering the right to cancel without cause.[16]

New car estimates.—All of the agreements provide for periodical estimates of new car requirements of dealers, which are sometimes called projections, and a few of the agreements provide definitely that the manufacturer will not ship cars except on dealer's orders.

Manufacturers generally claim that the projections are in no sense considered by them as orders. As will be shown later, however, dealers claim that these projections or estimates, taken in conjunction with the requirement on the part of the manufacturer that the dealers sell their "percentage of price class," become the basis for pressure on dealers to sell enough cars to satisfy the manufacturer and thereby render the dealer's agreement safe from threat of cancelation.

One of the agreements provides that in case the stock of cars on hand shall be less than the dealer's required minimum working stock as set up in the agreement, or appendixes thereto, the manufacturer is authorized, without further order, to ship new cars to an extent and of such models and body types as may be necessary to bring dealer's stock up to the agreed minimum stock schedule.[17]

Unfair trade practices.—The Ford Motor Co.'s 1939 agreement requires the dealer to avoid trade practices that may be injurious to the company's good name or detrimental to the public interest, as determined by the manufacturer.

This provision of the Ford 1939 agreement gives Ford an opportunity to put into effect the recent resale price maintenance laws and thus to control the resale price of its cars, and, at the same time, to hold in check the activities of its dealers, with respect to the sale of new and used cars to the public.

While this is a new provision, and there is not much evidence as yet with respect to the manner in which it is being enforced, it probably is fraught with the most danger of any of the provisions, since it places in the hands of the manufacturer the right to determine a quasi-legal and factual condition which in the ordinary course of events should be the concern of governmental authority. What are trade practices that may be injurious to the company's good name might be a matter to be determined by the company, but a practice which is detrimental to public interest is a matter for a governmental agency to determine after having taken into consideration all of the facts, including those to be presented by the dealer as well as the manufacturer.

In considering the foregoing provision of the 1939 Ford agreement it must be conceded that in this instance the manufacturer has stated his policy with respect to this important question and not left the

[16] *Oakland Motor Car Co.* v. *Kremer Motor Co.* (243 N. W. 673).
[17] General Motors' 1938 agreement—the 1939 agreement omitted this clause.

dealer to the uncertain interpretation of general clauses with respect to the enforcement of the manufacturer's policies.

Uniform accounts and financial reports.—Most of the agreements provide that the dealer shall maintain a uniform system of accounting designated by or acceptable to the manufacturer, and that the dealer shall submit to the manufacturer a complete financial and operating statement at stated intervals, or at such times as the manufacturer may designate.

In practice the major manufacturers in this way keep close watch over the financial status of their dealers and are thus enabled to know when the dealer is financially able to expand his business, or to purchase more cars, parts, and accessories.

Inspection of dealers' business and records by manufacturer.—Many of the agreements provide that the manufacturer shall have the right to inspect the dealer's place of business, and several of the agreements provide that the manufacturer's employees shall have the right to inspect or examine dealer's records of account.

In practice, the manufacturer's representatives call periodically upon the dealers and inspect their stocks of parts and accessories to determine whether or not any so-called "foreign," "pirate," or "gyp" parts and accessories are in the dealer's stock or on display, and, as the occasion demands, inspect the purchase records of the dealers to determine whether or not parts or accessories have been purchased other than from the car manufacturer during the preceding period of time. These representatives also make inspection of the stock and service room from the standpoint of orderliness and cleanliness.

Title and risk in shipment.—The majority of the agreements provide that title to all cars shall remain in the manufacturer until the cars have been paid for by the dealers. Nevertheless, the majority of the agreements provide that shipments shall be at dealers' risk from time of delivery of the cars to the carrier.

Thus, it will be seen that the dealers are required to assume risk of fire, theft, and other similar losses, often before they receive title to the cars they are purchasing.

Extra charges.—Usually, the agreements provide that the dealer shall pay the manufacturer's list price for all cars purchased and other additional charges, such as taxes, advertising, etc.

Several of the agreements provide for an advertising charge of a specific amount per car, or in such an amount as the manufacturer shall from time to time determine. In practice, this advertising charge is an expense borne by the dealer, as there is no obligation on the part of the manufacturer to expend this definite sum for advertising. In the General Motors 1939 contract the manufacturer agrees to use this money for advertising in the dealer's community and to account to the dealer for unexpended funds. In the Hupmobile 1939 agreement it is specifically stated that the manufacturer will provide local and national advertising, to be placed and paid for by the manufacturer.

Transportation charge.—Most of the agreements also provide that in addition to the list price and such items as taxes, advertising, etc., the dealer shall pay either the actual freight from point of manufacture or distribution to the dealer's place of business or a "transportation charge" to be determined by the manufacturer.

In practice, the manufacturer, as a rule, fixes an arbitrary "transportation charge" which the dealer is required to pay, regardless of the actual amount of money expended in transporting the car, or the shipment of the cars, from the factory or distributing point to the dealer. This is often an item of extra cash income to the manufacturer.[18]

Dealer to conform to manufacturer's policy.—Many of the agreements provide that the dealer must abide by all of the policies of the manufacturer as may be announced from time to time in trade letters, amendments or appendixes to the agreements, or in dealers' schedules to be presently or subsequently announced.

This provision of the agreements gives the manufacturer the privilege of imposing certain obligations upon the dealers without the dealers' specific consent.

Alfred P. Sloan, Jr., chairman of General Motors Corporation, in general sales committee meetings as early as July 1925 indicated he was cognizant of the evils of cancelation of dealers without sufficient reason or cause, and in a recent address to a group of automobile dealers publicly recognized the problem and the obligation in the following language:

> I might mention the practice of the industry of providing for the cancelation of its selling contracts, without notice, and without cause, on the part of either party. I have been giving much thought to this point. It cannot be denied that in by far the great majority of our relationships the question is never raised, yet when such circumstances develop it is important to the individual concerned. Important progress has been made by the manufacturer toward accepting definite obligations in the way of liquidating the dealer's operating assets and in participating in any losses that might occur incident to obligations more or less fixed. But entirely aside from all this, perhaps cancelation without cause is subject to criticism from the standpoint of the general equities involved. *I am inclined to think it is.*[19] Therefore, perhaps we should consider a somewhat different relationship. This subject should be further explored.[20]

In the interim of 13 years, only superficial remedies had been applied and dealers were still being canceled at will.

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[18] See also ch. 9, p. 63.
[19] Italics supplied.
[20] Address before the National Automobile Dealers Association, in Detroit, April 27, 1938.

CHAPTER IV. PRACTICES OF MANUFACTURERS RESPECTING INVESTMENTS OF DEALERS

Section 1. Nature and Scope of Discussion

Nature of dealer complaints.—The principal complaints of automobile retailers which led to the adoption of the resolution under which this inquiry was made were to the effect that dealers are subjected by manufacturers to various types of pressure or coercion which are regarded as unfair or unjust to the dealers' interests. Not all manufacturers use the same types of pressure or apply them with the same degree of severity. In discussing this matter, A. N. Benson, general manager of the National Automobile Dealers Association, stated as follows before the Interstate and Foreign Commerce Subcommittee of the House of Representatives on December 16, 1937:

> A great deal of the difficulty, a great deal of the controversy, a great deal of the situation that is debatable is the result of the type of arrangement that exists between the manufacturer of automobiles and the dealers.
>
> There is in existence a sales arrangement between the two divisions, if we may term them such, commonly known as a contract, but which is more generally considered to be a franchise or a right to sell. Probably all of the difficulties in the retail branch of the automobile industry stem from this arrangement, at least it is thought so by a great number of people. The system under which the automobile dealers now operate has grown without any marked changes until it has come to be regarded as a part of the system of the automobile industry, and it differs widely from present day methods of doing business in other lines. The industry has changed, conditions through the United States and the world have changed, but this franchise arrangement has changed very little. * * *
>
> Now, this system, in which this franchise arrangement is in effect, has a tendency to make the automobile dealer subservient to the wishes of the manufacturer if he wishes to continue to sell the product of that manufacturer.
>
> It is a very significant fact that most of these franchises are cancelable, with or without cause, and can be terminated immediately upon notice.
>
> This system under which a manufacturer establishes an automobile dealer, who is induced to invest a substantial amount of money to work under a franchise which is cancelable at the will of the manufacturer, permits of coercive practices in the sale of automobiles and in the sale of parts and in the sale of the equipment to service the automobiles.
>
> Now, this investment, once it is made, depends for its value upon the continuing of the franchise, and so long as it is possible for a field representative of the manufacturer to say to the dealer, "If you wish to continue or to renew the franchise or permit to do business, you must buy these automobiles, or you must buy these parts, or you must come in on this advertising program or we will get a new dealer in this community," and dealers will be forced to employ trade practices which are not in the public interest, in many cases.
>
> Now, this coercion—and it is coercion—may be only implied. It may be merely that there has been some dealer in another community who has had his contract or franchise canceled "for failure to cooperate," and that is used as a warning.[1]

The discussion of the manufacturer-dealer agreement presented in the preceding chapter has indicated the general form of the contracts or agreements in effect during 1938 and 1939. This review indicates

[1] Hearings before a subcommittee of the Committee on Interstate and Foreign Commerce, House of Representatives, 75th Cong., 2d and 3d sessions, December 16, 1937, to January 14, 1938, pp. 6 and 7.

that with respect to one point covered by Mr. Benson, namely, the period of notice required in case of cancelation there has been a general change in terms providing for a definite period of notice by the manufacturer in case of cancelation. In certain other respects, also, the 1939 contracts of several manufacturers have been modified, generally along the line of writing into them provisions desired by dealers, particularly with respect to protection of their territories against cross selling and the provision of penalties in case cross sales occur. Some also have added to their agreement, or made more definite provisions already in them respecting repurchase of stocks of new cars and parts. In general, however, the agreements for 1939, although they have, in some instances, been extensively rewritten and rearranged, still contain within their provisions much the same basis for the exertion of large power over retailers by manufacturers and their local representatives complained of in the above quotation. For 1939 the contracts have been liberalized in some respects by writing into them certain provisions which the dealers desired but without materially changing provisions intended to safeguard the interests of manufacturers. Therefore, both the terms of the 1939 agreements and the fact that the two parties entering into it have widely differing bargaining power serve as the basis for the exertion of pressure by manufacturers upon dealers.

The manufacturer's superior economic strength and bargaining power can be typically illustrated by pointing out that the holding of an agreement with a manufacturer is absolutely essential to the conduct of a dealership. Without such a contract the dealer cannot obtain a supply of new cars to sell. To the manufacturer, however, the question of whether he will have an agreement with dealer A or dealer B in a given locality or whether he will have no agreement with any dealer in that particular locality is not vital to the existence of his business as a manufacturer. While it is desirable that he shall have as many dealers as may be necessary to obtain the desired volume of sales, no particular dealer is absolutely essential. In case one dealer is unsatisfactory and the manufacturer elects to cancel this dealer's agreement, there is always the possibility of obtaining another dealer in the same locality. In fact, it is a customary practice on the part of the manufacturers to have lists of prospective dealers available in the hands of their field representatives in order that such changes in dealerships as seem desirable may be made as promptly as possible.

From his advantageous and dominating bargaining position in the making of agreements, each manufacturer formulates the terms of his dealer agreement and imposes the requirement that no change whatever may be made in the printed terms in signing up any dealer. In addition, the agreements state that the printed form signed shall constitute the entire working agreement between the dealer and the manufacturer. In some instances they specifically state that no oral or other statements made by the manufacturer's or distributor's representatives who make the contact with and secure the signature of the dealer to the agreement shall be binding as between the dealer and the manufacturer. To make these provisions effective, the printed forms provide that no dealer agreement shall become effective until it has been countersigned by the manufacturer's home office.

The forwarding of the agreement to the manufacturer's home office for approval and its return with such approval requires the elapse of a period of time which may vary in length, especially if, as quite often happens, approval is withheld until such time as the dealer has complied with certain requirements for dealership set up by the manufacturer, particularly with respect to location and type of place of business, provision of dealer service facilities, tools, and the like. Also, if the dealer is handling the products of a competing manufacturer, approval of his signed agreement may be held up until he has canceled his agreement with the competing manufacturer.

Whenever approval of the dealer's agreement is held up pending the acquisition of a new location, or the remodeling of quarters, or the provision of facilities, or purchase of tools and service equipment to meet the manufacturer's requirements of his dealers, the dealer is compelled to make an investment or to obligate himself financially for amounts often running into thousands of dollars before he really has a franchise agreement under which to operate at all. After approval by the manufacturer's home office, the franchise agreement, by its terms generally, is in form a continuing agreement effective until superseded by a new agreement or until canceled by either party as provided in the agreement. Until recent years some manufacturer's contracts provided for termination for any cause or for no cause and, in some cases, with no notice, while in those cases in which notice was provided, its period was sometimes as short as 10 or 15 days. In the 1939 contracts, periods of notice by the manufacturer generally have been lengthened to from 30 to 90 days.

Thus, although clauses dealing with cancelation and certain other matters have been liberalized and some new clauses have been added, other important provisions affecting conditions under which automobile retailing is conducted have undergone little change, so far as the terms of the manufacturer's agreements are concerned. Consequently, both under the terms of agreements, and by his superior economic strength and position in bargaining with his dealers, the manufacturer still possesses large power to exert pressure upon dealers who, for any reason, do not operate in ways satisfactory to the manufacturer.

Subject matter and method of discussion.—In accordance with that part of the resolution directing the Commission to make inquiry respecting the conditions under which the retailing of motor vehicles is conducted, the subject matter of the balance of this chapter, and also of succeeding chapters, becomes the presentation in some detail of facts developed respecting the validity of dealer complaints that, both under the provisions of manufacturer-dealer contracts and in accordance with policies determined by manufacturers, but not fully set out in the written dealer agreements, undue pressure is exerted upon dealers, and that the dealers' interests too often are injured thereby.

In addition to the threat to cancel the dealer's contract it is alleged that manufacturers or their field representatives use various other methods of forcing dealers to operate along the lines desired by the manufacturers. It is alleged that an unsatisfactory dealer may be discriminated against in delivery of cars or shipments of orders; that new dealers may be established in his territory; that the manufacturer may set up a factory-owned or factory-controlled dealer in his territory; or that refusal to make shipments, except upon condition that the dealer will settle for cars through some particular finance company or in a particular manner, may be imposed upon the dealer.

In conducting the inquiry it was found that many dealers, although dissatisfied with conditions under which they operated, were reluctant to discuss the causes of their dissatisfaction, if such causes involved dealer requirements imposed on them by manufacturers. This was especially true if the dealer was still handling cars made by the manufacturer exerting pressure. In such cases reluctance grew out of fear that his dealer agreement might be canceled if the manufacturer learned that the dealer had discussed coercive practices or complained about them.

The same reluctance to let their names be known was shown by a number of dealers in answering a report form or questionnaire sent to dealers which was marked "confidential" and respecting which the accompanying letter of transmittal stated:

> In requesting your cooperation in furnishing information, it is desired that the Commission's questions, and your answers, shall be kept confidential as between the Commission and yourself. It is hoped that you will feel free to answer both parts of the report fully to the end that the facts respecting dealer investments and profits, as well as the practices of manufacturers, finance companies, and dealers may be obtained for consideration by the Commission.

This same fear of reprisals or injury to their businesses was expressed by a number of dealers who forwarded material anonymously, in some cases including documents from which the dealers' names had been eliminated. The following statement by one such dealer forwarding documentary evidence is typical:

> I dare not sign anything that could possibly be relayed to the factory. I am already in "Dutch" badly for desiring to be a profit dealer and not a volume dealer.

In some cases where dealers had already been canceled similar reluctance was expressed because of fear that if the dealer discussed his difficulties or furnished information, and the fact became known to manufacturers other than the one complained of, the dealer might be unable to obtain a new dealer franchise or agreement from any other manufacturer.

In recognition of the fact that the dealer's interest may be jeopardized in case manufacturers learn that he discussed his difficulties with representatives of the Commission or furnished documentary or other information indicating coercion or pressure on the part of his source or sources of supply, all names and addresses of dealers are omitted in the ensuing discussion. Each case described, however, is supported in the Commission's confidential files by interviews and correspondence or other documentary evidence wherever obtainable supporting the claims made by dealers respecting the extent and type of pressure exerted by manufacturers. In addition, many of the instances described are supported in the Commission's files by documentary evidence obtained directly from the files of manufacturers. Such material from the files of manufacturers covers actions taken in the cases of particular dealers in addition to material bearing on the manufacturers' general policies as indicated by bulletins and manuals issued to the field representatives and reports returned by field representatives to their manufacturers respecting the handling of dealer problems.

In presenting the results of the Commission's inquiries, the method pursued is to treat separately the different subjects of dealer complaint respecting the policies and practices of manufacturers. This method of treatment results in grouping under a single heading facts respecting the policies and practices of numerous manufacturers. The purpose of treating the matter in this way is to avoid duplication of treatment in presenting the general practices of the industry.

Section 2. Requirements for Dealership

General requirements.—Since automobile retailing requires considerable financial ability on the part of dealers, both for the purchase of cars and for the provision of sales and service facilities, it is quite natural that manufacturers should have definite dealer requirements to be applied in setting up new dealerships and also that they should check periodically to see that the financial ability and service facilities of their dealers are adequate to handle the volume of business done and properly serve the public.

The dealer's need for capital arises, first, out of the custom of the trade, reflected in all automobile manufacturers' dealer agreements, requiring dealers to pay cash for cars as they are shipped from the factory; and second out of the requirement, also set out in dealer contracts, that the dealer provide a place of business and service facilities and, in general, conduct his business in a manner satisfactory to the manufacturer. The various terms of dealer agreements are discussed in more detail in chapter III. It is sufficient to point out here that the inclusion of such terms in dealer agreements, along with provisions for cancelation on short notice, lays the basis for an unusually large measure of control by automobile manufacturers over the conduct of the individual dealer's business. As previously stated, the compulsive force effectuating manufacturer control over dealers is fear on the part of the dealer that his agreement will be canceled.

In making contracts with both distributors and direct-agreement retailers, the practice of automobile manufacturers is to have their field representatives who negotiate agreements submit with each agreement a report covering the dealer's qualifications, including his financial ability and facilities provided to conduct the business. Where wholesale distribution is accomplished through distributors, who in turn sign agreements with retailers, the distributor's representatives, in negotiating agreements, are required to attach to each agreement a similar report covering the dealer's qualifications and facilities for consideration by the manufacturer's sales department in approving or disapproving the agreement, which, by its terms, does not become effective as a so-called franchise to handle the manufacturer's vehicles until it has been so approved and returned to the dealer by the home office of the manufacturer. Periodically thereafter, the manufacturer's representatives or, if the dealer's agreement is not made directly with the manufacturer, the wholesale distributor's representatives make reports covering dealer qualifications, facilities, and performance under each retail-dealer agreement in effect.

The dealer requirements set up in 1937 by the Packard Motor Car Co. for a "qualified dealer," defined as a dealer or a retail branch of a distributor, covered the following points:

1. Sufficient capital, in both cash and available credit, to handle the volume of business estimated for the dealership.

2. A place of business of sufficient size to advantageously display new and used cars, and service the normal expectancy of the territory.

3. Adequate sales and service signs.

4. Sales management capable of securing, training, and maintaining a force of salesmen who will produce a fair share of the new car business, as shown by registrations, and maintaining a liquid condition in used cars.

5. Ownership of an adequate number of demonstrators, the number varying with the dealer's potential.

6. It is desirable that no other lines of cars in Packard price classes be handled by the dealer, but this is not mandatory.

7. Satisfactory performance of the provisions of the dealer's sales agreement.

8. A stock of current, fast-moving Packard parts and accessories consistent with the number of cars to be serviced in the dealership territory.

9. An adequate outfit of Packard special tools and other necessary service equipment.

10. An adequate cash deposit, varying with the anticipated annual volume of cars from $200 to $500. (These amounts may be increased, decreased, or eliminated at the discretion of the distributor.)

11. That all dealers shall submit financial statements on the regular forms recommended and for periods designated by the factory. (In practice, only distributors are strictly required to submit such statements to the Packard Motor Car Co. It is, however, recommended that distributors obtain such financial statements from their independent subdealers, and where obtained, to forward them to the Detroit office.)

The trade letter in which these qualifications were set out stated that any deficiency in the qualifications outlined above, except those regarding deposits, would classify the dealer as a nonqualified dealer, i. e., a dealer not fully meeting the factory's dealer requirements. It appears, further, that failure to fully qualify in minor respects would not necessarily mean that the dealer was in line for cancelation as an undesirable dealer. The trade letter also stated that these qualifications might be added to or removed by the factory as good business might dictate.

Ford Motor Co. has similar requirements for dealers. Those set out for Lincoln-Zephyr dealers for 1938 were as follows:

Let us list briefly the essentials of a good Lincoln-Zephyr dealer:

1. Adequately financed.
2. Sufficient exclusive salesmen.
3. Sufficient demonstrators. These should exceed the number of salesmen, because an important part of the selling is done by furnishing demonstrators to prospects for trips of at least 100 miles. That gives the car a chance to sell itself after a proper demonstration by the salesman. Moreover, with sufficient demonstrators in use it is possible to contact a prospect with the type of body he is interested in.
4. Enough floor-display cars—and display cars always on the floor.
5. At least a 30-day stock of new cars based upon the dealer's potential sales.
6. Proper identification of dealer's premises by signs.
7. Well-organized service department.
8. Competent appraiser of medium-priced cars.
9. Aggressive used-car organization, with well-kept, attractive used-car premises.

Other manufacturers set up similar dealer requirements which are not discussed in detail.

The position taken by manufacturing companies is that these requirements are necessary to obtain for their products the type of dealer representation desired and, further, that the requirements, both those written into contracts and those set up as matters of policy to be observed by factory fieldmen and distributors, are intended by the manufacturer to be helpful in the development of dealerships that will be financially successful and satisfactory in serving the interests of both the manufacturer and the purchasing public.

As a basis for continuing knowledge of the investments, profits, and general financial condition of their dealers, automobile manufacturers require their dealers either to use a detailed system of accounts prescribed by the manufacturer, or to use a similar system acceptable to the manufacturer, and to submit periodically financial and profit-and-loss statements on forms prescribed by the manufacturer. These accounting data, together with frequent, sometimes weekly, statistical reports covering sales, orders, and stocks, keep the manufactuer intimately informed respecting the results of the dealer's business. In addition, each manufacturer has a corps of fieldmen who periodically visit dealers, inspect their facilities and operations, and report to the manufacturer's home office on the conditions found to exist and the progress made by dealers in carrying out the manufacturer's dealer requirements and distribution programs. Thus the manufacturer has available an unusual amount of detailed information respecting the investments, profits, and operations of his dealers.

Notwithstanding the position taken by manufacturers that the requirements set up for dealers are those necessary to obtain proper representation for their products and are intended to be helpful to dealers, many dealers relate instances in which they have been induced by factory representatives to make or retain in their businesses, often against their will and under implied or specifically stated threats of cancelation, investments that have subsequently proved to be unprofitable. In the consideration of such statements, it is to be kept in mind that the terms of dealer agreements provide that the manufacturer may cancel dealerships on relatively short notice, readjust territorial boundaries or separate wholesale distributorships at will, and otherwise change on short notice the conditions determining the volume of business to be done by individual dealers. By the terms of the dealer agreements, the manufacturer, in doing all of these things, assumes no financial responsibility respecting the dealer's operations unless by special agreement, separately executed. It is also to be noted that the dealer may not be in a position to increase or decrease his investment or financial obligations represented by long-term leases on facilities that may be rendered partially or wholly unproductive by the manufacturers' fiat. On the other hand, it is to be recognized that the manufacturer cannot be expected to tolerate inefficient dealers, regardless of what investments such dealers may have made. Nor can the manufacturer be held repsonsible for loss of capital by dealers due to poor management on the part of dealers.

Automobile manufacturers in general, and especially the larger manufacturers, unquestionably possess large power over the conditions under which dealer investments must be made and used. It, therefore, becomes highly important to consider whether manufacturers, from their superior economic position, pursue policies of requiring investments and of changing under short notice conditions under which dealers operate in ways and to extents that are unfair to dealers who are unable to adjust their investments, leaseholds, and other financial obligations to abrupt changes made in manufacturers' local distribution organizations and policies.

Dealer capital requirements.—For the guidance of its field men in investigating the financial ability of dealers and in subsequently discussing matters pertaining to the dealer's capital requirements, the Ford Motor Co. has set up a table showing the approximate capital requirements regarded as necessary for efficient operation of dealerships varying in size from those having estimated annual unit sales of 100 vehicles to dealerships having sales volumes of 900 or more. This table, as it appears in Ford Motor Co.'s Business Management Manual, is as follows:

Approximate capital requirements for efficient operation

Estimated annual new unit sales	100	200	300	400	500	600	700	800	900
Cash	$1, 300	$2, 600	$3, 900	$5, 200	$6, 500	$7, 800	$9, 100	$10, 400	$11, 700
Accounts receivable	1, 300	2, 600	3, 900	5, 200	6, 500	7, 800	9, 100	10, 400	11, 700
New cars	4, 600	9, 200	13, 800	18, 400	23, 000	27, 600	32, 200	36, 800	41, 400
Used cars	2, 500	5, 000	7, 500	10, 000	12, 500	15, 000	17, 500	20, 000	22, 500
Ford parts and accessories [1]	2, 000	4, 000	6, 000	8, 000	10, 000	12, 000	14, 000	16, 000	18, 000
Gas, oil, and other accessories	100	200	300	400	500	600	700	800	900
Shop and parts equipment [1]	1, 300	2, 600	3, 400	4, 200	5, 000	5, 800	6, 600	7, 400	8, 200
Office equipment	100	200	300	400	500	600	700	800	900
Company cars [1]	500	1, 000	1, 000	1, 500	1, 500	2, 000	2, 000	2, 500	2, 500
Total	13, 700	27, 400	40, 100	53, 300	66, 000	79, 200	91, 900	105, 100	117, 800
Accounts payable	1, 300	2, 600	3, 900	5, 200	6, 500	7, 800	9, 100	10, 400	11, 700
Notes payable—Finance company	4, 100	8, 200	12, 400	16, 600	20, 700	24, 800	29, 200	33, 200	37, 300
Capital or investment	8, 300	16, 600	23, 800	31, 500	38, 800	46, 600	53, 600	61, 500	68, 800
Total	13, 700	27, 400	40, 100	53, 300	66, 000	79, 200	91, 900	105, 100	117, 800
Investment per new car per year	83	83	79	79	78	78	77	77	77

[1] Items not bearing a direct relation to volume.

Packard Motor Co. Car sets up the financial resources desirable for the selection of a new dealer, as follows:

> Financial resources: Sufficient financial resources, capital plus borrowing capacity, estimated at 25 percent of annual gross sales, to carry an adequate stock of new cars and parts, used cars, and accounts receivable, and to maintain an establishment and organization of sufficient size and equipment to present Packard products in a creditable manner, to develop maximum sales possibilities, and to satisfactorily service the cars operating in and through the territory, together with a willingness for taking modest dividends and investing the surplus in the further development of the business.

Hudson Motor Car Co. sets up a capital requirement for its dealers of $75 per new car of contract and states that this is a variable figure because some dealers are better businessmen than others and can secure a more frequent capital turn-over. Hudson, likewise, takes the position that dealers who are good businessmen do not withdraw profits from their business until they have built up a capital structure. Other manufacturers have smilar policies respecting retention of profits in the business.

The capital requirements thus set up appear to be rather elastic. In case a dealer cannot be found who has the full amount of capital indicated, one less well supplied may be granted a franchise. In general, however, a prime requirement for obtaining and keeping a dealer agreement is ample capital to conduct the business forecast for the dealership. Likewise, the importance of the manufacturer's capital requirements of dealers is emphasized by the fact that one of the major reasons for canceling dealers is insufficient finances or capital.

After an agreement is signed, and throughout the period it is in effect, manufacturers' field men periodically visit and inspect the places of business of dealers and make detailed reports to their superiors respecting the selling and service organizations, facilities, equipment, appearance of places of business and use made of advertising material, sales helps, and even office equipment prepared or recommended by the manufacturers, the use of which is more or less strictly required of dealers. If these field reports indicate that a given dealership does not meet the manufacturer's requirements, instructions are often issued to field men to see that requirements are more fully met. The information contained in these reports by field men of the three largest companies is supplemented by the quite strictly enforced requirement that dealers shall make monthly financial reports to the manufacturer, or to the distributors under whom they operate, on forms prescribed by the manufacturer. Other manufacturers appear to be less insistent upon periodic reports in any form and, in some cases, recommend rather than insist that they shall be made on forms prescribed by the manufacturer.

In general, it is to be noted that all manufacturers have quite definite dealer requirements respecting capital, facilities and dealer operations, and a definite basis for their enforcement is to be found in the general terms of the agreements signed with dealers.

Section 3. Enforcement of Dealer Requirements

Capital requirements in making new agreements.—For the five important manufacturers at whose offices special studies were made of material bearing on manufacturer-dealer relations, the manner in which manufacturers' requirements respecting financial ability of dealers are enforced in establishing new dealerships is indicated both by the various manufacturers' manuals for their field men and by dealer facilities reports forwarded with new contracts submitted for approval by the home offices of the factories. In addition, many statements made by dealers, both in interviews with the Commission's examiners and in replies made by dealers to a questionnaire sent directly to dealers, describe the experiences of dealers, by these five manufacturers and others as well. The following are typical of numerous statements made by dealers to agents of the Commission.

General Motors Corporation.—A General Motors dealer handling the Chevrolet line stated that the factory required a financial investment of $15,000, but that it was arranged that the initial investment would be $12,000, the balance to be made up out of profits left in the business. The manufacturer extended no financial assistance to the dealer. The dealer was required to have 15,000 square feet under one roof, and in accordance with his agreement was required to carry in stock at all times during the life of the agreement, Chevrolet repair parts having a total listed value of not less than $5,850.

Another General Motors dealer handling the Oldsmobile line stated that the factory required plans of his establishment when he signed his first contract in 1932.

A third General Motors dealer handling the Pontiac line stated that he was required to arrange for a capital backing amounting to $50,000 in order to obtain an agreement as a Pontiac dealer.

Besides statements made to the Commission's examiners on this subject, a number of dealers, in replying to the Commission's report form, made statements indicating that, especially prior to about 1930, manufacturers insisted dealers provide satisfactory capital and facilities before they were permitted to sign agreements as new dealers. In some instances, investments so made subsequently were unprofitable. In such cases, dealers felt that their losses were due to pressure by the manufacturer even though poor judgment in making the investment, or poor management, or lack of experience and merchandising ability on the part of the dealer may have been important factors in the failure of the business.

Ford Motor Co.—A case in which the desire of the Ford Motor Co.'s agent to obtain representation for his line in a location occupied by another dealer in 1927 resulted in what later proved to be an unfortunate investment by the dealer was described as follows by the dealer who made the investment as insisted upon by the Ford field man:

> There was only one location in the town that the manufacturer would O. K. before allowing us to sign a contract and, as we were unable to rent it because there was another dealer in the building, we had to buy it at a cost of $33,000. My wife bought the property and now the bank has taken it back resulting in a net cash loss to her of $16,000.

Incidentally, this dealership continued as a Ford dealer until the middle of 1937, when the dealer himself canceled his agreement and went out of business. The case exemplifies the application of the Ford Co.'s dealer requirements in establishing a new dealership. Many things besides the fact that the Ford field man insisted upon the dealer obtaining the particular location at relatively high cost may have entered into the ultimate failure of the business. It cannot be denied, however, that insistence upon the location by the Ford representative, and purchase of the location by the dealer at a high price in order to obtain the dealership, imposed a handicap on the business at its inception.

Chrysler Corporation.—A Chrysler field man writing regarding the establishment of a new dealership stated that the business would not actually get into operation for some months due to delay in completion of a new building which it was to occupy. In discussing this matter, the manufacturer's representative stated that although only a relatively small amount of capital was being put into the business at the time, unlimited finances were available and would be added from time to time as conditions required. With this explanation respecting the relatively small capital shown by the dealer facilities report, the field man recommended prompt approval of the agreement. It is to be noted that in making this recommendation, the field man took care to indicate that, although the company's capital requirements were not being met at the outset, the dealer would put further capital into the business as it got under way. This is in accordance with Chrysler policy which is similar to that of other manufacturers respecting dealer capital requirements.

Capital requirements in renewing agreements.—In addition to requiring new dealers to provide themselves with facilities and to carry stocks, it frequently happens that before agreements will be renewed, factory representatives insist upon dealers moving to new locations or providing themselves with additional floor space at additional rental cost. The most active time for the making of new agreements and renewals of old agreements is in the autumn when new models are announced and for some time thereafter. At this time the dealer-requirements policies of manufacturers are most definitely applied.

Chrysler Corporation.—For instance, under date of July 19, 1938, A. van DerZee, in an inter-office memorandum addressed to three other officers of the Chrysler Corp., stated as follows:

Too often, I think, the idea of "minimum facilities" is looked upon as being satisfactory regardless of where the dealer may be located. The so-called "minimum dealer facilities" should vary dependent upon the locality. What might be considered minimum facilities in one town would be far from the minimum requirements in another town. In no instance, of course, should we accept or continue a dealership who is without presentable facilities, as referred to in the first paragraph of this letter.

Furthermore, it seems to me that between now and, say, September 1, you should undertake to start off with the new model shipments with a clean slate in this respect. In other words, why not consider informing your field organizations and your distributors or direct dealers that of September 1 (which will give them sufficient time to clean up) only those dealer agreements which, together with facilities reports and photographs, as indicated above, warrant acceptance by you, will be considered "dealers of record" commencing on that date.

This is the middle of July, and therefore there will be several weeks' period during which each individual distributor or direct dealer can properly handle his own particular situation in this respect. If each and every distributor or direct dealer, as well as your field organizations, understand that you are determined about this procedure, I feel certain that a great deal of good work will have been accomplished by September 1.

The continuing relationship expressed in agreements in recent years by which dealer agreements approved by the manufacturer remain in effect until canceled or renewed tends to spread renewals with pressure upon dealers to meet manufacturers' requirements throughout the year. For instance, under date of March 18, 1938, A. B. Dowd, regional merchandise manager for the Chrysler Corporation, addressed a letter to W. N. Frink, district manager, Cleveland, Ohio, in which he stated:

In checking the 1938 dealer agreements recently sent in by you, there are four points which we are unable to approve because of the lack of proper facilities. These points are Wellington, under Cleveland, and Orville, Garrettsville, and Kent, under Akron.

According to the Detroit official's letter all of these contracts were held up because the dealers did not have some particular item of equipment required by the Chrysler Corporation. Two were not using printed advertising or film advertising required to be used by dealers. One was stated to have no commercial salesroom chart or Chrysler-Plymouth signs. Other deficiencies were of similar nature. The field man was advised that upon receipt of orders for missing items or information to the effect that dealers actually had the equipment required, although it was not shown in the field man's facilities report, the Detroit office of the Chrysler Corporation would be in a position to pass the agreements through for approval.

Under date of March 21, 1938, W. N. Frink wrote a long letter in reply to Dowd's letter of March 18, calling attention to the fact that facilities reports submitted with the contracts indicated that some of the items listed as lacking were actually in the hands of dealers, that orders for others had already been obtained, and outlining in detail what further was being done, or would be done, to bring the dealerships up to requirements.

The following are typical of replies from Chrysler dealers to the Commission's report form for dealers on the subject of dealer investment.

A Dodge-Plymouth dealer said:

The factory has continually attempted to influence us toward increased show room and shop space. However, they have not used any unethical methods to do this although we do think at times their judgment has not given us proper consideration.

Another Dodge-Plymouth dealer related that:

In 1934 the regional manager came to ---------- and after looking our place over stated that it was intended to make our place a direct dealership, but that our facilities were entirely inadequate and we would have to arrange at once to construct a suitable showroom and to send the plans in for approval at once.

We didn't think it good business to expand at that time, but were too deep in the thing to quit, so we built a new showroom, parts department, and office at an expense of $8,500.

Needless to say, it was a bad mistake on our part for it increased our overhead a lot and we haven't been able to get sufficient additional business to make up for it or to keep the factory satisfied with the volume we do. If we hadn't borrowed the money from people who are very good to us we would have lost the entire investment long ago.

A third Dodge-Plymouth dealer stated:

We were asked in 1936 and 1937 at regional meetings to get additional building space for display of used cars, also shown many used-car parks with approved signs and lay-outs. In our case we were asked to consider larger quarters for new cars and service facilities. We rented an extra used-car building which we easily could have gotten along without which has cost us in rental alone $125 to $135 per month for almost 3 years and on which we took a lease.

Likewise another Dodge-Plymouth dealer said:

In 1936 we were required to rent an outside used-car department in order to merchandise a volume of used cars and carry a big stock of new cars.

A De Soto-Plymouth dealer stated that:

Factory representative tried to cause to lease larger building, but took it up with factory official direct who advised me to tell him "No" if I didn't want to lease building.

A Chrysler-Plymouth dealer stated:

Manufacturers have used lots of influence. About 10 years ago this company rented a building too large for their business which they still occupy and rental of which is altogether too large for profits made.

And another Chrysler-Plymouth dealer:

This is one thing that we have not given any consideration to although it has been suggested many times, and they have used much coercion and pressure at different intervals.

In the case of another dealer, a Chrysler field man reported under date of August 26, 1937:

Into too many things, such as taxi business, rent-a-car business, and refrigerator business. Will devote more time to car sales. Just rented and may buy on rental basis, the most modern service station in this district. If he buys, will remodel front for showroom, which will bring all his operations under one roof. Using new building now as extra shop to condition used cars and as paint shop.

Just setting up new electric lift and grease rack. Has all equipment in. Has billing now for balance full 5 point tool equipment. Just rented separate garage to condition used cars. Will use space back of showroom for used-car display. Took order for Binder index and set of service bulletins.

Again on September 7, 1937, the same field man reported again respecting this dealer:

Agreed to relinquish handling personally of everthing but automobile business. Will purchase the new $9,000 set-up as mentioned in August 26, 1937, report. Will receive bids in a day or two for remodeling complete new plant. The new plant will give him an excellent service department, a good paint room and modern lubrication department, and also a modern sales room and a large much needed used-car lot. Just received new steam equipment for washing motors and under frames. Now has his wife in office, giving him more time to sell cars. Today, with district wholesale manager helped dealer lay plans for remodeling proposed building.

That the policy of pressure by Chrysler Corporation respecting investment and facilities of dealers is of long standing is indicated by a dictated statement furnished by an ex-Chrysler-Plymouth distributor to an examiner for the Commission. This distributor related the pressure brought to bear upon him to take and sell cars which resulted in the purchase of a building site in 1925 and the erection thereon of a new building which was opened in 1927. The distributor stated that as the result of pressure and shipments of cars—

* * * We were obliged to have three, four, and five warehouses on the outside to carry this unbalanced, excessive inventory which was forced upon us, a great many times with threats of "or else—if you don't sell them, somebody else will," and at times through threats of cancelation.

We were sometimes so crowded that in addition to the warehouses, our showroom was full to the doors with new cars, and instead of receiving a kind word for carrying this stock for the factory, whenever the regional manager came around he always ridiculed us for having too many cars in the showroom and in front of the building, and kept antagonizing us so much that we decided to buy land and build a new place with larger quarters, believing that as time went on this would make them more satisfied, although at that time we had a very fine place of business.

Ford Motor Co.—A number of Ford dealers, interviewed by examiners of the Commission, described their experiences respecting capital requirements and facilities imposed upon them. For instance, a Ford dealer stated that the factory representative required him to rent additional floor space at a cost of $15,000. This dealer thought that the additional floor space was quite unnecessary, and that its rental resulted in loss to the company.

A former Ford dealer stated that in 1919 he was induced by suggestions and persuasion on the part of Ford representatives to move from a location where he had conducted a successful business for 3 years to a new location. The dealer stated that he spent between $6,000 and $7,000 in improving the new location in addition to obligating himself for an increase in rental from $250 to $750 per month under a 10-year lease. Some years later this dealer was induced by the local Ford branch manager to open up a quick service station at a second point in his city. In opening this station he took over a location owned by an oil company and improved it at a cost of between $6,000 and $7,000, $1,000 of which was for a Ford sign. Under suggestions and requirements set up for him respecting the operation of this station he was compelled to employ two special mechanics. In the end it developed that he was required to give free service to many Ford owners to whom he had not sold cars. The station was operated at a loss and, after 2 years, was discontinued contrary to the wishes of the local Ford branch manager, who thought that the dealer should continue its operation, even at a loss. Later still, in 1936, this dealer was canceled, according to his statement, because he had joined with other dealers in opposing the action of the branch manager in setting up and retaining as a dealer a price cutter, whose activities demoralized the business by forcing all dealers in the city to cut prices and make excessive trade-in allowances in order to make sales.

A Ford dealer in another city stated that some 2 or 3 years ago he was a successful dealer in a suburban location which he was induced by Ford field men to leave in order to take a downtown dealership in an area formerly served by three Ford dealers all of whom had failed. He stated that he made the move with the understanding that the Ford Co. would not replace the other dealers in the area. After he made the move, however, a second Ford dealer was set up in one of the near-by vacant locations. During 1938, when the volume of business was greatly reduced, he stated that neither he nor the second Ford dealer could get sufficient volume to make their operations profitable. He stated that Ford field men were continually urging him to take more cars than he could sell and expressed quite forcibly his feeling against the practice of manufacturers in loading dealers with cars as the cause for overallowances and wild trading.

Another source of dealer complaint against pressure by representatives of the Ford Motor Co. was that, particularly prior to 1930, pressure backed by threats of cancelation was brought to bear on dealers to compel them to make what were subsequently found to be unprofitable investments in retail companies to handle Lincoln cars. When the Lincoln was added to the Ford line it was the custom of the Ford Motor Co. to insist that Ford dealers also handle Lincoln cars. Later, a single Ford dealer was selected to handle the Lincoln in each market area. In many instances, even in the larger cities, the handling of Lincolns was unprofitable to the dealers selected. After numerous failures to develop satisfactory Lincoln distribution through Ford dealers, the Ford Motor Co. followed the plan in several cities visited by examiners of the Commission of establishing a single, separately incorporated Lincoln agency, the entire capitalization of which Ford dealers were required to contribute, sometimes in proportion to their Ford sales for the previous year and sometimes on a lump-sum basis per dealer. This practice was begun at least as early as 1926 and continued to 1930 or later. The amounts contributed in cases investigated by examiners of the Commission ranged from less than $700 to $10,000 per dealer.

In a typical case described by participating dealers as having occurred in 1929, all Ford dealers of a particular city and its suburbs were called to a meeting where they were told that the previously existing Lincoln dealer in the city had failed financially, and that the remaining Ford dealers were expected by the factory to provide Lincoln representation in the area. They were also told that the factory had made up a list of the Ford dealers showing how much each was expected to subscribe toward a new corporation to take over the Lincoln dealership. The new corporation was to be capitalized at $75,000, with $50,000 paid immediately in cash. Prior to the subscription meeting a check covering the amount to be subscribed by each dealer had been made out by factory representatives and each dealer was called up and compelled to sign the prepared check. The dealers were told that unless they subscribed the amounts listed, their sales agreements would be canceled. Under these circumstances, it was stated that cash subscriptions amounting to $50,000 were made in about 15 minutes. A mutilated copy of the original list showed the amounts required from different dealers to have been computed on the basis of automobiles sold during the preceding year. On this basis the cash subscriptions amounting to $50,000 ranged from about $650 to

$6,000, while total subscriptions, amounting to $75,000, the balance to be paid later, were proportionately larger. The new company operated for some 2 or 3 years, during which there was one additional assessment, shortly after which the company went out of business.

Similarly, two former Ford dealers in another city stated that during the time that they were handling Ford automobiles they and several other Ford dealers in the city and its suburbs were called to the Ford branch office and were required to leave their checks for specified amounts to cover the purchase of stock in a separately incorporated new Lincoln dealership, the capital of which the factory required the dealers to provide. The funds thus provided were dissipated by the new agency in a short time.

In a third city the Ford dealers were called together in a similar manner and requested to furnish capital to form a Lincoln distributorship in 1926. One of the group of dealers affected refused to invest his proportion, amounting to $10,000, and a second was financially unable to put in his share. At the suggestion of the manufacturers' representatives, one of the dealers who did contribute bought out the weak dealer, and the dealer who refused to participate was later forced to move from his old location where he had been financially successful to a new one which proved to be so unprofitable that he finally gave up his dealership somewhat more than a year after the move was forced upon him. The Lincoln dealership established by the remaining dealers likewise proved unprofitable.

Replies from Ford dealers to the Commission's report form for dealers also indicate the practices of the company with respect to capital investments and facilities of dealers handling Ford motor vehicles. One dealer states:

> We were forced to expand in 1928 against our better judgment.

Another dealer who handled Ford products from 1920 to 1937 and then changed to another line said:

> Ford forced me to build present building which I doubt I will ever finish paying for.

General Motors Corporation.—A General Motors dealer stated that from 1930 to 1934 he had a direct dealer's contract to handle the Oldsmobile. In the latter part of 1934 the factory zone office manager requested him to move to larger quarters in what the factory representative regarded as a more desirable location. The dealer stated that he did not wish to make the move, whereupon the factory zone office manager produced a so-called voluntary cancelation form which the dealer was required to sign, with the promise that he would be made a subdealer, to continue operations at his old location. As the dealer wished to continue handling the Oldsmobile products and was under the belief that, if he did not sign the release, his contract would be canceled, he signed the release, or resignation. He continued to operate for some time from his old location, handling Oldsmobile cars bought from distributors, but was unable to obtain the subdealer agreement that had been promised by the factory zone man. Later, in 1935, he was again offered a dealership provided he would move to the location suggested by the factory zone man. This he refused to do and took an agency for another line of cars.

An Oldsmobile dealer stated to an examiner for the Commission that he was for several years a distributor for General Motors lines.

During this period he was induced ("inveigled" as he put it) into building a building at a cost of nearly $500,000. Shortly thereafter his distributorship for one General Motors line was canceled and he was given a distributorship for another General Motors line. Six months later this distributorship was canceled on 24 hours' notice leaving him only his retail franchise with which to carry his large investment made to carry on both a wholesale and a retail business. This dealer expressed great fear that if it became known to General Motors Corporation that he had related his experience in this respect his retail-dealer agreement would be summarily canceled.

In answering the dealer report form, a number of dealers described specific cases in which they had made investments or moved into more expensive rented quarters at the instance of manufacturers' field men, under the belief that if they did not do so their dealer agreements would be canceled. From these answers it would appear that the policy of forcing dealers to make capital investments, or to move to more expensive leased quarters, was most prevalent prior to 1930, but that the practice has continued in somewhat modified form in recent years. In a few instances dealers stated that the moves were justified, but in the majority of cases described the dealers regarded the investments so made as reasons for complaint against pressure exerted by manufacturers to induce them to make improvident investments, often against the dealer's best judgment. Some stated that they had not experienced such pressure at all, or that it had been much less insistent in recent years, while others indicated that they had been under pressure as late as 1937 or 1938. The following are typical statements made.

A Chevrolet dealer stated:

> In 1928 I was forced to buy or build a new building other than the one I then occupied. However I will say that the business had outgrown the old quarters. I invested about $40,000 in a property at peak prices, which today would bring about $20,000. The company at that time seemed anxious to tie a dealer to the business by a large fixed investment of that kind.

Another Chevrolet dealer likewise did not feel that an investment made in 1928 at the instance of the manufacturer was an unfortunate one. He stated:

> We operated the Chevrolet franchise for the year 1928 in a building connected with a hardware store which we owned and then were induced to build a showroom, service station, etc. * * * We have no real complaint as the business has considerably more than paid for our investment.

A third Chevrolet dealer stated:

> In October 1936 I was informed by the Chevrolet zone manager that I must obtain and maintain a separate used-car building and lot and engage a used-car manager for same. * * * In order to retain my contract I purchased a two-story cement block garage with a storage capacity of 60 cars, and developed a display lot adjoining the building. Then I engaged a manager at a substantial salary which experiment proved to be a failure. I carried on during 1937 and 6 months of 1938, but found that my overhead, resulting from maintaining two separate establishments, had become so excessive that I was obliged to close the used-car garage and carry on from my former place, as I had been doing for 16 years.

A Buick dealer stated:

> In ——— we were told we either had to take the building they picked out, at the rent asked, and on a 5-year lease, or we didn't get the franchise. They assured us it was a good proposition and that they had our interest at heart, yet 18 months later they made us move and we were caught with a lease on our hands. They urge always extensive leasehold improvements. Again, this wouldn't be so ob-

jectionable if the dealer had any assurance of being left alone in the operation of his business.

Likewise an Oldsmobile dealer stated:

I was practically forced to lease a building in March 1937 on threat of cancelation of my contract. This lease was for a period of 3 years from April 1, 1937.

And another Oldsmobile dealer said:

We were canceled out for a period of 90 days in April 1937 until we had located larger and more expensive quarters than we then occupied.

Other manufacturers.—Although other manufacturers give attention to the financial responsibility of the dealer before granting contracts, check his financial condition, and inspect his facilities from time to time, there is less complaint in the replies of their dealers of the use of pressure in the application of capital requirements. There is, however, some evidence that from time to time dealers are required to put in added capital or invest in additional facilities.

Respecting a case in which the Detroit office of Hudson Motor Car Co. was insisting during the year that the owners of a dealership put more capital into the business and rearrange their capital structure, the following statement was made by a Hudson field man reporting to his superior in Detroit:

* * * If we stand pat on this requirement and make a strict issue of it, the thing will quickly resolve itself into (the dealer's) acceptance of the proposal, or refusal to do so, in which event we can proceed openly in soliciting a new account. If we compromise, it will but prolong the evil day, and make it more difficult in the end. If we must change the account, the time was never more opportune to do it, for interest in us and our product now is real.

I have several almost certain leads that can be developed quickly, any one of which could do the job for us here in____________________, or in the territory. * * * I of course have done no direct soliciting along this line, but I am sure that it can be quickly accomplished, and we can certainly be independent with (the dealer) from this angle.

In this instance it will be noted that cancelation of the dealer's agreement was contemplated if the dealer refused to put more capital into the business as suggested by the factory field man.

Among Hudson dealers, one indicated that a large expenditure was made prior to 1930 under the impression that his dealer status would not be changed, but that shortly after he had become definitely committed to make the investment his position was changed from a direct dealer to a subdealer operating under a distributor. This dealer stated:

During the late twenties manufacturer used everything at its command to induce us to spend some $80,000 for a plant, which we foolishly did, after being assured that our contract and proposition would never be worse. However, before construction was completed, less than 4 months later, our direct contract was canceled and we were asked to go back under a distributor with a contract that did not compare.

Changes in dealer status of the type indicated by this dealer reduces the productive use of new facilities constructed or otherwise acquired by the dealer.

Similar practices were indicated as having been pursued more recently by Packard. One dealer said that he was—

forced to take a 5-year lease on the building now operated before permitted to open a store previously operated by the distributor.

Another small Packard dealer whose service facilities in 1938 apparently were not up to Packard requirements for dealership stated that the Packard Co.—

try at present to have me move to larger quarters and get my own service department. Can't see it at present time—have refused to do same.

Requirements respecting advertising, tools, and lesser equipment.—Among items that the various manufacturers insist that their dealers purchase and use are special tools and sales helps such as moving-picture projectors, film services, printed advertising, salesmen's equipment, and office filing and record systems covering owners and prospective buyers of both new and used cars. The use of many of these items is prescribed in dealers' requirements and in some cases the agreements written with dealers specifically require the purchase and use of specified items or types of material, tools, and equipment. Pressure by manufacturers respecting these various requirements is a frequent subject of complaint by dealers.

Insistence on the part of the manufacturer that these items be bought and placed in use may occur at the time contracts are signed or renewed or during the periods that they are in effect. Approval of agreements by the factory's main office may be withheld on the grounds that dealers lack such facilities. Later, while agreements are in effect, factory field men may insist that dealers purchase and use specified items. When items are insisted upon at agreement-signing time, the dealer is under compulsion of fear that if he refuses to comply, the agreement will be denied. Likewise, during the period when an agreement is in effect the dealer is under similar compulsive fear due to the threat, always present in implied form and sometimes specifically stated, that if he does not comply with suggestions made by the manufacturer's field men, his agreement may be summarily canceled. Therefore, the manufacturer, acting through his field force, is in a dominant position in requiring that his dealers shall comply with requirements.

The nature and extent of pressure brought to bear upon dealers respecting minor items of equipment varies considerably among the different manufacturers. The greatest ability to exert pressure appears to be possessed by the larger manufacturers. Apparently this is due largely to the preference of dealers for an agreement with one of the larger manufacturers, the popularity of whose line will insure considerable volume of sales. This preference makes it easier for the larger manufacturer to obtain new dealers to replace any who do not comply with manufacturer-dealer requirements. The smaller manufacturers, on the other hand, claim that the preservation of their dealer organization is of such importance that they are not in a position to exert undue pressure upon their dealers to induce them to follow out sales and service programs requiring extensive expenditures.

The manner in which pressure is brought to bear on dealers is indicated by reports of manufacturers' field men examined in connection with this inquiry as well as by statements of dealers made to examiners of the Commission and in response to questionnaires addressed to dealers. In connection with inquiries made at the offices of manufacturers, interviews were also had by examiners of the Commission with officials in charge of distribution. Some of these interviews covered specifically the matter of advertising and other special equipment which dealers are required to buy and the methods pursued in bringing about the purchase and use of such equipment.

General Motors Corporation.—From comparison of statements made by dealers handling General Motors lines with those made by other large manufacturers, it would appear that General Motors Corporation recently has used somewhat less pressure on dealers than other large manufacturers. Also the method and extent of enforcing dealer requirements respecting the purchase of advertising and other items of equipment appear to have varied somewhat among the different divisions of General Motors Corporation. Statements of dealers both to the Commission's examiners and in response to the questionnaires in some instances indicate no dissatisfaction on the part of dealers. In others, however, dealers stated that they had been subjected to more or less pressure.

For instance, among statements made to the Commission's examiners, a Chevrolet dealer stated that the factory supplies gratis certain pamphlets and literature and the dealer is solicited to purchase additional advertising and sales material but this is not compulsory.

Another dealer stated that the factory supplies catalogs, folders, posters, etc., and does all the local advertising. The dealer is asked by the factory to use its direct-mail advertising, for which the dealer pays the factory. This dealer did not consider use and payment for this advertising compulsory.

Another General Motors dealer handling the Pontiac line stated that in accordance with the dealer agreement in effect in 1938, the factory entered a charge on the invoice for each car shipped to cover general advertising of $7.50 on each Pontiac 6 and $10 on each 8. This amount is placed by the manufacturer in a cooperative advertising fund to which the manufacturer is required, under the terms of the dealer agreement, to add an additional amount not less than 50 percent of the amount paid by the dealer. The manufacturer retains control of this fund without any accounting to the dealer for the manner in which it is spent. The dealer stated that this expense is borne by the dealer as the manufacturer will not permit the charge to be passed on to the new-car purchaser. Advertising literature is charged against this cooperative advertising fund where formerly it was charged directly to the dealer on the basis of $1 per car sold. Local newspaper advertising is paid by the manufacturer from the cooperative fund and the dealer is not permitted to run newspaper advertising without approval of the manufacturer.

The advertising plan described by this dealer was in use by various different divisions of the General Motors Corporation and, as stated by the dealer, provision for the charge and the operation of the fund is made in the dealer's agreement. The fact that the manufacturer has full control of the expenditure of this fund and makes no statements to dealers respecting expenditures made has been a source of some dealer dissatisfaction. Respecting the operation of this plan, an Oldsmobile dealer stated:

> * * * $7.50 on "6" cars and $10 on "8" cars are charged to the dealer for advertising on every car invoice. This must be paid and the money is supposed to be spent in his district. Although we are asked for suggestions as to how this money should be used, we cannot use this money as we see fit. The factory is the sole judge as to how the money is to be used. We are not furnished a statement at the end of any year showing where or how or how much was used.

Respecting the purchase of items of equipment, a Chevrolet dealer said:

We sometimes have to buy an article like a picture machine but usually it proves to be a good investment. Some years back we had to buy more tools than we needed but that is not true now. The 1939 Chevrolet tools were only $10.

Another Chevrolet dealer, in discussing the extent to which he had been required to buy advertising material, picture machines, special tools, parts, etc., stated:

The purchase of most of these items is under our own control. We are obligated to buy the yearly new tool allotments to service the new cars but this is a relatively small outlay of dollars.

Another Chevrolet dealer, however, indicated that dealers are not entirely free in their choice as to purchases. He stated:

They insist that we buy advertising material and picture machines. We do not feel that we benefit greatly from a large part of this advertising but they are insistent that we buy it.

A combined Chevrolet and Oldsmobile dealer stated:

They require us to buy special tools and some advertising material and picture machines which I didn't want, but have now put that in the contract.

A Chevrolet-Pontiac dealer stated as follows:

We are forced to buy the $6 advertising, tools with each new car purchased, and to subscribe to the public address system, also special tools and literature covering new models and advertising material covering the announcement of each of the new models.

A Pontiac dealer replying generally to the question regarding pressure for purchase of advertising, tools, etc., stated:

Have roadmen in dealer's place of business continually to sell such stuff and the dealer feels he cannot hold franchise without so-called cooperation with manufacturer.

A Buick dealer stated:

Each new yearly model requires new tools and these are generally sent the dealer and his account is billed for them. Generally this is not an objectionable matter for the dealer realizes he must have the tools necessary to perform the repair work properly and the amount usually is not out of line. Larger machinery sometimes forced on dealers would not be so bad if he had any assurance he was going to be a dealer long enough to get his money back.

Respecting the purchase of special tools another Buick dealer called attention to the fact that new model tools up to $50 may be shipped without the dealer's order according to the company's dealer agreement.

Still another form of charge required by Buick Division was indicated by a dealer who stated:

Our factory has asked us to pay for a mailing list to receive magazines. In our estimation, we do not receive value for the cost of this magazine.

Respecting the general method pursued to Buick Division in selling advertising to dealers, another dealer stated:

While we are not forced to buy advertising, equipment, etc., against our better judgment, at times we are subjected to high pressure and "supersales" methods.

Ford Motor Co.—This company has used a plan under which dealers were charged for direct advertising on the basis of the number of pieces of advertising mailed. T. W. Skinner, assistant sales manager of the Ford Motor Co., stated that during the 1936 selling campaign this system of direct-mail solicitation of owners of Ford cars and cars in the same price class was developed. Under it advertising material was mailed out by R. L. Polk & Co. Each piece mailed was stamped with the name of the dealer in whose trading area the prospect would naturally fall. He stated that due to the great volume of such printing, the cost to the dealer was 10 cents per name. The names of all prospects addressed were furnished to the dealers by R. L. Polk & Co., which also billed the Ford Motor Co. at the rate of 10 cents per name. Ford Motor Co. then billed the branches, which in turn billed the dealers. Dealers had no choice in the matter of accepting and paying for the service. The only concession made was that the dealers could spread their payments over a period of 3 months. This plan was in effect from 1936 through 1938.

Mr. Skinner stated that due to resentment shown by some dealers due to the fact that they were given no choice in the matter, the merchandising program for 1939 has been organized in such a manner as to give the dealer the option of taking as much or as little of the program as he wants. He stated that no mailings will be made in 1939 unless specifically requested by the dealer. He also stated that due to the probable reduction in the number of dealers participating, the cost may run as high as 20 cents per name. Respecting dealers not taking advertising under the 1939 campaign, Mr. Skinner stated that the company will insist that each dealer do a good job of merchandising.

Among Ford dealers interviewed by examiners of the Commission, a number stated objections to methods pursued by Ford Motor Co. respecting the purchase of both advertising and other items of dealer equipment. Several of these answers reflect the opposition of dealers to the advertising program described by Mr. Skinner.

One dealer stated that he was "high-pressured" into purchasing advertising which he did not want and was often coerced into entering into sales-promotion plans which he thought were of an abominable nature and which proved to be failures. As a result, he is now opposed to trying any new plans. This dealer stated that advertising is allotted on a sales basis and that the cost is sometimes billed to the dealer along with his parts and accessories on which he obtains a discount. Nonpayment of the advertising results in the dealer losing his discount on the parts.

Another dealer stated that the 1938 Ford program called for mailing by the factory of descriptive literature to persons selected by the factories. This dealer was allotted 5,600 names and literature was sent by the factory to this list and the dealer received a bill for 10 cents a name or a total of $560. At the time of the interview, the dealer stated that he had not paid this bill and did not intend to do so but would probably be classed as a noncooperative dealer.

Another dealer stated that during the past 3 years he had been billed for mailing advertising material in his territory. In 1938 he was billed for $312 for names to which cards had been mailed at the rate of 10 cents each. This form of advertising, in his opinion, is worthless, but it was a national policy pursued by the factory.

Various dealers described the manner in which local advertising was handled. One stated that generally the Ford representative visited the dealer at his establishment, accompanied by a local newspaperman. The dealer would be asked to place an advertisement. If he refused, pressure was applied by the factory man urging him to state his reason for not doing so.

Similar statements were made by dealers located in other parts of the country. One in particular stated that at the time of the interview with the Commission's examiner the factory representative visited his place of business about once each week. Formerly, visits were more frequent. He stated that factory representatives often would bring with them representatives of advertising agencies, and the dealer would be "high-pressured" into purchasing advertising which he did not want.

Replies of Ford dealers to the Commission's questionnaires contained numerous statements regarding their experience respecting purchase of advertising materials, special tools, and other items. Replying on the subject matter in general, one dealer stated:

Contacted by zone man from branch to purchase picture machine, certain advertising programs, special tools, and accessories. Told we must cooperate on sales-promotion programs. If we refused in past pressure was applied, asserting that we are the "only" dealer not to have joined the program and manager would be informed of our unwillingness to cooperate.

Another stated:

We are monthly sent, and charged through our parts account, records to use with out picture machine. The charge is nominal but comes automatically.

A third dealer said that:

Whenever the factory comes out with a new picture machine or special tools that they expect you to buy them, saying it is the policy of the company to do so.

A fourth stated that:

Pressure has always been apparent by implication or inference that such recommendations were expected to be followed, to carry out the then going program of the company. However, this was always accomplished by very guarded language.

Another stated:

We were forced to buy a slide film machine, $100 truck rear axle for display, and thousands of dollars of special tools which we didn't need or use.

Also another stated that:

The your-job plan was sent to this dealership without our sanction and despite the fact that we had a much better plan in operation. Special tools were frequently shipped without our authorization.

Another dealer described his difficulties covering a period of Ford dealership from 1922 to 1931 and again from 1934 to July 1938. This dealer stated that he was canceled in 1931 because he refused to take additional cars in accordance with what the Ford Motor Co. called their dealers' quota in the clean-up of model A cars before new models were placed on display. He thereupon became a Chrysler-Plymouth dealer for the years 1932–33. He stated that in December of 1933 the branch manager for the Ford Motor Co. in his area—

called on us several times advising they had changed their policies, would not force us to take cars we did not want or had not ordered, etc. We signed up with them again in January 1934, since we had been Ford dealers for 9 years previously, and were forced out again in July of this year—1938. We were forced to cancel in July because we were being charged on our parts account for advertising we did not order but were being forced to pay for. We went to the Ford Co. in March of this year and again in May telling them this advertising program was not at all productive in our trade territory since we are in an industrial community. We had six to eight salesmen covering our assigned trade radius working this your-job program under our close supervision from December 1937 to June 1, 1938. Since Ford would not release us from these advertising charges we refused to pay for this advertising charge we were canceled out * * * in May this year.

Chrysler Corporation.—The practices of Chrysler Corporation and its subdivisions appear to be quite similar to those of Ford and General Motors, but cover somewhat different items. The matter of pressure on dealers and the holding up of the signing of agreements pending conformity on the part of dealers to requirements of the Chrysler field men or the Chrysler factory office have been referred to above on pages 157 and 158. In addition, dealers, both in interviews with the Commission's examiners and in replies to the Commission's questionnaires, described their experiences.

The policy of the Chrysler Corporation respecting advertising material announcing new models is indicated by a letter dated September 19, 1936, and signed by A. E. Tongue, director of advertising and sales promotion, Detroit, Mich. This letter addressed to a Chrysler distributor stated:

Some time ago you requested us not to make arbitrary shipments of material to you or the dealers operating under you. The time is now approaching when the new-car announcements material will be shipped, and I have discussed with Mr. E. B. Wilson, the director of sales in your division, the advisability of shipping new-car announcements to you. Mr. Wilson feels that in your desire to do an even better job in 1937 than you have done in the past you will find this material of value to you and your dealers.

For this reason, and with the full knowledge of Mr. P. T. White, your regional manager, and Mr. Wilson, we are shipping you and each one of your dealers, within the next few weeks, one Chrysler announcement package, for which you will be billed $7.75. * * *

We now ask that you advise your dealers that this material will be shipped to them and that you expect them to pay for it. We will appreciate your remitting promptly to us upon receipt of your parts statement.

Respecting the policy of the company in the purchase of direct advertising and equipment, a De Soto-Plymouth dealer stated to an examiner of the Commission that he was compelled to buy direct advertising and catalogs at the rate of 75 cents for each new car delivered. He also stated that some time ago he was compelled to buy a small moving picture machine used for advertising purposes for each of his three branches. He stated that films for use in these machines were costing about $15 per month in 1938. He also said that the factories use coercion in the matter of signs and that about 9 months before the interview he was sent a sign c. o. d. and that another sign was sent about 3 months later. The dealer was told that the new sign was necessary because the colors on the first sign sent were not those desired. The dealer stated that in size and form both signs were the same.

In another case a former Chrysler-Plymouth dealer stated to an examiner that Chrysler factory representatives, as well as the representatives of his local distributor, compelled him to buy signs, parts, tools, prospect files, and accessories with the threat of canceling his contract, which they finally did. According to the dealer, the final cause of cancelation was refusal to take a list of parts amounting to approximately $250 or $260 which, it was stated, included many slow-moving articles. The dealer desired to select such parts as he wished from the list, but his request was denied and his agreement was canceled somewhat later.

In replying to the Commission's questionnaires numerous Chrysler Corporation dealers made statements, among which the following are typical. A Chrysler-Plymouth dealer stated:

When the new Chrysler came out they always sent us a large package of advertising material and just charged our account with it. Never asked us whether we wanted it or not—only about $10.

Among large Chrysler Corporation dealers a distributor doing approximately $2,000,000 business annually stated that the factory did not use "illegitimate methods" in insisting upon the purchase of tools, parts, etc. He stated:

They have, however, indirectly put some pressure on certain advertising campaigns or other sales policies. Most of their advertising campaigns are good as a whole but they do not always fit the occasion or time for the dealer.

Another large Chrysler dealer doing approximately $1,500,000 gross business annually stated:

The factory has, in the past, required us to participate in billboard and radio advertising campaigns, in our community. Also regular advertising materials for our showrooms. * * * Most dealers are requested by the factory to have a regular moving-picture machine, or special Webster slide film service. The factory also recommends that we obtain necessary special tools for our service department.

A Dodge-Plymouth dealer stated:

With respect to advertising and picture machines, a nominal amount. We have been forced during 1938 to pay for outdoor billboard campaigns that have been very expensive.

Another Dodge-Plymouth dealer stated that:

The same pressure has been applied in the past when we buy advertising material. In fact, we have a picture machine which we bought, believing that it might relieve the pressure which we had been putting up with. The special tool question has been with us for a long time and at times has become very objectionable.

More specifically respecting advertising material, a Dodge-Plymouth dealer said:

Manufacturer has a complete list of sales-promotion materials in hands of dealers or through their district representatives, and each year before new sales agreement is signed these are checked against dealer and dealer is requested to purchase anything in the way of equipment or sales-promotion materials he does not already have. Also new mailing campaigns are presented at different intervals during the year and dealers are asked to purchase same.

Among De Soto-Plymouth dealers one stated:

* * * In 1936, required purchasing of picture machine against some dealers' wishes—probably good for dealers, however. Until recently required tools, and still do, to hold franchise renewal. In other words, would say there is a minimum requirement that is necessary to hold or secure an agreement.

Another De Soto-Plymouth dealer stated:

Advertising material for new cars is shipped and billed to us, as well as picture films, without our consent.

A third De Soto-Plymouth dealer said:

All banners, etc., we pay, also all advertising. They make us buy a little moving-picture machine and films which are never used.

Another De Soto-Plymouth dealer doing only a small volume of business said that the factory—

Repeatedly insisted that we buy until we bought to keep in their good graces.

Another De Soto-Plymouth dealer stated:

We have had a great deal of insistence from the manufacturer in buying numerous special tools, picture machines, picture films, and other similar commodities including certain new and used-car data books which, in our opinion, have no value whatsoever. * * * We were threatened with cancelation at numerous times and the renewal of our contract was held up, we believe, to force the purchase of tools and equipment that we did not desire to buy.

Still another De Soto-Plymouth dealer indicated that pressure has been less during the past year than before. This dealer said:

Did not this year but have done so in previous years. We must cooperate with their requirements or we will not be rated a 100-percent dealer.

Another Dodge-Plymouth dealer stated at some length as follows:

Up until this year there was no end to advertising matter heaped on us but taking advantage of the investigation, we steadfastly refused a lot of it this year and got by with considerably less cost in this regard. For instance, we refused to pay any further bills for sending a publication the factory terms the Dealer's News to a large list of car owners at the rate of 5 cents each name. The News was sent monthly, making each name cost us 60 cents a year. We finally got it stopped but are in disfavor with the factory on account of it.

Also we were successful in stopping the flow of records and films to us after a hard fight. These records and films cost us $3.64 each and for a long time we were forced to take them. Also had to buy a projector and sound equipment. We couldn't possibly have use for all the films sent us and the place is still cluttered up with them and we destroyed many. These films and records are still factory pets and it is only a matter of how effective this investigation proves whether or not we'll soon have to buy this high-priced, mostly worthless junk.

However, while pressure has eased on above items, we still are made to take and pay for mailing campaigns, building banners, selling charts, and special made albums, etc.

And now the factory has a new idea. We are to be charged on each car and truck invoice the amount of $6 and the factory agrees to put in an additional $3 toward a fund for advertising in our locality. We cannot pass this charge on to the customer.

Other manufacturers.—All of the above statements describe experiences of individual dealers handling cars made by one of the three largest manufacturers. Although officials of other manufacturers claim that their companies are not in a position to use as much pressure on their dealers as the larger companies, certain requirements that have the standing of customs of the trade are the occasion for dealer complaints.

For instance, a Packard dealer points out respecting that company's dealer agreement:

The sales agreement contains a clause that you will agree to accept and pay for whatever advertising material the manufacturer sends you.

Another Packard distributor said:

At times they recommend purchase of picture machines, special tools, parts, and accessories.

A third Packard dealer stated that:

Picture machines are shipped to us charged to our parts account without being ordered.

Likewise, a Hudson distributor and dealer stated that the factory furnishes only the less expensive pamphlets and advertising material and requires dealers to purchase the more expensive items, and also "high-pressures" him into accepting direct-mail programs from which he feels that he has not had any good results.

In general, therefore, it appears that the dealer requirements, including both those written into dealer agreements and also under factory policies laid down for the guidance of factory field men and distributors by other manufacturers, are much the same as those of the three largest manufacturers. It also appears that the smaller manufacturers are not in a position to exert as great pressure on their dealers as is used by the larger manufacturers. There are, therefore, considerable differences in the strictness with which requirements are applied by the smaller companies with respect to both major and minor dealer requirements.

Such differences appear both as between different manufacturers, and as between different selling divisions and even as between different sales territories of the same manufacturer. These last differences are doubtless due in part to differing methods pursued by the personnel of factory branches and distributors.

It seems proper, considering the necessity of substantial capital on the part of dealers to carry stocks and provide dealer facilities to properly conduct their businesses, that manufacturers should ascertain the financial ability of prospective dealers and subsequently check it from time to time after they have become dealers. Information of the type presented in this report, however, indicates that manufacturers have gone far beyond the mere setting up of capital requirements and have entered the field of dealer management.

As previously stated in chapter III, the manufacturer-dealer agreements, in general, require dealers to provide places of business, sales facilities, and personnel satisfactory to manufacturers. Dealers are also required to develop business in their territories in ways satisfactory to their respective manufacturers. The agreements also release the manufacturer from any financial responsibility for oral statements or promises made to dealers.

Provisions of the agreement enable the manufacturer to change dealer territory limits and operating conditions at will, and the contracts are cancelable by the manufacturer on relatively short notice. In practice, most dealers are required to handle only the products of one manufacturer, and, in many instances, only one make produced by that manufacturer. Therefore, the retention of a dealer agreement with a particular manufacturer is of such importance that fear of cancelation is a force impelling the dealer to accede to unfair demands respecting both the amount of capital he will employ and the manner in which it is employed, because, if his agreement is canceled his business ceases, at least until he can obtain a dealership with another manufacturer. If, after an investment is made, the manufacturer or his field representatives decide to curtail the possibility of employing that capital profitably by dividing territory, adding more dealers in the territory, or by exerting severe pressure requiring improvident expense on the part of the dealer in an effort to increase the sale of new cars, the manufacturer, under his agreement, is freed of all financial responsibility for loss of opportunity by the dealer to use his capital, or even for any dissipation of dealer capital that may result therefrom.

CHAPTER V. PRESSURE ON DEALERS TO TAKE AND SELL NEW CARS

Section 1. Nature and Scope of Discussion

Source of information.—One of the most frequent complaints of dealers is that manufacturers compel them to take more new cars than they can profitably handle with the result that in order to dispose of them they are obliged to make excessive trade-in allowances or to cut cash prices. In order to check the validity of this complaint, information from various sources was sought, including interviews with dealers and dealer trade association representatives, answers to questions included in a report form addressed to a selected list of dealers and from the files and records of manufacturers. In addition, a considerable number of letters were received from dealers discussing various phases of this subject. Material from all these sources serves as the basis for the discussion contained in this chapter. The method of presentation followed in this chapter is intended to bring out the fact that not all manufacturers use the same methods of exerting pressure nor is such pressure exerted by all manufacturers to the same extent.

Volume the manufacturer's first consideration.—The success of both manufacturers and dealers depends upon the sale of cars in volume at prices yielding at least reasonable profits. Much attention, therefore, is given by manufacturers to increasing dealer sales. From his stronger economic position, backed and further strengthened by dealer agreements that are subject to cancelation on relatively short notice considering the permanent investments that dealers often must make, the manufacturer is in a position to exert pressure on dealers to take and pay for cars in such volume that the dealer's market often will not readily absorb them.

In pressing for volume the manufacturer is faced with the necessity of deciding whether to force the dealer to handle so many cars that his effort to sell in an overstocked market results in diminishing profit, or to deal more fairly with dealers and obtain such volume of sales as can be made without forcing the dealer too far into the field of volume sales at diminishing profit.

According to the statements of dealers summarized throughout this chapter, the policy of pressure for volume of sales in past years has been such that they characterize it as ruthless. The statements also indicate that there has been a change in the manufacturer's volume policy in the past year, with the result that more consideration is now being given to the question of dealer welfare.

Incidentally, the right of a manufacturer to choose his dealers and to direct their efforts within proper limits is not to be questioned. In automobile distribution, however, it is to be noted that, as described in chapter III, the agreements signed between manufacturers and their dealers not only provide that the dealer shall conduct his business in a way satisfactory to the manufacturer, subject to cancelation on comparatively short notice, but also provide for complete periodic reports covering investment and profits and also for frequent detailed reports of sales stocks and sales of both new and used cars. By these many reports the manufacturer and his field force are constantly kept informed of the intimate details of the dealer's business and the basis is laid for an unusual degree of control and direction of the dealer's business, that is rendered effective by the terms of the dealer agreement and the dealer's fear that under the terms of that agreement, his contract will be canceled.

In commenting on the situation in a letter addressed to the Commission in the spring of 1938 a dealer stated as follows:

> Big business is making an awful holler about Government interference but car manufacturers are not alone interfering with our business, they are running it, exploiting it to their benefit; no form of present dictatorship has a thing on the way they enforce the rules on their dealers once they get them stuck with their line.
>
> Just recently, the factory's territory man demanded our contract because we did not see fit to give him a truck order, then a few days later another one swore and cursed us and our place because we didn't agree with him on a mailing campaign. We dread to have them call, it is a constant worry how long it will be before they take our contract away from us. Many times two call at the same time and will wear one down at the point of doing anything to get rid of them, then lie awake nights worrying how we will meet our commitments.

Conditions under which pressure is applied.—Dealers claim that, especially with respect to cars in the lower price classes, Chyrsler, General Motors, and Ford have often been particularly ruthless in forcing their dealers to take more cars and trucks than can be sold at a profit. Pressure is also exerted by other manufacturers. The extent of this pressure is well known to the heads of different manufacturing companies. For example, as early as July 29, 1925, Alfred P. Sloan, Jr., then president of General Motors Corporation, at a meeting of the general sales committee of that corporation, made the following statement:

> I know instances where General Motors dealers have just before the close of the season been forced to take quantities of cars that they couldn't possibly sell except at a loss. This loss has been sufficient in some cases to absorb their profits for the entire year.
>
> The time has passed when we can look upon our own profit and loss as a measure of our success. We must consider the dealer, because whenever he must incur such a loss it is a debit against our good-will account, which is the most valuable asset we have. Contrary to what some of us may have assumed in the past, it is not a smart thing for us to overload the dealer at the expense of his profit. We must lay our plans far enough ahead to minimize any losses that may result from the necessity of disposing of old model stock.

He also connected the forcing of cars on dealers with the problem of overproduction by the manufacturer as follows:

> There is another closely related problem which aggravates this situation and that is the overproduction of a given model of car or a car of a certain color, and then forcing them on the dealers.

These comments made in 1925 respecting conditions faced and practices pursued by General Motors Corporation apply equally well today to the dealer relations and new car production and distribution of any large manufacturer.

It is also to be noted that it is virtually impossible for manufacturers to schedule production of automobiles so accurately that at the end of a model year the number of cars produced will exactly equal sales or potential sales. A statement to this effect is found in the minutes of a meeting April 28, 1927, of General Motors' general sales committee, as follows:

The ideal thing, of course, would be to so schedule production that at the time of model change there would be a reasonable stock of old models in the hands of the dealers, requiring no special considerations from the factory in the direction of bearing a part of the expense of liquidation.

In view of uncertainties as to prospective retail demand, and because of the necessity of scheduling production several months in advance, it is almost inevitable that a manufacturer will have either a shortage of cars prior to the introduction of new models or else an excessive carry-over.

Although it was recognized by Mr. Sloan as far back as July 29, 1925, that dealers were often forced to take quantities of cars that they could not possibly sell except at a loss and it was intimated that remedial measures might be taken, this practice continued. For example, in one of the larger cities where there were three Buick dealers, each of the dealers was forced to take a large number of 1927 models just prior to the introduction of the new 1928 models. The total number of cars which these dealers were forced to take aggregated approximately 450. One of these dealers stated that he was forced to sell the old models at such a discount that his company made no profit during the first three-quarters of the next year, and one of the other dealers asserts that he made no profit in the entire year. The forcing of these cars on one of the dealers had much to do with his failure within the next 2 years.

In discussing manufacturers' policies in regard to dealer volume it must be pointed out that there are several steps between those who form the manufacturers' policies and those who are charged with carrying out these policies. The latter are in direct day-by-day contact with the dealers. Moreover, there is not always a strict adherence to manufacturers' stated policies by the manufacturer's representatives who are responsible for dealer performance. Manufacturers generally assign sales quotas to their branch or zone managers for their respective territories. Although officials of manufacturers claim that such quotas are subject to revision in the light of changing business conditions, it is unquestionably true that branch or zone personnel, having been assigned a quota, feel obligated to do all they can to attain it. This is especially true if, as occurs in many cases, branch or zone representatives furnish estimates and cooperate with their home offices in setting up quotas. Branch and zone officials are pressed to sell their quotas. They may be discharged if they do not obtain satisfactory results. Factory field representatives, therefore, must in turn exert pressure on dealers to attain or exceed quotas set up.

At the July 29, 1925, meeting of the general sales committee of General Motors Corporation previously mentioned, Alfred P. Sloan, Jr., discussed the uncertainty of tenure of dealerships as an undesirable feature and connected its existence with arbitrary action on the part of field men who stand between the home office of the company and the dealer, and may not always properly interpret home office policies in making cancelations. On the last point he stated:

* * * these small dealers have little or no contact with the factory and their future is more or less in the hands of some district traveler who may or may not be properly interpreting the policies of the home office.

Fear on the part of the dealer that, if he does not comply with the demands of manufacturers' local representatives, his dealer agreement will be canceled, is the force compelling dealers to take cars against their best judgment.

Evidence that there is real basis for fear on the part of dealers that they may be treated arbitrarily by the local representatives of large companies is to be found in the fact that a number of dealers interviewed by agents of the Commission and also a number of dealers answering the Commission's report form for dealers, described cases in which following cancelation, or threats of cancelation for failure to comply with the demands of local factory representatives, dealers were reinstated or relief was given from cancelation threats or other pressure following appeals by dealers to home office representatives of manufacturers. In other cases, appeals to home offices were followed promptly by cancelation. In the case of General Motors Corporation, the recent establishment of a dealer relations board in New York to act as a final review agency in case of aggrieved dealers appears to be a move to safeguard in some measure against arbitrary treatment of dealers by factory field representatives pressing for volume, or otherwise interfering with or directing the conduct of the dealer's business.

The force of manufacturer pressure to secure sales volume has varied from year to year and with changes in general sales managers. For example, dealers in all lines report that there has been much less pressure since this inquiry was ordered by the Congress than there was before. Many Chevrolet and Ford dealers report less pressure under present general sales managers of these companies than there was under their predecessors. The force of manufacturer pressure is also greater in certain sections of the country, depending upon the differences in the branch managers or in the types of the manufacturers' distributors.

In the succeeding pages of this chapter more specific attention is given to the procedure followed by manufacturers in setting up dealer quotas and the percentage measures of performance known as percent of price class which are the first steps taken by manufacturers in attempting to sell their proportion of new cars registered. This discussion is followed by a more specific discussion of what is actually done in the way of forcing new cars on dealers in order to attain quotas and maintain or increase the manufacturer's percent of price class and to effect clean-ups at the end of model years.

Section 2. Dealer Quotas and Maintenance of Percent of Price Class

Methods of establishing quotas.—All manufacturer-dealer agreements provide for some form of periodic estimates of dealers new car requirements for a future period, generally a year. In addition to these yearly quotas specified in the agreements, many manufacturers from time to time establish quotas which apply to the whole country and are then broken down by sales territories and finally by distributors or by individual dealers. Various methods are used in establishing quotas.

General Motors Corporation.—An official of General Motors explained the method by which Chevrolet quotas are arrived at, stating that the company's wholesale executives in various parts of the country appraise business conditions in their respective territories and submit to the Detroit office their best estimates of anticipated Chevrolet sales volume. An independent survey is made in Detroit of all available sales information and preliminary quotas are set up for the country as a whole and by zones. After comparison of the Detroit office's estimates with those of the wholesale executives, a tentative quota is set up and presented to the sales executives for review and the final establishment of quotas. These are furnished the wholesale executives who break them down by dealers in their respective territories.

Chrysler Corporation.—This company's method of determining quotas was described by O. M. McNeil, head of the dealer market analysis department of the company. According to Mr. McNeil, the mechanics of determining national and dealer quotas is as follows:

From R. L. Polk Co., of Detroit, reports are obtained showing registrations of all makes of cars by various political subdivisions, covering rural as well as urban districts. Using these data, the total number of group A and of group B cars is determined. Group A consists of Chevrolet, Ford, and Plymouth. Group B is comprised of the remainder of the industry with the exception of a few makes with very small production.

In order to determine the potential sales opportunity of the different cars manufactured by the Chrysler Corporation, a certain percentage of total sales of the appropriate group is selected. It appears that, after much consideration, the sales executives of the corporation have decided that the quota or potential for Plymouth cars should be approximately 33⅓ percent of the total registrations of group A; Dodge, 25 percent of group B; Chrysler, 9 percent, and De Soto, 6 percent of Group B. Dodge-truck quota should be 20 percent of new-truck registrations.

A dealer's quota is determined by using the registrations of his sales area as a factor. In the case of a Dodge dealer, for example, the potential or quota on his Dodge car would be based on 25 percent of total registrations of group B cars in his sales area, plus his share of the Plymouth sales quota opportunity and the total Dodge-truck quota in his sales area.

Apparently there has been a change in the policy of the Chrysler Corporation in respect to the 1939 quotas. On October 14, 1938, F. J. Timmens, general sales manager of the Dodge Division, wrote A. van Der Zee, vice president, outlining the methods by which quotas had previously been established and broken down by regions, districts, and individual direct dealers and assigned to the individual direct and associate dealers. The following excerpt from the letter is preceded by the statement of previous policy of the company and indicates that the dealer is to be given a greater responsibility in the setting of his own quota:

> As a matter of information, we are not following this procedure this year be ause of wide variation in sales of the industry during the past 2 years. Instead, we have sent to each regional manager a total figure of the number of units that we felt should be absorbed by his region and have asked the regional managers to use these figures as a guide in discussing with each direct dealer the direct dealer's own thinking with regard to his sales estimate for the coming year. This will be incorporated in the direct dealer's sales estimate sheet, as it has been in the past.

Ford Motor Co.—T. W. Skinner, assistant sales manager of the Ford Motor Co., stated that that company does not have definitely assigned sales quotas except for certain merchandising programs. The registration figures are the yardstick by which sales results in each community and county are judged. Each dealer is expected to attain leadership for the company on the basis of obtaining a certain percentage of the business and this estimate is based on previous experience and local conditions as reported by branch zonemen or travelers.

Mr. Skinner mentioned the company's experience in 1937 as illustrating the difficulty of establishing sales objectives. In this program the national goal was first set at 1,300,000 but, under the influence of an enthusiastic dealer meeting, the estimate was increased to 1,500,000. This was broken down by branches, zones, and individual dealers. The actual number of cars sold by the company that year in the United States was slightly over 1,000,000.

Quotas are set from time to time both by the Ford Co. and by its branch organizations. These are arrived at in various ways. For example, on June 27, 1933, the Ford Co. wrote to all its branches as follows:

> If we are to obtain the percentage of business that the present car and truck deserve, our July sales should exceed June by at least 20 percent. This is the quota that we are placing against each branch. This same quota should be allotted to each of your dealers.

On March 29, 1935, a Ford Motor Co. telegram to branches stated in part:

> With public acceptance toward V-8 truck, and April generally largest selling month, we have carefully analyzed national potential possibilities and on basis obtaining our share of business have assigned your branch ------ trucks as minimum April retail deliveries. Split this quota among your zone men by 10-day periods and give every dealer definite job. Also obtain definite commitment from each dealer.

Thus it appears that the Ford Motor Co. quotas are more definitely assigned for shorter periods and are established from estimates based on studies of general business conditions and reports from zone representatives. An example of such a quota establishment by the branch organization is to be noted in the telegram to the Ford Motor Co. from the manager of that company's Chester, Pa., branch on April 8, 1937, quoted on page 182.

Packard Motor Car Co.—Regarding the dealer estimates or quotas of Packard Motor Car Co., an official of that company stated that distributors estimate the number of cars they expect to handle during the model year and regional managers of Packard sit in with the distributors when they make these estimates. He stated that these annual estimates are nothing more than the number of cars the distributors think they may be able to sell and are of little value to the manufacturer, although the estimate is made a part of the dealer agreement "as a mark for the distributor to shoot at." On these estimates the distributors base their business set-ups; that is, their requirements as to showroom space, capital investment, number of employees, and facilities for servicing. Therefore, an inaccurate estimate may result in inconvenience to the dealer by providing for too great or too small a volume of sales.

Throughout the year Packard distributors make monthly estimates which are of greater value as they are based on actual experience in the immediately preceding month and expectations for the ensuing month.

An example of how the Packard quotas are determined, and the part played by the distributors in establishing their own quotas, is contained in a letter from W. M. Packer, general sales manager of Packard, to G. A. Fonda, Syracuse, N. Y., distributor, under date of December 31, 1937. The letter presents a "forecast" or quota for the distributor for 1938 of 800 units compared with 1,129 actually handled in 1937 and states:

> In submitting this forecast for your consideration we have set up no arbitrary figures, and all of them are offered subject to discussion and review with you, as we know that you have been thinking along the same lines and, in addition, are much closer to your own particular picture.

Discussion of the use of quotas as a means of increasing sales of new cars will be found in section 3 of this chapter, entitled, "Forcing Dealers to Take New Cars."

Percent of price class.—The term "percent of price class" is used in the automobile industry to denote the proportion of total sales in any price class for a given period of time that is accounted for by the sales of a particular make of automobile in that price class. For example, Chevrolet, Ford, and Plymouth cars represent one price class. The percent of price class attained by the sales of Chevrolet would be the percentage of the total sales of Chevrolet, Ford, and Plymouth cars accounted for by Chevrolet cars. It is to be noted that, whereas quotas are set up as goals to be obtained by dealers, checking for percent of price class becomes the means of ascertaining currently whether dealers are obtaining the desired proportion of total registrations in their price class regardless of whether they attain or exceed their quotas during a particular period. Percentage of price class thus shows the relative performance of a particular manufacturer's dealers in obtaining their proportion of total sales regardless of the effect of changing business conditions upon the total volume of cars of all makes sold.

For the purpose of computing percent of price class, sales as indicated by automobile-license registrations are used. Registration figures for the smallest political or other subdivision are tabulated for this purpose. The company whose compilations are most widely used for this purpose is the R. L. Polk Co.

In the case of some makes of automobiles not definitely falling into a particular price class, and in other cases, sales of the make may be compared with sales of all other makes, generally excepting the low-price class of Chevrolet, Ford, and Plymouth. For example, Chrysler, Dodge, and De Soto sales quotas are figured on the basis of percentages of total sales of all cars except the Chevrolet, Ford, and Plymouth price-class group, eliminating, however, a few makes with very small production.

Based on the R. L. Polk & Co. statistics of new-car registrations, the proportion of the total sales of Chevrolet, Ford, and Plymouth cars represented by the sales of each of these makes during the 10-year period, 1929 to 1938, inclusive, are as follows:

TABLE 12.—*Percentage distribution of total sales of Chevrolet, Ford, and Plymouth automobiles, by years, for the 10-year period, 1929 to 1938, inclusive*

Year	Total class A cars	Chevrolet		Ford		Plymouth	
		Cars	Percent of total class A	Cars	Percent of total class A	Cars	Percent of total class A
1929	2,175,115	780,011	35.9	1,310,135	60.2	84,969	3.9
1930	1,738,282	618,884	35.6	1,055,097	60.7	64,301	3.7
1931	1,206,299	583,429	48.4	528,581	43.8	94,289	7.8
1932	693,713	322,860	46.6	258,927	37.3	111,926	16.1
1933	1,035,273	474,493	45.8	311,113	30.1	249,667	24.1
1934	1,367,991	534,906	39.1	530,528	38.8	302,557	22.1
1935	1,866,202	656,698	35.2	826,519	44.3	382,985	20.5
1936	2,178,384	930,250	42.7	748,554	34.4	499,580	22.9
1937	1,996,241	768,040	38.5	765,933	38.4	462,268	23.1
1938	1,114,266	464,337	41.7	363,688	32.6	286,241	25.7

From the above table it will be noted that the percent of price class sold by the different companies has varied considerably from year to year. The percentages for Chevrolet fluctuate within the narrowest limits, namely, between 35.2 and 48.4 percent, a range of 13.2 points in percent. Ford's percentage shows the widest fluctuations, from 60.7 percent in 1930 to a minimum of 30.1 percent in 1933, a range of 30.6 points. Incidentally, for the period as a whole, Ford showed marked decrease in percentage, while Chevrolet and Plymouth showed gains. Of the three companies, Plymouth showed the most consistent gains, the increase in its proportion of total sales in this particular price class group being from just under 4 percent of the total in 1929 to nearly 26 percent in 1938, an increase of over 21 points.

By the use of percentages such as these compiled currently throughout each market year, each of these companies maintains a close check on the performance of its own distribution organization in comparison with that of competing manufacturers.

In addition, each manufacturer obtains from each of its dealers weekly or other periodic reports of sales and, based on these reports, makes comparisons of the performance of each of its dealers with the averages both of the particular manufacturer and of competing manufacturers in the dealers' territories and for the country as a whole. Whenever a dealer, or a group of dealers, fails to obtain the proper percentage of sales, conditions are ripe for bringing special pressure to bear to increase sales.

Incidentally, it is to be noted that any cutting in of new competition in the price class, such as is indicated by the growth of Plymouth's proportion, will be met by special effort on the part of other manufacturers to retain as large a proportion as possible of the total price class, including sales of the new competitor. Chevrolet, Ford, and Chrysler are now facing such a situation with the announcement of the new Studebaker model to sell in this price class. This is likely to mean greater pressure by the three large companies upon their dealers to take and sell automobiles. Thus, competition among the various manufacturers to maintain their respective percentages of price class is likely to be reflected in dealer relations in the form of increased insistence that dealers shall take and sell more cars.

SECTION 3. FORCING DEALERS TO TAKE NEW CARS

Types of pressure exerted.—The manufacturer exerts constant pressure on the dealer to take and sell more new cars and trucks. This pressure ranges from ordinary salesmanship to threats of cancelation of the dealer's franchise if more cars are not taken. The use of quotas and the exertion of pressure for the maintenance of a percentage of sales in the price class, which were discussed in the preceding section, are methods of forcing new cars. Other means complained of include forcing dealers to take unwanted cars and trucks in order to obtain those desired, threats that new models will not be delivered unless a number of old models are taken, pressure for the maintenance of larger stocks of new cars in dealers' hands, and threats of cancelation and, in some cases, actual cancelation of dealers who do not perform in a satisfactory manner. The three largest companies, Chrysler, General Motors, and Ford, in particular, in many cases have been ruthless in pressing their dealers for volume.

Pressure of various sorts to induce dealers to sell more cars throughout the season is applied not only with respect to popular models but also with respect to models that do not receive the fullest public acceptance. Many dealers state that this pressure becomes especially strong in the clean-up at the end of each model year.

Use of quotas to increase car sales.—Statements of officials of automobile manufacturing companies failed to indicate very clearly the purposes for which quotas are established. The general impression gained from these statements is that quotas are merely guides or indications of sales expectancy.

The correspondence, sales manuals, and other data obtained from the automobile manufacturers, together with information obtained from dealers, indicate, however, that the principal purpose of quotas is to set a standard toward which dealers should work. It is understood that quotas are not legal obligations of dealers to sell specified numbers of units; but in their contacts with dealers, manufacturer's representatives use quotas as a lever to increase orders and sales.

The Hudson Motor Car Co., in its Wholesale Manual, states:

> Every dealer should have a new car quota to give him a mark to shoot at. This is one way, if quota is accomplished by the dealer, for you to meet your own territory's wholesale and retail quotas.
>
> The best way for you to make your quotas is to keep your dealers quota conscious and check them on every contact to see how they are performing.

The Hudson Zone Manual provides that each distributor will receive from the factory for each quota period a sales quota for his entire territory. The distributor is instructed to break down this quota, by dealers, treating his own retail department as a dealer.

Although manufacturers frequently state that dealers are not compelled to buy cars unless they want them and that quotas set up are nothing more than goals which the dealers shall try to attain, considerable evidence was developed to the effect that quotas quite definitely are made the means of applying considerable pressure to dealers, particularly by the three larger companies. For instance, under date of July 1, 1938, W. F. Hufstader, Buick Motor Division of General Motors Sales Corporation, addressed a letter to zones and distributors regarding July quotas, in which he stated:

> Attached herewith are July quotas, broken down by series, totaling 11,200 nationally.

This represents the share of the job that must be done during the month of July in order to bring about an orderly clean-up of 1938 models. You should impress upon each dealer the importance of accomplishing his share of this objective.

I am counting on you to put forth your very best efforts, not only to make but to exceed your individual quotas.

The establishment, by branch organizations, of dealer quotas in excess of what the branch management believes can be accomplished, illustrates the use of the quota as a means of sales promotion. The manager of the Ford Motor Co.'s Chester, Pa., branch telegraphed W. C. Cowling, of the Ford Co., on April 8, 1937, stating that a quota of 7,532 units had been established for the dealers of that branch for the month of April, but that retail deliveries, however, would probably be about 6,000 units. Regarding the effort which would be made to reach the quota, the telegram, in part, stated:

* * * For month of April definite quota has been assigned every dealer, totaling 7,532 units, and we are shooting at this retail job with our entire organization. This dealer quota broken down by zones, zone men definitely responsible for their share of this retail job, with instructions to secure one-third month's quota first 10-day period, and close follow-up will be made upon receipt first 10-day reports this month. Yesterday * * * we wired every dealer under branch, calling attention to month's quota and the importance of securing one-third of this job first 10-day period. * * *

Another illustration of the use of quotas in connection with the application of sales pressure is contained in the following excerpt from a Ford Motor Co. telegram dated March 29, 1935, to that company's branches, assigning each branch a quota of trucks for the month of April and urging decisive action to provide needed sales strength in any territory failing to show the required sales results. This telegram also contains the following suggestion, which appears to be for the purpose of making the dealers "quota conscious":

Suggest you provide each dealer with post card addressed to manager reading: "I completed the job of retailing my quota of —— trucks today, so list me as a dealer producer. Signed" (dealer's firm name, signature, and town.)

Of somewhat similar meaning, but of somewhat less recent date, was the following telegram addressed by W. C. Cowling, Ford Motor Co., to Ford branches under date of December 27, 1935, which stated as follows:

Your January sales quota as follows: Cars ——, trucks ——, total ——. This is not just a sales quota but a definite sales assignment which we expect you to accomplish. Prorate quotas among dealers, then crowd all dealers hard to do better merchandising job through more demonstrators and better demonstrations, more contact with owners other makes. Also more effective follow-through by branch-management roadmen and dealers to see that this is done. Since introduction of 1936 V-8, we have purposely planned our sales program to enable our dealer organization to enter 1936 ready to do a volume job, so let's get under way.

It would thus appear that the Ford quotas established by the home office and assigned to the various branches are really more in the nature of definite sales assignments than those established by the branches as tentative goals.

How quotas may be used by field men is illustrated by a Chrysler field man's report on a De Soto-Plymouth dealership in September 1935. The field man stated that the dealer's performance against quota was below the national average, "and we told him frankly that we were very much dissatisfied with the record that he had made." Under date of February 20, 1936, the dealer addressed a letter to the vice president of De Soto Motor Corporation outlining efforts made to increase sales and stated that during November and December 1935—

> * * * due to constant pressure from your sales department, we ordered a large number of new cars which we were unable to dispose of in the selling season, due to retarded shipments at the proper time.

Again, in July 1936, this dealer was under pressure for unsatisfactory performance, and on November 10, 1936, the dealership was canceled.

Statements of dealers respecting use of quotas.—Many dealers handling various makes stated that quotas are used in connection with sales pressure. The following are typical of dealer expressions, both to the Commission's examiners and in response to the questions contained in the Commission's report form for dealers. In addition, many dealers stated that quotas were established, but that no serious effort was made by factory representatives to enforce them. The fact that dealers handling practically all makes made statements of both types would seem to indicate that the degree of pressure in connection with quotas varies considerably in different territories. This may reflect variations in the interpretation of company policy by different field representatives. It is also probably true that in a given territory, some dealers who, from the manufacturer's viewpoint, are doing a satisfactory job of merchandising, experience little or no pressure to attain quotas, while others who are not attaining desired volume are pressed to attain their quotas.

Among General Motors dealers, a combined Buick and Chevrolet dealer included among the major difficulties faced by dealers the following:

> * * * Factory's insistent demand that predetermined sales quota be reached in dealer territory regardless of economic or competitive conditions.

A Pontiac dealer stated that the factory representative calls and suggests a quota. In most cases this dealer protests and the quota is lowered to a figure which is agreeable to both the factory and the dealer. Sometimes, if the factory's suggestions are not adhered to, the dealer stated, it has been the factory representative's practice to threaten to cancel his contract and put another dealer in his place.

A Chevrolet dealer stated that while his company now makes the quota and pressure is not brought to bear in this connection, this is a change in policy from previous years when it was a case of fighting the regional director at every turn. He stated that the change took place when the Federal Trade Commission instituted its inquiry. He expressed the belief that unless Congress passes legislation to regulate the manufacturer, the pressure will return.

Several Chrysler dealers handling De Soto and Plymouth cars stated that, in 1938, special discounts for specified volume of purchases was substituted for pressure for quotas used in previous years. In commenting on the situation in general, one dealer stated:

> No pressure used now—will be resumed, however, when present investigations subside unless a neutral board is appointed in each State to supervise factory-dealer relations (a board with some power to enforce decent relations).

Another De Soto-Plymouth dealer stated:

> You sign for all cars, then the representative insists your quota is so much and if you listen to him you might be hurt; however, we ordered what we thought we could sell at a profit of some kind and let it go at that.

In 1935, by the fact [I] was new in a large operation, I listened to their representative at a large cost, but since have used my own judgment.

They use a discount scale to cause you to tie up money, we will say in radio, that could be used more profitably in business. For instance, we have a single price and a quantity price but the real price is on lots of 50 radios at about $26 or an investment of about $1,300 when they will probably last you 6 months. Then at last of year you may need another 20 or 30, but you either overstock or lose and must like it.

A Dodge-Plymouth dealer stated:

Our manufacturers have never oversupplied me with motor vehicles, parts, or accessories in any year in the past because I have been in the business too long and will not overstock for anybody. I am a merchant who orders what I think I can sell and if I misjudge it is my fault, not theirs. My relations with the factory on this matter have been very satisfactory.

No coercion or pressure has been used on me except I have been reminded that my percentage of sales for the territory I control has been below national average. Again I run my own business by what I think I can sell and no more.

A Hudson Terraplane dealer stated that the factory makes up the figures for the number of cars his company must take each year and that his company has no voice in the matter. He stated his company had not been compelled to take cars but the quota had been used as a lever to compel his company to take cars in excess of its actual needs. He said there had been verbal threats of cancelation unless the additional cars were accepted. The threats and high-pressure methods are resorted to when the factory becomes overstocked with cars.

Another Hudson Terraplane dealer stated:

The quota system is again being used to set up weekly shipments under the guise of measuring performance in sales and shipments against theoretical figures, communications stating that these allotments must be shipped.

A Nash dealer stated that the dealer does not have much to say about what his quota of cars shall be. In some instances the quota has not been compulsory but in others the dealer is continually pressed by the manufacturer if he is a little behind in taking the quota requirements.

In commenting on dealer quotas and their use the secretary of a local dealers' association in Wisconsin stated that quotas are arrived at between the branch manager or his representative and the dealer and the result has been not what the dealer thinks he can sell, but what the factory representative thinks he ought to sell, and that while the quota is nothing but a mark to shoot at, it usually is higher than actual sales. The manufacturer's representatives use the quota in the hope that the dealer, desiring to appear in the best light before the manufacturer, will sell a large part of his quota. In order to do this the dealer usually finds it necessary to sell in the territory of some other dealer handling the same make of car. Various individual dealers interviewed by examiners of the Commission also emphasized the fact that sales quotas are determined very largely by factory representatives and that the dealer has very little voice in the matter.

Use made of percent of price class.—Percent of price class is used by manufacturers to gauge the performance of their dealers and is also used in much the same way as quotas to spur the dealers to greater sales activity. This is particularly true in the case of the low-price-class cars, Chevrolet, Ford, and Plymouth, but is by no means confined to them. Competition for a leading position in this price-class group is very keen. Manufacturers keep a close check on the performance of their dealers in relation to that of their competitors in this group, and failure to attain the desired percentage of price class becomes a reason for dealer cancelation.

For example, cancelation questionnaires which Ford fieldmen are required to use in recommending dealers to be canceled provides for a report showing the percentage of Ford sales and those of the highest competitor for the previous year for the county and community in which the dealer is located and for the latest month for the community.

The "request for cancelation" form similarly used in connection with cancelation of Chevrolet dealers provides spaces in which to show for the preceding 5 years and for the expired portion of the current year the dealer's percent of price-class performance, the national average price-class performance of Chevrolet and the difference between the dealer's performance and the national average. Similar data for trucks based on weight class is also provided for. Information of this nature is kept by each Chevrolet branch office on what are termed "dealer history cards" covering each individual dealer in the branch territory.

An example of the close attention given to registrations as a basis for bringing pressure to bear on dealers who were not regarded as obtaining their full share of business is to be noted in the closeness with which Chrysler Corporation examines a weekly report of sales required from all Chrysler dealers. Under date of July 12, 1934, S. W. Munroe of Chrysler Sales Division addressed letters to certain Chrysler dealers. These letters were similar in form in that they outlined unsatisfactory performance by the dealers as shown by their June 29, 1934, weekly reports. All contained the following statements:

> Registrations for the first 5 months of 1934 show a substantial increase in sales of new Chrysler cars as compared with 1933. This increase, however, does not equal that of our principal competition. From the Saturday noon reports for June, we are convinced our distributors and dealers are not taking full advantage of the possibilities to develop sales in an aggressive and consistent way—and we are becoming seriously concerned about this apparent losing of sales effort.
>
> * * * We cannot afford to become latent in developing Chrysler sales—your profits and prestige, and, in fact, your successful continuance in this business require your personal and individual attention to the attainment of at least satisfactory Chrysler volume.
>
> We shall watch the progress of our Chrysler business in your territory very closely and we trust that the record tabulated above is not repeated.
>
> To avoid this you, personally, must take hold of the reins—reorganize, rejuvenate your salesmen—add manpower, demonstrate—and be satisfied with nothing short of your Chrysler quota laid in your hands in the form of retail orders.

An instance of the importance attached by a manufacturer, other than one of the three largest, to the matter of obtaining its proportion of total sales of cars in its price class is to be noted in the following from a letter addressed by the Hudson Motor Car Co. to all regional managers under date of November 22, 1937:

> Naturally the most important assignment for the regional force is to see to it that we obtain a proper penetration of the available market with our product. While we cannot control the total purchases of automotive units by the general public, we nevertheless expect to obtain a just and reasonable share of that market with the Hudson Terraplane and Hudson models.
>
> The job of seeing that our organization in the field, both distributors and dealers, is set up to obtain this percentage of the market, is the one primary reason why we maintain a field force in the various territories. Every item in relation to

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your contact with distributors and dealers should build toward increasing our car-sales volume. Any condition that reflects weakness in the organization should automatically become a major point of issue with you in your discussion with the distributor or his wholesale manager in order to correct whatever may be the out-of-line condition.

In this particular case, it will be noted that the instructions issued were to all regional managers throughout the United States. These regional managers in turn worked with the distributors and dealers so that any actual pressure for sales that may be exerted upon purely retail dealers comes through the regional field force and distributors rather than directly from the manufacturer.

The use of quotas and percentage of price class in connection with pressure for greater volume is strikingly illustrated in a letter to all Chevrolet dealers in a particular region in the spring of 1938. This letter, on the stationery of the local Chevrolet Motor Division, General Motors Sales Corporation, was signed by the regional manager. The letter, dealing principally with the necessity for obtaining 45 percent of the Chevrolet price-class business, is too long to quote in its entirety. It stated that in January 1938, the Chevorlet dealers in the region obtained 36.1 percent of the business in the price class and showed a net loss of about $33,000. In February the percentage was decreased to 35.6 and a loss of about $100,000 sustained. The March percentage was 43.3 and dealers showed a profit of over $157,000.

Reviewing a business meeting held on a previous date, the letter stated that at this meeting the dealers made a pledge to attain a specified sales quota for April and May predicated on Chevrolet dealers selling 45 percent of the anticipated car and truck business available in their price-class field. Attention was called to the fact that during the first 20 days of April only a little more than half of the quota for the month had been sold. It was pointed out that in order to attain the April quota dealers would have to sell as many cars during the last 10 days as were sold during the first 20 days of the month. It was also stated that 45 percent of the available business in every community was necessary if dealers were to be financially successful in 1938. Dealers were, therefore, urged to increase their selling effort, to recognize that business was hard to get and that it would be necessary to cater to purchasers and prospective purchasers' demands in order to get it.

Continuing to stress the necessity of obtaining at least 45 percent of the business in the price class, the letter stated that people were not buying even necessities unless they were convinced that they were receiving bargains. Regarding methods to be used in obtaining business, the letter stated:

Yes—we will have bought the bulk of the business we obtain in April. We are going to have to buy the bulk of the business we get in May—and we are going to have to advance more for the purchase price of the business we obtain during the months of May, June, and July—but it is better to have bought business and to enjoy even restricted profits than it is to go without business, suffer a loss, and have your competitors strengthen their positions by having taken the business which you should have obtained.

We are in a market where fair-play tactics will not suffice. They could be injected and perhaps controlled, if the controlling force was large enough—but the public would then stop buying, so that the result would be nil. We are face to face with a market where "the survival of the fittest" has the upper hand. We tried to foresee this market several months ago and attempted as best we could to arm you with additional gross with which to fight the common enemy. It is well we did—because dealers who are using the advantage they hold in this respect are getting an unprecedented share of the available business—they are increasing their Chevrolet owner clientele daily—they are making money and their sales organizations are encouraged to fight harder and with greater results.

Now—you and I have worked well together for nearly 4 years. We have thought straight—we have pursued good sound policies, and we have been able to foresee our opportunities and have taken advantage of them. So, once again, I plead with you to look for your "1938 profit-opportunity period" in the very market which surrounds you today. The best of the remaining business you will be able to get with the 1938 model Chevrolet will be in May. The second best business available to you will come in June—the next best in July—and so on through August. In September and October we are bound to lose money as a group because that is the clean-up period. On November 11 we announce our new 1939 product and November and December should be good profit months.

So, with a complete knowledge of our program, together with our best forecast of the future, won't you please believe me when I say it is time to strike forcefully for the bulk of the business obtainable in your community. Forty-five percent of the available business is absolutely necessary to insure satisfactory dealer-profit returns—55 percent and even 60 percent of it is well within the realms of the possibility of your obtaining—and I urge you to take aggressive action now. Accept the market as the laws of economics and politics have created it. Attack this market with "survival of the fittest" selling tactics and get for yourself and for Chevrolet that business upon which we are depending for the added strength we need with which to demoralize this unfair competition and make each of our respective territories better for a quality-dealer organization in 1939.

On the whole, this letter, covering several pages of single-space typewriting, is an example of high-pressure salesmanship in which appeal was made to dealers to increase volume for the following conflicting reasons: To produce volume necessary to yield a profit; to "buy" business by "survival of the fittest" competition; and to do so out of loyalty to the Chevrolet line to prevent dealers in competing lines from strengthening their positions by making sales that Chevrolet dealers might have made. All these things were to be done to "demoralize unfair competition" and to make the dealers' territories better for the quality dealer program then under consideration by Chevrolet for the year 1939.

Use of percent of price class in advertising.—Percent of price class is used in local and national advertising, although not so conspicuously now as in previous years. Cases developed in connection with this inquiry, however, indicate that, for purposes of local advertising, cars not actually sold by the dealer, distributor, or manufacturer have been registered in order to make it possible for one manufacturer temporarily to show in a particular locality a larger percentage of sales in his price class than some other manufacturer. In one locality where Chevrolet had actually outsold Ford during a particular month in 1938, and was reported to be intending to use this fact in local advertising, Ford representatives called upon dealers to obtain registrations on unsold cars in their possession. It was reported that when sufficient registrations of this type could not be obtained from the dealers the Ford branch registered a number of cars it had on hand.

This practice, which is known as padding registrations, is not confined to any one manufacturer's line but instances developed generally were in connection with local selling competition among the three largest companies.

Of interest in connection with the foregoing is the following letter sent by the Ford Motor Co. to all its branches, under date of October 12, 1934:

We have received reports from some of our branches stating that it has become the practice of our opposition during recent months to register a number of cars on the last day of the month in the name of the dealer or salesman in an effort to establish leadership in various communities.

We have taken up this matter with R. L. Polk & Co. and have their positive assurance that upon receipt of information from us to the effect that registrations of this type have been made by our opposition Polk will eliminate all such registrations until they have been investigated and substantiated.

If you have at the present time any actual cases of this type, please send us complete details, showing the name and motor number, and we will turn these over to Polk & Co. for investigation. If the practice is continued, furnish us with similar information at the close of October. Care must be exercised, however, to see that these reports are based on actual facts and not on hearsay.

According to a statement by R. L. Polk & Co., the Polk figures are subsequently corrected by the elimination of duplications. In the meantime, however, the padded registrations have been used in local advertising and sales promotion and have had their effect on the purchasing public and it is questionable whether the exposition referred to can counteract this effect.

Many dealers complained of the use made of pressure by manufacturers to induce them to attain or maintain percentage of price class. The following statements, all made by General Motors dealers, are typical. The first stated as follows:

There is no coercion or pressure being used at this time to force shipments of cars. The manufacturers' insistence on price class and weight class in a dealer's trading area or zone of influence does force him into taking unprofitable business at times. This is a vicious practice on the part of the manufacturers and should be discontinued.

The second discussed his experiences in 1938 as follows:

Because the year 1938 was definitely off they lessened their pressure but, as a usual procedure, we are confronted with overstock most every year. The pressure is applied early, the dealer encouraged to get registrations at most any price. If you attempt to protect your investment and make a profit you are severely criticized for not being a good dealer.

The third, in discussing dealer difficulties in general, stated:

* * * Generally speaking, there appears to be on the part of most manufacturers only one major test as to the quality of their dealer body—percent of total new-car registrations obtained. If the retailing end of this industry was, on the whole, on a sound, businesslike basis, no fault could be found with such a test. But, we are firmly of the opinion that in practically any community, at any given time, a relatively substantial share of retail business is being done on an unsound or losing basis. The proof of this statement, we believe, is in the heavy mortality in the retail ranks during the past 15 years. In other words, new-car registrations, the basis used by manufacturers in determining dealers' price-class performance, are not necessarily sales. They may, and all too frequently do, represent distress unloading on a relatively large scale. With dealers changing so frequently, this is going on at practically all times. * * *

In discussing the practices of the manufacturer in oversupplying the dealer in previous years, this dealer stated:

From 1925 to 1930 arbitrary shipments, resulting in oversupply. No general complaint on this score in recent years. In any case, this is but a symptom—the disease is price class. Most dealers overbuy on account of implied consequences in event of failure to obtain what manufacturer terms satisfactory percentage of total registrations.

Cancelation of dealers as a means of enforcing dealer volume.—As previously indicated, fear on the part of the dealer that if he does not comply with demands of factory field men that he take new cars in volume his dealership may be canceled, with consequent financial loss, is the force by which manufacturers' pressure for volume is made effective. All manufacturers utilize this fear to a greater or less extent and, upon occasion, do not hesitate to cancel dealers who do not attain desired volume of sales. In many cases cancelations are delayed for considerable periods of time during which efforts are made to have the dealer revise his operations and increase his volume to the desired point. Throughout this period fear of ultimate cancelation always is present with the dealer. Dealers characterize these efforts as pressure; manufacturers, as efforts to assist dealers.

Pressure for volume is reflected in the records of all manufacturing companies examined. Its character varies somewhat both as to extent and method. For instance, in Dallas, Tex., in September 1934, the Dallas regional manager for Chevrolet Division, General Motors Corporation decided to cancel the weakest of four Chevrolet dealers in Dallas because this dealer had lost volume on new cars, trucks, and accessories. The regional manager proposed to replace this dealer with an aggressive and well-financed dealer. Incidentally this dealer was promptly reinstated upon appeal to the Detroit office followed by an investigation in Dallas by William E. Holler.

Another case indicating the closeness with which dealer operations are watched with an eye to volume occurred in Bridgeport, Conn., where a dealer was conservative in making allowances on trade-ins. Respecting this dealer the Chevrolet regional sales manager reported to Detroit under date of January 27, 1936, as follows:

> The only thing that we can see existing that might be detrimental to the price and weight class in Bridgeport is a very slight inclination on the part of the dealer to be a little on the conservative side on trading. Mr. Payne, Mr. Richard, and also Mr. Cassell, the truck manager, are checking into this situation and I believe we need have no concern as to the performance in the city of Bridgeport.

In the cancelation files of Ford Motor Co., pressure for dealer volume is indicated by statements in what are known as cancelation questionnaires. These questionnaires are filled out by the branch managers and forwarded to the home office with requests for approval of proposed cancelations. Reasons for recommending cancelation are given in answer to the question "Why is representation unsatisfactory?" or in "Reasons for recommending termination." Responses frequently indicated that the principal reason for cancelation was that the dealer was not "volume-minded." For example, the questionnaire covering Overstreet Motor Co., Inc., Abilene, Tex., dated July 23, 1936, stated:

> For several months we have endeavored to get this dealer into a volume operation in order to secure our share of the business available in this community. During the course of our contacts with the dealer, dealer insisted that he had insufficient funds to obtain the volume necessary to protect our business. Consequently, we arranged a loan through the U. D. C., however, despite this assistance, no lasting improvement was shown. This dealer has been ultraconservative in his entire operations, particularly with respect to insisting on making a net profit on his used-car operation. For example, a recent check-up indicates that for the first 6 months of this year they show a gross profit of $5,431.25 on used cars or an average of $46.42 per new unit sold and his average net profit per new unit delivered is $80.88. * * *

The questionnaire shows this dealer sold 255 new units in 1935 and 133 to July 23 in 1936. One of the branch representatives, J. F. Giles, Jr., business analyst, reporting on this dealer on May 7, 1936, stated that:

> This dealer could afford to take a $50 loss on 6 to 10 additional new cars each month and make more than his average net profit of $65 per car, that they have made so far this year.

The report also stated:

Mr. Overstreet advised that on practically all of Messrs. Ostrander's and O'Neil's visits they called to his attention and discussed his low new-car volume, but he heard and well understood the dealer's meeting in October last, that this was a year of profits. After which he returned to his business determined to make money regardless of volume, and in October, November, and December 1935 made more money than the first 9 months of the year and that he will make more money the first 4 months of 1936 than all last year, as well as set a minimum of 5 percent or better on total sales.

In checking into the 12 percent gross profit made on used cars, Mr. Overstreet admitted that that was made possible by their allowance being $25 to $50 less on used units than that allowed by other new-car dealers in town.

Another example of cancelation of a dealership because it was "ultraconservative" and would not concentrate on "volume" is found in the case of Rose-Wilson Co., Dallas, Tex. This firm, apparently having ample financial resources, was appointed as a Ford dealer May 1, 1920. As early as 1934 the Dallas branch manager, C. B. Ostrander, was expressing dissatisfaction with this dealership's volume. On March 13, 1934, he wrote the Ford general sales department complaining of the conservative retailing policy of the company and stated:

With this dealer's financial stability, facilities, experience, location, etc., they are logically our volume dealer, although it is very doubtful as to whether or not we will be able to change them from the "cherry picking" type of dealer, as the old axiom that you cannot teach "an old dog new tricks" seems to apply in this case.

In September 1936 a cancelation questionnaire covering the Rose-Wilson Co. was prepared. This contained the following statements:

This dealer has been ultraconservative in their sales operations for a considerable length of time and have frankly and repeatedly told us that they do not intend to be a volume dealer. Despite the fact that they are financially well to do, have by far the best location of any Ford dealer in Dallas, their sales performance has been outstandingly low in comparison with other Dallas metropolitan dealers of considerably less capacity (refer to chart attached). This dealer has been consistently arbitrary in their attitude toward all company representatives and determinately hard to deal with. They persistently discourage other dealers from entering into a volume operation and have been effective to some degree in holding back the progress we have been entitled to in Dallas from a volume standpoint. Being favored with a good service volume because of choice location, selected deals, and the fact that they carry their own paper covering time deals, has enabled this dealer to consistently make money with little thought of protecting our volume from a sales standpoint. The arbitrary stand taken by this dealer has had a wide adverse effect in our work with other dealers; and as we have exhausted every effort to bring them in line, without results, we hereby recommend termination of sales agreement with this dealer to be effected as expeditiously as possible for the best interests of the company.

The sales record of the Rose-Wilson Co. and the other Dallas Ford dealers for the years 1933, 1934, 1935, and the first 9 months of 1936 was as shown below:

	1933 (units sold)	1934 (units sold)	1935 (units sold)	9 months of 1936 (units sold)
Rose-Wilson	233	475	493	304
Ed Maher, Inc	277	501	851	498
Duggan Bishop [1]	285	74		
Montgomery-Duggan, Inc.[2]		343	519	453
J. H. Shelton [3]	326	560	348	
Lamberth Motor Co.[4]	248			
Ben Griffin Auto Co.[5]		592	1,045	897
Jones-Estes Co.[6]		459	244	
Jerry Frey Motor Co.[7]				258
Boling, Inc.[8]				241

[1] Figures available through Mar. 12, 1934.
[2] Appointed Apr. 19, 1934.
[3] Terminated July 11, 1935.
[4] Through November 1933.
[5] Appointed Feb. 8, 1934.
[6] Terminated June 17, 1935.
[7] Date of appointment not stated.
[8] Appointed May 22, 1936.

It should be noted that only two of the five dealers in operation in 1933 continued through the 3-year and 9-month period and one of these two, Rose-Wilson, was canceled in 1937. During the period covered, four dealers terminated operations and five new ones were appointed. The Montgomery-Duggan dealership was apparently the result of a reorganization of Duggan Bishop. This showing illustrates the high rate of turn-over of dealers which exists in the motor-vehicle industry.

In October 1936 J. P. Hoek, of the general sales department of Ford Motor Co., visited Dallas and his report on the Rose-Wilson Co. dated October 19, 1936, contained the following:

> We advised Mr. Ostrander that we felt that even though this dealer were a difficult dealer to handle, it was to our advantage to have him stay in the Ford business based on his past performance of over 400 new units per year; also within the past year and a half a new dealer has been appointed in this same trade area and has had little or no effect on the number of units that Rose-Wilson will deliver this year.
>
> Mr. Ostrander agreed to carry on with this dealer at least for 60 days during 1937 to determine if his attitude could be changed and if some improvement could not be made in his new-car activity.

Complete sales figures for Rose-Wilson Co. for 1936, as shown in a cancelation questionnaire dated October 28, 1937, indicate that the company actually sold 441 units. The company's sales to that date in 1937 were 339 Ford units and 11 Lincoln-Zephyrs. The dealer was canceled in November 1937.

In 1938 there were 6 dealers in Dallas and their quotas for the year totaled 4,320 units, 3 dealers being assigned quotas of 600 units, one 720, one 840, and one 960.

Daily reports of Chrysler field men likewise indicate efforts to have dealers increase new-car sales in various ways. As a basis for committing dealers to greater effort through quotas the following from a daily report dated January 5, 1937, is typical:

> Had Mr. Beckenbaugh sign the allotment sheets for 1937. I endeavored to have Mr. Beckenbaugh raise his sights for 1937 and succeeded to a certain extent. This organization must secure a larger volume of business in the coming year. The parts lay-out was also discussed. Larger volume must also be secured in this department. * * *

In the case of another dealer the same Chrysler field man stated under date of February 1, 1937, as follows:

> Discussed the order situation with Mr. Hale. He is very anxious to get some additional cars in order to increase his volume for 1937. It has taken some time to get Mr. Hale volume-minded and it would be helpful to have him get more cars while he has his present feeling. More orders will be placed tomorrow for both Dodge and Plymouth. Several changes are being made in the sales organization that will improve sales results.

In another case the Chrysler field man reported under date of February 15, 1938:

> I discussed with Mr. DeMooy the very poor showing he is making against competition in Lakewood. At my suggestion he is getting a map and going to tack registrations in Lakewood to see just where the sales are made and why he is not reaching the market. There are several other things that we are going to do in connection with this that I believe will be very helpful in improving our present percentage figures.

Of still another dealer a Chrysler field man stated:

> Discussed registrations with Mr. Atyeo and pointed out that he was not getting his share of available business and that we want him to get into the new-car business at once.

Incidentally an attempt was being made at this time to replace this particular dealer because he was buying and selling used cars rather than new cars.

In addition to thus working directly with dealers, pressure is put on distributors which is also passed on to dealers. For instance, a Chrysler field man reported interviews with a Chrysler-Plymouth distributor on February 2 and 5, and February 12 and 13, 1937. In the first of these reports the field man stated:

> They [the distributor] have too many dealers in the territory who are weak operators and the wholesale manager is not aggressive enough to change the picture. * * * I insisted that such larger points as Ashtabula, Conneaut, Norwalk, Elyria, and Lorain had to bring their performance up to the proper standard as they were logical direct dealer points from a distribution standpoint. The whole trouble lies with the wholesale manager who hasn't enough life to handle one dealer—let alone 30 of them. He is just afraid to talk "turkey" to these fellows who are holding down the entire district.

Following another call on the same distributor, this field man reported a week later, as follows:

> I told wholesale manager I did not want him to consider it a threat—but all the towns keeping our performance down are good direct dealer points and that we had to secure a better performance from them.

The statements in both of these reports to the effect that cities and towns in which performance of the distributor's subdealers were not selling a satisfactory number of cars were all good direct dealer points constitutes a scarcely veiled threat that if the distributor did not bring about the sale of cars in larger volume through his associate dealers, the factory would replace these dealers with direct dealers, with consequent curtailment of the distributor's territory and volume of business. The only course open to the distributor would be to pass the factory pressure on to his subdealers, even to the extent of canceling and replacing with new dealers those who could not be induced to take and sell more new cars.

In his general discussion of sales problems, Alfred P. Sloan, Jr., then president of General Motors Corporation, recognized the unsatisfactory position in which many dealers were placed because of the uncertainty of the length of time they might be permitted to represent the corporation. In this connection, the following quotation from Mr. Sloan's statement of July 29, 1925, is of interest:

Getting down to details, one of the first things that comes to my mind is the question of establishing a closer and more sympathetic relationship between us and our dealers. In connection with my field work and otherwise, dealer after dealer, representing practically all of our lines, has told me, directly and indirectly, that their relations with the corporation were so uncertain that they did not feel warranted in going ahead and doing the things they should do in expanding their businesses. For example, a number of dealers in the territory we last visited showed me plans of buildings that they wanted to have erected and upon which they would have to take leases of 5 years or more in order to get them erected. They were hesitating because they were in doubt as to whether they should be protected on their franchises for that length of time. This feeling of doubt is evidently aggravated by the fact that these dealers are rather far removed from the home office contact; in other words, if a Chevrolet dealer, for example, knew Mr. Grant personally and had some definite idea as to the constructive policies of the Chevrolet organization, he would feel more secure, despite the 60-day cancelation clause; but these small dealers have little or no contact with the factory and their future is more or less in the hands of some district traveler who may or may not be properly interpreting the policies of the home office.

While this statement was made in 1925, the contract provisions of the General Motors Corporation still contain the cancelation clauses which caused the dealers' feelings of uncertainty cited above. These contract provisions are discussed in chapter III.

Failure of volume dealers.—In examining the cancelation files of Ford Motor Co., it was noted that many dealers were resigning due to financial inability to continue in spite of having sold large numbers of cars. For example, cancelation questionnaire dated February 21, 1938, covering Peter J. Platte Motor Sales, Inc., Detroit, Mich., shows that during 1937 that dealer sold 985 passenger cars, 48 commercial cars, 37 trucks, and 43 Lincoln-Zephyrs. Notation on the questionnaire stated "Representation satisfactory" and reason for dealer resigning "Dealer resigned inasmuch as he was financially unable to continue." This concern was appointed a Ford dealer on September 27, 1917. Other dealers resigning for the same stated reason showed sales the year previous to resignation ranging up to more than 500 units. Most of the foregoing instances occurred in territory in which Ford sales were higher than those of the nearest competitor. These dealers were all apparently satisfactory from the manufacturer's standpoint, were selling in volume, but for some reason, were not succeeding financially. Many similar instances were developed respecting dealers handling the lines of other manufacturers.

Oversupplying as indicated by dealer statements.—Both in statements to the Commission's examiners and in response to questions in the Commission's report form, many dealers described pressure brought to bear upon them to take more cars than they felt that they could profitably handle. Others stated that they had experienced no undue pressure. In general also, it is to be noted that most dealers, both in statements to the Commission's examiners and in response to questions in the Commission's report form, indicated that conditions as to pressure to take cars had been less in 1938 than in previous years.

Some dealers stated that they refused to take cars under pressure and had retained their dealerships under the same manufacturer. Others stated they had been canceled on account of their refusal. Still others, seeking to escape pressure, had shifted from one manufacturer's line to another only to find that pressure was exerted by each manufacturer, and that, in some cases, refusal to take cars was followed by cancelation. Typical of this type answer was that of a dealer who related his experiences in trying to find a line that he could handle without having to combat coercive methods and stated that he was finally canceled because of refusal to take cars under pressure, as follows:

> In business 21 years as retailer of automobiles; 1916 to 1921, Overland cars, changed to Ford to better myself; 1921 to 1925 Ford cars and made good but the factory coersion too great so sold out; 1926 sold Chrysler but relationship with distributor very unsatisfactory; 1927 to 1932 sold Pontiac cars but factory pressure again too great so quit selling cars for about 2 years, running a general garage; sold a few Dodge cars but not many; 1935 Pontiac assured me there would be no more factory pressure so again signed the franchise for Pontiac cars. In 1935 and 1936 my sales were far above average but in 1937 I failed to sell the cars expected of me and would not let them pressure me into doing business I was sure not good for me, so was canceled out in October 1937. I was able to sell my business at a fair price. I would like to be into the automobile business but present factory policies forbid.

Among dealers who answered the Commission's report form, the largest proportion of any manufacturer's dealers complaining of overstocking by the manufacturer prior to 1938 was shown by Ford dealers of whom 52 percent made this complaint. On the other hand, the greatest improvement in this condition from the dealer standpoint, was indicated by Ford dealers, less than 1 percent of whom reported being overstocked in 1938 while 2 percent of Chrysler dealers and nearly 6 percent of General Motors dealers so reported. The proportion of Chrysler dealers reporting being overstocked in former years was 23 percent and of General Motors dealers 28 percent. The largest proportion before 1938 in the General Motors group was reported by Pontiac dealers, of whom 35 percent complained of being forced to take overstocks.

It is impossible to present in detail all of the statements made by dealers. Therefore, representative statements of dealers handling various lines have been selected and are presented and briefly discussed below. The complaints cover pressure throughout the year to attain quotas or maintain percentage of price class, the forcing of unwanted or slow moving models and trucks, and the forcing of all types of motor vehicles in year-end clean-ups. Incidentally it is to be noted that the industry practice of bringing out annual models accentuates the dealer's difficulties by making it hard for him to dispose of the current year's models that he may have on hand just before or at the time a new model is announced.

Chrysler Corporation.—Most dealers in Chrysler products who complained of overstocking and factory pressure stated that in the year 1938 there was an improvement over previous years. An example of such statements is the following reply of a Dodge-Plymouth dealer who stated that while pressure has been greatly lessened in 1938, in all previous years it was resorted to and included threats of cancelation.

> We have not been oversupplied with 1938 cars, parts, or accessories. Pressure in this regard has definitely eased off since Congressman Withrow asked for an investigation. There has never been a year since 1925 that the factory didn't try to make us take cars and trucks that we did not want. In 1937 sales were forced causing a used car jam toward the end of the year that wasn't cleared up until early summer this year, that in turn caused a heavy decline in new car sales for 1938. Car manufacturers took advantage of this situation (which they caused by overproducing in 1937) to ease off the pressure and not build any more cars than they had to, neither did they at any time this year ask us to buy cars, fact is they took an indifferent attitude and delayed shipment longer than we

ever experienced before, that too slowed up sales. It's obvious if ever the question arises as to whether or not dealers need to be coerced or pressure applied in order to sell cars, 1938 will be pointed out as the year no pressure was used.

Coercion or pressure is not being used now in inducing us to take cars or trucks as the demand at present is greater than the supply. However, in the past there were frequent occasions when we were threatened with cancelation of contract if we did not do as demanded, the last cancelation threat was in January of this year when a Mr. ----------, a truck representative insisted we surrender our contract because we did not see fit to give him a truck order, he swore and used abusive language in our place of business until the writer becoming very upset had to leave, this developed into a severe attack of stomach ailment which I had become subject to through worry caused by arguments and demands made upon us every time a factory representative called. It would make a book writing about all those occasions and I'd rather not dwell on them.

A Chrysler-Plymouth dealer discussed the prevalence of forcing unwanted cars in past years and modification of the practice in more recent years, as follows:

Manufacturers in past have insisted that dealers order cars and models of cars that it was impossible for them to sell profitably. This was in years past and at close of 1929 models it was at its worst. Stocks of cars at factory and cars produced to clean up factory commitments were forced on dealers. At about that time, shipments of parts were sent to dealers and dealers compelled to pay for them. Some of these parts are still in dealers' stocks and now obsolete.

Policy of factory in exerting pressure on dealers has been greatly lessened in last few years. Dealer has had the opportunity to use his own judgment as to quantity of cars, models of cars, parts, and accessories that he thinks can profitably be sold in his business.

Most of the complaints of overstocking of cars received from Chrysler-Plymouth dealers in response to the Commission's report form concerned the forcing of more expensive cars, particularly during the clean-up period. An example of this type of reply concerning a threat of cancelation in July 1938 is quoted below:

In July 1938, we were told that we had to buy four Chrysler Imperials, that we had not taken our full allotment of this type. This type was unusually hard to sell but the factory threatened that they "would not play ball with us when the new cars came out." There was no other alternative but to take these cars, which we sold at a loss.

July 1937, same situation occurred but business conditions being different we did not have much difficulty in disposing of the cars.

We were told to look elsewhere for a new contract in July 1938, if we did not accept that allotment of cars.

A dealer who had previously handled other makes but recently became a Chrysler-Plymouth dealer stated:

With the Chrysler-Plymouth line this pressure was used this summer to dispose of Chrysler Imperial and Royals. The factory men stated we would have to help them dispose of these cars or they would be compelled to look for another Chrysler dealer for this town, but we told them definitely that if we could sell the cars we would then take them off their hands and not before. This, of course, created a little hard feelings but we managed to get along with the factory branch.

The following correspondence addressed to a Chrysler distributor during the year 1934 illustrates the type of pressure brought to bear on distributors and, through distributors, upon their dealers by the Chrysler home office. Although this correspondence was addressed to a particular distributor, and deals specifically with the performance of this distributor and his dealers, the phraseology of several paragraphs in the various letters quoted indicates the correspondence with this distributor was part of a nation-wide plan to increase the sales of Chrysler products. An instance of such phraseology indicating the territorial breadth of the plan is to be noted in the first paragraph quoted below. The first of these letters by E. B. Wilson to this distributor stated under date of June 16, 1934, in part as follows:

The writer has been personally reviewing your stock analysis sheets as forwarded every 2 weeks and has been watching the progress in building up our dealers' stocks throughout the country.

You, of course, appreciate that the sale of Plymouth and Chrysler cars can be materially increased through an increased distribution; that is to say, the greater number of dealers having Chrysler cars and Plymouth cars on display and actively working, the greater our sales are going to be. * * *

It is the writer's intention to review your reports each week and write you frequently pointing out those dealers who are not carrying any stocks of either Chrysler or Plymouth cars, also pointing out those dealers who are carrying some stock but less than our minimum requirements, and also pointing out those dealers who may have been carrying our minimum stock requirements or more but have since decreased their stocks * * *.

When we speak of minimum stock requirements, it is not our intention to convey the thought that this stock represents a satisfactory sales stock of automobiles. It represents what we consider the minimum stock that any dealer can operate with and the sales stock, or the increased number of cars the dealer should be carrying, should be based on his rate of sales over the last 4 weeks and it is our opinion every dealer should carry in excess of his minimum requirements a 4 weeks' supply of both Plymouth and Chrysler Six automobiles on hand.

A postscript to this letter suggested the use of Chrysler's affiliated finance company as follows:

Don't forget Commercial Credit can be of assistance where dealers, through lack of finances, are unable to stock cars.

Another letter written by the same Chrysler director of sales to the same distributors under date of July 6, 1934, recites the following concrete things to be done by the distributor and places the burden of doing them upon him as follows:

There is certainly no good reason why ---------------- should not be stocking some automobiles and we ask you to look into this at once. ---------------- needs an Eight and an Imperial. ---------------- needs another Eight and an Imperial. ---------------- and ---------------- both are in need of an Imperial. ---------------- can use an Eight. ---------------- can use an Eight and an Imperial. ---------------- should be stocked with Chrysler automobiles as quickly as possible. ---------------- needs an Eight and an Imperial. ---------------- needs an Imperial.

* * * * * * *

As our distributor, it is your responsibility to see that those dealers who are not stocked with sufficient automobiles are brought into line. Go after those dealers mentioned above—sell them the idea that ample stocks, plus efficient selling, produce satisfactory sales results and a profit.

This is your job, and we are looking to you to see that it is done.

Again on July 27, 1934, Wilson addressed the same distributor in part as follows:

This letter is the fourth I have written you regarding the dealers in your territory who are not carrying proper stocks of Chrysler cars, a matter which we consider one of the major functions in the development of Chrysler business—a program for which you are entirely responsible—one that is sound in the fundamentals of the promotion of Chrysler-Plymouth sales.

It has been previously mentioned the volume of Chrysler business obtained in our price field, which is very broad, will be in proportion to the distribution of our products with our dealers. Your report covering the week of July 14, indicates you still have:

Dealers without Plymouth cars	9
Dealers without Chrysler Sixes	13
Dealers without Chrysler Airflow Eights	20
Dealers without Chrysler Airflow Imperials	25

As compared with your report of 4 weeks ago, I find the following:

	Increase	Decrease
Dealers without Plymouth cars	0	
Dealers without Chrysler Sixes		1
Dealers without Chrysler Airflow Eights		1
Dealers without Chrysler Airflow Imperials	0	

It is apparent you have not made any appreciable progress in the last 4 weeks to build up dealer stocks on Chrysler cars * * *.

The number of cars in the hands of your dealers must be increased. Greater promotional effort in developing your dealers must be expended. New and better dealers where needed should be secured.

I am counting on you to take the necessary steps to promote this program, which, if properly applied by your organization, will increase our business.

Again on August 10, 1934, E. B. Wilson addressed a letter to this distributor reviewing the efforts made by the Detroit office to increase Chrysler and Plymouth sales through district managers, sales-promotion representatives, district representatives, and letters, and ascribed to these efforts and to the response of distributors thereto the fact that Chrysler retail deliveries in July were about the same as in June and also that a new all-time record of Plymouth deliveries was made during the week of July 14, 1934. In discussing these accomplishments, and the intention of the Chrysler sales organization to continue the plan, E. B. Wilson stated:

* * * Both of these accomplishments in a month when deliveries normally fall off surely displays the power of force in our distributors' organizations. Further, I am of the opinion this force is becoming greater and the momentum will bring your business to greater levels if you will continue to apply the pressure.

I am going to continue to watch your retail deliveries—also your dealers'. I am also going to watch dealers' stocks in your territory and, though the periodic letters I have written will not be as frequent, one will be laid on your desk whenever I believe you are letting up.

From the above correspondence it is to be noted that the biweekly reports of the distributors, and the weekly reports of dealers covering sales and stocks, were used by sales executives in Detroit as a basis for exerting pressure upon the distributor and, through the distributor, upon his dealers to take and pay for new cars that the dealers in particular may not have wanted. The largest number of dealers who were regarded by Detroit officials as being understocked, as indicated by E. B. Wilson's letter of July 27, 1934, were not stocking and selling enough of the higher-priced lines, namely, Chrysler Sixes and Airflow Imperials. There is no indication in the correspondence that Detroit gave consideration to the salability of such cars in the trade territory of particular dealers. The mere fact that dealer stock reports indicated that these cars were not stocked was sufficient grounds for pressure on the distributor to see that the dealer stocked them. In addition, as stated in the correspondence, pressure to increase selling effort was exerted through district managers, sales-promotion representatives, and district representatives.

By these means the distributor was coerced to in turn coerce his dealers to take, pay for, and assume all financial responsibility for the distribution of more cars. The fact that dealers did not willingly carry the higher-priced models in stock would seem to indicate that there probably was little market for them in their respective trading areas. Yet the manufacturer forced the dealers to take and pay cash for them. Thereafter all responsibility for their sale to the public rested upon the dealer. The manufacturer made no concession in price to help the dealer in any way.

Several Chrysler-Plymouth dealers stated to agents of the Commission that they had been forced to accept one or more Chrysler Imperials which they did not want. One of these dealers stated that he was forced to accept not readily salable cars which he later had to dispose of at a loss. A specific instance cited occurred in the spring of 1937 when a Chrysler factory representative told him it would be necessary for him to accept a Chrysler Imperial or suffer the loss of his franchise. Not willing to jeopardize his investment he acceded to the factory demand and placed an order for the car. He was unable to dispose of this car until February 1938, and then at a loss of several hundred dollars.

An attempt to force a De Soto-Plymouth distributor to take unwanted models in order to obtain cars for which there was an urgent demand was made by a De Soto regional manger in 1937. This is indicated by a communication found in the files of the distributor. In this particular instance, when the distributor received the communication from the branch manager he had already been notified by the factory that shipment of the wanted cars had been made. The distributor stated that he ignored the demand because he knew that it was merely an attempt on the part of the branch to high pressure him into accepting cars to establish sales volume for the branch. This method, according to the distributor, was being used to considerable extent by the factory in disposing of Plymouth cars through their distributors and dealers. The communication referred to above is in the Commission's files.

That he had been induced to place orders for commercial cars in order to obtain adequate supplies of passenger cars was indicated by a De Soto-Plymouth dealer who stated:

> Pressure has been used to make us accept and place orders for commercial cars. Unless we order these cars our allotment of passenger cars is limited. Since we have not refused to order these cars we are not in a position to say whether this threat would be carried out.

Replies to the Commission's report form received from Chrysler Corporation dealers indicated that in years prior to 1938 the dealers were forced to accept excessive numbers of cars in the clean-up period. Following are examples of such replies.

One Chrysler-Plymouth dealer stated:

> In the past, many cars were forced on us at clean-up time, but this has been discontinued. Now they come around and say we have been "allotted" so many cars at the finish. If we don't take them they can't do anything but say we are not doing our part, and insinuate we are not in good standing. One June, perhaps 10 years ago, the factory persuaded us to take 16 Chryslers we did not need, and then announced new models 2 weeks later. We lost a lot of money on this transaction.
>
> They used to do this regularly, but of late they have let up on us.

Another Chrysler-Plymouth dealer indicated that in years prior to 1938 pressure to accept unwanted cars had been applied particularly at clean-up time, but that this pressure had not reached the proportions of actual forcing of cars. The dealer's statement follows:

> From time to time in past years the factory has applied various degrees of sales pressure to us to take unnecessary and unwanted new cars to assist the factory in liquidating materials on hand. This usually occurred toward the end of a model

year. We have assisted, so far as we have been able, but we have never been actually forced to take cars.

A Dodge-Plymouth dealer reported being forced to take Dodge trucks during the clean-up period in 1937 as follows:

In 1937 we were called upon by the factory representative who stated that we had to take so many of the Dodge truck units which were made up at the factory. These trucks had to be disposed of on account of the new models coming on and each direct dealer had to take so many.

A Dodge-Plymouth dealer, who had been canceled by the factory, reported that the manufacturer overstocked him in 1938 "by saying they would take away the agency." Regarding how coercion or pressure was applied this dealer stated:—

by saying they would take the agency from us. In August they did take the agency from us because we refused to move to * * * or to sign an agreement to sell 400 cars a year.

Complaints of being forced to take excessive numbers of cars at the clean-up period, as well as during the year, were made to agents of the Commission by dealers handling each of the various Chrysler-made automobiles. Following are examples of such complaints.

A dealer who handled De Soto and Plymouth cars prior to 1933 stated that relations with the company's regional offices were always more or less strained; as he put it, "not a series of fights but one continuous brawl." The regional office was constantly forcing more cars than could be sold, according to the dealer, and when he refused to take any more cars the regional manager became incensed. Early in 1933 the regional manager canceled this dealer's contract.

Another De Soto-Plymouth dealer stated that toward the end of the 1937 season he ordered 50 cars and the factory attempted to force him to take 150. A compromise was reached whereby he accepted 100, and some of these were still on hand in August 1938.

It was stated by a Chrysler-Plymouth dealer that in the clean-up prior to the introduction of the 1938 models he was compelled to accept over 50 Chrysler Imperials, several of which were custom-built cars. The dealership lost some $25,000 in disposing of these cars. The allotment was a compromise, as it had first been attempted to make the dealer accept many more than 50. The dealer stated that there was an oral threat of cancelation if he did not accept these cars.

An instance of successful resistance to the factory demands that cars be accepted in the clean-up period was reported by a Chrysler-Plymouth distributor, who stated that in the latter part of 1935 he had on hand a large number of Chrysler 8's which he had been unable to sell. The factory told him that he would have to take 12 more of these cars "or else." The distributor stated that he asked the factory representative the meaning of the "or else" and was told that it meant the factory would have to look for other connections. The distributor told the representative to go ahead and find someone to buy him out. After some negotiations the matter was dropped.

Two examples of statements regarding overstocking reported by De Soto-Plymouth dealers are quoted below. The first of these points out that the factory representative obtains orders by the method of failing to supply cars, when the supply is scarce, to dealers who have not placed orders at other times according to the representative's requests.

The manufacturer takes orders for new cars and ships cars to you when they can, sometimes 3 or 4 months from time that they are due, and will not accept cancelations.

Every year is the same.

When the factory representative calls on the dealer to order cars he does not force the dealer to buy, but if you don't buy (against his will) or order cars or whatever he wants, he will remember you when cars are scarce, and he will see that you get no cars. I had the experience.

The second De Soto-Plymouth dealer stated:

Up to this year, 1937, factory representative would call and force dealer to help clean up old stock with no extra compensation.

Up to 1938 factory representative would call and tell us what we had to take. I would ask him what we were going to do with them. He would laugh and say, "Run 'em in the lake." Then we would have to go out and trade wild and loose.

The factory does not care what we sell, how we trade, as long as they get their check. The dealer that trades the longest, like our competitor in ———, is the factory pet.

As stated elsewhere in this report, some dealers are in a better position than others to withstand factory pressure. Examples of dealers' success in this regard are reported by two Dodge-Plymouth dealers as follows:

The first of these stated:

Haven't had any of this [oversupply] because we run our own business and don't buy more than we want.

Too much sales effort by factory to purchase only their own supplies; keeps one man busy talking to factory men.

The second stated:

Not oversupplied. Field men exerted pressure, with the use of threats, to induce the dealer to overstock.

Since Chrysler acquired control of the Dodge set-up, no stock has been shipped us without our order.

Overstocking was avoided only by flatly refusing to purchase more cars than could be handled. After refusing to order from the field representative, a coercive letter was received from the regional manager, which had to be ignored.

Ford Motor Co.—The following instances are selected from among the many complaints to agents of the Commission by Ford dealers, to the effect that they were forced to accept unwanted cars, particularly in year-end clean-ups. These examples indicate that the practice has continued for a number of years, but is more pronounced in some years than in others. Attention should be called to the fact that these statements were made prior to the 1938 clean-up period. Later statements by Ford dealers made during and after the 1938 clean-up period indicated that the clean-up problem did not confront them in 1938.

One dealer stated that up to the early part of 1935 the factory made arbitrary shipments to this company. During the year 1929 cars were shipped to such an extent that the drafts could not be lifted promptly. It was necessary to rent storage space, pay insurance, and incur other expense, amounting to several thousand dollars. When the 1929 model was discontinued there were on hand 94 of the 1929 models. When the 1930 models were on display there were still 72 of the old models on hand. The loss on the old models was at least $10,000.

Another Ford dealer stated that during 1929 many cars were shipped him without his order. Threats came from the branch manager to the effect that if the cars were not accepted his contract would be canceled. On account of his financial inability to accept the cars on arrival, he had to pay as much as $200 demurrage in a single month.

One dealer refused to take 52 cars which the branch manager tried to force him to accept at the end of the 1938 season. He was canceled on account of his refusal, but succeeded in having this action rescinded when he agreed to take as many cars as he could sell. However, considerable money was lost on these cars.

One large Ford dealer stated that toward the end of the 1936 season he was notified to accept 100 cars, but refused. He finally agreed to take 80, and lost a great deal of money on them. This dealer stated that coercion is not applied to the larger dealers as forcibly as to the smaller ones, for the Ford Motor Co. knows that these large dealers can easily change to another make of cars. It was further stated that coercion is not applied in writing. If the dealer refuses to comply with the policy of the company he will find he is having difficulty in obtaining desirable models and deliveries thereof will be delayed, while other dealers are receiving their requirements promptly. The offending dealer will be informed by word of mouth that he is being accorded this treatment because he would not cooperate.

A Ford dealer who was canceled shortly after the end of the 1937 model year was told he must accept 100 cars in the 1937 model clean-up. He refused but finally did take 60 cars, which he disposed of at a considerable loss. At the time it was attempted to force these cars on the dealer the branch management knew that cancelation of his contract was in prospect.

Another stated that the practice of allotting cars to dealers at the clean-up period has always existed and that, although the cars must be sold at a loss, the factory will not make any discount from the cost thereof to the dealer.

A Ford dealer complained that during clean-ups the dealers are urged to sell cars at a discount, at the dealers' expense. In this dealer's opinion this practice is harmful to the dealer not only in the loss of his rightful profit but in the loss of prospective sales for the new model. Many buyers form the habit of purchasing cars at a discount during the clean-up and are lost to the dealers as prospects for sales during the year at regular prices.

The opinion was expressed by one dealer that dealers located near assembly plants were less subject to the practice of the manufacturer shipping them unwanted cars than were those less conveniently located for the reason that the nearby dealers could too easily, and with little expense, return the unwanted cars. This dealer who was located near an assembly plant believed that for this reason he had escaped receiving unwanted cars even during periods when the practice was most prevalent.

Dealers making the foregoing statements were from all parts of the country.

A large number of replies of Ford dealers to the Commission's report form for dealers dealt with being forced to accept excessive numbers of cars during the year-end clean-up periods. From the many statements made the following have been chosen as representative of the various types of complaints made.

According to many dealer statements, 1929 was the worst year encountered by Ford dealers generally in regard to the year-end clean-up problem. Regarding overstocking by the factory, one of these dealers stated:

In previous years this was the rule rather than the exception. Our worst year was in the fall of 1929 and early part of 1930. Then Ford forced us under threats of cancelation to stock 22 new cars in November and December 1929. Then he changed the model; then reduced the price; next cut the discount from 22 to 18 percent; and then, to cap the climax, installed another dealer just 2½ miles north in the city of ———, a part of our territory.

Coercion has been the practice in the past rather than the exception. It has not been practiced the past 2 or 3 years very much. * * * I formerly worked for the Ford Motor Co. * * * and have been a roadman. I have been both a "coercer" and a "coercee." Cars, tools, and parts have all been forced upon me by threats.

Stating that he had not been overstocked nor suffered from factory pressure since 1935, a Ford, Mercury, and Lincoln Zephyr dealer complained of clean-up conditions in former years, as follows:

Dealers were forced to take too many cars in the old model clean-up in 1929, 1930, 1931, 1932, and 1935. This pressure has not been so much in evidence the last 3 years, except that * * * it is hard for a dealer to know how to order ahead when he doesn't know definitely when he will have the new models to sell. The dealer should know, 60 to 90 days ahead, definitely, when this will be, with reasonable variation for production delays at the factory.

A Ford and Lincoln Zephyr dealer complained that in previous years factory forcing of cars was frequently accomplished through threats of cancelation. This dealer stated:

During the years 1931, 1932, 1933, and 1934 they would require the dealer to carry an oversupply of cars. During the clean-up season, the latter part of the year, they would force dealers to take more cars than they could sell at a profit, in order to clear their branches of all models, frankly stating that the dealer was not expected to make a full profit on all the cars that were sold. Oftentimes it was said in a way that implied if one did not do as requested they would find a dealer who would. In other words, they would threaten to cancel your franchise.

There has been no coercion or pressure brought to bear on us during 1938.

Indicating that he was not oversupplied with cars during 1938, although he was asked to take a few extra cars at the close of the model year which he was able to dispose of "at no material disadvantage," a Ford dealer stated:

Practically every year prior to 1938, at the close of the model year, I have been compelled to take more cars than I could dispose of and had to sell them at prime cost—a marked contrast from 1938.

There has been no "pressure" used during the present year (1938). In prior years I have been coerced at times to take more cars than necessary—particularly at close of model year.

Another Ford dealer stated that he was oversupplied with cars during the clean-up period in 1937 by shipment to him of cars he had been coerced to order. The dealer's statement follows:

We were overstocked in latter part [September] 1937. It occurred by the manufacturer first securing, by coercion, a signed order for more cars than he knew we should have on hand at one time, with a half promise to help us move them if they became burdensome. This was not done, and we suffered loss thereby. During September 1937 we were shipped nearly three times as many cars as in 1938.

Further explaining this situation, the dealer stated that—

* * * during September 1937 cars were shipped by convoy and rail freight to us, which we refused to accept. These cars were later delivered to us on promise of two men sent from——— branch, that in case the new (1938) model overlapped the 1937 model we would be given relief by the——— branch moving out the surplus 1937 cars. This was not done, and we suffered loss.

It is to be noted that under the form of agreements with dealers signed by Ford Motor Co., and by other manufacturers as well, the manufacturer is not liable for any promises made by its field men or other representatives unless they are reduced to writing and signed by the designated home office representative, thereby making them a part of the manufacturer-dealer agreement. Consequently, the manufacturer is under no legally enforceable contractual obligation to carry out any oral promises made by his field men or officers. (See pp. 132 and 302.)

A complaint of a more general nature regarding being forced to take unwanted cars was received from a Ford dealer who stated:

> They tell you that they have allotted so many cars and trucks for you as a dealer and that it is up to you as a dealer to help them clean up. If you tell them that you don't need any, they then tell you that if you want to stay in the Ford business you will have to take your share of the cars.
>
> They get you to take old models about the same time each year, about 1 month to 2 months before the new model is announced.
>
> They have always forced us to take cars whether we wanted them or not.

According to reports received by the Commission, pressure to accept unwanted cars was practically eliminated by the Ford Motor Co. in 1938.

A Ford, Mercury, and Lincoln-Zephyr dealer stated:

> In previous years, the manufacturer has oversupplied us, but in 1938 we have not been forced to accept what we did not want.

Improvement in oversupply methods also is noted by a former Ford dealer, who questions whether this change is permanent. This dealer, who indicates that he was canceled because of refusing to yield to pressure regarding purchase of a sign and because of other difficulties, made the following reply:

> We think that some improvement has resulted lately in oversupply methods, a former bad practice. The question is: Will it flare again later when the heat is off? We think purchases have been made under conditions unfavorable to our interests at times in the past of both cars and accessories, likewise sales plans and equipment.
>
> At the end of practically every year there has been factory clean-up effort generally resulting in liquidation of stocks, unprofitably to the dealer. Less heat in 1938. There has been practically a total absence of any desire by the manufacturer to absorb any part of such liquidating expense.
>
> I doubt if there is a dealer hereabouts that could say truthfully that he has not been subject to pressure to take supplies at one time [or] another, but feels he would jeopardize his position were he to talk out of turn. That is the fly in the ointment. I refused pressure on a sign and payment on a repair job that led to a manager call and finally cancelation.

One dealer who has represented Ford Motor Co. for 19 years pointed out that threats are made through personal contacts and telephone calls so as to avoid any definite record thereof. Replying to the questions regarding oversupplying of cars, etc., by the manufacturer, this dealer stated:

> We are unable to give exact dates and years. But this has occurred several years during our dealership especially on cars.
>
> We have been threatened a number of times. But, of course, we have no definite records on file of these incidents as the factories are very careful about matter of this kind being put in the form of writing. Telephone and representatives' personal contacts were the methods used. The last 2 or 3 years have been most pleasant.

In addition to replies commenting on pressure to take cars at the end of the season many Ford dealers indicated pressure applied in various ways was experienced at other times during the year.

A quite frequent complaint of dealers is that they have been forced by manufacturers, or by manufacturers' representatives, to take cars or trucks which they neither needed nor wanted in order to obtain those they did want. In some cases, the cars forced upon them were models or colors that were difficult to sell, while in other cases, they were higher priced models or trucks for which the dealer had no ready sale.

The following are examples of complaints made by Ford dealers in connection with having to take unwanted cars, in some cases, in order to obtain the desired ones.

One dealer stated that the policy of Ford Motor Co. has been to include one truck with each shipment of cars regardless of the desire of the dealer. According to this dealer, unwanted colors of cars are also shipped and if the company's attention is called to this fact, the mistake will be corrected by shipping an additional carload of cars so that the dealer may get the one car of the color he wanted. This dealer stated that unordered cars and trucks had been shipped him in 1938

In response to a report form sent dealers, statements regarding being forced to take unwanted models were received. Asked whether pressure or coercion was used by manufacturers in overstocking dealers, one Ford, Mercury, and Lincoln Zephyr dealer stated:

> Not at the present time. In the past, as late as January 1938, when the factory was forcing us to take truck and commercial units when we knew that we would take a loss on them. Business at that time did not warrant stocking these particular units.

Another Ford dealer stated:

> Plenty of pressure is used. In fact have been told by the car distributor in times past if we didn't take units that he wanted us to take we couldn't get units we needed.

Regarding being forced to take Lincoln Zephyr cars, one Ford dealer made the following statement:

> Forced to take a Lincoln Zephyr in 1936, when we felt it would divide our energies and make Ford sales suffer. Threatened with cancelation. 1937, sold one Zephyr at list—held one over and sold at cost. 1938, sold one and are having one to hold over.

General Motors Corporation.—Replies to the questions in the Commission's report form concerning oversupplies and coercive methods were received from dealers handling all General Motors lines. Over one-third of these were Chevrolet dealers. Thirty percent of the Chevrolet dealers replying indicated some complaint as to having been oversupplied at various times prior to 1938. As in the case of Ford and Chrysler dealers, one of the principal complaints concerned oversupplies of cars at the year-end clean-up.

Statements of Chevrolet dealers generally indicated a great improvement in recent years concerning oversupplying by the factory. Some stated that while oversupplies existed, the factory cooperated in relieving this situation. Others attempted to justify the factory's position in regard to overstocking and pressure.

One such dealer complained of overstocking during 1937 and exertion of factory pressure to accept more cars, all of which resulted in loss to the dealer, but then stated that "the factory method of loading dealers had some merit." This dealer stated there was no oversupply in 1938 and continued as follows:

In September of 1937, Chevrolet dealers were shipped a lot of cars and were sold more by factory pressure which was responsible for dealer losses during December 1937 and during the year 1938.

Prior to 1938, this was the usual procedure. However, that is not the case today. The factory method of loading dealers with cars had some merit, providing that it may be confined to the spring and early summer months. In our case we know that to sell goods you must have them and often a sale was made that otherwise may have been lost.

Another dealer complained strenuously as to pressure applied previous to March 1, 1938, on which date a different zone manager took over his supervision. This dealer stated:

During the first 3 months of the 1938-model year we were oversupplied with new cars. We insisted to our zone manager that we did not need so many cars; however, it was difficult for him to believe that we could not sell as many new cars in 1938 as we had sold during 1937. On March 1 of this year, the ——— zone office was closed and we were placed back under the ——— zone office, since which time there has been no pressure brought to bear on us to sell more new cars than we could dispose of on a sound basis.

We were oversupplied with cars during the years 1929, 1931, and 1935. We also had entirely too many new cars at the end of the 1937 model, however, I do not blame the factory entirely, for I doubt that they foresaw the terrible slump that was coming.

No pressure whatsoever has been exerted since March 1 of this year; however, for several months prior to that time terrific pressure was applied by the local manager to sell new cars in much larger volume than we could dispose of on a sound basis. As a matter of fact, since March of this year, is the first time in my 12 years as a dealer that I have not been under considerable pressure to sell more cars. I have sold many, many cars in the past on which we knew at the time that we were allowing entirely too much for the old car, in order to keep the manufacturer satisfied with our operation.

The foregoing statement, as well as the one quoted below, indicates that in these dealers' opinions overstocking was attributable rather to zone or local representatives than to Chevrolet factory policy.

During the first quarter of 1938, we were badly overstocked in all departments due to the sudden drop off in business. Chevrolet cooperated 100 percent in helping us get inventories in line with business potential.

We have had some difficulty in this respect even as late as 1937, but conditions of this kind are usually due to the ambitions of some sales representative who is anxious to make a record for himself rather than to a corporation policy. A dealer who will stick to his guns and be guided by his own judgment will have no trouble.

Regarding exertion of pressure, this dealer stated:

This can be disregarded insofar as Chevrolet is concerned. Naturally they want to maintain their position and will make every effort to sell a dealer merchandise on the theory that if he has it he will sell it, but there is no such attitude as "take it or else."

In response to the question as to whether pressure or coercion had ever been used to induce acceptance of oversupplies, another Chevrolet dealer stated:

Never to a degree that I do not consider good business practice.

Strike conditions were responsible for overstocks of cars during the latter part of 1937 according to some Chevrolet dealers, one of whom stated:

In 1936, I was not overstocked, but got very few cars in early part of year and considerably more in latter part of year. In 1937, due to strike conditions in early part of year I was very short of cars, but later on I received a few too many; resulting in forced sales at losses.

The replies of Chevrolet dealers to the Commission's report form indicated that in years previous to 1938 many of these dealers had been forced to take unwanted cars in the year-end clean-up periods. Following are examples of statements made in this connection:

One Chevrolet dealer stated:

> Nineteen hundred and thirty-eight is the first and only year we can remember when we had no clean-up problem situation. In previous years cars have been shipped us without orders with the result that same must be sold at great discounts and extra-high allowances on used cars at a time of year when we should be taking in used cars on the new and advanced model. Also in years previous to 1938 we have been urgently urged to take an overstock of radios and other accessories in order to clean up the factory stock. In fact, we have been given a quota to make on past-model merchandise which we did not want. Radios have been particularly forced on us much against our judgment.

Another complaint regarding shipment of cars without orders was made by a Chevrolet dealer who stated:

> In August of 1937 we were overstocked by a shipment sent to us without our order so that when the 1938 models came out we still had about twenty 1937 models on hand. However, this was not done in 1938.

Regarding being oversupplied with unordered trucks at the season end, one Chevrolet dealer made the following brief statement:

> Arbitrary truck shipment of current models at season end. Not the occasion in 1938.

Regarding use of pressure or coercion prior to 1938 in forcing cars on dealers, a Chevrolet dealer stated:

> In previous years we had a clean-up period in which we were to take our share of left-over cars in stock.
>
> No coercion or pressure is now being used, but in the past before this year it was.

Another Chevrolet dealer complained that he was oversupplied in 1938 through accepting 1938 cars near the season's end on the basis that new models were to be announced on a certain date, whereas announcement was actually made 2 weeks earlier. Regarding the 1938 situation this dealer stated:

> Oversupplied with new cars. Allotment of new cars based on announcement November 6, 1938. After shipment was made, 1939 models were announced 2 weeks earlier than just stated.

Chevrolet dealers complained that models other than those ordered had been shipped them and that the wanted models could not be obtained unless the unordered ones were accepted. In this connection one Chevrolet dealer stated:

> We are allotted certain cars but they don't come according to models ordered. Can't get models we want if we do not accept the ones shipped.

Another Chevrolet dealer stated:

> Frequently when we order one model car, manufacturer substitutes another model to complete carload. Then back-orders model ordered and ships at some later date.

Comparatively few replies to the Commission's dealer report form were received from dealers handling General Motors automobiles other than Chevrolet. The following are a few examples of the type of replies received from such dealers who complained regarding being overstocked by the manufacturer during year-end clean-up periods.

The only General Motors division of which no dealer complained of oversupplying was Cadillac-LaSalle.

One Buick dealer who stated that there had been no oversupplying in 1938 indicated that the manufacturers should cut the price of cars to dealers when dealers are expected to help liquidate manufacturers' excess production. This statement follows:

> In some years the factory has been in a position where they have been caught with more cars produced than could be readily sold and I would say that it has been a general practice for all the manufacturers to expect the dealer to help liquidate this stock at his own expense. In other lines of business when the manufacturer produces more than he can sell, it is usually necessary for him to cut the price and I think this should also be true in this industry.

A Buick dealer who did not answer the question dealing specifically with oversupplying dealers included the following statement on this subject in response to a question dealing with major difficulties that had arisen in his relations with the manufacturer:

> The purchase of left-over cars from the manufacturer prior to the announcement of new models, known to the trade as clean-up period.

Regarding being oversupplied by the manufacturer in years prior to 1938, another Buick dealer simply stated:

> Years previous '38, at end of season.

Several Pontiac dealers complained quite bitterly as to the factory's policies in regard to forcing them to take cars in the clean-up period in 1937. One of these stated:

> High-pressure selling by the factory at the end of 1937 selling season, using every ruthless method possible, forced us to carry a large number of 1937's in the model year 1938.

Another Pontiac dealer who complained of being shipped unordered cars, made the following statement:

> In fall of 1937 shipped cars without orders, far beyond my capacity to sell and also accessories. Had to take them or else. Asked for relief but couldn't be done. Had to borrow too [much?] money and store cars. There was only one way out, quit.

Regarding the result of attempting to resist pressure from the manufacturer to take more cars, one former Pontiac dealer stated:

> * * * In the case of Pontiac, I ordered only what I wanted regardless of the attitude of the representative, and was canceled.

A dealer handling Chevrolet, Cadillac, and LaSalle cars stated that the situation regarding oversupply in 1938 was "very satisfactory" but regarding previous years he replied:

> Almost every year, except 1938, we have been forced to accept too many cars just prior to model change which of course has been costly. In 1934 we were canceled out because we wouldn't accept what the factory wanted to give us. We gained reinstatement only by accepting the cars.

A dealer handling Buicks and Pontiacs made the following statement:

> The only pressure we have is that we must sell a certain amount of the high-priced series cars, when we have no market, in order to get the lower priced series which cars are selling fast. This should be changed and let a dealer sell what the [he] can, and let the manufacturer build the popular models as fast as necessary.

A Pontiac dealer reported that in June 1937 he was—

> made to take Pontiac 8's in order to get Pontiac 6's which were already sold.

The following is quoted from the statement of an Oldsmobile dealer:

At present, only pressure is with respect to certain new car models. For instance, the model "70" (six) is the best seller, but manufacturer is expending much effort in trying to push the "80" (eight) and "60" (smaller six). There would seem to be a lack of flexibility in meeting the existing public demand, and a desire on part of manufacturer to force a nonexisting public demand that will, for some reason not clear, better fit in with the manufacturing program.

To a representative of the Commission, a Buick dealer stated that in an effort to have dealers order cars at or near the close of the model year, the factory representative argues that if the dealer will accept certain clean-up models, the representative will use his influence to assist the dealer in obtaining new cars when the new models are ready for distribution. This dealer stated that cars on hand during the clean-up period usually have to be sold at a discount.

A former Pontiac dealer stated that he was shipped two carloads of the new models in 1936 before he had disposed of the 1935 models which the factory had allotted him at the end of the season. He stated that he kept the new models out of sight until he sold the old ones in order to keep from having "dead stock" on his hands.

An attempt to force the acceptance of cars toward the end of the season was successfully withstood by one Pontiac dealer who stated that near the close of the 1937 season the factory shipped him two carloads of automobiles fully equipped with accessories. The shipment was refused upon arrival. A local factory representative telephoned him and asked what disposition was to be made of the cars. The dealer stated he told this representative that he would not accept the shipment because he already had nearly 20 cars on hand. In spite of threats of cancelation, according to the dealer, he stood firm on his refusal and the cars were disposed of elsewhere.

An Oldsmobile dealer complained that the factory had shipped unordered cars in November and December 1937 and that this policy was again being pursued in the latter part of 1938, when he answered the report form. This dealer's reply follows:

Our factory shipped us more cars and accessories during the months of November and December of 1937 than we had ordered with the understanding that if our sales slowed down or the factory did not go out on a strike they would take a good share of these cars and accessories off our hands. When we made a request for help they informed us that all other dealers were in the same shape that we were and they could do nothing about it. I did not get any relief until I was forced to make an appeal to our general sales manager who in turn authorized the zone manager to relieve my stock of a few cars that he could place in ------------------- warehouse. The accessories that were shipped on these cars we had to retain as the factory refused to take them back. This left us with an overstocked condition on accessories at the end of the year and we are forced to sell many of them at far below our cost. The factory made no attempt to reimburse us for the interest that we had to pay on this overstock of new automobiles which should have been carried by them.

At the present time our factory is shipping us cars and accessories that we have not ordered. They realize with a car shortage at the start of a model run that we will accept slow-moving body types so that we can get a few cars that we have previously sold.

Complaining of being oversupplied with cars in 1936 and of attempts to oversupply him in 1938, another Oldsmobile dealer stated:

In the spring of 1936 we were oversupplied with 1936 model cars, being forced to pay excessive storage and financing in connection with stocks not needed.

Manufacturer tried to oversupply us with 1938 models (very poor public acceptance resulted in a surplus of this model). We refused to overstock.

A Cadillac, La Salle, and Oldsmobile dealer commented on the satisfactory relations with the Cadillac-La Salle factory in regard to oversupplies but stated that the Oldsmobile factory, while entirely within their rights in doing so, had refused to cancel orders in 1938 when the dealer became oversupplied. Regarding the oversupply problem, this dealer stated:

We have not had any with the Cadillac-La Salle factory. After we found we had ordered more cars than we could use, they have, without question, permitted us to cancel orders. However, during the winter of 1938, Oldsmobile shipped us many more cars than we wanted at that particular time. We asked for cancelations and we were refused. Please understand that Olds Motor Works held our firm order for these cars and they were within their rights when they shipped them. However, we questioned their spirit of cooperation by their failure to respect our overstocked condition at that time.

In answering the question relative to oversupplying by the manufacturer a Buick and Pontiac dealer stated only "1938 O. K." However, enumerating what he considered to be major difficulties in his relations with the manufacturers, this dealer listed the following:

Forcing of sales by high-pressure methods.
Furnishing of misleading figures to induce volume operation.
Clean-up of noncurrent models at dealer's loss.
Insufficient time between models for orderly clearance of old models.

Another Buick-Pontiac dealer stated:

Was not oversuppplied with 38 models, as we only ordered cars according to our own need and judgment.

During the close of the 1937 model year, representatives of one of the manufacturers inferred we should take some additional cars to relieve the warehouse stock if we expected to have a franchise the following year.

A Pontiac, Cadillac, and La Salle dealer stated that oversupplying, pressure, and coercion were not encountered in 1938 but regarding previous years, answered as follows:

Previous to 1938, cars were shipped to us without our ordering them. We were forced to buy unnecessary quantities of parts and accessories, also shop equipment.

One Pontiac dealer whose contract allowed him to sell only within the limits of the city in which he was located, stated to an agent of the Commission that, although station wagons are sold chiefly to large estates in the country, he was required to accept and stock some of these cars.

An Oldsmobile dealer stated that on numerous occasions he had accepted unwanted cars in order to obtain cars on order for customers.

Hudson Motor Car Co.—Only a small number of replies were received from Hudson dealers on the Commission's report form for dealers. All but one answered the question respecting the forcing of cars. The answers were predominantly to the effect that pressure had not been experienced. Only three indicated that they had been forced to accept cars. One of these dealers stated:

Almost every year's end attempts have been made through medium of quotas followed up by telephone, telegraph, and representatives' calls to force acceptance of cars, both passenger and commercial, in excess of our market and stock requirements, stating that it is our "obligation" and "responsibility" "to cooperate," etc., but no price reduction is offered to assist liquidation. The only year this did not happen is at the end of 1938.

Regarding the use of coercion or pressure to overstock cars, another Hudson dealer stated:

Would hesitate to say "coercion" has been resorted to; however "pressure" is constantly applied. In fact within the last week just about everything was used by district sales manager to induce placing commitments for cars for the next 6 weeks, larger than this company would entertain. The reasons constantly used recently are that factory labor relations require the employment of labor continuously and the factory, of course, could not think of building up cars that are not sold.

Illustrating the pressure exerted on distributors to take certain models is the following excerpt from a letter written May 30, 1934, by J. S. Oliver, sales representative of Hudson Motor Car Co. to George H. Pratt of the company's Detroit office, regarding Automotive General Corporation, Dallas, Tex., Hudson distributor:

You will recall that he was very reluctant to give us reasonable orders for Challengers when he was at the Detroit meeting, and that since that time I have had to pressure him into every order he has given for them. He is not sold on the program, and resists every effort to get reasonable distribution on the Challenger. He prefers to keep the dealers sold on the K possibilities only, until such time as his own K stock is reduced to a minimum.

Packard Motor Car Co.—About one in four Packard dealers replying to the Commission's report form stated they had been oversupplied prior to 1938. None of these reported experiencing this difficulty in 1938. In response to the question as to whether he had been oversupplied in years prior to 1938, one of these Packard dealers stated:

In the spring and early summer of 1937 we were oversupplied, and during August and September it was necessary to make excessive overallowances to move them and because of this we built up too large a used-car stock and in November and December we had to mark these down to move them and as a result lost all the money we had made in the first 9 months.

Another Packard dealer stated:

This has not occurred in 1938 but was very much the case in 1937 and also in 1936. The manufacturer insisted that I maintain demonstrators that were extremely costly both in finance charges and in cost, and far beyond my actual needs.

The same dealer stated as follows respecting the forcing of models for which he had little sales:

In 1937 I was forced to accept four Packard business coupes with no market for them. All year I had sold but one business coupe in August, 2 months before the new cars for 1938 were to be delivered I was forced to accept four. Needless to say I lost quite heavily on the resale of these to the public.

Studebaker Corporation.—Most of the small number of Studebaker dealers who answered the Commission's dealer report form made no statements indicating that they had been subjected to pressure to take new cars that they did not need. Some, however, made statements of which the following is typical:

The roadman told me they had so many cars for my territory and if I didn't take them somebody else would. February 1938.

Regarding receiving unordered cars, this dealer stated:

Only once in 1937, I think October, they shipped me four cars that I did not order.

Nash-Kelvinator Co.—A dealer handling Nash automobiles reported to an agent of the Commission that the distributor from whom he obtained his cars had forced him to take unwanted cars during the period preceding introduction of new models. This dealer stated that late in 1937 the distributor informed him that he must take more cars as the distributor had a large commitment at the factory and expected him to take his share. The dealer protested as he already had cars on hand. Two weeks later he was again asked to take additional cars and when he refused the distributor told him a change would have to be made in the territory. Later, six unordered cars were shipped the dealer and he felt he had to take them. He stated that as long as cars must be taken near the close of the model year, a discount on these cars should be given the dealer by the factory.

Another Nash dealer stated that in 1936 he had to buy one Nash Ambassador, the higher-priced car in the Nash line, for each La Fayette obtained.

The Willys-Overland Co.—A dealer handling Willys-Overland and another make stated a recent example of the manufacturer attempting to force acceptance of cars as follows:

> At the end of 1938 since September the distributor on Willys has threatened repeatedly that we must take cars or in 1939 we will be left out.

Reports from dealers handling other makes or combinations of makes of motor vehicles complained to some extent regarding overstocking by manufacturers. One Studebaker and Hudson dealer, however, intimated successful resistance to attempts to oversupply him with the simple statement: "I know how to say no."

Statements quoted above from several sources, including interviews with dealers, written replies from dealers to questions in the Commission's report form, letters addressed voluntarily by dealers to Federal Trade Commission, files of manufacturers, and interviews and records of dealers trade associations all indicate that manufacturers possess great power to force dealers to take and pay for more cars than the dealers market will readily absorb. This power has been exerted upon occasion, especially with respect to unwanted models and during the clean-up period. It also is exerted throughout the year in cases where dealers do not sell their quotas or their proportion of new-car registrations. The severity of pressure varies as between manufacturing companies, as between different territortial areas supervised by different field personnel of a particular manufacturer, and also as between different dealers in a particular area.

The requirement that dealers pay for cars upon shipment enables the manufacturer to shift to the dealer the entire financial responsibility of distributing cars forced upon the dealer. Where a ready market does not exist the dealer must either cut prices directly or make excessive allowances on cars taken in trade in order to sell the new cars and obtain cash with which to meet maturing financial obligations generally incurred in the payment of cash to the manufacturer as new cars are shipped. Even a minority of dealers finding themselves in this position greatly aggravates the used-car problem and imposes upon the entire dealer body severe price competition. Thus the used-car problem so bitterly complained of by dealers as a cause of dealer mortality is vitally connected with, if it does not stem directly, from the practices of manufacturers in forcing dealers to take and sell more new cars than they would otherwise handle.

Furthermore, it is to be noted that even in those agreements which have been most extensively liberalized for the year 1939, the changes made will not warrant the conclusion that definite provision has been made for easing pressure on dealers. It, therefore, appears that the easing in pressure noted by dealers during the year 1938, when the Commission's inquiry was in progress, may have been due to changes in administrative policy either respecting volume of production or respecting pressure on dealers at the clean-up period. Many dealers feel that this change is only temporary and that the policy may again be changed in the future to impose upon dealers the same type of pressure that was experienced in the past. Whether this fear is well-founded can only be decided in the light of administrative policy pursued by manufacturers in the future.

CHAPTER VI. USED-CAR POLICIES AND PRACTICES OF MANUFACTURERS

SECTION 1. THE USED CAR AS A FACTOR IN THE SALE OF NEW CARS

Development of used-car merchandising.—Although there was some trading in used cars in connection with the sale of new automobiles almost from the beginning of the automobile industry, the dealer's used-car difficulties as they at present exist did not fully develop until after the great increase in new-car production that occurred after 1920. The development of dealer difficulty respecting used cars was considerably retarded during the period from 1917 to 1920 by the fact that production of new passenger cars was relatively small, while demand for cars was large, which situation made it easy to sell used cars. Increased production of new passenger cars after the war, and rapid progress of the automobile toward sale of both new and used cars on a replacement basis, tended to increase the dealer's difficulty in handling the volume of used cars taken in trade. Also, as more attention was given to style and appearance of cars, the tendency toward more frequent replacement sales was accentuated for both new and used cars.

Although the used-car situation did not reach its acutest stage until recent years, it is interesting to note that by 1911 it had become of such importance that a movement got under way, apparently among Chicago retailers, to produce a manual of used-car selling values for the guidance of retail dealers in the handling of used cars. This manual subsequently came to be known as the Blue Book, published by National Used Car Market Report, Inc., of Chicago, Ill.

In 1914 the Curtis Publishing Co. made a study of the automobile industry and embodied the results in a report which stated as follows regarding the used-car problem:

> Of all the problems that vex the automobile industry, probably the most serious and the most difficult of solution is that of the used car. The second-hand-car problem is likely to become more acute as the number of cars in use increase.[1]

In 1932 a second survey by the same agency resulted in a printed report in which the above statement was quoted with the following comments:

> This prediction proved to be only too true, and as the number of cars increased, the second-hand car problem indeed became more acute. It became vexatious, serious, and difficult of solution beyond the imagining of 1914.
>
> *   *   *   *   *   *   *
>
> Since 1914 many improvements have been made in handling used cars; on the other hand, there have come in some abuses which need not be stated, as they are well known in the automobile industry. These abuses make it difficult for the honest dealer to compete in second-hand-car sales with a less scrupulous operator. We believe the industry should take steps to correct these abuses.[2]

Development of used-car policies by manufacturers.—So long as cars in use were few in number and most sales were to persons who had

[1] Passenger Car Industry, the Curtis Publishing Co. (1932), p. 75.
[2] Ibid., p. 75.

not previously owned cars, little attention was paid by manufacturers to the question of used-car merchandising. Dealers might take trade-ins if they wished, but that was a matter for the dealer to decide, and his decision was likely to be based upon whether he had, or thought he could readily find, a prospective purchaser for the used car at a price at least covering the amount paid for it. In general, this situation appears to have prevailed prior to and during the war period.

During the early 1920's, various manufacturers began to develop more or less definite policies which they recommended to their retailers respecting the handling of used-car business, and by 1925 the trade-in had become such an important factor in automobile distribution that manufacturers were forced to give increasing attention to it because of its vital relationship to the sale of new cars.

Early Ford policy.—During the period from 1920 to 1926, or even later, Ford Motor Co. took the position that the used-car business should be handled by Ford dealers on such a basis as to yield the dealer a commercial profit of about 20 percent gross over cost of used cars to the dealers, and required reports from dealers covering their handling of used cars. Under Ford Motor Co.'s policy during this period, price cutting was a cause for dealer cancelation. Overallowance on trade-ins was recognized as a method of price cutting and, upon occasion, was given as a reason for dealer cancelations. This policy was somewhat at variance with that of other manufacturers, apparently for the reason that during the time that Ford was producing model T cars Ford dealers did not face as severe a used-car problem as dealers handling gear-shift models made by other manufacturers. This was due to the fact that gear-shift cars were seldom traded in the purchase of model T cars. With the shift by Ford to the manufacture of the model A cars in 1928, however, Ford products came to be sold under conditions as to used-car merchandising quite comparable with those of other manufacturers, and Ford's used-car policy thereafter tended to develop along much the same lines as the policies of other manufacturers. The position that dealers should handle used cars on a basis to yield a profit was abandoned in favor of the position that used-car trading should be conducted on such a basis as to yield the maximum of new-car sales. To do this, recognition was given to the fact that dealers must often overallow on trade-ins in order to make sales. The percentage of dealer margins on new-car sales was increased by Ford Motor Co. from 17½ to 22 percent in 1930 and later to approximately 25 percent in recognition of the fact that dealers must give $50 or more overallowances on trade-ins to make new-car sales. In lieu of the position that both new cars and used cars should be merchandised at a profit, the position at present taken is that the total business done, including new cars, used cars, parts, and consumer service shall be conducted at a profit to the dealer. With this change in policy, Ford Motor Co. has shifted its attention to the development of a plan for used-car merchandising, and a field corps of retail business management specialists, including used-car managers working out of the company's various branches, has been developed by the company to bring about the widest possible use of the used-car plan and other plans and policies developed by the Ford Motor Co.

Early General Motors policy.—In May 1925 the then-current Ford policy of insisting that dealers handle used cars at a profit was discussed by the general sales committee of General Motors Corporation. Respecting this discussion, the minutes of this committee state:

This subject was discussed at some length, and it was brought out that in certain instances it might be better for a dealer to lose a small amount on a used car and move it than to insist that he make a profit on it. In general, we should not go out and get business by overbidding or overtrading, but in exceptional cases we might get into a situation where it would be good business to sell the used cars at not very much profit, or even at a loss. We are going to watch this new Ford policy and report on our findings from time to time.

Later in the year 1925, the general sales committee of General Motors Corporation discussed the subject of used cars in considerable detail and arrived at conclusions of fact and policy as shown in the committee's minutes under date of October 8, 1925, as follows:

USED CARS

1. Is it definitely established that the used car is the "dealer's own problem" and that it will be an increasingly important part of automobile retailing?

After considerable discussion, the following points were generally agreed upon:

The sale of new cars depends largely upon the used-car situation. This is especially true in the high-priced classes, where 80 percent of the new-car sales involve trade-ins—in some instances it being necessary to sell two used cars in order to move one new car.

It was unanimously agreed that the future volume of sales on new cars would depend largely upon the efficient selling and servicing of used cars. It is, therefore, necessary for the manufacturer to take an interest in the sale of used cars.

As a step in this direction, Chevrolet are establishing quotas for used cars from a standpoint of the probable quantity of used cars it will be necessary to handle in order to realize the quota on new cars. This question, of course, involves the consideration of the dealer's capital, as well as his organization, both of which must be ample to cope with both the new- and the used-car situations.

It was agreed that the best way to approach the foregoing problems would be for each of the divisions to add to their respective organizations enough men specializing on the used-car problem to educate the dealers to cope with the situation to the best advantage.

2. Should used cars be regarded as transportation merchandise, just as are new cars, therefore, requiring sound merchandising practice in their handling; or should used cars be regarded merely as incident to new-car selling?

All agreed that the dealer should maintain the same contact with a customer to whom he has sold a used car as he does with a new customer. In due time, the customer will trade in his used car, and only by keeping such contact can the dealer expect to get 100-percent replacement business on the used cars that he sells. In short, the dealer has a new-car client and a used-car client, and from a selling standpoint they should be treated exactly alike in every respect.

3. Should the dealer who is fortunately situated so that the volume of new-car business is naturally larger than the average, in proportion to capital employed and necessary operating expense and who therefore may enjoy abnormally high profit, be encouraged to allow more liberal prices for used cars taken in trade?

This subject was discussed at considerable length. It was generally agreed that the Ford policy, whereby the dealer is required to make money on the used-car end, is unsound, at least as applied to our business At the same time, it seemed to be the consensus of opinion that no definite policy could be established in respect to this general question.

The chairman stated that he would present a statement bearing upon the economics of the proposition at the next meeting, which might be helpful in removing apparent divergence of opinion on the matter.

4. Should the manufacturer recommend more strongly the careful appraisal of used cars?

Everyone agreed that more attention should be given to more dignified and thorough appraisals.

5. What should be the limit of the dealer's investment in used cars

There was considerable discussion as to the principles covering the limit that should be set up for used-car stocks. Again it was pointed out that each instance must be dealt with in the light of its special conditions, not only with regard to the dealer's financial position but with regard to the status of the used-car market in his particular territory. There should be an attempt to establish definite limits as to the proper ratio of used-car stock to new-car stock, which would vary to some degree, due to seasonal conditions. Therefore, arrangements must be made and capital provided so that the dealer can carry the requisite number of used cars, as well as new cars, over the winter months.

Mr. Deane pointed out that it is difficult for General Motors Acceptance Co. to rate used cars as they do new cars, because of the variety of makes and the varying values represented by same makes and the same models. He stated that the Blue Book prices do not afford a practical basis of appraisal, because these prices do not reflect the difference between the car that is in bad mechanical condition and one that has been thoroughly reconditioned.

6. To what extent should used cars be reconditioned?

It was generally agreed that as a matter of general policy the dealer should recondition used cars of the make which he represents but that he should not attempt to recondition the trade-ins of miscellaneous makes.

It was concluded that all used cars should be washed and tires cleaned, even though they are not to be mechanically reconditioned. If they are the dealer's own products, it is advisable to recondition them mechanically. Generally speaking, they should also be refinished. The most important thing is not to misrepresent the condition of the car.

7. Should a dealer's used-car business be separated from his new-car business?

It was generally agreed that this depends upon the size of the dealer. If the dealership is large enough, a separate used-car department should be maintained.

8. Should reliable reports be obtained periodically from dealers of their stocks of used cars? If so, what use should be made of such reports?

It was generally agreed that such reports would be very desirable because they would afford a good index to the trend of automobile demand. For example, if there were a business slump approaching, it would probably manifest itself through this data on used-car stocks.

It was pointed out, however, that such reports, to be of the greatest value, should be supplemented by reports covering the movement of used cars at retail. It was agreed that all divisions should include, with their regular periodical reports, reports of used-car stocks on hand and sales of used cars during each period.

Thus, in 1925, Ford and General Motors held radically different views respecting the policy that they desired their dealers to follow in the merchandising of used cars. Ford Motor Co. was taking the position that its dealers should so merchandise used cars as to yield a profit to dealers. General Motors Corporation, on the other hand, was formulating a policy respecting the handling of used cars by its dealers that related the volume of used cars to be handled to the problem of increasing sales of new cars, on the one hand, and, on the other, to the dealer's capital requirements to handle both new and used cars. The policies of both companies agreed to the extent that used-car reports from dealers were desirable.

In connection with the question of reconditioning only General Motors cars, the Buick Division, in 1926, was experimenting with the idea of making national in scope what was known as a "Buick gold-seal plan," under which Buick dealers would recondition and guarantee used Buick cars as a means of increasing sales of used cars. The general sales committee of General Motors Corporation discussed this matter, as indicated by the following from the minutes of that committee:

Mr. Strong outlined the progress that is being made by Buick toward nationalizing the Buick gold-seal plan, which was developed by the Howard Automobile Co. on the Pacific coast. This plan contemplates a standardization of second-hand Buick cars of recent vintage. The gold-seal emblems will be issued by the factory organization.

The plan will be extended very cautiously in order to avoid abusive practices and only those dealers or distributors who are equipped to properly rebuild Buick cars will be qualified to participate in this plan.

Mr. Strong stated that he was properly protected on the plan from a copyright standpoint.

The point was raised as to whether or not the gold-seal plan might ultimately be extended through our other divisions, but it was the general feeling that this would be inadvisable or to say the least, it should be handled with great caution because of the difficulty of maintaining the proper standards if this plan becomes too wide spread among different General Motors organizations and their dealers.

Subsequently, other General Motors divisions as well as other manufacturers from time to time developed various used-car reconditioning and guaranty plans as evidenced by the Chevrolet red-tag plan, the Ford R & G (renewed and guaranteed) plan, the Studebaker certified used-car plan, the Hudson personally endorsed used-car plan, the used-car money-back guaranty of Chrysler, etc., all of which are intended to assist dealers in the sale of used cars as a means of increasing sales of new cars.

Eventually, also, the desirability of reconditioning used cars of other makes besides that handled by the dealer was recognized as a means of moving used cars more rapidly as a means of preventing the tying up of dealer capital in inventories of used cars that rapidly decrease in sales value if the cars are not promptly sold.

The adoption of used-car-selling plans and of definite used-car policies to be carried out with respect to their dealers has been the result of much study and experimentation on the part of different manufacturers. In the making of such studies and the formulation of policies General Motors Corporation has taken a leading part, especially in studies of data bearing on the vital relationship of losses taken in used-car merchandising to the survival of dealers, and of what steps could be taken to aid dealers in the sale of used cars. For instance, in 1927, at the request of Alfred P. Sloan, Jr., president of General Motors, the advertising concern of Barton, Durstine & Osborne made a study of the used-car situation with the object of developing advertising that the company might run with the object of educating the public generally on the economics of trade-in allowances and facilitate the handling of used cars by General Motors dealers. Respecting this matter, the minutes of the general-sales committee of General Motors Corporation for March 16, 1927, state:

Mr. Bruce Barton presented some specimen ads resulting from their study, copies of which were supplied to members of the committee. After some discussion, it was generally agreed that the corporation could safely run this type of advertising and that, if done on a sufficiently extensive basis, it would accomplish much in facilitating the handling of trade-ins by our dealers. Mr. Barton also presented some ads which would follow this initial campaign, dealing with the value of General Motors used cars and pointing out the advantages of owning two cars. Mr. Grant called attention to the fact that this type of propaganda was, to some degree, inimical to the interest of Chevrolet sales, since Chevrolet would prefer to have the customer buy a Chevrolet car for his second car rather than a used Buick, Oakland, or Olds. It was the general feeling, however, that the idea was highly constructive.

After considerable discussion, Mr. Barton's proposals were tentatively approved, it being understood that he would present recommendations as to final copy, schedules, etc., at the next meeting of the general-sales committee, at which time the question of providing the necessary funds for the proposed campaign will also be decided upon.

It was the general feeling that we should base the amount of the appropriation on a $1,000,000-a-year rate.

Five months later, in August 1927, material for the second half of this advertising campaign, originally planned to include advertising intended to bring purchasers into the used-car showrooms of General Motors dealers, was under consideration. After discussion, the general-sales committee decided that the proper time had not arrived to take this step, and it was ordered that the program be continued along the line previously followed of urging the public to more carefully analyze the trading allowances offered them.

At the August 1927 meeting of the sales managers' committee it was also announced that the Chevrolet Division was trying out a plan under which the division would compile data respecting used-car appraisals and make the results available to its dealers at an annual cost per dealer of $15 per year. Attention was also called to the fact that the sales section, with the cooperation of General Motors Acceptance Corporation, was conducting an experiment to determine the degree to which data of the Acceptance Corporation covering used cars sold at retail might be serviceable as reflecting the values of all used cars in different sections by make and year model.

In January 1928 the general-sales committee of General Motors Corporation again discussed the matter of company advertising to aid dealers in the sale of used cars with the following results:

> The committee was in general agreement that since the number of used cars sold in a given year is greater than the number of new cars, and since new-car sales are so definitely dependent upon used-car sales, it was highly constructive that a certain portion of our advertising should be employed to deal with the used car.
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> The committee recognized that the advent of the more attractive models in the low-price field will tend to aggravate the used-car situation and that anything that could be done to dignify the used car and assist in placing the used-car business on a higher plane would be very constructive. In these directions dealing with the general problems involved, it was agreed that General Motors could do the job just as effectively as could the divisions and with marked economies.
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> The committee, therefore, voted to continue this activity on an appropriation of $900,000 for 1928.
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> The committee also approved as the theme of the 1928 campaign the advertising of General Motors dealers as dependable used-car merchants and the opportunities the used cars they take in trade offer car buyers, with an occasional repetition of the facts on "used-car allowances" which was the theme of the 1927 campaign.

Again, at the February meeting of General Motors sales managers the subject of the used-car situation was discussed. R. H. Grant presented an outline of the subject matter of a talk made by him at a joint meeting of the National Automobile Dealers Association and the Chicago Automobile Trade Association and stated that he was covering the same ground at Chevrolet dealer meetings throughout the country as bearing on the used car. This outline appears quite comprehensively to cover the dealer policy of the Chevrolet Division, respecting the merchandising of used cars, as follows:

> 1. We should not attempt to determine the attractiveness of a dealer franchise financially on whether or not a dealer loses money in his used-car operations. Whether or not a franchise is a good one should always be determined by the percentage of return on capital employed in the business. In our organization with an average loss of approximately $20 on each new car sold on account of used-car trading, the average return on investment is above 60 percent; consequently, as these figures are approximate for the last 3 years, it proves that the franchise was a good one even though there were sizable used-car losses.
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> 2. Oftentimes a dealer can make more money by having a reasonable loss in his used-car operations than he could by attempting to make a profit. The reason for this is that the profit on his extra new-car sales more than overcomes the loss on the additional used cars traded in, so by increasing his new-car volume and his used-car inventory and losses, he lands at the end of the year with more profit

than with a more conservative policy which entails smaller volume, less used-car losses, and also less new-car profit.

3. The used-car problem is caused essentially by the fact that new cars are built so they will last and give reasonable service for a longer period of time than the average buyer wants to keep them. The reason for this is that the manufacturer makes his new models so attractive that they appeal to the pride of ownership of that part of the public that can afford to change models frequently. The fact that the public who are in this financial position can sell their old cars at a depreciation which is satisfactory to them, enables the manufacturer to make more new cars and the dealer to sell more new cars than if every customer kept his new car until it wore out.

This being the case, we can see that the effect of the used-car business is to at least double the production of new cars each year. The manufacturer's job and the dealer's job is to sell the public on taking on even bigger depreciation than they do at the present time so that we can get the benefit of holding up the volume of business and the dealer can get rid of some of the loss he now takes on used cars and thus increase his return on his capital employed.

4. It seems that the answer to the used-car situation as it appears at the present time is—

(*a*) Through dealer accounting find out exactly what the situation is;
(*b*) Set a deadline of losses so that the dealer in attempting to increase his new-car volume does not hit the law of diminishing returns from a profit standpoint;
(*c*) Through figures such as Chevrolet has in Used Car Appraisal Plan, guide dealers in their bids and selling prices on used cars;
(*d*) Improve merchandising methods in the following way:
  (1) Teach appraisers to have a better knowledge of used-car values;
  (2) Teach dealers how to recondition used cars economically so as to increase their attractiveness on such a basis that his profit is increased rather than decreased because the selling price is raised;
  (3) Improve the attractiveness of the used-car showrooms and used-car lots;
  (4) Improve and put more intelligence into used-car advertising;
  (5) See that the right number of salesmen are employed and that they are better educated in used-car selling than they have been in the past;

and, finally, teach the dealer to have the same viewpoint as to his reputation and dependability in the handling of used cars that he has in the handling of new cars.

In considering the matter of used-car stocks in the hands of dealers, it was stated that at the March 14, 1928, meeting of the general-sales committee:

> The opinion was expressed that dealers should expand their conditioning facilities so that they will be more nearly in line with the demands of the peak selling seasons; in other words, the capacity of the dealers' conditioning facilities should be large enough to permit used-car sales to keep pace with new-car sales during the peak selling seasons.

Three months later, at the April 11, 1928, meeting of the general-sales committee, attention was called to the fact that following the publication of advertising to the effect that General Motors dealers were dependable dealers, a number of letters had been received from dissatisfied used-car purchasers. The minutes of this meeting indicate quite clearly that General Motors Corporation did not wish to place itself in the position of assuming responsibility for the dependability of its dealers in their used-car operations, or for the quality of used cars sold. The minutes state:

> Mr. Sloan stated that in his opinion the recent advertisement entitled "General Motors dealers are also dependable used-car dealers," is unsound for the reason that the superficial reader is apt to get the impression that General Motors stands back of any and all used cars sold by its dealers.

Mr. Grant felt that there is a lot of educational work to be done by the divisions with the dealers before General Motors can run any advertising to the effect that its dealers are dependable dealers.

Mr. Strong stated that it would be much better for the divisions to get their dealers themselves to run some advertisements of this nature, as in so doing the dealer's name would be at the bottom of the advertisement and he would then recognize his responsibility to the public.

After considerable discussion, a motion was introduced and passed that the "dependable theme" be stricken out of General Motors used-car advertisements and that some other theme be adopted.

In 1927 Motor Accounting Co. was formed by General Motors Corporation for the purpose of cooperating with all divisions of General Motors Corporation "in the matter of getting all General Motors dealers to inaugurate the proper accounting systems as well as the proper auditing of their books." After the accounting company had developed accounting forms and established a field organization to install the system among and audit the books of General Motors dealers, attention was turned to analysis of accounting reports received from dealers as a guide to factory policy respecting dealers. Among the subjects given special consideration were various phases of used-car merchandising in relation to profits of dealer operations and the attainment of maximum new-car sales.

In July 1929 the attention of the general sales committee was called to the desirability of making certain changes in the used-car inventory control forms of each of the divisions upon which General Motors dealers were required to report to their used-car operations. It was also pointed out that dealers were not keeping these records properly and it was recommended that representatives of Motor Accounting Co. (the dealer accounting subsidiary of General Motors Corporation) be assigned the duty of supervising the keeping of these records by all General Motors dealers for whom the Motor Accounting Co. made monthly or quarterly audits. This recommendation was adopted by the general sales committee and the representative of the Motor Accounting Co. who made the report on this subject was instructed to discuss the details of this work with the divisional sales manager.

In November 1929 a representative of Motor Accounting Co. presented to the general sales committee a preliminary analysis of dealer-operating statements showing the gross loss which the average 100-car dealer in each division could afford to incur in used-car trading without impairing his profit position. The following statement was made respecting the use to be made of this study:

The chairman [R. H. Grant] pointed out that these figures are only guideposts and that it remains for each division, in cooperation with Motor Accounting Co., to develop this thought further to determine what the figures should be in all cases; second, to sell this idea to his organization and see that the dealers understand and use the figures in the control of their operations.

Two weeks later this subject was again considered by the general sales committee. The material presented at the November 6 meeting was reviewed and data were presented on the subject of the maximum amount per new car sold that dealers of each division "can afford to dissipate in used-car losses," and a representative of Motor Accounting Co. stated that beginning January 1, 1930, data showing the profit trend of each division's dealers would be available. Respecting the use of such data as guides to dealers the minutes contain the following:

The chairman [Grant] pointed out that this subject is so involved that it will be necessary for the general sales managers and Motor Accounting Co. to work together very closely for many months before they will be in a position to give the dealers reliable guides to their used-car operations. He stated further that in view of the importance of this subject, a whole meeting will be devoted to it, some time early next year.

On December 18 the general sales managers committee gave further attention to the subject of used-car trading. A representative of Motor Accounting Co. presented an analysis of the effect on the dealer's profit of making greater than average allowances for a limited number of used cars to obtain a greater new-car sales volume. Regarding this analysis the minutes state:

> After considerable discussion it was agreed that this analysis was constructive and the principle involved should be explained thoroughly to the field organizations of each division and to the dealers.
>
> The chairman [Grant] pointed out that since the use of accounting data is not an accounting problem but a management problem, the work of teaching the field forces and dealers how to use accounting data should be delegated to an assistant general sales manager, concentrating on this problem.
>
> After some discussion it was agreed that an assistant general sales manager in each division will be assigned the responsibility of teaching the dealer accounting and management programs to the field organization of his division and that Mr. Blees will hold meetings of these assistant general sales managers and the accounting managers of each division to develop these programs.

By 1930 the practice of dealers inflating or "padding" the finance charges paid by installment buyers of used cars as a means of added profit, or of reducing losses due to overallowances, was made a subject of consideration by General Motors. Such padding has the effect of increasing used-car prices to the consumer with consequent tendency to reduce used- and new-car sales. On this point the general sales committee formulated the following policy to be pursued in the field:

> To curb the current practice of some dealers of inflating the prices of used cars financed through General Motors Acceptance Corporation, the chairman suggested that every month each General Motors Acceptance Corporation branch manager supply the division zone managers in their branch territories with about 10 instances of used-car price inflation by their division's dealers and that the zone managers be required to investigate these cases personally with the dealers.

In April 1930 attention was given by the general sales committee to a study of dealer accounting data made as a basis for determining what might be done to reduce dealer mortality due to used-car trading losses without decreasing the volume of sales of used and new cars. This subject was particularly important at this time because of the growing effects of the depression. Respecting this study the minutes of the general sales committee meeting on April 22, 1930, state:

> The chairman presented an analysis of the current trends in the gross profits and expenses of dealers' used-car operations during the past few years, together with projections for the current year. He stated that, in his opinion, it is necessary for each division to take a positive stand on the subject of used-car trading losses and, at the same time, to initiate a strong new-car sales promotional effort to offset any tendency of this policy to decrease new-car volume. In this way, he pointed out, it will be possible for us to prevent these projected trends from materializing.
>
> The chairman recommended the following measures for dealing with this situation:
>
> 1. A campaign to increase used-car gross profits (or reduce used-car gross loss) in each dealership.
> 2. A campaign to reduce dealer expenses.
> 3. A strong sales promotion activity to increase new- and used-car sales on a sound basis.
> 4. A campaign to increase the dealers' profits from parts, accessories, and shops.
> 5. New-car schedules to be set in accordance with actual retail demand.

During the summer and fall of 1930 the general sales committee of General Motors Corporation gave attention to the effect that keeping used cars in stock for long periods has upon the profits of dealers. The minutes of the general sales committee for July 16, 1930, state as follows respecting the study made up to that date:

A presentation of the relationship between used-car losses on cars sold within 30 days and on cars sold after 90 days of the time taken in, was made by the sales section. According to this analysis the losses on the comparatively small number of cars held 90 days or longer are responsible for the greatest portion of the dealers' total used-car losses.

Each general sales manager was requested to have his organization study the problem of accelerating the movement of used cars after they have been in stock over 30 days.

Further detailed study of this subject, continued in the fall of 1930, resulted in the formulation of definite policy to be followed by the different divisions of General Motors Corporation as follows:

In accordance with the request of the committee at the last meeting, Mr. Sullivan presented a more detailed analysis of used cars which remained in stock over 90 days, showing the individual history of some of these cars. This analysis brought to light the fact that the major losses on used cars that remain in stock for 90 days or longer is due to the decline in market price during this period.

The chairman pointed out that this analysis furnished positive proof that keeping used cars in stock only results in pyramiding losses and that this problem should be attacked in an aggressive fashion by each division.

He also called attention to the fact that in many dealerships there is a tendency on the part of the service managers to increase used-car reconditioning expenses so as to show a shop profit and suggested that this matter be thoroughly investigated in each division and active measures be taken to reduce this practice so that the accounting data will more nearly reflect the true condition regarding used-car expenses and shop profits.

He also proposed that at this time an active campaign should be initiated by each division to increase the number of calls being made by new-car salesmen to balance our used-car efforts.

Recognition of two conflicting elements is to be noted in the formulation of the policies recommended to all selling divisions of General Motors Corporation. These elements are: (1) That wild trading resulting in used-car losses may mean financial failure of dealers, and (2) that not to trade so liberally that used cars often are handled at no profit or even at considerably less than cost means loss of new-car sales to General Motors Corporation. Therefore, the policy indicated by the above quotations steers a middle course, between extreme pressure on dealers to trade wildly and helpful advice to dealers intended to minimize losses on trade-ins in order that a maximum number of new cars might be sold with at least a minimum loss to dealers on cars taken in trade in connection therewith. This consideration of both phases of the used-car situation is reflected in a statement of broad operating principles prepared by R. H. Grant at the request of Alfred P. Sloan, Jr., for presentation to the general sales committee at its regular meeting on May 21, 1930:

1. The divisions' job is to sell to the dealers the maximum number of new cars that can be sold by the dealers at a businesslike profit for their over-all operations.

4. As much consideration and assistance will be given to the dealer in his used-car operations as in his new-car operations.

4a. The cooperative advertising fund will be used for advertising used cars as well as new cars.

4b. A strong sales promotional effort will be maintained on new and used cars to move both on a sound basis.

5. Every effort will be made toward reducing the dealer's expenses wherever possible without reducing the effectiveness of his operations.

7. Active steps will be taken to teach our field organization how to use accounting data in guiding our dealers to secure volume and make a business return on investment. The aim of each division will be to have their dealers make a net profit on their combined new and used car operations.

14. Where dealers show a gross loss on their used-car operations, the divisions will reduce such losses to increase the net profits. This effort will continue until the net profit from over-all operations is satisfactory.

These "principles," quoted selectively from among a larger group of principles covering the merchandising of both new and used cars, as indicated by the numbering of the paragraphs quoted, set forth the general policy of the General Motors Corporation respecting used cars. The principles thus enunciated in 1930, with only minor changes, appear to be those in force for the corporation and its various divisions in subsequent years.

During the past 8 years other studies of various phases of the used-car problem have been made from time to time. For instance, from a study made early in 1931 it was concluded that if the same forces that had caused used-car volume to rise at a steady rate relative to new-car volume, continued in effect, the trading ratio would probably rise eventually to approximately three used cars per new car. This study also indicated that the rise in trading ratio increases dealer capital requirements and used-car losses. Respecting this study the minutes of the general sales committee meeting on April 8, 1931, state:

The chairman [R. H. Grant] stated that the purpose of this study was to call attention to the fact that the more satisfactory current used-car situation should not be allowed to confuse the used-car issue and that we still have a great deal of work to do before we can feel that we have permanently improved the used-car situation. He stated that a big management job lies before us to offset the economic trends indicated by this study, by getting our dealers to a point where they at least break even on the new- and used-car operations. He stated further that in his opinion if this issue is met squarely there will be no shrinkage in new-car volume but on the contrary both our new-car and our used-car position will be materially improved in the long run.

Work on the part of Motor Accounting Co. intended to increase the accuracy of the profit showing of dealers' reports submitted to the company by setting up a reserve for used-car losses on cars carried in inventory at the end of each month in 1931 resulted in a plan to include in dealer accounts, as set up by Motor Accounting Co., a reserve to cover probable losses or profits on such unsold used cars.

At the depth of the depression the general sales committee of General Motors Corporation gave particular attention to the used-car situation as a factor limiting the ability of dealers to purchase new cars. The minutes of the general sales committee for January 14, 1932, state that—

The chairman [R. H. Grant] commented on the fact that the used-car position of many dealers is making it impossible for them to purchase new cars from the factory, and under the circumstances he felt that only the usual selling activities would be justified throughout the month of February with no extra expenditures for advertising, etc., on the grounds that the used-car market in February will not respond to such treatment.

Beginning with March, however, he stated, the policy should be to encourage used-car advertising and repricing of inventories so as to move the stocks more readily in the market.

He [R. H. Grant] stated further that it is apparent more selling effort will be required in March and April on used cars which will necessitate the employment of extra used-car salesmen during these months and, therefore, each division should strive to increase the number of used-car salesmen employed by their dealers during these months, with the understanding that this increase is purely temporary.

As a further aid in the direction of moving used cars in March and April, Mr. Grant requested each division to consider the diversion of a portion of their advertising appropriation to used-car advertising during this period.

Evidence of the closeness with which the effects on dealers of used-car merchandising policies and programs set up by General Motors Corporation for its dealers were watched is to be noted from the following from the minutes of the general sales committee meeting on February 10, 1932:

The chairman [R. H. Grant] stated that in connection with our efforts this spring to reduce used-car inventories it is necessary to make sure that reductions in used-car inventories are not followed by increases in notes and accounts receivable and that in appraising the results of used-car inventory liquidation by zones, due allowance should be made for any increase in notes and accounts receivable which may have occurred in the course of the campaigns.

In June 1932 the question of revising the dealer accounting system of General Motors Corporation with the object of eliminating from used-car inventory values over allowances made on trade-ins by charging overallowances in excess of appraisal value of used cars against the new-car department was discussed with the following results:

The chairman [R. H. Grant] stated that in the course of his recent trip, several dealers had pointed out the advantages to be obtained in the control of their businesses by charging any allowances made for a used car in excess of its true appraisal price against the new-car department. Among the advantages of this method, he pointed out, were that the inventory was always at true cost and the overallowance charge in fact is a discount on the new car and is reflected as such.

This method was discussed in detail by the committee and it was agreed that it should be incorporated in the standard dealer accounting procedure on January 1, 1933.

In the course of the discussion of the previous item, the question was raised as to the correctness of the present policy of charging used-car reconditioning costs against the used-car department. The chairman [R. H. Grant] requested Mr. Skutt to prepare a complete analysis of this question to be presented to the committee at a subsequent meeting.

Further discussion of this matter was had at the meeting of the general sales committee in August 1932, as indicated by the following from the minutes of the committee meeting held on August 10:

Mr. Zack presented the management service's proposed method for carrying out the provision agreed upon by the committee at the June 15 meeting that effective January 1, 1933, the standard dealer accounting system should provide for taking used cars into inventory at appraisal prices and charging any allowances made for the cars in excess of the appraisal prices to a special account in the new-car department.

In the course of the discussion, the question was raised as to whether this procedure was to apply only on new car trade-ins or also on trade-ins accepted on the sale of used cars. It was agreed that at the next meeting of the committee the management service should present an analysis of this phase of the problem.

The question was also raised as to whether in determining the appraised value of a car, estimated or actual reconditioning expense should be used. After some discussion it was also agreed that this point should be covered in the subsequent presentation.

Early Packard policy.—Other manufacturers gave attention to the used-car problem as it affected the sale of their particular products. Manufacturers of higher-priced lines appear to have taken the lead in the development of definite used-car policies, plans, and advice to dealers respecting their merchandising. Packard Motor Car Co., for instance, devoted 10 printed pages in its 1927 Manual of Practice for Wholesale Managers to the subject of used-car merchandising. In summarizing the facts underlying the situation, the Manual stated that the elimination from the automobile industry of used-car trading could not be hoped for; that the problem would undoubtedly grow in size and importance from year to year; that the used-car division of the retail automobile business must be considered as a legitimate component part of the business equal to, if not of greater importance than, its other divisions; that its successful operation depends upon the employment of high-grade administrative and selling talent, and that in the final analysis the used-car problem is essentially a problem in merchandising.

Six methods of handling the used-car problem by dealers were outlined as follows:

1. For the dealer not to trade at all. This was characterized as unsatisfactory because approximately 85 to 90 percent of new-car sales involved trade-ins.

2. Sale of used cars on consignment. Under this arrangement the dealer sold the trade-in for the new-car buyer and charged a commission of from 10 to 20 percent of the selling price of the used car.

3. Trade for part value. Under this plan the dealer allowed the customer a price which he felt sure might be obtained for the used car and, in case of sale for more than the price allowed, paid the balance to the customer. This plan was not recommended because of the possibility that if the used car was not sold for as much as was allowed for it, it might be difficult for the dealer to collect from the customer any balance due on the allowance.

4. Trade outright. Under this plan the dealer bought the old car making an outright allowance and resold it. It was pointed out that this undertaking of the merchandising of used cars required the establishment of a used-car department operated under a used-car manager.

5. Deal with a used-car dealer. Under this plan the new-car dealer would allow for the used car whatever a used-car dealer offered for it. It was pointed out, however, that in case of the use of this plan the new-car dealer must avoid loss of new-car volume due to too consistent attempts on his part to buy used cars at less than the market price in order to sell them to used-car dealers.

6. Operating a used-car exchange. Under this plan several local dealers might form a cooperative used-car market through which all used cars would be purchased by a single appraiser employed by the cooperative exchange which must be so operated that it would not accumulate a stock of dead cars or lose money for the cooperating dealers. It was stated that this plan looks easy but turns out to be quite difficult. It was stated that the plan had been tried out many times without success.

In outlining a policy to be pursued by dealers it was definitely stated that new-car business never should be bought with over-allowances. Dealers were advised not to buy out-of-date, obsolete, or obsolescent models, orphan cars, cars of makes that were locally unpopular, cars of too expensive a type for the prevailing used-car market, cars needing extensive repairs or overhauling or showing excessive use or abuse, and cars not nationally advertised or those made by manufacturers whose products were in bad repute.

Dealers were thus advised to trade conservatively in the purchase of used cars. They were also advised to recondition all used cars, to place the used-car business under a used-car manager and separate sales force, to advertise and price according to the local market rather than according to national used-car manuals, to give 30 days free service and a 90-day guaranty on used cars and especially to exercise care to prevent the accumulation of a large inventory of used cars. In this connection it was definitely recommended that the used-car inventory should be turned over quickly, preferably nine times and in no case less than six times per year, and that to attain this no individual used-car unit should be permitted to remain unsold for a period longer than 60 days.

Material obtained covering Packard policies in recent years does not indicate any great change in basic policies. The merchandising of used cars by dealers has come to be recognized as the prevailing practice and dealers are urged to so conduct their used-car operations as to make the maximum number of new-car sales, both to Packard owners and to owners of other makes. Sales by Packard dealers to owners of other makes became of special importance to the Packard Co. when the light Packard, model 120, was placed on the market in 1935 to sell in competition with cars of other manufacturers in the medium-price class. (See p. 233 below.)

Early Chrysler policy.—Chrysler Corporation, formed in 1925, does not appear to have given special attention to the subject of used-car merchandising as a means of increasing new-car sales until several years later. With the acquisition of the Dodge line and its established dealer organization, and the development of its three separate sales divisions, respectively, for the Chrysler-Plymouth, De Soto-Plymouth, and Dodge-Plymouth combinations of its products, more attention appears to have been given to what the Chrysler Corporation's general policies should be respecting the merchandising of used cars. The policies developed have taken definite form since 1930 and more properly belong in the discussion of present used-car policies outlined in the pages immediately following. (See p. 230.)

Section 2. Manufacturers' Used-Car Policies in Recent Years

The preceding discussion has covered in considerable detail the studies made of used-car merchandising by General Motors Corporation with the resultant formation of factory policies respecting the merchandising of used cars during the period 1925–33. In general the policies formulated are typical of those of the larger manufacturers in effect in subsequent years. The summary is now completed by setting forth in concrete manner the used-car policies of typical large manufacturers in 1938.

General Motors Corporation.—As described at some length in the previous section, General Motors Corporation had developed its used-car policy quite definitely prior to the period that the Automobile Code was in effect from October 3, 1933, to May 1935. After code restrictions on used-car trading were discontinued as a result of the invalidation of National Industrial Recovery Act on May 27, 1935, the company has continued to operate under used-car policies similar to those developed prior to the beginning of N. R. A. in 1933.

Ford Motor Car Co. policy.—The Ford dealer agreements for 1938 and 1939 do not specifically set up any requirements as to the manner in which the dealer shall handle used cars. The agreement states, however, that dealers shall maintain a place of business; install and maintain tools, machinery and equipment recommended by the company; employ efficient, competent salesmen and sufficient competent service mechanics to render prompt, efficient service to owners of company products; and to, in general, conduct his dealership in a manner acceptable to the Ford Motor Co. Therefore, the policy of Ford Motor Co. respecting the handling of used cars is to be found in its manual for used-car merchandising, in its instructions to its field force respecting used-car merchandising and in the manner in which these instructions and policies are applied by the field force in their contacts with dealers.

Ford Motor Co. has prepared a used-car manual for its dealers entitled "Modern Used Car Merchandising." This manual, issued in 1936 and still in use in 1938, discusses in detail the problem of the used car in relation to the sale of new cars. The following paragraphs quoted therefrom indicate the procedure recommended to its dealers by Ford Motor Co.

The purchase of each used car is an individual transaction. Each unit should be judged upon its own merits, as the dealer should avoid the two extremes in poor merchandising of used cars—one extreme being the turning away of profitable business through application of rigid policy to all transactions, and the other extreme being the buying of unprofitable business through failure to properly regulate used-car allowances.

Too often the purchasing and trading of used cars is regarded as merely one of several steps in the selling of a new unit, and not considered in the light of an important, individual transaction. Actually, such a transaction is a definite purchase by the dealership—as definite as though money were taken from the bank and given to the customer.

It is a well-known fact that used cars and trucks in the right condition, and properly priced, will sell promptly.

So the first step in used-car merchandising, and the one which is important above all others, is to have your used cars and trucks in good condition.

Promptness in conditioning is as important to the dealer as is the quality of the work.

This is a matter in which the efficiency of the service department is a very vital influence.

If used cars or trucks are pushed aside and worked on at odd moments they remain too long on hand, and loss to the dealer results.

If they are handled promptly in the regular line of business they are, as a rule, promptly sold.

Investigation shows that the majority of losses on used cars are taken on those which remain on hand for more than 30 days before they are sold. Declining market prices, the deterioration of the units, and other factors are the cause of this.

The fact that a used car or truck is in inventory at a figure in excess of its actual retail value, is no good reason for placing a retail price upon it which is more than a purchaser should pay.

Holding it at such a price means that it cannot normally be expected to sell.

If it is sold at an exorbitant figure the chances are it will eventually come back through repossession.

Price in accordance with the market value of your merchandise, and in accordance with the quality of its condition. That policy will pay you dividends in the form of a liquid stock and a rapid turn-over in the used car department, permitting extension of your new car business.

Each dealership should employ sufficient exclusive used car salesmen to handle its volume of business. In volume dealerships at least, the ratio should never be below two used car salesmen for each three new car salesmen.

Under today's trading conditions a dealership must handle at least one-and-one-half used cars for each new car sale. If each of the three new car salesmen referred to in this ratio produces one new car sale, it follows that at least 4½ used cars must be sold. Thus the job, in units, of the used car salesman is greater than that of the new car salesman, although not in dollar volume.

Be sure you have sufficient manpower of the right caliber to do the job for you. Make it your objective not just to take care of your current inventory, but to increase the merchandising capacity of your used car department with a view to increasing your new car and truck business.

Successful dealers are making intelligent use of used car and truck wholesaling and auctions, the former to prevent the accumulation of distress conditions, and the latter to relieve such conditions when they do exist.

Experience proves that 2 percent of your used car inventory is a good figure for your advertising appropriation for the following month.

Radio, newspaper display and classified advertising, billboards, and direct mail all have their place in a well-planned used car and truck advertising campaign.

Used cars and trucks divide naturally into three groups:

The highest priced used cars and trucks which must be thoroughly conditioned and comprehensively guaranteed.

The medium priced used cars and trucks which must be put in good working order, and protected by a definite and responsible guaranty.

The very low priced used cars and trucks which must be disposed of by sale to retail customers on an "as is" basis; by wholesaling; or by junking.

In determining the national trade name for Ford and Lincoln-Zephyr dealers' used cars and trucks, we have recognized this natural division of price and quality groups.

For the highest-priced used cars and trucks we have selected the designation "R & G."

"R & G" stands for the things which a used car buyer wants at the proper price. It means "renewed and guaranteed."

For the second line we have selected another trade name which is in wide use among dealers. This trade name is "Square Deal Values."

A square deal value will be a car or truck which, while it does not meet the R & G specifications, represents full value for the price, and is honestly represented as to its exact condition.

In guaranteeing the condition of a square deal value, visible parts of the car are specified "As Is" since the purchaser can see their condition with his own eyes. Mechanically, it is guaranteed to be in good working order, with the exception of any condition noted in writing on the guaranty certificate.

Any unit which cannot be sold as either an R & G unit or a Square Deal Value should be quickly wholesaled or turned over immediately on an "As is" basis. Thus, the dealer will have a merchandising policy covering his entire line of used cars and trucks.

The R & G cars and trucks will be guaranteed to meet the stated specifications in every respect, and the square deal values will be guaranteed to be in the condition which is stated in writing on the guarantee certificate. In both instances the dealer's liability is limited to correcting, at his own expense, any condition not in accordance with the specifications or the guaranteed condition which is called to his attention by the purchaser within 10 days.

In our research into the methods in use by dealers we were forcibly impressed with the extraordinary success of one policy which many dealers are using.

This is the unconditional, unqualified, money-back clause in the guaranty.

This guaranty, which the dealer manual characterizes as the surest and quickest way of overcoming used car and truck resistance, is given in the sale of both "R & G" and "Square Deal Value" cars. The guaranty is as follows:

We agree to correct at our expense any condition in this car or truck which is not in accordance with the above specifications, provided that we are notified by the purchaser of this condition within 10 days from this date, and further provided that such condition is not the result of accident, neglect, or abuse of the car or truck after delivery to the customer, and that the car or truck has not been repaired or altered outside of our shop during the guaranty period. We further agree that we will refund such part of the purchase price of the car or truck as has been paid by the purchaser, including any used car or truck applied as part payment or, at our option, the allowance price thereof in cash, thereby canceling the sale if the purchaser so requests; provided that this request is made by the purchaser at or before —— o'clock on ————————, 19—, and the car or truck is then returned to us in the same condition as when delivered.

The paragraphs quoted above from the Ford Used Car Merchandising Manual set out a used-car merchandising plan for dealers respecting which Ford Motor Co. assumes no responsibility beyond that of having developed and recommended it to dealers. Beyond this, the position taken by the Ford Motor Co. is that the handling of used cars is the individual dealer's problem and the skill with which it is handled by the dealer will largely determine his success or failure. Specifically respecting the assumption of responsibility by the factory Ford Motor Co.'s Business Management Manual prepared for the guidance of factory field men outlines the policy to be pursued in advising dealers regarding used car merchandising and states specifically respecting the assumption of responsibility to be assumed by Ford Motor Co. as follows:

> The attitude of some dealers to the effect that the used-car problem must be assumed by the manufacturer cannot be accepted. The Ford Motor Co. has designed and placed into the hands of its dealers a national used-car plan of proven soundness. The success of this plan depends entirely upon its application by the dealers. The adoption of a national plan will overcome the existing lack of confidence on the part of the buyer. The specific classification and guarantee of the "R & G" car, as well as the money back guaranty will tend to build confidence and greatly increase the dealer's opportunities for a successful used-car operation. The used-car plan has met with no opposition but, like numerous other programs, its acceptance has been much too passive. Branch business management representatives should be instrumental in convincing dealers of the necessity of accepting this plan and pushing it on an aggressive and cooperative basis.

In general the company proceeds on the assumption that the solution of the used-car problem is largely in developing better-trained dealers who will buy used cars properly, recondition, display, advertise, and sell them rapidly and thereby increase the total volume of sales, both of new and used cars. To this end, Ford Motor Co. follows the policy that the more contacts and appraisals a dealer makes the better will be his position to select used-car deals. With this object the Ford Motor Co. used-car program since 1936 has included, in addition to the general merchandising plan outlined above, a plan under which names and addresses of used-car prospects and mailing pieces to help the dealer's salesmen in getting in touch with them are offered to the dealer. Formerly, printed sales helps addressed to possible prospects were mailed out by R. L. Polk & Co. which company furnished lists of owners addressed to the dealers concerned. Ford Motor Co. paid R. L. Polk & Co. for this work and billed the dealer for like amounts. Dealers were not consulted about the mailings and if they objected to paying for them, Ford Motor Co. charged them to the dealers' parts accounts. Under the 1939 plan, these sales helps are ordered by the dealer from R. L. Polk & Co. of Detroit, Mich., in such quantities as the dealer may desire. The order form for these sales helps must be signed by the dealer and countersigned by the Ford zone manager and be accompanied by the dealer's check. Thus only since this inquiry got under way has the dealer been given the privilege of ordering, with the approval of his zone manager, such sales helps as he may wish. In submitting this plan to dealers, J. R. Davis, general sales manager, Ford Motor Co., states in a letter dated January 14, 1939:

> Do not take on this plan unless you believe in it and intend to operate it. Remember, we are merely asking you to get the business from your territory. If you can fulfill the obligations mentioned above, without the assistance of this program, you are free to do so—and more power to you!
>
> But if you have not developed a plan of your own, comparable in its possibilities with this one, we ask that you adopt this plan, and operate it as the most important phase of your work in 1939.

This quotation applies to the entire merchandising plan for 1939 of which the used-car plan is only one part.

Chrysler Corporation policy.—About 1931 Chrysler Corporation began to compile and issue information to assist its dealers in merchandising used cars. In 1935 this service was subdivided among the Chrysler, Dodge, and De Soto sales divisions and since that time each division has had its own used-car service division. Thereafter, each sales division developed and applied its own used-car policies along lines similar to those described below for Chrysler sales division.

In October 1935, after the termination of code activities, a used-car representative was assigned to each of the 15 regional offices of the Chrysler sales division to assist in training Chrysler field representatives respecting used-car merchandising. Since February 1936 district representatives have carried on the work thus inaugurated by men assigned directly from the factory.

In June 1936, Chrysler sales division of the Chrysler Corporation inaugurated what was known as the Chrysler used-car merchandising improvement program. As outlined to all regional, merchandising, and district managers of the division, this plan contemplated the careful checking of dealer operations respecting used cars with the object of eliminating what the plan styled 10 negatives in the practices of dealers. Careful inspection was to be made by Chrysler field representatives to see that each of the following conditions was corrected in case it was found to exist in the used-car operations of each dealership:

1. Not in salable condition on display.
2. Not priced competitively.
3. Not displayed competitively.
4. Insufficient used-car salesmen.
5. No exclusive used-car manager.
6. Not reconditioning within 48 hours.
7. Not using inventory-control record.
8. Not over 30 percent over 30 days in stock.
9. Not getting at least a 30-day turn-over.
10. Not over 5 percent junkers.

Regular reports were to be made by field representatives covering the negatives found to exist in each dealership, and the progress subsequently made in bringing about their elimination. Specific instructions were issued to the manufacturer's field force respecting the work to be done and the conditions under which each of the negatives found to exist would be checked off the list as eliminated.

In setting up this plan, Chrysler Corporation established 10 definite requirements for its dealers and the plan of administration, including reports covering the points on which the dealers' operations failed to qualify and the progress made in eliminating the so-called negatives, constitutes a definite program with which dealers were required to comply. The plan was to be conducted as a contest in which the progress made by the different regions in eliminating the negatives found to exist was reflected in the summarization of regular reports following visits of field men to places of business of their dealers.

The plan as outlined to dealers states that to insure profits, excessive used-car losses must be prevented. Dealers were advised to reduce their used-car inventory by sales in case they were overstocked and especially if they had a number of cars on hand for a period of more than 60 days. It was recommended that all cars be reconditioned promptly, placed on sale, and that they be advertised and sold rapidly to prevent accumulation of loss through obsolescence and decreasing selling value.

In August 1937 Chrysler sales division of Chrysler Corporation called the attention of all regional merchandising and district managers to the fact that, in many localities, used-car stocks were considerably in excess of the normal supply and that it was most important that these inventories be reduced as soon as possible. Among other things the bulletin stated:

As mentioned in my letter to the dealer organization under date of August 2, used cars carried over into September are likely to remain on hand throughout the winter with the resultant tying up of capital which can be used to better advantage in the fall new-car selling season.

To assist our dealers in reducing excess used-car stocks, national dealers used-car sales week (August 30 to September 5) has been developed and is described in detail in the enclosed broadside.

Briefly, the plan is this:

A kit containing pennants, store front banner, and newspaper electros has been prepared and is being offered at a very attractive price.

In those towns where dealers order one or more kits and further support the campaign with a reasonable amount of classified advertising, we will schedule—at our expense—two display ads similar to the proofs enclosed in the broadside. Because this activity is national in scope, the factory-paid advertising will not carry the dealers' signature. Consequently, it is expected that all Chrysler dealers in multiple-dealer towns will participate in the campaign.

A list of dealer points reporting above-average used-car inventories has been sent to every regional manager and we expect active participation by every dealer on this list. It is only by a substantial reduction in used-car stocks that these dealers will be in a satisfactory financial condition to handle new-car business in the fall.

This is the first time we have offered factory-paid used-car advertising and the success of the present campaign will govern our future policy on promotion of this character.

Every member of our field organization is expected to put extra effort behind this activity and kit orders should be forwarded as soon as possible to insure delivery before August 30.

While the campaign covers but 1 week, every dealer should be urged to continue an intensive used-car sales drive throughout the month of September in order to reduce his inventory to a safe level by October 1. Used cars should be properly reconditioned and junkers should be junked.

In the past we have had some difficulty in determining the actual condition of used-car stocks in the field, due to incorrect reporting on Saturday noon reports. Unless these reports reflect a true picture of conditions in the field, it is impossible for us to function at top efficiency at the factory and we cannot emphasize too strongly the necessity for accurate used-car information from every direct account on every Saturday noon report.

In further recognition of the importance of reconditioning used cars, the question of establishing a used-car reconditioning department within Chrysler Corporation was discussed by Chrysler executives on November 17, 1937, with the following results as indicated by the minutes of Chrysler general-sales conference meeting No. 57:

Mr. Moss submitted a proposal for the establishment of a used-car reconditioning department within Chrysler Corporation. The following recommendations were contained in this proposal:

"Appoint a used-car reconditioning manager, establish a procedure and set up at Detroit an ideal dealer operation as the first step.

"Select one or more service representatives in each region and bring them into Detroit for a complete reconditioning training.

"Set up a reconditioning clinic in each regional-office city to train field personnel.

"Hold meetings in cities with dealers selected by the regional managers.

"Set up and train one Dodge, De Soto, and Chrysler dealer in each regional-office city, equipped and trained to do this reconditioning."

It is believed that through the use of the reconditioning equipment which has been demonstrated to the sales managers that a dealer can recondition a used car in 48 hours at a saving of from $5 to $10 per unit.

Mr. Moss estimated the cost of such a program would be $108,000.

It was the feeling of the conference that the used-car situation was most important and that the program outlined by Mr. Moss was an excellent one, but that we would not be warranted in an expenditure of $108,000 for such an elaborate set-up. Rather, it was the opinion that this should be tried in some of the branch cities, such as Detroit, Chicago, New York, etc., before going into it on a national scale.

Some months later, in July 1938, the used-car merchandising department of Chrysler Sales Division inaugurated a used-car inventory and analysis procedure for dealers. Meetings were held in each of the 15 regions of the Chrysler Sales Division, at which district managers were advised with reference to assisting dealers in solving their used-car problems. For these meetings definite forms and material were prepared by the sales division, and at the meetings the district managers and other field representatives present used the material prepared in working out sample inventory procedure which it was desired that dealers adopt and follow. The object of these meetings was to train the district managers to enable them to explain to individual dealers how to use the used-car inventory forms prepared by Chrysler Sales Division. Actual examples were worked out, using the records recommended for dealers, and the methods to be followed in purchasing, reconditioning, pricing, advertising, and selling used cars were explained. In these training meetings it was again emphasized that dealers must liquidate their used-car stocks before fall if they were to be in a position to handle the new cars that they would want.

The reports of Chrysler field representatives examined in connection with this inquiry indicate that Chrysler Corporation gives considerable attention to the used-car operations of its dealers, particularly with the object of keeping used-car stocks down to a minimum in order to release dealer capital for use in the making of new-car sales.

Chrysler Corporation field representatives from time to time report the results of surveys made respecting used-car stocks and operations of dealers. Such a report, under date of December 13, 1937, covering a visit to a dealership in Cleveland, Ohio, stated:

The prices Mr. ——— was willing to take for his used cars were competitive until the very low prices that have been advertised in the last few weeks. These advertised prices have been so low as to be absurd, and yet they do not seem to secure the business.

Mr. ——— does a fair amount of newspaper advertising but has been very much disappointed in the results obtained. Attached is a copy of an ad that Mr. ——— just ran, but with little reaction, although he plans to run it again. Post cards are being used, and former used-car purchasers are being solicited. Attractive used-car specials are painted on the windows at all times.

Mr. ———'s salesmen are, and have been, concentrating on used cars. They will continue to do so. Handbills are going to be used. Further bargain appeal on the windows. With Mr. ———'s restricted capital position it is hardly possible to meet the heavily slashed prices of the present market. He realizes it is very necessary for him to reduce his used-car inventory and is bending every effort to that end. This will be followed closely.

The type of activities carried on among dealers is indicated by the following from a daily report by a Chrysler sales representative under date of February 10–11, 1938:

A junking program is going on in Elyria now—49 last week and 17 today. A few months ago 125 units were unsalable and needed to be junked. Between the aid of Kimball, sales manager, and myself have been successful in making Mr. Meyer give his consent to let them go. It was a long battle, which lasted a long time.

We are getting organized to strive for a 30-day turn-over, which can be accomplished if everyone works together toward this goal. Registration lists, prospect files, daily work sheets, retail-sales procedure will be enforced. The men got a lot of good out of the meeting, and I believe a better turn-over will be reported in the near future.

The used-vehicle store next door is to be revamped. More attractive and larger display space will result.

A house-to-house canvass has been started, with certain men taking certain streets. Too early to report on this activity.

W. N. Frink, another Chrysler field man, discussed the operations of a dealer in his territory as follows in a daily field report dated August 26 and 27, 1937:

Conditions used cars too slowly. Parts department stuck away in a dark corner of the shop. Tools scattered around shop carelessly. Short-handed in the shop, allowing little time to work on used cars. Dealer resented suggestions at first, acting as though he knew more about the automobile business than the management. It did not take long to convince him that we, too, knew this business—then he came to life and talked sense. Agreed to bring parts department immediately behind showroom, with proper modern arched opening and showcase entering into showroom. Agreed to need for proper tool care and display board. Will junk a number of cars at once. Will put up proper lights on used-car lot and keep cars clean, making one man responsible, and will continue his painting and cleaning-up program. * * *

I am sure he can be made over as we wish, as his attitude when I left was satisfactory and he could see that we would help him.

In this particular instance it is to be noted that unsatisfactory handling of used cars was one of a number of factors cited which made this dealer's operations unsatisfactory.

Packard Motor Car Co. policy.—As previously indicated, Packard had a comparatively definite used-car policy as early as 1927. Much of this policy remains unchanged in recent years. As a result of various different studies made by the company, policies have been varied somewhat and additional steps have been taken that are intended to help dealers in the merchandising of used cars.

On March 4, 1936, W. M. Packer, sales manager, Packard Motor Car Co., addressed a letter to all Packard distributors and dealers which outlined regulations for operating a junking plan under which the Packard Co. set up a junking fund on the basis of $25 for each new "120" delivered at retail by the distributor or dealer during March and April 1936. This fund was to be set up separately for each dealer and distributor, and payments were made through distributors as cars were junked. The $25 was set up for each new car sold except demonstrators. The object of this junking fund was to increase the sales of the light Packard "120" in its medium-price class.

Packard makes large use of independently owned distributors, who in turn contract with retail dealers. Under this system of distribution the dealer's agreement is with the distributor rather than directly with the manufacturer, and the interpretation and passing on of Packard policies to the distributor's subdealers is actually performed by the distributor, who becomes the actual agency pressing dealers to make large allowances on trade-ins as a means of increasing new-car sales. An instance of the lengths to which distributors advise their subdealers to go in making allowances is to be noted in the following, quoted from a letter addressed by C. A. Goodwin, assistant general sales manager for Packard Motor Car Co. of New York, an independently owned distributor, to all dealers under date of July 20, 1937:

We are quite certain that most of our dealers have been, for some time, extending themselves in the way of trade-in allowances. As time goes on, in order to meet the competitive situation, it will be necessary to stretch these allowances to the limit, and perhaps, in many cases, deliver cars where the margin of gross profit is small and not in keeping with the dollar volume.

We would ask your cooperation, in the event you have an opportunity to deliver a senior car and should find the amount that must be allowed for the used car is such as to represent either too large an investment for you, or that the margin of profit involved is so small that you do not wish to make the deal, that you in turn immediately telephone either the division manager in your territory, Mr. J. C. Chadwick, general sales manager, or W. P. Fetzer, senior car supervisor, and permit us to enter into the transaction and make delivery if we so desire. In this instance, should you have a salesman working on the deal, we will pay him his salesman's commission, but of course it would be understood that we would not pay you any infringement thereon. We, of course, would assume full responsibility for any charges in connection with guaranty and policy on any such deliveries.

Our sole desire is not to lose the delivery of a possible sale and to make every possible prospect the owner of a senior Packard car rather than have them purchase some competitive make, in which case we lose not only the sale but their word-of-mouth advertising for Packard.

In discussing this letter, an official of Packard Motor Co. stated that the practice of the distributor, Packard Motor Car Co. of New York, of having subdealer refer to the distributor sales on which the profit was so small that the dealer did not wish to make the deal, was entirely a matter of policy on the part of the distributor.

At times, however, Packard Motor Car Co. makes marked reductions in their new-car prices in order to move slow-selling models, both in midseason and during the annual clean-up period. Such allowances to dealers without corresponding reduction in the dealer's price to the consumer become a basis for the dealer giving what appear to be very large trade-in allowances on used cars. Incidentally the car purchaser is not likely to have any knowledge of the basis for such allowances.

This is a policy of long standing. For instance, on July 9, 1928, Packard addressed a letter to distributors and dealers announcing price reductions on two models, and stated:

As in the case of the 6's, these price reductions are made because late in the summer we expect to announce new Packard 8 models. This plan provides every Packard distributor, dealer, and salesman with very effective weapons in meeting competition and, at the same time, removes the natural resistance to sales during the period when announcements of new models by Packard and other manufacturers are expected.

Each distributor and dealer, if he is to make the profits to which he is entitled, must get his share in the business in each of these price fields, dependent, of course, on the possibilities of his territory. If any one field is slighted, it means we are simply presenting some other organization with business which is rightfully ours. The price fields are clearly defined, and I know you will all agree that each line of Packard cars in each price field is superior to any competition in that field.

Again, on August 1, 1936, Packard Motor Car Co. addressed a letter to Packard distributors, offering a bonus for the sale of four types of cars. This letter stated:

Effective August 1, 1936, subject to the conditions of this letter, we will pay to Packard distributors and dealers a bonus of the following amounts on all 120–B and fourteenth series cars sold and delivered, provided claim for the amount of the bonus is made as instructed below after delivery is made to the customer:

120-B	$75
Packard 6	300
Super 8	450
Packard 12	600

* * * * * * *

This bonus should allow each distributor to complete his share of the clean-up program on the present models. We expect distributors to contribute additional overallowances, and during August the average overallowances should be as follows:

120-B	$225
Packard 6	700
Super 8	900
Packard 12	1, 200

This letter is being sent to distributors only, and if you have not already done so, plans should be made to call a dealers' meeting and notify them of this bonus, and at the same time arrange with each dealer for a proper number of cars as his share of the clean-up program.

Similarly, on July 22, 1937, Packard Motor Car Co. addressed a letter to Packard distributors on the subject of bonus on senior cars, which stated:

Effective July 22, 1937, subject to the conditions of this letter, we will pay to Packard distributors and dealers a bonus of the following amounts on all Packard Super 8 and 12 cars sold and delivered, provided claim for the amount of the bonus is made as instructed below after delivery is made to the customer:

Super 8	$200
Packard 12	300

* * * * * * *

This bonus should allow each distributor to complete his share of the clean-up program on the present model senior cars.

This letter is being sent to distributors only. Dealers should be notified immediately, and at the same time arrange for each dealer for the proper number of cars as his share of the clean-up program.

From the statements made in the letter of August 1, 1936, indicating that distributors were expected to make additional allowances, it would appear that the policy pursued by Packard Motor Car Co. of New York in 1937, of asking its dealers to refer unprofitable deals to the distributor, was a plan by which the distributor would make special additional allowances in those cases in which the distributors' subdealers found deals to be unprofitable in a manner similar to the Packard Co.'s general policy in 1936.

It is also important to note that to the extent that Packard dealers use the bonuses or price allowances given them on new cars by the factory in making large trade-in allowances, severe competition is imposed on dealers handling other makes in the same general price class, the manufacturers of which do not make similar allowances to their dealers. That this competition also affects the manufacturers of other makes is evidenced by the fact that the matter was discussed at some length at the December 9, 1932, meeting of the sales managers' committee of the manufacturers' association, which was then known as the National Automobile Chamber of Commerce. In discussing this matter at this meeting, at which representatives of several important automobile manufacturers (except Ford) were present, R. H. Grant, chairman of the committee, stated as follows to M. N. Gilman, of Packard Motor Car Co.:

* * * All the year, the Cadillac men have been saying, Mr. Gilman, that you (Packard) were giving $1,000 on your middle-priced Packard, and I told

John Chick (Cadillac) that you told me it wasn't true, and I think if we would tell you when we had anything special, and how many cars we had for clean-up and you told us the same, that it would help. Every Cadillac man I met said you are doing it, and it is almost as bad as if you were doing it competitively, because you are getting the credit for it. * * *

* * * Would you, Mr. Gilman, be willing to tell us what that trading allowance was on the middle-priced car? It went through our organization to beat the band.

Mr. Gilman agreed to let Mr. Grant know.

In general, the attitude of the Packard Motor Car Co. is that its dealers shall so conduct their used-car merchandising as to result in maximum sales of Packard new cars. Under date of August 26, 1937, a general letter was addressed to all Packard dealers enclosing a chart showing the results of average dealer operations based on the first 6 months of 1937. In connection with this chart it was pointed out that used-car losses were higher in the second quarter than in the first quarter of the year, and the following recommendations were made to improve the dealers' used-car operations:

First. Turn your used cars quickly and reduce your stocks as much as possible in anticipation of a brisk fall business.

Second. Watch your expenses closely and conserve your working capital. You will need it later.

Third. Keep your new-car volume up, but don't do it just for price class purposes or because it is volume. Be sure you make a fair profit on it. We want the volume, to be sure, but we also want you to make a profit in getting it.

Fourth. Watch closely the selectivity of your trades. A slow mover is a high risk, even at a low price.

Under date of October 28, 1938, W. M. Packer, sales manager of Packard Motor Car Co., addressed a letter to Packard distributors and dealers, in which this point was discussed as follows:

In my letter of October 12 on the subject of competitive appraisals and trade-ins, I pointed out that the tendency on the part of many distributors and dealers has been to underappraise on competitive cars and overappraise on Packards. It was also pointed out that we do not want to lose Packard owners but, rather, take in as many Packard trades as good business permits. If you take in too many Packards, you do it at the expense of a much larger volume of business from competitive owners and the result is an unbalanced used-car inventory. If you find yourself in such a position or see yourself headed in that direction you should take immediate steps to correct it by concentrating your efforts on maintaining a healthy used-car inventory.

Under date of November 8, 1938, another letter to Packard distributors and dealers discussed competitive appraisals at length and again pointed out the importance, from the viewpoint of manufacturing competition, of having Packard dealers close a larger number of new-car deals in which cars made by competing manufacturers were involved as trade-ins. Among other things it was stated:

During the past 6 weeks I have found a number of instances where we have traded in 3 or 4 competitive cars out of 100 appraisals and have traded in 25, 30, or 35 out of 100 Packard appraisals. To put it another way, the greatest effort possible, both in terms of quantity of appraisals and allowances offered, was being made on cars least needed in the used-car inventory, and the smallest amount of effort, again in both respects, was being made for securing cars most wanted in the used-car inventory. On the other hand, dealers newer in the Packard organization are doing a good sales job and are getting in a wider variety of lower-price makes, along with a good volume of Packard trades.

There is still another phase of this subject which is most serious. A dangerously high percentage of cars taken in on new Packards are late-model, high-priced cars. Place after place show trade-ins of $795, $825, $875, and $900. This means more trades on trades, a higher ratio of used cars to new, increased selling expense and, therefore, a reduced new-car variable net profit.

* * * * * * *

There is no doubt but that during 1939 we are going to have the opportunity of taking in plenty of Packard cars. I am for taking in all of them—but only on the right basis. Very often we who are so close to the picture overlook the fact that as a Packard distributor or dealer you will probably allow substantially more for a Packard car than any one of your recognized competitors would pay. Also, we must keep in mind that there is the Packard owner who should not trade in his comparatively new car, and if he does trade it in, it will only be on a basis that cannot possibly be profitable to you.

Under date of November 29, 1938, W. M. Packer addressed a letter to Packard distributors announcing a 2-day school for district managers to be held in Detroit. In this letter it was stated:

A majority of the time spent in this 2-day school will be devoted to the subject of used cars. Since our new-car announcement this fall we have kept a very close check on the new- and used-car trading and merchandising trends and know that our most pressing need at the moment is for a program which will slow down or stop the present trend toward higher used-car losses and lower new-car variable selling profits. We are finding more and more places where the margin between the average used-car sales price and the average inventory price is increasing.

Again, under date of December 5, 1938, a letter to Packard distributors and dealers referred to the used-car situation as follows:

* * * However, some points are getting into an unbalanced and excessive used-car stock which needs immediate attention in order that new-car sales will not be slowed down. At some points the operating capital is tied up in used-car inventory to an extent where deals cannot be made unless the used car to be taken in represents less money than the amount of new-car gross profit involved.

Hudson Motor Car Co. policy.—In general, the used-car policy of Hudson Motor Car Co. is set forth in the company's wholesale manual which contains the following statement:

The trading policy of a dealership often determines success or failure, due to the dealer's attitude toward trade-ins.

The used car has become a fixed part of every new-car transaction. It has always been so, and probably always will. The used car is not a "problem" but an opportunity to make a profitable deal. It offers the dealer an opportunity for volume at a profit that could never be obtained if the used car could not be traded in.

Many dealers think they have a liberal trading policy and yet they are not getting the business.

In such cases we suggest that you check their appraisal slips for the past 60 days and see what they are offering for used cars in trade. Every dealer builds up a definite expense in every prospect contacted. It is not good business for him to lose the deal over a few dollars provided it may be made with a reasonable new-car profit to the dealer.

In the above quotation two conflicting purposes are to be noted: First, the used car is an opportunity for the dealer to make a profitable deal, and second, that in seeking such business the dealer shall not be too conservative in his trade-ins, as is evidenced by the statement to the effect it is not good business for the dealer to lose a sale over a few dollars in trade-in allowances provided the sale may be made with a reasonable new-car profit.

This point was further emphasized in a letter under date of February 7, 1938, addressed by C. G. Beeching, of Hudson Co. to zone managers. This letter suggested that the zone managers discuss three points with their dealers. All of these points dealt with increased dealer activity in the sale of new cars. The third point dealt with competitive appraisals on used cars as follows:

The third item, appraisals, is very important. There are many indications that dealers are attempting to buy used cars at prices lower than competition. We know Ford is not trading as long as Plymouth and Chevrolet do. It goes without saying if our dealers are going to sell the "112" and have an opportunity to do step-up business, they must be competitive.

From time to time Hudson Motor Car Co. issues bulletins to dealers on the subject of reconditioning and sale of used cars. One dated April 12, 1938, emphasizes the need of attention to small matters in reconditioning such as repainting small areas that are badly worn or rusted. In this connection it is stated that:

Experience shows that many dealers spend too much for their reconditioning while others spend too little, and still others spend it in the wrong place—where it doesn't show up.

In another bulletin dated April 15, 1938, it was stated that on the average many Hudson dealers regularly spend 10 percent of the trade-in car's selling price for reconditioning. Also under date of May 3, 1938, the following was said regarding factory assistance in used-car advertising:

Authorization for factory participation on a 50–50 basis will be given in support of heavy used-car stock conditions where we feel it is justified, granting, of course, that these cars are in good condition—priced right—and with the assurance that the dealer will provide adequate selling effort. Requests for such participation should be forwarded to your regional manager in the regular manner.

The Hudson organization also passes on to its distributors and dealers suggestions intended to promote used-car sales. In such a letter dated December 23, 1937, the following statement regarding sales of used cars to owners of old cars is made:

Go over the owner's car with him with the idea in mind on your part of building up service costs to put it in condition for safe driving. This aged car will usually have motor work to be taken care of—battery too weak for winter driving—paint and upholstery to be taken care of and a tire or two to be replaced—so that cost of repair and replacement can be built up to $50 or $75. When owner is sold on the idea his car needs this amount of work to put it in shape, offer to replace his merchandise with a car a couple of years younger, with all these things taken care of—for approximately $20 a month, or whatever figure it would require to sell him the car that you want him to buy.

This suggestion was to apply particularly to owners of 1931—1934 models of Hudson automobiles.

That too conservative allowances in trade-ins may be a reason for Hudson Motor Car Co. classifying a dealership as "unsatisfactory" is indicated by the field reprots of Hudson representatives on particular dealerships. For instance, under date of March 7, 1938, H. P. Grove, a Hudson field man, addressed the following report to George H. Pratt, Detroit, Mich., regarding a Denver dealership:

Conditions at Denver are as good as can be expected under existing conditions with the exception of their retail department. By mail, Tom Botterill, who is now in LaJolla, has laid down a very rigid trading policy, with the result that Botterill's retail department are doing a very unsatisfactory retail job. As a matter of fact, only six cars were retailed during the month of February. There was nothing I could do toward changing this policy while in Denver, but I hope to get in touch with Tom Botterill in LaJolla sometime this week and make every effort to get this policy changed to a point where they can again start doing some retail business.

Botterill's retail department are now appraising cars on the basis of National Automobile Dealers Association selling price, less 10 percent, less all reconditioning costs. It is very obvious that they cannot hope to secure a satisfactory volume of business with this retail policy in effect.

Under date of January 22, 1938, Hudson Motor Car Co.'s New York zone manager in his weekly report covering the New York zone stated that there was very little used-car activity throughout the zone. Among other things this report stated:

> * * * To single out our major points having used-car problems, I might say this condition exists in all blocks. As for our metropolitan area, U. S. Motors; W. N. Y.; Clarkfeld in Brooklyn; Lorbe, Manhattan; Merrick Rosswood in Jamaica; and all dealers in Essex County have large stocks and must get used-car action if any appreciative new-car business can be enjoyed. In order to assist these dealers we have recommended used-car display copy in the form of sales as well as concentrated post card and telephone campaigns. We even suggested the listing of many used cars in classified ads under the name of some salesman giving home addresses. This last-mentioned idea has worked in some cases.

Another field report from this same zone made 3 weeks later under date of February 12, 1938, connected the concern over dealer used-car operations more directly with the question of lack of new registrations as follows:

> Inability of our dealers to make high-priced trades is the reason for the lack of registrations during the week of January 7. We are keeping after our dealers to liquidate their used cars so that they will be in a position to trade, and we look forward to an increased percent of business in the future.

Policies of other manufacturers.—The above discussion of manufacturers' used-car policies appears to be typical of those of other manufacturers. Executives of several other manufacturers interviewed indicate that policies similar to those of the larger manufacturers are followed as far as possible. According to statements of such executives, however, it would appear that they do not supervise the used-car operations of their dealers as closely as the three larger manufacturers. Similar policies, however, are followed respecting dealers maintaining their percentage of price class, and dealers are urged to trade competitively in order to make the necessary sales. It is claimed, however, that dealerships are so important to the smaller manufacturers that they cannot exert pressure to the same extent for fear of antagonizing and losing dealers to other lines offering opportunity for larger volume of sales to dealers.

Cooperative used-car advertising by manufacturers.—The above discussion of the used-car policies of individual manufacturers indicates that, in general, manufacturers recognize the used-car situation as a matter in which dealers need whatever assistance can be given them to speed up sales of used cars and prevent dealer losses thereon as a means of reducing dealers' inventories of used cars, thereby releasing dealer capital in order that it might be used to increase sales of new cars. Opinion on this point was so unanimous among manufacturers that Ford Motor Co., which is not a member of the Automobile Manufacturers' Association, joined with the membership of that association in advertising the week of March 5 to 12, 1938, as National Used Car Week. As originally planned, the cost of this cooperative industry advertising plan was to be $1,250,000. It was actually carried out at a total cost of $1,125,883, which amount was contributed by nine manufacturing companies in proportion to their total dollar volume of sales for the year ending June 30, 1937. (See pp. 99 to 102.)

SECTION 3. APPLICATION OF USED-CAR POLICIES AS DESCRIBED BY DEALERS

Dealer attitude respecting manufacturers' used-car policies.—In general, the attitude of dealers is that the used-car problem is largely a matter that should be handled by dealers themselves, but that pressure by manufacturers for volume of new-car sales so accentuates dealer competition that dealers are not free to handle used cars as they desire and are, in fact, practically compelled to give overallowances in order to attain the volume of new-car sales urged by their respective manufacturers. In this connection it is to be noted that if one dealer in a given market increases sales by overallowances, at least in part in response to pressure from his manufacturer for increased new-car sales, other manufacturers promptly insist that their dealers shall do likewise in order to retain or regain their percentage of new-car registrations. As elsewhere described herein (see pp. 173 to 212), the compulsive element in the situation is fear on the part of the dealer that if the new-car volume desired by the manufacturer is not obtained, the dealership will be canceled by the manufacturer. The position of dealers on this subject was well expressed by the secretary of a western State association in a letter addressed to the Federal Trade Commission under date of June 13, 1938. The secretary stated:

> Automobile dealers are generally agreed that, under normal conditions, the used car is and should be their problem. However, such conditions do not and have not existed for a number of years. Manufacturers, through their insistent demand for an ever increasing new-car-sales volume, by intimidating and coercive methods, have made the used-car business a ruthless and cut-throat racket. When dealers are forced to dissipate their entire new-car gross profits in overallowances on used cars to get their percentage of price-class volume for the manufacturer, then we contend the used car becomes in part a problem of the manufacturer. This fact has never been recognized by the manufacturer, with the resultant springing up of numerous forms of used-car price-control systems or appraisal bureaus.

In discussing dealer problems with the Commission's examiners, a considerable number of dealers referred to pressure by manufacturers as a factor aggravating their difficulties in handling used cars. In a number of interviews dealers stated that factory representatives continually press them to sell used cars promptly. They are urged not to hold used cars more than 60 days and to advertise and dispose of any cars on hand 90 days at whatever price can be obtained for them. Many statements connected the dealers' used-car difficulties with pressure on the part of manufacturers for the sale of new cars. One dealer, in particular, stated that factory representatives say they are not telling the dealer how to run his business but it might be a good idea to increase registrations by overallowing $50 to $75 as is being done by competitors.

In a report form, used in connection with this inquiry, dealers were requested to discuss the handling of used cars in response to the following questions:

(*a*) Explain in detail the method used by you in determining the amount of trade-in allowance.

(*b*) Do you find it necessary to grant actual trade-in allowances in excess of the amount arrived at by use of the method explained above?

(*c*) If so, indicate the approximate percentage by which allowances actually given exceed the amount determined by you to be a fair trade-in allowance.

(*d*) If excessive allowances are given, what reasons do you ascribe for the necessity of granting them?

Market value less reconditioning cost and, in many instances, less an allowance for the expense of selling the used car was most often stated as the basis upon which dealers determine what they regard as the fair basis for trade-in allowances. Many indicated that used-car manuals are used along with price information respecting used cars in the dealer's particular market. Of those specifically naming the manuals used, about two-thirds stated that the manual issued by the National Automobile Dealers' Association was used and the balance named other manuals.

Of the reports received and tabulated, nearly 90 percent of the dealers stated that they were obliged to make allowances in excess of amounts which they regarded as representing the fair trade-in values of cars taken in trade; 6.9 percent stated that they were not obliged to make such allowances; and 3.5 percent did not answer the question at all.

Among the three largest manufacturers, General Motors dealers made the largest percentage (91.4 percent) of answers, indicating that they found it necessary to make allowances in excess of what they regarded as the fair market value of used cars taken in trade, and Ford dealers showed the smallest percentage of such answers (85.9 percent). For all makes of cars only 7 percent of all reports received stated definitely that they were not obliged to give over-allowances.

Among the lesser manufacturers the total number of replies of dealers handling each manufacturer's line is too small to warrant definite conclusions as to the percentages for the different lines. It is interesting to note, however, that Packard dealers gave the highest percentage of affirmative answers to question (*b*) and Nash and Graham-Paige the lowest. When all reports for smaller manufacturers are combined as a single group, the distortion of percentages due to the small number of replies by dealers handling the lines of particular manufacturers is lessened. The showing for all dealers handling smaller manufacturers' lines does not differ materially from that shown for dealers handling the three largest manufacturers' lines, namely, 89.8 percent "yes" for the smaller manufacturers and 89.5 percent for the three largest companies.

In discussing the reasons for granting excessive allowances, about 76 percent gave reasons that may be classified as dealer competition in the sale of cars without specifically mentioning pressure from manufacturers for increased sales of new cars as a factor, while about 13 percent of the total number of dealers reporting definitely named manufacturers' pressure as a factor aggravating the competitive situation among dealers that necessitates the giving of overallowances.

Most of the answers of the large majority of dealers who merely named dealer competition as the reason for overallowances were very brief. Many consisted of the single word "competition." From the character of answers made by dealers interviewed by examiners of the Commission on this subject it is believed that, had many of the 76 percent who answered in terms of dealer competition analyzed the reasons for that competition in detail, they would have named manufacturers' pressure for volume of sales of new cars as an important underlying cause of the competition of which they complained. Another important cause would undoubtedly have been that the manufacturers created too many dealerships for the volume of cars to be sold, which is closely allied to dealer pressure as a means of increasing new-car sales.

In response to the question requesting percentage allowances made, many stated ranges of overallowances in terms of dollars per car. Of those stating percentages about 15 percent made overallowances of 10 percent or less; 62 percent overallowed percentages ranging from just over 10 percent to 25 percent; and 23 percent stated that they overallowed in excess of 25 percent of the market value of cars taken in trade. Overallowances stated by other dealers in terms of dollars in most cases ranged from $15 to $150 per car and in a few cases up to $300. The largest allowances of $200 to $300 were stated by dealers handling the higher-priced cars.

Statements by General Motors Corporation dealers.—In the sale of various makes or trade names of cars manufactured by the different manufacturing divisions of General Motors Corporation varying use is made of distributors. Cadillac, for instance, makes large use of distributors who contract directly with their subdealers. In addition, General Motors Corporation has a larger number of factory-owned dealers than any other manufacturer. Therefore the answers of General Motors dealers to that part of the Commission's report form referring to used-car operations discuss the matter from various viewpoints, including competition of dealers in other makes of cars, competition of distributors, and factory-owned dealers handling General Motors products, and also from the angle of the application of the manufacturer's general policy respecting the handling of used cars as a factor in the sale of new cars.

A small Cadillac distributor, in commenting on the reasons for granting large allowances on trade-ins, stated:

> Distributors and dealers are largely responsible for this condition of overallowance and not the manufacturer. Distributors and dealers have encouraged the consuming public to expect liberal allowances for their used car to apply on the purchase of a new car, which results in any case in the dealers themselves entering into a bidding contest for the used car.

From among statements made by Buick dealers the following are typical. Dealer No. 1 stated:

> To meet dealers' competitive pricing. Due to weakness in dealer organizations and desire of all factories to maintain so-called price class regardless of economic conditions.

Buick dealer No. 2 made the following comments, spelling competition in capitals:

> Competition and factories demanding a large percentage of price class.

Among the replies of Chevrolet dealers the following statements were made. Chevrolet dealer No. 1 stated that overallowances were—

> caused by dealers who either do not know the value of used cars or are greedy for business, which may be caused by their manufacturers forcing cars upon them and in order to get out they go crazy on allowances which makes it extremely difficult for a good dealer to compete or make any money.

Chevrolet dealer No. 2 stated:

> Competition by both other dealers in Chevrolet cars and by dealers in competitive models of other manufacturers.

Chevrolet dealer No. 3 gave the following reasons for overallowances:

> Keen competition because of an excessive number of dealers. Necessity of selling enough cars and trucks to satisfy the manufacturer in order to hold a contract.

Chevrolet dealer No. 4 commented particularly on the large number of dealers in other lines as follows:

Competition—other makes in the same price class—too many competitive dealers—Plymouth has about 20 sales outlets in ———.

Chevrolet dealer No. 5 located in a city of considerable size stated:

Competitive dealers in our town, selling the same make of car, whose policy of doing business is to make overallowances large enough to secure the business regardless of profit, has forced us in many cases to do likewise. We naturally feel that if we should disregard our competitors overallowances and not meet them approximately ourselves we would, first, lose the sale, and second, we would demoralize our sales force to the extent that they would naturally desire to work for the other dealer who permitted overallowances and made the selling easier. Further the necessity for our securing a volume of sales enough to justify our remaining in business regardless of profit has forced us to compete in this method of securing business.

Chevrolet dealer No. 6 gave competition of other Chevrolet dealers and suggested his remedy as follows:

Dealer competition which would be eliminated by closed territory.

Dealer No. 7 gave as his explanation:

Competition from dealers handling other makes of cars and competition and cross-selling of dealers handling the same make of cars. The necessity of dealer to maintain price and weight class.

Dealer No. 8 included competition with distributors of other lines who were stated to have a competitive advantage through their wholesale distributors' discount along with competition with dealers handling Chevrolet as follows:

Competition among other dealers having same line. Also, we compete on a dealer's discount against dealers who get a distributor discount and who sell at retail (Hudson, Buick, Graham, La Salle, Dodge, Plymouth).

In this case, it will be noted that competition with distributors handling other General Motors cars was included along with competition of distributors of three lines not under General Motors control.

Practically all Chevrolet dealers who answered the question emphasized competition as the principal cause of overallowances. A few, however, cited other reasons. For instance, one dealer gave the following as his entire answer:

Purchasers peddle allowance prices.

Another stated:

1. Competitive conditions mainly.
2. Variance in market conditions because of seasonal changes and depressed business conditions.
3. Unbalanced stocks.

Still another said:

When models change, on slow-moving models.

A large dealer who sold about 1,300 cars in 1937 exclusively at retail regarded competition to be only a normal factor. He stated:

We find it necessary to give overallowances regardless of competition, however, competition is a factor. We consider these conditions normal and have been able to make money under them. Our customers consider it their privilege to bargain.

A very small Chevrolet dealer gave the following exceptional type of answer:

In order to make all profit possible and to hold our customers and owners.

The last Chevrolet dealer whose answer is quoted handled only a moderate volume of cars wholly at retail. His answer also is quite exceptional in nature. He stated that overallowances were given:

Because, in my opinion, 90 percent of all automobile dealers are not businessmen and do not know the difference between a gross and a net profit. If it wasn't for the encouragement and training of Chevrolet Motor Co., as to good business practice, Chevrolet dealers at least would suffer greater loss.

Among dealers handling more than one line of General Motors manufacture, the following statements are typical. A dealer handling Chevrolet, Cadillac, and La Salle stated the following reasons for overallowances:

To try to meet competition. To get the business—the price-class business—wanted by the factory.

A dealer handling Chevrolet and Buick made overallowances—

to meet competition and to sell quota of cars given to us by factory.

Still another dealer handling Chevrolet and Oldsmobile cars stated that overallowances result—

by reason of pressure brought to bear on dealer by whichever manufacturer is low on registrations in given territory as determined by R. L. Polk & Co. In this territory in 1938 Ford Motor Co. put pressure on my competitive Ford dealer forcing him to do truck business regardless of cost. As a result I didn't do any truck business. Chevrolet commercial registrations in this county dropped from 50–60 percent in 1937 to 18 percent in 1938 as a result. I have been told to get truck registrations.

A dealer handling Oldsmobile and La Salle stated that overallowances were due to—

competitive situation. A great deal of it originated in factory branches or factory-controlled outlets.

Another dealer handling exclusively at retail Buick, Oldsmobile, Cadillac, and La Salle lines ascribed excessive allowances to—

1. Competitive conditions in industry.
2. To obtain volume satisfactory to factories.

Another dealer handling Pontiac, Cadillac, and La Salle gave the following reasons:

Competition. Pressure to get your percentage of price class for the factory.

A Buick and Pontiac dealer doing a small wholesale business in connection with retailing ascribed excessive allowances to—

competition. Insistence of manufacturer that dealer get his share of new-car sales to boost manufacturer's particular brand of car in territory. This produces ruinous rivalry between dealers to make a showing.

An Oldsmobile dealer emphasized the competition of manufacturer-owned dealers as a factor in overallowances, as follows:

We have a Buick motor holding company that pays at least 25 percent more than National Automobile Dealers Association values. We have to, in many cases, allow more than the car is worth to hold our Olds owners from purchasing Buick. Most all the rest of the dealers are pretty well in line.

A Pontiac dealer advanced the shopping tendency of car purchasers as a reason for overallowances. He stated:

Buyers go shopping and in order to get the deal we must meet other dealer's offer as factory expects us to meet our percentage of price class or volume.

Another Pontiac dealer stated that overallowances are given because of—

overanxiety in order to reach our "percentage of price class" quota. If we fall below quota, we are in fear of franchise cancelation.

Statements by Ford Motor Co. dealers.—In the case of Ford Motor Co., which deals directly with its dealers without the intervention of distributors, complaint of competition with the distributor naturally was absent. The principal reasons assigned for large trade-ins were manufacturer's pressure for volume and competition among dealers. The following quoted from replies to the Commission's report form on manufacturer-dealer relations are typical of the reasons assigned for excessive trade-ins for dealers.

Dealer No. 1 handling Ford automobiles only, gave the following reasons:

1. To satisfy demand of buyer for a "better deal."
2. To satisfy demands of factory for sales and "percentage of price class."
3. Need for certain dealers to have "volume" to cover excessive overhead costs.

I think the first reason is the paramount one. The salesman's main selling weapon is that he is giving the customer a "better deal" than anyone else. Then the customer goes out to see if he has and with each contact the deal gets better than the last one and hence the offers for his car tend toward overappraisals.

Dealer No. 2 handling Ford and Lincoln-Zephyr stated:

Factory failing to enforce prices—also encouraging high trades if not leading in registration.

Dealer No. 3 also handling Ford and Lincoln-Zephyr gave the following reasons:

Pressure by factory for volume. Pressure by public for high allowances. Cutthroat competition among dealers.

Dealer No. 4 handling Ford exclusively stated that excessive allowances were granted—

to meet competition and dispose of enough cars to satisfy the manufacturer.

Dealer No. 5 handling Ford cars assigned as his reason:

Factory pressure for volume and leadership.

Dealer No. 6 handling Ford cars stated as follows:

In order to protect franchise and also to help volume and profits. Please understand this is done only in cases of our own customers. We never raise a competitor's proposition if he has offered a fair price or advertise that we would give an excess allowance.

In commenting on the situation in November 1938 this dealer stated:

In returning your forms with information requested further comments may seem unnecessary. However, I do want to emphasize that many of the former grievances have been eliminated. It may be due to a change of heart of the manufacturer or as the result of your activity.

Dealer No. 7 handing Ford, Lincoln-Zephyr, and Mercury cars stated:

This pernicious practice was started by dealers handling less popular makes of cars having excessive dealer discounts. It was necessary for them to do this in order to make sales. Then buyers demanded overallowances from dealers in the popular cars. Some weak dealers complied, and then all of us were drawn in.

Statements by Chrysler Corporation dealers.—The Chrysler, Dodge, and De Soto sales divisions of Chrysler Corporation all make large use of distributors who combine both wholesale and retail handling of cars. In the retailing of cars it appears that distributors acting under supervision of factory field men are pace setters for their retailers. Chrysler subdealers feel that the distributor has a distinct advantage in retail selling because he can handle his retail business, representing only a small part of the total business done, on a very small retail profit basis and derive his principal profit from his distributor's commission or "override" on wholesale sales. In addition, they feel that the dualling of Chrysler-Plymouth, Dodge-Plymouth, and De Soto-Plymouth as practiced by Chrysler Corporation results in so many dealers handling Plymouth cars, that are the volume sellers in the Chrysler line, that sharp competition in bidding for trade-ins results. When to these conditions are added the necessity for dealers to obtain volume to hold their dealerships and the practices of car buyers of shopping around among dealers for the highest possible trade-in, the dealers feel that they are forced to grant excessive trade-ins. The following answers quoted from the replies of dealers to the question in the Commission's report form on manufacturer-dealer relations requesting reasons for excessive trade-in allowances are typical.

Dealer No. 1 handling De Soto-Plymouth:

Competition principally with the distributor.

Dealer No. 2 handling Dodge-Plymouth:

Manufacturers naturally want dealers to sell cars but when a dealer does not get his percentage of the price class arbitrarily set up by the manufacturer his troubles begin.

* * * In order to make a good showing which the factory required, dealers will go overboard and go out via the sheriff, which has happened here and I know elsewhere so many times that it is hard to get outside capital to invest in automobile agencies.

Dealer No. 3 handling Chrysler-Plymouth:

We have to meet competition to get volume. We have to get volume to hold our franchises.

Dealer No. 4 handling Chrysler-Plymouth:

Competitive situation. Too many dealers in the same line bidding for the business.

Dealer No. 5 handling Dodge-Plymouth:

To meet competition and secure necessary new-car volume.

Dealer No. 6 handling De Soto-Plymouth:

Competition by other dealers. The public plays one dealer against the other. The dealer is the shock absorber for the public, finance company, and the manufacturer. All of them profit from the dealer's efforts except the dealer himself.

Dealer No. 7 handling De Soto-Plymouth:

In our opinion there are entirely too many dealers for the amount of normally available business. With an overcrowded condition among dealers and each dealer making an effort to show volume sales in order to satisfy his factory, they are sacrificing a considerable share of their fair normal profit. As a result of this unwholesome forced selling and a failure of the dealer to make a fair profit many dealers have adopted such practices as finance charge "packing," "bushing," etc., resulting in considerable harm to the consumer and presenting extremely unfair competition to other dealers who are not following these practices. Three other factors we consider causing this condition are:

1. Not sufficient discount for the metropolitan dealer to compete with the small-town dealer.

2. Competition by some poorly financed and unqualified dealers.
3. Sale of new cars by unauthorized dealers.

Statements of dealers handling smaller manufacturers' lines.—All of the answers of dealers quoted up to this point have been made by retailers handling the lines of the three largest companies. The following quotations from dealers handling lines of other companies indicate the same type of reasons for the granting of excessive allowances.

The reasons given by a Packard dealer were—

unfair competition caused by too many dealers, cross selling, and the manufacturer's constant anxiety for a high percentage of price class.

Another Packard dealer stated:

In our particular case our main competition comes from two of the largest manufacturers through their holding companies [3] who force us higher in overallowances than we would were we in competition with purely local dealers. This is a bad feature in the industry today. This is unfair competition as it appears that the manufacturer is interested only in making their profit, sacrificing the retail profit to the detriment of the local dealer.

Another dealer handling Nash automobiles and Reo trucks discussed the amount of overallowances made in excess of Blue Book values and the dealer's own judgment as to the market value of used cars less the actual cost of reconditioning. This dealer stated:

The above method causes us the loss of cost of selling. This amounts to about $50 per used car and we sell about 2½ used cars (normal years) to each new car. Therefore, there is at least a loss of $125 on the used cars. In bad years when we have repossession, as at present, this cost and loss runs much higher. In addition, we find it necessary to overappraise to compete with General Motors Holding Co. operations. This over appraisal averages 15 percent of actual used-car retail value. General Motors Holding Co. branches sell cars with no profit or actual loss to get volume outlet. Endeavor to offset losses through superservice stations. Chrysler multidealer Plymouth plan also causes excessive competition among themselves and results in wild trading.

A Nash dealer stated that overallowances were necessary because of—

competition with dealers who have been overloaded or are being forced by factories to sell a certain quota of cars and the dealers who have no knowledge of cost of operation.

Another Nash dealer stated that overallowances were—

forced by competition of those dealers who work on the theory "much volume" at small profit means more "net" and this is encouraged by factories.

A dealer handling Hupmobile and Willys-Overland cars ascribed his used-car difficulties to factory pressure or distributor pressure.

A dealer handling Graham automobiles, Diamond T trucks and farm machinery stated that overallowances were due to—

chiseling buying tactics, competition that has too much factory pressure on them and overanxious salesmen.

Effect of used-car operations on retail profits.—In connection with this inquiry, dealers doing a strictly retail business, and distributor-dealers, who combine both wholesaling and retailing in varying degrees, furnished data segregated to show sales, expenses, and profits for new cars, used cars and parts, accessories, and services. The segregations of the data were similar to those appearing in the report forms of manufacturers in accordance with which dealers are requested, and in some instances required, to make periodic reports.

[3] The designation "their holding companies" used by the dealer refers to retail dealerships owned by manufacturers, which are commonly referred to in the trade as "holding company dealers."

An analysis of data reported by dealers constitutes the subject matter of chapter XVI in this report. One part of that chapter, appearing on pages 886 to 891, is specifically referred to here because of its interest in connection with the effect on the dealer's business of manufacturers' used-car policies in connection with their plans to sell new cars in the largest possible volume.

As shown by data appearing on the pages mentioned above, retailers whose reports, for the year 1937, covered the sale of 116,349 new cars realized an average net profit on their total business of $19.09 per new car sold. In order to make this relatively small retail profit, these dealers made average total sales of $1,484.19 per new car sold. Of this total, 57.3 percent represented the selling price of the average new car, 27.4 percent represented sales of an average of 1.63 used cars for each new car sold, and the balance of 15.3 percent was made up of sales of parts, accessories, supplies, and services. The data presented indicate that for the retailers reporting, sales of new cars netted an operating profit of $97.85 per new car sold while the sales of used cars netted a loss of $102.11 per new car sold. Thus the nearly 85 percent of their total business, represented by new- and used-car sales, produced for the dealers an average net loss of $4.26 per new car sold, and that the showing of $19.09 net profit per new car sold was entirely due to net profit made on parts, accessories, supplies, and service, representing only 15.3 percent of the dealers' total sales.

For distributor-dealers, a part of whose total business consists of wholesale sales of new cars, parts, and accessories, the showing is similar. These dealers in 1937 sold a total of 163,578 new cars. In selling these new cars they made total sales amounting to $1,158.35 per new car sold in order to show an average net profit of $13.10. For this group of dealers, the 72.1 percent of the total business done in 1937, represented by new-car sales, produced a net profit of $51.74 per new car sold, while 16.3 percent of the total, represented by used-car sales, netted a loss of $50.47 per new car sold. Thus, 88.4 percent of the total business done, consisting of new and used cars combined, yielded the dealers reporting a net profit of $1.27 per new car sold. The balance of the average profit of $13.10 per new car, in 1937, was represented by profits from sales of parts, accessories, supplies, and service representing only 11.6 percent of their total business.

This study strikingly supports the claim of retailers that competition compels them to give away their profit on new cars in the form of excessive allowances on used cars. As indicated above, many dealers connect the competition that compels them to make such allowances directly with pressure by manufacturers upon them to take and sell more new cars to do which they are urged to make large allowances on trade-ins, always under impulsion of fear that if they do not comply with manufacturers' requirements and policies, their dealer agreements will be canceled.

Résumé of answers and remedies suggested by dealers.—It is to be noted that many of the typical dealer answers quoted above emphasize competition among dealers as the main reasons for overallowances. Among those who connected their difficulties with manufacturers' policies and practices, a considerable number connected the sharp competition met in bidding for used cars directly with the pressure of manufacturers for large volume of new-car sales. Many cited fear of cancelation by the manufacturers of their dealer agreements as the compulsive force compelling them to make large allowances on trade-ins.

Obviously, one measure that would tend to alleviate the sharpness of competition in making allowances would be reduction in the pressure of manufacturers for sales of new cars. Many dealer recommendations touched upon the desirability of dealer agreements being for definite periods and not cancelable on relatively short notice. These changes were suggested as a means of reducing the fear of cancelation that compels dealers to bid high on trade-ins in order to sell the volume of new cars that they feel they must sell to retain their dealerships. This, of course, would not by itself solve the dealer's used-car difficulties. Pressure for dealers to obtain their percentages of registrations would still remain backed by the fear on the part of the dealer that his agreement would not be renewed at the end of the contract period if he did not make the allowances necessary to sell the required number of new cars. Manufacturers, however, are not likely to reduce pressure for percentage of registrations so long as competitive conditions among them remain as they have been and now are.

Notwithstanding this fact, however, it is not at all unusual for dealers to make suggestions similar to the following quoted from the reply of a dealer to a question in the dealer report form requesting suggestions for changes needed in the agreements between manufacturers and their dealers.

> All dealer franchises should prohibit the dealer from overallowing on used cars and require him to show a gross profit on his used-car operation. This should be rigidly policed by the factories.

This was the only change in dealer agreements suggested by this particular dealer. Such a requirement would restrict used-car trading which is so essential to new-car selling. Therefore, manufacturers are not likely to adopt any such policy. This attitude on the part of manufacturers accounts for the trend in dealer thought toward State and Federal regulation of automobile distribution as a means of controlling overallowances in used-car trading. Dealer opinion on this point is by no means unanimous, as many still think that alleviation of the used-car situation may be accomplished through cooperation of manufacturers through conferences or by direct action of individual manufacturers in changing their dealer policies. Manufacturers quite naturally try to foster this last viewpoint among their dealers, as it means the continuance of their dominant position. Certain modifications in dealer contracts have been made, and a number of dealers have stated that at least during the period of this inquiry pressure on dealers for sales and maintenance of price class has been considerably reduced.

The results of a study of the terms of manufacturer-dealer agreements appearing in chapter III of this report, however, indicates that although there have been considerable changes in the wording of agreements, and liberalization of clauses respecting cancelations and dealer cross-selling, the agreements still contain the basis for direction of the dealer's operations by the manufacturer or the manufacturer's field men and distributors. Therefore, it cannot be assumed that the fact that pressure by manufacturers has been less during the period of this investigation represents any permanent change in manufacturers' policy respecting the dealer's conduct of his used-car operations.

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CHAPTER VII.—EXCLUSIVE HANDLING OF MANUFACTURER'S LINE

Section 1. Introduction

Motor-vehicle manufacturers in general require that their dealers handle their respective lines of vehicles exclusively. This policy is an outgrowth of the use of agency in the distribution of automobiles from which the present form of retail merchandising of automobiles has been evolved.

There is undoubtedly a real advantage to the manufacturer in limiting his dealers to one line. Manufacturers claim that it is difficult for a dealer to give his best efforts to two separate lines, and also, that if the lines are in widely separated price classes, it is difficult for dealers to sell high-priced and low-priced cars with equal efficiency.

In spite of the fact that exclusive dealerships are more or less a matter of trade custom in the motor-vehicle industry, there are many situations in which small sales potentials exclude the possibility of single-line dealerships operating at a profit.

Exclusive dealership strictly applied tends to make it difficult for manufacturers of single lines and with comparatively limited market for their cars, to obtain retail distribution and thereby tends to restrict competition in the manufacture and distribution of motor vehicles.

Dual dealerships.—Certain types of combinations of two or more makes of cars in a single dealership have been resorted to by manufacturers particularly during more extensive periods of lessened consumer demand. These are known as dual dealerships and are of two distinct types. The first is created by the combining of two related makes of motor vehicles in one dealership and the other results from the combining of makes of unrelated manufacturers. Combinations of General Motors makes such as Chevrolet and Pontiac or Oldsmobile and Cadillac are examples of the former, as are the Chrysler-Plymouth, Dodge-Plymouth and De Soto-Plymouth dealerships. Another example is the combination of various Ford Motor Co. and related company makes such as Ford and Mercury, Ford and Lincoln-Zephyr, and Lincoln-Zephyr and Lincoln. The second or unrelated dual dealership might be composed of Hudson and Packard, Chevrolet and Packard, Ford and Cadillac, or similar combinations. Such a combination as Chrysler-Plymouth and Packard, while composed of three makes, represents the products of only two manufacturers. In this case Chrysler Corporation and Packard Motor Car Co., are also considered as dual dealerships of the unrelated type.

During the depression period around 1932, many dealers were unable to obtain a sufficient volume of sales in a single make of car to operate profitably. Manufacturers found that in order to hold their dealer organization, it was necessary to permit their dealers to handle additional makes. This was particularly true in the high-price field. Manufacturers producing more than one make frequently combined representation of two or more of these makes in single dealerships. For example, General Motors Corporation in 1932 and 1933 carried out a program of combining certain of their makes in so-called dual dealerships. These combinations included placing Oldsmobile dealerships with Cadillac dealers, Buick with Pontiac, and Oldsmobile also with Chevrolet. A report on this program was summarized in the minutes of a general sales committee meeting held on March 29, 1933, and the advantages of combining Oldsmobile and Cadillac were also pointed out, as follows:

> Dualing of Olds with Cadillac now involves about 50 percent of Cadillac's volume, which is expected to reach 60 to 70 percent before the year is over.
>
> Buick and Pontiac are coupled up at 1,100 points and there are 200 to 300 more to be dualed. In Chicago, adjustment will have to be made in the present number of dual set-ups.
>
> Olds and Chevrolet are coupled up in approximately 400 cities of over 5,000 population and in about 1,200 places under 5,000 population. Of these 1,600 dual set-ups, 300 to 400 will likely pass out of the picture, leaving about 1,200 dual dealers whose performance can be measured against Chevrolet exclusive dealers.
>
> The chairman stated further that it has been found that exclusive Olds dealerships in the big metropolitan cities, with their high fixed expense and low volume, cannot operate profitably on a 26-percent discount. On the other hand, the Olds account can be adequately handled in a Cadillac set-up on the 26 percent discount; consequently, Olds is being coupled up with Cadillac in these large centers. Specifically, the chairman stated that this has already been done in the New York area and it is proposed to do this also in Detroit and Pittsburgh.

While the number of dual dealerships has decreased as consumer demand and retail distribution of motor vehicles increased, many of the combinations established during the depression period remain in effect at this time.

Section 2. Exclusive Requirements in Handling Motor Vehicles

All of the present manufacturer-dealer agreements contain provisions restricting the dealer's use or sale of repair parts not manufactured, authorized, or sold by the manufacturer party to the agreement.[1] Several of the agreements require the dealer not to sell or in any way represent any make of new motor vehicle other than that of the manufacturer without obtaining the written consent of the manufacturer and on the manufacturer's request dealer agrees to discontinue the representation of any other such make or makes of automobiles.

The policy of the manufacturers in granting permission to a dealer to handle additional makes of cars or in placing their makes with dealers already representing another automobile manufacturer appears to depend largely upon the questions of availability of dealer representation and the ability of the territory and the make of car to support a single-line dealer.

The manufacturer who produces several makes in various price classes is in quite a different situation from the single-line manufacturer in respect to his ability to limit his dealers to his makes of cars.

[1] A description of these provisions will be found in Chapter III, Nature and Basis of Manufacturer-Dealer Relations. The extent of enforcement thereof is discussed in Chapter VIII, Manufacturers' Policies and Practices Respecting Tools, Accessories, Parts, and Equipment.

For example, a territory may not warrant the establishment of a dealer handling only Cadillac and LaSalle cars. In such a situation General Motors has other less expensive makes which it may combine with Cadillac and LaSalle to give the dealer sufficient volume to produce a profitable operation. On the other hand, a manufacturer with a limited line of cars, such as Hupmobile, when faced with a similar situation may find it necessary to allow its dealer to handle cars produced by other manufacturers. The addition of lower-priced models by several single-line manufacturers has undoubtedly lessened their disadvantage in this respect in relation to the multiple-line manufacturers. Very few manufacturers at present manufacture cars in only one price class.

In general, the policy of the manufacturers is to limit their dealers to handling cars of their own manufacture wherever possible, particularly in larger communities.

Section 3. Replies to Commission's Report Form

Regarding manufacturers' requirements that dealers handle their products exclusively, the Commission, in its report form sent to dealers, asked:

> To what extent are you required by the manufacturer or distributor to be an exclusive dealer, including:
>
> (*a*) Passenger cars and trucks.
> (*b*) Parts.
> (*c*) Accessories (including tires).
> (*d*) Any other items.

Replies received from dealers indicate that Chrysler, Ford, and General Motors are more emphatic in their demands for exclusive representation than are the other manufacturers from whose dealers replies were received. Of the dealers representing the three above-named manufacturers exclusively, approximately 71 percent indicated that the exclusive handling of their respective manufacturers' cars was required by the manufacturer, while only 35 percent of the dealers representing other manufacturers so indicated.

In addition to those who stated they were required to be exclusive dealers, many stated that they did not know or that the question had never been raised. Among these were statements such as: "Never tried," "Haven't wanted others," "Never been discussed," "Never asked to handle any other." Another reply of interest was "Contract on nonexclusive basis." This is true of the dealer agreements of many manufacturers whose policy, nevertheless, definitely does not favor allowing their dealers to handle other makes of new cars.

Chrysler Corporation.—Chrysler Corporation manufactures cars in various price classes ranging from the Plymouth in the low-price field to the larger Chrysler models in the high-price class. The policy of the company is to combine Plymouth with each of its other lines in the establishment of dealerships but not to permit the handling of any other makes by its dealers. Thus the Chrysler Corporation dealers are of three classifications, namely, Chrysler-Plymouth, De Soto-Plymouth, and Dodge-Plymouth.

Lester P. Colbert, attorney for the Chrysler Corporation, when asked regarding the corporation's policy in regard to its dealers handling other manufacturer's motor vehicles, referred to the clause in the corporation's 1938 dealer agreements which provides that the assumption of any other line of motor vehicles for sale by dealers without written consent of the corporation, may be reason for cancelation. Mr. Colbert stated that it is not the general policy of the corporation to consent to its dealers taking on lines of automobiles produced by other manufacturers, that this practice would not be to the best interests either of the manufacturer or of the dealer.

Data obtained from the files of the Chrysler Corporation, as well as statements of distributors and dealers, indicate that the corporation's policy is as stated by Mr. Colbert. For example, V. M. Fulton, field representative of Chrysler Corporation, reporting on a Chrysler dealer at Dover, Ohio, who was also handling the Packard line, made the following statement:

I discussed with Tommey Bros. today the matter of the Packard franchise recently taken on by them. I covered this subject from all angles and then told them definitely that if they wanted to continue with Dodge and Plymouth it would have to be on a strictly exclusive basis and that the Packard franchise would have to be given up at once. They were much taken back and wanted a few days to think it over. I believe they will get in line and I hope so for they have been good dealers.

Will follow up for definite conclusion the first of next week. * * *

A Packard distributor in another part of the country stated that the number of his subdealers had decreased considerably due largely to Chrysler Corporation refusing to allow dealers to handle automobiles produced by other manufacturers.

A distributor handling lines manufactured by Chrysler Corporation and located in the same territory as the Packard distributor mentioned above intimated that it was the policy of Chrysler Corporation and distributors of Chrysler products to approve contracts with dealers handling other competing cars and then, after stocking them with parts, accessories, equipment, and new cars, to inform them they must drop the competing line or give up the Chrysler lines handled.

A case of this type was reported by a De Soto-Plymouth dealer in another part of the country. This dealer reported that he had been representing Packard Motor Car Co. for some time when in 1932 De Soto Motor Corporation solicited and accepted him as a dual account to represent, in addition to Packard, the De Soto and Plymouth lines. In 1936 De Soto complained that the building housing the dual dealership was not large enough, although it would have been spacious enough to accommodate the De Soto-Plymouth lines alone. Upon the oral assurance of De Soto representatives that he could continue as a dual dealer as long as his sales were maintained at the national average, the dealer purchased a larger building. In 1937, De Soto notified him that he could not continue as a dual dealer because it had become the company's national policy not to have dual dealers. The dealer reported that De Soto admitted at that time that his sales were being maintained at the national average, but when he refused to cancel his Packard franchise De Soto canceled their dealer agreement with him.

Since the De Soto-Plymouth line represented 60 percent of his gross business and Packard 40 percent, and the Packard business was not sufficient to carry the large building which had been purchased with De Soto's approval, the dealer approached De Soto regarding reinstatement. De Soto agreed to sign a new contract, provided the Packard franchise would be canceled the next day and proof of cancelation furnished.

After the dealer canceled his Packard contract, the De Soto Motor Corporation regional manager confronted him with a letter in which the dealer was to agree to adhere to all future De Soto programs and sales activities and do certain other things. Since his Packard franchise was already canceled, the dealer stated, he had to sign this letter and accept its terms.

In the De Soto contract under which this dealer was operating in December 1938, there is a paragraph which stated that all prior agreements were thereby canceled. In spite of this provision, the regional manager stated to the dealer that he expected him to be bound by the terms of the letter referred to above.

Cooperation among the various divisions of Chrysler Corporation in the matter of dealers handling other lines is evidenced by the following excerpt from a letter from S. W. Munroe, director of sales, New York, to C. L. Jacobson, assistant general sales manager of the Chrysler Division, under date of October 5, 1937:

> Walter Allen has had two bad dealer situations which have been operating under the C. E. Fay Co. during the past year.
>
> One is the case of the Wheaton Motor Co. in Belmont, Mass. They have been quietly selling Pontiac cars during the past year. Mr. Wheaton a year ago furnished our Boston office with a so-called copy of his letter of cancelation of the Pontiac franchise which was supposed to go through in registered mail. He continued to secure Pontiac cars and sell them.
>
> The other case is that of Connelly's Aberdeen Garage in Brighton. Mr. Connelly has been selling Cadillac and La Salle and we believe that he has bootlegged several Packard deals.
>
> I notified Norman Fay this morning that we would not pay him the override discount on any of the 1938 series cars sold to the above-mentioned dealers. Mr. Allen is notifying the treasury department.
>
> The point I wish to bring up in connection with these two dealers is the fact that Connelly's Aberdeen Garage, Inc., have definitely stated that if we cancel their Chrysler-Plymouth franchise they could get Dodge or De Soto. Unless the respective Dodge and De Soto regional managers are notified from Detroit to lay off of these two dealers they undoubtedly will move in the minute we move out. If we propose to enforce our policies and maintain the good will of our distributor, I do not feel that we can permit a dealer to force us from our base by making a threat to take on the line of another division of our corporation.

On October 7, 1937, Mr. Jacobson wrote the Dodge and De Soto Divisions as follows:

> We are advised by the Boston region that they are having some difficulty with the Wheaton Motor Co., Belmont, Mass., and Connelly's Aberdeen Garage, Inc., Brighton, Mass., and we desire to have it known by your organization that we will not under any circumstances release these dealers to any other division.
>
> Will you please notify your organization accordingly so there can be no misunderstanding in this respect.

Ford Motor Co.—The policy of the Ford Motor Co. since early in its history has been to forbid its dealers to handle motor vehicles manufactured by concerns other than itself or its affiliated companies. It has also forbidden its dealers altering or handling altered Ford cars; that is, cars converted from passenger cars to trucks, or similar conversions.

The terms of the 1911–12 Ford limited dealer's license and agreement contained a provision forbidding the sale of automobiles of other manufacturers without the written consent of the Ford Motor Co., the clause containing this specification follows:

It is further agreed that the limited dealer-licensee will not sell or cause to be sold, directly or indirectly, unless the written consent of the manufacturer-licensor so to do has been first obtained, automobiles made by any other party or parties than the manufacturer-licensor, except as hereinafter stated.

In recent contracts no clause is found restricting the dealer to handling only motor vehicles manufactured by Ford Motor Co., but there are ample provisions in the contract which would enable the manufacturer to enforce a policy of this kind. For example, the dealer agrees—

Not * * * to continue sales policies to which company may object as detrimental to its good will. * * *

While no direct prohibition is contained in recent contracts, many dealers have been canceled because they handled new cars of other manufacturers. Cancelation files of the Ford Motor Co. show that during the years 1923, 1924, 1925, and the first 3 months of 1926, 38 dealers were canceled for the principal reason that they were handling another line of cars, and 21 dealers were canceled because they were taking on another line.

During the years when the Ford model T was the largest-selling car manufactured, the demand for the car, even in smaller communities, was great enough to support dealerships handling no other lines. Dealers, however, did attempt from time to time to increase their field by handling various products designed for use with the model T chassis. Such products included special bodies which were roomier and were claimed to increase the riding qualities of the car, and, prior to the manufacture of trucks by the Ford Motor Co., equipment for converting the model T chassis into truck chassis. The company did not desire its dealers to engage in this type of business and forbade their doing so, stating that dealers who persisted in this practice would be replaced by others who would adhere to Ford policies.

The Ford Motor Co., with its Ford V-8's, Mercury, Lincoln-Zephyr and Lincoln cars, trucks, and commercial cars, can now furnish the dealer with motor vehicles in practically all price classes and can enable a dealer in smaller communities to compete with various cars of dual dealerships handling makes of the other large manufacturers. No material in the files of Ford Motor Co. examined by the Commission's representatives, nor statements of dealers, indicated that the company had had any recent difficulties regarding handling of other makes of automobiles by its dealers. Of the dealers replying to the Commission's questionnaire, only one handled another line in addition to Ford, and this one handled Cadillac and La Salle. The Ford dealer did not indicate that he handled any Ford line except the Ford V-8, which is not in a price class competitive with Cadillac and La Salle.

General Motors Corporation.—The policy of General Motors Corporation regarding dual dealerships is best illustrated by statements made from time to time by executives of the corporation in its general sales committee meetings.

Briefly stated, the corporation policy does not favor combining its lines with those of any other manufacturer in one dealership. Where territory is such that single-line dealerships are not feasible, combination of various General Motors lines is preferred.

Before discussing the general sales committee meetings, it should be stated that the various General Motors sales agreements contain a provision for certain reparations for loss on premises owned or leased by their dealers in case of cancelation by the appropriate division of the corporation. However, if the dealer is handling other manufacturer's cars, then there is no reparation for loss on lease sustained by virtue of cancelation of the General Motors division agreement, whether the other manufacturer cancels the dealer or not.

The history of the corporation's policy regarding the handling of other manufacturers' lines by dealers selling General Motors' makes, from 1925 to 1933, is shown in the following extracts from General Motors' general sales committee meeting minutes:

In the account of a meeting held May 4, 1925, the following appeared:

1. The fact is well-recognized that there is inherent advantage in exclusive dealer representation. Therefore, at all places where volume of business is obtainable and other circumstances permit, the condition of exclusive representation should be insisted upon by each division.

2. In the smaller centers where exclusive representation is impracticable or uneconomic, it is necessary to have dual representation. In all such cases it is desirable to effect dual representation by coupling up the product of two or more General Motors divisions, rather than with competitive manufacturers.

With this in view, it was agreed that it would be advisable for the sales managers to have meetings at regular intervals for the purpose of general discussion of localities requiring representation, to decide which division should be afforded the opportunity of soliciting the account of a dealer already representing one of the divisions.

The policy of giving a General Motors dealership to a dealer handling a competing line, with the eventual purpose of crowding out the competing line, was advocated at a meeting September 9, 1925, as follows:

Mr. Strong pointed out that there is a place in the field for each General Motors car, and he suggested as a matter of policy that when a division cannot get exclusive representation that they should work to the end of getting their product in with some competitive product, with the idea of eventually crowding out the competitive line.

This policy was again advocated at a meeting on December 1, 1926. The success of such tactics by the Buick division was pointed out, as were other principles of distribution which had been followed by this division. The minutes of this meeting stated:

Mr. Grant stated that the caliber of the average dealer was not sufficiently broad to permit of his successfully handling more than one line of cars. The average dealer, it was held, could not successfully serve two masters.

Mr. Grant. "There are, of course, certain places in the United States where the market is so thin that the dealer must have more than one line in order to get the volume, but in the main, the interests of the corporation are better served through exclusive representation.

"Each of our divisions should build up their own direct representation as far as possible, putting their lines in with competitive dealers if necessary, with a view of crowding the competitor out as time goes on."

Mr. Strong stated that in building up the Buick field organization they had placed the Buick in with competitive cars and had later been successful in getting the dealer to throw out the competitive product. Mr. Strong outlined the course of development that Buick had undergone. In the early days of the industry, they would go into a strategic point, get a strong dealer, give him a large territory, and appoint subdealers under him. Then, after the business had been built up in that territory, a number of these subdealers would be changed into direct dealers.

At a meeting held April 11, 1928, reasons for cancelation of dealers were discussed. Among these reasons was "Refusal to discontinue dual lines."

A discussion on June 6, 1928, of the policy of substituting a second General Motors line for a competing line in the cases of General Motors dealers who handled competing lines was reported as follows:

The chairman [Brown] said that in those cases where a General Motors dealer handles a competitive line there can be no good reason why he should not be compelled to discontinue it and take on some other General Motors line that is in need of representation, provided the situation does not justify exclusive representation.

The secretary read a resolution which was offered as an amendment to the former resolution, to cover the point made by Mr. Brown:

"*Resolved*, That in the case of a division's dealer who handles a line competitive to General Motors, the division shall allow the dealer to take on another General Motors line to replace the competitive line, unless the situation holds the distinct prospect of exclusive representation within a reasonable time."

The chairman pointed out that the proposed resolution was not intended to void the resolution passed in December 1926, but as an amendment to it. In other words, the division seeking to obtain an outlet where another division has a dealer handling a competitive line also, it would still be obligatory on the part of the first division to approach the second division to see whether it is the intention to allow their dealer to continue to handle two lines. If such is the case, then the first division would be privileged to solicit the dealer to handle its line. However, if it is the distinct intention of the second division to compel its dealer to go on an exclusive basis within a reasonable length of time, then the first division would not be permitted to solicit the dealer to handle its line.

The necessity of dealers of the higher-priced makes being allowed to represent other lines as well in certain territories was discussed at a meeting on October 22, 1930, and the desirability of combining two General Motors lines in such cases was pointed out as follows:

Mr. Chick stated that in certain towns where it is impossible for Cadillac to get representation jointly with another General Motors dealer they are forced to solicit competitive dealers. The chairman requested Mr. Chick to furnish him with the names of the towns in which this problem arises so that every effort may be made to give Cadillac representation with a General Motors dealer before they approach competitive dealers on this matter.

The progress of the corporation's activity in connection with combining its lines in dual dealerships was outlined at a meeting on April 8, 1931. The company's policy in regard to allowing dealers in its lines to handle those of other manufacturers was also stated. Excerpts from minutes of this meeting follow:

The progress report of the dual-dealer activity was presented to the committee. According to this report, 1,272 prospective dual dealers are under consideration, and 540 had been completed as of April 1.

Reviewing these presentations, Mr. Grant stated that, in his opinion, a division should get representation in all major towns by some means—exclusive representation if possible, but if not, dual representation with a General Motors dealer; or, in the event that this is impossible, with a competitive dealer or with a garage of some kind. The most important point, he stated, is to get representation in some way.

After reporting on dual dealerships studied on two western field trips, Chairman Grant made the following statement at a meeting on January 4, 1933:

The chairman stated further that wherever possible a competitive account that is dual with a General Motors account should be replaced with another General Motors account. He also stated that Continental, which is attempting to get distribution through already established dealers, should not be permitted to get a foothold with General Motors dealers.

At a general sales committee meeting on January 10, 1933, Chairman Grant stated that at a dealer meeting held the previous day he had announced the following policy regarding dual dealerships:

* * * where, after analysis by the zone and the dealer, it is evident that the only way to save a dealership is to couple up and where a General Motors account is not available, no objection will be raised to such dealers taking on a competitive account.

Minutes of general sales committee meetings since September 1933 were not obtained, but there is no information to indicate that the corporation's policy regarding dual dealerships has changed. It may be summarized by stating that the corporation does not favor dealers in its lines handling competing lines but will approve this set-up where it is impossible to obtain exclusive representation or to combine two or more General Motors lines in one dealership. Further, the corporation has placed its lines with dealers handling competing lines "with the idea of eventually crowding out the competitive line."

Hudson Motor Car Co.—As previously stated, manufacturers producing comparatively limited lines of motor vehicles are not in as strong a position in regard to insisting that their dealers handle their lines exclusively. The smaller volume of distribution of these manufacturers also increases the necessity of allowing their dealers to handle other manufacturers' makes, especially in territories where the sales potential of a single one of such lines is insufficient to supply a dealer with a profitable operation.

The policy of the Hudson Motor Car Co. is to have its dealers handle its line exclusively to as great an extent as it is able. This policy is indicated by material obtained from the files of the company. For example, on February 21, 1938, C. G. Beeching wrote the New York zone manager, F. D. Turrill, in part, as follows:

I would like to call your attention to the fact that you have entirely too many dual dealers. Get some action and get something done on this.

This letter was in reference to a weekly zone report of February 12, 1938, submitted by Mr. Turrill, in which were listed seven Hudson dealers who handled other lines. The report commented on each individual situation as follows:

Regarding a dealer handling Hupmobile he stated:

Necessitates my getting into this situation. Feel certain they will cancel other line.

Three dealers handled Willys, and of these he wrote:

Agreed to cancel Willys after liquidation of stocks.
Assures us nothing being done with Willys. Certain he will cancel.
Doing little with Willys. However, will not cancel immediately. Expect action in near future.

Concerning a dealer handling Packard, the New York zone manager, reported:

Necessary we take time before we can separate this account just recently signed.

Of a Cadillac-La Salle dealer he stated:

Do not term this as direct interference. Dealer will not cancel higher-priced line.

The seventh dealer handled Studebaker in addition to Hudson, and on this situation he reported:

Dealer has agreed to cancel Studebaker. Will do so after liquidation of stock.

District-organization correspondence between E. K. Dodge and J. S. Oliver, both of the Hudson organization in July 1937, respecting the unsatisfactory operations of a distributor in the company's Memphis territory, stated:

Distributor started with us late in November, taking over a dealer group comprised of many dual accounts, etc. Much effort has been put forth in the field to correct the dual situation, and also to close the important open points existing. Slow progress has resulted; however, in time the picture will improve considerably.

Nash-Kelvinator Corporation.—The agreements of Nash Motors Division of the Nash-Kelvinator Corporation provides that it is understood that the net prices of cars shown apply only in the event that the dealer does not engage in the sale of new automobiles except as are manufactured by the corporation or its subsidiaries. Should the dealer fail to provide such exclusive representation the net prices to the dealer are increased $10 on the Ambassador 8 series, $8 on the Ambassador 6 series, and $7 on the La Fayette series.

The Studebaker Corporation.—The Studebaker sales agreements provide that the distributor shall not handle or sell other makes of new automobiles or parts in such a manner as will prejudice the sale or reputation of Studebaker or injure the name "Studebaker." Also, the distributor agrees to consult Studebaker before dealing in any other makes of new automobiles or parts.

Graham-Paige Motors Corporation.—The Graham-Paige agreements provide that the distributor shall not sell or deal in other makes of motor vehicles, chassis, or trucks made by other manufacturers without the written consent of a designated official of the manufacturer.

CHAPTER VIII. MANUFACTURERS' POLICIES AND PRACTICES RESPECTING PARTS, ACCESSORIES, TOOLS, AND EQUIPMENT

Section 1. Handling of Manufacturer's Parts Exclusively

All of the present automobile manufacturers' dealer or distributor sales agreements contain some provision concerning the use or sale of the respective manufacturer's parts exclusively. The terms of these provisions are set forth and discussed in Chapter III, Nature and Basis of Manufacturer-Dealer Relations. Most of the agreements forbid the use or sale of parts not manufactured or approved by the dealer's manufacturer while in others there is no provision for consent.

The basis for the inclusion of these provisions is generally stated by the manufacturer to be the interest of the manufacturer, the dealer, and the car owner in the availability of satisfactory repair and replacement service. For example, the provision in the Chevrolet agreement is stated by the manufacturer to be based on recognition of the mutual interest of the manufacturer and dealer in maintaining owner goodwill through prompt and satisfactory service at reasonable cost, the primary responsibility for furnishing such service resting on the dealer.

The provision in the Chrysler Corporation's Chrysler-Plymouth distributor sales agreement is stated by the manufacturer to be based on recognition of the importance to the manufacturer, the distributor, the public, and the owners of Chrysler and Plymouth products that the products be safe and measure up to Chrysler's standards of manufacture.

In the Ford dealer sales agreement the manufacturer provides that dealers handle only parts of this manufacturer because the company in its advertising has consistently urged owners of its makes of cars to patronize authorized dealers as proper sources from which to procure genuine parts.

The very large profits and especially high rate of return on their investments in their parts and accessories departments realized by manufacturers is undoubtedly a factor underlying the manufacturers' insistence that their dealers handle only parts of their manufacture and also the manufacturers' pressure on dealers to take unwanted parts and accessories. The profits made by manufacturers in their production and sale of parts and accessories are described in chapters XII to XV.

Manufacturers claim that their insistence that dealers shall provide standard service facilities and handle adequate supplies of satisfactory parts has resulted in the development of consumer service, by which owners of automobiles, particularly of makes produced by the larger manufacturers, can obtain prompt emergency service in practically every part of the country. However, it appears that jobbers and wholesalers of parts have played an important part in this development.

In this connection it is to be noted that manufacturers with large sales volume capable of supporting a greater number of dealerships making adjustment, replacement, and repair services readily accessible to motorists almost everywhere have a distinct advantage over manufacturers whose volume permits only a smaller number of dealerships in sometimes widely separate locations.

The independent parts manufacturers have undoubtedly played an important role in effecting improvements in automobiles through development of parts and equipment of greater efficiency and durability. The value of this service is recognized by an independent automobile manufacturer who wrote the Commission stating that the company:

> * * * always welcomed the opportunity to select for the public from among the products of the parts makers those parts which would in all respects give the best results in use and with respect to which an adequate service was rendered throughout the country. Considering the relatively complicated nature of an automobile with the thousands of parts entering into it, it would certainly seem that in the American economy the continued development of the parts making phases of the industry will be essential to the production of the best cars for the least money to insure that American cars will always find an increasingly substantial demand in the world market.

As concentration in the manufacture of motor vehicles increases, the tendency of large car manufacturers is to take over the independent manufacturers of parts. To the extent that car manufacturers absorb parts manufacturers and limit the sale of parts of the remaining parts manufacturers through insistence that their dealers handle only parts of their own or approved makes, the car manufacturers tend to restrict free competition in the parts manufacturing industry.

It is to be noted, further, that in some instances the parts sold to dealers by the automobile manufacturer are purchased by the latter from independent parts manufacturers and resold to the dealers, frequently at prices higher than those the dealer would have to pay if he were allowed to deal directly with the parts manufacturers, or with independent wholesalers handling parts produced by the particular parts manufacturers involved.

Enforcement of agreements regarding dealer use of manufacturer's parts.—In its report form sent to motor-vehicle dealers, the Commission asked the dealers to state to what extent they were required by the manufacturer or distributor to be exclusive dealers in passenger cars and trucks, parts, accessories, and other items.

Of the dealers replying to this question, a little over one-third indicated they are required to handle their manufacturers' parts exclusively. Most of the replies were brief, many simply stating, "Fully," "100 percent," "None," or "No."

Among dealers handing the products of different manufacturers, there was considerable variation in the proportion of dealers who stated that they were required to handle their manufacturers' parts exclusively. A much larger proportion of dealers representing the three large manufacturers than of dealers representing all other makes so indicated.

Some dealers simply stated their contracts required handling of manufacturers' parts exclusively while others were apparently unaware of this provision. Some indicated that the policy of their respective manufacturers was in accord with this provision but that it was not rigidly enforced. As in the case of replies regarding cars and trucks, some dealers indicated that they carried their manufacturers' parts exclusively, and no question of enforcement of the provision would in such cases arise.

Following are some of the statements of dealers on this subject made to agents of the Commission or in response to questions asked in the Commission's report form:

Chrysler Corporation.—As previously stated, most of the replies were simply of the "yes" or "no" variety. Those quoted below are typical of other replies received from dealers in the Chrysler lines.

A De Soto-Plymouth dealer stated:

We naturally buy 90 percent of our parts from Chrysler—no pressure.

Another De Soto-Plymouth dealer stated regarding parts purchasing that the manufacturers—

Try to regulate but are not able.

A Chrysler-Plymouth dealer justified the manufacturers' attitude regarding handling of their parts exclusively, as follows:

Expect their dealers to use genuine parts, the material and processing of which has passed their inspection. We have no desire to handle counterfeit parts and feel that no dealer who is honorable and honest in his relations with his customers should do so. Our experience with cars in which counterfeit parts have been installed confirms our belief that the sale of these products approaches the proportions of a racket and that car manufacturers ought to have legal protection against the sale of imitation parts made of inferior material and not adequate for the service required of them.

In connection with the foregoing, it should be pointed out that in some instances the parts objected to by the motor-vehicle manufacturer are identical with those he supplies, being made by the same factory and sold to the motor-vehicle manufacturer. A Dodge-Plymouth dealer stated that these parts could be bought at lower prices from the parts manufacturer who made them than from the motor-vehicle factory, his statement being as follows:

A lot of the parts used in our cars are manufactured by parts makers and sold to the factory. In some instances we can buy these parts from the manufacturer cheaper than we can from our factory. They naturally find fault with the dealer for doing this.

Another Dodge-Plymouth dealer, indicating a change in the company's policy regarding exclusive handling of parts and accessories since the inception of the Commission's motor-vehicle inquiry, stated:

Up until the Federal Trade investigation this year, we have constantly been under pressure to do something, either buy cars, buy trucks, try to sell radios, buy and sell other parts and other supplies made and sold by our manufacturer. In fact, we have been told that it was expected that we buy all accessories and equipment from our manufacturer,[1] that our friendly relations depended upon such.

Our producers in the past have informed us they expected us to buy accessories from them, and in some cases we have been informed that we were not to put outside accessories on Dodge cars except those recommended and approved by our factory. This caused a large expense. This pressure has been taken off since the Federal Trade Commission investigation.

Ford Motor Co.—Dealers' replies to questions in the Commission's report form indicated that the Ford Motor Co. was quite insistent that its dealers handle its parts exclusively.

One Ford dealer stated that the company required him to handle their cars and trucks exclusively but that the requirement regarding parts was less rigid, adding:

[1] Chrysler Corporation.

The branch uses considerable pressure to force us to sell their parts. If other parts are used they must not be advertised as genuine Ford parts.

A Ford and Lincoln-Zephyr dealer stated:

Manufacturer always insists on us carrying their parts exclusively, but we carry parts of other manufacturers, * * * and keep them out of sight.

To an agent of the Commission a Ford dealer stated that the factory representative checked his parts at intervals and if he discovered any parts or accessories not made by Ford, they were laid aside and the dealer was told to dispose of them within 30 days. If the dealer did not comply, he would not be allowed to operate a parts-service truck for wholesale distribution of Ford parts.

Another Ford dealer stated that he had tried to handle parts and accessories not manufactured by Ford and had been told by the factory representative to get rid of them. The factory representative, according to the dealer, had made some very strong oral protests in this connection.

General Motors Corporation.—In connection with General Motors dealers' complaints it should be noted that the Commission commenced its investigation of the parts policies and practices of General Motors Corporation and affiliated companies as early as February 1934 and that a complaint in this matter was issued in June 1937. This investigation has probably had the effect of reducing dealers' cause for complaint in connection with such policies and practices of General Motors Corporation.

Dealers handling General Motors lines were particularly severe in their complaints regarding pressure to take more parts and accessories than they wanted, or felt they needed, and it is to be noted that such oversupplying of dealers operates as a means of enforcing exclusive handling of the manufacturer's products by tending to force the dealer to confine his selling effort to the articles with which he has been overstocked by the particular manufacturer concerned.

As was the case generally in connection with this subject, most General Motors dealers answered the Commission's report form briefly and without comment. The following replies are of interest.

A Buick dealer stated:

Only genuine factory parts are allowed in your parts department.

A dealer handling Oldsmobile cars made the following statement:

Our contract states we must use genuine Oldsmobile parts.

Some dealers indicated that the manufacturers' policy had changed. In this regard a Pontiac dealer stated:

They do not bother us now.

A Chevrolet dealer stated:

Chevrolet's policy in regard to parts, while much better than it was prior to 1938, is still somewhat arbitrary. They still feel we should buy 100 percent of our parts, batteries, etc., from them, even though we can buy the identical merchandise from other sources on a more favorable basis.

Another merely indicated that there has been a change by stating:

No pressure now.

One of the methods used to persuade dealers to handle Chevrolet parts exclusively was explained by a dealer, as follows:

The factory has, by showing and explaining to us the difference and inferiority of other than Chevrolet parts and accessories, tried to dissuade us from purchasing them.

Other methods of enforcement.—As previously stated, another practice tending to prevent dealers from handling parts, and also accessories, manufactured by other concerns, is that of exerting pressure on the dealer to overstock the motor-vehicle manufacturer's parts and accessories. This practice is described in the following section.

Section 2. Pressure on Dealers to Take Parts, Accessories, Tools, and Equipment

Manufacturers have exerted considerable pressure on dealers to take and sell parts and accessories in excess of quantities which dealers considered they needed and could handle profitably. Similar pressure has been used in connection with tools and equipment for use by dealers in servicing the manufacturers' makes of cars. Dealers generally reported, however, that such pressure either had been greatly lessened or removed in 1938.

The sales agreements, or supplements thereto, of manufacturers generally provide that the dealer shall maintain a minimum stock of parts and adequate tools and equipment for servicing the manufacturer's cars sold by the dealer.[2] Some dealers stated that a requirement which must be met before the franchise was granted was the ordering of parts, tools, and other equipment in quantities satisfactory to the manufacturer.

Reported methods of forcing dealers to take unwanted parts, accessories, tools, and equipment ranged from high-pressure salesmanship to shipping these articles to dealers without the order or consent of the latter and with threats of cancelation if they were not accepted. Manufacturers forced acceptance of accessories in many cases by installing them on cars ordered by and shipped to the dealers. In other cases extra equipment and accessories were placed in the trunks or storage space of cars shipped but were not installed.

Chrysler Corporation.—Dealers handling Chrysler products are required to carry supplies of parts as well as tools and equipment considered by the manufacturer to be adequate for the needs of the dealerships. Purchase of such supplies is agreed to by the dealer at the time the franchise is granted. Regarding this requirement, one De Soto-Plymouth dealer stated:

> All manufacturers require a dealer to buy at the time of signing up for the franchise, a minimum stock of parts. * * * If the dealer refuses to buy this material, he just doesn't get the franchise.

Another De Soto-Plymouth dealer stated:

> We were threatened with cancelation at numerous times and the renewal of our contract was held up, we believe, to force the purchase of tools and equipment that we did not desire to buy.

The Dealer Operations Division of Chrysler Corporation keeps a close watch on the parts stock of dealers representing the corporation through reports made by its representatives. For example, M. J. Golden, regional manager at Detroit, wrote W. N. Frink, Cleveland district manager, on August 17, 1937, regarding parts carried by Lloyd P. Jones, Inc., dealer of Cleveland, Ohio, stating:

> In checking your report of August 16, I notice that this city dealer does not carry the minimum parts stock.

[2] See discussion in ch. III.

This is part of the dealer's agreement and I don't see any reason why any city dealer, no matter how close he is to the distributor, should not carry an adequate parts stock.

On September 25, 1937, Mr. Frink wrote Mr. Golden, as follows:

Yours September 23 at hand, asking reply to yours of August 17. Please be advised that Mr. Jones in the presence of our service representative, Don Maun, agreed to do certain things to correct his lack of parts stock, by building a suitable parts-department space; however, he failed to complete the plans. I talked to Mr. Feder [3] about it just prior to my trip into Detroit, and on my return here after the meeting found Mr. Dowd [3] had gone on a fishing trip for a week; however, on his return here Saturday I immediately contacted him on the subject and he agreed to talk to Jones with me early the coming week.

I have also arranged to call on Jones with Mr. Miller, the factory-parts man, and also with Mr. Maun this coming Monday morning, and feel that we will remedy the trouble completely; will also write you in complete detail after our meeting with Mr. Jones.

On October 1, 1937, Mr. Frink again wrote Mr. Golden, stating:

Today we feel happy to report that Mr. Jones, after many promises, has started tearing down his old parts room and service office, and will immediately erect a nice small-parts and accessory room. He also has placed order with Dowd-Feder for complete minimum parts stock and full line of accessories. He has also ordered four extra sets of steel bins.

Regarding the shipment of unordered accessories, a De Soto-Plymouth dealer stated, in part:

We were not oversupplied with cars, parts, and accessories during 1938.

We were, however, shipped 50 1937 radios to use in 1938 cars because the factory was oversupplied, notwithstanding the fact that we ordered 1938 radios. Shortly after we received these radios they came out with their 1938 models and we were obliged to sell the old type during the greater part of the 1938 model year at a disadvantage.

Concerning the extent to which the manufacturer required him involuntarily to buy advertising materials, picture machines, special tools, parts, tires, accessories, etc., a De Soto-Plymouth dealer stated:

Did not this year but have done so in previous years. We must cooperate with their requirements or we will not be rated a 100-percent dealer.

Another De Soto-Plymouth dealer stated:

They insist on it. Often we buy tools they recommend although we seldom use them.

A former De Soto-Plymouth dealer, who later canceled his contract, stated that in 1934 the De Soto Division of the Chrysler Corporation had on hand a great quantity of auto trunks for touring models. This was at the time the built-in-trunk models came out. Demand for trunks was very light. In October, factory representatives contacted all dealers and advised them of the quota of trunks they were expected to take, at $22.50 each. This was the price the trunks sold for in January or when they were first built. The dealer refused to take the number of trunks allotted but finally agreed to take half the number. These trunks were sold at a loss by the dealer.

Regarding his early experience with Chrysler Corporation concerning losses resulting from oversupplying with parts, a Chrysler-Plymouth dealer stated:

In almost every year we have been urged and forced to take automobiles that we did not want up until 1937 and 1938.

In order to become a Chrysler-Maxwell distributor in 1924, they forced so many Maxwell parts on us that we took a loss in succeeding years of about $10,000

[3] Of the firm of Dowd-Feder, Chrysler distributors, Cleveland.

obsolete parts. These were not all purchased in 1924 but years following; last year was the least obsolescence we had, and that was 12 percent of our last year's stock. The reason it was as low as 12 percent is due to the fact they established a parts depot 3 years ago in ———— and now have taken it away and it takes 3 weeks to get any parts that are not common, such as spark plugs, etc.

No coercion is being used at this time, as to parts and cars, but this has been done in the past, mostly through threatening to cancel our contract.

This dealer also complained as to obsolescence of recommended parts, as follows:

Most tools that were recommended were O. K., but our greatest loss was from obsolescence of recommended parts.

The complaint that supplies of parts and special tools were shipped to dealers with the introduction of each new model was made by many dealers. A Chrysler-Plymouth distributor, making such a complaint, stated that every time a new model was announced a supply of parts was forced on him.

Dodge-Plymouth dealers made complaints similar to those described above for the other Chrysler Corporation lines.

A Dodge-Plymouth dealer complained of the pressure to take accessories, as follows:

Sometimes they do a lot of high-pressure work on accessories at the end of a season.

Another Dodge-Plymouth dealer stated:

The special-tool question has been with us for a long time, and at times has been very objectionable.

Concerning involuntary purchases of tools, parts, and other equipment, a Dodge-Plymouth dealer stated:

We are told it is part of our contract to buy, regardless if we wish or need, advertising material, picture machines, special tools, and parts.

Another of the Chrysler Corporation's methods of selling unwanted accessories is its practice of shipping cars equipped with such accessories. In order to obtain a desired model most customers will accept one equipped with extras at an added cost rather than to be subjected to the delay which would be necessitated by the placing of a special order for a car not so equipped.

The Chrysler Corporation's method of marking prices of its cars on display equipped with extras passes on to the consumer the cost of these accessories in a manner that is very likely to be misleading. For example, the Chrysler Corporation displayed a Dodge luxury liner de luxe at the New York Automobile Show in November 1938, with the following price shown on the front and rear license-plate brackets, in the following manner:

DODGE

LUXURY LINER DE LUXE

4-Door Sedan.......... $905

Delivered in Detroit

An agent of the Commission was informed by several salesmen that the car displayed was sold in New York at the price advertised plus transportation only. Mr. John B. Covell, in charge of the display, advised the Commission's agent that the actual delivered price of the car as displayed was shown on a tag attached to the steering column, which read as follows:

Dodge Luxury Liner De Luxe 4-Door sedan, delivered in Detroit	$905.00
Group-A accessories	22.50
Radio	51.00
White-sidewall tires	15.75
Electric clock	10.00
Chrome wheel rings	8.00
Chrome wheel disks	8.00
Glove-compartment lock	.75
Total Detroit price	1,021.00
Freight	43.00
Total delivered New York price	1,064.00

Mr. Covell added that some of the New York dealers added an additional $5 to the price of this car to cover a lubrication contract.

At times there were no price tags attached to the steering columns of the various Dodge and other Chrysler Corporation cars on display and it was stated that the public would remove them and periodically they would be replaced.

Through the method described above, a customer, seeing the car on the floor was unmistakably given the impression that it could be purchased for $905 plus freight to New York, whereas the actual price of the car as displayed was $1,021 plus freight to New York and frequently plus the $5 lubrication charge.

Regarding the possibility of obtaining a car at the $905 price, Mr. Covell stated that Dodge Bros. and the dealers would accept an order for a motor vehicle at the advertised price, especially from large fleet owners who so demanded, but the general practice was to include the extra equipment on cars sold to the public. Also, he stated, an individual could get one on special order provided he desired to wait but because of this delay the public readily accepted the extra equipment.

Similar situations existed in connection with other cars of the Chrysler Corporation on display at the New York show. Mr. F. L. Link, in charge of the Plymouth display, stated that a Plymouth could be purchased, by special order, without extra equipment by large fleet owners but that the general public was required to buy the car as displayed. Cost of extra equipment on the various models of Plymouths displayed ranged from $6 to $85.

Thus, the above-described practices of the Chrysler Corporation not only constitute a method of forcing unwanted accessories and equipment but tend to mislead the purchasing public as to the prices of the cars as displayed.

Ford Motor Co.—Ford dealers complained of pressure to accept unwanted parts, accessories, tools, and equipment but were most emphatic in their complaints concerning special tools and equipment. An example of this type of complaint is the following statement of a Ford dealer:

Have had to purchase too many unnecessary tools. Have a picture machine that I didn't want. Parts, tires, accessories, O. K.—no trouble here. The first item is my pet peeve. K. R. Wilson tools sold by factory under "need insistence" have caused my teeth to gnash many times. Can buy better tools locally for equal or lower price and get "service" which the other people cannot give. * * *

Had to buy an $800 brake-testing machine against my wishes after 6 years of satisfactorily handling brake problems that were brake problems—when the brakes of 1938 cars were not a problem. Resignation as a dealer avoided this deal.

Asked concerning what items he had been pressed to purchase involuntarily, another Ford dealer stated:

One-hundred-dollar truck rear axle for display.
Thousands of dollars of special tools which we didn't need or use.

A third Ford dealer stated:

Special tools are frequently shipped without our authorization.

In connection with these complaints, the equipment requirements for various sized Ford dealerships and service stations are of interest.

There are four equipment groups, as follows: Group A comprising the minimum equipment required of all neighborhood service stations, associate dealers, and direct dealers averaging less than 25 new-car sales per year; group B lists equipment for dealers selling between 26 and 100 cars per year; group C for dealers selling between 101 and 300 cars; and group D for dealers selling more than 300 cars per year. The total cost of equipment required for the various groups ranges from $184 for group A to nearly $2,000 for group D. The requirements for group A dealerships are outlined as follows:

As outlined in sales department letter of May 5, 1937, it will be necessary for all group A dealers, associate dealers, and all neighborhood service stations to be equipped with such precision tools as are necessary to maintain original new-car efficiency during the first year or two of ownership.

It is expected, of course, that they will have suitable garage equipment of a general nature such as lubrication guns, benches, vises, battery chargers, etc.

A list of the absolute minimum of precision equipment for associate dealers is given below. This list also represents the minimum precision equipment with which a neighborhood service station can perform this service.

Direct dealers who, during the last 3 years, have averaged less than 25 new-car sales per year, should be considered in the same classification as the associate dealer or neighborhood service station and this minimum list likewise applies to them.

In some instances the volume of service performed by the dealer will be out of proportion to his sales and additional equipment may be required. However, these dealers should secure this equipment first.

Elsewhere in this book additional tool lists for the other classes of dealerships are given. However, it is important that immediate progress be made on these associate dealer, neighborhood service station, and small dealer set-ups.

	Price
Hub puller	$5.25
Concentricity gage:	
Front	3.50
Rear	3.00
Front	3.30
Cable puller	13.75
Ford laboratory test set	[1] 135.00
Spring-tension scale	1.50
Timing jig	[1] 8.75
Float-level gage	3.00
Battery servicer	6.95

[1] Any number of used Westinghouse test sets are available from larger dealers at $50 or less. This would make the total cost of this equipment less than $100. Likewise, as larger dealers secure the distributor stroboscope, a considerable number of used timing jigs should become available at a reduced cost to the small set-ups.

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Concerning group B dealerships it is specified that:

Dealers selling between 26 and 100 cars per year should be equipped to render major repairs to engine, transmission, clutch, and rear axle in addition to those services that are necessary to maintain original new-car performance.

In addition to being able to handle major repairs on cars, group C dealerships:

* * * must be able to provide like services on Ford trucks. In addition to this, these dealers should be able to handle all phases of wheel-alinement service and need the approved equipment for this purpose.

The additional requirement for group D dealers is that they should be equipped for collision service and complete refinishing service.

The introduction of new models yearly entails the purchase of special tools for the servicing and repairing of these models. Thus, the dealers' original equipment purchase requirements are increased by the necessity of purchasing a certain quantity of additional tools with the introduction of each new model.

A Ford-dealer complaint, similar to those made by dealers in various other makes, concerned the requirement that new-model tools and parts be purchased immediately upon the introduction of new-model cars. The apparent objection to this practice is the expenditure for these items by the dealer in advance of the need for them, thus tying up a portion of the dealer's capital.

Typical of this complaint is the following statement of a Ford dealer:

We have to buy new tools immediately when new models come out, even though we have no use for them. * * * Parts are to be stocked immediately upon a new model coming out, even though the car is new and no need of parts.

Concerning the requirement of the manufacturer that the dealer purchase, involuntarily, advertising material, picture machines, special tools, parts, tires, accessories, etc., Ford dealers made statements of which those quoted below are typical.

One merely stated:

Whatever they fancy.

Another replied as follows:

This is rather difficult to explain, but all items mentioned above were forced upon us at one time or another. We were compelled to comply with their wishes under threat of cancelation of franchise.

A third Ford dealer made the following statement:

This is always done in an indirect manner, but with such consistency and force that a dealer reads between the lines the advisability to carry out the manufacturers' program or fear consequences detrimental to his future relations with the factory.

In connection with the foregoing statement, which, in contrast to the preceding one, does not make any definite reference to threats of cancelation, it is to be noted that such threats need not be made specifically in order to compel dealer compliance with the manufacturer's policies. The mere fact that the manufacturer, through the terms of his agreement with the dealer, has the power to cancel the franchise practically at will, coupled with the situation of many dealers to whom cancelation would result in a great financial loss, not infrequently of disastrous proportions, makes outrights threats of cancelation unnecessary.

Statements of Ford dealers to agents of the Commission indicated that pressure has been exerted by the manufacturer in connection with acceptance of unwanted and unordered accessories. For instance, a Lincoln-Zephyr dealer stated that he had been required to accept cars equipped with unwanted accessories, such as radios. He stated that he had frequently tried to refuse acceptance thereof and sometimes has been successful. When unsuccessful, the extra equipment usually resulted in a reduction in his profit, for which the factory made no recompense.

A Ford dealer stated that on numerous occasions articles not ordered were shipped to him. One instance cited was that of a number of sets of seat covers, selling at $25 per set. The dealer communicated with the factory representative and explained to him that he had not ordered the covers and felt he could not dispose of them, because they were too expensive for his trade. Quite a controversy arose between the dealer and the factory representative concerning this shipment, but the dealer was unable to have the shipment recalled. The dealer stated that he finally disposed of the seat covers at a sacrifice.

Concerning parts, this dealer stated that when certain repair parts were ordered he had been informed that the branch did not have them in stock but would back-order them. At times a portion of the order would be shipped. As the demand for parts lessened he would receive the full order, consequently becoming overstocked with parts.

The factory representatives checked his parts stock frequently and if articles not of Ford manufacture were found, the dealer stated he would be advised to dispose of them and not to have other than Ford parts in his bins.

Regarding the seat covers he had been forced to take, this dealer stated that the factory representative made a suggestion to the effect that the dealer reimburse himself for loss incurred in disposing of these seat covers by making improper charges to customers. Although this statement is not mentioned as being representative of Ford policy, it indicates the type of pressure to which dealers handling many makes may be subjected by factory field men, and also the fact that the first concern of manufacturers and their representatives is the sale of merchandise, frequently with little regard for the question of whether or not this merchandise can be profitably disposed of by the dealer. Furthermore, it is to be noted that the Ford Motor Co. has "suggested" that its dealers include in their invoices to retail customers a charge for "conditioning and handling," which in reality represented a charge of an entirely different nature. This suggestion was made in a letter to dealers under date of October 18, 1935. The following is an excerpt from a copy of this letter from one of the Ford Motor Co. branches to the dealers in the branch territory:

> Effective October 19, it is suggested that dealers include in their invoices to retail customers a charge of $12 for delivery and handling, plus current market prices for gasoline, oil, and alcohol.
>
> This $12 charge should be shown on dealers' invoices to their customers as "Conditioning and handling." The $12 is comprised of $3 for dealer inspection, conditioning, etc., which will be dealer revenue, and a charge of $9 passed on from branch billings to cover advertising—$3 of which will be used, for local advertisements such as billboards, newspapers, etc., released by the branch, $2 for national radio program, and $4 for a sales-promotion fund which will be administered at the branch and used for purposes of supplying our dealers with

sales-promotion ammunition, special advertising and material, bulletins, etc. One dollar of the sales-promotion fund will be set aside to supplement our salesmen's bonus funds—the money to be used strictly for cash and other merchandise prizes to be distributed periodically among dealer's salesmen, and a great deal of care will be taken to see that equal opportunity is provided for large- and small-town retail salesmen.

This arrangement will give our dealers an increased revenue and profit on each retail sale and will provide them with sales material which, in many instances in the past, has not been gratis to the dealer.

Ford dealers generally indicated that pressure to take and sell parts, accessories, tools, and equipment had been greatly decreased or eliminated in 1938.

General Motors Corporation.—General Motors dealers were severe in their criticism of their manufacturers' policies regarding the shipment of unwanted and unordered parts, accessories, tools, and equipment. The principal complaints of the General Motors dealers in this respect concerned parts and accessories.

The shipping of unordered accessories was a frequent complaint of dealers handling General Motors lines. A Pontiac dealer stated to an agent of the Commission that the Pontiac Division had shipped him unordered heaters and radios. To confirm the validity of his complaint, this dealer referred the agent of the Commission to a former district representative of the Pontiac Division. This representative stated that the dealer's complaint was justified. From his experience as a Pontiac representative, he described the methods of forcing dealers to accept unordered shipments. He stated that one of the methods of getting the unordered merchandise to the dealers was to wait until they ordered automobiles, and then, when they needed them badly, he would have the car distributor in the zone office add a radio and a heater to the automobile order, and these items would be shipped either attached or in the trunk, even though the dealer had ordered the car without them. He stated that this was the accepted method of shipping unordered radios and heaters in the area in which he had operated.

In a further statement, this informant indicated that while he was a Pontiac district representative it was customary for him to deliver to Pontiac dealers in his territory, without orders from the dealers, radios and other accessories which were not moving rapidly in the zone warehouse and to tell the dealers that they would be billed for them the following month. The dealers were told that they had to take these accessories "or else."

According to this informant, another method employed in distributing these surplus accessories was to load up the back of his car with an assortment of them and drive from dealer to dealer, leaving a certain number with each dealer and advising him that was his quota. In some instances dealers were unable to sell radios to customers because static interference in their territory made radio operation unsatisfactory. In such cases the dealers would have to sustain the loss on the radios they were forced to accept.

Another custom described by the former Pontiac representative concerned the method used to dispose of accessories at the year-end clean-up period. He stated that when the warehouse was overstocked with radios and other accessories which could not be used on forthcoming models, dealers placing orders for cars were required to take cars with these extra accessories on them.

Still another method of forcing accessories on dealers was related by this informant, who stated that when the zone manager of Pontiac was not selling the quota of accessories set for his zone, either the zone manager or the zone parts manager would call to the attention of the zone car distributor the names of those dealers who were not selling their quotas of heaters, radios, and other accessories. The zone car distributor was instructed that when car orders were received from these dealers, before such orders were forwarded to the factory there should be included therewith orders for a sufficient number of accessories, such as radios, extra horns, wheels, and so forth, to enable the zone manager to meet the zone's quota on these accessories.

Regarding the sale of parts, the informant stated that there was less pressure exerted, but there was no doubt that dealers were expected to handle Pontiac parts exclusively. While representing Pontiac it was customary for him to run special sales or programs two or three times a year, at which times he would get the dealers to stock up on fast-moving parts. At those times he usually went over the inventories of the dealers and would induce them to buy a 2- or 3- and sometimes 6 month's supply.

Pontiac dealers complained of pressure to take parts, accessories, and other items, some mentioning methods similar to those outlined above. For example, a Pontiac dealer stated that in 1937 unordered accessories were shipped him, as were cars with unordered accessories attached thereto. These included radios, electric clocks, special steering wheels, special bumpers, cigar lighters, and other items. In order to obtain cars it was necessary to accept them thus equipped, regardless of whether he wanted this equipment. He stated that some of the radios were detached in order to sell the cars, and in August 1938 these were still in his stockroom. There was, according to this dealer, almost as much pressure on the dealer to sell parts and accessories as automobiles. During 1938, however, cars, parts, and accessories were shipped the dealer only as ordered.

A third Pontiac dealer stated that on taking the Pontiac contract in 1934 the Pontiac factory shipped him a large stock of parts, "some of which were as necessary as buggy whips." This dealer stated he accepted these parts because a clause in his contract required him to do so.

Another Pontiac dealer stated that in September 1937 he was forced to take 15 unwanted old model Pontiacs, and two steel delivery boxes were included with the shipment. These steel delivery boxes are made to insert in the rear of coupes to use for delivery purposes. The dealer stated he protested vigorously, but had to take the boxes anyway.

This dealer stated that during a period when the factory was sponsoring a contest among its service men to sell parts, he was approached by a local factory service man, who asked him to buy $300 worth of parts. The dealer stated that he explained that the parts were not needed, but the factory representative remarked, "O. K.; you may want favors from us sometime—you won't get them." The dealer stated he purchased $100 worth of parts to pacify the factory representative.

Regarding the methods of this same factory representative in forcing the acceptance of unordered and unwanted accessories, this Pontiac dealer stated that in October or November of 1937 he ordered a few windshield defrosters. Instead of bringing the number ordered, this factory representative delivered 26 or 28 of an old-style defroster, in addition to those ordered. According to the dealer, when he protested the factory representative stated: "If you want those you ordered, you'll have to take these, too." The dealer stated he took these defrosters against his will, and in July 1938 he still had several on hand.

This same dealer stated that during the winter of 1935–36 a Pontiac salesman asked him to place an order for an antifreeze made by General Motors. The informant stated he considered this antifreeze unsatisfactory and declined to place an order. However, at the insistence of the factory salesman, he finally ordered 2 or 3 cases, but when he received the shipment he discovered it contained 15 cases. According to the dealer, he called the salesman, who said it was too late then to correct the order—that he would work out something with the dealer later.

Pontiac dealers generally indicated that they had no complaints regarding shipments of unordered items in 1938. Statements of three dealers quoted below are typical:

The first stated:

> Not any since 1937.

The second:

> This sort of pressure is very much less than formerly.

The third stated:

> Not as much now. What's the use of talking about a dead horse.

Chevrolet dealers generally did not complain as strongly as those handling some of the other General Motors makes concerning pressure to take unwanted parts, accessories, tools, and equipment. This may indicate a change of policy of the company in this respect in more recent years. Among the statements of Chevrolet dealers described below, it will be noted that a majority stated that there was no complaint on this subject in 1938.

Indicating that although conditions in this respect had improved, coercive methods of selling accessories were still a major difficulty in the dealers' relations with the factory, a Chevrolet and Oldsmobile dealer made the following statement:

> * * * Coercive methods of selling accessories major difficulty now—although factory much more considerate of dealer now than at any time in past.
>
> Oversold accessories by coercive methods 1936 and 1937 very bad in this respect. Much coercion used in 1938.
>
> Just received new supply of 1939 accessories. Nothing wrong except method of selling them. However, believe that is fault of department head and not a company policy.

The following statement of a Chevrolet dealer indicates that pressure to purchase and maintain large supplies of parts, accessories, tools, and equipment has been felt but has decreased. This dealer said:

> At this time there is less coercion or pressure than we have ever experienced in the automobile business. "Requests" and "demands" which have been so common to us in the past have been practically eliminated at this moment. Even though we continually carry a stock of parts and accessories amounting to $10,000 we have been consistently requested to carry a stock one-third larger, even though we have a factory warehouse located within four blocks of our establishment. We have been actually criticized for turning our stock four times

a year which we consider excellent business and governs our investment in our opinion.

A second Chevrolet dealer stated:

Before 1938 we were oversupplied with accessories but not during 1938.

Another Chevrolet dealer stated that in 1938 parts, accessories, and other articles were ordered as needed but that in the past the factory used to ship as it desired. Previously, according to this dealer, certain extra accessories were contracted for with each car ordered but dealers are now allowed to purchase accessories at their discretion.

Complaints of Chevrolet dealers involved the shipping of parts for servicing new models at the time these models are introduced. In this connection a Chevrolet dealer stated:

Sending parts for servicing new model cars at the introduction of the new model when they are not needed for several months and some parts never needed.

Some Chevrolet dealers stated that in previous years the purchase of parts, tools, and so on, was a requirement which must be met at the time of signing a new sales agreement. For example, regarding parts, tools, accessories, and other articles, a Chevrolet dealer stated:

During this year we have not been requested to purchase any of these items over or above our current needs. In the past, however, we were not given our new franchise contract until we actually signed subcontracts for * * * two $150 superservice signs, which I positively refused to accept and which created tremendous agitation and finally succeeded in getting canceled, and $3,000 worth of special shop equipment of which we only needed 50 percent and which we bought and paid for. For instance, we have a very expensive light-testing machine which does not function properly and which the factory will not take back and which cost $175.

A Chevrolet and Oldsmobile dealer stated:

Tools, equipment, advertising, etc., are forced on dealers before they can sign a new sales agreement.

A Chevrolet dealer stated:

It is part of our contract with the factory to purchase the advertising, machinery, and tools considered necessary to properly display and service new cars.

Complaints received from Oldsmobile dealers concerning pressure to take unwanted or unordered parts, accessories, tools, and so forth, were similar to those made by Pontiac dealers. One Oldsmobile and Cadillac dealer complained of Oldsmobile factory practices stating that the factory-shipped accessories with each new Oldsmobile received in spite of his protests. This dealer, in the summer of 1938, had an accumulation of 165 sets of accessories for 1938 models which car buyers had not ordered and had refused to take. He stated that these items, all shipped by the factory without order, would be a total loss with the exception of a few sets he might be able to dispose of.

Another Oldsmobile dealer stated that the factory shipped accessories with each car ordered. He stated it was necessary to place these accessories on every car sold, thus, instead of equipment being optional, it becomes standard equipment and adds $39.75 to the customer's invoice price.

A dealer handling Oldsmobile and La Salle, complained of the Oldsmobile policies regarding unordered accessories, as follows:

Olds in shipping new cars apparently disregard all orders and include whatever accessories they desire.

Requirements as to the purchase of special tools were complained of by some Oldsmobile dealers. A dealer who indicated that pressure to purchase special tools was applied to him because he was considered one of the key Oldsmobile dealers in the city in which he operates, stated:

> Manufacturer is very insistent that special tools be purchased. At this time we have been allotted a special tool purchase that will cost us $660.65. * * * There is an implied threat that to retain that place (key dealership) all requirements must be met as to the purchases of special tools, etc.

Regarding the shipping of unordered items, an Oldsmobile dealer made the following statement:

> Our parts, special tools, and accessories are just shipped.

Shipping parts and tools at the time new models are introduced was complained of by an Oldsmobile dealer as follows:

> Each year at the introduction of a new model the factory ships us an initial parts order, also a complete set of special tools.

This practice was complained of by another Oldsmobile dealer who stated that this has not been so pronounced in the past 2 years. This dealer stated:

> It has always been the custom to ship special tools and parts for new models in quantities determined by the factories. This condition, however, has been relieved somewhat in past 2 years, the factories being more reasonable in their demands in this respect.

The following were among complaints of Buick dealers regarding pressure to take parts, accessories, and other items. One of these stated:

> Dealers are definitely discouraged from handling accessories of other manufacturers if they can be purchased from their own factory, even if there is a logical reason. Force and pressure is more often used than salesmanship.

Another Buick dealer complained regarding accessories as follows:

> Insist on 50 percent or more new cars to be bought with radios, and factory objects to us purchasing radios, heaters, defrosters, seat covers from other manufacturers that offer larger discounts.

Another form of forcing accessories is through their inclusion as "standard" equipment on a new car. This can best be explained by indicating the method of pricing of cars so equipped to the dealer and to the ultimate car purchaser.

In recent advertising by the Buick Division, the prices shown f. o. b. Flint, Mich., for models pictured do not include the price of electric clocks, chrome trimmed wheel rings, and license plate frames and, in some cases, flexible steering wheels with which the cars are regularly equipped at the factory. These items are all treated as extra equipment. A charge of $20 is made for the clock, wheel rings, and license plate frames and an additional charge of $12.50 is made for the flexible steering wheel on all cars upon which the steering wheel is included as regular equipment.

Since the cars as they come off the assembly line would not be properly equipped to sell satisfactorily, this method of pricing has the effect of forcing the dealer to take and pay for as accessories, items which are practically standard equipment. In case a car buyer does not wish to pay the $12.50 additional for the flexible steering wheel, an arrangement would have to be made with the dealer to remove the flexible wheel and substitute a rigid type wheel. In addition, the burden of explaining to the customer why the base price of the car he buys is not that appearing in advertisements is placed upon the dealer making the sale.

The practice of equipping General Motors cars with extras but advertising the prices of cars not so equipped was also followed in the displays of various General Motors makes at the New York Automobile Show in November 1938. The Buick Roadmaster 81, for example, bore price cards prominently displayed in front and rear license brackets which were as follows:

ROADMASTER 81

Wheelbase 133 Inches

Factory Flint
Delivered Price $1,543

The Buick displayed bore extra equipment which would make the purchase price of the particular car marked at $1,543 greatly in excess of this amount.

A Buick Special 46C convertible coupe displayed at the New York show bore price cards showing the Flint delivered price of $1,124. The actual New York delivered price of the car displayed was $1,432.50, which was made up as follows:

Buick Special 46C convertible coupe:	
Factory delivered price at Flint	$1, 124. 00
Transportation charge	52. 00
Local accessory group	22. 00
Flexible steering wheel	12. 50
Fender lamps	7. 50
Radio	63. 00
Air control heater	26. 50
Special paint and upholstery	125. 00
Total delivered price	1, 432. 50

Mr. W. R. Remsen, district manager, Buick Motor Division, New York City, in charge of the Buick display, stated that Buick would furnish a vehicle as advertised upon special order but that it was a general practice to include special equipment on all vehicles shipped to the dealer.

Price tags showing the actual New York delivered prices of the cars on display were inconspicuously placed on the steering columns of the cars. Unless a prospective purchaser entered the car and sat in the driver's seat, these tags were not likely to be observed.

Statements of Buick dealers indicate that special orders would be required in order to obtain Buick cars equipped to sell at the advertised prices.

Similar conditions were found to exist in connection with other General Motors makes. In connection with the Oldsmobile line, the prices advertised in the license brackets of the Oldsmobile on display stated, "special equipment extra." J. H. Ernst, New York district representative of the Oldsmobile Division of General Motors, stated, however, that it was Oldsmobile's policy to include extra equipment on all cars, thereby providing additional revenue to the factory and to the dealer. The so-called "special equipment," or at least portions of it, therefore become in reality more or less standard equipment.

Mr. Ernst also stated that it was customary for dealers in the New York district to add another $5 to the delivered price of each car for a lubrication contract which requires the customer to return to the dealer six times for "free" lubrications.

Hudson Motor Car Co.—Very few complaints were received from Hudson dealers and distributors regarding pressure to accept unwanted parts, accessories, tools, and equipment and these few chiefly concerned accessories. The following statement of one Hudson dealer included parts as well as accessories:

> At the beginning of 1937 our manufacturer took the liberty of shipping sizable quantities of parts and accessories without our order, some of which were finally returned and credit issued.

Concerning pressure to take and sell radios at the season's end, two distributors made statements which referred to discounts allowed on these radios, one dealer approving this discount and the other indicating that the method of its application was unfair. Regarding oversupplying by the manufacturer, the first of these two Hudson distributors stated:

> Yes, the attempt was made on radios at the season's end to liquidate their own excess stocks, setting up quotas for distributors and pressing by wire and letter to consume these allotted numbers. In fairness, however, they did make a reduction in price. The quota system also resulted in our overshipping heaters with a large unsold carry-over from 1938 to 1939.

The second Hudson distributor stated that at the end of the year the Hudson Motor Car Co. allows the distributor $7 discount on each radio he has in stock, provided he purchases a like number, on which a $7 discount is also allowed. If the distributor accepts the proposition he finds himself with a large stock of radios on hand. If he refuses, he is faced with the competition of other distributors who have accepted the offer and who are therefore in a position to undersell him.

Policies of the Hudson Motor Car Co. in connection with accessory merchandising are discussed in the Hudson Zone Manual, which states:

> * * * If the dealer has accessories on his mind, so will his customers because he cannot help but talk about them.

In the manual an accessory quota of $24 per car sold is set up and the statement is made that some dealers have been obtaining this amount. Dealers are instructed to show accessories after the customer has been given the regular delivery price of the car and are urged to make accessory sales at the time of the purchase of the car so that the purchase price of the accessories can be financed with the financing of the car, increasing monthly payments but slightly and making possible sales which could not readily be made at a later date when a lump-sum expenditure by the purchaser would be involved.

The company recommends that dealers establish a 10-percent commission to retail salesmen on accessory sales. To stimulate sales of accessories the factory will prepay freight on 10 or more radios ordered by the distributor or dealer and on heaters in lots of 48.

In a "general letter" dated February 1, 1938, to all domestic distributors, the company emphasized its desire that its cars be sold on the basis of the lowest delivered price and stated regarding the sale of accessories:

Now do not misunderstand us. This does not mean that we want to refuse to sell a customer additional accessories after he has bought the car—and if he wants them. It does mean that we want it to be possible for every customer to buy the car "as is"—at the low price—exactly as advertised. We feel more strongly than ever that our original policy in this respect is the sound and successful policy.

We fully recognize that many buyers may want certain practical and useful accessories, in addition to those on the car. But we don't believe any buyer wants to have his car arbitrarily overloaded with accessories, for which he has to pay whether he wants to or not.

To make it possible for you to meet the desires of customers who wish to add the equipment of the Hudson 112, and in order that we may have a standard merchandising program as far as accessories for this car are concerned, we have set up two attractively priced accessory groups. These are described in the accompanying bulletin and can be sold to buyers desiring them after the car transaction has been completed. They are not included in the price of the car itself; they should not be installed unless specifically ordered.

Packard Motor Car Co.—No serious complaints concerning pressure to accept parts, accessories, tools, or equipment were received from Packard distributors or dealers. Of interest, however, in connection with the company's policy concerning the sale of accessories, is the following letter from an official of the company to all Packard distributors under date of September 16, 1938:

With the introduction of new models, we again strongly urge both distributors and dealers to give increased attention to the consistent sale of accessories, as distributors average 50 percent gross profit on approved accessories sold retail and 20 percent on those sold wholesale. No doubt the most effective method of selling accessories on new cars is by groups, a outlined in trade letter T–2919.

During the present calendar year distributors averaged from $115.06 accessory sales per $MNCRV [4] to as low as $54.54. The national average accessory sales is $81.17 per $MNCRV.[4] Every distributor and dealer should endeavor to at least attain the average. To help accomplish this, we strongly recommend that you follow the group accessory sales idea on both the Packard 6 and Packard 8 (120).

We all realize that in many cases the final delivered price is an important factor in closing the sale. For this reason we again recommend the practice of having a Packard 8 on the floor equipped with the minimum factory group only. The balance of the 8's shown can be equipped with the factory-approved accessory group—radio, heater, etc. Half the Packard 6 cars displayed can be shown with additional equipment. This policy should be followed out so that you can at all times show your prospects cars in each line and quote them at the minimum delivered price.

We urge that all cars shown on the floor equipped with other than the standard group of accessories bear a price tag showing the delivered price of the car, including standard factory group and listing the additional accessories—then, showing the final delivered price of the car.

Other manufacturers.—No particular complaints with respect to pressure by such manufacturers upon the dealers to compel them to handle exclusively, or in excessive quantities, parts, accessories, tools, and equipment were made by dealers.

[4] Per thousand dollars of new car value.

CHAPTER IX. OTHER POLICIES AND PRACTICES AFFECTING DEALERS

Section 1. Manufacturers' Policies and Practices Respecting Financing of Cars

Types of financing involved.—The sale of a motor vehicle to the dealer, and by the dealer to the customer, may involve directly and indirectly three types of financing. The first of these is the financing of the dealer's purchase of the vehicle from the manufacturer; the second, the financing of the customer's purchase of the vehicle; and the third, which is involved as the result of a large majority of new-car sales, is the financing of the resale of the used car taken in trade by the dealer as part of the purchase price of the new car. Especially in depression periods, many dealers find it necessary to obtain loans on the used cars they have in stock but these loans are of a different nature than those discussed in this section.

The greatest part of the financing of new and used-car sales is accomplished through finance companies. Some of these companies were organized to finance retail sales of other merchandise, such as furniture, and subsequently engaged in the financing of automobiles. Others were organized for the purpose of financing automobile sales. Of the latter, some were organized by motor-vehicle manufacturers to finance the purchases and sales of their dealers. There is a varying degree of relationship between the finance companies and the manufacturers. One of the finance companies affiliated with the manufacturers is a manufacturer's subsidiary while others are associated without any element of ownership. During the past few years there have been some changes affecting the control of financing companies by manufacturers. These changes and the present relationships of the various finance companies and motor-vehicle manufacturers are described in chapters XVIII and XIX.

As has been stated elsewhere in this report, the practices of General Motors Corporation, Chrysler Corporation, and Ford Motor Co. in requiring their dealers to finance through particular automobile-finance companies, and also certain practices of these finance companies in conducting their business with dealers, were made the subject of Federal indictments charging violation of the antitrust acts in the so-called South Bend indictments returned on May 27, 1938. The Department of Justice obtained and entered consent decrees in the proceedings involving Chrysler Corporation and Ford Motor Co. on November 15, 1938. Of the three automobile manufacturing companies indicted, only General Motors Corporation has elected to stand trial, and this case is still pending.

Pressure on dealers to use specified finance companies.—There has been considerable pressure exerted upon dealers to use the particular finance company affiliated with or recommended by the manufacturer. This pressure has been of varying intensity and has been exerted by methods ranging from persuasive salesmanship to threats of cancelation of the dealer's franchise. Some dealers have used the manufacturer's finance company for financing their purchases but not their sales and have been subjected to pressure to use the particular company for their sales as well as their purchases.

Many dealers reported that they used their manufacturer's finance company either exclusively or in a large proportion of their financing. Especially in the cases reporting such exclusive use, there would be little or no occasion for continued manufacturer pressure in this connection. Some dealers reported use of their manufacturer's finance company except in cases where the customer requested other arrangements.

The finance companies which the three largest motor vehicle manufacturers have urged their dealers to use are General Motors Acceptance Corporation, which is a subsidiary of General Motors Corporation; Universal Credit Co., which was organized by Ford Motor Co.; and Commercial Credit Co., which has been associated with Chrysler Corporation through contractual relationship as well as formerly through ownership of some of the Commercial Credit Co. stock by Chrysler interests.

General Motors Acceptance Corporation was organized in 1919 by General Motors Corporation for the purpose of financing sales of General Motors products and is still a subsidiary of that corporation.

Universal Credit Co. was organized by Ford Motor Co. in 1928 and has always financed exclusively dealers handling Ford lines. In 1933 the Universal Credit Co. was sold to Commercial Investment Trust Corporation.

The relationship between Commercial Credit Co. and Chrysler Corporation has been based on contracts providing, among other things, that Commercial Credit Co. should render certain financial services for Chrysler dealers and that Chrysler Corporation should recommend to its dealers the use of Commercial Credit Co.

There is probably no doubt that the General Motors Acceptance Corporation and Universal Credit Co. were organized, respectively, by General Motors Corporation and Ford Motor Co. with the object of decreasing the cost to the public of financing time sales. This appears to be particularly true of Universal Credit Co. In many statements at various times the Ford Motor Co. has indicated that it does not desire to have any manufacturing economies that have been passed on to the public in the prices counteracted by excessive financing expenses charged Ford purchasers.

Concerning the extent to which purchases of automobiles are financed on time and the proportion of this financing handled by the three concerns named, a memorandum of the Department of Justice, printed in the Congressional Record of February 16, 1938, stated:

> * * * 55–60 percent of all automobiles purchased by dealers, and about the same percentage sold to the public, are financed on time. Three companies, the General Motors Acceptance Corporation, Commercial Credit Co., and Universal Credit Co. have obtained 80 percent of the wholesale financing and 75 percent of the retail financing. The remaining 20–25 percent of the financing is distributed among 375 relatively small finance companies. The interests of these large finance companies are associated each with one of the large manufacturers.

The Commission's report form for dealers requested dealers to furnish the names of concerns through which time sales have been financed and the proportion of such financing handled by each concern. Replies received from General Motors dealers indicated that 53 percent of such dealers handled practically all time-sale financing through General Motors Acceptance Corporation and an additional 23 percent stated that from 50 to 90 percent of this business was handled through this finance company. Thus, a total of 76 percent of the General Motors dealers replying reported handling over half of their time-sale financing through General Motors Acceptance Corporation. Eleven percent reported using this finance company for less than 50 percent of their time sales and the remaining 13 percent either reported no use of this company or made indefinite replies.

Ford dealers replying indicated that 26 percent of these dealers used Universal Credit Co. in substantially all of their time-sale financing, 16 percent in 50 to 90 percent of such financing, and 21 percent in less than 50 percent. The remaining dealers reporting, representing 37 percent of the total, made indefinite answers or answers that indicated no use of Universal Credit. Thus, 42 percent of the dealers replying reported handling over half of their time-sale financing through Universal Credit Co.

On February 10, 1938, the Ford Motor Co. requested its branch offices to obtain from dealers, and submit to the company, information showing how dealers wished purchases of cars handled from the standpoint of financing. Tabulation of replies received indicated that nearly 60 percent of the dealers stated they wished their purchases financed through Universal Credit Co. For the various branches the percentages ranged from 27 percent in the Seattle and 29 percent in the Portland branches to 75 percent in the Dallas and 77 percent in the Edgewater branches.

Of the Chrysler Corporation dealers replying to the Commission's report form, 19 percent reported using Commercial Credit Co. in financing practically all their time sales and 17 percent in financing from 50 to 90 percent of such sales, a total of 36 percent thus reporting the use of Commercial Credit Co. in over half of their time sales. In addition 15 percent of the Chrysler dealers replying indicated use of this finance company in less than 50 percent of their time sales. The remaining 49 percent of the Chrysler dealers replying either indicated that they used other finance companies exclusively or made indefinite replies.

Chrysler Corporation.—As previously stated, the relationship between Chrysler Corporation and Commercial Credit Co. has been largely based upon contracts, under which Commercial Credit Co. was to render certain services to Chrysler dealers and Chrysler Corporation was to recommend to its dealers the use of Commercial Credit Co. In addition, Chrysler Corporation was to receive certain sums of money from Commercial Credit Co. based upon the profit of of the latter company. Under these provisions Chrysler Corporation received from Commercial Credit Co. $445,139.76 in 1935, $1,328,604 in 1936, and $1,339,130.86 in 1937.

It is evident that, in view of the terms of the contracts, the Chrysler Corporation not only agreed to recommend to its dealers the use of Commercial Credit Co. but had a financial interest in seeing that this company was used.

Dealers were asked if pressure had been used by the manufacturer to induce them to use a particular finance company and whether there had been any change in the manufacturers' policies in this respect. Only 26 percent of the Chrysler dealers replying indicated that pressure had been used to persuade them to use Commercial Credit Co. Twenty-five percent indicated that there had been a change in the corporation's policy in this respect. As previously stated, 36 percent of the Chrysler dealers stated that they used this company in connection with from 50 to 100 percent of their financing of time sales.

In response to the Commission's report form and in statements to representatives of the Commission, Chrysler dealers made the following statements concerning pressure to finance time sales through Commercial Credit Co.

One Dodge-Plymouth dealer who was dividing his business between Commercial Credit Co. and Commercial Investment Trust Corporation forwarded to the Commission correspondence with the Chrysler Corporation in which, on May 1, 1935, he wrote a representative of the corporation, in part:

> * * * we are in the automobile business to make a profit and our association with the Commercial Investment Trust Corporation has been very satisfactory to us in every way. * * * we are splitting the business, giving the Plymouth to Commercial Credit and the Dodge to Commercial Investment Trust, but I take it * * * that this is not entirely satisfactory to the factory.

A representative of Chrysler Corporation replied to this letter on May 14, 1935, in part:

> I hope you can see your way clear to arrange to do business with Commercial Credit Co., who as you know, are now partners in the Chrysler Corporation. We will appreciate that cooperation and I am sure you will like doing business with them.

This dealer, in response to the Commission's report form, further stated:

> Dodge Bros. Corporation, through their district representative, used pressure to induce us to deal exclusively with Commercial Credit Corporation, Chrysler Corporation's recommended finance company.

Another dealer handling Chrysler lines stated:

> The manufacturer has on many occasions tried to force us to go back to Commercial Credit which we refused to do. They have offered to cancel our franchise on several occasions prior to 1935, but in 1936 and 1937 pressure was brought directly to make us change from Colonial Discount Co. to Commercial Credit which we refused to do and we have since been not a very favorable dealer with the company.

Regarding the manufacturer's change in policy in this respect, this dealer stated:

> * * * in the past year, or ever since the investigation by the Government has started, no pressure has been brought by the manufacturer to change finance companies or induce us in any way to make any change.

Another Chrysler-Plymouth dealer stated in August 1938, that during the past year the Chrysler Corporation had made no attempts to dictate to him as to what finance company he should use and as a result he had financed through Commercial Investment Trust Corporation. Chrysler Corporation, according to this dealer, formerly recommended Commercial Credit Co.

A former Chrysler-Plymouth distributor whose contract had been canceled in 1935 and who had previously changed from Commercial Credit Co. to another finance company, stated that numerous attempts were made prior to January 1935 to have him return to Commercial Credit Co.

According to this distributor he was accused of preventing his dealers from using Commercial Credit Co. He stated that, after failing in attempts to have him return to this concern, a Chrysler official told him:

> It will be for your interest to come with us.

A De Soto-Plymouth distributor stated that he had resisted all efforts to induce him to finance all his retail sales through Commercial Credit Co. and that he would give up his franchise, before he would do so. This distributor indicated that he finances about 75 percent of his sales through Investment Securities Corporation and has been doing business with this concern since 1919. The balance of his financing is handled through Commercial Credit Co. He stated that this arrangement was not satisfactory with the Chrysler Corporation which had written him that it had no connection with Commercial Credit Co. but expected its dealers to finance through that company.

Another De Soto-Plymouth distributor stated that great pressure had been brought to bear by Chrysler Corporation to force dealers to use Commercial Credit Co. He indicated he had disregarded these threats until a Chrysler representative had stated in a dealers' meeting:

> We are through trying to induce you dealers to do business with Commercial Credit Co. and now we are going to use other methods beginning the 1st of the month.

This distributor stated that these "other methods" consisted, in his case, of taking away his associate dealers; that at the time this statement was made he had six such dealers and three of them were taken from him. He stated that he still did not choose to finance through Commercial Credit Co. and thereby lost the other three associate dealers. At the time this statement was made the distributor said he was financing all his purchases and 99 percent of his new-car sales through Commercial Credit Co., the reason for using other companies at all being the refusal of Commercial to handle some doubtful risks.

A former distributor and retailer of Chrysler makes of automobile stated to a Commission's examiner that for a considerable period of time prior to May 1937, he financed his installment sales, and such purchases from Chrysler Corporation as required financing, through a certain large independent finance company rather than through Commercial Credit Co. Pressure was put upon him constantly to finance through Commercial Credit Co., not a week passing without the subject being brought up. On innumerable occasions he was unable to get his orders filled. At one time he had 400 cars on order and used every known means to obtain delivery, but without success. Finally he was told that if he would finance with Commercial Credit Co., he would be shipped all the cars he needed; but he refused, stating that he was well pleased with the finance company with which he was doing business—and finally he received 75 cars. Pressure continued. On one occasion, on which he was trying to get delivery of 300 ordered cars, he was finally told that his account had been changed from a 30-day to a cash-on-delivery basis and that cars would not be released to him until or unless paid for by his bank check, amount in blank, or through Commercial Credit Co. The finance company through which he was financing offered to post an ample deposit for release of the cars; but Commercial Credit Co. refused to divulge the amount of the draft to cover the shipment. Finally, in May 1937, Chrysler Corporation canceled his distributorship, declining to state cause, but after having offered this dealership to the dealer's sales manager 2 weeks before the cancelation. At the time of this cancelation, he had 200 unfilled sales orders.

Chrysler Corporation's representatives checked his orders carefully for the purpose of making sure that they were legitimate orders. He was given the choice of handling them by mutual agreement through Commercial Credit or to handle them in accordance with his canceled contract under which he previously settled in 30 days. He was given to understand that under the latter arrangement, however, his orders would have to take their proper turn with orders from other dealers, which would mean that, due to a car shortage, he would not receive deliveries immediately; but if he agreed to the other proposition, there would be no car shortage for him. Notwithstanding this position taken by representatives of the Chrysler Corporation, the dealer, after consulting his attorney, chose to have the matter handled according to his old contract. He was thereupon advised that the cars must be shipped and handled through Commercial Credit Co. He protested vigorously against this arrangement, but soon discovered that there was no other way of obtaining the cars.

Some of the statements of other dealers and distributors handling Chrysler lines indicated that attempts were made to induce them to use Commercial Credit Co. and some indicated that no efforts were made by the Chrysler representatives in this connection. It seems quite clear, however, that upon occasion much pressure was brought to bear on dealers to force them to finance through Commercial Credit Co.

Ford Motor Co.—In 1928 the Ford Motor Co. interests organized Universal Credit Co. to finance purchases and sales of Ford dealers. This company, which has always financed Ford products exclusively, was sold to Commercial Investment Trust in May 1933. On May 17, 1933, Ford Motor Co. wrote to all Ford dealers enclosing an official announcement that its interest in Universal Credit Co. had been sold to Commercial Investment Trust which stated in part as follows:

> Universal Credit Corporation has been for a number of years the automobile financing organization of the Ford Motor Co., and the same intimate relationship will continue under the new ownership. It will continue to cooperate with the Ford Motor Co. and devote its entire resources to offering the "authorized Ford finance plans" exclusively for Ford dealers and Ford purchasers.

In this announcement, Henry Ford was quoted as stating:

> We set out to reduce the cost of credit to the car buyer, and we feel that we have succeeded.

In its communication to all Ford dealers the Ford Motor Co. outlined the advantages of financing through Universal Credit Co. and urged the continued use of this concern by its dealers.

The stated policy of the Ford Motor Co. concerning the use of Universal Credit Co. by its dealers was experssed in a letter from Edsel Ford to H. C. Doss, manager, Ford Motor Co., under date of July 30, 1929, as follows:

> I have recently been elected chairman of the board of directors of the Universal Credit Corporation, and I am at this time writing you with the idea of clearing up several points in connection with the attitude of the Ford Motor Co. toward the Universal Credit Corporation as it relates to time sales on Ford products.

As you know, the Ford Motor Co. has controlling interest in the Universal Credit Corporation and is therefore thoroughly interested in the success of this company. We, however, must recognize that there are a great many other discount companies in the country anxious to secure Ford business and that they are in every way entitled to Ford business on a fair competitive basis.

The credit company was primarily organized to bring about a stabilizing influence on Ford time sales, and to create a plan which provided for the lowest possible rate consistent with a thoroughly conservative and sound policy. The company has been successful in influencing the reduction of rates wherever it has opened branches.

I have heard of several complaints from outside sources of the overzealousness of the Ford branch organization, as well as representatives of the Universal Credit Corporation, in seeking business from Ford dealers. I wish to state as clearly as possible that there must be no coercion, either direct or indirect, of Ford dealers to get them to use the Universal Credit Corporation plan. The plan should be sold to the dealers entirely on its merit.

This policy was reiterated by Edsel Ford on January 20, 1938, in a letter to branch managers. The substance of this letter was circulated to all Ford dealers by the branch managers. Mr. Ford's letter follows:

This letter is written to eliminate any confusion in the minds of our branch and dealer organizations, which may have resulted from the publicity given to the recent proceedings in Milwaukee in regard to the relationship between automobile manufacturers and finance companies.

At the inception of the Universal Credit Corporation I wrote a letter to each branch manager outlining the attitude of the Ford Motor Co. as it related to the time sales of Ford products. In this letter it was stated that we realized there were a great many finance companies anxious to secure Ford business, and from our standpoint they were in every way entitled to such Ford business on a fair, competitive basis. I also stated, as clearly as possible, that there was to be no coercion, either direct or indirect, of Ford dealers, to get them to use the facilities of the Universal Credit Corporation.

No change was made in the policy set forth in that letter at the time the Ford Motor Co. sold its interest in the Universal Credit Corporation. Neither has there been any change in our attitude regarding such matters since that time.

We have always endeavored to make our cars available to the public at the lowest possible cost. For this reason we are vitally interested in the time-delivered prices of Ford products. We will continue to maintain this interest because we want to avoid, as far as possible, having the manufacturing economies, which we have effected for the benefit of the purchaser, offset by excessive time-sales charges.

In spite of this stated policy, over one-fifth of the Ford dealers replying to the Commission's report form indicated that pressure to use Universal Credit Co. had been exerted by Ford Motor Co. As previously stated, 42 percent of the dealers replying reported they used this finance company in over 50 percent of their time sales. Thirty percent of the dealers replying stated there has been a change in policy of the Ford Motor Co. in respect to insistance that Universal Credit Co. be used.

A Ford dealer in one Ford branch territory stated that, upon the organization of Universal Credit Co. dealers were forced to change to the use of this company in their financing. The dealer stated that all dealers in his territory were called to the branch office and told that they were expected to use Universal. Regarding his own experience, this dealer stated he was called to the branch and taken to the offices of Universal Credit Co. where the coercion was terrific. He reported that the Ford branch manager, the Universal Credit Co. manager, and the Ford sales manager exerted such high pressure that he was coerced into discontinuing use of Commercial Credit Co. and changing to Universal. According to this dealer the pressure was so great that he decided to discontinue in business and walked out of the meeting but later returned and informed the factory representatives he would accede to their demands. He stated he had been threatened with cancelation many, many times.

A former Ford dealer in another territory stated that Ford factory representatives demanded he use Universal Credit Co. or surrender his contract. The dealer reported that these demands continued until he requested that they be put in writing, after which they ceased.

A Ford dealer stated in June 1938 that about a year previously the Ford Motor Co. had "suggested" that it was more convenient to finance through Universal than through other finance companies, and that he considered this as an indirect request to use Universal. He stated that after the action of the Federal grand jury in the so-called *South Bend cases* in May 1938 the factory passed word among the dealers that they were free to use any credit company desired.

Another Ford dealer stated that while he is not required to use Universal Credit Co., financing through this company is strongly urged. He reported that in February 1938 he was requested to issue a statement to the effect that he was not compelled to use Universal and that factory representatives were rather insistent that this statement be issued. This dealer stated that he used Universal Credit Co. because in his opinion many of his customers preferred this company because they felt it was part of the Ford Motor Co.

Another Ford dealer stated that he was not "required" by the manufacturer to use Universal Credit Co. but that on a number of occasions he was told:

> * * * If you expect to get new cars you must use the Universal Credit Co.

A Ford dealer stated that he sells finance paper to so-called independent finance companies and, as a consequence, has been accused many times by Ford representatives of packing or padding finance charges and has been compelled to produce duplicates of finance papers to prove this was not the case.

Of other Ford dealers making statements concerning use of specified finance companies, some indicated that they used Universal Credit Co. exclusively but that no pressure was exerted in this respect, while others making similar statements regarding absence of pressure did not use Universal. Still others reported varying degrees of solicitation by Ford representatives relative to use of Universal Credit Co.

General Motors Corporation.—General Motors Acceptance Corporation, organized in 1919 to finance sales of General Motors products exclusively, was set up as a subsidiary of General Motors Corporation.

General Motors dealers' statements to agents of the Commission indicated that a large proportion of these dealers used this concern exclusively or in a large proportion of their sales financing. Likewise, as previously stated, replies to the Commission's report form indicate that 76 percent of the reporting dealers used General Motors Finance Corporation in financing more than 50 percent of their time sales, and over half of the dealers reporting stated they used this company in practically all such financing. A total of 87 percent of these dealers indicated they used General Motors Finance Corporation to some extent.

The fact that such a large proportion of General Motors dealers finance extensively through General Motors Acceptance Corporation correspondingly reduces the number against whom severe pressure to use General Motors Acceptance Corporation is likely to be used. Also the existence of the South Bend indictment is another reason why pressure may be reduced at the present time.

That such pressure has been used, however, is indicated by a considerable number of dealers who did not use General Motors Acceptance Corporation to a large extent. A Chevrolet dealer, who was canceled, assigned as one of the reasons for his cancelation the fact that he would not use General Motors Acceptance Corporation in financing time sales. An additional reason for cancelation assigned by this dealer was his objection to the type of audit of his accounts made by Chevrolet Motor Co., which included the checking for financing of retail-customer sales through a so-called independent finance company. This dealer outlined the extent and method of applying pressure in part, as follows:

> * * * because we did not finance our retail paper through them [General Motors Acceptance Corporation] considerable pressure was brought to bear from time to time to attempt to force the use of their plans 100 percent. Their major weapon was the wholesale credit extended for the financing of new cars on the floor plan. This credit was withdrawn on at least two occasions, the last just prior to Chevrolet's cancelation of contract.

Substantiating his claims that General Motors Acceptance Corporation expected use of its facilities for retail-time-sale financing, by dealers utilizing its wholesale financing, this dealer submitted a telegram from J. D. Deane, vice president of General Motors Acceptance Corporation as follows:

> Understand------delayed seeing you pending opportunity for------to accompany him. Also understand withdrawal credit due to error at------. This has been corrected and apparently you have received shipment since original complaint. Incidentally we feel financing wholesale entitles us to more consideration and retail which subject------and------will take up with you definitely.

Another case of use of the findings of auditors respecting the time-sales-financing practices of dealers was that of a Chevrolet dealer who was himself carrying some $25,000 of choice installment paper. When this was discovered by General Motors' auditors he was told that this paper belonged to General Motors Acceptance Corporation and was compelled to sell it to that company. Shortly thereafter a General Motors Corporation bond salesman appeared at his place of business and it was insisted that he buy $20,000 face value of General Motors bonds bearing 4½-percent interest with cash obtained from the sale of the installment paper. The remaining $5,000 was used to purchase new cars. These things were done by the dealer because they were insisted upon by representatives of the General Motors Corporation.

Other manufacturers.—The contractual or other relationships which have existed between finance companies and motor-vehicle manufacturers other than Chrysler, Ford, and General Motors are described in chapter XV.

Replies to the questions concerning finance companies in the Commission's report forms received from dealers handling the products of these other manufacturers were generally of such limited number and so indefinite in nature that they were inadequate as bases for definite statements as to the policies and practices of these manufacturers.

Section 2. Manufacturers' Policy and Practice Respecting Dealer Accounting

The dealer's need for accounting records.—Automobile retailing, as at present conducted, includes the conduct of at least four separate departments, namely: new-car sales, used-car sales, parts and accessories, and service. With the addition of department after department to the dealer's business, and particularly with the increase in importance of the used car as a factor in the sale of new cars, the dealer's need for accounting records for his guidance in the conduct of his business has increased progressively.

The National Automobile Dealers Association, early in its history, recommended a uniform method of accounting for automobile dealers and has from time to time since then urged dealers to realize the importance of an adequate system of accounts. The National Association, in presenting a trade survey for the year 1935, commended the automobile manufacturers for developing and requiring their dealers to use standard accounting systems.

Commenting on future trade surveys the National Association stated as follows:

> The biggest barrier to progress in work of this character is the reluctance on the part of many dealers toward taking a personal interest in their accounting records. There still seems to be a tendency to look upon balance sheets and operating statements as necessary evils, reflecting the drab statistical history of the business, instead of viewing them as dramatic pictures of a living, breathing business, rich with suggestions, looking toward future progress.

Development by manufacturers of dealer accounting systems.—Prior to about 1920 the development and adoption of dealer accounting appears to have been largely in the hands of dealers themselves, and of private accounting firms who supervised their installation and operation as well as made periodic audits as required by the dealers' needs.

Between 1919 and about 1924 manufacturers began to give attention to the development of dealer accounting systems as a means, not only of aiding dealers to conduct their businesses more intelligently, but also as a means of securing accounting data and reports compiled on a more uniform and, therefore, more comparable basis. It appears that information so obtained has been used in formulating production programs and policies intended to increase sales of new cars. Studies have also been made of dealer expenses and profits with particular attention to the sources of such profits and to the extent of dissipation of new-car discounts in used-car allowances as a factor affecting dealer mortality. Dealer reports upon which such studies are based also convey to manufacturers information respecting dealer withdrawals or the disposition of earnings through dividends or otherwise.

In the development of dealer accounting systems a four-department system was adopted by all manufacturers, the system yielding the maximum of information to the dealer respecting his business and at the same time enabling the dealer to report to the manufacturer information compiled in a uniformly comparable manner by all dealers using a particular manufacturer's accounting system.

Packard Motor Car Co.—At first some manufacturers appear to have merely developed accounting systems and recommended them to their dealers, leaving their installation largely to the dealer or to the dealer under the direction of private accountants. For instance, the Packard

Manual of Practice for District Managers, as revised to December 28, 1925, contains the following under the subject of Classification of Accounts and Accounting Methods:

The factory has compiled and sells to distributors and dealers for $1 a copy, a manual containing a standardized classification of accounts and a system of accounting methods, Form V-22, which fills the need for a simplified, practical, and efficient accounting procedure. Distributors and dealers, especially the former, not having a modern and satisfactory accounting system should be strongly urged to adopt this standardized system which covers all details relating to the operation of their businesses, and which may be easily installed. This system has the additional advantage of providing the means by which the factory may compare the operations of distributorships of approximately similar size, and thus be in a position to more intelligently advise individual distributors concerning those phases of their business which could be improved based upon the experience of others.

The attitude here expressed of recommending rather than of requiring the adoption and use of the Packard accounting system to dealers other than distributors still appears to be the policy of the Packard Motor Co. A later manual directs that wholesale managers shall strongly urge both distributors and dealers to adopt the system. Dealers, especially, are to be urged to adopt it because it provides a means by which the distributor may compare the operations of dealers who, under the Packard system of distribution, make their financial and statistical reports to the distributors who, in turn, make reports to the factory. Accordingly the Packard dealer agreement form, in use since 1936, merely contains a provision that—

The dealer shall make such reports pertaining to the operation of its business and in such form and at such times as may be requested by the distributor.

At the present time Packard distributors are required to use the Packard system of accounting and the associate dealer is required to maintain such records as are determined to be essential by the distributor.

General Motors Corporation.—In the General Motors Corporation, as early as 1925, Chevrolet and Buick Divisions were operating their own dealer accounting systems and Cadillac, Oakland, and Oldsmobile Divisions were considering adopting the standard practice and taking steps to sell it to their dealers after adapting it to their respective needs.

In the spring of 1927 the Motor Accounting Co. was established with headquarters in Detroit. It decided that a flat charge of $150 be made against the dealers for installing the factory's accounting system and this fee was to include two revisits after installation. It was also decided that, in the best interests of the dealer, of the division, and of the corporation, there should be no charge to the dealer for auditing work. Divisions, however, were to be charged by the Motor Accounting Co. at the rate of $20 per day for the auditing work done with their dealers. It was decided that this fee, which was to include both living and traveling expenses, would not be large enough to cover the expenses of the Motor Accounting Co., which was to do its utmost to keep its deficit as low as possible.

At a meeting on August 3, 1927, the point was brought out that a number of the dealers prefer to employ independent local accountants who not only take care of their books, but give them advice in connection with the income tax and that this problem would present some difficulties from the standpoint of the Motor Accounting Co.'s activities.

In June 1929 the rates to be charged dealers for installing the standard accounting system were revised and the two revisits included in the original installation were discontinued and replaced by a monthly audit service to be sold at the time of installation.

In subsequent years various other changes have been made in the General Motors organization charged with the promotion of the use of the General Motors accounting system and the making of special audits and studies of dealer accounting and statistical reports. Motor Accounting Co. was dissolved and certain of its functions were taken over by other branches of General Motors Corporation. The requirements that dealers keep their accounts in accordance with the uniform accounting system designated by the General Motors Corporation and have audits made, either by accountants employed by or acceptable to General Motors Corporation, have been retained to the present time, and dealers are required to submit copies of such audits to General Motors Corporation at such times as it may designate.

The 1939 selling agreement of the several divisions of General Motors, through the General Motors Sales Corporation, provides that dealers maintain a uniform accounting system, furnish reports, and make such audits as the seller may designate as follows:

> The dealer agrees to use and keep up to date at all times a satisfactory uniform accounting system designated by company and to furnish to seller, by the 10th of each month, a complete and accurate financial and operating statement with supporting data covering the preceding month's operations, showing the true and actual condition of dealer's business. Dealer agrees to keep said system in strict accordance with the accounting manual furnished by company.
>
> Dealer agrees to have an examination of his accounts and records made by a person or persons, either in the employ of seller or acceptable to seller, at such time or times as seller may designate, copy of reports on such examination to be furnished to both seller and dealer.

Dealers were charged for the time spent by Motor Accounting Co. auditors at substantial per diem rates. The expense of these audits, together with the fact that they furnished General Motors Corporation with information respecting the dealers' business that could be used to the dealers' disadvantage, caused much resentment on the part of dealers. The ex-Chevrolet dealers whose statements are summarized on page 287 referred to the use of information so obtained as the basis for bringing pressure to bear on them to finance through General Motors Acceptance Corporation. Data so obtained respecting the financial condition of dealerships were also susceptible of use to bring pressure upon dealers to take and sell more cars and accessories, or to build or otherwise acquire buildings, or to expand their operations if their financial condition warranted.

In this connection an ex-Chevrolet dealer who had conducted a profitable business stated that audits made of his business led to objection on the part of factory representatives to the fact that he was declaring dividends and thereby removing profits from the business when pressure was being brought to bear upon him to increase his investment and expand his business in a way which, in his judgment, was not justified by the future of his market. The clause of the Chevrolet agreement under which this objection was raised was as follows:

> Since the volume of business done determines the amount of capital required to handle such business properly, dealer agrees to maintain the net working capital actually employed in the business to be conducted by the dealer under this

agreement at such amounts as the seller shall from time to time deem necessary for the proper handling of the business. Without limiting the generality of the foregoing, the dealer specifically agrees not to make any withdrawals of capital without the written consent of the seller, to such an extent that it reduces the net working capital below the amount deemed by the seller necessary for the proper handling of the business; and further specifically agrees that if the dealer's net working capital is at any time below the amount deemed by the seller to be necessary at that time, the dealer will, upon written request of the seller, leave in the business all, or a specified part, of current earnings and profits until such necessary amount of net working capital is reached.

Under this clause the amount of investment required of dealers was a matter for the General Motors Corporation to determine at all times. The possibility of arbitrary pressure such as the ex-Chevrolet dealer outlined, is obvious. This clause is still a part of General Motors agreements in 1939.

Ford Motor Co.—As early as 1926 or 1927, as a result of investigations made from time to time to determine the profitableness of various departments of the dealers, the Ford Motor Co. noticed the lack of uniformity of statements furnished the branch offices by dealers. A form letter of February 1, 1927, from the Dearborn office, stated, among other things, that while the dealers may maintain any form of records they desire, if comparisons are to be made it is naturally essential that they be done on a uniform basis. With this in mind, a simple form of balance sheet and income and expense statement was prepared, and dealers were asked to report each month.

The Ford dealers' uniform accounting system was first released in 1932 and remains virtually unchanged. A simplified system has also been developed to better accommodate the small dealer, both from the standpoint of cost of maintenance and the expense of forms required.

The dealers having Ford uniform or simplified systems of accounts as of April 30, 1937, constituted 58.3 percent of all Ford dealers, percentages ranging from 96.6 percent of the dealers of the Cleveland branch, to 41.2 percent of the St. Louis branch dealers. Efforts are continually being made through the branch offices to convince the dealer of the benefits to be derived through the use of the uniform system of accounting. Through comparative figures made available through composite financial statements, individual dealers are assisted in correcting the weaknesses in their operations. This assistance is available to any dealer without cost upon request.

In connection with the publication of an operating comparison report, the general sales department of Ford Motor Co. wrote branches May 29, 1935, regarding the lack of uniformity in statements submitted by dealers, as follows:

Uniformity in accounting is essential to the accuracy of operatng comparisons. The lack of progress made on the sale of accounting systems during the past year by a number of the branches clearly indicates very little effort has been put forth in this direction. It is anticipated that the sale of an accounting system should be made to each new dealer as a part of any arrangements made when his sales agreement is executed. There are also a large number of inadequate systems which have not yet been replaced. Please give this matter your careful attention. The Ockford Printing Co. is preparing a new mailing piece to further the sale of the simplified forms and will forward a supply to you shortly. Please arrange to get these booklets into the hands of all of your dealers who are logical prospects for the sale of this system.

The collecting and dissemination of this information for comparative purposes is through the business-management department, and the representatives of this department are directed to use every care in their dealer contacts to avoid creating the impression that this work consists of an auditing service or to permit such an opinion to exist.

> The dealers should understand that the program is a sales-department function, even though financial statements are utilized in analyzing the various departments.

The ultimate objective of the business-management program, according to the manual, is to train the dealer and his department heads in analyzing and actually managing the business. Supervisors are instructed to—

> always work toward an improvement in the dealer's management of his business, rather than any attempt to manage it for him. Only by such means shall the program be made permanently successful.

The manual further calls attention to the use of uniform accounting methods as follows:

> * * * Convince the dealer of the error of clinging to obsolete methods or of permitting himself to be induced to adopt any of the faddish methods sometimes recommended by public accountants, trade associations, or others who have selfish reasons for desiring to distort the results reflected.

Hudson Motor Co.—Distributors are required to make monthly financial statements which, according to a Hudson sales manager's letter of November 15, 1937, to all distributors except those located in Texas, states regarding the 1938 dealer agreement:

> Section 9 has been added, requiring the use of standard accounting procedure and the monthly furnishing of financial statements to the factory. It is not our intention to ask you to change your present accounting system, provided it functions as a correct reflection of the status of your business operations; but, it is our hope that through our business management department we may be able to provide you with an analysis service based on your monthly financial and operating statement, which should be of valuable assistance to you in the direction of your business as a whole.

Master-dealer and associate-dealer agreements did not require periodical financial statements, although a bulletin of April 12, 1938, calls attention to the simplified dealer record system which was designed for obtaining facts, the use of which would enable a dealer to determine and correct his weaknesses, as well as capitalize to the limit profitable operations of his business. Dealers were urged to avail themselves of the benefits to be derived from the use of this system.

Other manufacturers.—Other manufacturers have adopted accounting plans of various sorts, ranging from the closely supervised system of General Motors Corporation to the elastic requirements of Packard and Hudson, that merely require that distributors shall use the manufacturer's accounting system, while subdealers or associate dealers may use any accounting system that will enable them to make reports satisfactory to the manufacturer or to distributors in the detail required by the manufacturer's standard forms.

Perhaps the attitude of most motorcar manufacturers at present as to use of uniform accounting systems by dealers may be summarized as follows: The manufacturers want their dealers to use adequate accounting systems, preferably those designed by the manufacturer. Any adequate system, however, probably is satisfactory, provided it permits the dealers to draw off the information the manufacturers want, as called for by the report forms, as distinguished from the actual books of account, which the factories supply the dealers.

Attitude of public accountants toward manufacturers' prescribed dealer accounting.—In considering the attitude of public accountants toward manufacturers' prescribed accounting systems, it is to be recognized that some adverse opinions may be expressed by accountants who have been deprived of business with dealers by the fact that manufacturers' accounting systems have been installed and supervised, and that dealer accounts have been audited by accountants employed by, or designated by, manufacturers to perform this work. Even with this reservation, however, it is interesting to note the character of opinions expressed by public and other accountants of the character of results produced by manufacturers' prescribed accounting systems.

Probably the criticism most often expressed is that the systems are devised to yield information respecting dealer operations desired by manufacturers rather than to give the dealer who is not skilled in accounting procedure a correct idea of the results of his operations. One accountant stated that these uniform systems were of tremendous help to the factory, not only because they insure records being kept on a uniform basis but because they convey to the manufacturer the information in which he is primarily interested. At the same time, the informant stated, the systems were misleading to the dealer. Furthermore, the dealers under this factory accounting set-up, supervised by factory-selected men, did not have the benefit of the advice of a disinterested auditor as to their financial condition. Many dealers, this informant stated, believe that they are making more money than is the fact, because, according to the factory accounting systems, their books showed a large new car profit, whereas an analysis and break-down of the figures, with due allowances for used cars taken in trade, would show a much smaller new-car profit or possibly no profits on the total business done.

Others, in addition to pointing out that allocations of expenses under the factory systems show profits per new car which are far too high, state that in order to know the true status of their business, dealers using factory-designed accounting systems must also keep another set of books, or at least supplementary records, especially if they are to be correctly informed as to the extent to which their capital and profits are tied up in used-car inventories that rapidly decline in market value with age.

An accountant who is at present secretary of a county association of dealers in Wisconsin stated that in his opinion the showing of larger profits than are actually made on new-car sales by failing to assign to new-car sales the proper proportion of used-car selling expenses and losses places in the hands of manufacturers a showing respecting dealer operations that is misleading to prospective dealers as to possible profits of the business.

Another phase of criticism aimed at the manufacturers' systems is that their cost of installation, or of maintenance, or frequently of both, is excessive. This is claimed to have been true especially when factories in the past required the dealers to employ factory-designated accountants to install systems and perform periodic, sometimes monthly, audits. Some dealers join with outsiders in this criticism of manufacturers' prescribed accounting systems. The Commission, however, does not attempt in this report to pass on the validity of these criticisms.

Attitude of dealers toward manufacturer-prescribed accounting systems.—Many dealers say they use the factory system under duress of fear they will lose their franchises if they do not. Others state they use the system to avoid constant wrangling with the factory and pressure to adopt it. On the other hand some dealers have stated that they do not use the factory system and have never been bothered by the factory. Perhaps dealers in this group have adequate records. In any event, there are statements on both sides of the question, many dealers not only saying they used the systems designed by the factory but that they were most satisfactory and had been of great help in aiding them to improve their efficiency.

Chrysler dealers.—Following are some dealer opinions as stated to representatives of the Commission:

A Dodge-Plymouth dealer stated the factory installed their accounting system but that he found it impractical and replaced it with one of his own. He makes a financial report to the factory once a year and about every 3 months factory representatives check his books, stock of parts, etc.

Another dealer who operated as a used-car dealer for a number of years prior to taking on the Chrysler-Plymouth line feels he is in a position to refuse the demands of the factory. This dealer stated that 2 weeks after signing an agreement (contract) with Chrysler, the local factory representatives suggested that he install the Chrysler system of bookkeeping. He demurred, and when the factory representative insisted, the informant declared he would give up his agency before he would accede. Requests for financial statements met the same refusal unless the factory representatives could assure the dealer that furnishing such information would entitle him to a line of credit similar to that extended by banks. He did not install the factory system.

A former De Soto-Plymouth dealer stated that he refused to comply with the demands of the factory that he send in financial and operating statements and to install the factory accounting system. Giving this information to the factory, the informant claimed would not help his standing one bit, but by not giving this information the dealer stated that the ill favor of the regional manager was incurred, and from then on his existence was made miserable.

A Chrysler-Plymouth dealer stated that while he made monthly accounting reports to the factory on the report forms furnished by the manufacturers he did not use the factory accounting system because he did not approve of it. Outside auditors are used to make up these monthly reports. This dealer criticized the manufacturer's system on the ground that profits on the new-car sales as shown by the system are too high, as new-car sales are not complete until used cars taken in trade are disposed of, a fact which the factory system does not take into account.

A De Soto-Plymouth dealer, in contrast to the one quoted above, stated that he used the standard Chrysler accounting system and that the factory helped to install it without charge. He did not necessarily have to use this system but did so because he thought it was a good one. This dealer also stated he did not furnish periodic reports to the factory and was not pressed to do so.

General Motors dealers.—A Chevrolet dealer stated that he uses the factory accounting system not because of demands by the factory, but because he heartily approves of this system. This dealer believes a dealer not using the sponsored system loses a lot because his accounts would not lend themselves to helpful comparison with the composite statement issued by the factory. Factory representatives visit this dealer monthly to see how closely the factory accounting system is being followed, not to force the dealer to adhere to the system but to assist him in following it as an aid to the factory in compiling dealer statements.

Another Chevrolet dealer stated that he used the accounting system recommended by General Motors. Copies of financial reports are sent to the factory monthly and to General Motors Acceptance Corporation semiannually. The system, according to informant, is fairly satisfactory and is checked by a factory representative quarterly.

Another Chevrolet dealer stated the factory audited his books periodically, and that he sends to the factory a complete and full statement of operations and balance sheets which are to be at the factory by the 10th of the following month. The factory watches the amount of investment and if it starts to run low then requires the dealer to build it up.

A Chevrolet dealer who was canceled gave as one of the possible reasons for losing his franchise his objection to the type of audit made by Chevrolet Motor Co. auditors. The auditors in their checking went into the records to determine to what extent this dealer was financing through an independent finance company and also to ascertain the extent to which he was purchasing parts and accessories from independent jobbers.

A former Pontiac dealer now handling a different line stated he was required by Pontiac Division of General Motors to submit financial statements to the factory monthly. An auditor inspected his books monthly and prior to 1935 a charge of $30 per month was made by the factory for this service.

A Cadillac-La Salle-Oldsmobile dealer stated that he makes financial and sales reports to the factory each 10 days. The factory representatives call in person to check the reports, and, the dealer said, "They worry you to death—if the representatives would stay away and give me a chance to work I could make more money, but they are after you all the time."

Dealers of other manufacturers.—A Ford and Lincoln-Zephyr dealer stated that while financial statements were made out monthly he was not compelled to forward them to the factory, but if he does not send them in he will have his credit on parts accounts withdrawn and be placed on a c. o. d. basis. This practice of withholding credit for failure to make reports appears to be in line with suggestions contained in the Business Management Manual of the Ford Motor Co. prepared for the guidance of the branch-management supervisors.

A Packard subdealer stated that he uses the standard books and accounts of the Packard Co. and that to do so is to the best interest of the business. This dealer makes monthly reports to the distributor who in turn reports to the factory.

A Hudson-Terraplane dealer stated he did not use the factory accounting system, as his own system evidently was satisfactory to the factory. Monthly financial reports are made to the factory and sales records semimonthly. Factory representatives check the accounting records from time to time and make suggestions in order to keep the system in line.

In view of the fact that a well-considered opinion on the adequacy of manufacturers' prescribed dealer accounting systems would require a more careful consideration of the accounting systems of individual manufacturers than has been possible in connection with this inquiry, the Commission expresses no opinion as to the adequacy of these accounting systems, or their utility to the average dealer in the conduct of his business.

Section 3. Manufacturers' Requirements Respecting Dealer Personnel

Nature and purpose of manufacturers' requirements.—All manufacturers' dealer agreements require the dealer to develop his territory to the satisfaction of the manufacturers. Some contracts are much more specific than others respecting dealer personnel and organization requirements. For instance, the Ford agreement for 1939 requires the dealer:

> * * * to employ sufficient competent salesmen to solicit adequately all potential purchasers of company products in the community in which dealer is located, and sufficient, competent service mechanics to render prompt efficient service to owners of company products * * *.

Chrysler agreements for 1938 state that successful merchandising of Chrysler products, among other things, requires a suitable place of business, appropriate stocks of new motor vehicles, parts and accessories, salesroom, parts department and service station, with appropriate organization and equipment, all in keeping with Chrysler policies. General Motors contracts for 1939 mention specifically only the maintenace of a place of business satisfactory to the manufacturer. Hudson contracts merely provide that the dealer shall maintain a place of business, salesroom, and service station reasonably satisfactory to the Hudson Co., which shall have the right of inspection at all times during business hours.

Even though the dealer agreements may be indefinite or contain no provisions whatever respecting dealer personnel requirements, the various manufacturers have provided in their executive policies and organizations for substantial supervision over the selling activities of their dealers. If a dealer does not maintain his percentage of price and weight class, his operation will be surveyed and advice given respecting the employment of additional personnel, or even respecting change in sales executive personnel.

For instance, the Packard Manual of Practice for District Managers contains the following under the heading "New-Car Salesmen":

> The vital factor in retailing new motorcars by the dealer is the maintenance of an adequate force of salesmen. Adequate may mean 1 man in the smaller dealerships or it may mean 10 or more men in the larger stores. The rule for the district manager to follow in determining the number of men necessary is to see that 1 salesman is employed for each 24 cars, making up the quota for Packard 6 and 120 cars. Experience has proved that this measurement of sales strength is correct.

Manufacturers take the position that whatever is done in the way of suggestion or urging respecting dealers' sales or other personnel is done in the interest of producing maximum sales of new cars at a profit to the manufacturer and to the dealers. Manufacturers claim, especially with respect to suggestions respecting the number of salesmen, recommendations at one time may be for increasing, and at other times for decreasing, sales personnel, the form of the recommendation depending upon business conditions and on conditions found to exist in particular dealerships. This claim was verified by statements of some dealers.

Respecting the interpretation of manufacturers' policies, both with respect to sales forces and executive personnel, it is to be noted that the dealer's contact is with field men often far removed from home-office executives and that such field men may interpret home-office instructions in ways or bring pressure to bear on dealers to an extent that would not be approved by factory executives. In all cases, however, it is to be noted that in facing factory representatives, and especially in opposing their suggestions, dealers are influenced by fear that if they do not comply with suggestions their dealer agreements may be canceled on relatively short notice.

Typical cases of supervision by manufacturers.—An example of the type of supervision exercised by manufacturers over dealer personnel is indicated in the case of a Hudson distributor described in the records of that company. The distributorship was established in 1932 when a retail company previously handling the line of another manufacturer took over the Hudson distributorship under the firm name of Automotive General Corporation. Shortly thereafter, the distributor's manager severed his connection with the distributor and a Hudson field man wrote to W. R. Tracy of Hudson Motor Car Co. on March 28, 1933, stating:

> Answering your letter concerning recommendations to Mr. Olmsted, I advise. I have been working on a proposition for some time [ever since Ransom left] to either get R. C. Langley, Frank Stevenson, or Jim Gough into the Automotive General Corporation organization as a general manager, on some basis. All these men are experienced automobile executives, and practical men in every way. Either of them would qualify for the management of this business. All three are anxious to get the position and Mr. Olmsted thinks well of all of them.

The owners of the business desired that the new general manager become financially interested in it. It appears that only one of the candidates for the position could make the desired financial investment. Consequently, the position went to Candidate Gough with full authority to conduct the business as his judgment dictated.

An essential part of the Hudson Motor Car Co.'s plan for automobile distribution is that each distributor shall have a retail organization capable of setting the retail pace in the distributors' trade area.

On October 16, 1933, the same Hudson field man reported to his superiors in Detroit that Gough had "revamped" his retail organization and—

> * * * says that he will gradually increase his retail organization to 12 or 15 men by the time the new line is ready and in the meantime will clean up all his used cars, and be ready to do the kind of a job we want.
>
> I told him today that we would expect a definite commitment from his directors as to how they expected him to merchandise the new line, and what capital they expected to place at his disposal. He agreed that this is important for us to know, as well as himself, and promised to arrange a meeting at which I would be present, for the purpose of discussing these things, in the near future. * * * I will follow this through and keep you advised about it.

In a long letter dated February 7, 1934, the field man reported to W. R. Tracy in Detroit stating that he had found it impossible to obtain a satisfactory agreement on the part of the three principal owners of the business that they would put the desired amount of new capital into it. After discussing the situation in detail, the field man stated as follows:

> * * * I know that your judgment will dictate whatever is best in the matter, but as I see it, the only thing that we are vitally interested in, is "Will they, or will they not, stabilize the company to the point that it can stand on its own feet, and permit an expansion which present conditions justify." This can be done by paying off the bank loans, and putting $15,000 in cash into the permanent capital structure. If we stand pat on this requirement, and make a strict issue of it, the thing will quickly resolve itself into Olmsted's acceptance of the proposal, or refusal to do so, in which event we can proceed openly with soliciting a new account. If we compromise, it will but prolong the evil day and make it more difficult in the end. If we must change the account, the time was never more opportune to do it, for interest in us, and our products now is real.

In another paragraph of the same letter, the field man stated that he had several almost certain leads that could be developed quickly, any one of which would take over the Hudson distributorship, and all of which would take Gough into the new distributor organization with an interest in the business. The field man stated, however, that in the line up of these prospects,

> * * * I, of course, have done no direct soliciting along this line, but I am sure that it can quickly be accomplished, and we can certainly be independent with Olmsted from this angle.

Respecting the progress made by the distributorship under Gough's management, the field man stated:

> I am elated at the progress being made in the development of the territory, and the building of an aggressive retail force. * * *

At this time it would appear that the dissatisfaction with the dealership was largely directed toward the principal owners who did not wish to put additional capital into the business, the need for which grew out of losses sustained by the company prior to the time that Gough became manager. Nothing, however, came of the threatened replacement of the distributorship. On May 30, 1934, the same field man again reported to his superiors in Detroit, stating:

> I am not at all satisfied with the way Gough is taking hold of the Challenger program, nor the retail progress he is making.
>
> You will recall that he was very reluctant to give us reasonable orders for Challengers when he was at the Detroit meeting, and that since that time I have had to pressure him into every order he has given for them. He is not sold on the program, and resists every effort to get reasonable distribution on the Challenger. He prefers to keep the dealer sold on the K possibilities only, until such time as his own K stock is reduced to a minimum.
>
> * * * * * * *
>
> At this time the company needs additional money to handle used-cars. Gough told me yesterday that he would have to quit trading until more used-car movement was a reality, for he did not have the money available to increase his used-car stock. * * *
>
> Despite Olmsted's attitude that they have all the money necessary to operate upon, it is proving a serious handicap, and it gives Gough a much desired position to retreat to, when I attempt to get him to do the things which we expect. Olmsted simply supports that position, and points to the fact that stocks should be liquidated rather than increase the working capital. It has developed into more or less "buck passing."
>
> As soon as Commercial Credit has had its conference with Olmsted next week, I am also going [to] confer with him, and I expect to smoke the truth out, as to whether he approves of Gough's too conservative attitude. If he does unqualifiedly, then I will ask you for help. If he does not, then either Gough must understand that he is expected by the directors to program with us, or I am going to suggest a new manager.

Nothing definite appears to have been done along the line suggested in the last paragraph above during the 1934 selling season. On October 31, 1934, however, the same Hudson field man addressed a letter to W. R. Tracy stating:

As per your instructions, I have held two conferences with Mr. Olmsted about what he proposed to do with our program for 1935. I was frank in my statements to him, and asked that he be perfectly frank with us. He still insists that our gross is too small, and that with such a margin, no money can be made from retail; but he would not say that it was hopeless, as he did before.

I pressed him for some sort of a declaration, and he asked time to consider it and talk to his associates. He suggested that he might decide to go to Detroit, and confer with you and Mr. Chapin about allowing the Automotive General Corporation to pad the price next year so that a retail sale would show 25 percent gross on the delivered price of the car, which would be equivalent to advancing the list, and then allowing them 30 percent discount therefrom. I told him positively that you would entertain no such proposal, but Gough is urging him to go up and lay his troubles before you, and I would not be surprised if he wires you for an appointment. * * *

Under the circumstances, I have not actively canvassed for a new account, but O. B. Smith Co. at Fort Worth has made application to me for the franchise either for the whole Dallas territory, or for the western half of it out of Fort Worth. * * *

The suggested replacement of the distributor, however, was not carried out. On April 13, 1935, the same field man, reporting on Automotive General Corporation again expressed dissatisfaction with the volume of retail business done, stating that the retail sales manager was handicapped, especially in the matter of appraisals and the size of used-car stock. Respecting the responsibility of General Manager Gough for this situation, the field man stated:

* * * Gough absolutely refuses to change that policy, and he has the approval of Olmsted in fact if not on the surface. * * *

Reference to all of my former general and special reports on Dallas will disclose the fact that I have respect for Gough's ability as a money maker, and a liquidator, but not much for his selling ability.

Again, on September 7, 1935, when consideration was being given to whether the distributors' franchise would be continued for the year 1936, the same Hudson field man addressed a field report to his superiors in Detroit in which he stated:

I have had several discussions with Gough within the last 2 weeks relative to his plans for the introduction and the merchandising of the new models when they are announced.

There is hardly anything which you do not already know about him, his methods, and his attitude, especially toward retail. There is a lot that can be said in Jim's favor; he is very sound in his reasoning in most cases, and unquestionably knows how [to] protect the resources and assets of his company. Whatever he does, is only after a careful consideration of all the factors which might influence the result, and a conviction that his analysis shows the undertaking to be feasible, and not too speculative.

It is but natural that one thinking and operating thus will be overcautious, and because of that will miss opportunities. But on the other hand, one can be sure that a man like Jim will weather almost any sort of a storm that might arise, because he will always be close enough to shore to take care of himself. The ideal would, of course, be a happy medium between the extremes. I cannot quite convince myself that we can make much more out of Jim than he already is; his convictions are too positive, and his theories too deeply rooted to change overnight.

Respecting the operation of the used-car department, the field man stated in this same long field report:

It is a well-organized department, but the used-car manager must let Gough pass on practically every deal, unless it is entirely obvious on its face that it

[is] gilt-edged in every respect. Obviously with such a conservative used-car policy the new-car retail in limited.

In closing his report on the distributor's operations, the field man stated:

I would recommend that we stress the absolute necessity of an improved retail operation at Dallas and not mince words about it. If we can get this, we should be content to go through 1936 with them.

Under date of May 20, apparently 1936, the same field man addressed a report to his superiors in Detroit, in which he stated that Hudson registrations in the distributor's area were approximately 33 percent less in April than in March and were about 30 percent less in the first 18 days of May as compared with the same period in April. In explanation of this showing, the field man stated:

Gough's retail shows a steady decline in percentage from the first of the year. I have discussed this with him from time to time, and again today as per your instructions. His answer is always the same, namely, that he does not propose to take unprofitable business, and that to have increased his retail would have meant forced sales; that he cannot move the used cars already taken in as fast as is necessary, and that to increase used-car stock by increasing new-car sales would further complicate that; that, anyway, new-car retail must show a net loss (under present discounts, when the used-car loss is absorbed) and therefore additional new-car retail will cut down his net profit rather than increase it.

* * * * * * *

He is actually "going overboard" [1] more than his pad on used-car allowances, as is shown by the first 10 sales in April, which I followed through on. * * *

I do not believe that we can ever make a retail man out of Jim. He is too old to change his mind, especially since his convictions are so positive.

Again, under date of February 8, 1937, the same field man reported on the operations of Automotive General Corporation, stating that a quota had been given for the distributor's area but that the quota had not been followed through properly. Respecting the distributor's operations, it was stated:

* * * It is impossible to get Gough to take a quota seriously, for he insists that it "does not mean anything." But we must admit that he did a good retailing job in January, despite his attitude about quotas. * * * Jim strenuously denies that he did not follow through on this, but I know that he did not except in a very lax way.

On the subject of the distributor's ability to produce, the field man stated:

I frankly do not believe that they will do a satsfactory job beyond the spring selling season, if that far, despite the assurances given by Olmsted and Gough that they mean to do an outstanding job. Mr. Pratt and I had every assurance that no stone would be left unturned, and I believe that Olmsted was sincere in his desire to do this; but I also believe that he will listen to Gough's counsel, and when used cars begin to increase that inventory, they will curtail their own retail. They cannot hope to retail anything like 4 percent of the Dallas business and hold used cars down below $10,000. In talking to Mr. Figus today, Gough argued persistently that he must turn his used-car stock in dollars and cents net (not gross) every 30 days, or reduce it to whatever figure represented the net turn-over in dollars for the preceding month. This means that the current used-car stock must not exceed the actual cash and notes received through that department for the preceding month.

Gough is to receive 10 percent of the net profit, and he is going to be sure that used-car losses are held to a minimum; a very laudable purpose to be sure, but not at the expense of volume. * * *

My recommendation is that we carefully watch this operation, and if effort and results slacken because of the necessity of going after our share of business harder,

[1] "Going overboard" refers to making allowances for used cars in excess of their resale value.

then that is prima facie evidence that despite the assurances given they are fair-weather operators only; and when the going gets tough they will not breast the current; and if such time comes, we should act, and act firmly.

Thus, over the period from the establishment of the distributorship in 1932 through February 1937, this concern was under continuous observation and criticism because of the conservative policy of its management, particularly as expressed in the policies and acts of the distributor's general manager, Gough, respecting the retail business of the distributor. At frequent intervals in the reports of the field men references are made to the necessity of taking action to cancel and replace the distributor in case better showing in retail sales was not made.

Similar policies are pursued by other manufacturers, as is evidenced by the fact that their dealers related instances in which changes in employees and even in the executive personnel of dealerships were made at the insistence of manufacturers or their field representatives. For instance, a Pontiac dealer stated that in 1935 a factory representative insisted that the dealer's sales manager would have to be discharged because the factory representative thought he was doing a poor job. The dealer stated that at the time this occurred he was satisfied that his sales manager was conducting the business satisfactorily. At the insistence of the factory representative, however, a new sales manager named by the factory representative was brought from another city and employed by the dealer at a salary of $250 per month, which amount was set by the factory representative. The dealer stated that this change was unfortunate, because the new sales manager did a very poor job of promoting sales, which caused the retailer to lose considerable money, and after approximately 3 months the new sales manager was discharged.

This same dealer also stated that in 1937 he was only a minority owner of the business which he conducted. He stated that in that year a Pontiac factory representative went to the majority owner of the business and requested that the minority owner be removed from his position as operator of the retail business. The dealer stated that at the insistence of the factory representative, the majority owner finally agreed to carry out the plan in case a reasonable proposition was made. An arrangement was made for an individual designated by the factory representative to come from another city to purchase the minority owner's share in the business. Although this new minority owner was permitted to take over the handling of the business for a short time, it subsequently developed that he had insufficient capital to carry out his part of the purchase, and as a result he withdrew, and the previous minority owner was again placed in charge of the business, which position he held at the time of the interview.

In another instance, a former regional sales manager for Chrysler Corporation became vice president and general manager, with a financial interest in a Chrysler-Plymouth distributorship. This relationship continued for about 2 years, when it was terminated by the forced withdrawal of the vice president and general manager, due to the fact that pressure was brought to bear because the distributor's vice president and general manager failed to comply with certain demands made by the new Chrysler regional sales manager.

The distributor's general manager whose removal had been insisted upon by the Chrysler regional manager related in some detail the circumstances leading up to his dismissal from the distributorship. He stated that shortly after he became the distributor's vice president and general manager, competition became more keen and the new Chrysler regional manager began to bring pressure to bear to compel the distributor to sell more cars, appoint additional subdealers, and to do other things intended to increase sales. He stated that under pressure of threat of cancelation he, as general manager, was forced to take a considerable number of unwanted cars during the clean-up prior to the introduction of 1938 models, and that in disposing of these cars his company sustained considerable loss. Likewise under pressure, he also appointed additional subdealers, although in his opinion the market was already overcrowded with Chrysler-Plymouth dealers. Some months later he was informed that unless he severed connections with the distributor, the latter's contract would be canceled. Under this pressure, he sold his financial interest back to the principal owner of the business and severed his connection.

The attitude taken by the manufacturer in case the dealer objects to losses incurred due to following the suggestions of field men, who by the terms of dealer agreements are not agents for the manufacturer authorized to bind the factory in any way financially, is exemplified by certain correspondence between A. van Der Zee, general sales manager of the Chrysler Corporation, Dodge Division, and a large distributor during the year 1934. Under date of March 5, 1934, this distributor addressed a telegram to van Der Zee as follows:

> In a wholly friendly and courteous way I wish to go on record as saying that when your representatives dictated the employment of a very expensive sales manager and assistant sales manager, and an additional wholesale man and other large increased expenses, you took on the moral obligation, it seems to me, to see to it that we receive the cars to meet these extra expenses.

In a long letter written on March 6 in reply to this telegram, Mr. van Der Zee stated that although shipments made by the Dodge division during February were heavy, more February orders were carried over into March than were actually shipped during February. Respecting the responsibility which the distributor had suggested that the manufacturer in his opinion had assumed, van Der Zee stated:

> So far as your suggestion is concerned that we are responsible in any way for the employment on your part of a sales manager, an assistant sales manager, and an additional wholesale man, as well as other large increased expenses to which you refer, we wish to go on record in a wholly friendly and courteous way, as you suggest, that we do not assume any responsibility whatever for the employment of any personnel on your part at any time or for any expenses that you incur, or, as a matter of fact, for anything whatever pertaining to the operation of your business. It is your business and it is up to you to handle it as you see fit. We have, of course, from time to time made suggestions that we believe would improve your operation and correct some of its obvious weaknesses, but these were purely suggestions and it was within your province to act upon such suggestions or to disregard them, as you saw fit.

Various other instances in which pressure on dealers to change personnel or employ additional personnel was exerted by manufacturers might be cited. These, however, are typical of the types of pressure exerted and the attitude taken by manufacturers in case the dealer objects to carrying out the manufacturer's wishes, or in case the dealer attempts to hold the manufacturer responsible for any financial losses incurred in making such changes or additions to personnel. It is important to note that whether the pressure exerted leads to no definite action as in the case of the Hudson distributor, or whether as in the case of the Pontiac dealer, action was actually forced upon the dealer, the force compelling the dealer to comply with the manufacturer's requirement is fear that his dealer contract will be canceled. The extent to which this fear is utilized by manufacturers is exemplified in the case of the Chrysler distributor who was obliged to buy out and dismiss a vice president and general manager whose operations were unsatisfactory to the Chrysler district manager. It is probably true, also, that in some cases local factory representatives go farther in applying pressure than would be countenanced by their home-office superiors.

Section 4. Transportation

It appears that dealers often are charged for transportation on a basis of the rate on assembled automobiles from factories, when as a matter of fact the automobiles are assembled at or near the dealers' places of business. It is alleged that an excessive profit accrues to manufacturers due to a difference between the amounts charged for delivering automobiles to dealers and the actual cost of transportation.

Many factors that have not been closely studied in connection with this inquiry would have to be considered before it would be possible to indicate the extent of profit to manufacturers as a result of this practice, or even to state definitely that a profit does accrue to automobile manufacturers who follow this practice. To determine this question it would be necessary to develop information relative to the cost of rehandling parts which are manufactured or machined at the factories, the cost of parts purchased from suppliers and delivered at assembly plants as compared with cost when delivered at factories, the difference in assembly costs at factory as compared with assembly plants, the cost of administration involved in operating multiple assembly plants, as well as many other factors.

The intricate problem of determining the costs of operating assembly plants as compared with the cost of assembling automobiles at the factories, and of determining the extent of the profits, if any, accruing to manufacturers due to their methods of billing for transportation, is one of the problems of this inquiry which the Commission has been unable adequately to consider due to the magnitude of the inquiry as a whole and to the definite limitation as to time and money.

Information developed in connection with this inquiry respecting the general practices of the three dominant automobile manufacturers with reference to selling on a delivered-price basis, which includes charges for delivery, and selling f. o. b. manufacturers' principal places of business, is as follows:

General Motors Corporation.—Sales of automobiles by the different divisions of the General Motors Corporation to dealers apparently are on a delivered-price basis. Section 7 of the Chevrolet Motor division agreement form "G. S. D. 210 Printed in U. S. A. 28M 12–37," reads as follows:

> It is agreed that seller has the right to ship all motor vehicles and chassis purchased by dealer hereunder by whatever mode of transportation and from whatever point it may select.
>
> Seller will prepay all transportation charges on shipments of motor vehicles and chassis made to dealer hereunder, and dealer agrees to pay seller, in addition to the prices otherwise provided for herein, a transportation charge to be determined and set by seller based on the published all-rail freight charge from Flint, Mich., to dealer's established railroad delivery point in effect on the date such

shipment is delivered to carrier for transportation, except seller shall have the right to establish average transportation charges either on national, regional, zone or single sales market basis; and in addition to the above, if delivery is made at dealer's place of business, a reasonable charge for such delivery.

The clauses in the 1938 sales agreements of the other sales divisions of the General Motors Corporation which pertain to transportation or delivery by the "seller" are similar to the above.

The Chevrolet, Pontiac, Oldsmobile, Buick, and Cadillac-La Salle Divisions of General Motors Corporation bill dealers on a delivered price basis which includes transportation charges. The shipping points or places from which transportation charges to dealers' delivery points are based, for the different divisions, are as follows: Chevrolet, Flint, Mich.; Pontiac, Pontiac, Mich.; Oldsmobile, Lansing, Mich.; Buick, Flint, Mich.; and Cadillac-La Salle, Detroit, Mich.

Ford Motor Co.—The Ford Motor Co. sales agreement, "Form 925 35 M, 12-7-38," contains a section under the caption "Prices" which pertains to delivery or transportation. This section reads in part as follows:

(2) Company will sell its products to dealer at such prices as are from time to time established by company plus company's charge for distribution and delivery * * *.

General Letter No. 25, dated May 11-13, 1938, was issued by Ford Motor Co. This letter, which superseded General Letter No. 25 (Sales General) and which was effective immediately, refers to transportation charges in part as follows:

2. Company's charge for transportation on all Ford units is based on 12,000 pounds minimum, at the automobile rate Detroit to destination, four units to the carload, plus $5 per unit, except on west coast and Salt Lake City branches and as outlined below.

9. $2.75 is to be added * * * on all units to be delivered in the State of Pennsylvania.

10. An allowance of $2 per unit is to be made to dealer for unloading on rail shipments.

The company's charges for transporting Ford units to different branches in the United States are set forth in this general letter. These transportation or delivery charges on Ford passenger cars vary from $4 for delivery to the Dearborn branch to $127 for delivery to Pacific coast branches.

The amounts charged to dealers for freight vary according to shipping destinations. Copies of invoices from the Dearborn branch, Dearborn, Mich., on Deluxe Tudor sedans at a dealer unit price of $543.75, show charges for freight as follows:

Date of invoice	Dealer's address or delivery point	Charged for transportation
Jan. 10, 1938	Greenville, Mich	$16.10
Mar. 17, 1938	Eaton Rapids, Mich	13.10
May 17, 1938	Napoleon, Ohio	12.80

Copies of invoices from the Dallas, Tex., branch or assembly plant to a dealer in Dallas, Tex., show charges for freight and delivery as follows:

Date of invoice	Description of automobile	Charged for transportation
Dec. 17, 1936	Tudor, 85 horsepower	$97.30
Dec. 18, 1936	Tudor tour, 85 horsepower	97.30
Do	Deluxe 5-window coupe	97.30
Dec. 23, 1936	Deluxe Fordor tour	89.30
Do	Fordor, 85 horsepower	89.30
Dec. 24, 1936	Coupe, 60 horsepower	89.30

General letter No. 25 of January 10, 1936, which quotes contract freight rates, shows the rate to Dallas, Tex., on Ford passenger cars at $89.30. With reference to rates, this general letter reads in part as follows:

These are based on 12,000 pounds minimum, present Detroit to destination automobile rate, plus emergency charge, four to the carload, plus $5 per unit.

Chrysler Corporation.—For some years it has been the general practice of the different sales divisions of the Chrysler Corporation to sell automobiles to dealers f. o. b. Detroit, Mich.

The principal exception to this general practice has been in the case of shipments from the Evansville, Ind., assembly plant. Dodge and Plymouth automobiles have been assembled in the Evansville plant, which commenced operations in October 1935, and are shipped or sold to dealers situated in territory more conveniently served from this plant than from the Detroit plants.

Prior to September 1, 1938, dealers receiving automobiles from the Evansville assembly plant were billed on a delivered-car basis, which billing included the cost of the automobiles, plus freight in an amount equal to the freight from Detroit, Mich., to the dealers' delivery points.

Inasmuch as this procedure involved a cost to the manufacturer in the amount of the freight charges from Evansville, Ind., to the dealers' delivery points, the manufacturer permitted delivery at Evansville, and credited the dealers with the amount of the freight charges from Evansville to their delivery points. Thus a dealer taking delivery at Evansville, would be billed for freight in an amount equivalent to the freight on an assembled automobile from Detroit to his delivery point, and credited with an amount equivalent to the freight from Evansville to his delivery point.

Apparently this method of billing worked out to the benefit of certain dealers handling Dodge and Plymouth automobiles and as a result these dealers occupied an especially favorable competitive position. A letter dated September 21, 1937, from N. D. Hoke, director of traffic, Dodge sales division, to a sales representative or dealer in Dallas, Tex., indicated the actual amount of the freight for which the dealer would be billed on deliveries at Evansville, Ind., as $11.94 on a Dodge automobile and $13.28 on a Plymouth automobile. From this letter it appears that the total delivery cost to the dealer on a Dodge automobile was $11.94, plus the dealer's expense of transporting the automobile from Evansville to his delivery point or place of business. This letter reads as follows:

Referring to our exchange of telegrams, we are prepared to allow you $62.99 on each Plymouth and $66.30 on each Dodge which you transport from Evansville to Dallas on your own trucks. This is the same rate which we pay our regular transport company for similar service, and is also the same rate which is published in legal tariffs filed with the Interstate Commerce Commission for movements of this type.

On this basis the differential that you will pay the factory becomes $13.28 on each Plymouth and $11.94 on each Dodge, but of course, these differentials may very possibly be changed when we begin to ship the new models very soon.

We are today notifying the sales department and the factory auditor of this arrangement, and it will be satisfactory for you to begin this operation at your convenience.

From this letter it would appear that the amount charged for freight from Detroit, Mich., to Dallas, Tex., on a Plymouth automobile was $76.27 and on a Dodge automobile was $78.24.

Apparently the amount of the freight charge from Detroit to Dallas increased subsequent to the time the above letter was written, as on April 7, 1938, N. D. Hoke wrote another sales representative in Dallas, Tex., with reference to Plymouth automobiles received at Evansville, Ind., in part as follows:

* * * The present charge which appears on the invoices covering shipments from Evansville is $82.37 on Plymouths. This, of course, is the freight rate from Detroit to Dallas.

We arranged yesterday that on future shipments from Evansville which you transport on your own trucks, an allowance of $62.99 will be made to you for this service. The authority to use this rate was telegraphed to our traffic department at Evansville and, consequently, it is now in effect. The difference between these two amounts of $82.37 and $62.99 is the so-called "back rate" from Detroit to Evansville.

From this letter it appears that in April 1938, a Dallas, Tex., dealer would be billed for freight on a Plymouth automobile delivered at Evansville in the amount of $19.38 instead of $13.28, the amount indicated in the letter of September 21, 1937, hereinbefore referred to.

On September 1, 1938, the practice of billing dealers who took delivery at Evansville, Ind., of Plymouth and Dodge automobiles assembled at the Evansville plant, for freight in an amount equivalent to the freight on an assembled automobile of the same model from Detroit, Mich., to the dealers' delivery points, from which was deducted an amount equivalent to the freight from Evansville to the dealers' delivery points, was discontinued. On that date, September 1, 1938, a new policy was inaugurated whereby a dealer who took delivery at Evansville of a Plymouth or Dodge automobile assembled at the Evansville plant was billed for freight in an amount equivalent to the freight on an assembled automobile of the same model from Detroit to Evansville.

With reference to the ruling referred to immediately above, a dealer in Dallas, Tex., wrote F. H. Akers, Dodge Division, Chrysler Corporation, on May 31, 1938, as follows:

In your letter of May 24 you state that our present arrangement of transporting automobiles from Evansville will be discontinued September 1, 1938.

We have checked our rates and find that it will cost us $25.66 more than our present cost to deliver the four-door Dodge touring sedan from Evansville to Dallas. If it becomes necessary for us to pay this additional cost, it will affect the sale of Dodge and Plymouth cars very much in this territory.

We would be willing to take our cars from Detroit and bring them through on our transports. Our cost on hauling from Detroit would be approximately $60 per unit against a rail rate of $85.23, which includes unloading the cars here.

We would like for you to give this your immediate attention, as we have an investment of approximately $20,000 in six four-car transports, which operate from Evansville to Texarkana, and four two-car transports which operate from Texarkana to Dallas. It is necessary that we use this equipment and, is very important to the Chrysler Corporation and * * * [2] that we deliver cars in Dallas at the very lowest possible cost.

Dealer complaints.—From information received from various dealers it appears that some dealers, at least, are bitterly opposed to being billed for freight on automobiles from the factory when the automobiles are received from some nearby assembly plant.

One dealer in commenting on this practice, stated:

I refer * * * specifically to the practice of this corporation of falsely invoicing freight charges to its dealers, who, in consequence, are compelled falsely to invoice this freight to their customers, the ultimate automobile buyers.

This dealer was referring to the practice of billing freight on an automobile from the factory to the dealer's delivery point, which delivery point was in the city where the assembly plant, from which the dealer received automobiles, was situated.

Another dealer stated that he was supplied from an assembly plant and was not permitted delivery from the factory except in cases where customers go personally to the factory and take delivery. This dealer stated that his shipments come from the assembly plant, freight prepaid, but that he is charged the same freight rate as prevails from the factory to his delivery point.

It appears that the General Motors Corporation and the Ford Motor Co. sell to dealers on a delivered price basis and that these manufacturers have the option of shipping automobiles either from their principal manufacturing plants or from assembly plants. In either case, however, the dealers are billed for freight in an amount which represents the approximate freight from the manufacturing plants to the dealers' delivery points. The Chrysler Corporation, however, with certain exceptions, apparently sells automobiles to dealers on an f. o. b. Detroit, Mich., basis. The principal exception appears to be in the case of deliveries of Plymouth and Dodge automobiles from the Evansville, Ind., assembly plant.

From such information as is available it is not possible to attempt to indicate the result that the practice of billing dealers for automobiles at assembly points on the basis of a price f. o. b. factory plus a transportation charge equal to or greater than the full freight rate on assembled cars from the factory to the assembly point may have on the profits of the manufacturers. In general, it seems fair to assume that there is a saving in freight by shipping unassembled or only partly assembled parts to the assembly plant, and it may or may not be true that there is also a saving in assembling cost at the assembly plant as compared with the cost at the factory. To determine whether the excess of transportation charge over actual transportation and handling cost incurred yields a profit to the manufacturer requires the balancing of such excess against any difference in cost (including proper proportion of factory general overheads) that may exist as between assembly at the branch plant and assembly at the main factory, and also a determination as to whether this difference has been taken into consideration in the determination of the base price of automobiles f. o. b. factory. Information obtained in this inquiry is insufficient for a determination of this question.

The effect of charging transportation in excess of actual cost of freight, handling, and assembly at the branch point as compared with like costs at the factory on the price to the consumer is quite

[2] Name of dealer omitted.

evident. It increases the price to the consumer provided the f. o. b. factory base price takes into consideration total manufacturing cost including assembly at the factory and elsewhere.

Some dealers regard this excess in transportation charge over actual cost of transportation paid as a manufacturers' "pack" which they must pass on to the consumer. Attention is also called to the fact that the basis of pricing f. o. b. factory, plus transportation charge, plus "accessories" which are really standard equipment on cars makes it difficult for the customer to check what the local delivered price ought to be. This in turn opens the way for unscrupulous dealers to still further pad the price to the consumer.

It appears that in the interest of frankness in pricing automobiles to purchasers, serious consideration should be given to a plan whereby manufacturers who operate assembly plants and sell to dealers on a delivered price basis, would bill their dealers for freight in an amount representing the actual transportation costs paid on each delivery. The manufacturers could ascertain the additional cost, if any, of assembling automobiles at the different assembly plants as compared with the cost of assembling similar automobiles at the factory, and price the assembly plant automobiles accordingly. Under such a plan, dealers would have the option of purchasing either from an assembly plant or from the factory, depending upon which shipping point would be to their best advantage.

Section 5. General Motors Holding Division Dealers

As stated elsewhere in this report, the general practice of the manufacturing divisions of the General Motors Corporation is to sell their products to sales divisions, who in turn sell to distributors and dealers. Some of the manufacturing divisions operate retail selling branches, but sales by those branches are of minor importance as compared to total sales. Also the General Motors Corporation owns an interest in numerous dealer outlets through the Motors Holding Division of the corporation.[3]

The plan of business management for use in General Motors Holding Corporation dealerships was discussed at the November 30, 1932, meeting of the general sales committee of the corporation. Excerpts from the minutes read as follows:

> The chairman stated that General Motors Holding Corporation had developed a complete plan of business management for use in General Motors Holding Corporation dealerships, which correlates all of the various phases of the dealer's business. He stated further that after carefully checking these ground rules, he felt they were constructive and not detrimental to the car divisions' interests. Mr. DuBrul then made a presentation dealing with the more important aspects of this plan and policies.
>
> In the course of the discussion it was pointed out that some friction had developed in the field between General Motors Holding Corporation and the car divisions in connection with the supervision of General Motors Holding Corporation dealers from a business management and a sales promotion standpoint. The chairman recommended greater cooperation among the field personnel of the General Motors Holding Corporation and the car divisions in order that their mutual interests, as well as those of the dealer, may be promoted to the fullest extent.

The General Motors Holding Corporation, which was organized during the year 1929, was dissolved in December 1936, and has since been operated as a division of General Motors Corporation. The

[3] See chap. XII, pp. 436-438.

stated objective of this division is to promote greater effectiveness of the dealer organization by an organized plan to make investments in approved dealerships. The claimed purposes for making these investments are to provide financial assistance to individuals having certain qualifications whose financial resources do not permit them to qualify for dealerships. Such individuals have been assisted in setting up wholly new dealerships, or in acquiring the businesses of deceased or bankrupt dealers, or of dealers who wished to retire from business in locations where General Motors did not wish to lose representation.

It appears that one of the outcomes of the plan was the acquisition by the division, during the period from 1929 to 1937, of 428 dealerships, of which 92 were disposed of, leaving on December 31, 1937, 336 dealerships in which the division held investments (ch. XII, pp. 436–438).

Some dealers have expressed the opinion that the General Motors Corporation through the acquisition of dealerships has placed its own sales outlets in key positions in large cities. In February 1939 an automobile dealer in the State of Texas, in commenting on this situation, stated, in part, as follows:

> Some of these automobile manufacturers are developing into retailers of automobiles, and especially does this apply to General Motors. They have a policy all through this part of the country that when they have a dealer that is showing weakness, not making any money, or on the verge of failure, they take over the business, and in doing this they create the most unfair competition imaginable. Their policy is to put out lots of automobiles, regardless of whether the retail operators make any money or not. Apparently they are well satisfied if they can break even on operation—pass their paper on to General Motors Acceptance Corporation and what profit they can make, if any, goes to the General Motors Holding Co.
>
> Now this program of theirs has grown very fast in the past few years. I know of no town the size of ———[4], and even smaller, but that they are carrying on this kind of operation. In ———, and ———, and ———,[4] the biggest portion of their operation is carried on by the General Motors Holding Co. They are literally sacrificing independent dealers and causing them to lose a lot of money—in fact they are putting a great many of them out of business. * * *
>
> Unless this is checked and a stop is put to it, it is only a question of time until they are going to force independent operators into bankruptcy, in fact they have already broken quite a number of dealers right here in this town, and places where we operate with which we are familiar. Surely Congress should take some action, for it is the most unfair and most unethical operation that I know of in my line of business.
>
> As stated, they are only after volume, regardless of whether they make any money on retail operation or not. They will outbid an independent dealer anywhere from $50 up to as high as $200 on a used car.

The above letter is to the effect that General Motors Holding Division dealerships engage in the practice of overallowance[5] to an extent or degree which would eliminate competition by independent dealers. With reference to this alleged practice by General Motors Holding Division sales outlets, various dealers have expressed their opinions substantially as follows:

A Nebraska dealer stated that a "factory-owned dealer" allowed $450 for a used car that the informant valued at $300 for trade-in purposes and that when the car was reconditioned and sold, the deal resulted in a loss of $219. This dealer advised that such tactics are a regular practice.

[4] Names of cities omitted.

[5] Overallowance means the practice of allowing more than the market value of used cars taken in as part payment on new or better used-car deals.

The principal complaint of a Louisiana dealer, so far as retail competitors are concerned, is against a General Motors Holding Division sales outlet, which, the dealer stated, has resorted to "cutthroat" methods with reference to used-car trade-ins, which the dealer characterized as unfair competition. This dealer is of the opinion that the General Motors Corporation should either discontinue the practice of retailing automobiles in direct competition with independent dealers or take over the business in its entirety and effect control of all retail outlets alike.

A dealer in Wisconsin stated that he had two complaints, one of which pertained to the General Motors Holding Co. selling cars at any price obtainable in order to get sales volume. He stated that this practice is resulting in competition so severe that independent dealers are being forced out of business. It is this dealer's expressed opinion that the holding company does not consider profit on retail sales because its parent company, General Motors Corporation, makes both a manufacturing profit and a financing profit on volume sales financed largely through the corporation's own finance company. He stated that the holding company can afford a large advertising program and, due to its vast resources, can sell cars at prices which include at most only cost and overhead.

From the above it appears that complaints are in reality directed at alleged policies of the General Motors Holding Division sales outlets that result in the practice of overallowance on used cars taken in trade on new-car deals.

A Massachusetts dealer has referred to competition with dealerships in which the General Motors Holding Division holds 90 percent of the stock and the dealer representing the agency holds 10 percent. He stated that such a sales outlet would be able to invest larger amounts in used cars than could an independent dealer. Furthermore, he advised, the company sales outlets can take a loss on used cars due to the benefit to the corporation from the sale of so many more new cars. He contends that this kind of competition is unfair to the independent dealers.

A Texas dealer in referring to the competition by General Motors Holding Division sales outlets, stated that during the close-out period of a model, these company sales outlets are not loaded up with the outgoing models but their stock usually is so controlled as to permit them to be in a position to take care of new models when they are ready for the market.

A Minnesota dealer stated that the General Motors HoldingDivision sales outlets cut prices and that this practice results in a general reduction of dealer prices below the so-called "market price." He advised that the general sales plan of the division is to advertise that cars would be held only 30 days and must then be sold at "prices offered."

Another Minnesota dealer stated that the competition offered by the average General Motors Holding Division dealer is unfair in that these dealers have a comparatively small personal investment and the factory does not have to consider retail profits. This dealer added that he had no complaints relative to retail competitors with the exception of those financed by the General Motors Holding Division.

Another General Motors dealer referred to a specific case of price cutting by a factory-owned dealership which occurred in connection with a so-called "clean deal" in which no trade-in of a used car was involved. It appears that a customer was desirous of purchasing a certain automobile which was on display in the showroom of this dealer and which, as equipped, retailed at $816. The customer tendered a lesser amount which was refused. Thereupon the customer began shopping for a similar car at a reduced price and was offered such a car by the factory-owned dealership for $700 or at a discount of $116. The customer returned to the dealer and asked for a further discount of $5 which was allowed and the contract was made for $695. When the company sales outlet or factory dealership was informed of the sale, they advised the dealer that he had been price cutting and stated that the sale rightfully belonged to a nearby dealer. Thereupon, the dealer released the sale and the next day a representative of the factory sales outlet borrowed the particular car desired by the customer, claiming he wished to make delivery to still another dealer. The complaining dealer stated that he learned a few days later that the car which he had loaned to the factory dealer had been sold by the latter to the customer to whom the complaining dealer had first sold the car.

A Tennessee dealer complained that the Chevrolet Motor Co. will appoint dealers through the General Motors Holding Division, and that these dealers are interested only in volume. He stated that the appointing of these holding division dealers has created disturbed conditions in all towns where they are located.

A dealer from the Middle West stated, in effect, that he was one of the two dealers in his city representing a certain division of General Motors Corporation and that he purchased the business of his competitor. He had an oral agreement with the regional manager to the effect that another dealer handling the same line would not be placed in the city. However, within 2 years, the General Motors Holding Co. opened a retail sales outlet for the same line of cars and the company-owned dealer made overallowances when taking used cars in trade on new-car deals. The complaining dealer also stated he experienced difficulty in obtaining delivery of salable models, while at the same time, the company-owned dealer was receiving similar models, and that deliveries to the complaining dealer would be delayed for months while the company dealer would receive immediate deliveries.

While it appears that most of the dealers who expressed opinions with reference to these company sales outlets were opposed to the practice of the corporation in operating these sales outlets in competition with independent dealers, there are some who do not condemn the practice.

For instance a Texas dealer, in commenting upon the situation, stated that while he did not like the arrangement and did not approve of the practice of retailing by manufacturers, he had no complaint from a business standpoint concerning the company agency as he did not believe the agency made any greater overallowances than did other dealers handling the same line of cars.

CHAPTER X. RETAIL DEALER ASSOCIATIONS AND ACTIVITIES

SECTION 1. GENERAL NATURE OF RETAIL ASSOCIATIONS

Types of associations.—Retail automobile dealers' trade associations range in size and territorial scope from the quite informal groups of dealers handling one make of car in a small city to the National Retail Automobile Dealers Association representing dealers in every State of the Union. Between these extremes are the larger so-called local groups comprising, for example, most dealers in a city, or in a county, and the State associations. There are approximately 500 of the local associations with organizations sufficiently formal to be on the mailing list of the national group and, in addition, most of the States have State-wide organizations, except California, which has two, one representing dealers in the northern half of the State and the other those in the southern part.

Reasons for organizing retail-dealer associations.—The primary purposes behind these groups generally have to do with bringing about what their members regard as improvement in the conditions under which dealers operate. With these objects dealers associate to discuss their problems. The value of unity of action in pressing for or against proposed ordinances and legislation and, in some cases, to amend or repeal existing statutes is fully appreciated by the dealers. In addition, they realize that through their organizations it may be possible to avoid misunderstandings among themselves and, in case of some groups, the possibilities of associated effort to restrain competition have not been overlooked. The matter of manufacturer-dealer relations has occupied the attention of some of the local and State associations and the national association. Other State and local organizations have done little on this subject, at least openly, preferring to let such controversial matters be handled by the parties involved, or by the national association.

The date the first State trade association of retail automobile dealers was organized is not known. It is probable that none of these associations is as old as some of the local associations, some of which are at least 30 years old or more, if succession is allowed them from their early origin as associations of garage operators. Most of the State associations probably became important about the same time that the national association was formed in 1917. They grew in size and importance as the various State legislatures increased their concern with automobile legislation.

Interests represented in retail-dealer associations.—Membership in local and State automobile dealer trade associations, while primarily comprised of factory-authorized dealers in new cars, is not always limited exclusively to such dealers. In many groups membership privileges are extended to finance companies and motor-vehicle accessory dealers. In some cases these allied trade memberships are known as associate memberships.

Dealers handling used cars only are not as a rule members in the associations under discussion and, in fact, such membership is not often sought, by the used-car dealers who have associations of their own. This is not surprising as the interests of the two classes of dealers are opposed in many important matters. The used car is considered by many dealers in new cars to be the largest problem confronting them and in many localities they have, in some instances, been active in supporting measures designed to hamper the operations of used-car dealers.

Limitation of discussion.—It is possible in this report only to discuss the retail-dealer associations largely in general terms, especially insofar as the local groups are concerned. The plan followed is, therefore, to point out the general nature of the local associations and their activities briefly, then the State associations are discussed with more detail as to their principal activities and finally the organization and the activities of the National Retail Automobile Dealers Association are presented.

Section 2. Local Retail Automobile Dealer Groups

Nature of local organizations.—As previously mentioned the National Retail Automobile Dealers Association has a mailing list of about 500 local groups of retail dealers, and there are a number of others not so listed. It is not known how many of these are associations by more than courtesy but it is believed that many of them are inactive or rather that about their only activity occurs when some special problem calls for united action on matters affecting that particular group. An example would be the need to present the opinions of the local dealers to the city government on some proposed ordinance which would affect the retail automobile trade. Then, too, some of these local groups have been used in political campaigns to secure pledges from candidates for Federal and State offices on proposed legislation affecting the dealers. This appears more in detail later in the discussion of legislative activities by State trade associations.

Closely akin to the informal groups just mentioned are those which are more properly called luncheon clubs, organized by local dealers. In some cases these luncheon clubs are confined to dealers handling one line of cars, as Ford, for example, while others are broader in their membership, taking in dealers of any or all makes of cars. As already stated, as a general rule, dealers handling used cars only are not members of the groups or associations under discussion.

Some of these informal organizations are so loosely organized as not to have any officers, except possibly a chairman or an unpaid secretary-treasurer whose duties are to preside and to take care of notifying the group as to time and place of meetings and to make the necessary arrangements. Other groups have quite formal organizations and are, in fact, trade associations such as the Philadelphia Retail Automobile Dealers Association with its own clubrooms, a full time secretary, elective officers, standing and special committees, regular dues, and a variety of activities designed to promote the interests of the membership.

Activities of local associations.—As is to be expected the more formal type of local dealer associations are found in the metropolitan areas and in every city in the country where dealers unite in having an

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automobile show will be found a local dealer trade association. One of the most important activities of these groups, as a matter of fact, is preparing for and managing the local auto shows. The revenue derived therefrom often furnishes enough funds to pay the expenses of the local association for much, if not all, the balance of the year.

Aside from the details involved in handling the automobile show, these local associations have other activities which are of benefit to the membership.[1] Legislative activities, discussed more fully elsewhere, are of primary importance to practically every group in the country. The local groups, furthermore, do not confine themselves to local matters of this sort. They often are ready, upon call of the State associations and on some occasions from the National Association, to canvass their memberships and add their efforts at State capitals and at Washington, D. C., to obtain the desired action. It does not always happen that all local groups see alike and urge the same action. There were some organizations, for example, that refused to urge the passage of the Withrow resolution under which this inquiry was conducted.

Next to legislative matters the chief activity of the local groups, or at least the one that occupies most of the executive officer's time, is the handling of disputes and misunderstandings between members. These involve, often, charges and recriminations in respect to allowances made on trade-ins, allegations of making to prospective car purchasers false and unwarranted statements as to the product sold by a competitor, or complaints respecting other trade practices. Several secretaries of these local associations stated that they regard their efforts to bring about a better understanding between, and a more kindly feeling among their members as of great importance and value. The luncheon meetings, which may be weekly or less often, furnish an excellent opportunity for the members to become better acquainted with one another and also for them to discuss their problems and to obtain at first-hand facts in respect to some deal, for example, which had been lost to another dealer.

In the more formal of these local associations it is the practice to hold regular meetings, often at night, at which a set program of business is presented and disposed of, followed probably by informal discussions of the business at hand or of new matters requiring the attention of the group.

Few of these local groups regularly collect statistical information, other than data regarding registrations and used-car inventories, or engage in cost work. At times they may ask members for figures on sales, wages paid, number employed, etc., to enable the group to present its views on some subject to better advantage. Many of these organizations have tried, however, at one time or another, to operate an appraisal bureau for the purpose of fixing and stabilizing allowances within their territories on trade-ins. These attempts have

[1] To illustrate the general scope of activity of these local associations a local group of 20 dealers with 7 associate members meets every other week at luncheon. The secretary in describing his duties stated as follows: "My duties as secretary consist of you might say the duties of a "handy man." I circulate among members, act as official clearing house such as looking up references of salesmen, sometimes called upon to check up prospective purchaser's standing, attend to writing up minutes of any meeting which are more or less perfunctory getting together around the table for lunch. In connection with my secretarial duties, which are only incidental, I am the publisher of the Official County Auto Registration Service and Automobile License Directory which is my private enterprise. The members pay me a fee for which I furnish the daily registration of automobiles which is available to anyone. In addition, I release in numerical order the license number which furnishes quickly essential information concerning the ownership of any particular car for the county."

not been found to be a practical matter for the trade association to carry on in many instances. As a result, most of the appraisal bureaus in operation in the country, so far as can be ascertained, are conducted by organizations other than the local associations, although it is believed they have the hearty endorsement of the associations and, at times, the associations have been instrumental in bringing about the formation of such bureaus. Some of the local associations, for instance the Winnegabo County Automobile Dealers Association (Rockford, Ill.), East Shore Dealers Association, comprising the automobile dealers of Belleville and East St. Louis, Ill., and the Oklahoma City Motor Car Dealers Association, do operate appraisal bureaus. In Los Angeles, San Francisco, Chicago, Boston St. Louis, and Kansas City, Mo., the Ford Dealers Associations, and in Philadelphia the Buick Dealers' Association of the Philadelphia Metropolitan Zone operated such a bureau—in fact, this matter of appraisals was the chief activity of these associations. The subject of appraisal bureaus is discussed elsewhere in this report. (See sec. 2, ch. XI.)

Attitude of manufacturers toward dealer membership in association.—The retail automobile dealer handling Ford products has not always been free to join a trade association. Up to a comparatively few years ago it seems to have been the policy of the Ford Motor Co. to discourage dealers from joining with their competitors, in any way. Dealers have said the discouragement took the form of threats of cancelation of their dealer agreements with the Ford Co. That many Ford dealers did fear reprisals from the manufacturers is evident from the fact that in some cities these dealers would only participate in any association work when they were assured that absolute secrecy was guaranteed. There are numerous instances of Ford dealers being required to withdraw from trade associations in many cities in the country. Today, however, this factory ban against Ford dealers belonging to trade associations is not in force and many of them are active members of both local and State groups as well as in the national association.

B. E. Hutchinson, of the Chrysler Corporation, addressed the eighteenth annual convention of the national association, the week of January 13, 1935, in part as follows:

> Much credit for the orderly evolution of the automobile business is due to the influence of the two dominant associations in the industry; yours, the National Automobile Dealers Association, and ours, the Automobile Manufacturers Association, formerly the National Automobile Chamber of Commerce. Each of our groups, in its respective association, has met and discussed the problems of the day, and much good has come from it. It is remarkable, considering the intimacy of dealer-factory relationships upon which we have already commented, that the relationship between our respective associations, while cordial, has been kept on a distinctly informal basis. There are, however, compelling reasons why this should be so, and why it must be kept so.

DEALER CARRIES RESPONSIBILITY

> As I have previously stated, the dealer carries the responsibility for the presentation of the factory's product to the public, and for its subsequent marketing. In a certain sense we manufacturers do not sell automobiles at all. We sell to you the idea of selling our automobiles; we come to some arrangement with you through which you take on the franchise to represent us in some certain territory, and from then on we are absolutely dependent upon you for the sale of our product. You are the only outlet we have. Under these circumstances it is not surprising that the factories are intensely jealous of their relationship with their own dealer

body, and would oppose with every resource at their disposal the intrusion of any third party to the relationship.

The relationship between a factory and a dealer is an individual relationship, suited to the particular situation under which it has evolved. Some factories market their product through large distributors controlling enormous territories. Others have thousands of direct dealers operating in relatively restricted districts. On some lines of cars relatively long discounts are allowed, and the factory delegates a large share of the responsibility and expense for territorial development to its distributors.

On other lines the factory itself maintains large and expensive field organizations to cover such work and is, therefore, in a position to allow only a somewhat lower scale of discounts. I mention this as only one of the most obvious of many differences in the policies which govern the factory-dealer relationships of different companies, but it is suggestive of the complications which preclude the possibility of this important relationship ever becoming a proper subject for association discussion or negotiation.

Factories must always remain free to bargain with their dealers individually without any outside interference by their own or the dealers' national associations. Any intrusion by the Automobile Manufacturers Association or by the National Automobile Dealers Association into this situation would inevitably introduce disruptive forces into association work which would seriously interfere with its unquestionably valuable contribution operating in the proper sphere of such association work.

The attitude of the manufacturer toward dealer participation in local and State association activities evidently changed with the exigencies that arose in many special and regular sessions of the various State legislatures in 1935 and 1936. These legislative activities were deeply concerned with revenue legislation such as added taxation, which in many instances, took the form of a general sales tax.

Alfred Reeves, vice president of the Automobile Manufacturers Association, in a letter of May 4, 1936, to R. H. Grant, vice president of General Motors Corporation, quoted two paragraphs from a letter which he had received from C. E. Anderson, executive secretary of the Automobile Dealers Association of Alabama, as follows:

The special session of the legislature of which you are familiar has finally adjourned sine die and we are happy to report that we were successful in keeping all added taxation off of the dealers.

At a meeting of the local association, this noon, one of the dealers present asked another member if he had received a letter from their factory urging affiliation with the State association. He had today received a very strong letter from the ------------------- organization insisting on his taking his stand with the State association in its efforts.

Local associations of dealers handling a single line.—In numerous localities the Ford dealers now have associations of their own, dealers in other makes of cars being excluded. Some of these Ford groups have had the active assistance of Ford factory representatives, both in the formative stages and in the conduct of their affairs afterward. Such associations of dealers are not confined to Ford, however; single-line associations of dealers, notably those handling General Motors products, and especially Chevrolet and Buick, are not uncommon.

The question as to whether or not it might be well for General Motors to develop some plan whereby its dealers in each community might be encouraged to cooperate with one another more closely was discussed by its general sales committee, April 1927. The minutes of this committee quoted below disclose that General Motors Acceptance Corporation branch managers, in about 16 different cities, held luncheons once a week with the local General Motors dealers. These luncheon meetings were designed to bring about a closer cooperation between General Motors Acceptance Corporation and General Motors Corporation dealers.

After considerable discussion, the committee agreed that we should be very careful not to do anything that would create antagonism on the part of competitive dealers. It was pointed out that the competitive dealer of today might be the man we will want to get within the next few years. If General Motors dealers form local organizations, this would tend to bring about a condition where the other dealers will look upon the General Motors dealers as a combination which might bring about a general animosity toward General Motors dealers on the part of dealers representing other lines.

Furthermore, if we encourage General Motors dealers to band together, there will be a growing tendency on their part to compare discounts and policies of the divisions under whom they operate, and again, if they organize locally, it seems probable that they would organize nationally and this might give us a difficult problem to deal with.

However, as a result of the discussion, it was agreed that it would be constructive for some representative of the corporation to travel over the country and call together informal meetings between our dealers at which time the proving ground picture might be shown and a talk given on the activities of the parent corporation.

It was further recommended that General Motors dealers be authorized to invite their friends among competitive-dealer organizations to attend these meetings. This would emphasize the fact that we are not trying to set up an isolated organization of our own dealers, and it would also serve to acquaint reputable dealers with some of the things that we are doing; and this, it was felt, would make it easier for us to get competitive dealers to switch to General Motors lines as the occasions arise.

The secretary was delegated to work out a plan along this line and submit it for the approval of the committee.

Subsequent minutes examined do not disclose any further action by the general sales committee of General Motors Corporation up to and including September 1933. In January 1936, however, the minutes of a meeting of the Automobile Manufacturers Association sales-managers' committee contained the following concerning automobile dealers' State associations:

The chairman [2] stated that from his knowledge of automobile dealers' State association activities, based in part on personal observation, he feels they are functioning quite well in their legislative activity. Consequently, he said, he will recommend to the general sales managers of the General Motors car division that they take the position with their zone managers that there should not be any interference with dealers who are active in State association work, and that, in fact, such activity should be encouraged.

The attitude of at least one division of the General Motors Corporation toward "one line" dealer associations through their zone or branch managers is illustrated by what happened in the Boston, Mass., area.

On February 8, 1938, the Pontiac dealers of the Boston metropolitan area met, at a luncheon, to form a local association. Approximately 14 dealers signified their intention to organize a permanent group to be known as the Metropolitan Boston Pontiac Dealers' Association. C. N. Kane, zone manager, Pontiac Motor Division, was also invited to attend the preliminary meeting.

The purpose of this association, it appears, was to carry on activities to control competition, to buy accessories cooperatively, and to formulate regulations governing the hiring of salesmen by another dealer in the association, without prior notification and consent of

[2] R. H. Grant, of General Motors Corporation.

former employer. The plan also provided for the collection of overdrawn accounts due the dealer by a salesman seeking employment with another member of the association.

A dealer attending this meeting stated to a representative of the Commission that the Pontiac dealers of Boston and vicinity were virtually threatened with cancelation of contract if they persisted in their efforts to form a dealers' association. The dealers were accused by the factory representative of attempting to force their demands on the factory and were told that the factory would not stand for any concerted action on the part of the dealers, and that if they persisted in their efforts, they might as well turn in their franchises.

Efforts of the committee appointed at the initial meeting to meet with the zone manager to further discuss the proposed association were unsuccessful.

The purpose of these one-line membership associations, as stated by members, is to permit freer discussion of problems of interest to dealers handling the particular line. It is not possible, they say, to exchange views on reasons for sales resistance to their particular line, in an association meeting, when rival car dealers are present, without furnishing such dealers with selling points against the car under discussion. When all dealers handle the same car this objection, of course, does not apply, and information on ways of meeting sales resistance can be exchanged freely. Therefore, information in respect to all problems peculiar to their particular car and manufacturer's requirements can be passed around more readily and freely and without wasting the time of dealers who are not interested.

Another advantage which some members admitted they enjoyed from these single-line associations is that they could discuss trade-in-allowance problems more freely. While many would not admit that this was the primary purpose for organizing such groups, they agreed that it was an important consideration, although often deploring the fact that the exchange of information of this sort had not done much, if anything, to curtail wild trading. In the case of at least one local group of Ford dealers and at least one group of Chevrolet dealers, the members were supposed to come to meetings with lists showing their allowances for each car taken in during the preceding period for the purpose of comparison, so that the folly of making unduly high allowances could be shown to the dealers making them.

As many, if not most, of these groups are informally organized and have little need for records, it is practically impossible to obtain any information in respect to their operations beyond statements from those participating in them. When, however, these associations of dealers in one line of cars extend their activities to the operation of regular appraisal bureaus, as some have done, it becomes possible to obtain a clearer picture of their operations, as appears under the discussion of appraisal bureaus. (See sec. 2, ch. XI.)

Penalties for failure to maintain prices and for sales outside of allocated territories.—Information obtained from the files of the General Motors Corporation indicates that the Chevrolet dealers of Atlanta, Ga., were organized into a local group under the sponsorship and assistance of factory representatives.

The activities of this group were concerned with national or fleet buyers' discounts, territorial infringements, used-car problems, salesmen status, and price maintenance.

Each of the local Chevrolet dealers deposited $100 into a dealers' fund, and sales made at a cut price or deals made by an infringing dealer were subject to penalties, and the amount assessed against the offending dealer was deposited into this fund. At intervals the funds were distributed to participating dealers. Minutes of a meeting of April 23, 1937, indicate it was at this meeting that the dealers agreed to deposit $100 each in this fund, this amount to be held in trust and returned to dealers intact at some future date.

Minutes of this meeting, mentioned above, show that the $1,539.54 on deposit in the Fulton National Bank was allocated as follows:

John Smith Co	$704.52
Downtown Chevrolet Co	569.12
Decatur Co., Inc	235.32
East Point Co	30.58
Total	1,539.54

The basis for allocating the fund is described in the minutes as follows:

Details of how this was figured are in possession of secretary.
Dealers voted to distribute the fund in cash.

This group functioned in secret, as is disclosed by the minutes, wherein—

mention is made that it is not advisable to inform any outsiders of the secretary's identity, location, or duties.

Infringement policy of these Atlanta dealers was evidently confined to the Atlanta zone, as shown by the following:

A Birmingham, Ala., dealer has filed a $100 territorial infringement claim against John Smith Co. Atlanta dealers have never filed such claims against dealers outside of the Atlanta zone. This matter was held over for further discussion.

That such an agreement was in effect between these dealers is shown by the following which appears in the minutes:

A sale by Downtown Chevrolet Co. (salesman Red Smith) to J. C. Willingham was reported. Mr. Wyatt had already accepted the secretary's written report and furnished his check for $100.

Dealers located outside of the trading area of this local group were watched for sales made within the trading area of the Atlanta group and complaint filed with the secretary concerning any infringement. The following is an example:

Complaint filed that Monroe has delivered a new car to E. M. Hiers, 796 Peachtree Street, and tried to cover the deal by reporting buyer's address as Pavo, Ga.

Such transactions by outside dealers were apparently subject to a penalty assessed against the offending dealer. Such penalties were collected. The minutes of a meeting of April 2, 1937, show that a check was received from Rossee Chevrolet Co., Eatonton, Ga., for $100; a check from Johnson City, Tenn., dealer received, but not properly drawn, therefore returned to E. W. Smith for further handling. At this meeting E. W. Smith was announced as assistant zone manager in charge of used-car operations.

The minutes of another meeting indicate that the zone office was interested in the enforcement of the dealer-infringement policy.

Notice given that zone office had approved sale by Monticello dealer to H. H. Jordon, 745 Clinton Road NE. (buyer related to dealer).

The minutes of a meeting of March 5, 1937, disclose that the question of infringements was discussed—

and information of persistent offenders was furnished, principally Douglasville, Carrollton, Tallapoosa. These will receive individual attention.

This group was active in price maintenance, and the minutes discussed the report of sale by East Point Co. to L. V. Martin, 1417 South Gordon Street, price cut alleged:

In view of present open territory, question was asked: "What will Chevrolet's position be if an Atlanta buyer secures a new car from an out-of-town dealer at cut price?" Chevrolet representatives present deferred a reply for a future meeting.

The above question was asked because Atlanta dealers are operating under a price-maintenance policy, with a penalty for violation. Dealers decided to continue present policy.

The minutes of a meeting held April 2, 1937, show that John Smith Co. furnished check for $61.82 for cut price on sale.

Blacklisting employees.—Some sort of agreement exists among this group of Atlanta Chevrolet dealers relative to employing salesmen. The case of Salesman Nathan Kahn, Jr., Decatur Chevrolet Co., was discussed at a meeting of the group held at the zone office February 25, 1937. He had resigned from Decatur Chevrolet Co. and expected to be immediately employed by John Smith Co., but the latter observed paragraph 4 and did not employ him.

The minutes show that a debate ensued with reference to—

If a salesman resigns and his employer declines the supply of a letter, how long shall he be out of service before eligible for employment by another dealer?

At a subsequent meeting, March 5, 1937, an addition to paragraph 4, "Salesmen," was adopted to the effect:

Salesmen shall remain out of service 60 days before being employed, if first employer declines to give a clearance letter.

Due to the short period of time available, upon receipt of the above information, it was not possible to make a more detailed study of the activities of these Atlanta dealers.

Section 3. State Associations of Retail Automobile Dealers

Nature of State organizations.—In practically every State of the Union there is a State association of retail automobile dealers. Some of these are not especially active,[2] while others are militant organizations, actively representing their membership, which at times comprises substantial proportions of the total number of dealers within the State. More often than not the headquarters or general offices of these State associations are located at the State capitals, because, as previously mentioned, the chief activity of such groups is handling legislative problems and matters coming before State boards or bureaus administering acts affecting the automotive trade.

It is, perhaps, of interest and importance to note here that the importance of any State retail auto dealer association to its members is largely a matter of the energy and ability of the executive officer. In

[2] In some States one of the larger local associations may attend to most of the problems affecting the dealers within the State. This is believed to be the case, for example, in Oregon and Washington, where the Portland Retail Dealers Association and the Seattle Automobile Dealers Association are well organized and active, and especially so in State and, on occasions, national matters. The same is true of Kansas City and St. Louis retail groups, which took charge of looking after legislative activities prior to the formation of the State association in June 1938.

other words, the secretary-manager in many instances has been able to create an interest among dealers which has made them actively support an organization which previously had been, to all practical purposes, moribund.[4]

By and large it is the largest dealers who furnish the support of the State groups. This does not mean that only a few contribute the funds necessary to defray the organization's expenses, but that the smaller, and especially the crossroads dealers, are not the ones who join the associations. Some State associations claim substantial proportions of the dealers within their States are members, but it is believed that the better organized groups only consider as members those dealers who have paid their dues.[5] Such associations generally run their affairs without assessments. The fact that membership claims cannot in all cases be relied upon, makes it impossible to say how many dealers in the country belong to the State groups. The Pennsylvania Automobile Dealers Association had 1,300 paid-up members in 1938, the secretary stating that this was about 45 percent of the dealers in the State. It is believed that this proportion of paid memberships, however, is higher than the average for all States.

The State associations are nonprofit organizations and do not have restrictions upon memberships which bar regularly appointed, or factory authorized, new-car agencies. Each member normally has one vote. Used-car dealers are not, as a rule, allowed to become members and "bootleggers" [6] are barred.

State associations under N. R. A.—While many of these State organizations were in existence prior to the setting up of the National Recovery Administration under the terms of the National Industrial Recovery Act, they apparently became of greater importance during the code period because it was to the interest of the dealers in each locality to have as much voice as possible in the local administration of codes and it was the policy, under the National Recovery Administration, to have organized groups in each State with which to deal. Some have continued to operate actively along lines intended to regulate used car merchandising in a manner similar to the regulations under the code. The secretaries or managers of other State associations, however, have intimated that their State association has continued to prosper because they shunned the responsibilities of enforcing or administering the code.[7] It is unnecessary to cover in detail the activities of the retail automobile dealers and their associations under their codes. It may be said, however, that the formulation of the automobile code and its subsequent administration was carried out largely by the National, State, and local associations of automobile retailers.

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[4] Secretary-manager of the Iowa group stated that when he assumed management of the State association (1929) there was a substantial deficit, which has been wiped out, and through his efforts a strong group has been built up. The Secretary has a contract which provides for him to keep the group out of debt, and surplus is his compensation, which must not exceed $8,000 per annum.

[5] Iowa Automobile Dealers Association considers all of the approximately 1,800 dealers in the State to be members. Of this number 906, selling 90 percent of the automobiles, are contributing members. The secretary-manager stated that for legislative purposes it is advisable to consider all dealers as members in order to present a strong front. This view is also held by other State associations.

[6] A "bootlegger" as the term is here used is a dealer who has no direct agreement authorizing him to purchase cars from the manufacturer or from the manufacturer's authorized distributors or dealers.

[7] One manager stated that he was fortunate enough in the first days of the code to borrow $500 as an individual to look after the organization of the code and its enforcement. He said he was glad to turn over the whole set-up to the chairman of the State advisory committee and thus avoided "many a headache" and no doubt, he believed this step enabled him to perpetuate the continuance of his State association because the association had not taken any part in code enforcement.

After the National Recovery Administration ceased to function, many of the local and some of the State associations of retail automobile dealers attempted to continue some of the code activities under association auspices. While these activities have waned and probably today are of comparatively little consequence in the affairs of these groups, it is undoubtedly true that much of the present willingness of retail automobile dealers to engage in association activities is in no small part due to their experiences in cooperative endeavors under the codes. Thus, while not responsible for the original existence of the retail automobile dealer associations throughout the country, it is fair to say that N. R. A. had much to do with the present scope and activity of such groups.

Other trade association activities.—The executive officer of each State association usually is a full-time salaried official who does most of the work of the organization, with such assistants and staff as the importance of the group and the funds available will permit. Generally speaking the secretary, the usual title of the executive officer, is given considerable discretion but he is also supported by standing committees, and when necessary by special committees, upon which he may call for advice or active help. In some cases, of course, the committees may direct the work of the secretary in considerable detail. In any event, the secretary generally consults his committees and, when necessary, the entire membership before taking action on matters of large importance. His care is not to bother the entire membership on matters of purely routine or local interest or involving only a few members but to be certain that all members are aware of all activities of general interest, or that involve unusual expenditures on work of a local nature because it may become of wider interest.

The active State associations usually issue a regular bulletin to members, and circularize their membership on any subject of importance as it arises. Some of these bulletins are in the form of quite elaborate trade magazines carrying paid advertisements, while others are multigraphed or otherwise duplicated and contain only such matters as the secretary, who is usually also the editor, believes to be of interest to the members. One association secretary said that the Northern Automotive Journal is used by several State associations as their official organ.

Considerable time of the executive officers of these associations is devoted to problems of individual members or local groups of members. These cover a wide variety of subjects and often cannot be attended to satisfactorily except by personal contact. Many State association secretaries, as a matter of fact, spend much of their time, especially when the legislatures are not in session, traveling about their respective States talking to members and nonmembers, studying problems, getting the viewpoint of the dealers and trying to maintain and strengthen interest in the association.[8]

[8] Prior to each legislative session the secretary of the Iowa group makes a tour of the State to acquaint the members with their legislative program and other matters of interest. There are 99 counties with a director of the State group in charge of each county. These directors arrange meetings of dealers in their respective counties for the secretary to address one at noon in one county and another in the evening at a neighboring county and so on. Each circuit requires a month and a half of the secretary's time.

The Texas group employ a former dealer as full-time field representative. He circulates among the dealers, soliciting members, collecting dues, incidentally selling and collecting for the National Association Used Car Guide Book (see ch. XI, sec. 2), and in general rendering assistance and advice to members. The vice president-manager of this group who also had experience as a dealer and a State legislator stated he often has an opportunity of advising a dealer on ways and means of better equipping his place of business so as to render to his customers satisfactory service with good results to the dealer. This advice is usually accepted by dealer because of the noncoercive approach as compared to the coercive measures alleged to be employed by the factory representative.

In some States the secretary of the State association has been active in organizing local appraisal bureaus or assisting in such work. There is no general rule followed by these men as to the extent to which they engage therein. Appraisal bureaus are local affairs, being considered impractical as State-wide propositions, and secretaries of the State groups cannot devote much time to any endeavor that is not of benefit to the entire membership. Furthermore, while many retail dealers want appraisal bureaus, or, as they often express it, they wish for the old code days to be back, there are many other dealers who are not in favor of such bureaus.

The statistical work of State associations is not an important activity in the sense that any such group has collected, tabulated, and disseminated data of that nature regularly. At least one association, however, believes there is a mass of material of importance to its membership which can be presented in the form of statistics. This association, the Pennsylvania group, has begun the collection of data from the records of the several State departments which the executive secretary of the group says he hopes will be the forerunner of a much greater statistical service which in time, he believes, will be of great value to the membership. As a rule the statistical work of the State associations, like that of the purely local group, is largely a matter of gathering data to help with a particular matter. Registrations of motor vehicles are tabulated by some State groups.

The creation of departments or bureaus or agencies of the several States to regulate and control motor vehicles and the use of the roads within their respective boundaries has resulted in an increase of work for the executive officers of many of the State automobile dealer associations. Much of the work thus involved is similar to that done on legislative matters, the secretary being in the position of a watcher to see that, so far as possible, no action by these agencies is taken without the knowledge of the trade. Some of the State association secretaries have established such relationships with the officials in charge of these agencies that the work of watching over them has become routine. In some States, in fact, the trade association executives are usually called in by the heads of these bureaus or departments for consultation on practically all matters likely to affect the retail automobile dealer. The secretary of the association is alert, of course, to stop if possible any regulation issued by these State agencies under the acts they administer which might restrict the sale of cars. If necessary, the association secretary sends bulletins to his members calling upon them to bring pressure to bear where it will do most good.

Relationships between retail automobile dealers and manufacturers have been the subject of bitter complaints on the part of dealers, especially in recent years. The extent to which State associations of dealers have become involved in these problems varies, some secretaries apparently holding that they are matters with which the association cannot concern itself except in a most general way. Other State groups, and a few local associations, have energetically attempted to aid members in difficulties with manufacturers both by calling upon the manufacturers for relief and by also bringing the matter to the attention of the national association and, in a few cases, by appeals to State legislatures and Members of Congress. Much of this work by associations of dealers has been in connection with manufacturers' cancelations of dealer agreements, a subject which is discussed elsewhere in this report.

The active State trade associations generally have annual meetings or conventions. At these meetings officers are elected, the business of the past year reviewed, and prospects for the future speculated upon and plans therefor devised. The programs generally include reports of officers and committees, addresses, often by representatives of the manufacturers, finance companies or Government officials, and round-table discussion of problems and ways and means of meeting them. It is at these annual meetings that the dealers decide upon the broad program to be followed, and arrange for the necessary committees.

As will appear later in this chapter practically all the State associations of retail automobile dealers are affiliated with the National Retail Dealers' Association. The State groups at times have been called upon by the national association to aid in bringing pressure upon Members of Congress to vote for or against some measure. These calls do not always bring unanimous support. When the Withrow resolution was under consideration and the national association was making every effort to have it adopted at least one State association executive secretary (Michigan) actively opposed it,[9] while several other groups decided not to support the resolution, and also not to oppose it. These latter groups had canvassed their membership and found the division therein too close to warrant them to take a positive stand.

SECTION 4. LEGISLATIVE ACTIVITIES OF STATE ASSOCIATIONS

Scope of legislative activity.—For many years, but especially since 1933, much legislation that affects automobile retailing has been enacted by both the Congress and State legislatures. Some enactments affect automobile retailing directly and exclusively while others affect dealers only incidentally along with other lines of trade. Retail dealer associations have actively sponsored present laws that they thought would benefit them as dealers and opposed those that they believed would affect their interests adversely. In addition, they have advocated many measures which they desired, but which have not been enacted.

Among the types of legislation both proposed and enacted in many States in recent years with which these trade associations have been concerned may be mentioned the several kinds of social legislation, such as old-age assistance, occupational tax measures, and employee compensation, the various tax laws, so-called fair-trade-practice acts, or resale price-maintenance measures, and many others aimed more directly at the motor-vehicle industry, such as license-fee measures, drivers' permit restrictions,[10] financial-responsibility or compulsory-insurance laws, proposals requiring compulsory inspection of motor vehicles, speed laws and other highway restrictions, diversion of gasoline-tax funds, and the restrictions on the importation of used cars, often called motor-caravan laws.

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[9] Hearings before a subcommittee of the Committee on Interstate and Foreign Commerce, House of Representatives, 75th Cong., 2d and 3d sess., p. 63.

[10] Such laws as drivers'-license laws and financial-responsibility laws are usually enacted because of the demand of the people of the State and are not the result of dealer activity because of the possibility of affecting sales as well as motor-vehicle operation. The Philadelphia Automobile Trades Association fought such a bill before the 1937 State senate that would prevent a person under 18 years of age from driving an automobile.

The manager of one large State association summarized the legislative activities of the group for the benefit of his membership. In a bulletin sent to the members there appeared the following summary of legislative proposals and enactments of recent years which clearly defines the channels through which the thoughts and actions of State law makers have been flowing and are likely to flow with reference to highway transportation subjects.

I. Construction and equipment.—These have to do with the physical characteristics of the motor vehicles, such as size, weight, equipment, mandatory inspections, and similar matters.

II. Special fees and taxes.—Fees accompanying the licensing and registration of dealers, salesmen, finance companies, repairmen, gasoline stations, motor vehicles, operators, chauffeurs, etc., and in many instances are taxes in reality if not in name.

Nominal as well as actual taxes have to do with motor fuel, lubricating oils, mileage traveled, size, weight, horsepower, franchise, privilege taxes, etc.

Bills and laws contemplating the "dedication" of revenue from special levies to the highway functions of government and the reverse of this principle namely "diversion" are many and important.

III. Manufacturing, assembling, transportation, selling, financing, servicing, etc.—The specific subjects of this big and important channel have to do with business regulations, caravaning, installment selling, financing, licensing to do business, etc.

IV. Traffic rules and regulations.—Here is a flood of measures dealing with registration requirements, driver-license requirements, operating regulations and restrictions; nonresident privileges and responsibilities, port-of-entry requirements and all the other matters which come under this general heading.

V. Accident compensation.—Through this channel flow numerous bills and laws of the utmost importance to the industry and the user alike. They embrace such subjects as compulsory liability insurance, compulsory compensation insurance, financial responsibility, guest liability measures, etc.

VI. Regulation of highway carriers.—These have to do with the control which States exercise or are seeking to exercise, over the carrier business by motor vehicles and involve common carriers, contract carriers and private carriers, regulatory bodies and their powers, etc.

VII. Highway.—In this channel are found a great number of bills and laws providing for the acquirement of rights-of-way for highways; the construction and maintenance of highways, highway jurisdiction, highway financing, etc. One of the most important developments along these lines in recent years has been the creation of State-, regional-, and city-planning highway commissions charged with the responsibility of taking a long look ahead and mapping out constructive highway policies and practices for a State to follow individually and cooperatively with neighboring States.

In addition to the subjects of special direct or indirect concern to the motor-vehicle industry and the motor-vehicle users flowing through the great broad channels already noted, there are other subjects of a general character in which both the industry and the user have a great interest and concern.

VIII. General taxation.—Measures under this heading have to do with such matters as property, sales, gross receipts, occupational, privilege, income, excise and all the other varieties and hordes of general taxes.

IX. Trade practice regulation.—Recently, in many States, legislative proposals and enactments contemplating such matters as State recovery acts, trade-practice measures, involving in some cases efforts at price control, etc., have found their way into legislative hoppers.

X. Employer-employee relations.—Finally, there are State bills and laws dealing with employer-employee relations in such matters as workmen's compensation, minimum wages, maximum hours, and social-security measures generally.

Organization and methods.—In attending to legislative matters the State retail automobile dealer associations usually operate about as follows: The secretary of the association, as one such executive expressed it, is the "watchdog of the hopper" into which bills are placed. Copies of bills affecting the trade are obtained and analyzed, often by legal counsel, and referred to the legislative committee of the association. Members of this committee or the secretary, or both, may sound out the committee of the legislature having charge of the bill or the legislator sponsoring it to ascertain the purpose of the proposed legislation, its chances of passage, plans for hearings, and may also present the views of the association on the proposal.

If the association has a bill to present it is drafted, probably by the legislative committee, legal counsel, and secretary, and a sponsor found. If the association officers believe an expression of the views of the trade is necessary to pass the bill, the membership is advised to that effect and told the line of action to take and where and when to do so. Similarly, of course, the views of the association members are used to fight unsponsored legislation. At times the association calls for help from nonmember retail dealers, if it believes such additional aid is necessary.

Some associations have so organized their memberships that cooperative action on legislative matters is quickly and effectively obtained. Wisconsin may be cited as an illustration of a State where the retail automobile dealers are well organized for cooperative efforts along these, as well as other, lines. The secretary of the Wisconsin Automotive Trades Association stated that in 65 of the 71 counties of that State, the retail automobile dealers were well organized into county groups, and the State association was largely instrumental in bringing about this situation. Through cooperative methods the dealers have been extremely fortunate, according to this same informant, in defeating legislation believed to be harmful to the automotive trades and in securing the passage of beneficial legislation. With its present strong county organizations, and an active membership in excess of 1,200, the State group expects to be in a position to obtain further gains for the dealer from the 1939 legislature and also to defeat detrimental bills, such as those calling for sales tax, increase in gasoline taxes, and diversion of road funds, etc.

It should be noted that the foregoing scheme of county organization of the Wisconsin dealers is a result, in considerable measure, of the enactment of the Wisconsin Licensing Act. (See ch. XI, sec. 4.) The State association believed that under the terms of the act the dealers would benefit themselves by being well organized under the county plan. Prior to 1938 only 8 counties of the State were organized, but now, as previously stated, 65 have been organized.

It has been stated previously that activities in regard to legislative matters are the most important of all the work of these State dealer associations.[11] The volume of work involved in handling legislative matters is indicated by the statement of an official of a State association to the effect that about 200 of the 2,000 bills proposed in the Illinois Legislature would, if enacted, directly affect the automobile industry. About 1 in 50 of these 200 bills would be beneficial to the trade, this informant stated. The Texas State association in a bulletin to its members said, with reference to anticipated highway and motor-vehicle legislation in the 1937 legislative sessions:

[11] To further illustrate the importance of legislative matters as a State association activity is the statement of a member of the executive committee of the Empire State association (New York) in respect to filling the office of secretary to the group, death having created a vacancy. This member said, in effect, that inasmuch as the legislature was not in session and would not be for some months the executive committee had decided that there would be little for a new secretary to do and the committee would, accordingly, carry on the work while they took time to select the best man available for the place.

In Oklahoma, where the present association has been inactive for several years, the dealers plan to revive it and to have a "wide-awake State association" because of the need of relieving the individual dealers and local groups of dealers scattered throughout the State of the task of looking after legislative matters.

1. Along with 42 other States, Texas will hold a regular session of its State legislature next year [1937], convening on January 12 and concluding its activities within 120 days thereafter.

2. As in every other 1 of these 42 State legislative sessions, the lawmakers of Texas will introduce, consider, and act upon numerous bills dealing with all phases of highway transportation.

3. It is significant that of the 65,000 bills introduced in the 1935–36 cycle of State legislative sessions, 10,000 dealt directly or indirectly with subjects of interest and concern to the motor-vehicle industry in its manifold branches and ramifications, and to the motor-vehicle user.

4. It is even more significant that of these 65,000 proposals 13,000 were enacted, and that of the 10,000 highway-transportation measures 2,000 became law and "for better or worse" are now in the statute books of our 48 States.

5. An examination of past records and experiences shows very clearly that during the next cycle of State legislative sessions, namely, 1937–38, all branches of the motor-vehicle industry and all classes of motor-vehicle users in the 48 States can expect a new flood of highway-transportation bills and laws equal to or greater than those of past cycles. Unquestionably, Texas will get her share of both.

In Wisconsin, according to the secretary-manager of the State association, from 100 to 120 bills affecting the automobile owner, the retail dealer, or the automobile industry in general are introduced at each session of the legislature. The confidence some legislators have in the officials of the State associations has, at times, prevented bills from being introduced. In New York and Pennsylvania, for example, members of the legislature have talked with executives of the State associations about the merits of some proposals to regulate the trade and have been shown the lack of wisdom in the proposals from the viewpoint of the dealers, and bills were consequently not prepared.

In national legislative matters the State associations affiliated with the national association are called upon to express their views to the representatives from their respective States.

Naturally, the type of legislation favored by the retail automobile dealer associations is that which is beneficial to the interests of their members. In general, such legislation is the kind that promotes the use of automobiles, such as improved highways, or which does not restrict the free use of motor vehicles. Generally speaking, the associations have not been in favor of many regulations promulgated in the interests of safety until public opinion has forced them to at least give the appearance of favoring such regulations. This attitude, of course, is natural as the dealers are in business for profit and the associations are conducted for the purpose of helping members. Associations of automobile dealers are not different in this respect than those in other lines of business.

Typical instances of legislative activity.—The way in which some of the more-alert State trade associations attempt to handle legislative problems can best be shown, perhaps, by the statements on this subject by the manager of the Illinois Automotive Trade Association. He said, in effect, that his group had its legislative program before the legislature in the hands of one or more friendly legislators. He also said it was often difficult to get the members of the association to communicate their views on particular legislation to their representatives so as to insure its passage. He believed the dealers could get more effective action if they reached the legislators before they were elected. In a bulletin to his members this secretary wrote:

Support of legislators and candidates for the proposed dealer license law and other phases of the automobile program, such as later license-plate date, compulsory inspection of motor vehicles, lower dealer plate fees, etc., can be secured more easily now than at any other time. They are running for office now and want your vote. You do not have to tie them up, as the points of our program are such that any good citizen can endorse them, and they are endorsed by many motor-vehicle users. However, candidates make their pledges to those who ask for them and you should be among this number.

It is not fair to ask a candidate for his support of your program and do nothing for him. We do not tell you who to vote for or on what party ticket. Support the man or men you desire to, but see that they support you too, when they have a vote later in the general assembly.

You should be thankful that in the automobile program nothing is asked of a legislator that he cannot defend as being in the public interest. Many other groups or classes of our people cannot say as much.

In general, our motor-vehicle taxes are nearly $10 less per vehicle than the national average. No diversion on road funds; less diversion of gas tax; no special State or local taxes on the business as such; only such licensing as is actually justified; no discriminatory regulations and no antagonistic attitude by any State department on the business. These things do not just happen, nor were they gifts—they were planned out, fought for and won, led by the State organization.

The secretary-manager of the Iowa State group advised his members, in a bulletin, that—

The 1937 legislative program was the most important dealer legislation ever presented to the legislature. * * * secured additional benefits recognized as worth more than a half million dollars annually to new- and used-car dealers. We actually secured 13 of 15 proposals and the remaining 2 may be secured in the 1939 legislature with adequate dealer support and cooperation.

Immediately following the legislature, which took up more than one-third of the year, we became burdened with the second struggle relating to the retail sales tax and its application to used-car trade-ins. With due credit to the Governor and the board of assessment and review we again sidetracked proposed amended rule and saved the average dealer $10 to $100 per month.

Among recommendations for the ensuing year were the following:[12]

That we prepare and submit the following amendments to the motor-vehicle laws to the 1939 legislature:

(*a*) Make motor-vehicle compulsory-inspection stations State-wide instead of by county and cities.

(*b*) Clarify the word "chauffeur" to permit retail motor-vehicle dealers operating their own towing trucks in connection with their own business, without direct compensation therefor, without chauffeur licenses.

(*c*) Make retail sales tax applying to used cars a "use tax" to be collected by the county treasurer at the time and delivery and transfer of ownership instead of by dealers at time of sale.

(*d*) Clarify dealer's place of business * * *.

(*e*) Require non-Iowa used-car dealers to supply a bond with each used car sold to assure the purchaser value received and proper title * * *.

The secretary of the Minnesota Automobile Dealers Association, preparing for the 1939 legislative session, advised his members, in a bulletin dated June 27, 1938, as follows:

The primary election is now over and the candidates for the State legislature have been nominated. This office will soon make a compilation of those nominated and we expect to launch a real program of education insofar as these candidates are concerned in order that they may be properly informed as to the program of the association.

To do this will require the hearty cooperation of all of the dealers throughout the State, and within a short time plans will be perfected for holding meetings in nearly every county in order that you may be fully advised and informed relative to the part that you have to play. With as many important matters coming before the legislature this next session, we cannot wait until the members have convened before advising them of our desires. It is a bigger job to convince all of these candidates of the fairness and justice of our program. At these county meetings definite information will be given you concerning the following:

[12] Iowa Automobile Dealers Association Bulletin, April 1938.

1. A new dealers' license law.
2. Regulating the importation of used cars.
3. Compulsory inspection of motor vehicles.
4. Advancing the date of annual registration of motor vehicles.
5. Sales taxes and their effect upon the auto dealer.

The executive secretary of the Wisconsin Automotive Trades Association, in his report covering the first half of 1938, called attention to the possibility of compulsory automobile inspection as follows:

The association sponsored, in conjunction with highway-safety department of the State highway commission, a voluntary car-inspection campaign during the week of June 12–18, 1938. Approximately 50 counties engaged in this work and from the results obtained sufficient data will be accumulated to conclusively prove to the 1939 legislature the necessity for a compulsory automobile-inspection law.

Legislation enacted in other States often received serious consideration by State trade associations who study these laws to see if they should urge them upon their own legislatures. The so-called Wisconsin law (see ch. XI, sec. 4) is a conspicuous example. In November 1937 the Minnesota Automobile Dealers Association at its annual convention found this Wisconsin law to be the chief matter of interest to its members. After discussing this law the board of directors of the Minnesota association approved a legislative program for 1938, as follows:[13]

1. That the association's officers be empowered and instructed to immediately make a complete study of the various dealer control laws now in effect in a number of States, and to prepare, immediately, legislation of similar character for enaction into law in Minnesota. Such recommendations to be presented in the near future to the board of directors and, in turn, presented to the members at large throughout the State.
2. In view of the importance of such legislation, that steps be taken as soon as practical to bring this legislation to the attention of legislative candidates and that organizations be set up in every county in the State, if possible, in order that whatever program is approved that it can be carried to a successful conclusion.

The secretary of the Rhode Island Automobile Dealers Association stated to a representative of the Commission that he had tried to have a law similar to the Wisconsin Dealer Licensing Act passed in Rhode Island but was unsuccessful. Secretaries of other State associations stated that they favored having a law similar to the Wisconsin act but that so far had not presented the matter to the legislature. Such a bill was introduced in the legislature of the State of Washington but the dealers in that State concentrated their efforts on two other measures which were enacted into law. The Empire State (New York) Automobile Dealers Association at its annual meeting September 22, 1937, discussed a licensing bill for New York State automobile dealers. It was proposed to introduce such a measure in the 1938 session of the legislature and a legislative committee was appointed to draft a licensing bill which would meet the approval of the dealers throughout the State. The New Jersey Automotive Trade Association, at its convention in September 1937, adopted a resolution favoring legislation similar to that enacted in Pennsylvania regarding dealer-licensing and used-car control law, while the Automobile Dealers Association of West Virginia, at its annual convention in September 1937, evidenced considerable interest in the possibilities of the same law.[14]

[13] National Automobile Dealers Association Bulletin, December 1937, p. 15.
[14] National Automobile Dealers Association Bulletin, October 1937, pp. 21 and 25.

The Wisconsin law, which has attracted so much attention among dealers throughout the country, has the effect of tending to cut down allowances which dealers make on trade-ins. The State banking commission, which administers the law, requires dealers to "wash out" their trade-ins at a profit or at least to break even. This is to prevent dealers from making "wild allowances." Apparently the commission allows some leeway in this respect if the dealer can give an explanation of the overallowance.[15] One association of dealers in Wisconsin, covering two counties, has a rule that if any member fails to break even or profit on the "wash-out" of motor vehicles taken in on trade he is assessed by the association for a sum equal to the loss, unless the dealer has a satisfactory explanation. Between January 1, 1938, and the middle of that year three assessments had been levied under this rule, the largest being $23.

Not all the State trade associations believe that legislation in the form of State or Federal laws will furnish the remedies which they hold are needed for the asserted ills of the automobile-retailing business. Some of these groups apparently have decided that the industry should handle its problems at the "conference table" as far as possible and that legislation should be called for only as a last resource. This does not mean that these associations are not active in legislative matters. It may very well be true that they are especially active in trying to ward off proposed legislation which they believe to be unwise.

The attitude of the Automobile Dealers Association of Alabama as expressed to a representative of the commission, is fairly typical of those associations which do not believe the problems of the dealers are necessarily matters for legislation. An official of this group said, in effect, that the association had attempted to direct its efforts toward cooperation between automobile manufacturers, dealers, financial companies, and State and local authorities in working out their problems rather than to have recourse to State laws. This procedure was followed after the membership had earlier resolved that a committee be appointed to study laws designed to benefit dealers, enacted by other States, especially the Wisconsin dealer licensing act, with the view to recommending a law to the Alabama Legislature. The committee's recommendation, however, was to the effect that instead of legislation the association should endeavor to secure the needed remedies by cooperative action, as outlined above.

An official of the Empire State Automobile Merchants Association said he did not believe the dealers could expect much help from legislation. He held that the dealers' problems were largely matters to be worked out by themselves and the manufacturers.

[15] Overallowance is the bid price on used car in excess of the Used Car Guide Manual issued for a particular State or territory. Through various forms and mediums the Wisconsin Banking Commission is aware of a dealer's operating practices at all times, and knows if a dealer is consistently and materially overallowing on used cars. All dealers report their used-car sales to the commission and an average of such sales is available and allowances made in line with the general average are considered by the banking commission as fair and reasonable. However, dealers bidding in excess of the average or valuation guide figure are required to furnish "wash-out sheets" covering their used-car operations so as to determine whether they are operating in accordance with the banking commission rules. If such wash-outs indicate that the dealer's judgment was correct in giving more than the average, his record is clean, but if his overallowances indicate that he is not coming out profitably on such deals, then the banking commission checks him thoroughly and a black mark is set upon his record. If over a period of time a dealer does not change such tactics, his license is in jeopardy of suspension or revocation or in line for denial the following year.

According to G. Earle Ingram, special counsel to the banking commission, the effect of these wash-out sheets has been to reduce the average overallowance on used cars in the State of Wisconsin to $22.80 per car in excess of the book value. This, informant stated, is from $25 to $50 less than the average overallowance in other States.

The Automobile Dealers Association of Indiana likewise was not in favor of trying to handle the problems of the dealers by legislation. In a letter to the Automobile Manufacturers Association, dated August 10, 1938, the association referred to the trend throughout the country toward legislation, both enacted and proposed, on the dealers' problems, and wrote, in part:

In view of this trend we think the time has come for manufacturers to awaken to the dangers that lie ahead for all of us in the industry if this program of State licensing laws should spread throughout the country. Let's keep this industry in our own hands. It is almost inconceivable that manufacturers and dealers cannot work out their differences without the help of several hundred legislators in every State. It would be bad enough if these laws were uniform. But we are sure to have 48 varieties requiring different contracts for the various States.

The suggestion was made that manufacturers cooperate with dealers to remove the apparent necessity of such legislation. Under date of August 24, Alfred Reeves, executive vice president of the Automobile Manufacturers Association, replied at length to the above letter, citing the fact that members of Automobile Manufacturers Association had met with officers or directors or members of State and local motor-vehicle-dealer associations to obtain first-hand information regarding factory-dealer and finance company-dealer relations. He stated that reports covering such investigations and meetings were promptly forwarded to ranking executives of all Automobile Manufacturers Association members and to the Ford Motor Co., the latter not being a member of the association.

With the taking of these steps and the making of the reports thereon—all our responsibility—all our power—ended.

In other words each and every member company of the association reserves to itself the exclusive right to formulate the policies and practices which it shall adopt and follow in its relations, contractual or otherwise, with its dealers.

Dealers and dealer associations favoring legislation as the princip a solution of dealer difficulties regard those associations that prefer industry cooperation as being dominated in their policies by manufacturers. In support of this condition, some dealers claim that the policy forming directors of associations that oppose legislative measures to regulate automobile merchandising in the dealer's interest are often wholesale distributors whose interests parallel those of the manufacturer rather than those of the small dealer.

In at least 13 States,[16] laws have been enacted which were designed to control the importation of used cars into these States. These laws are known in the trade, as anticaravan acts and restrict the practice of dealers in used cars bringing in large numbers of used cars from markets where prices on used cars are low. These used-car dealers, for example, would buy a number of used cars, say 15 or 20, or more, from a large dealer in a city on wholesale terms and would drive them over the road to another market where prices were higher.[17]

[16] Alabama, Arizona, California, Florida, Georgia, Louisiana, New Mexico, North Carolina, North Dakota, Oregon, Utah, Washington, and Wisconsin.

[17] New-car dealers in some markets find these caravans an important outlet for their used cars. A dealer in Washington, D. C., said that when tobacco prices were high in the Piedmont section he had no trouble cleaning out his used cars, especially certain models which he could sell for $50 to $100 without too much loss to himself. Caravan operators would come to Washington, buy a number of these cars at a flat cash price, drive them south to the Piedmont, where they were resold at, informant understood, substantially higher prices. Informant said that this outlet was often of great value to his business, as it enabled him to clean out his used-car stocks and to get cash.

These caravans, it was claimed, seriously interfered with the business of authorized dealers. Through their trade associations the legislature was persuaded to enact the anticaravan laws. Florida appears to have been the first State to take action of this sort, its law being enacted in 1935, and this law was held to be constitutional by the Florida Supreme Court in 1936. In California and North Carolina the Federal courts have held similar laws of these two States to be unconstitutional.

Another method of combating the importation of used cars was that employed by Iowa dealers through their State association. The secretary of this group stated that pending the introduction of legislation, in the 1939 legislative session, the State association took measures to stop the dumping of used cars from eastern points, principally Chicago, by asking the cooperation of finance companies and banks in discouraging the financing of cars with an out-of-State license and title. Newspaper publicity and advertisements calling attention to the probable condition of these imported used cars, the danger of getting a "hot" (stolen) automobile, and lack of responsibility of the sellers were emphasized in this press publicity.

There is wide disagreement, even in a single association, on proposals for legislation. Such a situation is perhaps best illustrated by what happened when the Pennsylvania Motor Vehicle Dealers' Commission Law Act No. 461 (Senate bill 815) was signed by the Governor July 1, 1937. This act, according to W. N. Owings, secretary-manager of the Pittsburgh Automobile Dealers Association, was sponsored by his group and was sanctioned by a large number of dealers in Pennsylvania, who evidenced support of this type of legislation, based on returns from a questionnaire sent to the dealers by the Pennsylvania Automotive Association.[18] This act provided for a licensing system, which was not directly regulatory, but served as a basis for a contemplated State-controlled appraisal bureau for used motor vehicles. Immediately following the appointing of the commission to administer the law as provided in the act, a group of Philadelphia dealers obtained an injunction restraining action under the law pending test of its constitutionality. In November 1938 the Dauphin County, Pa., common pleas court held that the legislation violated provisions of both the State and Federal constitutions.

Some of the State associations have not actively sponsored legislation to cover matters concerning which substantial numbers of members have wanted because the division was too close. Generally speaking, the legislative programs of the groups are confined to those proposals on which substantial majorities of the memberships have decided opinions. The recommendations of legislative committees usually carry considerable weight with the memberships, and their recommendations are accepted more often than not.

From the foregoing it appears that although a State association may not have included, for example, a recommendation in its legislative program for the enactment of a law similar to the Wisconsin law, this does not mean that the membership has not considered this possibility or that the membership is not deeply interested in it. It is more likely to mean that the difference of opinion among the members was not sufficiently great to warrant the recommendations. As the secretary of one important State association expressed it, in

[18] National Automobile Dealers Association Bulletin, April 1937, p. 11.

effect, it might be bad for the association to try to push through any measure upon which the membership was evenly divided, and especially upon which the opposite sides held strong views. It was also said that the reason one formerly important State association had recently become inactive was the split over the proposal to have the State legislature enact laws which would embrace most of the features of the N. R. A. code under which dealers operated from 1933 until the decision of the United States Supreme Court in the *Schechter case* in 1935.[19] Then, too, there are in some of the State associations, especially in the East, substantial numbers of members who do not believe that their chief problems are such that they can be solved by legislation and, apparently, these members exercise considerable influence in their respective groups.

By and large the State associations appear to have been successful in much of their work on legislative matters. This also seems to be true, though perhaps to a less degree, for the local associations in their smaller fields, especially the municipalities. It is impossible, of course, to say definitely that these dealer associations are alone responsible for this or that law or ordinance or any specific regulation of any law-enforcement agency. The fact is, however, that the majority of the associations studied by the commission have taken the position that they have, as a rule, accomplished most of their main legislative objectives in recent years. This probably is true especially in regard to their efforts to prevent legislation believed to be harmful to the interests of the dealers. One such association in reporting to the membership stated:

> * * * many bills were offered, that if enacted into laws, would have seriously handicapped the sales of motor vehicles. * * * Your legislative committee is pleased to report that while some of the bills had strong support, none of them were finally passed, thereby permitting your State association to maintain its 100-percent legislative record.

The secretary of another group said that no measure aimed directly at the retail automobile business in his State had been passed unless it happened to be beneficial.

Section 5. Organization, Purpose, and Functions of the National Automobile Dealers Association

Organization of the National Automobile Dealers Association.—The retail dealers in the automobile industry have maintained a national trade association for more than 20 years. The association was first organized in 1917 in the city of Chicago under the laws of the State of Illinois as a nonprofit corporation. The immediate object of forming the association in 1917 was to combat Federal legislation and the action of wartime Federal agencies believed to be adverse to the interests of automobile dealers.

The organization meeting held in the convention hall of the La Salle Hotel, July 10 and 11, 1917, was attended by representative dealers from all parts of the United States. The decision to organize all of the State and local associations, individual distributors and dealers was made in Washington, D. C., when representatives of the principal associations met in Washington to appear before the Senate Finance Committee for the purpose of eliminating the proposed 5-percent war

[19] *A. L. A. Schechter Poultry Corp.* v. *U. S.* (295 U. S., 495).

tax on the factory price of automobiles which had been passed by the House of Representatives and to prevent the placing of automobile manufacture on the list of nonessential industries.

A tentative organization of retail automobile dealers was formed at a meeting held on May 25, 1917, in the Willard Hotel, Washington, D. C. After this tentative organization was set up, telegrams were sent out to other leading associations not present at the Willard meeting for the purpose of making the organization permanent at a meeting to be held in Chicago. After its organization, the general offices of the association were moved from Chicago to St. Louis and then moved back to Chicago. After remaining in Chicago for a short period, the offices were again moved to St. Louis in 1932, where they remained until 1936 when the general headquarters were established in the Statler Hotel at Detroit, Mich. According to the constitution and bylaws, the association was formed to handle problems that could be solved better through collective action rather than individual action. It met its first success soon after its organization when it joined with other branches of the industry, in 1917, in convincing the Government that automobiles were a necessity and prevented the Federal authorities from taking action to stop the manufacture and sale of automobiles as a war measure.

Purpose of the national association.—One of the principal purposes of the National Automobile Dealers Association, as set forth in the constitution and bylaws, is to foster those associations that have already been organized in the several States, metropolitan districts, and geographical districts and to sponsor the formation of State and local associations where necessity seems to warrant the establishment of such an organization through the cooperation of a representative from the national association. Representatives of the national body visit and lend their aid where such cooperation has been requested by the local dealers for organization purposes. Association officials also assist existing associations in the development of their programs. This assistance is given to State and local associations because the officials of the national body believe that such organizations perform a useful function in assisting dealers and distributors in merchandising automobiles, accessories, and parts.

The general purpose of the national association, as set forth in the constitution and bylaws, is as follows:

1. To develop for the automobile industry a basis for forward planning.
2. To promote the welfare of its members.
3. To oppose discriminatory legislation relating to the motor-vehicle retailing trade, and promote model laws.
4. To distribute to its members the fullest information obtainable regarding their business.
5. To improve the efficiency of selling.
6. To develop the spirit of inter- and intra-industry cooperation.
7. To seek the betterment of trade relations.
8. To aid in establishing proper business standards.
9. To improve the economic position of those engaged in the business of automobile retailing.
10. To encourage and assist in the formation of local and State associations and seek to merge these and all other dealer units throughout the country into one strong national organization.
11. To issue such trade publications as the board of directors may authorize and to sell same to members or nonmembers at such prices as may be authorized by the board of directors.
12. The corporation may sue or be sued and may make, enter into, or carry out or enforce, pursuant to any of the general purposes; and to do, perform, and

engage in such other things, business, and transactions, as may be incidental to or that may facilitate the business and general purposes of this corporation, and to promote and safeguard the interests of dealers engaged in motor-vehicle retailing throughout the United States.

In describing the benefits of local, State, and national associations at the dealers' convention in Detroit, April 26, 1938, the president of the national body stated as follows:

Memberships in local, State, and national associations are good investments. They are protective and just as necessary as the different forms of insurance dealers carry against hazards in business. They enable dealers, through cooperation with fellow members, to protect their vital interests. They bring to the individual the combined strength of the group. Association membership is the voice through which dealers can speak forcefully and act decisively on problems that affect their welfare.

Management.—In order to carry out the purpose of the association, the management is vested in a board of 57 directors all of whom are actually engaged in the business of retailing new or used motor vehicles as independent dealers. A director's term of office is for a period of 3 years and each director holds his office until his successor is elected and duly qualified.

Of the 57 directors, 52 are elected by members of the national association to represent the 48 States and the District of Columbia. In 3 of the larger States, New York, California, and Illinois, 2 directors are elected for each State. In addition to the State directors, there are 5 other directors elected at large by new- and used-car dealers to represent the 5 geographical districts of the United States, namely, western, eastern, northern, central, and southern. In order to prevent the terms of all directors from expiring at the same time, the States, portions of States, metropolitan districts, and geographical districts are divided into 3 groups and an election is held in each group in successive years. For example, in States and districts composing group I an election was held in 1936, in group II, in 1937, and in those States and districts constituting group III, in 1938.

A list of the States and districts mentioned above and grouped so that elections might be held in successive years is as follows:

Group I.—Arizona, northern California, southern California, Colorado, Connecticut, Washington, D. C., Idaho, Illinois, Iowa, Massachusetts, Minnesota, Mississippi, metropolitan New York, New York State, Ohio, South Carolina, South Dakota, and West Virginia.

Group II.—Delaware, Florida, Georgia, Indiana, Louisiana, Maryland, Michigan, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Mexico, Oklahoma, Rhode Island, Tennessee, and Wisconsin.

Group III.—Alabama, Arkansas, metropolitan Chicago, Kansas, Kentucky, Maine, New Jersey, North Carolina, North Dakota, Oregon, Pennsylvania, Texas, Utah, Vermont, Virginia, Washington, and Wyoming.

In addition to the States and subdivisions of States listed under groups I, II, and III, there was a director elected in each of five geographical districts in the United States, namely, western district under group I, eastern and northern districts under group II, and central and southern districts under group III.

The board of directors elect all officers in the national association. The term of office is for 1 year except those positions occupied by salaried officials whose terms of office may be terminated at any time as the board desires. An executive committee is appointed by the president with the approval of the board of directors. This committee is appointed from the board of directors and must not exceed

15 in number. The executive committee possesses and may exercise all the powers of the board of directors insofar as the management of the association is concerned on all questions not specifically acted upon by the board of directors at their regular meetings.

Membership.—The bylaws of the national association as revised January 14, 1936, provide as follows:

> Any individual, partnership, association, trust, or corporation, without limitation, engaged in whole or in part in the business of motor-vehicle retailing, and/or dealer association, or code administration workers, or who have been engaged in the business of motor-vehicle retailing not less than 5 years, anywhere within the boundaries of the United States of America, shall be eligible to become a full active member of this association. * * *

Any of the above mentioned may become a member of the association, upon signing an application for membership in the form prescribed by the board of directors, and transmitting the same to the secretary of the association, together with the amount of the annual membership fee. In addition, membership may also be acquired in such other manner as the board of directors may from time to time approve.

Members may be accepted individually by the association in which case the required fee of $12 must accompany the application for membership or they may be admitted into the association in groups. In the latter case when a group of local dealers is brought into a local State association, this automatically admits such members into the national association at a reduced entrance fee of $6. This manner of admitting groups of dealers into the State and national associations at the same time is commonly referred to as "package memberships." In such cases, the membership fees are $6 and the guidebook subscriptions are $6. Dealers who are members of local associations can become members of the national association through their affiliation with the State association at a cost of $12, which entitles them to full membership and an annual subscription to the guidebook containing the average prices of used cars. In many instances the local association renders all assistance possible in the collection of dues and guidebook subscription charges for the national association especially where the national body has no representative to look after such collections.

There were 4,518 active members as of September 21, 1938, in the national association. In addition to the active members, there were 368 dealers that were classed as delinquent. The Official Guide subscriptions throughout the United States on this date totaled 22,256. The total active membership of 4,518 was only about 10 percent of the total of 40,000 automobile dealers operating in the United States while the total subscriptions covering the guidebook was over 50 percent of the total number of automobile dealers operating in the United States. The predominance of total guidebook subscriptions over the total membership in the national association might be explained by the fact that guidebook subscriptions are not sold exclusively to dealers but to banks, finance companies, and credit organizations generally.

The total number of active and delinquent members of the National Automobile Dealers Association and the total number of guidebook subscriptions by States as of September 21, 1938, is shown in table 13 following.

TABLE 13.—*Number of active and delinquent members of the National Automobile Dealers Association and the total Official Guide subscriptions, by States, as of Sept. 21, 1938*

State	National Automobile Dealers Association members	Delinquent members	Official Guide subscriptions
Alabama	13	6	155
Arizona	18	2	164
Arkansas	15	2	101
California	237	22	941
Colorado	56	5	402
Connecticut	99	1	404
Delaware	3	1	46
District of Columbia	59		244
Florida	38	7	374
Georgia	34	12	194
Idaho	36	1	312
Illinois	175	17	864
Indiana	54	5	461
Iowa	137	5	439
Kansas	33	3	210
Kentucky	22	10	257
Louisiana	29	5	145
Maine	19	1	145
Maryland	16	4	217
Massachusetts	106	12	546
Michigan	117	14	1,062
Minnesota	71	8	713
Mississippi	15	2	68
Missouri	68	1	421
Montana	68	3	227
Nebraska	34		206
Nevada	6	2	66
New Hampshire	38	5	228
New Jersey	168	20	819
New Mexico	18	1	117
New York	243	29	2,243
North Carolina	31	2	207
North Dakota	22	1	150
Ohio	341	66	1,550
Oklahoma	29	3	178
Oregon	63	18	569
Pennsylvania	354	7	1,716
Rhode Island	28	1	165
South Carolina	9	1	76
South Dakota	20		192
Tennessee	26	2	170
Texas	169	19	717
Utah	28	1	166
Vermont	15		148
Virginia	48	5	374
Washington	69	8	502
West Virginia	39	20	233
Wisconsin	1,132	5	1,853
Wyoming	24	1	159
Miscellaneous	25	2	41
Total	4,518	368	22,256

Of the 48 States and the District of Columbia, it will be noted from the above table that Wisconsin has by far the greatest number of active members in the National Automobile Dealers Association with a relatively small number of delinquent members. This situation may be attributed to the stand taken by the State banking commission in its interpretation of the Wisconsin State law as disclosed by the two last paragraphs of the preface prepared by that State body with respect to local associations.

The paragraphs dealing with local associations in this preface are as follows:

Local associations of automobile dealers should be encouraged to strengthen their organization and adopt such general cooperative plans within their membership which will do away with the excessive dealer participation, chiseling, bootlegging, and other bad practices. So far as possible, rules and regulations pertaining to the automotive-trades industry should be so drawn as to eliminate the consistent chiseler in the automotive-trades industry and discourage dealers from doing business below cost. When dealer associations are organized under a fair and cooperative plan promoting higher ethical and business standards, it will be found that the nonmembers very often indulge in unethical practices both as to the public and this great industry. The guiding hand to high-class trade associations, both State and local, and wise administration of section 218.01 in cooperation therewith is needed to bring protection to the public, harmonious relations and respectability within the trade itself.

It is the duty of the State to foster and protect its industries, and to this end it ought to lend itself to the building up of such industry within its boundaries by the elimination of the unscrupulous therein, the protection of the public with which it deals, and by presenting a united front with cooperative dealer associations.

The stand taken by the State banking commission of Wisconsin with respect to local associations and the fact that national association services are furnished through such local organizations would have a tendency to increase the active membership in the national body. The Wisconsin membership in the national association, as shown by the above table, is about 25 percent of the total membership of 4,518 in the entire United States. There are only two other States, Pennsylvania and Ohio, that have memberships in excess of 300, and two others, New York and California, that have memberships in the national association of more than 200.

In connection with Official Guide subscriptions it will be noted that New York State with 2,243 exceeds the number of such subscriptions in the State of Wisconsin by nearly 400, although association memberships in Wisconsin exceed New York State memberships in the national association by nearly 900. Other States with subscriptions in excess of 1,000 are Pennsylvania, Ohio, and Michigan with 1,716, 1,550, and 1,062, respectively.

Income and expense of operation.—The two principal sources of revenue that the National Automobile Dealers Association depends upon are its membership and guidebook sales. Of these two sources, the sale of the used-car guidebook produces the greatest revenue as membership dues only account for about one-fifth of the association's total yearly income.

The cost of an individual membership in the national association is $12 and the cost of a single used-car guidebook subscription is $8, making $20 for the combination. The greater revenue derived from the sale of guidebooks is due mostly to the fact that sales of these books are made to dealers in addition to those that make up the membership of the association and also to the fact that sales are made to outside sources such as banks and finance companies. The price of a guidebook subscription is reduced to some extent in cases where more than one subscription is obtained and membership fees are also reduced where dealers are admitted into the national body in groups.

The schedule of subscription rates for the official used-car guide as approved by the national association and made effective October 1, 1937, is as follows:

1 annual subscription (12 issues)	$8.00
2 annual subscriptions (12 issues)	15.50
3 annual subscriptions (12 issues)	22.50
4 annual subscriptions (12 issues)	29.00
5 annual subscriptions (12 issues)	35.00
6 annual subscriptions (12 issues)	40.50

7 annual subscriptions (12 issues)	$45.50
8 annual subscriptions (12 issues)	50.00
9 annual subscriptions (12 issues)	54.00
10 annual subscriptions (12 issues or more)	[1] 6.00

[1] Each.

The membership fee of the national association is reduced to $6 where members of a State or local association are admitted into the national body in groups. This plan is explained to some extent in a paragraph of a letter written by an official of the national association under date of September 21, 1937, as follows:

In the event that a local or State association wishes to indentify each of its members with National Automobile Dealers Association, such identification may be purchased for $6 per dealer. This is a wholesale price and is not to be publicized in any way whatever. Such an arrangement permits the supporting association to make the statement that their membership includes membership in National Automobile Dealers Association. Under this latter arrangement, National Automobile Dealers Association agrees not to solicit direct membership among the membership group specified.

The total income of the national association as derived from the aforementioned fees and subscriptions and the expenses incurred are shown in table 14 following:

TABLE 14.—*Total income and expenses of the National Automobile Dealers Association for the years 1936 and 1937 and 5 months ending May 31, 1938*

Year	Income from guidebook	Income from memberships	Other income	Total income	Total expenses	Surplus or deficit
1936	$150,044.70	$57,885.00	$43,743.09	$251,672.79	$311,011.45	[1] $59,338.66
1937	158,989.04	45,403.00	10,670.50	215,062.54	214,962.59	99.95
1938	[2] 68,598.00	[2] 21,544.00	[2] 7,560.68	[2] 97,702.68	[2] 103,749.57	[1] 6,046.89

[1] Deficit for the year.
[2] 5 months of 1938.

The foregoing table shows that the association's expenses for the year 1937 decreased $96,048.86, or about 30 percent of the total expense of $311,011.45 in 1936. During the first 5 months of 1938 total expenses of the association were $103,749.57, or about 50 percent of the total expense of $214,962.59 in 1937.

In the 2 years 1936 and 1937 income from guidebooks was $150,044.70 and $158,989.04, respectively, while income from memberships only amounted to $57,885 in 1936 and $45,403 in 1937. The same ratio predominated in the first 5 months of 1938 as total guidebook subscriptions amounted to $68,598, while income from membership fees only totaled $21,544, or about one-third of the total income from guidebooks.

Scope of association activities in recent years.—A program of operations outlined by the board of directors of the National Automobile Dealers Association in 1936 covering nine major activities are set forth below:

1. Legislation.
2. Organization work.
3. Intraindustry problems.
4. Fact finding.
5. Employee-employer relations.
6. Used-car market value study.

7. Management service.
8. National Automobile Dealers Association Bulletin.
9. Highway safety.

These activities are supervised by the officers in charge of the several departments of the national organization at Detroit which acts as a clearing house for the dealers in the automobile industry. A further discussion of these activities appears in sections 6 and 7 that follow.

Section 6. Legislative Activities of the National Automobile Dealers Association

Early legislative activities.—E. E. Peake, secretary of the Kansas City Automobile Dealers' Association, speaking before the National Automobile Dealers Association at its fifth annual convention, held in Chicago, January 30–31, 1922, stated:

> Some 4 years ago, this organization which you represent today was organized in this hotel. It was my pleasure to be at that organization meeting. We found the necessity of having an organization and as a matter of fact about four of us started one, one night, down in Washington and went before the Senate Committee on Taxes and represented that we were the national organization and got by with it, but then we couldn't get by with it very long so we had to organize one to make good on what we said we were.

F. W. A. Vesper, treasurer and past president of the National Automobile Dealers Association in an address to the dealers, at the above-mentioned convention, presented some further light as to the necessity of organizing the dealers into a national association:

> As you know, the Association was organized to meet a political menace. The War Trade Board planned to put the automobile on the nonessential list. The manufacturers had stated their case and were unable to overcome the sentiment of the Board that the automobile was nonessential. Financially, the manufacturers were not immediately worried because every manufacturer who came down to protest against having his automobile production stopped, went home with an offer from the Govertment to make war materials in a larger and more profitable amount than his automobile production.
>
> But there were 30,000 dealers of the country who would have been forced to close their doors because their plants weren't constructed so they could take war orders. These 30,000 dealers represented millions of dollars in investments, employed thousands of men and were depended upon by automobiles already in service for maintenance.
>
> As you know, we convinced the War Trade Board of the great injustice, of the impending calamity they were considering, and automobiles were not put on the nonessential list.
>
> Having started out as a politically active body, the association continued largely on that line. Having seen the great power the association exercised, or could exercise, it was thought mighty fine if we could swing the dealers in behind the highway development, laws to curb car stealing, laws to keep registration and license fees at their proper levels, laws that would provide for safety and, in a word, to take a leading part in making owning an automobile satisfactory, and thus doing away with the sales resistance that was gradually being built up against us.
>
> We are glad to say that as a politically active organization we have been highly successful. After we got the automobile removed from the nonessential list we went right ahead with these other projects enumerated. This year (1921) we saw the Townsend bill passed authorizing the expenditure of $75,000,000 of Federal money for highways, we have induced Congress to enact a national motor vehicle antitheft law, we amended the prohibition law to protect dealer equities in cars confiscated for carrying liquor, we drafted a uniform highway law in cooperation with other branches of the industry, we have presented the dealer's side of the case to Congress whenever tax bills have threatened to impose burdens on the industry, and have done scores of other things that are matters of record in

the association. Lastly, we point to our work to improve the dealer contract with which you are familiar.

But now we have come to a new phase. Political activities are important, but right now the demand is for help in an economic situation that is making business difficult for even the most substantial dealer. So it was thought advisable to mold the association's future activities into a plan that would help him sell automobiles, save money, reduce expenses and help him conduct his business at a profit.

Other legislative activities during 1921 were the successful campaign against importation of surplus war material sold by the United States Government abroad after the Armistice, and the fight to retain petroleum upon the free list. A proposed duty of $1.50 per barrel levied upon crude petroleum imported from Mexico, it was feared, would increase the price of gasoline and also would prove harmful to those States contemplating road improvement because of the increased cost of asphalt, a byproduct of petroleum.

In 1936, the program of the national association included the following in connection with its purpose to organize the automobile dealers of America in local and State associations:

It is the obligation of National Automobile Dealers Association to assist in the organization of both local and State groups, to cooperate with those now established, to advise and assist in legislative matters, and develop suggested programs for such associations. * * *

5. Promote favorable Federal legislation and to oppose those acts of government which are discriminatory and detrimental to the best interests of the trade.

National Automobile Dealers Association will maintain active, personal contact with the Congress of the United States and with all administration departments of the Federal Government. Discriminatory legislation must be opposed and favorable legislation recommended.

Public relations department.—On November 16, 1936, National Automobile Dealers Association secured the services of legislative counsel (Henry H. Roberts), who promptly established a legislative department. The department immediately began accumulating data affecting legal problems of the dealer member and proceeded to build up files for each State on every conceivable legal topic that would be of interest to, or affect, the dealers or the industry in any way. Copies of the laws of each State were studied as to how they affected the automobile dealers, as well as all Federal laws and all proposed Federal laws.

Through these files the legislative department is in a position to answer most questions submitted on any relevant topic of a legal nature from any State or on questions concerning the National Government at Washington.

In cases where there is a desire on the part of a local group or association to bring about a change in an existing law or to prevent legislation considered by the association as harmful from being enacted, advice with respect to the proper procedure to be followed is made available by the public relations department of the national association. The public relations department also keeps in close contact with departments of the Federal Government for the purpose of observing and studying proposed laws and rulings of these departments to see that their interests and the interest of the automobile industry so far as it affects the dealers are protected. From time to time recommendations are made for the enactment of constructive legislation. In addition, members of the industry are advised as to their rights and obligations insofar as Federal laws are concerned.

On February 3, 1937, the legislative department issued a legislative bulletin (No. 3), addressed to the executive committee and officers and directors of National Automobile Dealers Association, State and local association managers, which stated:

> Pursuant to the resolutions adopted at the Twentieth Annual Convention of the National Automobile Dealers Association, we have initiated a thorough study of the many suggestions made by governmental agencies relative to Federal regulation of the trades and other industries.
>
> The association will maintain representation in Washington, and you will be advised through this and subsequent bulletins of all developments of interest.

The bulletin goes on to discuss the following:

1. Council for industrial progress (also known as the Berry committee).
2. Robinson-Patman Price Discrimination Act.
3. Dingell bill, eliminating excise taxes on automobiles.

It was the aim of the department to keep in touch with all new legislation, both Federal and State. It corresponded with many State and local associations and individual dealers and with counsel for the different associations concerning present and proposed laws in most of the States.

In a special report, dated March 29, 1937, of the legislative department to the executive committee, the general and legislative counsel enumerated a list of laws investigated and also listed approximately 250 bills that had been introduced, some of which had passed, in the various State legislatures. The report stated that—

> These are by no means all of the bills that have been introduced affecting automobile dealers, but they are representative and will indicate the extent of our task. Many of these bills favorable to the automobile dealer can be directly or indirectly traced to our efforts.

The general manager of the national association, its counsel, and, on occasion, others from the group have appeared from time to time before legislative committees and have also conferred with individual legislators in regard to legislative matters.

On April 26, 1938, E. M. Lied, president of the National Automobile Dealers Association, at the association's annual meeting held in Detroit, stated:

> About 18 months ago our legal and legislative department was established and since has become one of the most active of your association.
>
> * * * * * * *
>
> Our legal and legislative department has kept in close touch with affairs in Washington affecting our industry and with those individuals and groups who were desirous of helping dealers. You should know, incidentally, that the department has been operated at a surprisingly reasonable cost, especially in consideration of the importance of its work and what it has accomplished.

In the early part of 1939 the executive personnel of the national association was changed. Notwithstanding the statements made in the foregoing quotation to the effect that the legislative department was operated at a surprisingly low cost, the first change occurred in this department in carrying out what was alleged to be a retrenchment program.

With respect to the reorganization of the legislative department of the national association the following article appears in an issue of Automobile Topics, dated February 6, 1939. This article seems to indicate that the legislative department was being enlarged, despite the fact that a former legislative counsel stated that he was resigning due to the curtailment of expenses of this department:

> Bulkley, Ledyard, Dickinson & Wright, one of Detroit's oldest law firms, has been retained as general counsel of National Automobile Dealers Association.

They have assigned a member of their staff, Charles W. Bishop, to the work. He will spend all of his time in the National Automobile Dealers Association office, and is in charge of its enlarged department. The growing importance of both State and National legislative activities to the members of the motor-vehicle retail trade and the increasing demands made upon the National Automobile Dealers Association for advice and information regarding the laws and proposed legislation has made it necessary to reorganize and enlarge the legal and legislative department.

Some dealers assert that the real reason that the former legislative counsel was requested to resign was that he had been too active in the interest of retail dealers in ways that did not meet with the approval of certain automobile manufacturers.

Robinson-Patman Act.—The national association was greatly interested in the Robinson-Patman Act, and the legislative committee and the legislative counsel gave it serious study in the hope that its provisions could be applied to the problems of the automobile retailers. At times the association has asked legislators for opinions, not only on proposed measures but also on enacted laws, as to whether any remedy was afforded the retail automobile dealer. For example, the association asked Congressman Patman as to the effect of the Robinson-Patman Act on the trade.

State "fair-trade acts."—While so-called fair-trade practices legislation was pending in several States the national association was active in helping the State and local associations in seeing that these acts were passed and in urging that the local groups try to have these laws provide specifically for relief for the automobile dealers. In a legislative bulletin dated December 17, 1936, the national association analyzed the decisions of the United States Supreme Court, handed down December 7, 1936, upholding the constitutionality of the so-called fair trade practice laws of Illinois and California.[20] The bulletin stated in part:

> In other States the decisions would not be of any help until similar fair-trade statutes are enacted. It would appear that it would be for the best interests of all automobile dealers to have fair-trade statutes enacted in their States at the forthcoming sessions of the State legislatures. Statutes to be enacted should follow the form of the Illinois and California acts, and it would probably be advisable to add a paragraph which would have the effect of helping solve the automobile dealers' used-car problem.

With reference to whether or not the laws in question would permit the automobile manufacturer to enter into a contract with dealers prohibiting the dealer from reselling except at prices stipulated by the manufacturer, the bulletin went on to say:

> Under the decisions there is no question but what such contracts applying to new automobiles can be upheld, and it is our opinion that if a contract between the dealers and manufacturers was prepared and was signed by the manufacturer and dealer controlling the price at which used cars could be traded in, that this also could be brought within the provisions of the fair trade practice acts.
>
> In any attempt to control the practices of automobile dealers we must consider the problem of used-car allowances, and if the law contained a clause similar to that above quoted,[21] then it would appear that any allowance for a used car in excess of the true and appraised value thereof would be a violation of the law, inasmuch that an exorbitant allowance would be in effect cutting the price of the new car and also cutting the established price of the used car and would be in

[20] Only 9 other States had enacted such laws at that time. Since then 32 additional States have enacted similar laws, Mississippi, which enacted a Fair Trade Act April 3, 1938, being the forty-third State to enact such a law.

[21] Quotation referred to is sec. 5 of California Assembly bill No. 1870, approved July 15, 1935, which provides that a cost survey which has been established shall be deemed competent evidence to be used in determining cost.

violation of provisions similar to that quoted from the California statute. Such provision could provide that the value of the used car would be established by a medium which was recognized by the industry and which was based upon the analysis of used-car prices and which analysis was the recognized basis for used-car values. It might even provide that the National Automobile Dealers Association Official Used Car Guide be established as such medium.

In conclusion the bulletin states:

In pursuance of the subject of legislation and its effects on automobile dealers, we wish to point out that the legislatures of 43 States will be in session commencing January 1937; and if the automobile dealers are to be benefited by any new legislation, now is the time to prepare such legislation and secure the benefit of any new legislation.

The national association suggested to local and State associations that they have their State legislatures incorporate in their so-called fair-trade-practice bills a clause similar to that found in Senate bill No. 152, introduced in the Legislature of New Mexico. Section 5 of that bill reads, in part, as follows:

In the automobile trade or industry the Guide Book published by the National Automobile Dealers Association shall be recognized as the medium for establishing the value of used cars and as constituting the cost survey for such article.

The merits of this proposal will not be discussed at length here. It is important to point out, however, that it would have been of great advantage to the National Automobile Dealers Association to have this provision generally adopted. As appears elsewhere in this report, the used-car guidebook published by the association constitutes one of its most important activities, and its sales account for considerable revenue. Furthermore, if adopted widely and administered strictly, such a provision would, in all States where effective, tend to level off used-car allowances and, of course, greatly restrict dealer competition for the customer's used car. It would be a step toward the days of N. R. A., when the guidebook became the so-called official basis for determining the values of used cars under the automobile dealers' code. It should also be kept in mind that the guide published by this association is not the only one distributed in this country. The enactment of a proposal such as that given above would, in all probability, have the effect to lessen the sale of the competing guides, at least, to keep from their publishers a sales advantage enjoyed only by the national association.

Miller-Tydings Act.—Similarly these association representatives examined closely the so-called fair trade practice (resale price maintenance) laws of the several States, and when the Miller-Tydings bill was before the House Committee of the Judiciary, members of the association were advised by the legislative department of the association of the purport of the bill, and the bulletin stated—

all members of the National Automobile Dealers Association should contact their Congressmen and Senators, either personally or by letter, and ask them to support this bill, * * *

This legislation, we believe, can be made of great benefit to automobile dealers throughout America.

This bill, subsequently passed as a rider to the District of Columbia Revenue Act, was approved August 17, 1937.

The National Automobile Dealers Association, in its monthly bulletin of August 1937, commented as follows:

The Miller-Tydings fair trade bill, which the National Automobile Dealers Association has been sponsoring, has passed both Houses of Congress and now awaits the signature of the President to become law.

While this bill is purely a "permissive" measure, it was believed the manufacturers would not refuse to enter into contracts with automobile dealers to maintain nationally advertised list prices in those States having fair trade laws, and which the new act makes permissible.

It was believed that this act would prove helpful in stopping bootlegging of new cars.

Following the passage of this act, the national association, being very much interested in the used-car problem as affecting dealer profit, asked Senator Tydings if the Miller-Tydings Act would stop overallowances on used cars on the ground that such allowances were, in effect, cuts in the prices of the new cars on which the used cars were taken in.

One of the resolutions adopted at the twenty-first annual meeting of National Automobile Dealers Association, in convention April 26, 1938, urged all motor-vehicle manufacturers to enter into fair trade contracts with their respective dealers in those States having enacted so-called fair-trade laws for the purpose of maintaining new-car minimum prices.[22]

To date, so far as is known, only one manufacturer of automobiles, the Ford Motor Co., has entered into contracts with its dealers and distributors to maintain retail selling prices on motor vehicles and other trade-marked merchandise,[23] under the terms of these laws. The 1939 Ford contracts or franchises contain a provision not found in the 1939 contracts of other manufacturers, which is as follows:

(*b*) Insofar as it is lawful for dealer so to agree, not to resell company products bearing company's trade-mark or trade name at less than retail prices established for dealer's city or town from time to time by company, except in cases where such goods have been damaged, or have become obsolete, or are about to become obsolete because of change in models, or in the case of sales to company or its nominees, or to other authorized Ford dealers, or associate Ford dealers, and except when a discount is warranted by quantity purchases unless such a discount is in violation of law. Dealer agrees, if requested by company, to display prominently in dealer's showroom a chart showing current minimum retail prices as established by company for dealer's city or town.

Other Federal legislation.—Tax matters also are given attention by association officials, both State and Federal measures being closely watched. If necessary, the national association is represented at hearings on tax legislation. The association claims to have sponsored H. R. 2894, Seventy-fifth Congress, first session, introduced by Congressman Dingell, of Michigan. This bill provided for the elimination of excise taxes on motor vehicles.

The national association cooperates with allied organizations when matters of common interest and effect arise. For example, it worked with the finance companies to have legislation enacted providing relief to innocent holders of liens on automobiles seized by the Internal Revenue Bureau from violators of revenue laws. This relief was obtained in 1935, when the Congress passed appropriate legislation.

Dealer attitude toward regulation and legislation.—The work of the national association on matters which may be classified as those causing automobile retailers great concern in recent years is not all in connection with legislation. Many dealers throughout the country

[22] Acting upon above-mentioned resolution, automobile dealers of Cook County, Ill., at a series of regional meetings, took action in support of the resolution. The Chicago Auto Trades Association mailed copies of the resolution to every automobile manufacturer, urging prompt consideration and action on this request.

[23] According to information obtained during the inquiry, such nationally known manufacturers as Stewart Warner Corporation, A. C. Spark Plug Co., the Anderson Co., of Gary, Ind., Goodrich Rubber Co., Goodyear Tire & Rubber Co., Firestone Tire Co., U. S. Tire Co., General Tire, and the Simoniz Co., have adopted resale price maintenance policies, where such sales may be legally made.

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believe that legislation either cannot reach their most important troubles, or that it would be unwise to legislate on them, holding that they are matters which can only be worked out by the trade itself.[24] On the other hand, many dealers do not see much, if any, hope of settlement of some of these problems by the trade, and therefore think that they must be dealt with through legislation.

The national association in the summer of 1937 sent a questionnaire to its members, which was designed to secure the opinion of the membership as to what the conditions in their business were; and if not satisfactory, the causes, and whether or not legislation or self-regulation would be the better remedy.

Replies to this questionnaire were received from dealers representing all makes of cars in every section of the United States and represented, as a group, merchants far above the general average in size. Sales, per dealer, averaged $261,879 for the year 1936. They averaged 12 years in the business of retailing motor vehicles and 21 employees per establishment.

One of the questions asked was: "If profit return is not satisfactory, what, in your opinion, are the important factors tending to destroy profit opportunity?" About 95 percent of the reporting dealers replied that profit opportunity in 1937 was unsatisfactory and enumerated the following as important contributing factors:

1. Used-car overallowance.
2. Factory policies.
3. Uncontrollable competitive conditions.

The report of the National Automobile Dealers Association, based upon the answers to this questionnaire, stated that the first of these, used-car overallowance, was a result, not a cause, and existed primarily because of the second and third factors, i. e., factory policies and uncontrollable competitive conditions. The report stated:

> It is because of this, conditions exist, and because very little is being done either by manufacturers individually or collectively to change them, that automobile dealers in many sections of the United States are turning to legislation of one type or another.

The association also stated in its report, in discussing the attitude of dealers toward self-regulation or legislation as the better way of obtaining relief from their trouble, that:

> Automobile dealers as a group would prefer less regulation, less legislation, and more genuine cooperation between all branches of the industry looking toward voluntary self-regulation. * * *

This last statement is in line with the apparent attitude of the dealers in respect to their proposed rules of self-regulation as embodied in the proposal to the Federal Trade Commission for a trade practice conference. According to the national association, 95 percent of the dealers who replied to the above-mentioned questionnaire endorsed

[24] E. N. Lied, president of the National Automobile Dealers Association, in his annual report of April 26, 1938, comments upon State regulatory laws as follows:

"Your national association has made thorough studies of all local and State laws attempting to regulate automobile retail trade procedure. Unfortunately, there is lack of uniformity in most of these laws, and the effectiveness of the legislation is being impaired because of doubtful legality. There are, furthermore, instances where State legislation, because of attempts to establish maximum allowances, has profited poorly managed dealerships. In many cases a premium has been placed upon inefficiency and poor management because individual initiative has been stifled in well-managed deal.r operations. Certainly this is not the solution that the automobile dealers of this country want.

"State legislation as a whole—and I do not desire to be critical—has been abortive in character, and generally speaking, has been enacted with no carefully prepared and workable plan of administration.

"There are, however, some notable exceptions, for there are some States wherein State laws have greatly benefited all dealers within the State."

the proposed rules. The attitude of the dealers in respect to legislation as outlined above is reflected, of course, in the legislative work of the association. Rather than urge legislation designed to correct the alleged inequities in the contract or franchise between manufacturers and dealers and to stop a number of practices which dealers claim the manufacturers engage in, to the detriment of the dealers, the association has tried to bring about better conditions by urging manufacturers to stop these practices. One favorite plan urged by the association, which has wide support among members, provides for a conference or arbitration board which would hear the complaints of dealers, discuss them from the standpoint of both manufacturers and dealers, and make its findings. That the findings of such a board would be made binding was believed possible. The following letter, written late in 1937 by the general manager of the national association to an official of one of the automobile manufacturing companies, is illustrative of the reasons for favoring this method of handling the dealer-manufacturer problems:

> * * * the National Automobile Dealers Association, because it is not a party to the contract between the manufacturer and dealer, has no right to interfere in any argument which may develop between the dealer and his source of supply except, of course, in those situations in which it is believed that the industry's interests are vitally affected.

Calling attention, however, to the possibility of corrective legislation, the writer went on to say:

> It is my responsibility and privilege to contact and confer with dealers in and from all parts of America, representing all manufacturers. Currently, I am impressed as a result of meeting and corresponding with hundreds of dealers with two developments: First, greater demands are being made on the dealers in a more forceful manner by factory representatives than ever before; and, secondly, legislation governing the relation between factory and dealer and the industry's trade practices is on the way. The first is the cause of the second.
>
> Most of the leaders of this industry are fearful of the effects of the present restrictive legislation and of that which has been proposed, but a very large proportion of the dealers "want a law passed." I talked before the Iowa Automobile Dealers Association annual convention last year and made myself very unpopular because I dared to suggest to my audience that they should not expect too much from their proposed regulatory bill.
>
> Senator Ingram, of Wisconsin, followed me on the program and virtually stampeded the meeting because of his statement that "either the manufacturers will cooperate with us in Wisconsin or they'll be legislated into submission."
>
> It is significant that during the time of the sit-down strikes in Detroit last winter some dealers wrote us asking "Where is our Lewis?", this group being quite critical of what they termed our "conservative" attitude and demanding action of a similar character.
>
> One attending the mass meetings held some months ago in Pittsburgh and Philadelphia, called for the purpose of considering the proposed Pennsylvania regulatory bill, would have been astounded at the enthusiasm of the dealers in those areas for this type of law.
>
> I see nothing to be gained by "washing the industry's dirty linen" in the legislative halls of America. What the industry needs is a united defense against discriminatory legislation, and must not be weakened by internal strife.
>
> As a means of building goodwill, adjusting controversies, keeping the dealer enthused, and preventing unnecessary law I would suggest the establishment of a voluntary court of arbitration—a judicial body composed of men whose honesty of purpose cannot be questioned—to which the dealers may appeal any controversy, or complain of any act which they believe to be in violation of the franchise arrangement or previous verbal understanding.
>
> A tribunal such as we have suggested here would have to be able to enforce its decisions to be effective. Therefore, the idea may not be practical as an industry development but might be employed successfully by any individual corporation.

Again, writing to an executive of a large finance company, the general manager of the national association repeated his idea of a "court of arbitration":

> The establishment of such a court, in my opinion, would be the best way of reversing the present trend of "let's pass a law."

It appears, from information obtained during the inquiry, that dealers more and more were beginning to favor the idea of the "conference table" between manufacturers and dealers rather than reliance on State laws as a means of obtaining relief, because of the probability that State laws would not be uniform:

J. W. Roby, newly elected president of National Automobile Dealers Association, also commented upon the "council table" or "conference procedure" versus "legislation" as a means of correcting the alleged undesirable relations between dealers and manufacturers in the association official bulletin of November 1938, as follows:

> Legislatively, this has been a comparatively quiet year, chiefly because most of the State legislatures do not meet until 1939. The pros and cons of regulation, licensing, and other legislation procedures for correcting some of the evils of the industry have been discussed at great length by dealer groups. The consensus of opinion at this time appears to be that the legislative path is one that should not be followed blindly, if at all. Most dealers would prefer that the industry put its own house in order, clean up its undesirable practices, voluntarily, through cooperation between all divisions of the industry. The council table, or conference procedure, would be preferred, but it is realized that the initiative in this field must start with the manufacturers.
>
> On the other hand, there is a very definite attitude of mind among dealers that unless changes are initiated and made effective that will correct some of the undesirable and demoralizing trade practices, detrimental to dealer security, regulatory legislation of one form or another will be sought to accomplish the desired results.

As pointed out by J. W. Roby there is a difference of opinion among dealers concerning legislation as a corrective measure. The bulletins issued by the national association following the hearings on the Withrow resolution, at which the association was represented, evidently caused some concern in the minds of some dealers as to the activities of the national association leading to Federal control of the retail automobile industry. In a letter of July 9, 1938, of W. A. Williamson, vice president-manager of Texas Automotive Dealers Association, in reply to a letter of June 20 from A. N. Benson, of National Automobile Dealers Association, in regard to the falling off of sales of the National Automobile Dealers Association Used Car Guidebook and also membership collections, wherein Mr. Williamson comments as follows:

> In quite a few instances where dealers have been solicited to renew their guidebook subscription and National Automobile Dealers Association membership they have refused, giving as their reason for the loss of interest, that the National Automobile Dealers Association advocated Federal control of the retail automobile industry and based this opinion on the contents of your bulletin in the early part of this year and, as you know, Texas dealers are bitterly opposed to any law or rules to regulate their business, either by Federal or State governments. Your bulletins of late, however, indicate that your position has been changed on the question of Federal control, and it is quite possible that we will now be able to get some of the dealers back who objected to the above-mentioned policy on the part of the National Automobile Dealers Association.
>
> This question was a matter of debate at our annual meeting, and Mr. Mitchell assured the members assembled that the National Automobile Dealers Association was not advocating Federal control, neither did they advocate the automobile retailing industry being placed under the Federal Trade Commission, and at

that time voices came from the audience calling attention to what you had to say on this subject in your bulletins.

This is in conformity with the resolution adopted at annual meeting of the Texas State association held June 9 and 10, 1938, as follows:

Whereas dealers of some States have sponsored the enactment of State laws having for their purpose bureaucratic regulations of the retail motor industry in those States; and

Whereas it is generally known that many dealers throughout the country favor Federal regulatory laws governing the operations of the retail motor industry; and

Whereas it appears to be the majority sentiment of members of the Texas Automotive Dealers Association to oppose both State and Federal regulatory laws or rules affecting the retail motor business: Therefore be it

Resolved, That the Texas Automotive Dealers Association, representing its member dealers, go on record at this annual meeting as being opposed to any State or National regulatory act governing the operation of the retail motor business.

Subsequently the attitude of the Texas dealers has apparently swung in the opposite direction with reference to State legislation similar to that enacted in Wisconsin, Iowa, Ohio, and Nebraska, as is shown in a letter by W. A. Williamson, vice president-manager of the Texas Automotive Dealers Association, to Alfred Reeves, of the Automobile Manufacturers Association, under date of April 6, 1939, which stated as follows:

You are fully cognizant of the fact that the association which I have the honor to represent has always pursued a policy of fairness to the manufacturers and we have never been in sympathy with regulating the automobile retailing business by legislation, and you will no doubt recall that in our last conversation I made the statement that it was my opinion that Texas would never resort to regimentation of the dealers in an attempt to regulate factory-dealer policies.

For the past several months the dealer attitude concerning regulating the business by legislation has been rapidly changing, and we have been besieged with not only requests but in many instances demands that a bill similar to that of Wisconsin (or stronger if possible) be prepared and submitted to the legislature at the earliest possible moment, as the claim is made that Texas dealers have proven conclusively their desire to cooperate with the manufacturers in every way possible, but it appears that the cooperation is all one-sided, as the present situation with respect to uncontrolled bootlegging of new cars; the return of high-pressure sales methods by General Motors, especially Chevrolet; the continued packing-in of multiple Chrysler dealerships, has produced an orgy of overallowance and discounting that is so distressing as to cause the dealers to conclude that their patient waiting for cooperation on the part of the manufacturers by the correction of these evils has been in vain, therefore, they have lost faith to such an extent that they no longer expect a correction of the situation that could so easily be made by the manufacturers, hence, the necessity of legislation.

Knowing your interest in conditions of this kind is my reason for submitting this information, and while it would be ridiculous to even assume that the manufacturers are not familiar with conditions as above outlined, we will be glad to furnish them with specific cases should they so desire.

Attitude of dealers with regard to manufacturer-dealer relations.—From a survey made by the national association in 1938, through which the national body sought to determine the attitude of the dealers with regard to manufacturer-dealer relations, the following results appeared in an issue of the National Automobile Dealers Association bulletin of October 1938:

Analysis of the first 711 replies received by National Automobile Dealers Association from its members in response to a questionnaire mailed recently which sought to determine the wishes of the membership concerning future policies and program, produced the following results:

Question. Denote in order of importance the franchise reforms and sales policies which you think National Automobile Dealers Association should sponsor.

The replies were as follows:

1. Fewer and better dealers (quality dealers).
2. Protected territory.
3. New-car price maintenance.
4. Used-car junking plan.
5. Larger discounts to cover increased costs.
6. Used-car allowance control by factories.
7. Protection on inventories and leases in case of cancelation.
8. Elimination of all coercion.
9. Elimination of new-car bootlegging.
10. Graduated discount in accordance with type of establishment.
11. Reasonable cancelation notice.
12. Discontinuance of factory retail branches and dealerships operated on factory money.
13. Permit mark-up on freight.
14. Factory approved appraisal bureaus.
15. Hold back some discount until end of year.
16. Elimination of capital loans by finance companies.
17. Protected territory for multiple-dealer areas.
18. Elimination of retailing by large distributors.

Question. Which of the following procedures should be employed in bringing about these changes in factory-dealer policy?

The conference table.

Legislation—State or Federal.

Answer. The conference table, 79.7 percent; legislation, 31.9 percent.

On the question of legislative activity, 64.3 percent of those replying recommended that the National Automobile Dealers Association work for reduction of Federal taxes; 76.5 percent urged opposition to harmful Federal legislation; 62.6 percent recommended the dissemination of all available information both pro and con regarding State laws affecting the industry so that the dealers of each State may intelligently decide as to what legislation, if any, they want.

On the question, "Should National Automobile Dealers Association actively sponsor and work for enactment of State regulatory laws?" the response was in the minority, with 34.4 percent endorsing this procedure. A similar response was received concerning active sponsorship of Federal law regulating industry, including manufacturers and dealers; 68.8 percent favored some form of legislation.

84.6 percent of the replies indicated satisfaction with the existing constitutional arrangement providing for the management of National Automobile Dealers Association through a board of directors, democratically elected, one or more from each State.

Section 7. Other Activities of National Automobile Dealers Association

Assistance in organizing State and local associations.—The management of the national association cites the records of State and local associations as evidence pointing to the fact that the existence of State and local associations is necessary in the conduct of the automobile retailing business. While national problems are handled through the national body, the management has concluded that local problems, legislation, trade development, and protection of the dealer's local economic interests can best be handled by local groups. The national organization, therefore, sponsors the formation of the local groups and assists them with their problems wherever possible. Representatives of the national body make visits and attend meetings of various State and local associations for the purpose of helping the local dealers to plan and develop such groups. This cooperation between the national body and the State and local bodies is shown in the following quotation:

Prior to the actual convention, National Automobile Dealers Association arranged group conferences of State association presidents, local association presidents, and used car appraisal bureau managers. Association managers, likewise, held a group meeting. The purpose of these meetings was to permit open discussion of common problems and to seek recommendations of the various groups concerning methods in which National Automobile Dealers Association could more effectively serve the dealer body. Many excellent suggestions were forthcoming which will have the careful consideration of National Automobile Dealers Association in its future planning.

In the National Automobile Dealers Association bulletin issued June 1938, the following articles appear with regard to activities of national association executives in the formation of State associations.

Following a mass meeting held in Jefferson City, Mo., on Wednesday, June 8, automobile dealers of Missouri approved the organization of a State association to be known as the Missouri Automobile Dealers Association.

Several hundred retail dealers from all parts of the State participated in the meeting and formally adopted the proposed articles of association. Pending election of officers as prescribed in the new bylaws, the following temporary officers were continued in office: D. E. Costles, St. Louis, chairman; J. M. Alton, Columbia, vice chairman; Joseph A. Schleet, St. Louis, secretary.

Among those who addressed the assembled dealers were the Hon. Dwight H. Brown, secretary of state of Missouri, and A. N. Benson, general manager of the National Automobile Dealers Association.

Intra-industry problems.—As a means of ironing out difficult situations that often arise between the two major branches of the industry, the national association acts in many instances as a liaison between the manufacturers and the dealers. Officials of the association not only attempt to straighten out these differences but also direct the industry's attention to problems that come up from time to time that tend to affect it. In this connection, association officials will offer suggestions for the benefit of both branches especially where it is asserted such suggestions will result in larger profits and greater economic stability. Industry problems are very often settled through correspondence but if necessary, visits are made by the general manager or the assistant general manager to dealer association meetings or to the manufacturers in order to settle differences that arise or to offer suggestions for the betterment of the industry.

Under date of October 22, 1937, a letter was sent by the general manager of the national association to a director of a local association in the State of Michigan advising of his desire to assist in matters affecting the industry. The letter is as follows:

We certainly would like to help you and your organization in any way that we can. You and your group have been doing a remarkable job of pioneering and certainly should have all the help any organized group can give you. Any local association of automobile dealers which can accomplish the things which your group have accomplished deserves the very best of everything.

First, we would like to help you cut off the source of supply of ———.[25] This, of course, you have been able to do on a number of occasions, but if you will try to follow through his individual deals from now on and get us the detailed information which is required, we will try to refer this matter to the factory concerned in such a way as to induce them to make an example of the offending dealer. What we need in each instance is the official description of the car which he purchases so that we can follow through and determine his source of supply, or, if you can determine the source of supply, let us have it.

Another idea which occurs to me at the moment and which you have probably tried is a city license plan. Ask your city council to pass a law licensing automobile dealers and requiring the payment of a fee and the establishment of certain merchandising standards. This procedure might curb this man's activities.

This matter of Plymouth dealers coming in from the outside, I would like to take up with Mr. J. E. Fields of the Chrysler Corporation. Before doing so, I wonder if you have any additional information that you can give me. In your letter, you give us the names of the dealers and say that they are bothersome.

[25] Name of dealer omitted.

If you can describe their activity more in detail, how they operate, whom they have sold, and some statement as to how they disturb the situation in Muskegon, I can use such information to good advantage.

In a letter dated December 31, 1937, and addressed to the secretary-treasurer of the Springfield, Ill., Automobile Dealers Association, the general manager of the national association advised the local association secretary of the attitude of Chrysler officials with respect to the matter of bootlegging new cars.

A paragraph of this letter is as follows:

All three divisions of the Chrysler Corporation are very much concerned regarding this matter of bootlegging of new automobiles and are doing everything within their power to stop the practice. The only way to do this is to discover the source of supply of each individual bootlegger and have that source shut off.

In a letter written February 2, 1938, to the secretary-treasurer of the Springfield, Ill., Automobile Dealers Association, the general manager of the national association stated:

I was under the impression that if this dealer could no longer advertise if he had not sold any new cars recently, we might let the matter rest until such time as he again became active. Have you any evidence that he has sold any new automobiles or offered to sell any new automobiles since this advertising incident on the first part of December?

With respect to policy, the general manager of the national association wrote as follows to the general sales manager of the Chrysler Corporation, under date of February 16, 1938:

One of your more substantial dealers is quite perturbed over the statement made to him within the last few weeks by a representative of your company. The dealer says in his letter to us:

"I was very much shocked a few days ago by one of the representatives that calls on me. He made a statement that he alone could cancel out any dealer and that that dealer would have no alternative. In other words, he would not get a hearing from any other higher executive."

Upon receipt of this information, I wrote the dealer and suggested that he communicate with you, explaining that I felt certain you would review the company's policy regarding the cancelation so that he would know exactly where he stood.

The dealer writes back and states that he would prefer not to relay this information to you for fear of retaliation from the field man, although he admits that he knows you personally quite well and has the highest regard for your ability and judgment.

If you have established a policy relative to this matter, I would appreciate being so advised that I might in turn advise this dealer and thereby allay his fears on this score.

In an effort to settle a question where a dealership has been canceled, the general manager of the national association informed a local dealer in the State of Virginia that one of the company's home-office men would call on him. The general manager explained:

When I said that a representative of the Chrysler Corporation would call upon you in the near future and discuss the matter of your cancelation, I did not mean that you could expect another call from one of the district men. The call to which I referred will be made by one of the home-office men shortly after the first of the year. This visit is being made at my suggestion during a recent conference, * * * relative to this subject.

In handling matters of dealer cancelation, the National Automobile Dealers Association is acting in a sense as an outside party or arbitrator. Some cases involve careful investigation to ascertain the facts as a basis for taking them up with the manufacturers concerned. An example, both of careful inquiry, and of the manner in which the results were presented to the manufacturer is to be noted in a report of a survey made by the assistant manager of the National Automobile Dealers Association, at the request of the Dallas, Tex., Automotive Trades Association respecting the conditions under which Nash-Kelvinator Corporation canceled a distributor and Ford Motor Co. canceled a dealer in Dallas in 1937. Only parts of the report of the assistant manager of the National Automobile Dealers Association dealing with the cancelation of the Ford dealer, Rose-Wilson Co., are quoted in full.

Upon arriving in Dallas the national association's investigator first took the matter up with the president and leading members of the Dallas Association who met with him, discussed the case and outlined the steps taken by the local association in protesting the cancelation to Ford Motor Co. and requesting reinstatement of the Rose-Wilson Co. Ford Motor Co.'s reply was to the effect that Rose-Wilson had been canceled because circumstances surrounding the dealers' operations fully justified Ford Motor Co.'s action. Thereupon the Dallas association again telegraphed vigorously protesting the cancelation and requesting that Ford Motor Co. send a representative to Dallas to investigate the matter, which Ford Motor Co. stated would be done within a few days.

With these facts as a background, the national association's investigator interviewed Rose-Wilson Co. with the following results:

> I spent all day Sunday with Rose-Wilson in which they outlined their history and experience as automobile dealers and the circumstances which they believed were responsible for the arbitrary cancelation. Briefly, it is their belief that the cancelation was the result of a personal incident which occurred several years ago in connection with the cancelation of a dealership which they operated at McKenney, Tex. * * * Since that occasion, they claim to have been continually coerced and threatened with cancelation, and, in fact, received cancelation notices each year in October which were never made effective. They maintain that they had always cooperated with Ford policies insofar as they felt they were sound but had refused to adopt programs which they did not believe in and which were unsuited for their particular business. They finance most of their own paper and, with the exception of the past year or so had operated with a gross profit on used cars. Their statements show them to be in excellent condition.

On the ensuing Monday and Tuesday the association's investigator interviewed presidents of three banks, the manager of the Dallas Chamber of Commerce, the manager of the Dallas Better Business Bureau, and the president of a company distributing automotive supplies. In reporting the results of these interviews and the action subsequently taken based on the results of his inquiries the investigator stated:

> In every instance I was informed that Rose-Wilson were considered the very finest type of citizens and businessmen and the most desirable type of representation that a manufacturer could secure. The financial position was stated to be ace high and the president of the First National Bank stated that this firm was one of two automobile companies in the city to which he would gladly extend credit of $50,000 without question. The Better Business Bureau stated that in the 18 years they had received but one complaint against Rose-Wilson Co. and that a very minor one but, on the other hand, they had received many complaints regarding the operations and activities of other automobile dealers in the community.
>
> Another meeting was held with the committee on Tuesday and they requested me to contact the Ford Motor Co. upon my return to Detroit and present the facts in an effort to get this contract reinstated. They also suggested that we cooperate with them in giving publicity to the case in the event it was not settled satisfactorily. In the meantime, Mr. Planck, representative of the Ford Motor Co., arrived in Dallas Monday morning, November 22, and met with the group. He advised them that he had been sent to investigate the situation and to make

a report direct to the home office sales department. He stated that he was sure the Ford Motor Co. wanted to be fair and that his report would be unbiased.

Upon my return to Detroit, I contacted Mr. Jack Davis, Friday morning, November 26, and discussed the matter with him. He advised that their representative had also returned and that they were then studying his report. He further assured me that they intended to be absolutely fair in their decision and that the matter would be given very careful consideration.

I contacted Davis again, Tuesday, November 30, and he informed me that they had communicated with Rose-Wilson, invited them to come to Detroit to discuss the case. Mr. Davis stated that in view of this, he did not feel they could discuss the matter any further since the case had been reopened and the discussion was a matter between Rose-Wilson and themselves. He promised to get in touch with me after final decision was reached.

Notwithstanding all of this activity on the part of the Dallas Automotive Trades Association and the National Automobile Dealers Association, Rose-Wilson Co. was not reinstated as a dealer by Ford Motor Co.

Fact finding.—In this connection the National Automobile Dealers Association has established itself as a fact-finding agency for the collection and dissemination of factual matter. In the past few years the statistical department of the national association under the supervision of a statistician has collected numerous operating statements from dealers throughout the United States for the purpose of analyzing the data contained therein and combining the results in composite form. The opinion of one association official, according to his statements, is to the effect that the collection and dissemination of facts regarding the trade which it represents is one of the most important activities of an association and once facts are made available and established, misrepresentation is impossible.

In order to facilitate the collection of factual data for the benefit of the automobile dealers and independent finance companies, the establishment of a trade fact-finding agency was initiated. This organization was sponsored by the American finance conference and the National Automobile Dealers Association. After numerous conferences between the two groups the independent finance companies gave their active cooperation in the National Automobile Dealers Association program for the formation of the Automobile Dealers Research Foundation and on March 24, 1936, papers were filed in the State of Illinois for the incorporation of the foundation.

An article appearing in the National Automobile Dealers Association bulletin of April 1936 states to some length the purpose for which the foundation was organized. The article is as follows:

> Definite action looking toward the segregation and correction of the conditions that contribute to used-car losses, in line with the recommendations approved by the board of directors of National Automobile Dealers Association, at the annual meeting last January, is now under way with the organization of a nonprofit corporation to be known as the Automobile Dealers Research Foundation. Incorporation papers were filed in Illinois March 24, 1936.
>
> Management of the research foundation will be placed in the hands of a board of directors, one-half to be appointed by each association and one neutral director to be selected by the board.
>
> This fact-finding organization, which is sponsored jointly by the American Finance Conference and the National Automobile Dealers Association, was made possible at this time through the alliance of the two groups. Active cooperation of the independent finance companies in the National Automobile Dealers Association program crystalized following numerous conferences between National Automobile Dealers Association and finance conference executives. The National Automobile Dealers Association program received their full endorsement and decision to get squarely behind it and aid in making it effective.

The decision to work together to correct the problems common to both groups and which so seriously affect their present and future profits marks an epochal step in the history of this industry. Establishment of the Automobile Dealers Research Foundation was determined upon in order that those engaged in the automobile business or those who might consider entering the business could possess facts relative to the profit possibilities and the various problems surrounding the business that have never been available heretofore.

The facts now being disclosed through the National Automobile Dealers Association trade survey concerning the condition of dealers has served to focus the attention of everyone connected with the industry on the need for prompt and effective action to bring about correction. The independent finance companies have agreed to do their part by cooperating in the movement to correct the unsatisfactory conditions which today interfere with profitable operation.

Some of the conditions that must be corrected and that contribute to dealer operating difficulties are:

1. Unprofitable dealer operation, caused by too many dealers; multiple dealerships; competitive cross-selling.
2. Used-car losses.
3. Factory domination and coercion.
4. Current unsound finance terms and practices.

In the collection of data for the use of the research foundation the independent finance company's representatives were to contact the dealers and explain the purpose of the Automobile Dealers Research Foundation.

In 1934 the National Automobile Dealers Association made a special trade survey of dealers' activities. In this study a comparison of dealers of all makes of cars was set up. In 1935 a more elaborate survey was planned and put into execution. Under this plan blank forms were submitted to dealers for the return of information necessary to complete the reports planned in the survey. By 1936, after all preliminary work was completed and the data compiled, the association had comparative figures ready for the years 1933, 1934, and 1935. In the year 1937 the trade was again requested to submit information pertaining to the sales of new and used cars for 1936 and 1937, and after the tabulation of this data all charts were brought up to date and published in the association's bulletin of June 1938.

Tabulations covering trends of automobile selling for the calendar years 1936 and 1937 were prepared by the national association for the benefit of the trade, and in addition an 8-year trend in car-sales operations from 1930 to 1937 was completed. A tabulation on passenger and commercial cars with 586 dealers reporting and a tabulation covering 9 months' trend from January to September 1937 was prepared. Data with respect to dealers making a net profit or loss for 1935 and data in connection with facts about General Motors, as disclosed in their 1935 annual report, was also prepared. In addition to the above, the national association prepared other miscellaneous data such as tabulations showing the number of dealers reporting from cities of various populations and number of dealers reporting by makes of cars handled.

In describing the studies made by the association the president stated as follows in his address to the membership at the annual meeting held in Detroit, April 26, 1938:

> As has been our custom for several years, we have made many trade surveys of considerable importance. Studies have been made of sales volume, inventories, inventory turn-over, costs of doing business, profits, return on invested profits, return on invested capital, and other important elements in business management. Our office is becoming a growing source of information sought by dealer groups, factories, sales finance companies, trade publications, financial papers, and all other organizations interested in the problems of the automobile industry. The

data of this character we have available in our office has brought us recognition and prestige which is quite complimentary to say the least.

Employee-employer relations.—Due to the great number of individuals employed in the automobile industry, especially in the retail merchandising of motor vehicles, the National Automobile Dealers Association has employed an experienced counsel for the purpose of making the necessary study of the relations that exist between the employer and the employee. The general counsel of the association has been delegated to make the stud es in connection with this subject and initiate educational programs for the purpose of keeping the employees satisfied and to see that conditions are such that each employee is able to earn a reasonable wage. As controversies very often develop through misunderstandings that arise from time to time between the employee and the employer, the general counsel of the national association is charged with the responsibility of reducing such controversies as much as possible through the educational programs that he plans.

Relative to employer-employee relations, an official of the national association stated that:

Strife and conflict between employers and employees in the retailing industry has been a confusing and disturbing factor during the past several years. National Automobile Dealers Association has endeavored to make an impartial examination of such occurrences, their cause and effect, and particularly how they were being treated with fairness and equity to all concerned. Our studies have been recorded in booklets and other printed matter, which are available to members of the association. We have been brought into conference with many local groups and have given what seemed to be helpful advice on many occasions.

Used-car market value study.—At the inception of the Code of Fair Competition approved by the Federal Government under the authority of the National Industrial Recovery Act, officials of the National Automobile Dealers Association, along with officials of the National Recovery Administration, attempted to enter into an agreement with the National Used Car Market Report, Inc., of Chicago, Ill., to publish the maximum used-car trade-in values. The Blue and Red Books which the corporation had been issuing for approximately 25 years were the mediums through which the figures were to be published. In the publication of these used-car values the Chicago corporation was to be assisted by the national association and the figures approved by the National Recovery Administration. After conferring for a time the parties concerned were unable to agree, due primarily to the fact that a satisfactory purchase price could not be arranged. Thereafter, the National Recovery Administration, in approving the code for the motor vehicle retailing trade, delegated the national association as the agency responsible for the compilation, publication, and sale of the used-car guide which was to be designated "The Official Used-Car Guide." Values used in the official guide were to be made up from sales reports submitted by member and nonmember dealers throughout the United States and from these actual reports of sales the average selling price of the average conditioned automobile of a particular make, model, and year, for the several districts, was to be calculated by the national association according to a formula approved by the National Recovery Administration.

The used-car price established according to this approved formula constituted the maximum price and was not to be exceeded by any retail automobile dealer under penalties provided for under the administration of the National Recovery Act.

When the National Industrial Recovery Act was declared unconstitutional, the motor-vehicle trade demanded that the national association continue the publication of the Official Used Car Guide and that the studies which had been initiated be carried on. Being no longer hampered by Government regulations, the association began using additional factors in the determination of used-car values, according to statements made by an official of the national association. This official further stated that the association used a well-trained staff of 16 persons whose full time was devoted to the analysis and compilation of information that was secured.

Less than 1 year after the national association began compiling the official guide, Jack Frost, the executive vice president, issued the following bulletin dated January 28, 1936, to all automobile dealers in reference to the National Automobile Dealers Association used-car program:

The recommendations outlined in the attached booklet are the result of a careful study. Full consideration has been given to the legality of the program.

Many plans have been proposed of late, but unfortunately most of them either are in conflict with existing laws or fail to provide practical long-range usefulness.

In our opinion, which has been confirmed unanimously by the board of directors of National Automobile Dealers Association, the program outlined in the attached booklet is sound, practical, and possible of accomplishment. Both the emergency angle and the provision for permanency are dealt with.

First, we set up an ideal; 20 percent gross profit in the used-car department.

Second, we seek to determine if the individual dealers themselves approve of the program.

Third, we ask the dealers to indicate their willingness to contract with the central agency for the purposes set forth in the booklet.

In connection with the central agency the following recommendation appears in the booklet:

We recommend that the dealers, obligate themselves to furnish to a central agency, for dissemination among themselves, information bearing upon or concerning the operation of their used-car departments, so that the dealers may make use of such information in the management and control of the individual businesses as they, in their own judgment and discretion, shall deem best. Such information should be furnished at regular intervals upon forms, such as those reproduced herein (exhibits A, B). If any factory or factories shall adopt the suggestions hereafter made, copy of such forms should be furnished such factories and an effort made to have the report forms required by the factories and required by the dealers' central agency substantially the same in order to simplify the bookkeeping labor of the dealers in making such reports.

Each dealer should specifically obligate himself for a definite period of time, say 2 years, to accurately fill out and mail the required reports upon the designated forms at regular intervals.

Each dealer should also agree to give free access to his books of account and all records to any authorized representative of the central agency, and to permit such examinations as may be requested from time to time by a properly authorized representative of said central agency.

Each dealer should agree to pay to the central agency a stipulated sum in the event of the failure to furnish the above-mentioned reports, and to pay the cost of any special audit of his books which may establish the fact that any report or reports furnished by him are substantially incorrect.

The obligation of the dealer to make the reports and pay the sums above provided for should be guaranteed by a surety company's bond.

In order to provide a means for collecting, auditing, analyzing, and disseminating information with reference to the operation of the dealers' used-car departments, an appropriate central agency should be established. It is suggested that it be known as the motor vehicle used-car auditing board and that it consist of a board of nine trustees who would be men of outstanding ability and integrity and who would command the confidence of the entire body of dealers. Its members would be designated in the first instance by the board of directors of the National Automobile Dealers Association, and the members of this agency could then provide appropriate means for their organization, methods of operation, appointment of successors, etc.

The central agency would have to employ an adequate operating personnel, which should consist (1) of accounting experts from recognized accounting firms; and (2) regional certified public accountants directly in the employ of the agency.

The functions of this agency should be—

1. To receive the reporting forms of the various automobile dealers. (See exhibits A and B.)

2. To analyze and compile the information contained in such forms and to make public a monthly report, clearly showing the degree of gross profit actually effective in the used-car departments of dealers by groups, by makes, by States, or individually by dealers' names. In case of the publication of dealers' names, the name of all dealers in any one State or States should be published at the same time.

3. To send representatives, properly authorized, into each dealer's place of business at not less than quarterly intervals, to audit the dealer's records for purposes of education and adjustment of the findings of the central agency. Also to make special audits from time to time as may be deemed desirable.

4. This board would not have any power or authority to, directly or indirectly, compel any dealer or dealers to adopt or carry out any policy or policies, or to transact business in any particular way or, particularly, to compel any dealer or dealers, to actually conduct their used-car departments at a gross profit of any particular amount, but would only have power to compel each dealer to make the reports on the forms provided and to make the audits called for above.

5. The financing of this central agency should be done by dealers' agreement to direct his factory to add the sum of ($-----------) to each billing of a new car and remit such sums from time to time to the central agency.

* * * * * * *

1. The payment of the expenses of the central agency can be financed through the payment of $2 per car for each new car sold by each manufacturer to its dealers, such payment to be made to the motor-vehicle dealers used-car auditing board, or

2. Through the payment of $2 per car for each used-car time-sales contract received by the various finance companies.

The Jack Frost system was put into operation in some localities in view of the following statement made by an official of an association in one of the Southwestern States to an agent of the Commission in substance as follows:

There is no sponsorship of any association or appraisal system, such as was started several years ago. After successfully operating for about 6 months a representative of the attorney general's office for the State of Texas called and made an investigation of the methods used in this cooperative appraisal system known as the Jack Frost system was threatened with indictment for violation of the Texas antitrust laws, and advised by its attorney to plead guilty rather than fight the case. This plea resulted in a fine of $500, and no attempt has been made to appeal, or to again form such a cooperative plan.

Under date of June 11, 1937, the National Automobile Dealers Association submitted to State and local association managers a folder containing a description of the various types of used-car loss-control plans that were being used by local dealer groups throughout the country. In this description entitled "Controlling Used Car Losses Through Cooperation," the following paragraph appears with respect to the use of the official used-car guide in the determination of used-car allowances:

The other plan is known as the "Michigan plan" because it was originated in Muskegon, Mich., by Isaac P. Ellison. This is a modified code procedure, in which top allowances are determined each month by the current market situation, based on the national Automobile Dealers Association Official Used Car Guide. Bids are not recorded as in the west coast plan, but every participant is required to maintain certain specified rules and to furnish information to a central office pertaining to all deals.

Further on in the discussion of the several control plans in the pamphlet circulated among State and local association managers by the national association, the following paragraph appears:

> The Official Used Car Guide of the National Automobile Dealers Association is the yardstick of values for trade-ins.

Under "Rules," in further discussing the Michigan control plan, the following statements appear in the pamphlet prepared by the national association:

> 1. The National Automobile Dealers Association Guide is the only standard of value to be used in making allowances, a percentage being fixed monthly, dependent on the used-car inventory. There are several modifications pertaining to models more than 7 years old, to radios, commercial cars, wrecks, demonstrators, etc.

Preparation of Official Used-Car Guide.—The Official Used-Car Guide is compiled and distributed monthly by the National Automobile Dealers Association to approximately 23,000 subscribers. The compilation and publication of the Guide is handled by a separate division of the association composed of a specially drafted personnel from a private enterprise engaged in a similar undertaking. The personnel of the Guide division was organized in October 1933, soon after the National Industrial Recovery Act went into operaton. During the period of the N. R. A. the Guide was quite extensively used by retail dealers, banks and finance companies in view of the fact that it was made the official publication for used-car trading in the United States under the code for the automobile industry.

Under the National Automobile Dealers Association plan of gathering factual data for the compilation of the official guide the United States is divided into nine trading areas called districts and a separate guide is issued monthly for each of these nine districts. Boundary lines between these districts may be changed from time to time and the number of districts may be changed, depending upon the manner in which the average values work out. When the averages begin to come together between two contiguous districts then these districts are combined into one which reduces the number of guidebooks and consequently reduces guidebook expense.

Dividing the country into geographical divisions as stated above is not necessitated by differences in freight costs alone as there are special conditions in the different sections that will influence prices beyond freight differences, as for example, when tobacco prices are high and crops abundant in North Carolina and Virginia the prices for used cars in that district tend to be higher than normal for that area. Prices in the guide for the Detroit area are usually the lowest as compared to any other section of the country and prices for the Pacific coast are the highest. Dividing the country in more districts might result in a better guide but the cost would become prohibitive if the number of divisions were greatly increased.

Material for the guide is gathered by supplying dealers with forms upon which they report their used-car sales. As soon as a report is submitted by a dealer a new set of forms is forwarded to that dealer for the purpose of keeping this phase of the operation fresh in his mind. While this method is more costly than if a dealer is kept well stocked with blank forms, the results are much better and the reports are sent in more regularly.

This report form requires the dealer to submit information with respect to the make of the car, year, body style, capacity, serial number, motor number, the actual price at which the car was sold and the reconditioning cost. These reports are received daily and are checked and edited. All cars manufactured before 1930 are eliminated and reports of sales of late model cars at an extremely low price are also thrown out.

A record is made of the data submitted by the dealers on slips that are assorted according to make of car, body style, and year, and each sort is arranged in numerical order. After some years of experimenting, a plan has been worked out which involves the use of a standard deviation formula through which the extreme sales, high and low are eliminated and only the intermediate sales between the high and low are used in computing the averages.

As there is a period of about 45 days between the time data for a new book begins to come in and the publication date, and as value would change to some extent during this period, a "dealer check" is made in order to obtain the dealer's opinion as to whether or not he thinks the averages are out of line.

A mailing list of cooperating dealers who have shown a willingness to supply local used-car data is kept up to date for the purpose of this dealer check. When average values have been compiled from dealers' reports these values are recorded in such a way that sales values for Chevrolet cars can be submitted to Chevrolet dealers and Ford sales can be sent to Ford dealers, etc., for such dealers to indicate whether or not the average values are in line. The suggested changes submitted through notations placed along side of the average value compiled by the association, whether plus or minus, are taken into account when the final tabulation is prepared for the printer. Through this method of getting the dealer's opinion on average values shortly before the books are printed there is only a lapse of about 1 week for a change to occur.

In the manual of operations of the National Automobile Dealers Association the following instructions are set forth in connection with the preparation of the official guide:

> Each sales report shall be reviewed for the purpose of checking the identification of the make, year, serial model, body type, etc., of the car reported in order that the proper code reference number shall be placed thereon.
>
> Each sales report coded shall show in addition to code reference number, the price section book number in which said report is to be used, also, the initial signature of coding operator.
>
> A serial number identifying the district and sales report shall be stamped on each sales report, in order that the National Automobile Dealers Association may determine the number of sales reports used in computing published prices for the active section of the National Automobile Dealers Association official used-car guide price section for each district and issue. These serial numbers are to be used as a means of identifying the tabulating classification card, recording the information shown by the sales report.

In order to arrive at true averages insofar as used-car values are concerned, the manual of operations sets forth the following:

> The method which is used by National Automobile Dealers Association in establishing averages is called the median mean method.
>
> In reflecting fair market values, it is necessary that only sales of the better grade be given consideration in determining its value.
>
> In determining fair market values for better grade used automobiles it is necessary to eliminate those sales from consideration which are subnormal or extremely abnormal.

In a further discussion on methods used to establish fair average prices the following statements appear in the manual of operations issued by the National Automobile Dealers Association:

> We believe the most adequate modification which can be used practically is a combination of the mean and the median, whereby the effect of the abnormally high or low sale is eliminated, and whereby the prices of the majority of the "better grade used cars" are taken into consideration in arriving at an average.

Management service.—For the purpose of keeping dealers in the retail industry informed as to the most profitable procedure to follow in the several departments of their business, the national association maintains a management-service department which is operated under the supervision of a reliable merchandising and accounting analyst. As questions arise in the industry in connection with this service, it is to this department that the general manager or the assistant general managers will turn for a solution of these questions emanating from the trade.

Officials of the association are requested in many instances for a solution of a dealer's problem with respect to management service in view of the fact that the success or failure of a business venture depends to a greater extent on the ability of the management than on any other factor. According to statements made by an association official, it is not uncommon during times of depression to find some dealers operating at a profit while others are operating at a loss, which condition is brought about to a great degree through management of the business.

In an accounting bulletin issued by the national association during the predepression period an analysis of one dealer's accounts disclosed the following results with respect to net profits:

> Gross volume increase 1926 over 1925, 9.3 percent. Unit increase, new cars, 1926 over 1925, 58.8 percent. Net profits, 1926 decrease, 73 percent.
>
> The above figures, taken from a dealer's own records show to what an appalling extent net profits can be dissipated, even in the face of "improved" business. In other words, it is the eternal story of the industry whenever a dealer strives for volume without insisting also that he get his proportion of net profit out of each car sale made.
>
> This dealer's figures were given to us after he had heard of the National Automobile Dealers Association program of budget and expense control. Ten thousand dealers in the United States have been provided with the skeleton outline developed by H. M. Faucher, certified public accountant, accounting consultant of the National Automobile Dealers Association, but the dealer furnishing the above figures had never heard of the method until last week. He says that nothing will be permitted to obstruct his budgeting 1927 operations and that the only thing that will keep him in the business is the knowledge that dealers are budgeting and controlling expense and making profit through the guidance given them by the National Automobile Dealers Association.
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> * * * * * * *
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> These budget statements will be published in detail by the National Automobile Dealers Association and mailed regularly each month to its members. The next article will explain in detail how much expenses a dealer selling 50–60 cars a year can incur and make a net profit out of his business. The next one of these budget articles will be mailed to you October 8, and thereafter monthly. Don't miss them. Regardless of the size dealership you are operating, Mr. Faucher's budgeting information will be of immense assistance.

In a bulletin put out by the national association in March of 1931, the accounting supervisor of the National Automobile Dealers Association stated as follows:

> Last month we discussed the advisability of truly segregating into their various totals and into a grand total, all items of occupancy, general and administrative

expense (O. G. and A.). We also pointed out the three major characteristics of these items, i. e., (1) insofar as they are controllable in any business they are subject to the control of the general manager only, (2) that they are incurred for the benefit of the business as a whole, not for the benefit of any specific department; and (3) that they tend to originate in the element of time, not in the element of volume.

* * * * * * *

This obvious fact should be clear to every general manager. If he will permit us to charge and distribute to departments fixed occupancy, general and administrative expense items as we see fit, we can make any one or two departments of any business show exactly what we want shown during any period. Where the object is not a discount reduction, or is not a cut in territory, the motive seems to be to exaggerate the profit of the new-car department and debase the worth of other departments more directly under dealer and distributor control.

In the national association's bulletin of June 1938 the results of the survey completed by the National Automobile Dealers Association for the year 1937, with respect to profits, is described as follows:

Effects of the business recession on automobile-dealer earnings are clearly shown in the results of the survey recently completed by National Automobile Dealers Association covering the year 1937. Four hundred and twelve representative dealers of all makes, all size operations, supplied the data.

Final net profit for the year averaged less than 1⅓ cents for each dollar of sales, which was slightly less than the amount reported by the same group of dealers for 1936. It is significant to observe that the greatest loss occurred during the last 3 months of the year. At the end of September, reporting dealers showed an average operating profit of 2⅔ cents per dollar of sales. The falling off in business coupled with year-end clean-up activities in the closing months of 1937 resulted in cutting this 9 months' profit figure almost in half.

This emphasizes once again the importance of the oft-repeated statement, there is only one net profit, based on the final complete operations for the entire year. Substantial operating profit accumulated during the first 9 months of the year, can be, and frequently is, consumed in the last 3-month period.

For the information of our members, we are reproducing on page 7 charts showing the trend in automobile retail selling for the 5-year period, 1933 to 1937, inclusive. Chart I covers new- and used-car departments only. Chart II embraces the complete retail operations. Analysis of the figures will prove of interest to every management-minded dealer, because they clearly indicate what has happened in the past and the factors that have contributed to profit or loss.

The management consultant and analyst of the national association writing on common but vital mistakes in general management, states that:

The elements affecting profit-creating practice naturally divide into two major groups. On the one hand, we have those elements strictly within control of the individual general manager, and on the other hand those elements wholly beyond influence or control by any one individual. Insofar as these latter elements can be influenced at all, that beneficial influence must come through local, State, and National trade association effort.

* * * * * * *

A study of the operating figures of 1,058 dealers reporting to National Automobile Dealers Association on the 1934 trade survey reveals they did not reach the annual profit point in their business until well past Christmas.

A dealer cannot break even until $2 in gross margins is procured for each $1 in annual total fixed expense. The minimum desirable sales performance is that which procures $2.50 in gross margins for each $1 in annual total fixed expense. The ideal is $3 to $3.33 to each $1 in annual total fixed expense.

National Automobile Dealers Association Bulletin.—In order to keep the membership informed with respect to matters that affect the distribution of motor vehicles, the trend of the industry and the efforts made to promote the interests of the dealers, the National Automobile Dealers Association publishes a monthly bulletin and progress reports which are circulated among the dealers. Through the medium of this bulletin dealers are informed of the results obtained by the trade surveys made by the national organization and the attitude of the association in connection with such subjects as the trade-in and overallowance policy, quality dealer program, and used-car values.

Overallowances on used cars.—In an article appearing in the association's bulletin of April 1936, the following appears with respect to high used-car allowances:

> By reason of uncontrolled competition among dealers selling the same factory product, the public becomes the dominating factor in determining the retailer's selling costs. A businessman without control of his costs or the selling price of the goods he handles is in the position of a navigator whose ship has lost its rudder. Regardless of how experienced or able the navigator may be, his ship will flounder helplessly in the waves until it lands on the rocks or sinks. That practically illustrates the position of the automobile retailer under present conditions.
>
> To correct this fault, there is but one answer—some practical means must be devised to take dealers who sell the same make of car out of ruinous competition with each other when bidding for the prospect's used car. The claim that but 20 percent of the dealer's new-car sales are profitless deals because of intercompetition for the used car, is to ignore actual records of thousands of sales transactions being made daily the country over. Bargaining for a high used car "allowance" is an established public custom, and not an exception to the rule.
>
> The better class of merchants in other lines uphold the price as well as the quality of their goods. The automobile manufacturer who now gives the public outstanding value in his product can do the same. If reputable merchants inspire public confidence by maintaining their price, reputable automobile manufacturers can do the same. Bargaining destroys confidence. The buyer never knows when he has hit bottom. In the case of the used car, unless the prospect feels that he has received the very maximum "allowance," regardless of the injury to the dealer, he will still harbor the thought that he was treated unfairly.

In referring to used-car values, the president of the association, at the annual membership meeting in Detroit, April 26, 1938, stated:

> One of the greatest services that National Automobile Dealers Association has rendered the automobile industry during the past several years has been the collection, publication, and dissemination of the most accurate information available on used-car values.

Quality dealer program.—In an editorial under the caption "Quality Merchandise Deserves Quality Dealers," published in the National Automobile Dealers Association, Bulletin of October 1937, the following statements appear:

> Now that engineering and production has reached such perfection, the attention of the industry's leaders should be focused on the problems of distribution, the quality merchandise of today is entitled to quality representation in the field. "A real quality dealer program" is needed. Not a program of generalities and platitudes, but of action.
>
> One major volume manufacturer has actually inaugurated such a program as a part of its established sales policy; others are giving it serious consideration. The reaction from the dealers of that group where the program has been placed in effect indicates beyond question that the adoption of the quality dealer program is productive of satisfactory results.
>
> Of necessity, a "quality dealer" must be one who is amply financed, who has a proven record as a merchant, who is a good manager. The standards of a dealership should be set up both as to capital requirements, buildings, personal character, and any and all other qualifications desirable to obtain the highest type representations.
>
> To talk "quality dealer" without taking the steps to make it something tangible is merely giving lip service to an ideal. To preach "quality dealers" and at the same time add new outlets by the hundred in communities already overcrowded with dealers is gross misrepresentation.
>
> The practice of adding new outlets under the theory that "outlets mean sales" without proper regard to the profit opportunity of existing dealers and with the full knowledge that when sales slump it will be the case of "the devil take the hindmost" should be abandoned in this industry.

Highway safety.—The National Automobile Dealers Association has pledged its support to all organized effort with respect to the safety of human life on public highways. The association's stand on matters of public safety, according to statements made by one of its officials, is not based primarily on the fact that fatal accidents along the public highway act as a deterrent to sales of motor vehicles, but more directly to the fact that highway safety is a moral responsibility that all citizens should recognize.

For the purpose of guarding the traveling public and making the highways safe for the greatly increased traffic that use them, the manufacturers of motor vehicles formed a safety foundation. When this body was being formed by the manufacturers, the National Automobile Dealers Association, through a resolution passed by its board of directors, likewise became active with respect to matters of safety.

In connection with public safety the following article appears in the December 1937 issue of the association's bulletin with regard to the attitude of the two major branches of the motor-vehicle industry on this subject:

> Industry has begun a new war on traffic accidents. In the automotive industry, the manufacturers recently formed a safety foundation and the National Automobile Dealers Association, by resolution of its board of directors, likewise is active. However, traffic accidents are caused by the drivers of the cars, or by the carelessness of pedestrians. In the latter case, 44 percent of fatal traffic accidents involve pedestrians, thus requiring safety motorists to be doubly careful, not only in watching his and other cars, but in watching those who cross his path.
>
> Automobile dealers have a responsibility in this movement. They have put the cars on the streets and highways. The annually increasing death toll can easily result in legislation that may vitally deter retail sales of motor vehicles.

CHAPTER XI. COOPERATIVE EFFORTS OF AUTOMOBILE DEALERS TO OBTAIN AND EFFECTUATE CONTROL OF COMPETITION

Section 1. Nature and Scope of Discussion

Origin of movement to restrict competition.—Plans to lessen competition in automobile retailing have been developed largely through the efforts of dealer associations and have to do principally with the restriction of price competition among their members.

During and for about 2 years following the termination of the World War the demand for new cars exceeded the supply. Dealers found it desirable and very profitable to take used automobiles in trade. In 1921 and 1922, however, the production of new automobiles exceeded the demand and dealers began to find it increasingly difficult to sell used cars taken in trade as part payment on the purchase price of new vehicles. As a result there were many failures among motor-vehicle dealers due to losses taken on accumulated stocks of used cars which they were able to dispose of only at large loss.

This situation led to the development of cooperative plans apparently for the purpose of maintaining manufacturers' prices on new vehicles and reducing dealer losses by limiting and fixing allowances on used vehicles taken in trade. From the early 1920's until October 1933, when the motor-vehicle retailing industry came under Federal regulation under the National Industrial Recovery Act, there was a steady growth in activities and plans to prevent overallowances on trade-ins. During the N. R. A. period, 1933–35, a resulting effect of the code developed for the automobile retailing industry was to make national in scope a plan for the regulation of used-car allowances and to otherwise regulate competition among dealers. Invalidation of the code in 1935 threw the whole situation back to associations of retailers and there was a great renewal of activities and plans for local control of retail competition. Many of the plans developed are in operation today.

Scope of discussion.—The investigations made in connection with this inquiry of dealer plans to control competition, largely through restriction of trade-in allowances, was necessarily limited in scope. Cities in which it appeared that plans were in operation were visited and in most instances copies of the contracts or agreements under which dealers cooperated were obtained, together with sufficient additional data to demonstrate that plans were in operation, but no exhaustive investigations were made to determine the extent to which such plans are adhered to by their members, or to what extent trade was restrained, prices controlled, or competition otherwise restricted.

In ensuing sections of this chapter the efforts of trade associations of dealers to exercise control over competition through their own efforts and through the aid of State or Federal regulations are outlined briefly. Typical organizations and plans in existence today are described and legal aspects of these plans are considered.

Section 2. History of Automobile Dealer Plans to Restrict Competition

Used-car operations the principal subject of dealer plans.—When, following the war, the used car became an increasingly important factor in the retailing of new motor vehicles, dealer "plans" to establish uniform prices and otherwise restrict competition in the sale of new and used motor vehicles appeared. It was claimed that dealers, by granting overallowances on used cars taken in trade, were dissipating their profits in the new vehicles sold. Therefore, plans were formulated for the primary purpose of preventing overallowances on used vehicles taken in trade as part of the purchase price of new vehicles.

Among the earlier attempts were the Troy plan, the Appleby plan, the Saginaw plan, the Noyes plan, and the Windsor (Ontario) plan, and numerous others in the period preceding N. I. R. A. Each of these plans was later abandoned because of public disfavor, manufacturer pressure, pressure from law-enforcement agencies, economic depressions, or because of the failure of dealers to cooperate.

Efforts to obtain Federal control.—At the time the President approved the Code of Fair Competition for the Motor Vehicle Retailing Trade, on October 3, 1933, the retailing industry was admittedly in a deplorable condition and bankruptcies were common. The code for the automobile retailing industry was the first retailing code adopted and was in answer to the Nation-wide request by dealers.

The general purpose of the code was stated to be that of "increasing employment, establishing fair and adequate wages, affecting [effecting] necessary reduction of hours, improving standards of labor, and eliminating unfair trade practices to the end of rehabilitating the motor-vehicle retail trade and enabling it to do its part toward establishing that balance of trades which is necessary to the restoration and maintenance of the highest practical degree of public welfare."

In carrying out the aims and policies of the code, a dealer was forbidden to sell a new motor vehicle at retail for less than the factory's list price plus an amount equal to taxes, extra equipment, transportation, and cost of handling. Exceptions recognized were sales to members of the proprietor's immediate family or members of his organization, sales of discontinued models, and sales of models soon to be outmoded. Automobiles used for demonstration purposes and those used by executives were sold at the full retail price, unless driven for a period of at least 60 days and a distance of not less than 3,500 miles or when manufacturers had announced changes in models. Retailers were not allowed to sell at greater prices than those existing on July 1, 1933, except when justified to meet increases in wages, taxes, and invoice costs.

It also was declared to be an unfair trade practice for a dealer to sell automobile parts, accessories, and supplies at other than the manufacturer's published list price adjusted to include all taxes, except to duly authorized dealers or established service stations operating under an N. R. A. code. Finance charges likewise were regulated.

The code provided that speedometer readings on new automobiles for sale should be accurate. Provisions for territorial restrictions were also included.

Detailed regulations were provided governing dealer allowances for used cars directly, indirectly, or by subterfuge accepted "in trade."

The "values" of used vehicles of all models for a given market area were established and published every 60 days and were based on actual sales transacted during a preceding like period. Dealers were prohibited from accepting in trade any used vehicle at an "allowance price" of more than published "value," plus a minimum selling, handling and reconditioning charge computed according to a specified scale. It was provided that an official guide be published for each trading area, embodying the established "values" of used cars as determined by averaging the 80 percent highest prices received through actual retail sales made during the preceding 60-day periods. Compliance with the provisions of the code was enforced by a liquidated damages agreement.

As partially described above, the code included amendments 1 to 3. Amendment 4 was approved December 8, 1934. Its purpose was—

to permit the making of contracts, or the submission of bids, upon the basis of a used-car allowance current at the date of the contract or bid and the completion of such contract or bid in a subsequent guidebook period, even though the subsequent guidebook may change the maximum permissible allowance; such contracts to be entered into for future delivery only when the dealer, for reasons beyond his control, is unable to make early delivery to the customer. One of the conditions of the contract shall be that delivery shall be accepted by the purchaser as soon as the dealer is in a position to make delivery.

Amendment 5, approved March 23, 1935, changed much in the sections pertaining to used-car evaluation but, as the Schechter decision was handed down almost exactly 2 months later, it is not thought necessary to enumerate the changes effected by that amendment.

After the invalidation of principal features of the N. R. A. program by the United States Supreme Court, in the Schechter decision of May 27, 1935, the President of the United States and the National Congress were beseiged by requests from motor-vehicle dealers and their trade organizations to put into effect a substitute plan.

By Executive order of September 26, 1935, President Roosevelt, pursuant to the authority vested in him by section 2 (a) and section 2 (b) of title I of the National Industrial Recovery Act, certain provisions of which title were extended until April 1, 1936, by the joint resolution of June 14, 1935, delegated—

to the Federal Trade Commission all authority vested in me by said Act and resolution to approve such trade practice provisions as are permitted by clause numbered 2 of the proviso of section 2 of said joint resolution and submitted in voluntary agreements pursuant to section 4 (a) of said title of said Act: *Provided*, That such approval shall not be given by the Federal Trade Commission unless such agreements contain labor provisions putting into effect the requirements of section 7 (a) of the said National Industrial Recovery Act and after such labor provisions have received my approval.

Subsequent to the date of the above Executive order of the President, the motor-vehicle retail industry, through its recognized organization, the National Automobile Dealers Association, on June 13, 1935, made formal application to the Federal Trade Commission for a trade-practice conference. Preliminary conferences between authorized representatives of the industry and members of the Commission's Trade Practice Board were held, and a tentative draft of trade-practice rules was submitted by the dealer representatives for presentation to the Commission through the Board.

This Commission disapproved the rules presented:

for the reason that four of the six rules proposed embodied an illegal price-fixing arrangement and would tend to unreasonably restrain trade in violation of the Federal antitrust laws, including the Federal Trade Commission Act.[1]

In announcing that four of the six rules had been disapproved, the Commission made it known, however, that:

it had advised the industry the other rules submitted would be approved if revised in conformity with certain suggestions made by the Commission.

The foregoing action of the Commission was taken without prejudice to the right of the industry to submit new or revised rules. After an intervening period of several months the Commission was informed that no further action was contemplated by the industry at that time, and on May 29, 1936, the industry's application was closed by order of the Commission.

On September 16, 1936, the Washington Automotive Trade Association, of Washington, D. C., made application to the Commission for a trade-practice conference on behalf of those engaged in the sale of motor vehicles and equipment in the District of Columbia and immediate trade area. Upon considering the application, the Commission deemed it inadvisable to hold a regional conference and directed on May 13, 1937, that:

the applicant for the conference be advised that the Commission would be pleased to consider an application for a Nation-wide conference.

On June 30, 1937, the National Automobile Dealers Association, on behalf of the entire industry, filed an application for a trade-practice conference. On April 26, 1938, the conference was held at Detroit, Mich., at which the industry adopted tentative trade-practice rules and submitted them to the Commission for consideration. Final action has not yet been taken on these rules.

Efforts to obtain State control.—Following the Schechter decision, May 27, 1935, there was considerable agitation for State legislation providing for codes of fair competition or their equivalent. The influence of this wave of sentiment is still being seen in State legislation. Automobile retailers and their trade associations have been successful in their demands for protective legislation in a number of the States. As of November 1938, at least 21 States licensed dealers in new cars and used cars taken in trade; in 5 additional States used-car dealers are licensed; in at least 3 States municipalities are empowered to license dealers; in 5 other States bills have been introduced, but not enacted, proposing to license dealers; and in at least 1 additional State surveys are being conducted preparatory to the introduction of proposed State legislation. Each of the somewhat recently enacted motor vehicle dealer licensing acts of Nebraska, Wisconsin, Ohio, and Iowa, more fully discussed in another section of this chapter, goes far in restoring some of the dealer-protective features of the former N. R. A. Code for the Motor Vehicle Retailing Trade. In the Nebraska act, for instance, "willfully or habitually making excessive trade-in allowances [on used cars] for the purpose of lessening competition or destroying a competitor's business" is sufficient ground for denial, suspension, or revocation of a dealer's license to do business.

As of November 1938, laws regulating the importation of used motor vehicles (into one State from another) have been enacted in

[1] From a Federal Trade Commission press release under date of November 1, 1935, more fully quoted in sec. 5 of this chapter.

13 States, principally, it seems, to stem or retard the heavy interstate flow of used vehicles from northern and midwestern markets into the Southern and Western States. As to the constitutionality of these statutes, the first court test was on the Florida act, in the Florida Supreme Court,[2] wherein the measure was declared constitutional. The first test of a statute of this type in a Federal court came approximately a year and a half later, in which a North Carolina statute was declared unconstitutional. The case was decided in the Federal District Court for the Eastern District of North Carolina in the case of *McLain et al.* v. *Hoey et al.*, on July 19, 1937. The North Carolina and Florida statutes are very similar. Acts regulating the "caravaning" [3] of motor vehicles have been passed in several States, a New Mexico statute being declared constitutional in *Morf* v. *Bingaman* (298 U. S. 407), and a somewhat similar California statute being declared unconstitutional in *Ingels* v. *Morf* (300 U. S. 290), the two statutes being differentiated in the latter decision.

Holders of dealer licenses in 11 States must maintain a record of all motor vehicles sold or exchanged. In 12 additional States dealers must maintain a record of all used motor vehicles sold. Twenty-six States require that a full report of all vehicles sold by dealers shall be made to the motor-vehicles department at stated intervals, independent of applications for new registration.

Automobile retailers and independent finance companies have urged the passage of "anticoercion laws on sales financing" in 18 States. Along with other retailers, they have probably played a part in the adoption of statutes preventing price discrimination in 24 States and likewise with the passage of statutes prohibiting sales below cost in the 15 States where such measures are broad enough in scope to include automobile sales. Further activities of automobile retailers and their local, State, and National associations in sponsoring State legislation and State commission rulings considered beneficial and opposing those considered detrimental are innumerable. An official of one State association, in reporting to an executive of the National Automobile Dealers Association, stated:

> About 200 of the 2,000 bills proposed in the legislature directly affect the automobile business * * * never has a measure directly aimed at the business been passed, unless it happened to be beneficial * * * these number about 1 in 50.

Private control attempts.—The post-N. R. A. period heralded an era of unusual activity in cooperative attempts on the part of dealer groups and trade associations to continue, by privately formulated codes and agreements, the policies of the N. R. A. Motor Vehicle Retailing Code. Freed of N. R. A. regulation, the industry had been plunged immediately into a highly competitive condition such as that which immediately preceded the N. R. A. It seems natural that privately formulated plans to restore the more popular features of the code should parallel efforts to obtain legislation from the National and State Governments.

One such scheme, named after its founder (an official of the National Automobile Dealers Association), the Jack Frost plan, and offered to

[2] In the case of *State ex rel. Leathers* v. *Coleman* (123 Florida 23; 166 Southern 226).

[3] A "caravan" of motor vehicles is a group of 2 or more motor vehicles connected by "tow bars" and operates under the power of a single vehicle, requiring the services of a single driver. It is well established that such a procession of vehicles, somewhat rigidly connected together, causes unusual wear on highways, especially at curves. "Caravaning" is a well-known method of transporting new and used motor vehicles.

the industry by the national organization in January of 1936, received dealer approval in a number of instances. The Michigan (or Muskegon) plan and the west coast (or Hollywood) plan were by far the most widely accepted plans for controlling competition, and the great majority of such control plans now in existence are offshoots of these two plans.

The Michigan (or Muskegon) plan.—According to a National Automobile Dealers Association Bulletin mailed to managers of State and local associations on June 11, 1937, the Michigan plan originated in Muskegon, Mich., and is described in part as follows:

The so-called Michigan used car loss control plan is predicated on the "top sheet," or high limit allowance idea, and is operated with a fraternal association set-up which provides a penalty of ostracism in the automobile-retailing circles of the community for persistent violation of certain practices. It is a continuation of the code principle under N. R. A. but with local control.

The Official Used Car Guide of the National Automobile Dealers' Association is the yardstick of values for trade-ins.

The provisions for discipline are declared to be as effective as they are interesting. Associations where the plan has been in operation some time report that it works.

Once a member, then resigning or having his membership taken away, the dealer who goes "wild" is designated an "outlaw." All association members are pledged to report every deal in which the "outlaw" is concerned. They all center their attention on taking each deal away from him, or in making each deal unprofitable for him, to the extent that the dealer who suffers a loss in so doing is reimbursed from association funds.

A period of 10 days, following notice, elapses before every regular dealer is supposed to sever all relations with any bank, finance or investment company with which the "outlaw" does business.

The word "dealer" is defined as meaning a salesman or authorized agent, as well as the dealer himself. A system of fines is provided before the "outlaw" stage. The fines range from $25 for the first offense to $100 for the fourth and subsequent ones, the fifth being sufficient for cancelation of membership. Any dealer who does not pay his fine automatically forfeits membership.

According to the National Automobile Dealers Association Bulletin, results from application of the Michigan plan show very favorable returns from the member-dealer's point of view. As stated in the bulletin:

An idea of the saving is obtained from two dealers, one with a new-car delivery of 289 units, who made a saving over the year before, with the same number of cars, of $11,700. The other, with 600 cars, saved $10,000. The average saving runs from $25 to $40 per new-car deal. There has been a general increase in business, and no effect upon competitive registration or price class percentage of competitive groups. As for the public, the manager states: "They just realize that there is a top figure on their car, and have to take it."

That the Michigan plan survives in the place of its birth was verified by Jay B. Hornbeck, director of sales, Muskegon District Auto Trades Association, Muskegon, Mich., in an address before the 1938 National Automobile Dealers Convention, Detroit, Mich., on April 27. In the address Mr. Hornbeck explained the birth and nature of the plan, the general results, and stated that the dealer-members sold 96 percent of the motor vehicles sold in the Muskegon territory. In a question-and-answer period following the address, the manner of establishing and adhering to maximum prices was brought out as follows:

MEMBER. I don't know what the plan is.

Mr. HORNBECK. Used-car control.

MEMBER. Do you have a central point where you appraise cars (used cars taken in trade)?

Mr. HORNBECK. We take the National Automobile Dealers Association Guide Book and take the top figure, which we feel is high, and make allowance for reconditioning.

* * * * * * *

MEMBER. How do you arrive at the final price that they pay?

Mr. HORNBECK. We take this into consideration. Most deals are lost, not for 10 or 15 dollars, but what a salesman could give away out of his commission, and we have a selling price.

MEMBER. That is the top price, and no one exceeds that?

Mr. HORNBECK. No one exceeds that price. If there is a question, then we call the sales director.

Other pertinent information brought out during the question-and-answer period is as follows:

MEMBER. How long has the plan been in effect?

Mr. HORNBECK. This is the third year; we started January 15, 1936.

MEMBER. How much money do you feel it saves you?

Mr. HORNBECK. I will make this statement: One dealer claims it is worth a thousand dollars a month to him. One dealer, from actual figures in 1936, gave the amount as $12,700.

MEMBER. How many failures have you had?

Mr. HORNBECK. No failures. We have had a dealership sold, and the new dealer is carrying on, but he was very liquid and, in fact, in fine shape. Another interest was sold out, but there has been no change to speak about through failure.

MEMBER. Who is the judge as to accepting the car?

Mr. HORNBECK. The administrative committee and myself.

MEMBER. How does a dealer know about it if a car has been appraised by two or three others?

Mr. HORNBECK. We meet every Monday noon, and we discuss those matters.

Mr. HORNER. Has there been any question as to the legality of it?

Mr. HORNBECK. The National Automobile Dealers Association has checked it and the Michigan association, and they have come to the conclusion that it is intrastate business and not interstate.

As to enforcement of the provisions of the plan, Mr. Hornbeck stated in his address:

Dealers that slipped, and a lot of them did, were brought before the administrative committee and fined accordingly. These fines ran anywhere from 25 to 100 dollars, depending on the offense, and were collected on the spot.

The west-coast (or Hollywood) plan.—This plan, according to the National Automobile Dealers Association Bulletin of June 11, 1937, previously mentioned, originated in Los Angeles, Calif., "several years ago." In describing this plan, the National Automobile Dealers Association stated:

The so-called west-coast plan of used-car loss control consists of a central exchange for recording used-car appraisals. It discourages the shopping proclivities of the prospect and assures the automobile salesman that when he works up a deal, some other salesman will not come along and take it away with a higher used-car allowance, without first giving the original salesman an equal opportunity to meet that allowance.

* * * * * * *

There are many intricate points that only a person trained in the work could put in operation. For instance, there is a card system that gives 30 different cards with an identifying color for the ones to be pulled at the end of 30 days.

Then there is the "preliminary call sheet," the number of which is the receipt number of the dealer's call. There are "checking" calls, which mean inquiries. They do not have any standing with the deal. In other words, a bid is not "pegged" until after another dealer "stands" on the first bid. "Standing" means he will not exceed the first appraisal and "checking" means he is not interested in the deal, and consequently a checking call cannot peg the bid. Suppose a dealer is alone, except another dealer has checked. The first one can raise his own bid or lower it, as the case may be. Whereas, if the second dealer had "stood," the bid could not be moved except with the knowledge of the other dealer concerned.

The cost of installing this plan varies, of course, with the size of the city and the number of dealers involved. In one major metropolitan city, the installation cost was $500. This involved 63 dealers. The participants now number 101 out of 108 dealers in the area. Expense for this operation runs approximately $1,200 a month, which is obtained by a charge of $1 per new unit sold (excluding trucks), whether they have called the bureau on those units or not. Five operators, an office manager, and a general manager are employed. About 400 calls a day are handled. One operator is employed part time at night.

Operating expenses average from $1 to $2 per new car sold. Contrast this expense with the savings of from $25 to $45 per car resulting from the plan, and it is apparent the cost is extremely moderate, and represents an excellent investment.

According to the numerous rules of operation described in the bulletin, only used cars being traded in on new cars are governed. No appraisal is offered on any car without first contacting the bureau to ascertain if some other dealer has registered a prior bid. If the car is not listed, the dealer may offer any figure he desires. If the car is listed, he will not exceed the bureau figure without proper notice to competitors on the deal. Appraisals must be reported to the bureau promptly. Cars remain listed in the bureau for 30 days, after which listings automatically expire.

Cars listed in the bureau may be reappraised (*a*) by consent of the committee of dealers appointed for that purpose; or (*b*) by the original appraiser if no other dealer has "stood" on the original bid; and (*c*) bids may be raised with the consent of the bureau manager, if agreeable to all dealers shown on the deal. If a secondary bidder makes the raise, the original bidder has a period of grace in which to first contact the prospect; if the original bidder requests the raise, after a secondary bidder agrees to stand on the original bid, then the secondary bidder has the time of grace. All dealers who have called regarding a listed appraisal are notified if any appraisal is raised.

Radios must be appraised separately from the car; allowances for used radios may not exceed $25. No separate allowance is authorized for any accessory except the radio. All cars listed in the bureau which are taken in trade on new cars must be reported in writing to the bureau on the day delivery is made. Also, all bona fide orders taken, which involve the trade-in of a used unit, must be phoned in at once as a "close." All automobile appraisals must be made in even figures, in multiples of $5. No extra service, discount, accessory, cash consideration, or secret rebate of any kind may be given in order to influence a sale. All new cars shall be delivered at the established retail selling price, except those sold to governmental agencies, obsolete models, demonstrators, and executives' cars, after they have been in service 90 days.

Additional rules provide that dealers may not sell back to customers any automobiles taken in trade from such customers at a figure less than the allowance made on such car. Dealers are prohibited from offering for sale on "consignment" any used unit without first having registered same with the bureau. No limit is placed on original appraisals, and there are no penalties for violations. The plan is said to be entirely voluntary and depends upon the "honor" of the dealers. It is provided that dealers shall report any dissatisfaction or apparent violation of the rules to the bureau manager. The committee, one of its members, or the bureau manager, then calls upon the complaining dealer, as well as the dealer complained against, and the matter "is amicably and satisfactorily settled, in confidence."

The bureau operators, under the plan, are permitted to give out only routine information to authorized persons. The operators are not permitted to give out information regarding the date of the original appraisal, the name of the original appraiser, or the number of calls that have been made regarding any particular automobile.

The bureau is secretly located, neither the public nor the dealers knowing its whereabouts. In addition to the personnel, necessary equipment is confined to a rotary card file, 30 different types or colors of cards, a battery of telephones, and regulation office furniture. Telephone numbers are not listed. Each dealer is given a code number by which he identifies himself when telephoning the bureau, said code number being changed at frequent intervals. The following routine in calling the bureau is adopted:

(1) Call the bureau number. Bureau will answer "Statistics."
(2) Identify yourself by symbol, to be furnished.
(3) Identify yourself by code word, -------.
(4) Give motor number of vehicle.
(5) Give year, type, make of unit (allowing time for that information to be written properly in ink).
(6) Give license number as an extra precaution if it [the car] has current-year plates.
(7) Ask for, or give all such information as you wish recorded.
(8) Wait for the entire transaction to be repeated back to you.
(9) Demand receipt number, which will be given as evidence that the repeated information is properly recorded.

All bids and inquiries are phoned to the bureau. All "closes," meaning bona fide orders that go into the undelivered bank, and bona fide orders for immediate delivery, are phoned to the bureau. Daily written reports as to the used units taken in trade and the amounts allowed therefor are submitted "on the days the new units are delivered." That information goes on the "daily report" form.

The reason for the "daily report" is stated to be—

that when the dealer first contacts the bureau about a used unit the bureau makes out a card showing pertinent information. That card stays in the file 30 days until it becomes "dead," unless the dealer reports a "close" on it, in which case it will remain in the file until the dealer shows it coming into his stock on the delivery of the new unit. The bureau is advised of that fact on the "daily report."

An important phase of the plan consists of uniform reports, one giving the bureau's confidential phone number, the confidential code when it is changed, and the individual dealer's confidential identifying number. Another is called the "graveyard" notice to the dealer, telling when the 30 days are up on his original appraisal, and that he can renew on the day of the night the card leaves the file, and warning him any secondary bidder can reregister the next morning if he should be negligent. A list of the units concerned is given in the report. A similar notice is sent the secondary bidder if the original bidder does not reregister. There is another form provided for the dealer's use in reporting deliveries. Another report form is a "preliminary call sheet" which the bureau uses in recording appraisals. Another form used is a monthly statement to each member dealer advising as to the number of new-car deliveries the dealer reported, for which the bureau collects $1 or $2 per unit, the fee being for operating expenses for the bureau.

Since the majority of "plans" now in operation have very similar rules and use the same appraisal bureau set-up as the west-coast plan, it will not be necessary hereafter to do more than describe their respective principal features.

Used-car appraisal guides.—The earliest efforts of automobile dealers to control used-car trading took the form of compilation and use of used-car guides, or manuals, the first of which appears to have originated in Chicago about 1911, which subsequently developed into the Blue Book and the Red Book now published by National Market Report, Inc., of Chicago. Some of the earlier books were based largely upon actual sales transactions, others reflected the opinions of their compilers, and still others were composed of extremely low "values" deliberately prepared for the purpose of "shocking" the customer, thereby rendering him more amenable to a small offer for his used car offered in trade. The latter type of appraisal guide was known throughout the trade as the "shock appraisal guide."

With the development of automobile-dealer organizations to control prices, or otherwise restrict competition among competing dealers, the used-car appraisal guides were instruments easily converted to such schemes, the suggested allowances contained therein becoming the actual prices agreed upon or used as base prices by which uniform prices were readily computed.

Most of the more recently formed valuation bureaus still continue to make use of the published "guides" although some develop their own valuation sheets or guides, and others, in actual operation, do not demand strict adherence to any particular published guide, but depend more upon other methods of regulating bidding on used cars.

Several publishers of "used-car values" were contacted during the investigation. Of the publications in use today the Official Used Car Guide, published by the National Automobile Dealers Association, of Detroit, Mich., and the National Market Report Guides, previously mentioned, are the most widely used. The National Automobile Dealers Association publication was the official guide adopted for use by the Motor Vehicle Retailing Code Authority and in 1935 had a circulation of 23,000 copies, the service retailing for $12 per annum. Description of the publications named above may be found in another chapter of this report. Several publishers of less widely known used-car-appraisal guides were contacted and the nature of their publications are hereinafter briefly reported.

The Northwest Used Car Values published by the Northwest Publishing Co., of Seattle, Wash., and San Francisco, Calif., is in use primarily in the cities of Seattle and Spokane, Wash., and Portland, Oreg. L. W. Thomas, manager and owner of the controlling interest in the publication, is a Packard dealer in Seattle. Mr. Thomas stated that he had published the guide for 10 years prior to his affiliation with the Packard Motor Co. and since that time the active compilation of statistics has been done by an assistant. Sixty dealers doing business in Seattle, Spokane, and Portland are visited at regular intervals and from them sales information is obtained from which the average prices, or values, are computed for publication. The publication lists, for the majority of the makes and models of used cars offered in trade, (1) the original factory list price, (2) the reconditioned resale value, and (3) the maximum trade-in value.

The Kelley Blue Book, published by Les Kelley, used-car dealer of Los Angeles, Calif., was first issued in 1923, and has been published in revised form every 2 months since the original issue. This used-car-allowance guide is, according to its publisher, not based on prices of actual sales but upon the experience of men engaged in the used-car business. Advice is received from approximately 200 dealers in the State of California. The circulation of the book is approximately 7,000 copies. The cost of the service is $9 per annum.

The Market Analysis Report, published by the Used Car Statistical Bureau, Inc., of Boston, Mass., George A. Cohan, president, is, according to an employee, "an independent organization operated on a commercial basis." The publication was first issued in 1922, and furnished automobile dealers and other interested parties with manufacturers' list prices and used-car prices, or values. The used-car values are determined from sales records submitted by automobile retailers. The service is furnished for a fee of $12 per annum.

The Pacific Coast Official Guide, Los Angeles, Calif., is published by Burt Roberts, executive secretary of the Motor Car Dealers Association of Southern California and the Los Angeles Motor Car Dealers Association, both of Los Angeles, Calif. According to literature circulated by the publisher the guide is composed of (1) complete descriptive data; (2) serial numbers, weights, and factory list prices; (3) average resale selling prices of used cars and trucks; and (4) wholesale values of used cars and trucks. The manner of compilation and revisal of material comprising the Pacific Coast Official Guide is described in section 3 of this chapter in reports concerning the activities of the above-mentioned associations.

The purpose of the publication is expressed in a circular letter signed by Mr. Roberts and addressed to southern California dealers under date of December 8, 1936. The letter states:

> In supervising the publication of this guide, the associations (Motor Car Dealers Association of Southern California and Los Angeles Motor Car Dealers Association) are undertaking to relieve the used-car problem in this area and are answering the requests of the dealers for an accurate, impartial price guide.

Section 3. Dealer Plans Investigated

Nature of cooperative organizations to control price competition.—Investigations in a number of cities where motor-vehicle dealers are cooperating in fixing and maintaining prices or otherwise lessening competition among themselves, indicate that the customary method of effecting these objects is through use of an appraisal bureau. The typical "control plan" of today combines the appraisal-bureau feature of the "west-coast plan" with penalty provisions such as were an important part of the "Michigan plan." Usually a code or agreement in the form of rules and mutual promises provides the basis of the cooperative endeavor—sometimes resembling a multilateral contract and at other times strikingly similar to the National Recovery Administration code under which the dealers had previously operated.

In some cities, representatives of certain automobile manufacturers are cooperating in varying degrees in the operation of the "plans," the most common service being the furnishing of records of new-car sales, upon which the fees of the dealer members are customarily based. In other cities, no trace of manufacturers' approval or supervision is apparent; in fact, in some instances, price-control plans were reported dissolved and abandoned because of manufacturer disfavor.

In some instances, membership in a "plan" is confined to dealers selling the products of one manufacturer and in others the membership is enlarged to embrace all dealers licensed to sell new motor vehicles in the area affected by the "plan." It is to be noted that regardless of the limits established regarding eligibility, the "plan" is unsuccessful in operation unless a majority of dealers eligible for membership participate. In other words, where membership is confined to retailers of one make of car, a majority of such retailers doing business in the area affected by the "plan" must cooperate or the "plan" is ineffective. Likewise, where the membership is enlarged to embrace dealers in new cars of all makes a majority of new-car dealers in the area affected by the plan must cooperate or the plan is ineffective.

Public knowledge of the operation of a control plan is often fatal to its existence. This accounts for the overwhelming popularity (among dealers) of the "west-coast plan" with its hidden-appraisal bureau, the location of which in many instances is kept a secret even from the member dealers who support it.

The Twin City Ford Dealers' Association, Inc., of St. Paul, Minn.—Membership in this association is confined to Ford dealers located in Minneapolis, St. Paul, the suburban areas of these cities, and the city of Anoka. All dealer members reside in and do business in the State of Minnesota. The expressed purpose of the association is to "stop small price chiseling." The report of the Commission's examiner, based on a description given by A. H. Lord, executive secretary of the association, as to the manner in which the plan is operated is as follows:

> The first Ford dealer that a prospect with a trade-in contacts registers the allowance he is willing to make on the prospect's trade-in, with the association. The first succeeding dealer contacted by this prospect must (if he desires to make a higher bid rather than to "stand" on the prior bid as registered with the bureau or drop out of the bidding entirely) increase the dealer's offer by at least $25. Thereafter, each offer must be made $50 higher on Ford cars, if they increase at all. On all other makes of cars each raise is $25. Each dealer registers all second-hand appraisals and offers made thereon with the association. Each dealer must contact the association to ascertain whether some other dealer has made an offer previously.

Each member of the association is supplied with used-car appraisal sheets for use in determining the values or prices of used cars offered in trade as part of the purchase price of new vehicles. Regarding the formulation of these price statistics the report of the Commission's examiner, based on a description given by the association's secretary, is as follows:

> Each dealer finds the cost of reconditioning second-hand cars by years, adds thereto the selling expense and deducts this figure from the selling price, arriving at a figure that is the greatest possible trade-in allowance that could be given by him on a trade-in and still break even. All these member reports are taken collectively by the association and the averages are computed therefrom.

On all other cars not listed on the appraisal sheets, the method used is reported as follows:

> Each member dealer takes the N. A. D. A. (National Automobile Dealers Association) Guide Book and deducts 20 percent from the suggested trade-in value shown therein.

Each member of the association is assessed a monthly fee based upon the number of new cars sold and delivered to him by the manufacturer. The association's secretary stated that the records of sales are secured from the Ford branch office in St. Paul, Minn.

The Buick Dealers' Association of the Philadelphia metropolitan zone.—This Philadelphia, Pa., association is composed of all Buick dealers located in Philadelphia County and in certain portions of Bucks, Montgomery, and Delaware Counties. The association operates a competition control plan, apparently with the sanction and close cooperation of factory sales representatives, which in many respects is different from any other "plan" investigated.

The Philadelphia metropolitan zone is a "multiple dealer area"—a thickly populated urban territory where a number of dealers vending the same make of automobile are located in a single small geographical area and are customarily in keen competition with one another. By virtue of contracts with the manufacturer Buick dealers located in other than "multiple dealer areas" are assigned exclusive sales territories and infringement of territory is prevented to a large extent through penalties enforced by the manufacturer. In the Philadelphia metropolitan zone each Buick dealer has been assigned certain wards constituting exclusive or semiexclusive trading areas, referred to by the dealers and by the manufacturer's sales representatives as "zones of influence." The competition control plan is largely a plan to enforce the territorial rights of the Buick dealers located in the Philadelphia area and to enforce a division of customers principally through a method of controlled bidding on used cars offered in trade as part of the purchase price of new cars.

According to a Philadelphia Buick dealer who was interviewed in June 1938, the association has been operating intermittently "for the last 5 years." This dealer stated that the Buick Motors Division of General Motors Sales Corporation has expressed objection to appraisal bureaus and for that reason previous association efforts were not permanent. He stated, however, that since March 1938 the association has followed a plan which is factory controlled and that the office of the association is now located in the same building in which the Buick Motor Division zone office is located. The association's office affords appraisal service on used cars after the manner of an appraisal bureau and for that purpose maintains four telephones—two having Bell numbers and two Keystone numbers.

The control plan referred to by the dealer is one adopted by the association on March 14, 1938, copies of which were obtained from the dealer and from the files of the Buick Motor Division of the General Motors Sales Corporation at Detroit, Mich. Copies of correspondence obtained from the Buick Motors Division at the same time the copy of the Philadelphia plan was obtained reveal close cooperation between the manufacturer's sales representatives and the Buick dealers of Philadelphia in operating the present control plan. The correspondence to an extent appears to substantiate the dealer's statement that the present plan is factory controlled or supervised.

Among the correspondence obtained from the Buick Motor Division is the facsimile of a bulletin signed by "J. J. Costello, zone manager, Buick Motor Division, General Motors Sales Corporation" and bearing the penciled notation, "To all metropolitan dealers 'personal and confidential'." The bulletin is dated December 15, 1936, and is as follows:

Within the past few days, we received a telephone call from an anonymous prospect who said that he was informed that it would be unnecessary for him to try and secure a better price in the metropolitan area, inasmuch as used-car prices were controlled, and that the plan had the full backing of Buick Motor Co.

He took the time to inform us that he was fully acquainted with Federal and State laws regarding trade restraint. He told us many other things that space will not permit me to enumerate.

This is one of the many complaints that have come to us through "loose tongues," poor discretion, and improper control of salesmen. In addition to this, it has been brought to our attention that two competitive companies are using the association's activities as a means of combating Buick competition.

The used-car manager of the Chrysler Corporation informed me last week of complete details regarding *our* methods of appraisal, etc. [Italics supplied.]

Therefore, in consideration of all of these factors that are most detrimental to our mutual interests, you are hereby advised that the association is to disband, and its activities discontinued forthwith.

The above decision has been arrived at reluctantly—but is final.

The dealers are expected to conduct their respective businesses in accordance with common sense, good judgment, and sound business practices. No dealer will be permitted to function in a manner that would be detrimental to the best interests of others. We will be the judges of ethical or unethical practices.

The plan that has been in vogue for the past 5 years for the reporting of orders to this office is to continue, so that we, in turn, may bulletin you daily. Telephone your orders to Miss Whalen.

No dealer will be permitted to accept an order from any prospect once that order has been placed with another dealer.

Six days after the above notice to disband was served on the Philadelphia Buick dealers 10 of the dealers signed a letter or petition requesting that a 3 months' trial plan "on the appraisal bureau method of operation" be instituted. One of the points in the three-point program outlined was that "John Costello be satisfied that the bureau activity is handled to eliminate public resistance to the bureau."

A copy of "rules and regulations effective January 4, 1937" was obtained from a dealer member of the plan, the rules being very similar to those later approved on March 14, 1938. The rules effective January 4, 1937, were apparently the rules of the temporary 3 months' plan. The temporary plan evidently did not meet with complete approval by the manufacturer's sales representatives as evidenced by the following excerpt from a Buick dealer's letter addressed to Zone Manager Costello under date of April 6, 1937:

The purpose of this letter is to acknowledge your telephone conversation of Saturday, April 3, in which you advised me that you had once more taken the matter up with Mr. H. J. C. Miller, regional manager of Buick, and Mr. William Hufstader, general sales manager of Buick and that Buick's decision is, that the Buick Dealers' Association of Philadelphia County must discontinue the present system of reporting appraisals to a central point.

A member of the association stated in an interview with the Commission's examiner that in 1937 the Buick Motor Division installed a new dealer in the Philadelphia metropolitan area and that certain territory allotted other dealers was taken away from them and given to the new company, causing dissatisfaction. He stated that in March of 1938 the Buick Motors Division sales manager was in Philadelphia and that each dealer in the Philadelphia area was given a definite zone of operation. A letter dated March 11, 1938, written by W. F. Hufstader, general sales manager for the Buick Motors Division, and addressed to a Philadelphia Buick dealer who had complained about the activities of a Buick dealership in which the General Motors Holding Co. owned a major financial interest, is in part as follows:

Confirming our discussion of today, and in consideration of the continuation of the Lansdowne operation, we will see to it that that operation will function

100 percent in accordance with the program which I discussed with the Philadelphia dealers yesterday.

We will have it definitely understood that all so-called "original" appraisals that come into the Lansdowne zone of influence from another zone of influence shall be made on the basis of the retail price as given for the particular car in the National Automobile Dealers Association used-car market report.

Should substantiated evidence be submitted that the Lansdowne dealership is violating the intent and purpose of the Philadelphia plan, then the operator of the Lansdowne dealership shall be eliminated.

Four days after General Sales Manager Hufstader's discussion with the Philadelphia Buick dealers on March 10, 1938, the 1938 bylaws of rules and regulations was adopted by the dealers and the Philadelphia plan was in operation with the apparent sanction of Buick representatives.

On July 2, 1938, Buick Dealer E. J. Powell wrote Sales Manager Hufstader, in part, as follows:

Last Monday I appeared on the program at our Pennsylvania Auto Association convention. My talk was built around the factory-dealer conference table versus Government control. My main object was to help to defeat some radical resolutions that I knew would be brought before the convention. Such were defeated whether or not my talk was of any help.

I used a general outline of our Philadelphia-Buick plan as an example of an immediate conference-table accomplishment, and drew a comparison as to the time required for such a result through Federal Trade Commission or any other Government agency. I tried to bring out the fact that the dealers themselves could produce quicker and better results so long as they adhered strictly to a policy that was equally fair to factory, dealer, and public.

In addition to that part of the letter quoted Powell mentioned that following his speech he had been requested by the manager of the National Automobile Dealers Association to give permission to publish the address and that subsequently he had been requested by trade publications for copies of his address but that he had not given permission, believing that if the plan were published it might be used by "our competitors." He enclosed in the letter a copy of a plan drawn up by the National Automobile Dealers Association, which was based upon the Philadelphia plan and which was proposed for use by Buick dealers in all "multiple dealer areas" providing the Buick Motor Division would sponsor the plan.

In reply to Powell's letter Hufstader on July 6 wrote, in part, as follows:

In answer to your letter of July 2, I agree with the first premise you have outlined that if the Philadelphia plan were to be publicized it might have an adverse competitive reaction. Furthermore, there are so many different conditions existing in various metropolitan areas that to advance a plan that would fit every area, until such time as we feel more sure of it, would seem to me to be an unwise thing to do.

I think that a verbal discussion of it, such as you gave at the Pennsylvania Auto Association convention, wherein there might be an opportunity for personal discussion, is a much better way of handling it.

I was very much interested in the reactions had to your discussion as you outlined them.

A letter written by Powell to a fellow member of the association, under date of July 6, 1938, further demonstrates the close cooperation given by the manufacturer's representatives. The letter is quoted, in part, as follows:

I firmly believe that we Buick dealers should have a meeting at least once a month. No longer are we working contrary to the wishes of the Buick Motor Co., but in cooperation with their executives under our present plan. So far as I know they have given us 100 percent cooperation but, after all, the responsibility for its success rests with us dealers. We have no right to place this responsibility upon John Costello's shoulders. He only agreed to fulfill Buick's part of the obligation which, in my opinion, he has done nobly.

* * * * * * *

If there is any dealer who does not like the plan, let him supply a better one. No one man has a monopoly on plans, but so far this is the only one that has the wholehearted endorsement of our factory.

The Philadelphia plan of March 14, 1938, factory approved—and according to a dealer member, factory controlled—is substantially quoted as follows:

MARCH 14, 1938.

BYLAWS OF THE BUICK DEALERS ASSOCIATION OF THE PHILADELPHIA METROPOLITAN ZONE

ARTICLE 1

SECTION 1. The name of this association shall be the Buick Dealers Association of the Philadelphia Metropolitan Zone.

SEC. 2. Its object shall be (*a*) To further a better feeling of good fellowship amongst its members; (*b*) a closer and better understanding of the prevailing conditions in the different members' organizations; (*c*) the pooling of suggestions for the mutual benefit of the members in the management of the retail sales, used-car sales, parts sales, maintenance work, and, in general, all departments that go to make up a complete Buick dealers' organization.

ARTICLE 2

SECTION 1. The membership of the association shall be composed of every authorized Buick dealer doing business in Philadelphia metropolitan zone, and each dealership constitutes but one membership, notwithstanding the number of officers, employees, or branches of the dealer.

SEC. 2. The dues of the association shall be as voted on by the members.

ARTICLE 3

SECTION 1. The management of the association shall be placed in the hands of a board of directors, which shall consist of one representative from each of the members, and which will be the sole governing body.

* * * * * * *

RULES AND REGULATIONS

Effective March 14, 1938

NEW CARS

No member, or his employee, will at any time allow a discount from retail sales price, as established by Buick Motor Co., in excess of—

$50 on forty series.
$60 on sixty series.
$75 on eighty series.
$100 on ninety series.

nor shall they give any accessories or equipment in lieu of a discount in excess of the above discounts at retail prices, nor a discount on such equipment or accessories.

No dealer will be permitted to take a used car in trade on a new car and resell the used car back to the original new-car purchaser at a loss in excess of the above discounts.

These rules apply with the following exceptions:

> It shall be the privilege of a dealer to sell to any member of its organization a car, equipment, or accessories at such prices as he sees fit.
>
> A dealer may sell anyone a car, equipment, or accessories at a discount when such discount is approved by Buick Motor Co.

Each member shall file with the association the model and frame and motor number of all demonstrators in service. A demonstrator, salesman's, or employee's car must be held at least 3 months before being sold at discount.

It is distinctly understood that once an order is signed by any of the dealers, none of the dealers will in any way try to have an order canceled, or make any overtures to the customer in an endeavor to upset the deal.

ORGANIZATION

In the interest of building up Buick representative organizations no dealer will be permitted to employ any person who has left any other dealer's employ (either voluntarily or involuntarily) unless the former employer agrees to the employment by the dealer desiring to give employment to such applicant, or unless applicant has been out of any Buick dealer's employ for a period of at least 1 year. Such agreement shall not be unreasonably withheld.

USED CARS

It will be necessary to use an appraisal blank, and an appraisal must constitute an actual examination of the car, with the consent of the owner.

When appraising a used car, the dealer will record the same in detail on the forms provided, making as many copies as might be required. After completing his appraisal and arriving at the net value to the customer and before quoting a price, he must, without fail, telephone the association, not only reporting his appraisal but ascertaining if a prior appraisal has been recorded. He must report his appraisal in detail, listing his deductions for reconditioning and giving the amount of his net appraisal. If no prior appraisal is on file, his appraisal will then establish the net value of the used car, and the dealer becomes A dealer.

However, if a prior appraisal has been recorded, the association will so advise him, calling back the deductions as recorded by it, and fixing the net value.

After the appraisal value of a car is established, it will absolutely be binding upon every member operating in the territory, excluding the zone-of-influence dealer.

In refiling an appraisal at the end of the first 30-day period, the A dealer, upon physical examination giving mileage, may refile the appraisal 24 hours before its termination.

At the close of business each day, all members must forward to the association copies of all appraisals made that day. These copies will act as a confirmation of the appraisals reported to the association during the day and therefore will be carefully checked by the association for errors or deviations from the appraisals as they were reported.

At the close of business each day, all members must forward to the association a report of each bona fide order accepted that day; and if a used car is accepted in trade, the report must show that the trade-in is accepted in accordance with the appraisal on file in the association's office. The association will check these reports against the appraisals in file and then notify all dealers interested in the transaction that the order is on file. It is not necessary to file an appraisal on a car to be traded in on a used-car sale.

Realizing that the first dealer to file an appraisal has done most of the missionary work incidental to making a sale, it is agreed that when the first dealer files his appraisal, he shall be known as dealer A; the second dealer filing an appraisal will be known as dealer B; the third dealer, C, etc.

All of the members agree that when an appraisal is filed with the association by dealer A, dealer B is not permitted to allow an amount exceeding $15 less than the appraisal of dealer A, and dealer C in turn is not permitted to allow an amount greater than $25 less than dealer A. Dealers D, E, F, etc., may allow a price equivalent to dealer C. This rule shall not apply, however, when a dealer appraises a car, which car is registered in his zone of influence. In this event, such dealer appraising a car in his zone of influence may equal or exceed an appraisal of dealer A, whether he be dealer B, C, D, E, F, etc.

In order to eliminate concretely the question of jurisdiction, the prospect's owner card, wherever registered, will be the determining factor in who has jurisdiction over the appraisal.

Fleet users, in accordance with the contract, are exempt from these rules.

PENALTIES

The directors of the association may at any time request from the members of the association that they deposit with the treasurer an amount, to be decided upon by the directors, which amount shall be held in trust and from which shall be paid any penalties imposed.

In the event any member of the association feels that another member of the association has violated any of the rules and regulations, and such member has thus been damaged, he may request a meeting of the board, at which time he shall register his complaint. The defending member shall have the right to defend his action, after which the complainant and the defendant shall be excused from the meeting, and they shall have no vote in the decision as to the merit of the claim, and the remaining members shall pass upon the justice of the claim, and the majority vote shall decide the guilt or innocence of the member.

The member found guilty of such infraction will be fined by the directors the gross profit as allowed by Buick on the transaction. Notwithstanding the above, the directorate shall have the privilege of remitting any fine, provided such action is a unanimous one.

A complainant must advise the defendant of his intention to complain, and on what deal or basis he will complain, at least 3 days before the meeting convenes.

*   *   *   *   *   *   *

The following two amendments to the rules and regulations of the Philadelphia plan have been made since the March 14, 1938, rules were put into effect:

MAY 11, 1938.

Dealer may sell a demonstrator to anyone in his own zone of influence, regardless of his position in the bureau.

As an "A" dealer, he may sell a demonstrator anywhere within the metropolitan area.

*   *   *   *   *   *   *

JULY 12, 1938.

When a dealer is "A" on an appraisal originating in his zone of influence, he shall have 60 days' protection before refiling.

In order to eliminate mistakes in the association office regarding a dealer's zone of influence, it was suggested that when a dealer reported an appraisal in his zone of influence that he request the person taking the appraisal to place the letter "Z" alongside of the letter designating his position.

The plan is self-explanatory and needs little elaboration.

The new-car sales provision as to mutual observance of maximum discounts based on the manufacturer's established or suggested prices (General Motors has made no provision for adopting a resale price maintenance policy as permitted by State price maintenance acts and the Miller-Tydings Act) obviously, it appears, purports to effect a fixing of minimum prices, enforced by a penalty arrangement.

It is common knowledge that the great majority of new-car sales involves the taking in trade of used cars. Under the Philadelphia plan, if strictly applied, maximum possible competition between Philadelphia Buick dealers in transactions involving a trade-in is limited to two dealers. The competitive results may be summarized as follows:

1. In instances where the "zone of influence dealer" registers the initial bid, no other dealer may enter into actual competition.

2. In instances where the "zone of influence dealer" does not enter into the bidding, and in instances where he does bid but his bid does not equal or exceed the bid of the initial bidder, said initial bidder has exclusive dealing privileges, no other dealer having the privilege of entering into actual competition.

3. In instances where the "zone of influence dealer" is not the initial bidder but registers a bid exactly equal to that of the initial bidder, competition is limited to the two dealers, and the customer may choose between them if he desires to trade with a Buick dealer.

4. In instances where the "zone of influence dealer" is not the initial bidder but registers a bid higher than that of the initial bidder,

said "zone of influence dealer" has exclusive dealing privileges thereafter, and no other dealer may equal his bid—not even the initial bidder.

5. In all instances above enumerated, carefully simulated competitive bidding is carried on, which may not approach closer than $15 to "protected" bids.

For example: A prospect is offered $200 for his used car by his "zone of influence dealer." Not satisfied with the dealer's offer he calls upon another Buick dealer, who, under threat of penalty, can offer him no more than $185. He then calls upon a third Buick dealer, who, under threat of penalty, cannot offer the prospective customer more than $175. The customer then, it would seem, is supposed to go back to the "zone of influence dealer," thinking that the "zone of influence dealer" is the most liberal of the dealers selling the make of automobile he is desiring to purchase.

A statement made by a Philadelphia Buick dealer to the Commission's examiner in June of 1938 was to the effect that overallowances on used cars approximating $65 per new car sold were made by him during 1937—a year in which factory and dealers were not in complete harmony in regard to associational activities. No similar estimates are available for 1938. The following excerpt from a letter written by dealer E. J. Powell to dealer Charles H. Davis, under date of August 6, 1938, is perhaps a general indication of the benefits to dealers resulting from operation of the 1938 plan:

> Personally, I think our cooperative plan has worked exceedingly well. No plan can work 100 percent.

The East Shore Dealer Cooperative Bureau, Belleville, Ill.—The bureau is composed of a majority of new-car dealers operating in Belleville, Ill., and East St. Louis, Ill. The office of the bureau is located at Edgemont, Ill., midway between the two cities just mentioned. The bureau operates in typical appraisal bureau form and is based on the original west coast plan. At first, membership in the bureau was confined to dealers located in Belleville, but at the request of a group of East St. Louis dealers, membership was extended to include the majority of these East St. Louis dealers. At the time the East St. Louis dealers were admitted to membership, a code or agreement comprising the rules of operation was mutually signed by the East St. Louis dealers, and the purpose of the bureau is expressed in the preamble of that agreement as follows:

> Because the East St. Louis automobile dealers have long realized the hopelessness of their present position with respect to gross overallowances on used cars, brought about by a vicious competitive system, aggravated by both the dealer and the manufacturer, they herewith, by subscribing to a used car allowance agreement in conjunction with the Belleville automobile dealers, hope to curb the excessive losses which have prevailed in the business of new-car selling.

As described in the above-mentioned rules, all new cars sold by the dealers are to be sold at the established retail selling price (presumably the prices suggested by the manufacturers). Automobiles used for demonstration purposes and those used by executives attached to the dealer establishments cannot be sold at a discount "until they have been in service 90 days and have been driven 3,500 miles." All cars purchased by dealers from factory roadmen "are to be classified as demonstrators." In instances where a new car is sold with no used-car trade-in involved, a dealer "may allow a maximum discount of

5 percent of the delivered price of the new vehicle." It is further provided in transactions of this nature that—

> if a dealer bids and registers a discount under 5 percent, other dealers are expected to adhere to the percent of discount listed.

The method of bidding by dealers on used cars traded in on new cars or offered for trade thereon is governed by the plan. The dealers expressly agree that no appraisal will be offered on any automobile without first ascertaining from the bureau whether prior bids have been listed. In instances where no prior bid has been listed, the dealer "may list and offer any figure that to him reflects the true value of the car being traded." But it is also expressly provided that "if the car is listed, the dealer will not exceed the bureau figure." All appraisals must be given in even figures in multiples of $5, and no extra service, discount, accessory, cash consideration, or secret rebate of any kind may be given in order to influence a sale. The rules govern all types of passenger cars, commercial vehicles, and trucks. Other rules are similar to those previously described as being a part of the original west coast plan.

According to statements made by O. C. Loder, the bureau's manager, penalties are provided in case of violation of the code of ethics by a dealer. It was stated that no set amount is provided for any particular instance and that most penalties are for less than $25 and usually are assessed to compensate salesmen who worked up the deal. However, in one instance a fine of $225 was assessed against a dealer who had decided he could trade without regard to the dealers' agreement. This happened on about five deals, stated the bureau's manager, but the dealer finally saw the light and agreed to cooperate and has since been 100 percent cooperative. After the dealer showed his willingness to cooperate and had paid about half the fine assessed, the balance was canceled.

At the Twenty-first Annual Convention of Automobile Dealers, conducted by the National Automobile Dealers Association, at Detroit, Mich., on April 27, 1938, O. C. Loder, manager of the East Shore Dealer Cooperative Bureau, addressed the assembled dealers on the subject of used car control plans. The address was largely a description of the Belleville plan and the results accomplished by it. In speaking of the dealers' bidding the manager stated:

> The privilege of raising bids has never been abused by our dealers, as is proven by the fact that only 3 bids out of every 100 are raised.

In speaking of the necessity of conducting the appraisal bureau from a location secret to the public, the manager stated:

> The public resents a control plan of any type, and every effort should be made to keep the knowledge of its operation from the customer. When a prospect voices the opinion that, due to the similarity of the bids, the dealers are together on a plan, the best thing to do is deny all knowledge of such plan.

In connection with this statement by Manager Loder, it might be mentioned that the commission's examiner had great difficulty in locating the bureau, the public not seeming to know anything about the plan and the dealer members being uncommunicative regarding its location.

As to results accomplished by the bureau, Mr. Loder stated in his Detroit address:

> The results obtained throughout our operation have been very encouraging; and while the actual saving in dollars and cents cannot be given with positive accuracy,

I know there has been considerable money saved by the dealers through proper trading and better business practices. I have made inquiries during the past few days from all my dealers, and it is the general opinion that the average saving is from $15 to $25 per car. Taking the lower of these two figures and figuring on 1,622 closed deals that were handled in our plan during the period of 10 months from March 1937 through December 1937, our dealer groups saved $24,330. We believe we have made a very definite effort to solve one of the biggest problems in the automobile business; and while our plan is not perfection, it has done much to improve the used-car situation and business conditions in the trade area controlled by our dealers.

Market Analysis, Inc., Los Angeles, Calif.—This is an appraisal bureau conducted for the benefit of approximately 85 Ford dealers located in, and doing business in, Los Angeles and nearby cities and towns. Twenty-seven of the dealers are located in Los Angeles.

It was in Los Angeles that the west coast plan originated, and to a great extent the Market Analysis, Inc., follows that plan. The bureau is one of the largest on the west coast, employing at one time 17 persons, at which time an average of 12,000 telephone calls per month were handled. In the summer of 1938 approximately 6,000 telephone calls were received per month. The expenses of the association are defrayed through payments by each dealer-member of the bureau of a fee of $1.50 per new car purchased.

According to Neil E. Nelson, assistant secretary and manager of the bureau, the purpose of the organization is primarily to inform the member dealers as to the bids which have been made by their fellow Ford dealers on used cars offered in trade as part payment on the purchase price of new automobiles. The manager stated that the "worst competition" that the Ford dealers face is that competition which exists among themselves.

The location of the Market Analysis, Inc., is secret from the public and from the majority of Ford dealers whom it represents, according to a statement made by a member dealer. This dealer knew the phone number and the post-office box number of Market Analysis, Inc., but had no idea as to its actual location. He stated that he had been assigned a code number by which he identified himself to the bureau when conversing over the phone. In describing the process of bidding this dealer stated, in substance, that:

> Every time a man came in to buy a new car and he had an old car to turn in, before we gave him a price we had to call in to the central bureau or Market Analysis in order to find out if he had a previous bid on his car, and if so, how much. We would have to record our intentions either by standing on the previous bid or raise the bid in multiples of $25 and $50. If we closed the deal we would have to record the same exact amount given to the customer to the Market Analysis.

According to the dealer member interviewed, the bureau formerly operated with the close cooperation of Ira Groves, the Ford district branch manager. Concerning the cooperation of the Ford representative, the dealer stated substantially as follows:

> When the change was made about the first of this year (1938) in connection with paying the cost of this service by a check instead of to the Ford factory, Ira Groves, Ford district branch manager, instructed me how to send my check so that the Market Analysis would receive it. Mr. Groves also gave us the code word that was changed every week.

The dealer's statement as to cooperation received by the bureau from representatives of the Ford Motor Co. is corroborated by the assistant secretary and manager of the bureau. This employee, in describing the expenses of operation of the Market Analysis, stated in substance that they—

> are met by a contribution from each member prorated on the basis of $1.50 for each new unit purchased from the Ford Motor Co. which each dealer is at liberty to refuse to contribute if he feels so inclined. A statement of the amount of his contribution is sent to the dealer monthly. We get the information from the dealer's bookkeepers as to how many units he purchases monthly. At one time the funds were remitted to the Ford Motor Co. who acted as depositary for the funds as they had all of the information necessary to advise the dealer of the amount of his contribution, also the amount held in reserve represented a sum sufficiently great that he did not care to be responsible for. About 5 months ago (prior to August 1938) Ford Motor Co. advised that the collection of this fund under strict interpretation of a certain piece of legislation might be construed as price discrimination against the dealer members of Market Analysis, Inc., since it increased the cost to the dealers of the product by the amount of the contribution. The Ford Motor Co. took care of these collections from the inception of the bureau up until 5 months ago.

A further statement is substantially quoted as follows:

> In 1935 the Ford dealers met at an annual sales meeting with executives of the Ford Co. from Detroit, and the dealers requested that the company lend their good offices to ameliorate the conditions in the retail industry. The Ford executives told the dealers to appoint a committee. The executives and the dealer committees met and evolved this plan of the "Market Analysis."

Further evidence of Mr. Groves' cooperation with or participation in the bureau activities is borne out by the official minutes of meetings held by the board of directors of the Market Analysis.

At one time the membership of the Market Analysis, Inc., used the official guide of the National Automobile Dealers Association. At another time the Pacific Coast Official Guide was used, but in the summer of 1938 no particular guidebook or other schedule of used-car allowances was used uniformly by the members.

Dealers Service, Inc., Los Angeles, Calif.—This organization is composed of approximately 20 Chevrolet dealers located in the Los Angeles metropolitan area which also includes Beverly Hills, Westwood, West Los Angeles, Huntington Park, and Eagle Rock. Recently the membership was extended to include a Chevrolet dealer located outside of the zone just described. In organization and operation this Chevrolet dealers' bureau is very similar to the appraisal bureau plan operated by Ford dealers in approximately the same area.

According to Rudolph Kysela, manager of the bureau, a separate telephone exchange is operated for the convenience of the members in phoning in their appraisals on used cars offered in trade on new Chevrolet cars. As provided for in the original "west coast plan," a dealer when conversing over the phone identifies himself by a code number. Many other rules found in the "west coast plan" are embodied in the Chevrolet dealers' plan. Various statistical reports emanate from the bureau headquarters informing the dealers as to averages of appraisals made by them over a stated interval of time. Certain statistics on appraisals are made daily advising each member as to his position in regard to appraisals made and business transacted by the entire group.

Figures are compiled to show the number of sales made by member dealers within the territory in which they are located and also as to sales transacted outside of the metropolitan area. In addition, a report shows the member dealers the number of sales transacted in the metropolitan area by Chevrolet dealers located outside of that area. In explanation of this condition and as to the remedies pursued by the bureau, the bureau's manager stated substantially as follows:

> For example * * * when we find the sales of a certain Pasadena dealer in the Los Angeles area is quite high, then we surmise that there is something wrong, that the Pasadena dealer is either throwing in a radio or offering the Los Angeles purchaser some inducement to come out there and trade * * *. Before the 1st of September (1938) I went out and talked to such dealers and tried to persuade them from making such deals by shaming them out of it. Since the 1st of September any metropolitan dealer that is found selling in another dealer's territory outside of the metropolitan area is fined $25. These fines will be pooled and distributed among the dealers upon whom the infraction has been made. How this money will be handled I do not know, the plan only went into effect on the 1st of September.

In explanation of the fine imposed the manager stated that the Chevrolet Motor Co. and not the dealers' organization imposed the fine. Therefore, the purpose of this activity would seem to be merely to see that dealer penalties provided under the Chevrolet plan to establish protected territory for dealers are assessed and collected in all cases of cross selling.

Members of the Dealers Service, Inc., meet regularly at luncheons at which time various questions of mutual interest are discussed according to the bureau's manager. On occasion, factory representatives attend the meetings and help settle the controversial issues discussed.

In describing the regulation of bids by the bureau a former member dealer stated in substance:

> The appraisal on a used car is first checked by phone with the appraisal bureau before the deal is consummated. If the dealer is first bidder on the deal he may make any appraisal he sees fit provided that figure is within 90 percent of the listing in the Pacific Coast Official Guide. We can close a deal without contacting the bureau if the figure is within 90 percent of the Pacific Coast Guide. However, the final closing figure must be reported to the bureau for the records of the bureau and the composite figures reported at the end of the month.

The former member stated that the above procedure is followed in "noncompetitive deals."

He further stated, in substance:

> Where the customer has shopped around and has had bids from other Chevrolet dealers then when he comes to us we can call the bureau, identify and obtain the bid registered. We then have the privilege (option) of increasing the bid which must be done in multiples of $25, or standing on the appraisal previously made by the other dealer.

This former member further stated that at the time the bureau was started the Los Angeles Chevrolet dealers worked out the plan and submitted it to Mr. Holler, vice president and general manager of the Chevrolet factory and that Mr. Holler was heartily in accord with the idea of the dealers establishing their bureau. He further stated, substantially as quoted:

> All of the Chevrolet dealers in Los Angeles are in the bureau. It would not work unless all were in it. The dealer that succeeded me in my place is in it. The factory insisted that he must go into it.

The Motor Car Dealers Association of Southern California.—This Los Angeles, Calif., association is composed of 167 new-car dealers located in southern California. A board of 19 directors, membership of which is distributed through the area served, governs and directs the policies of the association. Burt Roberts is secretary of the association. The Pacific Coast Official Guide is used by the association, and Mr. Roberts, in an interview with the Commission's examiner, stated that he was publisher of the guide. Mr. Roberts is also secretary of the Los Angeles Motor Car Dealers Association, the activities of which are described later.

When asked by the Commission's examiner as to whether an appraisal bureau is operated by the association, Mr. Roberts stated substantially as follows:

> There is no appraisal bureau in the city of Los Angeles, there never was one and if I have anything to say about it there never will be one.

However, the fact that appraisal bureaus are conducted by the Chevrolet dealers and Ford dealers of Los Angeles, a number of the members of which use the Pacific Coast Official Guide, appears to refute Mr. Roberts' statement.

The Pacific Coast Official Guide contains complete data for identifying used cars, average selling prices, and wholesale prices, according to Mr. Roberts, and is compiled from reports submitted largely by dealer members of the associations served by Mr. Roberts. After the necessary information has been received from the dealers, a "used-car committee" composed of member dealers or their used-car managers, meets at the association's offices and checks and compiles the data submitted by the dealers. The majority of allowances represent the averages based on previous sales, but in all instances these are subject to revision by the committee. Concerning this point, Mr. Roberts stated, substantially as quoted:

> If the average prices on the master sheet are out of line, either too high or too low, they are changed, and if not enough cars are shown in the average, which, of course, would be a poor or incorrect average, some member or members of the committee will supply enough used-car price data of cars that he has on hand to make the price a more equitable average.

In regard to the same subject, Mr. Roberts again stated, in substance:

> In many instances if a member thinks the price of a certain used car is too high on the master sheet, he will say, "Well, I have four used cars of that class in my place and I will sell them for so much." Another member of the committee will speak up, "I have two used cars in my place that I will sell for so much." These prices as stated by these two members on the six used cars that they have in their place of business that have not been sold are then averaged up and this price is entered in the master sheet in place of the price as arrived at by Mr. Edmendorf [an assistant] from actual sales made.

The Pacific Coast Official Guide is printed at intervals of 2 months.

In compiling the March and April edition of the Pacific Coast Official Guide, as issued for those months in 1937, some of the figures seem to have been arbitrarily established by the committee. From the committee minutes the following appears:

> 1. Cars under $1,000, 15 percent would be deducted from the Los Angeles delivered price to determine the average selling price and 10 percent would be deducted from the average selling price to determine the maximum value.
>
> 2. Cars over $1,000 and under $1,500, deduct 15 percent from the Los Angeles delivered price for the average selling price and 15 percent from the average selling price to determine the maximum value.

Allowances to be made for cars of higher value were to be figured according to a similar formula.

At one time the estimates incorporated in the guide book used by the southern California association were reviewed by a "price-fixing committee" of used-car managers. An excerpt from the minutes of an association meeting held September 12, 1935, is as follows:

> Mr. Roberts reported on the Southern California Used Car Price Guide (the predecessor of the Pacific Coast Official Guide) and announced the meeting of the Los Angeles used-car managers and price-fixing committee to be held Friday, September 13 at 6:30 p. m. at the Nikabob Cafe and invited those present to send in a used-car manager to assist in making prices for the next month's issue of the price guide.

The use of the Pacific Coast Guide by appraisal bureaus is shown by the following excerpt from a letter to Mr. Roberts from a Santa Monica dealer:

> Our appraisal bureau comprises most of the dealers in our trade area and they are of the opinion that a book properly made such as this one will eventually correct the used-car caravaning now going on.
>
> We certainly hope that your present policy of keep the prices down reasonably where they belong, will be continued, and it will save the new car dealers at least hundreds of thousands of dollars.

A letter from an organizer of an appraisal bureau addressed to Mr. Roberts is in part as follows:

> This is just a line to advise you that we had a resolution passed the other night, adopting the official guide as our guide for the county of Ventura.
>
> We are having another meeting on February 11 at the Ventura County Country Club at Saticoy, at 6:30 p. m. At that meeting I would like to have another speaker or two and especially somebody that can bear down again on the appraisal bureau. I would suggest that if it is possible you get one or two boys from Santa Monica that are best up on this. I think that would be the best thing to do.
>
> * * * * * * *
>
> We have received 21 subscriptions so far for the book and we intend to make this up to the 26th by Thursday, the 11th, so I would suggest that you bring about 30 or 40 books along, if it is possible for you or your son to gather up. Then we can collect from them right there and get the thing going under full power.
>
> * * * * * * *
>
> P. S.—Appreciate your advising me as soon as possible who the speakers will be that you will have here, and will get a little more enthusiasm worked up.

The Los Angeles Motor Car Dealers Association.—This Los Angeles, Calif., association is composed of 2 company members and 76 dealer members, according to Burt Roberts, executive secretary of the association. Mr. Roberts is also secretary of the Motor Car Dealers Association of Southern California and publisher of the Pacific Coast Official Guide, a compilation of used-car allowances or prices. The members of the Los Angeles Motor Car Dealers Association are divided into two classes—regular members and associate members. Membership fee of the regular members is $100 and annual dues amount to $120. Membership fee for an associate member is $50 and annual dues amount to $75. The dealers in the association are the associate members and the distributors are the regular members.

The association does not operate an appraisal bureau. Secretary Roberts stated that he does not believe in appraisal bureaus largely for the reason that a member cannot be adequately penalized when he "does anything wrong."

The association used the Pacific Coast Official Guide which, according to a letter written by Mr. Roberts to a branch manager of the Bank of America, under date of July 28, 1937—

> is published under the supervision of the Motor Car Dealers Association of Southern California and the Los Angeles Motor Car Dealers Association * * *.

Managers of the used-car departments of certain Los Angeles motor-vehicle dealers have formed an association which meets monthly at luncheons and which has in the past, and apparently does at the present time, pass judgment upon used-car allowance prices averaged by Mr. Roberts' staff from figures submitted by southern California new-car dealers.

Mr. Roberts stated that there is really no connection between the Los Angeles Motor Car Dealers Association and the southern California association except that some members of the board of directors of the Los Angeles association sit on the board of directors of the southern California association. He further stated:

The Los Angeles association is not affiliated with and has no connection with any other organization.

The Los Angeles Motor Car Dealers Association was organized in 1909, becoming a corporation on August 11, 1924. According to Mr. Roberts, the organization is nonprofit sharing and was—

started in the days when endurance runs and races were participated in, in order to advertise and bring the automobile to the front.

The Wisconsin Automotive Trades Association, Milwaukee, Wis.—This association with some 1,300 members is the largest single State association. It has been active in securing the passage of the Wisconsin motor-vehicle dealers' and salesmen's licensing law, and the State association and its constituent local associations function importantly in the administration of the law. It has fostered the organization of many "used-car-control plans" that are operated by or with the cooperation of local associations which in many cases have been fostered by the State associations to carry out the plans and assist in the administration of the State licensing law.

In the July 1938 issue of Northern Automotive Journal, Minneapolis, Minn., Louis Milan, the executive secretary of the Wisconsin association, submitted a semiannual report to the members of that association. In citing the organization efforts of the State association, Mr. Milan stated:

1. What has been the result of the State association's organization efforts?

At the beginning of 1938 there were only eight counties which could be called thoroughly organized and who were engaging in cooperative plans in some sort or another. Several other counties were organized, but they were in the main "paper organizations." The first job of the State association was to organize strong local organization in every county of the State, and indicative of the good work done is that 65 of the 71 counties are thoroughly organized, being strong, active county organizations. Sixty-two of these counties are employing 45 paid secretaries, whose job is to cooperate with the plans and objectives of the banking commission (the administrative agency for Wisconsin's Motor Vehicle Dealers' and Salesmen's Licensing Act) and the State association, as well as supervise the various types of used-car-control plans and other cooperative projects.

The State association, in turn, has benefited from the organization work as is indicated by the fact that 1,200 dealers are now members of the Wisconsin Automotive Trades Association. In addition, and as part of the organization, a number of counties and district meetings have been held, as well as 2-day sessions at Madison, at which county executive secretaries, county officers, and members of the advisory committees were called upon to review activities in their respective territories, stating the problems existing therein, and offering suggestions and advice for their solution. Through these meetings the State association and the banking commission never lose "the common touch." They are cognizant at all times of the dealers' thinking and what the dealers and county organizations desire to have done.

It is not known which of the various types of used-car-control plans is in widest use in Wisconsin. However, Mr. Milan presented the Commission's investigator with a copy of an adaptation of the original Michigan (or Muskegon) plan, previously described in this chapter, which plan is one among several that the State association has recommended for adoption by county associations. Mr. Milan stated in August 1938 that the plan was in use in eight Wisconsin counties at that time. Copies of this plan, as recommended by the State association, bear the title "Wisconsin Used Car Control" and the preface thereof reads as follows:

The object of this plan is to eliminate the one "sure fire" loss that automobile dealers have always had in their business—used-car loss. Also to build better and lasting friendship and goodwill among dealers.

Everything of an experimental nature has been omitted from this plan and all that is contained herein is very necessary to the success of the plan when placed in operation. Its simplicity makes it completely and entirely workable.

It has been put to work and at present is working successfully in numerous counties within the State of Wisconsin. The dealers within these counties are satisfied that the plan in operation has proven itself to be the most valuable addition and asset to their business.

In the Statement of Purpose, of this plan, one purpose expressed is—

to maintain a used-car-inventory control by adhering strictly to an average local market price on used-car allowance.

In the "application for membership" two provisions are as follows:

I agree to waive any or all my rights to State or Federal laws or make any claim for damages by reason of my membership or agreement.

I further promise and swear that I will not mention, or refer to, the association, code, book, or plan at any time or place when in communication with anyone except a dealer in good standing, a registered salesman, or executive secretary.

It is provided that "officers, committees, and employees before entering upon their duties," take the following solemn oath, the same to be acknowledged by a notary public:

Before Almighty God, and this assembly of automobile dealers, I do affirm or swear that I will conform to all the rules and regulations and perform my duty as [name of office], to the best of my ability, as set forth in the by-laws, and rules and regulations of the [name of the association] Dealers Association, shall attend meetings, take an active part therein, and help maintain the spirit and intent of the said association, so help me God.

In prescribing the duties of the "committee on administration," it is provided that—

On the recommendation and findings of the executive secretary, the committee shall conduct a hearing. Should the committee determine that there has been a violation of the rules and regulations, they shall authorize and instruct the executive secretary to levy and collect a fine as set forth in the book of rules and regulations. * * * The penalties by the committee shall in no case exceed those set up by the board of directors in the rules and regulations. * * * Upon the recommendation of the executive secretary the committee may meet and reappraise a used car, which appraisal will then take the place of the one in the guidebook.

It is provided that the executive secretary shall be employed by the board of directors and be directly responsible to them. Among his duties, as described, are the following:

It shall be his duty to make all investigations requested by the administrative committee and report the outcome of said investigations to the committee where violations of the rules and regulations are involved as set up in the rules and regulations. * * * He shall be a notary public and shall certify each and every order on every car sold. * * * He shall construe an attempt to violate the rules and regulations the same as if they had actually been violated. * * * The executive secretary shall collect from each member of the association such dues and fines as may be determined by the board of directors and set up in the rules and regulations.

It is provided that—

All moneys which a dealer may have in the association shall be considered as a cash bond. Should a dealer resign while an outlaw (defined later), he automatically forfeits all reserve moneys which he may have in the association.

In the Rules and Regulations some of the provisions by which "appraisal of cars" is regulated, are as follows:

The Official Used Car Guide of the National Automobile Dealers Association shall be the used-car guide of the ------ County Automobile Dealers Association and shall be the standard of value to be used by all dealers when appraising used cars for trade-in value on new or used cars. No other standard of values shall be permitted by the committee, and in no case shall any dealer allow, or attempt to allow, any more than ------ percentage above the average value [the low figure]. All average values of cars not listed in the National Automobile Dealers Association Guide and more than 7 years old shall be computed by the formulas (a) National Automobile Dealers Association, after having added ------ percentage to the average value of the olders [oldest] calendar year published.

Not less than 15 percent shall be deducted from the delivered price of current models, not listed, when traded in.

The above rules shall apply to all commercial cars listed in the National Automobile Dealers Association Guide.

There are certain exceptions to the above rules on regulation of appraisals. Since the interview with Mr. Milan, the State association has commenced publication of a Used Car Allowance Guide, and it is believed that the National Automobile Dealers Official Guide is no longer endorsed by the State association.

Provisions are made for maximum allowances on used radios and heaters and for the labor charges for transferring radios and heaters from a used car offered in trade to a newly purchased car. Demonstrators and executives' cars may not be released for sale before they "shall have had 4 months in service or shall have been driven 4,000 miles;" however, a "dealer may sell a demonstrator at full delivered price (no discount) at any time, regardless of the number of miles or length of service." As to "clean deals," it is provided:

Where no trade is offered a discount of — percent may be given to the purchaser as decided by the board of directors.

In the rules mentioned above and in other rules, similar to those outlined in the description of the original Michigan plan, in an earlier section of this chapter, there are provisions for enforcement by stringent penalties, such as the following:

The general penalties for the violation of this set of rules and regulations by any dealer or salesman shall be as follows: The first violation, $25; second violation, $50; third violation, $75; all other violations, $100 each.

After the payment of five fines in any one year the committee on administration may declare the dealer a habitual violator and cancel his membership in the association.

A dealer who does not pay his fines, automatically forfeits his membership.

Should a dealer violate the rules, after he has forfeited his membership or resigned from the association, *he shall be termed "an outlaw."* It shall be the duty of all the dealers belonging to the association to report all deals to the executive secretary, in which he is in competition with an outlaw. In all such cases, the executive secretary, with the consent of the committee, may *waive all rules and regulations and assist the dealers in good standing to take the deal or make the deal* *profitless.* The dealers' association shall refund the actual losses to the dealer, as determined by the administrative committee. [Italics supplied.]

After 10 days' notice, *all dealers shall sever all business relations with any and all banks, finance and investment companies who continue to assist an outlaw dealer.* All dealers shall reciprocate as to principle with the finance companies. [Italics supplied.]

The Service Bureau, Inc., Kansas City, Mo.—This organization is an appraisal bureau operated by 12 Ford dealers located in the metropolitan Kansas City area. The operation of the bureau appears not to be known by the public, and the office is secretly located. According to Charlie Bouman, president and manager of the bureau, its chief purpose is to prevent losses on used cars traded in on new cars, and particularly to keep the member-dealers informed whether statements made by prospective purchasers as to price bids received for their used cars offered in trade are true or false. As an example of the value to dealers of the statistical services rendered, the employee stated:

We have found that 80 to 90 percent of new-car buyers do not shop; and the fact that they will intimate another dealer has quoted them a better allowance is exaggerated.

The bureau's president and manager is a former Ford Motor Co. branch manager and stated that he was contacted by the Ford dealers shortly before the beginning of the year 1938 and was asked to assist in organizing a bureau similar "to the one maintained by the Chicago Ford dealers." The prospective manager went to Chicago and became familiar with the organization there. Upon his return, the Kansas City bureau was organized and has been in operation since the first of the year 1938.

The bureau operates after the fashion of the original west coast plan, described in an earlier section of this chapter; however, it has been revised to meet local needs. At the time the bureau was started, each member contributed $100, and each member is assessed a fee of $3 for each new car bought by him.

Among the rules of operation, substantially quoting the bureau's manager, are the following:

Only used cars being traded in on new cars are governed.

No appraisal to be offered on any car without first contacting the bureau to ascertain if such car is already listed.

If not listed, dealer may offer any figure he considers fair and reasonable.

If the car is listed * * * second dealer may "stand"—that is, agree on appraisal as listed—raise if he so desires, or, if he thinks bid is out of line, may request source of original bid for the purpose of calling attention to the fact that he thinks appraisal too high, based upon some defects that original appraiser may have overlooked.

All appraisals and deals closed must be reported promptly to the bureau. We check registrations to see if dealer is reporting promptly and whether or not trade-in value is approximately as listed. This shows up in amount of indebtedness listed against new-car purchase.

* * * appraisals can be made in any amount * * *.

Bureau is not interested in maintaining delivered retail selling prices.

No penalties for violations of standards are set up.

Complaints are usually disposed of at regular meetings, when all are present, and ironed out satisfactorily.

Complaint is usually in the form of dealer being delinquent in filing information, for which no fines have been assessed, as we are trying to maintain operation of the bureau on a gentleman's agreement basis.

* * * * * * *

Penalties: No penalties have been levied but talked of from time to time. Usually able to straighten out any misunderstanding between dealers involved in a deal.

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Base prices, compiled by averaging selling prices in past sales transactions with consideration being given the prices, or values placed on vehicles offered for sale by dealers, are supplied members by the bureau. Among the regular reports submitted by the bureau is one showing members the relationship between their allowances on used cars which resulted in sales and the base prices under which the dealers were operating at the time of the sales.

As to adherence to base prices furnished by the bureau, a list of sales closed in the month of June 1938 demonstrates that the majority of allowances on Fords, Chevrolets, and Plymouths (same price class) were above the base prices—some few were below. Of the 12 instances, however, where other makes of cars were accepted in trade, only twice did the allowances differ from the base prices, showing close adherence to the base prices.

An interesting compilation furnished by the bureau's manager affords an example of the dealer mortality since the used car became a prominent factor in the merchandising of new cars. It demonstrates that a total of 44 Ford dealers have suspended operations since 1920—only 3 Ford dealers who were in business in 1920 in the Kansas City area are now in that business.

The Norfolk-Portsmouth Automobile Dealers Appraisal Bureau.—This Norfolk, Va., organization is composed of 14 members. At the time that this bureau was formed, on March 14, 1938, there were 18 members, 5 of whom were located at Portsmouth, Va., and the remainder in Norfolk. The membership is not confined to dealers handling any one make of automobiles. Any new-car dealer located in either of the cities mentioned is eligible for membership.

All members of this appraisal bureau have agreed to comply with a code or agreement styled the dealer cooperative plan, the purpose of which, as appears in the preamble of this document, is as follows:

> Because the Norfolk automobile dealers have long realized the hopelessness of their present position with respect to gross over-allowances on used cars, brought about by a vicious competitive system, aggravated by both the dealer and the manufacturer, they herewith, by subscribing a used-car allowance agreement in conjunction with the Portsmouth automobile dealers, hope to curb the excessive losses which have prevailed in the business of new-car selling.

The rules set out in the agreement are similar to the rules embodied in the original west coast plan, described in a previous section of this chapter. Under this plan all new cars plus any additional equipment are to be delivered (sold) at the established retail selling price, with certain exceptions. Automobiles used for demonstration purposes and executives' automobiles cannot be sold by the retail members at a discount from the new automobile price "until they have been in service 90 days and have been driven 3,500 miles." It is expressly provided that "on new cars, where no trade-in is involved, a dealer may allow a maximum discount of 3 percent of the delivered price of the new vehicle." The bidding on used cars offered in trade as part of the purchase price of new cars is regulated by the bureau. In connection with the bidding, the members have expressly agreed, as found in the written agreement, that with the exception of bids of $35 or less—

> No appraisal will be offered on any car without first contacting the bureau to ascertain whether such car has been listed. * * * If the car is not listed, the dealer may list and offer any figure that to him reflects the true value of the car being traded. * * * If the car is listed, the dealer will not exceed the

bureau figure. * * * Appraisals must be reported to the bureau promptly. Cars remain listed in the bureau for 90 days, when they automatically expire. They may be relisted at any lower figure that to the original renewing dealer reflects the true value of the car. * * * All appraisals must be in even figures, in multiples of $5. * * * No extra service, discount, accessory, cash consideration, or secret rebate of any kind may be given in order to influence a sale.

Provisions are made for reappraising cars after bids on same have been listed with the bureau. This may be done by either of two ways:

(*a*) By or with the consent of the dealers who are on the particular deal in question. In this case the dealers involved are called together by the bureau manager, and

(*b*) By the original appraiser if no other dealer has called regarding that car.

It is provided that dealers may report any violation of the rules to an executive committee of three, who decide upon the innocence or guilt of the member complained against. The enforcement of the rules is effected by means of penalties. Rule 22 of the agreement provides:

Penalties for violations will be assessed against the offending dealer commensurate with the offense, but in no case to exceed the gross profit on the new car delivered.

Penalties have been assessed in a number of cases.

Since dealers in a number of different makes of cars are members of the bureau, it is provided that, with the exception of dealers handling "Ford, Chevrolet, Plymouth, and Hudson 112 models," over-allowances of from $25 to $75 are permissible in the appraisal of used cars offered in trade.

As to the results obtained through operation of the bureau, one member-dealer wrote:

We have been operating in Norfolk under such a plan for 3½ months, and I would say conservatively that it has been worth $3,500 to our firm in that time.

Another member dealer wrote:

I believe that our bureau is saving us hundreds of dollars each month. With the small amount of business that is available, I cannot vision a more disastrous result than for us to enter into an uncontrolled bidding for used cars. It is very probably true that we have driven some purchasers out of the market, but we believe, in Norfolk, that this group is the one that has caused us so much grief in the past.

The Winnebago County Automobile Dealers Association, Rockford, Ill.—This association is composed of eight new-car dealers located in Rockford, Ill., and representing approximately three-fourths of the dealers located within the Rockford trading area. An appraisal bureau known as the service bureau is operated by the association, the operation and location of which are unknown to the public.

According to a statement made by L. F. Grimshaw, manager of the service bureau, the member-dealers meet at weekly luncheons, where the operation of the bureau is discussed and its policies planned. The results of each week's business, information as to the used-car appraisals made by members, and other reports pertinent to the operation of the bureau are reported by a representative of the bureau to the dealer-members at these weekly luncheons.

The bureau is fashioned after the original west-coast plan although adapted to local needs. It was stated by the bureau's manager that each member identifies himself by a code number when conversing by telephone with the bureau. The Blue Book, published by the

National Used Car Market Report, Inc., Chicago, Ill., is the used-car allowance guide adopted, but it was stated that such guide is not used as a maximum price sheet or "top-sheet listing."

Restriction as to bidding on used cars offered in trade is effected by limiting all bids that are subsequent to and larger than an original bid to raises in multiples of $25. Thus, if a prospect offers a used car in trade and receives a bid of $100 thereon, the next bid offered by any member dealer, after consultation with the bureau, must be at least $125 if the second bidder desires to "raise" the first bid. The purpose of increasing bids in multiples of $25 is, according to the bureau's manager, "to eliminate the piker $5 or $10 raise which usually results in more shopping by the prospective purchaser." He further stated substantially as quoted, "Our set-up is based on a friendly and gentlemen's agreement and is what might be termed an educational proposition all the way through."

Operation of the bureau is financed through fees of $2 per new car sold and by an identical fee based on each used car sold at a price of $100 or more. Statistics compiled by the bureau indicate that in the majority of transactions allowances greater than those "suggested" in the Blue Book guide are made.

As to results obtained through operation of this appraisal bureau, one member dealer stated that it was more successful than a former appraisal bureau operated by the local dealers during the previous year when a "top sheet" (maximum-price sheet) was adhered to. He stated that the use of a "top sheet" led to "chiseling" and distrust among the member dealers and that the bureau finally "folded up."

The Authorized Ford Dealers Association of St. Louis, Mo., Inc.—This association is composed of 18 Ford dealers located in St. Louis. The association operates an appraisal bureau fashioned after the original west-coast plan. According to O. T. Hallenberg, executive secretary of the bureau, meetings are held at monthly luncheons where informative reports are made by the bureau's secretary to the assembled dealers, and where the policies of the bureau are formulated.

The existence and location of the bureau are not known to the public generally and it was with difficulty that the investigator ascertained its location. According to Secretary Hallenberg the bureau is operated by virtue of a gentlemen's agreement with no maximum allowance prices being set and no penalties imposed for infraction of rules.

Recommended "take-in prices" for used Ford, Chevrolet, and Plymouth models are established from time to time and circulated by the bureau to its members. These recommended "take-in prices" were said to be merely guides to the dealers for the computation of allowances to be made on used cars offered in trade. Monthly reports are submitted by the bureau informing the members as to the relation of allowances made during the preceding month with the bureau's "take-in prices." Further details of the operation of the used-car service bureau are given in these reports. The bureau's employee stated that the Official Guide of the National Automobile Dealers Association is the allowance guide used by the bureau and its members on transactions involving any makes of cars other than Ford, Chevrolet, and Plymouth.

The Metropolitan Ford Dealers Association, of Boston, Mass.—This association was organized November 4, 1937, with a membership of 70 Ford dealers. In August 1938 the membership consisted of 62

Ford dealers. The association operates an appraisal bureau, the purpose of which, according to T. R. Hamlin, manager of the bureau, is to "keep member dealers informed of the used-car situation and prevent losses on used-car trade-ins."

According to a recently adopted set of rules entitled "Supplementary Rules and Regulations of the Metropolitan Ford Dealers Association Used Car Bureau" it is apparent that the bureau is modeled after the original west-coast plan. This document provides that—

for the time being at least, our used-car service will be effective on Fords, Chevrolets, and Plymouths excepting passenger cars 1930 or older. * * * That base prices of the above-mentioned cars will be furnished from time to time and are to be used in accordance with the following rules * * *. That $75 shall be the maximum allowance on all passenger cars of any make's 1930 or older. * * * To arrive at the "line price" dealer will add $25 to the base price on all Ford and will add $50 to the base price on all Chevrolet and Plymouth cars.

Rule 5 in regard to the raising of bids on used cars offered as part payment for the purchase of any cars is as follows:

In all cases where dealer-members bid over the line price for a used car the raise must be phoned in immediately and all raises must be reported in multiples of $25. This is very important and cannot be overemphasized.

You may make a raise above the line price for any reason that in your opinion justifies a raise even if it is only on the basis that one car may be worth more than the next one of the same make, year, and model.

If you do make a raise and take in the used car you must notify the bureau immediately and you must hold this car for a period of 48 hours during which time the bureau will shop the car to an appraisal committee of 5 dealer-members. This committee shall decide the value of the used car in question. The appraisal committee's decision shall be based on one thing only, namely, whether or not the car in question is worth more than an average car of the same make, year, and model. The appraisal committee's decision shall be final in this respect.

The agreement provides that the sum of $10 may be added to the base price of any 1935 Ford, Chevrolet, or Plymouth car if the car is equipped with a Ford radio or its equivalent "providing the radio is in good working order." It is further provided that the sum of $15 may be added to the base price of any 1936 or 1937 Ford, Chevrolet, or Plymouth car if the car is equipped with a Ford radio or its equivalent "providing the radio is in good working order."

Rule 7 provides that—

it shall be considered a violation to in any way discount the full retail delivered price of our passenger cars and accessories.

Rule 13 is to the effect that demonstrators may not be sold for less than full delivered price until after 90 days from the date of registration of the demonstrator "on the 10-day report to the Ford Motor Co."

Rule No. 15 is as follows:

Price sheets: New price sheets will be issued by the bureau 5 days before date they are to become effective.

These rules are enforced by action of a bureau committee, rule 22 providing:

All dealers agree to abide by all decisions made by the committee in office in the event a complaint is justified.

It is provided that complaints are to be made in writing to the bureau—

not later than 15 days from date of car delivery. Complaints may be made by all dealers participating in the service on any deal, but a financial adjustment will be made in behalf of the complaining dealer * * * only if the deal has actually been worked on by the dealer making a complaint.

As to liability, rule 8 provides—

dealers are fully responsible for any violations of our plans by any of their employees or agents, whether they be associate or subdealers, full-time salesmen, part-time salesmen, or "bird dogs." Dealers who have subdealers or associate dealers under contract will be relieved from dealer responsibility of such connections if subdealer or associate dealer is a member of our association.

As to investigations it is provided—

the records of all dealers participating in the used-car service are to be open to the investigators of the service.

Certain rules are enforceable by penalties specifically provided. For example, any dealer member not handling "future orders" according to the method agreed upon shall pay "an assessment of $25 for each infraction," and failure to phone in promptly an appraisal which exceeds the bureau price subjects the violator to "an assessment of $25."

Rule 25 provides minimum charges of $5 for changing a radio from a used car to a new car and $3 for changing a heater from an old car to a new one.

Price sheets are regularly provided members acquainting such members with the bureau's "base prices" or "line prices."

The rules quoted from were obviously supplementary to previously existing rules, the substance of which is not known. The bureau is operated through the collection of a $4 fee on each new car sold.

Unsuccessful attempts to operate appraisal bureaus.—At a number of other cities, examiners were informed that appraisal bureaus or other cooperative plans for the restriction of competition among motor-vehicle dealers had been in effect but were now dissolved. Todd Bates, secretary of the Northern California Motor Car Dealers Association and the San Francisco Motor Car Dealers Association, both of San Francisco, Calif., stated that he had formerly directed the activities of an appraisal bureau in San Francisco. The bureau was operated as a unit of the Motor Car Dealers Association of San Francisco and was styled the statistical division of the Motor Car Dealers Association of San Francisco. Participating members at one time numbered between 85 and 100 new-car dealers. The bureau was closed in May 1937 according to Mr. Bates, the expense of operating the bureau being the prohibitive factor. Mr. Bates stated that he had also organized appraisal bureaus at Long Beach, Glendale, San Bernardino, Bakersfield, Oakland, San Jose, and in Orange County, Calif. In addition, he established one at Seattle, Wash. Trained operators from the San Francisco bureau were furnished by Mr. Bates "until the local operators became accustomed to and learned the work."

Carl R. Huessy, secretary of the Seattle Automobile Dealers Association, Seattle, Wash., stated that that association organized an appraisal bureau about the 1st of March 1937, but that due to the expense of operation it was dissolved after little more than a year's duration. According to Mr. Huessy, the Chevrolet dealers of Seattle on two occasions operated appraisal bureaus, one being organized about 9 months before the National Recovery Administration came into existence. The second Chevrolet bureau was in operation about 5 months before the general bureau began its operations in March of 1937.

H. L. Frank, president of the Oregon Automobile Dealers Association of Portland, Oreg., stated to the Commission's examiner that appraisal bureaus had twice been operated in Portland since the National Recovery Administration period. One of the bureaus was operated by the Chevrolet dealers. The other embraced in membership dealers in all makes of cars. Both were unsuccessful and short-lived. Frank was enthusiastic about results accomplished under the National Recovery Act, but stated that some of the dealers failed to abide by the regulations and took advantage of other dealers by giving away equipment as an inducement to make sales or made foolish side bets with customers, having the effect of cutting the prices of the motor vehicles sold.

James H. Cassell, executive secretary of the Oregon Automobile Dealers Association and of the Automobile Dealers Association of Portland, both of Portland, Oreg., stated that Portland has had no appraisal bureau since 1929. He also stated that in 1937 the secretary of the San Francisco association offered to install an appraisal bureau in Portland but that the offer was not accepted. According to Cassell, the secretary of the San Francisco association installed appraisal bureaus all through the State of California and also installed the bureau in Seattle, but Cassell was of the opinion that none of the bureaus so installed was in operation at the time of the interview. The Portland bureau that was in operation for about 6 months in 1929 was operated by Ford dealers exclusively. Four years before the Ford bureau was installed, there was a general bureau for all the dealers, but that one also was short-lived.

J. D. Bellenger, secretary of the Jacksonville Automobile Dealers Association, Jacksonville, Fla., stated that in 1925 when he became connected with the Jacksonville association he was employed by the association as an assistant used-car appraiser. His duty was to examine and place values on used cars brought to the association's appraisal bureau by members of the association or prospective new-car purchasers. According to Bellenger, the appraisal bureau was operated successfully by the association until the fall of 1928 when nonparticipation by one dealer caused its dissolution. The appraisal bureau, according to Mr. Bellenger, was reestablished at various intervals between 1928 and 1932 with little success, and, that other attempts were made in each of the years 1934, 1935, 1936, and 1937 all of which resulted in failures. Reason for the failures was assigned to factory pressure on dealers during the clean-up periods prior to the announcements of new-car models. Mr. Bellenger stated that no appraisal bureau is operated by the association at the present time.

The Kansas City Motor Car Dealers Association of Kansas City, Mo., operated an appraisal bureau for its member dealers "for only a few months during the year of 1937," according to C. M. Woodard, secretary and treasurer of that association. Failure of the dealers to report necessary information to the bureau promptly and failure to cooperate in other ways with the bureau were the reasons given for its dissolution. It was Woodard's impression that an appraisal bureau was being operated by the Chevrolet dealers of Kansas City. A former secretary of the Chevrolet group stated, however, that the Chevrolet Dealers Cooperative Bureau was only in existence during March and April 1938, and that it ceased operations because the dealers, or many of them, wanted to establish a "top" (maximum price or allowance) which no dealer could exceed. Some of the dealers had legal advice to the effect that this was contrary to law and, as it was hard to keep the dealers in line without a "top," dissatisfaction became so pronounced that it resulted in abandonment of the plan after 2 months of operation.

J. H. Connell, secretary of the Dallas Automotive Trades Association, Inc., of Dallas, Tex., stated that an appraisal bureau was operated in Dallas several years ago but that a representative of the State attorney general's office called and investigated the methods used in the cooperative appraisal plan, modeled after the "Jack Frost plan," previously mentioned in this chapter, and threatened indictment for violation of the Texas antitrust laws. Evidently indictment issued for Connell stated that operators of the bureau pleaded guilty and were assessed a fine. This experience, the association's secretary stated, discouraged all subsequent efforts to form plans of similar nature.

J. T. Simmons, executive secretary of the San Antonio Auto Trader Association of San Antonio, Tex., stated that an appraisal bureau was established in that city in July 1937, operated for about 2 months, and was dissolved because of lack of cooperation by the members. The association's secretary stated substantially as follows:

> We had only one complaint during the time it was in operation. A salesman owning a 1929 Chrysler which the Chrysler dealer appraised at $75 shopped and found the other dealers in line at $75. Finally he sent his wife around shopping and still $75 was tops although he was primarily interested in getting another Chrysler but couldn't get a competitor to raise the bid which he intended using as a lever in getting Chrysler up. He howled and contended all the dealers had gotten together in violation of law but it soon died down and a few weeks later, the Chrysler dealer called up and said he made a deal based on the original appraisal of $75.

SECTION 4. STATE REGULATION OF MOTOR VEHICLE RETAILING THROUGH LICENSING ACTS

General nature of recent regulatory laws.—Regulation of the motor vehicle retailing trade has been effected in the States of Wisconsin,[4] Ohio,[5] Nebraska,[6] and Iowa[7] through legislation licensing motor-vehicle dealers, and, in some instances, other groups connected with the trade. Unlike the statutes in force in the majority of other States in which automobile retailers are licensed, the statutes in force in these four States appear to have been enacted primarily for the purpose of regulation of the trade rather than to produce revenue. Protection of the consuming public and of retail dealers appears as the major objective of these statutes. In effecting protection for the motor-vehicle dealers three of the States specifically limit the actions of manufacturers toward dealers, and the Nebraska statute provides penalties for the willful or habitual granting of "excessive trade-in allowances" by dealers for the purpose of lessening competition or destroying a competitor's business.

[4] Sec. 218.01 Wisconsin Statutes, as amended by H. B. No. 429, Laws of 1937. The Wisconsin statute is the first of this type of law and furnished the master pattern for the Ohio, Nebraska, and Iowa statutes.
[5] H. B. No. 531, Ohio Laws of 1937.
[6] Bill No. 388, Nebraska Laws of 1937.
[7] H. B. No. 218, Iowa Laws of 1937.

In Pennsylvania, a law which expires May 30, 1939,[8] and which has not been operative due to court proceedings, provides for a licensing system. The Pennsylvania statute differs from the others mentioned in that the licensing serves as the basis for a contemplated State-controlled appraisal bureau for used motor vehicles. Certain municipalities have enacted ordinances [9] providing for the licensing of motor-vehicle dealers and regulation of the motor-vehicle retail trade. These regulatory attempts are interesting legislative enactments but as the Wisconsin, Ohio, Nebraska, and Iowa statutes appear to be the principal bases for legislation proposed in a number of other States, the statutes now in force in these four States will be separately, and more exhaustively, considered.

Specific provisions of the Wisconsin, Ohio, Nebraska, and Iowa laws.—The Wisconsin statute designated the division of consumer credit of the State banking department as the administrative agency. The Ohio statute creates and designates an administrative board to be attached to the State highway department and presided over by the registrar of motor vehicles, as the governing body. The Nebraska statute designates the department of roads and irrigation as the administrative agency. The secretary of state is made the administrative agent in Iowa.

In all four States both new-car dealers and used-car dealers are licensed, the fees ranging from $2 to $10. In Wisconsin, Ohio, and Nebraska motor-vehicle salesmen are licensed. In Wisconsin, motor-vehicle distributors, distributor branches, distributor representatives, factory branches, factory representatives, motor-vehicle manufacturers doing business in the State as such, and motor-vehicle sales finance companies are licensed.

An application for a license in each of the four States must be accompanied by pertinent information. In each of the four States an

[8] Senate bill No. 815, Laws of 1937 (Act No. 461). Quoting from the Act, the statute is one "Relating to motor vehicles, new and used; creating a motor-vehicle dealers' commission; establishing its jurisdiction, powers, and duties; and creating and providing for approved motor-vehicle appraisers; establishing their powers and duties; regulating the sale, trade-in allowance, appraisals, and information furnished the Commonwealth on motor vehicles, new and used, and establishing regulations concerning speedometers; authorizing the commission to establish periodical prices for used-motor vehicles, either sold or traded, in establishing the appraisal value of motor vehicles, new or used, either for sale or used trade-in allowances, providing for the licensing of motor-vehicle dealers and salesmen and approved motor-vehicle appraisers, and the payment of fees therefor; authorizing examination of the business papers and affairs of, and requiring the filing of reports by, licensees; authorizing and empowering the commission to hold hearings and to issue rules and orders, and the issuance of subpoena by the commission or its agents, and conferring jurisdiction upon the courts to punish contempts, or to prohibit violations of orders of the commission; providing for appeals to the courts from decisions of the commission; imposing penalties; and making appropriation."

In justifying the establishment of prices, the statute declares "that the sale and trade-in allowance and appraisals of new and used motor vehicles in the Commonwealth is a business affected with the public interest and affecting the public health and safety * * *." The paramount importance of the price-fixing provisions of the statute is seen in section 21, which provides: "Constitutional construction: It is hereby declared to be the legislative intent that if this Act cannot take effect in its entirety because of the decision of any court holding unconstitutional any part hereof, the remaining provisions of the Act shall be given full force and effect as completely as if the part held unconstitutional had not been included herein: *Provided, however*, That if any part or parts of this Act relating to fixing the value for used motor vehicles or the amount to be allowed by motor-vehicle dealers for used motor vehicles is held unconstitutional, then the remainder of the Act shall be given no effect."

Injunctive proceedings instituted in the Dauphin County Court of Common Pleas, resulting in a declaration of unconstitutionality by that court, have stayed enforcement of the statute.

[9] A brochure published by the Automobile Manufacturers Association, New York, N. Y., entitled "Motor Vehicle Dealer Licensing Laws in Force November 15, 1938." states that the cities of Dallas and Houston, Tex., and Davenport, Iowa, license automobile dealers. In Dallas the administrative agency is "a body of seven, known as the Dallas Automobile Advisory Committee, appointed by the city manager;" in Houston the administrative agent is the city assessor and collector of taxes; in Davenport the administrative agent is the city clerk with police and license committee collaborating.

Texas cities having more than 5,000 population and conforming to the Texas Municipal Chartering Act are, by a general enabling act, delegated certain privileges of self-government, including the right to "license any lawful business, occupation, or calling that is susceptible to the control of the police power." It is apparently by virtue of this enabling act (ch. 13, art. 1175, sec. 23, Civil Statutes of Texas, 1936) that the cities of Dallas and Houston license and regulate motor-vehicle dealers.

applicant must give his name and address, location, and name and style of business, partnership or corporate information, and make or makes of vehicles to be sold. In Ohio a statement of relationship with manufacturer or distributor must be submitted. In Iowa applicant must name the manufacturer with whom he has a contract or agreement and describe the proposed plan of doing business. In Wisconsin, Ohio, and Iowa applicant must submit a financial statement, and in Ohio and Iowa a statement of previous experience must be included. Various other data are required.

The Wisconsin act provides that a general advisory committee and one or more local committees may be appointed to assist the administrative agency in the administration and enforcement of the statute. In the Nebraska act there is provision for the appointment of a general advisory committee to assist the administrative agency.

The Wisconsin statute provides that the administrative agency may deny licenses without hearing, except that a hearing may subsequently be obtained upon request; under the Iowa statute reasonable notice and hearing must be provided before denial of license; under the Ohio statute license may be denied after hearing on 15 days' notice, and under the Nebraska act license may be denied after hearing on 20 days' notice. There are similar provisions for suspension or revocation of licenses.

Under the Wisconsin, Ohio, and Iowa statutes, provisions are made for the administrative agency to promulgate rules and regulations necessary for effective enforcement of the statute. In the Wisconsin statute, power is given the administrative agency to define "unfair-trade practices" between licensees or between licensees and retail buyers. Under the Wisconsin, Ohio, and Nebraska statutes the administrative agency is given power to hold hearings, subpena witnesses, take depositions, administer oaths, inspect books, records, letters, and contracts of licensees relating to complaints. Under the Ohio and Nebraska statutes power is given the administrative agency to investigate activities of licensees on its own motion or upon the complaint of any person. In all four statutes due process is provided in that a court appeal may be taken by the licensee from the rulings or actions of the administrative agency.

In the statutes of all four States the following grounds for denial, suspension or revocation of dealer licenses are provided: Proof of unfitness or bad business repute of applicant, material misstatement in application, fraudulent sale, transaction or repossession, and noncompliance with the statute or with the regulations of the administrative agency.

Additional grounds for denial, suspension or revocation of licenses under the Wisconsin statute, and applicable to the various types of licensees affected by that statute, are filing false or fraudulent income-tax return; misstatement or concealment of material particulars required to be furnished retail buyer; defrauding retail buyer; failure to perform written agreement with a retail buyer, unconscionable practices; manufacturer coercion of dealer to accept unordered vehicles or parts and accessories through threat of cancelation of franchise; where manufacturer, distributor, etc., induces or coerces any dealer to do any act unfair to dealer under threat of cancelation of franchise; where manufacturer, distributor, etc., has unfairly canceled a dealer's franchise; violation of laws relating to sale, distribution, or financing of motor vehicles; charging interest in excess of 15 percent per annum; sale of installment paper to unlicensed finance company; and failure to post or keep in force any bond required.

In addition to the grounds for denial, suspension, or revocation of dealer licenses mentioned as being required in all four of the States, the Ohio statute lists failure of applicant to have an established place of business; entering into contract with a manufacturer or distributor contrary to provisions of the statute; lack of contractual authority with manufacturer or distributor; violation of laws relating to sale, distribution, or financing of motor vehicles; insolvency; and inability to satisfy final judgments which may be reasonably anticipated.

In addition to the grounds for denial, suspension, or revocation of dealer licenses mentioned as being required in all four of the States, the Nebraska statute lists defrauding of retail buyer; failure to perform written agreement with retail buyer; intentionally publishing misleading or inaccurate advertising; violation of the State or Federal laws pertaining to fair or unfair trade practices; willfully or habitually granting excessive trade-in allowances for the purpose of lessening competition or destroying a competitor's business; violating antidiscrimination laws; discriminating between purchasers with respect to furnishing of services or facilities or the granting of discounts or rebates; and knowingly dealing in stolen vehicles.

In addition to the grounds for denial, suspension, or revocation of dealer licenses mentioned as being required in all four of the States, the Iowa statute lists entering into a contract with a manufacturer or distributor contrary to provisions of the act; licensee about to enter into sale or transaction which is fraudulent or in violation of law; and entering into contract with manufacturer or distributor who has within 90 days canceled a dealer's contract without "just, reasonable, and lawful cause therefor."

The Ohio and Iowa statutes provide that it is unlawful for a dealer to sell motor vehicles without contract authorization from a manufacturer or distributor, or to agree with a manufacturer or distributor to sell his sales-finance contracts to any designated sales-finance company. The Wisconsin and Iowa statutes provide that it is unlawful for a dealer to sell motor vehicles without a State license. The Wisconsin statute provides that it is unlawful for a dealer to change speedometer readings on used cars, and to refuse to divulge the name of the previous owner of a used car offered for sale.

The Wisconsin and Ohio statutes make it unlawful for any manufacturer or distributor of motor vehicles to induce or coerce or attempt to induce or coerce any motor-vehicle dealer to finance his sales through a designated sales-finance company by means of threats, promises, etc., of benefit or injury, direct or indirect, express or implied, or by means of beneficial or injurious acts, or by express or implied statements made directly or indirectly, that a dealer is under obligation because of relationship existing between manufacturer or distributor and a finance company. The Iowa statute makes it unlawful for a manufacturer to terminate or threaten to terminate any dealer contract without just, reasonable, and lawful cause therefor or because a dealer failed to transfer his sales-finance contracts to a designated sales-finance company.

The Wisconsin and Ohio statutes contain provisions for the regulation of sales-finance companies, declaring certain practices to be unlawful. The Wisconsin statute lays down rigid requirements for the sale or handling of installment-sales contracts.

In the statute of each of the four States a stringent penalty is provided to enforce the provisions of the statute. Maximum fines of $10,000 are provided in all instances and in the Wisconsin, Nebraska, and Iowa statutes maximum imprisonment of 1 year is provided. In addition the Iowa statute provides for injunctive proceedings.

A unique section of the Nebraska statute provides that—

For the purpose of determining whether or not an applicant for a license or a holder of a license has violated any of the provisions of this law with particular regard to price discrimination and excess allowances on used motor vehicles, the administrator may authorize or at the request of 40 percent of the licensed motor-vehicle dealers in any county or section larger than a county of this State shall authorize a survey to be made to determine a fair basis for allowances to be made for used cars in purchases thereof or exchanges for other new or used cars. Such survey, if made, shall be amended from time to time as market conditions change and copies of the survey and amendments thereto shall be made available to all licensed dealers and salesmen. Said survey shall serve as a guide and shall in no way be binding upon any licensed dealer or salesman except for the purposes stated hereinbefore in this act.

As an example of the interesting constitutional questions which may arise under administration of these statutes, compare the section of the Nebraska statute quoted in the preceding paragraph with the following excerpt from section 15 of the Pennsylvania statute, declared unconstitutional in a lower-court decision:

Orders fixing prices for used motor vehicles, and establishing standard charges which shall be deducted for various repairs or replacement on the used motor vehicle.—(*a*) The commission shall, within thirty (30) days from the time it is established, determine by a survey what the average sale price for used motor vehicles was for each make, model, body type, and year, and shall issue orders that for the ensuing thirty (30) days no appraiser shall appraise a used motor vehicle for a greater amount * * *.

Under the terms of the Pennsylvania statute a basis is provided for periodic fixing of maximum prices. In the section of the Nebraska statute, quoted in the preceding paragraph, maximum prices are not established, as such, but the "fair basis of allowance" is declared a criterion or guide by which the governing authority may determine whether price discrimination and excess allowances on used motor vehicles are engaged in by dealers—thus determining whether such dealers should be denied or permitted to receive the licenses provided for by the statute.

Under the powers delegated the administrative agency by the Wisconsin statute, the banking commission has the power to promulgate rules and regulations necessary to proper enforcement of the law, and the further specific authority to define "unfair trade practices" between licensees or between licensees and retail buyers. Pursuant to this delegation of power the commission on October 15, 1937, instituted a number of rules and regulations. The commission defined certain practices, under the general headings "Unethical advertising," "Unreasonable finance charge," "Unreasonable dealer participation" and "Unethical conduct," to constitute unfair trade practices within the purview of the statute. The padding or packing of conditional sales contracts by dealers, finance companies, or anyone interested in the transaction, to an amount "unreasonable or unconscionable" was defined as an unfair trade practice. Likewise, the giving, or agreement to give, any such participation to an automobile dealer or other person interested in the conditional sales contract was declared to constitute an unfair trade practice. Under the heading of "Unethical conduct," one of the practices declared to constitute an "unfair trade practice" within the purview of the statute is "such consistent and material overallowances on used car trade-ins over a period of time which shall tend to adversely affect competition, demoralize the industry, or injure the consumers shall be considered an unfair trade practice."

An important policy adopted by the banking commission was in the establishment of standards of fitness, whereby dealers were required to conform to certain standards if a license to do business were received or maintained. This policy was put into effect by rules 5 (a) and 5 (b) of the banking commission order of October 15, 1937, previously quoted. These rules are as follows:

(a) The banking commission shall determine the fitness, including financial responsibility and other matters pertinent to the status of a dealer, in any given locality. It is recognized that the same standards will not fit in different localities, particularly as to urban and rural. For the purpose of determining what persons may be fitted to engage in the automotive trades industry in any certain locality, the banking commission may, in its discretion, obtain information regarding eligibility for license from credit or rating bureaus, dealer advisory committees, or any other source it may desire to utilize.

(b) The banking commission shall have power to classify dealers in localities according to their investment, equipment, and facilities and according to the potentials of said localities, taking into consideration the necessity of each locality in respect to service and other matters affecting the public.

The executive secretary of the Wisconsin Automotive Trades Association, closely affiliated with the Wisconsin Banking Commission in administration of the Wisconsin statute, gave his version of the commission's policy in preventing overallowances on used cars taken in trade by Wisconsin dealers in a semiannual report to members of his association.[10] As explained by the association's secretary, the plan is as follows:

The banking commission is primarily interested in keeping dealers in a "solvent" condition. This policy has resulted in a thorough study of trading habits of individual dealers. Such a study incorporated the use of operating and financial statements, as well as washout sheets.[11] Through various forms and mediums the banking commission is aware of a dealer's operating practices at all times, and knows especially if "a dealer is consistently and materially overallowing on used cars." To keep a dealer solvent is the banking commission's method of instituting a used-car trade-in allowance control. Because all dealers report their used-car sales and because an average of such sales is available, the banking commission feels that allowances made in line with the general averages are above reproach, but on all allowances our average dealer is called upon to furnish individual washout sheets. If such washouts indicate that the dealer's judgment was correct in giving more than average, his record is clean, but if his overallowances indicate that he is not coming out profitably on such deals, then the banking commission checks him thoroughly and a black mark is set upon his record. If over a period of time a dealer does not change such tactics, his license

[10] This article, entitled "Semi-Annual Report to Members, Wisconsin Automobile Trades Association," by Louis Milan, executive secretary, appeared in the July 1938 issue of the Northern Automotive Journal, published by the Bruce Publishing Co. of Minneapolis, Minn.

Mr. Milan can speak with authority since there has been very close cooperation on the part of the banking commission and the Wisconsin dealer associations, particularly the State association, in the administration of the dealers' licensing law. An example of this close cooperation is evidenced in the article cited and is as follows: "In December 1937 and January 1938 a series of district meetings were held throughout the State conducted jointly by the division of consumer credit of the State banking department and the Wisconsin Automotive Trades Association.

[11] The "washout" as known to the motor-vehicle-retailing trade is the determination of profit or loss on an original sales transaction involving a used-car trade-in—not until the used car is sold may the profit or loss on the original transaction be determined. In instances where a second used car is taken in trade at the time the first trade-in is disposed of—and perhaps a third used car is taken in trade at the time the second trade-in is disposed of—a number of transactions transpire before the dealer may determine whether the original transaction was a profitable one.

is in jeopardy of suspension or revocation or in line for denial the following year. Many Wisconsin counties are operating under cooperative control plans using a guidebook for top allowances, but all have the banking commission's "solvency" requirement as a basis * * *.

As to results obtained by Wisconsin automobile dealers under the banking commission's administration of the Wisconsin statute, the association secretary stated:

The finest tribute to the banking commission's "solvency" plan is the fact that overallowances have been reduced from $25 to $75 [from $75 to $25 (?)] over a year ago. In concrete terms, this simply means that Wisconsin, which will sell 50,000 new cars this year, will save $50 per car, or two and a half million dollars. This means Wisconsin dealers will save two and one-half million dollars which they otherwise would have passed on to new car purchasers.

Other accomplishments accredited to administration of the Wisconsin statute were reported by the association secretary as follows:

In the 1937 session several bills were passed strengthening the licensing law by prohibiting factories or distributors or their representatives from "overloading dealers or overcrowding dealers." Unquestionably overloading has been eliminated. Dealers are not taking cars, accessories, or parts unless they definitely want them, and if any overloading exists it is because the banking commission is not aware of such a condition. Overcrowding in turn is rapidly being eliminated, and this is substantiated by the fact that there are 500 less dealers in Wisconsin than a year ago, and that replacement of such dealers is, in the vast majority of cases, being dispensed with. Facts proving the above point are as follows: To date Wisconsin has issued approximately 2,300 dealer licenses as against 2,800 in 1937. In addition, 110 applications were denied outright and 150 prospective dealers discouraged from entering business. In all, 760 competitors were eliminated. The 500 less dealers can largely be attributed to the active policy of the banking commission to raise the standards of the trade, but admittedly quite a few dealers were forced out of business because of economic conditions. Of additional interest is the fact that 450 of the 2,300 dealer licenses issued thus far were granted conditionally. In other words, these licensees have to improve their financial, physical, or operating conditions before a full license is given. Failure to comply with conditions and stipulations means revocation of conditional licenses. * * *

Manufacturers' viewpoint respecting recent State regulatory laws.—The Automobile Manufacturers Association, recognized spokesman for the majority of the automobile manufacturers, apparently gave the manufacturers' viewpoint of the State "motor-vehicle dealers' licensing laws" in the following excerpts from a recently published brochure [12] on that subject:

ORIGIN AND OBJECTIVES

While all manner of arguments were advanced for enactment of these laws, principal objectives are recognized to have been methods of moderating competition and relieving pressure upon the competitors. Three of the States specifically limit the actions of manufacturers toward dealers. One provides penalties for habitual granting of "excessive trade-in allowances" by dealers for the purpose of injuring competitors.

But also among grounds for denial or revocation of dealer licenses are "unfitness" which is linked to bad business repute; insolvency, and "inability to satisfy final judgments which may reasonably be anticipated."

[12] This brochure, referred to in a previous footnote in this chapter, is entitled "Motor Vehicle Dealer Licensing Laws in Force November 15, 1938." That the viewpoint therein expressed has the official endorsement of the board of directors of the association is shown by the following excerpt from the minutes of an Automobile Manufacturers Association sales managers committee meeting of September 14, 1938: "*1939 State legislation.*—Mr. Meixell [Harry Meixell, secretary of legislative committee of Automobile Manufacturers Association] reported on prospects of State legislation in 1939 bear- [ing] directly or indirectly on factory-dealer relations. Also he distributed to each one present an analysis prepared by Automobile Manufacturers Association of dealer licensing laws of Wisconsin, Ohio, Nebraska, and Iowa, in force September 1, 1938. Mr. Meixell stated that the Automobile Manufacturers Association board of directors has gone on record as opposed to dealer licensing laws and that the public relations committee of Automobile Manufacturers Association is planning to release for distribution to dealers, and for general publication, this analysis of the dealer licensing laws in the four States, to be accompanied by pertinent questions pointing out the implications of such legislation."

In conjunction there are the powers to conduct trade-in allowance surveys and to analyze the books or investigate activities of the licensees.

Proponents of the laws in every case have been organizations of the dealers themselves, whose spokesmen have testified to the desire for control over acute types of competition.

Unlike the general body of safety and health licensing laws, the motor vehicle bills have been exclusively trade sponsored, by dealers, frequently with the support of some sales-financing organizations.

There has been no popular sponsorship nor support from organizations speaking for consumers as such.

* * * * * * *

CONSUMER QUESTION INVOLVED

While sponsors of these laws maintain that the buying public is to be benefited by establishment of a more orderly market, with elimination of illegitimate or dishonest trade practices, it remains to be established through experience that full application of these laws eventually will not bring about higher selling prices to the retail buyer to an extent that would curtail the volume of sales available to the dealers remaining in the field under license. Such a result would inevitably restrict seriously the employment available in the many industries contributing to production of motor vehicles.

Also there remains the question whether vigorous enforcement of adequate general statutes for the punishment of business fraud upon the purchaser, would not deal more efficiently with the subject matter from the point of view of the buying public.

COMPETITIVE RECORD OF MANUFACTURERS

Because of considerations such as these, the manufacturing branch of the automobile industry has consistently kept away froms all form of agreements or other proposals limiting or controlling competition among its own component units.

Under the National Industrial Recovery Act, the car-manufacturing industry's code contained only labor provisions and had no section dealing in any way with trade practices.

This same situation has prevailed in all other periods of the industry, on the theory that a free market, stimulating competition among makers in both price and quality, resulted not only in maximum benefit to the ultimate purchaser but also to employment, and to the producer and merchant whose profits are dependent upon an active, healthy market for the sale of motor vehicles.

Regardless of the controversial questions as to the need, origin, objectives, and possible results of these statutes and of similar bills introduced in a number of other States this fact is clear—there is a definite trend toward State regulation of the motor-vehicle-retailing industry, insofar as that industry is subject to the police power of the States.

Section 5. Legal Aspects of Dealer Association Plans to Control Prices or Otherwise Restrict Competition

The Federal viewpoint.—Trade associations or other commercial organizations of competitors may not adopt codes or rules or establish agreements and understandings, written or oral, which, if put into effect by concert of action, have the effect or tendency of restraining trade or establishing monopoly in interstate commerce. Such associations are rarely engaged in interstate commerce or otherwise operated for profit, as they are maintained for the benefit of their members who financially support them, but they are nevertheless amenable to the Federal antitrust laws when their member-dealers are engaged in interstate commerce.[13] Under the Sherman Act an agreement or conspiracy in restraint of interstate commerce may be a violation of law, whether or not followed by efforts to carry it into effect.[14] Even

[13] *Chamber of Commerce of Minneapolis et al.* v. *Federal Trade Commission* (13 F. (2d) 673) and other cases.
[14] *U. S.* v. *Trenton Potteries Company* (273 U. S. 392).

in the absence of direct evidence of the existence of an agreement or conspiracy, such agreement or conspiracy may be inferred from the things actually done by the alleged conspirators.[15]

In price-fixing cases the Federal courts have refused to consider the reasonableness of the prices fixed when they have determined that the prices have been fixed in an unlawful manner. In the *Trenton Potteries case*, supra, it was adjudged that the trial court, after charging that—

> the law is clear that an agreement on the part of the members of a combination controlling a substantial part of an industry, upon the prices which the members are to charge for their commodity, is in itself an undue and unreasonable restraint of trade and commerce; * * *

did not err in refusing to charge that—

> The essence of the law is injury to the public; it is not every restraint of competition and not every restraint of trade that works an injury to the public; it is only an undue and unreasonable restraint of trade that has such an effect and is deemed to be unlawful.[16]

In upholding the trial court the Supreme Court made it clear that the fixing of prices by members of a trade, whereby a substantial portion of the trade is controlled, is illegal, stating in part:

> In *Federal Trade Commission* v. *Pacific States Paper Trade Association*, * * * we upheld orders of the Commission forbidding price fixing and prohibiting the use of agreed price lists by wholesale dealers in interstate commerce, without regard to the reasonableness of the prices.[17]

The provisions of the Sherman Act prohibiting combinations in restraint of interstate commerce, or monopolization of interstate commerce, have both a geographical and distributive significance and apply to any part of the United States as distinguished from the whole, and to any one of the classes of things forming a part of interstate commerce.[18]

Specific application of Federal law.—The question as to whether Federal jurisdiction exists respecting association activities such as a number of those described in section 3 depends upon whether interstate commerce is involved. Since automobiles are sold both in interstate and intrastate transactions, a special jurisdictional study would necessarily precede any action that might be taken against any group of automobile retailers or any combination of automobile retailers and manufacturers. Without the intention of stigmatizing any group of automobile dealers or any automobile manufacturer, a discussion of the competition-restricting practices reported as viewed in the light of previous Federal court decisions involving the same or similar practices is considered helpful, and for that purpose—and for that purpose alone—it will be assumed that Federal jurisdiction exists over any and all of the groups and activities investigated.

Membership in a number of the competition-restricting plans investigated is confined to dealers selling a particular make of automobile, or automobiles produced by a particular manufacturer. The trade-restraining activities of such a group obviously result in a smaller lessening of competition and a smaller trade restraint than

[15] *Eastern States Lumber Association* v. *United States* (234 U. S. 600, 612); *Wholesale Grocers' Association of El Paso, Texas, et al.* v. *Federal Trade Commission* (277 Fed. 657).
[16] 273 U. S. 392; 300 Fed. 550, reversed.
[17] 273 U. S. 392, 400.
[18] *Indiana Farmers' Guide Publishing Company* v. *Prairie Farmer's Guide Publishing Company* (293 U. S. 268, 279); *Fox Film Corporation* v. *Federal Trade Commission* (296 Fed. 353, 356); and *Moir et al., partnership Doing Business Under the Trade Name and Style of Chase & Sanborn* v. *Federal Trade Commission* (12 Fed. (2d) 22).

those activities of groups whose membership embraces the majority of new-car dealers or the majority of dealers selling cars in the same competitive price range. However, the fixing of prices by one group of dealers selling a substantial percentage of the automobiles sold in a community would usually, it is believed, have a great tendency in lessening price competition among other dealers and as between themselves and other dealers. Certainly, where the plan is successful in operation, there is a great tendency for other dealers to adopt the same plan, as evidenced by the following excerpt from a letter written by the president of a Philadelphia dealers' association to the regional sales representative of the manufacturer the dealer represents, the manufacturer having objected to the dealers' trade practices:

> It has come to our attention that since our last meeting with the Buick officials numerous dealer associations have been formed throughout the country. In fact, here in Philadelphia many of the new-car dealers are now organizing numerous associations patterned after our own.

Among the rules appearing in a number of the codes and agreements, expressly or tacitly agreed to by members of motor-vehicle-dealer appraisal bureaus and other similar plans, is the provision that minimum prices will be fixed and adhered to in certain types of sales of new motor vehicles by means of uniform maximum discounts. This is usually seen in provisions like the following:

> On new cars where no trade-in is involved, a dealer may allow a maximum discount of 3 percent of the delivered price of the new vehicle (from the manufacturer's "suggested" price);

and—

> no member or his employee will at any time allow a discount from retail sales price, as established by the Buick Motor Co., in excess of $50 on 40 series, $60 on 60 series, $75 on 80 series, $100 on 90 series.

Where dealers establish or agree among themselves to the establishment of, and adherence to, uniform prices, maximum or minimum, or actual sales prices, such provisions, where interstate commerce is involved, are contrary to the Federal antitrust statutes, and it makes no difference that prices thus established or agreed to are reasonable prices.[19] In the *Trenton Potteries case* it was stated that—

> The aim and result of every price-fixing agreement, if effective, is the elimination of one form of competition. The power to fix prices, whether reasonably exercised or not, involves power to control the market and fix arbitrary and unreasonable prices. The reasonable price fixed today may through economic and business changes become the unreasonable price of tomorrow. Once established it may be maintained unchanged because of the absence of competition secured by the agreement for a price reasonable when fixed. Agreements which create such potential power may well be held to be in themselves unreasonable or unlawful restraints, without the necessity of minute inquiry whether a particular price is reasonable or unreasonable as fixed and without placing on the Government in enforcing the Sherman law the burden of ascertaining from day to day whether it has become unreasonable through the mere variation of economic conditions. Moreover, in the absence of express legislation requiring it, we would hestitate to adopt a construction making the difference between legal and illegal conduct in the field of business relations depend upon so uncertain a test as whether prices are reasonable—a determination which can be satisfactorily made only after a complete survey of our economic organization and a choice between rival philosophies."

Agreements between members of dealer associations and bureaus to maintain prices "suggested" by manufacturers are unlawful under

[19] *Pacific States Paper Trade Association case*, supra; *Trenton Potteries case*, supra.
[20] 273 U. S. 392.

the Federal antitrust statutes whenever interstate commerce is substantially involved. The Sherman Antitrust Act, as amended by the Tydings-Miller Act (Public No. 314, 75th Cong., H. R. 7472, approved August 17, 1937), permits under certain specified conditions price maintenance by contracts or agreements between vendors and vendees, but prohibits price-maintenance contracts and agreements between competitors by the following provision:

> *Provided further*, That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding $5,000, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

The primary object in maintaining appraisal bureaus and similar agencies is, according to the dealer groups participating in such plans, to eliminate overallowances on used cars taken in trade. Since the advent of the used car trade-in as a major factor in the retailing of new cars, price competition between dealers has definitely shifted, in transactions where trade-ins are involved, from the sales price of the new car to the purchase price of the used car trade-in. In such instances the allowance made on the used car, while on its face a purchase price, is, from a practical viewpoint, an element, and an important one, in the price or value received from the sale of the new car. It is obvious that when the dealer allows a greater amount for the used car trade-in than he in turn can obtain from its resale he is in effect reducing the margin of profit on the new car sold. At the present time not only do the great majority of new-car sales involve the taking in trade of used cars as part payment therefor, but when, in turn, the trade-ins are sold, still other used cars of lesser value are taken in by the dealer as part payment.

Statistics compiled by the National Automobile Dealers Association show that new-car dealers must take in trade an average of approximately two used cars for each new car sold.[21] In the parlance of the trade: "Every new car 'washout' involves two used car trade-ins." In commenting on the losses taken by dealers on used car trade-ins during 1937, the National Automobile Dealers Association stated in its official bulletin, issue of June 1938, that statistics compiled showed a "used-car trading loss" of $39.03 per new car sold.

Cooperative efforts on the part of motor vehicle dealer associations in attempting to cope with the chaotic condition which has existed, and which still exists, in the motor-vehicle retail trade are commendable, provided they are confined within proper legal limits. Agencies of the Federal Government have worked with trade associations and industries in cooperative endeavors to alleviate economic distress and to raise the standards of competitive relationship. The Department of Commerce, the Department of Justice, and the Federal Trade Commission have worked in the interest of American industries. To the Trade Practice Conference Division of the Federal Trade Commission scores of American industries have submitted their problems

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[21] Statistics mentioned covering a 5-year period, are contained in the National Automobile Dealers Association bulletin of June 1938 at pp. 6 and 7.

and have received valuable assistance from the Commission through the elimination or prevention of unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce. However, there are limits which may not be overreached by organizations of competitors, in the best interest of the industries and of the public at large.

Regarding the distribution of statistical and technical information by associations of competitors, and regarding other activities of such groups, the course charted by Chief Justice Hughes in delivering the Court's opinion in the *Sugar Institute case* [22] is outstanding. The cases cited therein are Sherman Act decisions.

> As free competition means a free and open market among both buyers and sellers, competition does not become less free merely because of the distribution of knowledge of the essential factors entering into commercial transactions. The natural effect of the acquisition of the wider and more scientific knowledge of business conditions on the minds of those engaged in commerce, and the consequent stabilizing of production and price, cannot be said to be an unreasonable restraint or in any respect unlawful. *Maple Flooring Assn.* v. *United States* (268 U. S. 563, 582, 583).
>
> In that case we decided that trade associations which openly and fairly gather and disseminate information as to the cost of their product, the volume of production, the actual price which the product has brought in past transactions, stocks of merchandise on hand, approximate costs of transportation, without reaching or attempting to reach an agreement or concerted action with respect to prices or production or restraining competition, do not fail under the interdiction of the [Sherman] act. (Id., p. 586. See also, *Cement Manufacturers Assn.* v. *United States*, 268 U. S. 588, 604, 606.)
>
> The freedom of concerted action to improve conditions has an obvious limitation. The end does not justify illegal means. The endeavor to put a stop to illicit practices must not itself become illicit. As the statute draws the line at unreasonable restraints, a cooperative endeavor which transgresses that line cannot justify itself by pointing to evils afflicting the industry or to a laudable purpose to remove them.
>
> * * * * * * *
>
> And while the collection and dissemination of trade statistics are in themselves permissible and may be a useful adjunct of fair commerce, a combination to gather and supply information as a part of a plan to impose unwarrantable restrictions, as, for example, to curtail production and raise prices, has been condemned. *American Column Company* v. *United States* (257 U. S. 377, 411, 412); *United States* v. *Linseed Oil Company*, supra; *Maple Flooring Assn.* v. *United States*, supra * * *.

The practice used by dealer associations in establishing maximum purchase prices, or allowances, governing the trade-in of used cars, is open to the same objections that apply to establishing new-car prices by common agreement. Where associations use this practice it is generally through adoption of "maximum allowance sheets," or "top sheets" as they are termed in the trade, as compiled by the numerous publishers of such services, or, in many cases, compiled by the associations themselves. Usually fines, or penalties, are imposed for exceeding the maximum prices adopted. Sometimes the fine is paid into the association's treasury; in some instances the fine is divided among the competing dealers and salesmen who were in competition on the "deal."

This practice of establishing and adhering to maximum allowances, or prices, for used cars taken in trade plays a dual role. These price allowances are, on their face, buying prices for used automobiles, but practically they are elements in the prices customers pay for new

[22] *Sugar Institute, Inc., et al.* v. *United States* (297 U. S. 553, 598, 599, 600).

cars. Thus, not only does the practice result in the fixing of maximum purchasing prices on used cars traded in, but the used-car prices so fixed are essential price elements in new-car sales, and, as such, may result in agreements to fix or to maintain prices on new cars.

The practice of adopting rigid used-car "purchasing prices," or "allowances," has been supplanted in numerous instances by other methods of regulating bidding on used cars taken in trade. Perhaps the most widely used practice, based on dealer-association activities reported in an earlier section of this chapter, is exemplified by the following:

> The first Ford dealer that a prospect with a trade-in contacts registers the allowance he is willing to make on the prospect's trade-in, with the association. The first succeeding dealer contacted by this prospect must (if he desires to make a higher bid rather than to "stand" on the prior bid as registered with the bureau, or drop out of the bidding entirely) increase the dealer's offer by at least $25. Thereafter, each offer must be made $50 higher on Ford cars, if they increase at all. On all other makes of cars each raise is $25. Each dealer registers all second-hand appraisals and offers made thereon with the association. Each dealer must contact the association to ascertain whether some other dealer has made an offer previously.

The above quotation is from a report made by the Commission's examiner as to the activities of the Twin City Ford Dealers' Association, Inc., of Minneapolis and St. Paul, Minn., and is based upon an oral description given by the executive secretary of that association. The used-car-allowance statistics used in connection with the above-described practice are, according to the examiner's report, compiled as follows:

> Each dealer finds the cost of reconditioning second-hand cars by years, adds thereto the selling expense and deducts this figure from the selling price, arriving at a figure that is the greatest possible trade-in allowance that could be given by him on a trade-in and still break even. All these member reports are taken collectively by the association and the averages are computed therefrom.

On the models not included in the statistics compiled by the association the following method is used:

> Each member dealer takes the N. A. D. A. (National Automobile Dealers Association) guidebook and deducts 20 percent from the suggested trade-in value shown therein.

In associational plans where regulation of bidding is followed in the manner above described, many minor variations are noticed. Generally, the object of the practice is stated to be the elimination of "small price chiseling," previously defined. In some instances the maximum bid "raises" are as low as $5 for the second bidder and $10 for all subsequent bidders. In the majority of "plans" involving such practices, violations are "punished" by infliction of penalties.

In determining the legality or illegality of plans operated by the method last described the substantiality of the amounts by which bids subsequent to an original bid are restricted may be of material importance in arriving at a conclusion as to the reasonableness or unreasonableness of the restraint imposed. Also, of particular importance is the relationship between the restrictive bidding and the price guides used; it is obvious that a plan of restrictive bidding may readily be converted into a device for maintaining a mutually agreed-upon price list. The nature of the plan as a whole, including the elements of secrecy from public knowledge and the consequent deception that may be practiced thereby, likewise are important factors.

An interesting and unique practice for regulation of bidding on used cars offered in trade as part payment of the purchase price of new cars wherein many trade-restraining features are involved is described in the following quotation:

Realizing that the first dealer to file an appraisal has done most of the missionary work incidental to making a sale, it is agreed that when the first dealer files his appraisal, he shall be known as dealer A, the second dealer filing an appraisal will be known as dealer B, the third dealer, C, etc.

All of the members agree that when an appraisal is filed with the association by dealer A, dealer B is not permitted to allow an amount exceeding $15 less than the appraisal of dealer A, and dealer C in turn is not permitted to allow an amount greater than $25 less than dealer A. Dealers D, E, F, etc., may allow a price equivalent to dealer C. This rule shall not apply, however, when a dealer appraises a car, which car is registered in his zone of influence. In this event, such dealer appraising a car in his zone of influence may equal or exceed an appraisal of dealer A, whether he be dealer B, C, D, E, F, etc.

In order to eliminate concretely the question of jurisdiction, the prospect's owner card wherever registered, will be the determining factor in who has jurisdiction over the appraisal.

The above quotation is taken from a March 14, 1938, agreement of members of the Buick Dealers Association of the Philadelphia Metropolitan Zone. Under the agreement, if a prospect desiring to purchase a new Buick automobile and having a used car which he desired to trade in as part payment thereof, contacts the Buick dealer in whose "zone" he lives, no other Buick dealer in the entire Philadelphia metropolitan zone may offer a higher bid. This apparently accomplishes a division of customers and an enforcement of local territorial protection in addition to other restrictions on competition.

If, however, the prospect with the used car to trade had gone to a Buick dealer other than the one in whose "zone of influence" he lives, who under the agreement would be dealer A, then such dealer enjoys a monopoly, unless subsequently the "zone of influence" dealer is contacted by the prospect, in which case the zone dealer may overbid dealer A and make the sale. In the instance just cited, competition is restricted, insofar as the sale of Buick automobiles within the area previously mentioned is concerned, to only two dealers—and even then competition is partially restrained, as the A dealer may not equal any bid made by the zone of influence dealer. Dealers B, C, D, etc., under the scheme above outlined may never approach in their bidding any closer than $15 and $25, respectively, to the highest bid registered by dealer A, or a "zone of influence" dealer. They apparently enter into the bidding for the immediate purpose of making the prospect think that he is receiving the benefit of actual competition.

At the present time the principal source of market price information respecting used cars that is available to the purchasing public is found in the classified advertising pages of newspapers. In addition, dealers have used-car guides, some of which are prepared by statistical and publishing firms that obtain information respecting actual sales and compile periodically statistical summaries or "guides" for sale to dealers on a subscription basis. Other used-car guides are prepared and sold in a similar manner by trade associations of dealers. Still others are prepared by local associations for their own use. Some of the guides compiled by associations reflect not only statistics of actual sales, but also the opinions of association secretaries, price-fixing committees, or others closely connected with the associations or the members of such associations.

There is need for wider dissemination among the purchasing public of used-car market price information. This need, however, is not met by used-car guides which generally are available only to dealers for whose use they are prepared and to whom they are undoubtedly useful in appraising used cars. Any used-car guide is susceptible of use as a price-fixing instrument. This is expecially true where they are compiled by associations for their own use. Therefore their use raises the question as to whether they are being employed in an illegal manner under the laws of the various States, or under Federal laws if dealers involved are operating in interstate commerce.

Manufacturer participation in dealer plans to control competition.—In a number of the reports concerning appraisal bureaus and similar plans, it is noted that in varying degrees motor-vehicle manufacturers or their agents and employees aid the dealers in the formulation or operation of such plans. Where, and if, the combined activities of the manufacturers and dealers transgress the Federal Antitrust Acts, the manufacturers are equally liable with the dealers.

During the investigation several instances of close cooperation between manufacturers' representatives and groups of dealers in the formulation or operation of appraisal bureaus or other plans to restrict competition, were reported. A dealer-member of the Market Analysis, Inc., a Los Angeles, Calif., appraisal bureau operated by the Ford dealers of the Los Angeles metropolitan area, stated to the Commission's examiner that the bureau operated with the close cooperation of Ira Groves, the Ford district branch manager. He further stated, substantially as quoted:

> When the change was made about the first of this year (1938) in connection with paying the cost of this service by a check instead of to the Ford factory, Ira Groves, Ford district branch manager, instructed me how to send my check so that the Market Analysis would receive it. Mr. Groves also gave us the code word that was changed every week.

Close cooperation between the Buick Motors Division of General Motors Corporation and the Buick dealers of the Philadelphia, Pa., area was shown in the report given in section 3 of this chapter, under the heading, "The Buick Dealers Association of the Philadelphia Metropolitan Zone." A dealer member of the association stated that the "Philadelphia plan," which utilized appraisal bureau methods, is "factory-controlled." The following excerpt from a letter written by W. F. Hufstader, general sales manager for the Buick Motors Division, addressed to a Philadelphia Buick dealer, and concerning the activities of a General Motors Holding Corporation dealership, is as follows:

> Confirming our discussion of today, and in consideration of the continuation of the Lansdowne operation, we will see to it that that operation will function 100 percent in accordance with the program which I discussed with the Philadelphia dealers yesterday.
>
> We will have it definitely understood that all so-called "original" appraisals that come into the Lansdowne zone of influence from another zone of influence shall be made on the basis of the retail price as given for the particular car in the National Automobile Dealers' Association used car market report.
>
> Should substantiated evidence be submitted that the Lansdowne dealership is violating the intent and purpose of the Philadelphia plan, then the operator of the Lansdowne dealership shall be eliminated.

The present investigation is by no means the Commission's first study of alleged price-fixing and price-maintaining practices in the automobile retailing industry. In a complaint issued by the Federal

Trade Commission against the Boston Automobile Dealers Association, Inc., its officers and members, wherein a charge of "undertaking and combining to fix maximum prices" (on used cars turned in), "in connection with the sale of automobiles," an order of dismissal was entered on May 2, 1925, "without prejudice for the reason that no interstate commerce is shown." [23]

When, in 1935, trade-practice rules were considered on behalf of the motor vehicle retail industry, after preliminary conferences and submission of proposed rules to the Commission, the Commission found itself unable to accept certain rules providing for price maintenance and price fixing. The following are excerpts from a press release under date of Friday, November 1, 1935:

> Trade practice conference rules for retail automobile dealers in the United States, as proposed by representatives of that trade under the Federal Trade Commission's trade practice conference procedure, have been disapproved by the Commission for the reason that four of the six rules proposed embodied an illegal price-fixing arrangement and would tend to unreasonably restrain trade in violation of Federal antitrust laws, including the Federal Trade Commission Act. In announcing that four of the six rules had been disapproved, the Commission made it known it had advised the industry the other rules submitted would be approved if revised in conformity with certain suggestions made by the Commission.
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> * * * * * * *
>
> Among the proposed rules was one providing that all dealers be required to sell new automobiles at the so-called factory suggested delivered price effective in the territory in which the respective dealers operate. The Commission said it was clear this proposed rule would provide for resale price maintenance by combination and agreement among competing dealers, which practice would be unlawful. Another proposal provided a plan by which the trade-in price of used cars would have been fixed and all dealers receiving trade-in cars would have been prohibited from allowing the customer more than the price fixed for the particular sales territory. The Commission held this would constitute price fixing, which, in conjunction with the proposed rule already referred to, would eliminate price competition among dealers in the sale of any given make of car.

The problem caused by excessive allowances on used merchandise taken in trade as part payment of the purchase price of new machinery is not confined to the motor vehicle retailing trade but has been noticed in a number of other industries. Nor are cooperative efforts constituting price fixing and unauthorized price-maintenance plans, for the purpose of regulating competition in transactions involving the trading in of used merchandise, confined to the motor vehicle retailing trade. The following is an excerpt from the Commission's cease and desist order issued against an association of manufacturers and sellers of heavy machinery (i. e., presses, drills, lathes, and other machine tools) doing a substantial interstate business in the Chicago trade area:

> It is now ordered, that the respondents named * * * as members of Machine Tool Distributors, Chicago district, * * * do cease and desist from the use of the Chicago appraisal plan, or any other similar appraisal plan in the course and conduct of their said businesses in interstate commerce, through which * * * pursuant to agreement among themselves, they register with a central office or exchange with each other their firm bids or appraisals on used machinery offered to them as part payment for new machinery with the understanding that the member making the first or the highest appraisal or bid accept or purchase the used machinery, paying cash therefor, regardless of whether or not such bidder shall make a sale of new machinery to the customer offering the used machinery as part payment; or from the adoption of any other plan whereby respondent members suppress or restrict competition between and among them-

[23] Issuance of the order of dismissal is reported in vol. IX, Federal Trade Commission Reports, at p. 478.

selves in the bidding for or appraising of used machinery offered in trade as part payment for new machinery.[24]

The cease and desist order was not contested. As a finding of fact, regarding the close relationship between the price, or allowance, fixed on the used machinery taken in trade, and the price of the new machinery sold, the Commission decided:

> Said customers are thus compelled to pay higher prices for their new machinery, there being a direct relation between the amount allowed by said members for used machinery as part payment and the total purchase price of the new machinery sold.

In a complaint dated January 19, 1939, answers to which have been filed specifically denying the principal charges thereof, the Commission charged—

> *In the Matter of Power and Gang Mower Manufacturers Association et al.* that the respondent association and members thereof, for the purpose of eliminating among themselves competition as to discounts, terms, and conditions of sale, entered into and have since carried out * * * an agreement, combination, understanding, and conspiracy among themselves to fix and maintain, and by which they have fixed and maintained, uniform discounts, terms, and conditions of sale in selling power lawn mowers in commerce between and among the various States of the United States and in the District of Columbia.

One such practice enumerated is the following:

> By agreement among themselves have fixed and maintained and have adhered to and still adhere to schedule of uniform trade-in allowances for used power lawn mowers * * *.

Jurisdiction.—Since motor vehicles are sold in both interstate and intrastate transactions, each type of sale undoubtedly representing a substantial portion of the total volume sold, a special jurisdictional study is obviously necessary in any proceeding instituted by the Federal or State Governments against associations or other organizations of motor-vehicle dealers. In the only instance in which the Federal Trade Commission has issued a formal complaint as the result of alleged activities of motor-vehicle-dealer "appraisal bureaus," it was found that the jurisdictional elements necessary for remedial action by the Commission were lacking.

Applicability of State antitrust acts.—In the constitutions of 25 States there are embodied specific provisions authorizing the enactment of antitrust legislation.[25] Antitrust statutes have been enacted in 39 of the 48 States.[26] In the District of Columbia the Federal antitrust statutes are applicable.

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[24] Quoted from *In the Matter of Machine Tool Distributors, Chicago district, et al.*, 17 F. T. C. 48.

[25] Alabama, IV, 103; Arizona, XIV, 15; Arkansas, II, 19; Connecticut, I, 1; Georgia, IV, ii, 4; Idaho, XI, 18; Kentucky, 198, 201; Lousiana, XIII, 5, XIX, 14; Maryland, D. R., 41; Minnesota, IV, 35; Mississippi, VII, 198; Montana, XV, 20; New Hampshire, II, 83; New Mexico, IV, 38; North Carolina, I, 31; North Dakota, VII, 146; Oklahoma, II, 32, V, 44, IX, 45; South Carolina, IX, 13; South Dakota, XVII, 20; Tennessee, I, 22; Texas, I, 26; Utah, XII, 20; Virginia, XII, 165; Washington, XII, 22; Wyoming, I, 30, X, 8.

[26] Alabama, 1928 Code, chs. 91, 211, 252, 272; Arizona, 1928 Code, ch. 77; Arkansas, 1921 Code, ch. 124 California, 1931 Code, secs. 1673–1675; laws 1931, Act 8702; Colorado, none; Connecticut, Statutes 1930, ch. 330; Delaware, none; Florida, General Laws 1927, ch. 10; Georgia, 1933 Code, chs. 20–25, 56–62, 65–72; Idaho, Code 1932, chs. 1, 40; Illinois, Statutes 1935, chs. 32, 38; Indiana, Statutes 1933, titles 15, 23; Iowa, 1935 Code, ch. 434; Kansas, 1923 Statutes, chs. 16, 50, 1933 Supp.; Kentucky, none; Louisiana, Statutes 1932, title XL; Maine, Statutes 1930, chs. 56, 138; Maryland, none; Massachusetts, General Laws 1932, ch. 93; Michigan, Compiled Laws 1899, Act 225; Compiled Laws 1905, Acts 229, 329; laws 1931, Act 328; Minnesota, Statutes 1927, ch. 103; Mississippi, Code 1930, ch. 68; Missouri, Statutes 1929, ch. 47; Montana, Penal Code, ch. 14; Civil Code, ch. 109; Nebraska, Statutes 1929, ch. 59; Nevada, none; New Hampshire, Public Laws 1926, ch. 168; New Jersey, none; New Mexico, Statutes 1929, ch. 35; New York Consolidated Laws 1930, ch. 21; North Carolina, Code 1935, ch. 53; North Dakota, Compiled Laws 1913, ch. 55; Ohio, General Code 1935 ch. 31; Oklahoma, Statutes 1931, ch. 68 and 1936 Supp.; Oregon, Code 1930, titles XIV, XLVI, and 1935 Supp., Pennsylvania, none; Rhode Island, none; South Carolina, Code 1932, title 34; South Dakota Code 1929, sec. 4352 et seq.; Tennessee, Code 1932, title 14; Texas, Civil Stats. 1936, title 126; Penal Code 1936, title 19; Utah, Stats. 1933, chs. 1, 55; Vermont, Public Laws 1933, secs. 5855, 5942, 7722–7723; Virginia, 1936 Code, ch. 185A; Washington, Stats. 1922, secs. 7076, 8301–8302, and 1927 Supp.; West Virginia, Code 1931 ch. 61; Wisconsin, 1935 Stats. ch. 133; Wyoming, none.

There is little uniformity in the provisions of the various State antitrust statutes although the three major activities declared unlawful are combinations in restraint of trade, monopolies, and contracts in restraint of trade. The greatest uniformity is seen in the declarations against illegal trusts, the statutes of 25 States having such provisions. Although many of the statutes have provisions protecting specific industries, only those provisions will be mentioned which are broad enough in scope to permit regulation of cooperative activities of competitors engaged in the sale of motor vehicles in intrastate commerce.

Combinations.—Among the combinations and instrumentalities declared unlawful "for any person, corporation, or other legal entity" to enter into or be a party to, are trusts (25 States), combinations (19 States), combinations of capital, skill, or acts (12 States), agreements (18 States), contracts (14 States), understandings (10 States), confederations (7 States), arrangements (6 States), pools (10 States), and conspiracies (1 State), where such combinations or instrumentalities are for the purpose of, or have the effect of, fixing, regulating, or controlling prices (34 States), establishing standards to control prices (15 States), establishing prices to preclude competition (13 States), combining interests to affect prices (14 States), preventing competition in purchasing or selling (17 States), restricting the free pursuit of any business (5 States), or restricting trade or commerce (19 States).

In Idaho, Indiana, Louisiana, Maine, Nebraska, North Carolina, Oklahoma, and Wisconsin it is declared unlawful for any person, corporation, or other legal entity to enter into—

> any contract, combination in the form of a trust or otherwise, or conspiracy in restraint of trade or commerce.

Arizona, Indiana, Mississippi, and Oregon statutes declare that it is unlawful for any person, corporation, or other legal entity to enter into any combination to prevent bids or fix prices on public contracts, and the Indiana statute extends that protection to private contracts.

Monopolies.—There are provisions in the antitrust statutes of various States declaring it to be unlawful for any person, corporation, or other legal entity to monopolize (15 States), attempt to monopolize (9 States), or conspire to monopolize (8 States), any part of trade or commerce (8 States), production, control or sale of any commodity (4 States), prosecution, management, or control of any kind of business (2 States), or any line of business (2 States). To "create or maintain" a monopoly is forbidden in 6 States. In Alabama it is unlawful to destroy or attempt to destroy competition in the manufacture or sale of a commodity. In Massachusetts it is unlawful to restrain or prevent competition in the supply or price of any article or commodity. In Alabama, Massachusetts, and Mississippi it is unlawful to restrain or attempt to restrain the freedom of trade or production. In Massachusetts it is unlawful to unduly enhance the price of any article.

Contracts in restraint of trade.—The more pertinent provisions against contracts in restraint of trade are those forbidding such practices when engaged in by combinations of persons, corporations, and other legal entities previously mentioned under the subheading "Combinations." In Georgia "contracts in general restraint of trade" are declared unlawful. In North Carolina it is declared unlawful for any person to contract to refrain from buying or selling anything of value within certain predetermined territorial limits, with the view to prevent competition in buying or selling, or to fix prices.

Price-maintenance agreements between competitors as affected by State fair-trade acts.—Forty-four States have enacted fair-trade laws legalizing contracts between producers, wholesalers, and retailers which require purchasers to observe uniform resale prices established by the manufacturers or producers of patented, trade-marked, or otherwise identified goods—on the theory that the manufacturers or producers of branded commodities should be permitted to protect public goodwill of such brands against price-cutting policies. The validity of such State laws as intrastate regulations was upheld by the Supreme Court in the cases of *Old Dearborn Distributing Co.* v. *Seagram Distillers Corporation* (299 U. S. 183), and *The Pep Boys, Manny, Moe, and Jack, of California* v. *Pyroil Sales Co., Inc.* (299 U. S. 198), in which the Illinois and California fair-trade laws were construed. A number of the States have constitutional provisions which might conceivably be made the basis of an attack on the constitutionality of their respective fair-trade laws.

The State fair-trade laws are permissive in nature and largely uniform as to their principal provisions. These laws expressly except, in whole or in part, from the application of their permissive statutory provisions, contracts or agreements providing for price maintenance among competitors and merchants performing the same distribution functions. The general excepting provision commonly used is as follows:

> This act shall not apply to any contract or agreement between producers or between wholesalers or between retailers as to sale or resale prices.

In the statutes of Alabama, Arkansas, Connecticut, Florida, Georgia, Idaho, Indiana, Kansas, Maryland, Minnesota, Montana, Nebraska, North Carolina, Oregon, Rhode Island, South Dakota, Utah, Virginia, West Virginia, and Wyoming there are specific provisions permitting agreements between wholesalers, usually in the following language:

> * * * and such wholesaler will likewise agree not to resell the same to any other wholesaler unless such other wholesaler will make the same agreement with any wholesaler or retailer to whom he may resell.

In a number of the statutes, embodying the above-quoted provision purporting to permit price-maintenance agreements between wholesalers, such provisions are repugnant to general provisions exempting agreements "between producers or between wholesalers or between retailers." In the remaining statutes where there are provisions purporting to permit price-maintenance agreements between wholesalers the general provisions have been amended so as to conform, and the only price-maintenance agreements among competitors that are excepted from the permissive privileges of the statutes are those between producers and between retailers. None of the State fair-trade laws provides for price-maintenance contracts or agreements between producers or between retailers.

At the time of the investigation of the appraisal bureaus and similar dealer plans, described in section 3 of this chapter, price-maintenance contractual arrangements permitted under the Tydings-Miller Act were not in effect as to motor vehicles sold by manufacturers in interstate commerce, no manufacturer having chosen to take advantage of the privileges afforded by the act. The Ford Motor Co., however, in its 1939 contracts, or franchises, has made provision for conformance with the Tydings-Miller Act and the fair-trade acts of the States.

CHAPTER XII. GENERAL MOTORS CORPORATION

SECTION 1. HISTORY OF ORGANIZATION AND SUMMARY OF SALES AND EARNINGS

Introduction.—General Motors Corporation is often referred to as the world's most complicated and most profitable manufacturing enterprise. Its business is not only big, it is colossal. During 1937 it had 260,000 employees, of whom there were approximately 35,000 office employees alone. Its capital exceeds $1,000,000,000, and at the close of 1937 it had outstanding 42,668,955 shares of common stock owned by 375,000 stockholders. The largest single stock interest was owned by E. I. du Pont de Nemours Co. and amounted to 10,000,000 shares, or approximately 23 percent of the total outstanding.

During the year 1937 General Motors built about 40 percent of all motor vehicles built in the United States, and about 35 percent of all those built in the world. It builds motors for virtually every use, from the 1/100-horsepower midget for electric fans to the 6,000-horsepower Diesels that pull the crack streamlined trains.

General Motors has and continues to earn more money for its owners than any manufacturing corporation in the history of the world. Although its total assets, as of December 31, 1937, totaling $1,566,000,000 were slightly exceeded by a few other corporations, yet its average yearly earnings in the 29 years of its corporate existence have exceeded those of all other corporations. In the 29 years General Motors earned for its stockholders $2,610,885,556, an average of $90,030,536 per year. Of the total profit, $1,817,663,616 was paid to stockholders, $168,366,996 was paid to executives and employees through profit-sharing plans, and the profits retained and reinvested in the business aggregated $558,979,106. During the 11 years from 1927 to 1937, the average yearly profits earned for the stockholders amounted to $173,236,252.

There follows now a comparison of the average profits earned by General Motors Corporation with those earned by some other large corporations during the 11-year period 1927 to 1937, inclusive. The amount of profits listed here represent the average profits earned for the stockholders after payment of interest and provisions for payment of income and other taxes.

Name of corporation:	*Average profits 11 years*
General Motors Corporation	$173, 236, 252
American Telephone & Telegraph Co	150, 524, 232
Standard Oil Co. (New Jersey)	86, 811, 276
United States Steel Corporation	48, 586, 563
American Tobacco Co	29, 395, 625
International Harvester Co	26, 668, 811
Chrysler Corporation	24, 213, 767
Goodyear Tire & Rubber Co	8, 144, 037
Ford Motor Co	[1] 1, 442, 087

[1] Loss.

To fully understand the continuous operations of General Motors, it is necessary to divide the period of its corporate existence from 1908 to 1937 into three periods. The first period includes the years 1908 to August 1, 1917, when the operations were conducted through General Motors Co., a New Jersey corporation. The second period runs from October 13, 1916, to August 1, 1917, when General Motors Corporation, a Delaware corporation, acquired from the stockholders and held the outstanding capital stocks of the General Motors Co., the New Jersey corporation. During this same period the Chevrolet Motor Co. of Delaware held more than a majority of the outstanding voting stock of General Motors Corporation. The third period includes from August 1, 1917, to date and pertains to the operations of the present General Motors Corporation and its activities, including the acquisition of the assets and properties and dissolution of General Motors Co., the New Jersey corporation, and the acquisition of the assets and properties of Chevrolet Motor Co. of Delaware.

In presenting the information relative to General Motors: Section 1 deals with the historical facts of organization including a summary of sales and earnings; section 2 presents a description of the operations and products as of December 31, 1937; section 3 relates to the principal acquisitions of capital stocks and properties of nonaffiliated companies by General Motors Co. (the New Jersey corporation) 1908–17; section 4 describes the organization of the top General Motors Corporation (the Delaware corporation) and acquisition by that corporation of the capital stocks and assets of General Motors Co. (New Jersey); section 5 relates to the principal acquisitions of capital stocks and properties of nonaffiliated companies by General Motors Corporation (the Delaware corporation) 1917 to 1937, inclusive; section 6 deals with the extension of the activities of General Motors into the fields of financing consumer purchases, insurance of motor vehicles, and investment in retail dealerships; section 7 shows the comparative yearly investment, profits, and rates of return for the consolidated operations and then by division of the consolidated operations such as for the motor-vehicle group, for the accessories and parts group and for the other products group for the years 1927 to 1937, inclusive; section 8 presents the consolidated comparative balance sheets for the years 1926 to 1937, inclusive, and discussion of certain items on the balance sheet; section 9 deals with capital-stock issues 1917 to 1937, inclusive, and averages of the investment employed in the business; section 10 presents the consolidated comparative income and expense statement for the years 1927 to 1937, inclusive, and analysis of certain income accounts; section 11 deals with dealer cooperative advertising plans; and section 12 executive and employee profit-sharing plans, employee investment and insurance plans, and officers' salaries and extra compensation.

Organization and purposes.—General Motors Corporation was incorporated under the laws of the State of Delaware on October 13, 1916, with a perpetual charter. Briefly stated, the principal purposes for incorporation, as stated in the articles of incorporation were as follows, to wit:

> To manufacture, buy, sell, and deal in automobiles, trucks, cars, boats, flying machines, and other articles, their parts, accessories, and kindred articles and generally to conduct an automobile business in all of its branches and further to engage in any other manufacturing or mercantile business of any kind or character whatsoever and to that end to acquire, hold, own, and dispose of any and all property, assets, stocks, bonds, and rights of any and every kind.

The immediate purpose of forming the Delaware corporation was to acquire all of the outstanding capital stock of General Motors Co., a New Jersey corporation, to carry on the business formerly conducted by that corporation and to acquire and merge the business of the Chevrolet Motor Co., which although being a smaller corporation had acquired control of General Motors. Subsequently, or as of August 1, 1917, General Motors Co., the New Jersey corporation, was dissolved and the newly organized corporation acquired all of its assets and assumed its liabilities as well as those of Chevrolet Motor Co.

General Motors Co., predecessor to General Motors Corporation.—General Motors Co., the predecessor to General Motors Corporation, was organized under the laws of the State of New Jersey on September 16, 1908. The organization of this company was promoted by William C. Durant who had previously associated himself with the Buick Motor Co. of Flint, Mich. Soon after he reorganized Buick and increased its output, Durant seems to have visioned the possibilities of the motor-vehicle industry and to have foreseen the profits to be garnered by a large motor-vehicle corporation.

Immediately after organization General Motors Co. began acquiring the capital stocks of Buick Motor Co. and before the end of 1908 it had acquired all but a comparatively few of its outstanding common shares. Of the shares purchased, 18,870 shares of common and 1,130 shares of preferred were bought from William C. Durant at $150 per share payable two-thirds in General Motors preferred and one-third in its common stock. General Motors Co. then proceeded to purchase all of the stock, or a substantial interest, in other motor-vehicle or motor-parts companies. By the end of 1909 General Motors had acquired, or substantially controlled, more than 20 automobile and accessory companies, including Buick, Cadillac, Oldsmobile, and Oakland.

Soon after William C. Durant became associated with Buick Motor Co. he moved the Buick assembly to Jackson, Mich.,[1] and then later organized the Janney Motor Co., also located at Jackson. He realized that axles were almost as important as motors in the manufacture of motor vehicles and therefore he induced the Weston-Mott Co. to move from Utica, N. Y., to Flint, Mich., and allotted this company a strategic site in the new industrial area next to Buick. With the Weston-Mott Co. came C. S. Mott who later became a director and vice president of the General Motors Corporation. Mr. Durant also brought Albert Champion, a Frenchman, to Flint, and induced him to locate there, the manufacture of the famous AC spark plug.

Proposed acquisition of Ford Motor Co., Willys-Overland Co., and E. R. Thomas Co.—It is apparent that William C. Durant intended to gain control of the entire motor-vehicle industry. This observation is substantiated by the fact that in 1908, negotiations were carried on looking toward the acquisition of the Ford Motor Co., the Willys-Overland Co., and the E. R. Thomas Co. of Buffalo, maker of the "Thomas Flyer." Except for the lack of cash which was demanded first by Henry Ford and then by R. E. Olds it is most likely that these companies would have been purchased. In Men, Money and Motors, Theodore F. McMannus gives the following account of the negotiations:

> The automobile business was a hazardous business. Durant appreciated this. His azure dreams of power were often disturbed by nightmare flashes. Fly-by-

[1] Assembly later moved back to Flint, Mich.

night concerns with no objective save a skimming of the market and immediate profits for their promoters were everywhere. Durant realized there had to be stabilization. Early in 1908 he proposed to Ford, Couzens, Briscoe, and Olds a consolidation of Ford, Maxwell-Briscoe, Reo, and Buick.

Ford and Couzens played with the idea, matched wits against the wits of the others, and when Durant appeared more hopeful they tossed in this stipulation: "We will go in only on condition that we receive $3,000,000 in cash."

Not to be outdone by the Ford and Couzens ultimatum, R. E. Olds got to his feet and pronounced sentence on the consolidation: "If you do that for Ford you have got to do likewise by Reo. We will expect three millions in cash also." Durant waved his hands. The meeting ended. The project was abandoned.

Durant, however, was not easily discouraged. Calling aside Benjamin Briscoe, he said, "Let's go it alone, we two."

Briscoe was willing and the two men went to see George W. Perkins of J. P. Morgan & Co. The banker agreed to underwrite $500,000 of the new $1,500,000 capital required. A charter was tentatively drawn up and the consolidation was to be called the International Motors Co.

Again in 1909, Durant tried to obtain Ford Motor Co., for on October 26, 1909, the board of directors of General Motors authorized the purchase of the entire capital stock of Ford Motor Co. for $8,000,000. The proposed term of purchase provided that $2,000,000 was to be paid immediately in cash and the balance in 1 or 2 years if arrangements could be made to finance the deal. It appears that arrangements could not be made to finance the Ford purchase. Henry Ford held out for cash and the new holding company did not have the cash and bankers could not be found who would finance the acquisition. Likewise it is apparent that arrangements could not be made to finance the purchase of the entire capital stock of the E. R. Thomas Co. of Buffalo or of Willys-Overland Co. of Toledo, Ohio.

Early activities of William C. Durant in the motor-vehicle industry.—Buick Motor Co. was the nucleus around which William C. Durant laid the foundation of what was to become the present immense General Motors Corporation. The Buick Motor Co. was organized by David D. Buick, a member of the firm of Buick & Sherwood, manufacturers of plumbers' supplies, located in Detroit, Mich. Mr. Buick had been experimenting with motor vehicles and in the early part of 1903 put on the market a small single-cylinder car. In order to finance the subsequent experiments in automobiles the Buick Co. borrowed considerable sums from the Briscoe brothers, then manufacturing sheet metal in Detroit, Mich. Subsequently the Briscoe brothers took an interest in the Buick Manufacturing Co., changed the name to Buick Motor Car Co., and later assumed charge of its finances, to protect their loans to the Buick Manufacturing Co. After reorganization the Briscoe holdings represented $99,700 out of the total $100,000.

The Briscoes were unable to carry their load and determined to sell their interest in the Buick Co. A purchaser was found in James H. Whiting, president of the Flint Wagon Works of Flint, Mich. Mr. Whiting was one of the first to realize that the automobile would largely supplant the horse and thereby horse-drawn vehicles. Faced with the eventual loss of the wagon business, Mr. Whiting began to look for an automobile which would become the basis for an industry to use part of his plant. The manufacture and sale of Buick cars was not an immediate financial success and Mr. Whiting decided that he needed a young man to master the new business and one who would think in terms of profits rather than in mechanics. He discussed this subject with F. A. Aldridge of the Durant-Dort Carriage

Co. during a meeting of carriage manufacturers in Chicago. Mr. Aldridge advised him that the man he should interest, the one man who fitted the specifications and who was immediatley available, was William C. Durant. Mr. Durant already was considered a leader among his associates in the wagon business.

By November 1, 1904, the deal with Durant was complete and on that day the capital of Buick Motor Car Co. was increased from $75,000 to $300,000, divided into shares of $100 each. Holders of the old stock agreed to accept for each share a share of 7-percent preferred stock with a 25-percent bonus of common stock. With Buick prospering in 1907 and beginning 1908 at a pace that promised a strong financial position at the end of the year, Durant was ready to attempt a merger of the principal motor-vehicle manufacturing concerns. He planned the formation of a corporation which would operate as a holding company of which there were many examples among the "trusts" of the period. Subsequently it will be shown that General Motors changed from being essentially a holding to principally an operating company. After acquiring Buick, the General Motors Co. continued to acquire other companies in the motor-vehicle field and to construct additions to the acquired plants. This development continued at such a fast rate that by 1910 the company was hard pressed for funds to continue its expansion. William C. Durant put forth great effort to find funds and save the enterprise. In fact he dropped everything else to search for money. After many disappointments in his search for capital Durant was faced with the situation that only by stepping out of the management could he interest the bankers in making a loan to the company. He, therefore, resigned as president and J. & W. Seligman & Co., of New York, and Lee, Higginson & Co., of Boston, arranged to make a loan of $12,750,000 in cash. As security for this loan the company executed a blanket mortgage on all of its Michigan property which had just previously been transferred to the General Motors Co. of Michigan, a corporation set up to hold title for purposes of securing the loan. The latter company held title to the properties and leased them to the manufacturing companies. For the amount of cash stated, General Motors Co. issued $15,000,000 of 6-percent notes secured by the mortgage. In consideration for making the loan the company delivered to the bankers $4,169,200 in preferred stock and $2,000,000 in common stock, both at par. In total, therefore, the bankers received $8,419,200 in par value of stock and discount on notes for a loan that netted the company $12,750,000 in cash.

Coincident with the loan and the resignation of William C. Durant, the bankers took control of the company. Most of the old directors resigned and new ones were elected. However, Durant maintained his place as a director of the company. Directors representing the bankers were A. N. Brady, of New York; J. H. McClemmant, of New York; James J. Storrow, of Boston; Albert Strauss, of New York; Nicholas L. Tilney, of New York; and James M. Wallace, of New York. The new directors elected James J. Storrow as interim president and Messrs. Storrow and Strauss, whose union of interest dominated the board of directors, later selected Thomas Neal, of Detroit, as president. At the time of his election Thomas Neal was president of the Acme Lead & Color Works, one of Detroit's successful industries.

Durant organizes Chevrolet.—After William C. Durant lost control of General Motors the company followed a policy of retrenchment. In the retrenchments which followed, Buick's No. 2 plant was abandoned and motor operations moved to the north end of Flint.

The Flint Wagon Works had discontinued manufacturing the Whiting car and the carriage business had showed a steady decline from the rising competition of the automobile trade. The Flint Wagon Works, therefore, was anxious to liquidate. Durant bought the wagon-works property, plant, and contents and organized the Little Motor Car Co. to occupy the property. The company was named for William H. Little, who had been general manager of Buick under Durant. The Little Co. at first built only one model, a small 4-cylinder runabout, selling around $650, which placed it in competition with Ford.

During the same time Louis Chevrolet, a member of the famous Buick racing team, was engaged in designing and experimenting with a light car similar to those manufactured in France. It was his idea to combine beauty of design with power and sell at a moderate price. The idea appealed to William C. Durant, who accordingly backed Chevrolet's experiments in Detroit. In November 1911 the Chevrolet Motor Co. of Michigan was incorporated. Up to this time Chevrolet had built only four or five experimental cars.

In July 1911 the Mason Motor Co. was incorporated. Immediately it started producing motors in the old Buick No. 2 plant, which was rented for this purpose. There, as contracted for, the motors for both the Little and Chevrolet cars were built by the Mason Motor Co. Chevrolet was getting into small production and Chevrolet sales offices were opened in Chicago, Philadelphia, and Boston. It was offering a large six-cylinder car priced at $2,500 and upward.

The production at the Little plant in Flint far exceeded what had been done by Chevrolet in Detroit. The Flint enterprise actually was making money while the Detroit operation was losing. Consequently, Durant planned a much heavier schedule for Flint during 1913, but this schedule was considerably reduced. The fact that Flint was operating at a profit suggested the advisability of concentrating all manufacturing at Flint. Consequently, the Chevrolet Motor Co. discontinued operations in Detroit and moved to Flint in August 1913. For a time Chevrolet occupied the old Imperial Wheel Co. plant on property now owned by Buick. Soon thereafter Durant further consolidated his Flint position by extending his interest in the allied Mason Motor Co.

The year 1914 which witnessed the revival of general business activities in the United States found both the Little and Chevrolet cars in production at Flint. Chevrolet introduced its famous Baby Grand touring car and Royal Mail roadster. The organization had apparently become highly efficient through the necessity of making its own way on very little capital. The used-car problem had not developed and installment selling was still in the future. Chevrolet Co. sold for cash every car it produced. So great was the demand that if a shipment was not taken off the railroad track promptly by the consignee, someone else in the community could be depended upon to lift it without delay. As the money rolled in Durant transferred his offices from Detroit to New York in order to extend the sales from that center and also to work out a plan which he had formed for recovering control of General Motors Co. The latter had prospered under the Nash management and its profits were large. Payment had been promptly made on its funded debt and large reserves accumulated. Even then the eastern bankers apparently failed to appreciate the full possibilities of General Motors as thoroughly as Durant.

Chevrolet expansion went on at top speed during 1915. The Little car discontinued production and following an exchange of real estate all of Chevrolet's operations were concentrated in the western part of Flint. The Baby Grand and Royal Mail cars continued to be produced in volume and demand ran into large production.

In 1915 Chevrolet Motor Co. of Delaware was incorporated with a capital of $20,000,000 which was increased to $80,000,000 in December. This corporation acquired all of the stock of Chevrolet Motor Co. of New York, Chevrolet Motor Co. of Michigan, Chevrolet Motor Co. of Bay City, Chevrolet Motor Co. of Toledo, Ohio, Mason Motor Co. of Flint, and contract interests in Chevrolet Motor Co. of Canada, Ltd., and Chevrolet Motor Co. of St. Louis.

The officers of this company were R. H. Higgins, chairman of the board, L. G. Kaufman, chairman of the finance committee; W. C. Durant, president; A. B. C. Hardy, vice president; E. R. Campbell, second vice president; W. C. Sills, treasurer; J. T. Smith, secretary. Among the directors were H. M. Barksdell of Wilmington, Del., a Du Pont representative; and L. G. Kaufman, president of the Chatham Phoenix Bank, New York City. Mr. Kaufman entered Chevrolet's financial councils through his ready acceptance of Chevrolet loans at the instance of Nathan Hofheimer who had been a large stockholder in the Heany enterprises and who followed Durant into Chevrolet.

Durant regains control of General Motors.—With the organization of Chevrolet Motor Co. of Delaware, Durant contemplated offering Chevrolet stock in exchange for General Motors stock. The word went out that Chevrolet would trade five shares of Chevrolet stock for each share of General Motors common. Those who had followed Durant by investing early in Buick and General Motors began to send in or bring in their stock for exchange. It is related that one man brought in a large brief case of General Motors certificates to the Chevrolet headquarters in New York for exchange. The original offer held until January 25, 1916, when a change was made by which four shares of Chevrolet common stock were offered in exchange for one share of General Motors common stock. Through this offer William C. Durant regained control of a majority of the outstanding common stock of General Motors Co. Before demonstrating his control of General Motors through Chevrolet, however, Durant offered to have Chevrolet taken into the General Motors organization. This offer was declined and then his control was publicly announced and exercised.

The certificates of stock establishing control of General Motors by Durant, were brought in in baskets at the stockholders' meeting of September 16, 1915. Thus on the seventh anniversary of the incorporation Durant was again complete master of the situation. A dividend of $50 per share on the common stock was declared at this meeting and paid on October 15, 1916. The advantages of this disbursement for the victors were evident when consideration is given to the cost of acquiring the control. Borrowed money had gone into the stock as well as Chevrolet earnings. The treasury of Chevrolet received a huge sum and was thereby partially reimbursed.

On November 16, 1915, the following directors were elected representing the Du Pont interests, namely, F. L. Belin, Pierre S. Du Pont, J. Amory Haskill, and John J. Raskob. Other new directors were Arthur G. Bishop and Louis G. Kaufman. Messrs. Strauss and Storrow, perhaps reading the handwriting on the wall, had retired from the board in the preceding June. Pierre S. Du Pont was elected chairman of the board, a position he held for over 13 years. L. G. Kaufman took Mr. Storrow's place as chairman of the finance committee, and Charles Nash continued as president. The Du Ponts were first interested by Durant in taking a flyer with him in Chevrolet during his drive for control of General Motors. This interest was immediately recognized by recognition on the board of directors.

The fact that Chevrolet, the smaller company, controlled General Motors, a much larger company, called for a reorganization. This was effected by the organization of the General Motors Corporation of Delaware, the dissolution of the New Jersey company and the acquisition by the Delaware company of the Chevrolet Motor Co. Just prior to obtaining control of General Motors, Durant started assembling various accessory and parts companies into a corporation called United Motors Corporation. Subsequently General Motors Corporation of Delaware acquired this corporation.

Financial problems of Durant and General Motors in 1920.—During the period 1916 to 1920 General Motors continued with its program of expansion through both acquisition and the extension of existing facilities. It was first organized on the basis of a holding company but in 1916 it dissolved the Buick, Oldsmobile, Cadillac, Oakland, Jackson-Church-Wilcox, General Motors Truck, Northway, and Weston-Mott corporations. From that point the corporation became essentially an operating company instead of a holding company as originally planned in 1908.

The corporation's plan of expansion was as yet uncompleted by the middle of 1920. At this time the pendulum of business prosperity which had been rising with but slight interruption since 1915 now began a downward swing. In a speech made in 1927 at Milford, Mich., Alfred P. Sloan, Jr., now chairman of General Motors Corporation, stated:

> The liquidation which the inflated prices resulting from the war had set in, practically all schedules or a large part of them were canceled. Inventory commenced to roll in and before it was realized what was happening this great ship of ours was in the midst of a terrific storm. As a matter of fact, before control could be obtained General Motors found itself in a position of having to go to its bankers for loans aggregating $80,000,000 and although, as we look at things from today's standpoint, that isn't such a very large amount of money, yet when you must have $80,000,000 and haven't got it, it becomes an enormous sum of money and if we had not had the confidence and support of the strongest banking interests our ship could never have weathered the storm.

On this occasion General Motors had strong banking connections. An agreement was entered into for the distribution of 3,200,000 shares of common stock at $20 a share. Explosive Trades, Ltd., of London was interested by the Du Ponts to the extent of 1,800,000 shares and the balance was underwritten by J. P. Morgan & Co. With the recession in business, General Motors stock began to decline in price on the exchange. With the stock declining in market price a serious situation developed for Durant. His personal operations in the stock market had been large in volume. It was generally understood that he never sold General Motors stock but always bought it. During the 1920 decline he kept buying until his street loans reached a critical condition. His friends explained that he endeavored by extending his buying on the decline to maintain a price above $20 per share in order that Explosives Trades, Ltd., would come in and take the shares allotted to them at $20 per share. When the situation became known to his colleagues it was found that his commitments to bankers and brokers ran to huge proportions. These operations had been so huge and hurried that not even Durant himself could be quite sure what he owed. With each conference the sum kept growing until it is said to have approached $35,000,000.

On a falling market with public confidence low and General Motors in a position of rising inventories and decreasing earnings, the difficulties of its president became the difficulties of the corporation. If Durant were to be sold out by his bankers and brokers, a possibility which became more and more imminent with every point decline, the forced sale of his pledged securities on a falling market would have meant a wild decline in the whole stock market. From the standpoint of both the general welfare and corporate credit it was therefore necessary for someone to finance the settlement with Mr. Durant's brokers and take his holdings out of the market. In the General Motors situation only the Du Ponts had the financial strength to do this. The transaction was consummated and with the aid of J. P. Morgan & Co. the Du Pont interests took over the obligations of Durant. The holdings were taken over at a price which cleared him of debts and left him with not an inconsiderable margin. He resigned the presidency on November 30, 1920, and left General Motors for the last time.

The facts here related regarding the organization and early history of General Motors and the activities of the various persons therein, were contributed by board of directors' minutes, by Arthur Pound's The Turning Wheel, and by executives active in the corporation's affairs.

General Motors under Du Pont management.—After William C. Durant left General Motors for the last time in 1920, Pierre S. Du Pont was elected chairman of the board of directors, a position he held for 13 years. As chairman of the board it was his job to prune, straighten, and centralize the sprawling corporate structure of Durant's acquisitions. The pruning process ended the life of the Sheridan car, the Scripps-Booth car, and the Samson tractor. The internal reorganization was accomplished largely by Alfred P. Sloan, Jr., then a vice president, but who succeeded to the presidency in 1923.

The modern General Motors under Du Pont and Sloan continued the policy of expansion but followed a horizontal rather than a vertical plan of diversification. General Motors Acceptance Corporation was formed in 1919 and greatly expanded during the twenties in accordance with John J. Raskob's belief that installment buying "has made the prosperity of the United States."[1] During the twenties Frigidaire was introduced by General Motors and a whole new industry was created.

[1] Fortune Magazine, December 1938.

In 1924 Charles F. Kettering's research developed ethyl motor fuel, which in spite of an ill-omened beginning (known as "looney gas" it was for a time banned in many communities), soon became a very profitable patent monopoly for General Motors and its coowner, Standard Oil of New Jersey. It was in the twenties that General Motors bought into Yellow Truck & Coach and into Fokker Aircraft, later merged with North American Aviation. Although expansion has been a policy, the directions in which General Motors spread its operations in the words of Alfred P. Sloan, Jr., have been "not so much as the result of a definite policy." Some new products were developed from the chance happenings of General Motors' research and some "through the evolution of its primary products," but the expansion itself was a policy, and still is a policy that Mr. Sloan calls "broadening the profit base." An understanding of this policy is fundamental to an understanding of General Motors. There are three directions in which the profit base has broadened to such an extent that competitors, left far behind, may never catch up to at any time. One is the foreign markets, another is the making of, with a few exceptions, every part and accessory going into a motor vehicle, and, thirdly, the expansion into ventures not closely allied with the manufacturing of motor vehicles, such as Diesel's motors, air-conditioning equipment, refrigeration equipment, electric household appliances, etc. For more about the profits from these operations, see page 530.

How Alfred P. Sloan, Jr., came into General Motors organization.—Prior to 1917 Alfred P. Sloan, Jr., was president of the prosperous Hyatt Roller Bearing Co., manufacturers of roller bearings used largely by the motor-vehicle industry. The prosperity of the Hyatt Co. was dependent upon the motor-vehicle industry and it was more definitely dependent on Ford Motor Co. and General Motors because almost its entire sales went to those companies. Anticipating a possible difficult future for small part and accessory makers, Mr. Sloan put the Hyatt Co. into William C. Durant's merger of accessory and parts makers. The merged companies were organized under the name of United Motors Corporation and Mr. Sloan became president of the new corporation. In 1918 General Motors bought United Motors, which included Hyatt Roller Bearing Co., New Departure Co., Remy Electric Co., Dayton Engineering Laboratories, Jaxon Rim Co., and Harrison Radiator Co. With the acquisition of these interests, there came into the General Motors organization Alfred P. Sloan, Jr., and Charles F. Kettering. To secure the undivided services of Mr. Kettering, General Motors also bought up his other interests, which included practically the whole Dayton wartime airplane industry.

General Motors bids for Dodge Bros. motor-vehicle properties.—After the deaths of John F. Dodge and Horace E. Dodge, the motor-vehicle plants and properties of the Dodge Bros. were put on the market. On March 31, 1925, it was announced in the Commercial and Financial Chronicle that a syndicate of New York bankers, headed by Dillon, Read & Co., had acquired these properties of the Dodge Bros. in an all-cash transaction. The Chronicle further stated that the price paid had not officially been announced, but that it was reported that the transaction involved $146,000,000.

At the time that the acquisition of these properties was announced, Dillon, Read & Co. issued the following statement concerning the transaction:

"An agreement has been reached for the sale of Dodge Bros., Inc., to Dillon, Read & Co. and contracts of purchase are now being drawn.

"Consolidation of Dodge with any other company or companies is not in contemplation by the purchaser and current rumors of consolidation are entirely without foundation. It is the intention that Dodge Bros., Inc., shall continue to be declared as an independent corporation, without change of policy or personnel or management."

In addition to the bid of Dillon, Reed & Co., the General Motors Corporation, at the invitation of the trustees of the estate of John F. and Horace E. Dodge, deceased, submitted a sealed bid for the properties of Dodge Bros., through its bankers, J. P. Morgan & Co. The General Motors Corporation submitted two bids as follows: First, an all-cash bid of $124,650,000; and, second, a bid involving a cash payment of $59,000,000, net plus $90,000,000 of non-interest-bearing installment notes maturing in equal maturities of a period of 9 years. The present worth of these non-interest-bearing installment notes was approximately $65,500,000. This with the $59,000,000 cash payment shows the present worth or total cash value of this bid to be $124,500,000, or substantially the same as our other bid.

It is understood that the banking syndicate which will handle the public offering of securities of the Dodge Bros. has been practically completed. The main members of this syndicate, which will be headed by Dillon, Read & Co., will be Kuhn, Loeb & Co., the National City Co., Blair & Co., Inc., the Chase Securities Corporation of New York, as well as Chicago banking institutions. To these, it is said, will be added approximately 100 smaller institutions which will take care of the distribution of the securities in all parts of the country.

Stockholders of General Motors Corporation, December 31, 1937.— At the close of 1937 the total number of stockholders of the corporation was 375,755, the largest number in its history. This compares with 365,985 at the close of 1932, with 66,209 at the close of 1927, with 65,665 at the close of 1922, and 2,920 at the close of 1917.

Of the total number of stockholders at the close of 1937, only four held as much as 1 percent. The stockholders owning 1 percent or more, were:

Name	Shares	Percent
E. I. du Pont de Nemours & Co	10,000,000	23.30
G. M. Shares, Inc	2,584,875	6.02
Charles S. Mott	523,087	1.22
C. F. Kettering, Inc	447,198	1.04

From the foregoing it will be seen that the du Pont interests were the largest single holders of General Motors common, holding 23.30 percent. The value of the du Pont investment calculated at market prices during the early part of 1939, would be approximately $500,000,000.

The G. M. Shares, Inc., owning 6.02 percent was formed by a consolidation of General Motors Securities Co. and General Motors Management Corporation. Immediately preceding this consolidation E. I. du Pont de Nemours & Co. owned all of the common stock of General Motors Securities Co. against which there was allocated 9,843,750 shares of General Motors common stock. General Motors Securities Co. conveyed the shares and cash attributable to its common stock to the du Pont Co., and that company surrendered the common stock for cancelation. The remaining class A stockholders of the General Motors Securities Co. consisted of officers and executives of General Motors Corporation. The General Motors Management Corporation is described in another part of this report.

Comparative summary of sales, profits, dividends, earnings retained in the business, and surplus balances.—Table 15 presents a summary of sales, profits, cash dividends, stock issued as stock dividends, and earnings retained in the business by the General Motors from 1909 to 1937, inclusive. As indicated by the table the volume of sales by the corporation amounted to $29,029,875 during the year 1909, the first full year of operations, and the volume of sales grew until sales during 1937, amounted to $1,606,789,841, the largest amount in the history of the corporation. The net profit before provision for Federal and State income taxes in the first year of operations amounted to $6,875,651, and the greatest amount of profit earned during any 1 year was reflected during 1928, and amounted to $330,216,167. The profits realized during 1936 were $283,696,144, and this amount of profit was exceeded three times during the period from 1909 to 1937, inclusive.

During the 29 years from 1909 to 1937, inclusive, the sales by the corporation amounted to $18,276,760,627. From these sales the corporation realized net profit amounting to $3,013,013,048 before provision for payment of Federal and State income taxes, and $2,610,885,556 after provision for such taxes. The consistent earning record of General Motors is most remarkable, especially in view of the losses incurred, and written off, through making acquisitions and absorptions of corporations and properties that later proved unprofitable. The total earnings were disposed of by paying cash dividends on the common stock, amounting to $1,653,153,244, by paying cash dividends of preferred stock of $164,510,372, by transferring $164,189,635 amount to capital stock accounts and issuing stock as stock dividends, and other deductions from surplus amounted to $213,044,074. Thus the General Motors Corporation has in effect during the 29 years of operations made net profit (after allowing for income and other taxes) of $2,610,885,556, distributed $1,817,663,616 in cash dividends and retained $558,979,106 of the profits in the business, and set aside $8,212,519 belonging to the minority interests in companies controlled. The amounts transferred from surplus to capital accounts for the purpose of issuing stock dividends have been considered as profits reinvested in the business.

The other deductions from surplus just referred to included losses from sale of properties and securities, the writing off of unprofitable investments and distribution of profits to officers, executives, and employees of the corporation. The distribution of profits to officers, executives, and employees is more fully discussed in section 12 of chapter XII of this report.

The tabulation further shows that items of capital surplus amounting to $40,301,669 have been included in the general surplus account which is generally understood to be the earned surplus account, and the balance in this account is subject to appropriation by the board of directors for dividends. This subject is more fully discussed on page 511.

TABLE 15.—*General Motors Corporation and consolidated subsidiaries—Summary of net sales, profits, income tax, dividends, earnings retained in business, etc., 1909 to 1937, inclusive*

Year ended Dec. 31	Net sales	Net profit before income taxes	Income taxes	Net profit after income taxes	Cash dividends preferred stock	Cash dividends common stock	Stock dividends	For minority interests	Direct charges or credits to surplus	Capital surplus items	Earnings retained in business	Surplus balance
1909 [1]	$29, 029, 875	$6, 875, 651		$6, 875, 651	$237, 174					[3] $500, 000	$7, 138, 477	$7, 138, 477
1910 [1]	49, 430, 179	8, 588, 234		8, 688, 234	326, 998		$6, 249, 200		[2] $7, 800, 724		[2] 5, 788, 688	1, 349, 789
1911 [4]	42, 733, 303	3, 316, 251		3, 316, 251	1, 226, 626				[2] 2, 199, 239		[2] 109, 614	1, 240, 175
1912 [5]	64, 744, 496	3, 896, 293		3, 896, 293	1, 040, 210				[2] 2, 833, 663		22, 420	1, 262, 595
1913 [5]	85, 603, 920	7, 459, 471		7, 459, 471	1, 048, 534				[2] 4, 728, 153		1, 682, 784	2, 945, 379
1914 [5]	85, 373, 303	7, 249, 734		7, 249, 734	1, 048, 679				[2] 2, 457, 006		3, 744, 049	6, 689, 428
1915 [5]	94, 424, 841	14, 457, 803		14, 457, 803	1, 048, 964				[2] 113, 107		13, 295, 732	19, 985, 160
1916 [5]	156, 900, 296	28, 789, 560		28, 789, 560	1, 048, 964	$10, 730, 159					17, 010, 437	36, 995, 597
July 31, 1917 [5]	172, 677, 499	28, 834, 233	$4, 053, 316	24, 780, 917	1, 048, 964	7, 430, 302					16, 301, 651	53, 297, 248
Subtotal	780, 917, 712	109, 467, 230	4, 053, 316	105, 413, 914	8, 075, 113	18, 160, 461	6, 249, 200		[2] 20, 131, 892	500, 000	53, 297, 248	53, 297, 248
Aug. 1, 1917												9, 608
1917 [6]	96, 295, 741	17, 359, 488	2, 848, 574	14, 510, 914	491, 890	2, 294, 199		$226, 040			11, 498, 785	11, 508, 393
1918	269, 796, 829	38, 839, 576	20, 113, 548	18, 726, 028	1, 920, 467	11, 237, 310		565, 498	[2] 3, 335, 000	23, 232, 791	24, 900, 544	36, 408, 937
1919	509, 676, 694	98, 543, 459	30, 000, 000	68, 543, 459	4, 212, 513	17, 324, 541		512, 035	[2] 12, 567, 005	8, 305, 590	42, 232, 955	78, 641, 892
1920	567, 320, 603	50, 766, 080	3, 894, 000	46, 872, 080	5, 620, 426	17, 893, 289	12, 940, 435	133, 147	[2] 8, 988, 558	41, 335, 100	42, 631, 325	121, 273, 217
1921	304, 487, 243	[2] 24, 679, 793		[2] 24, 679, 793	6, 310, 010	20, 468, 276		978	[2] 14, 000, 000		[2] 65, 459, 057	55, 814, 160
1922	463, 706, 733	59, 399, 445	6, 250, 000	53, 149, 445	6, 429, 228	10, 177, 117		311, 313	[2] 2, 226, 197	117, 113	34, 122, 703	89, 936, 863
1923	698, 038, 947	74, 304, 513	8, 135, 000	66, 169, 513	6, 887, 371	24, 772, 026		319, 373	[2] 3, 782, 614	354, 308	30, 762, 437	120, 699, 300
1924	568, 007, 459	53, 387, 984	5, 727, 000	47, 660, 984	7, 272, 637	25, 030, 632		404, 291	5, 006, 115	[2] 58,547,910	[2] 38, 588, 371	82, 110, 929
1925	734, 592, 592	129, 585, 294	13, 912, 000	115, 673, 294	7, 639, 991	61, 935, 221		585, 776	[2] 8, 874, 837	272, 075	36, 909, 544	119, 020, 473
1926	1, 058, 153, 338	219, 081, 880	25, 834, 939	193, 246, 941	7, 645, 287	103, 930, 993	145, 000, 000	613, 598	[2] 16, 655, 298	50, 919, 081	[2] 29, 679, 154	89, 341, 319
1927	1, 289, 231, 917	297, 341, 859	35, 073, 019	262, 268, 840	9, 109, 330	134, 836, 082		945, 715	[2] 23, 004, 491	4, 104, 542	98, 477, 764	187, 819, 083
1928	1, 481, 745, 323	330, 216, 167	33, 959, 964	296, 256, 203	9, 404, 757	165, 300, 002		1, 214, 821	[2] 26, 353, 346	3, 656, 234	97, 639, 511	285, 458, 594
1929	1, 532, 213, 745	294, 580, 107	28, 755, 196	265, 824, 911	9, 478, 681	156, 600, 007		1, 347, 350	[2] 4, 117, 139	819, 945	95, 101, 679	380, 560, 273
1930	1, 005, 327, 903	174, 181, 084	16, 585, 258	157, 595, 826	9, 538, 660	130, 500, 001			[2] 13, 887, 139	[2] 39,965, 024	[2] 36, 294, 998	344, 265, 275
1931	828, 207, 978	131, 528, 117	14, 788, 161	116, 739, 956	9, 375, 899	130, 500, 001		[2] 106, 700	[2] 19, 440, 381	[2] 529, 168	[2] 42, 998, 793	301, 266, 482
1932	440, 899, 312	8, 824, 212	464, 282	8, 359, 930	9, 206, 387	53, 993, 330		65, 620	[2] 8, 099, 896	[2] 29, 435	[2] 63, 034, 738	238, 231, 744
1933	583, 746, 596	92, 880, 387	12, 370, 991	80, 509, 396	9, 178, 845	53, 826, 355		210, 050	[2] 7, 684, 070	1, 119, 536	10, 729, 612	248, 961, 356
1934	862, 672, 670	114, 853, 323	15, 728, 828	99, 124, 495	9, 178, 220	64, 443, 491		171, 640	[2] 4, 414, 048	230, 325	21, 147, 421	270, 108, 777
1935	1, 155, 641, 511	206, 653, 946	29, 957, 263	176, 696, 683	9, 178, 220	96, 476, 749		204, 080	[2] 10, 034, 686	768, 594	61, 571, 542	331, 680, 319
1936	1, 439, 289, 940	283, 696, 144	44, 146, 069	239, 550, 075	9, 178, 220	192, 903, 299		222, 768	[2] 2, 827, 722	1, 982, 840	36, 400, 906	368, 081, 225
1937	1, 606, 789, 841	252, 202, 546	49, 530, 084	202, 672, 462	9, 178, 220	160, 549, 862		265, 126	[2] 7, 625, 870	1, 655, 132	26, 708, 516	394, 789, 741
Subtotal	17, 495, 842, 915	2, 903, 545, 818	398, 074, 176	2, 505, 471, 642	156, 435, 259	1, 634, 992, 783	157, 940, 435	8, 212, 519	[2] 192, 912,182	39, 801, 669	394, 780, 133	394, 789, 741
Total	18, 276, 760, 627	3, 013, 013, 048	402, 127, 492	2, 610, 885, 556	164, 510, 372	1, 653, 153, 244	164, 189, 635	8, 212, 519	[2] 213,044, 074	40, 301, 669	[7] 394, 789,741	394, 789, 741

[1] Fiscal year ended Oct. 1.
[2] Denotes deduction.
[3] Donated surplus.
[4] 10 months ended July 31.
[5] Years 1912 to 1917, inclusive, are fiscal years ended July 31.
[6] General Motors Corporation was incorporated Oct. 13, 1916, succeeding General Motors Co., organized Sept. 16, 1908, and items on this line represent operations of 5 months to Dec. 31, 1917.
[7] Adjusted by $53,287,640 which amount represents surplus capitalized at reorganization Aug. 1, 1917.

SECTION 2. DESCRIPTION OF CORPORATE ORGANIZATION, OPERATIONS, AND PRODUCTS AS OF DECEMBER 31, 1937

Plants and products.—The divisions and subsidiaries of General Motors Corporation engage in a wide variety of activities. To mention all of the different products manufactured by the corporation would make a list too extensive for a report of this type. It seems sufficient to say that it is engaged in the manufacture and sale of motor vehicles, accessories, parts, motors for virtually every use, from the one one-hundredth-horsepower midget to the 6,000-horsepower Diesel locomotive. In fact, it covers the field in all forms of explosive power. The trade names of its lines of motor vehicles are: Chevrolet, Buick, Oldsmobile, Pontiac, Cadillac, La Salle, Opel, and Vauxhall. Through Yellow Truck & Coach Manufacturing Co., in which it owns a 50.36-percent interest, it makes trucks, busses, and taxicabs.

In addition to the lines of cars, the corporation and its subsidiaries make every part that goes into a motor vehicle except unfinished steel, tires, textiles, and glass. Its other activities cover a large number of household appliances, refrigeration equipment, air-conditioning equipment, heating equipment, lighting equipment, airplanes and aviation equipment, and numerous other items.

The activities of the corporation are more fully presented by the next outline, and even then this outline excludes some 29 foreign subsidiaries:

Passenger and commercial car group:
- Buick Motor Division, Flint, Mich., and Linden, N. J.: Buick passenger cars.
- Cadillac Motor Car Division, Detroit, Mich.: Cadillac V–8, V–12, V–16, and La Salle passenger cars.
- Chevrolet Motor Division, Detroit, Mich. (including subsidiaries): Chevrolet passenger and commercial cars produced in the manufacturing and assembly plants located as follows: Flint, Mich., motors, sheet metal, and assembly; Detroit, Mich., forgings, springs, gears, axles, wheels, and bumpers; Saginaw, Mich., foundry; Bay City, Mich., carburetors and hardened and ground parts; Toledo, Ohio, transmissions. Assembly plants in these cities: St. Louis and Kansas City, Mo.; Janesville, Wis.; Oakland, Calif.; Buffalo and Tarrytown, N. Y.; Norwood, Ohio; Atlanta, Ga.; Baltimore, Md.; Tonawanda, N. Y.; and Muncie, Ind. Commercial-body division at Indianapolis, Ind. Export boxing plant at Bloomfield, N. J.
- Olds Motor Works Division, Lansing, Mich.: Oldsmobile passenger cars.
- Pontiac Motor Division, Pontiac, Mich.: Pontiac passenger cars.
- Assembly plant, Southgate, Calif.
- General Motors of Canada, Ltd., Oshawa, Ontario: Cadillac, La Salle, McLaughlin-Buick, Oldsmobile, Pontiac, and Chevrolet passenger cars; Chevrolet commercial cars; General Motors trucks. Plants at Oshawa and Walkerville, Ontario, and Regina, Saskatchewan.
- Yellow Truck & Coach Manufacturing Co. (General Motors Truck Corporation, Pontiac, Mich., subsidiary): General Motors trucks, Yellow coaches, General cabs.
- General Motors Fleet Sales Division, Detroit, Mich.: Sells General Motors passenger and commercial cars to large fleet users.

Fisher Body group:
- Fisher Body Division, Detroit, Mich.: Automobile-body and body-parts plants located at Detroit, Lansing, Pontiac, and Flint, Mich.; Buffalo and Tarrytown, N. Y.; Cleveland and Cincinnati, Ohio; St. Louis and Kansas City, Mo; Janesville, Wis.; Oakland, Calif.; Atlanta, Ga.; Grand Rapids, Mich.; and Ionia, Mich. Automobile body parts depot at Detroit, Mich. Woodworking plants at Seattle, Wash., and Memphis, Tenn. Extensive acreage of virgin hardwood timber in northern Michigan.
- Fleetwood Body Division, Detroit, Mich.: Automobile body building plant for custom bodies.

Fisher Body Group—Continued.

Ternstedt Manufacturing Division, Detroit, Mich., Trenton, N. J.: Hardware for automobile bodies and Frigidaire cabinets.

The National Plate Glass Co., Detroit, Mich.: Deals in glass for automobile bodies.

Fisher Lumber Corporation, Memphis, Tenn. (Fisher Delta Log Co., subsidiary): Large tracts of virgin hardwood timber in Louisiana and Arkansas; sawmills at Ferriday and Wisner, La., and Memphis, Tenn.

Accessory and parts group:

AC Spark Plug Division, Flint, Mich.: AC spark plugs, AC Miko aviation plugs, radio plugs, spark-plug testers, spark-plug cleaning machines, speedometers, oil-pressure gages, ammeters, thermo gages, gasoline gages, tachometers, instrument panels, locker doors, carburetor intake silencers, oil filters, air cleaners, crankcase breather air cleaners, fuel pumps, vacuum pumps, combination fuel and vacuum pumps, gasoline strainers, air pressure gages, ride-regulator controls, lubrometers, die castings, die cast machines, flexible shafts and cables; Reflex warning signals; Remo gum-solvent injectors and fluid.

Delco Products Division, Dayton, Ohio.: Delco-Lovejoy hydraulic shock absorbers for automobiles, trucks, and busses; Delco electric motors for refrigerators, pumps, washing machines, ironers, meat slicers, oil burners, and air-conditioning equipment; coiled and flat springs for engine valves, clutches, refrigeration unit mountings, door latches, or any applications where coil and flat springs are required; master cylinders and wheel cylinders for hydraulic-brake equipment.

Delco-Remy Division, Anderson, Ind., and Bloomfield, N. J.: Accelerator pedal-starter controls; coincidental locking devices; dash choke, spark and throttle controls; generators; ignition systems; lock coils; starting motors; starter drives; switches; automatic-choke controls; valve tappets; vacuum-contrôlled ignition systems; wiring harness; Delco batteries; Klaxon horns; Bu-Nite pistons. Plants at Anderson and Muncie, Ind.

Delco Brake Division, Dayton, Ohio.

Delco Radio Division, Kokomo, Ind.

Brown-Lipe-Chapin Division, Syracuse, N. Y.

Diesel Engine Division, Detroit, Mich., and La Grange, Ill.

Guide Lamp Division, Anderson, Ind.: Automobile lighting equipment and hub caps.

Harrison Radiator Division, Lockport, N. Y., and St. Louis, Mo.: Automobile radiators, radiator shutters, oil temperature regulators, thermostats, hot-water car heaters, heat exchangers.

Hyatt Bearings Division, Newark, N. J.: Hyatt antifriction roller bearings.

Inland Manufacturing Division, Dayton, Ohio., and Clark Township, N. J.: Steering wheels; metal-rubber running boards; Inlox motor supports; Inlox spring eye bushings; Quickube, Du-flex, Flexo-tray and Felxogrid rubber ice trays for automatic refrigerators; battery-container covers; hard and soft rubber and molded products.

The McKinnon Industries, Ltd., St. Catharines, Ontario: Automobile rear axles and differentials, steering gears; axle shafts; Delco-Lovejoy shock absorbers; Delco fractional commercial motors; AC spark plugs; Delco-Remy starting, lighting, and ignition systems; tool kits; malleable castings; stampings; drop forgings; saddlery hardware.

Moraine Products Division, Dayton, Ohio: Durex oil-impregnated metal bearings; Moraine rolled bronze bearings.

New Departure Manufacturing Division, Bristol and Meriden, Conn.: Ball bearings, coaster brakes, bells, bicycle hubs.

Packard Electric Division, Warren, Ohio: Automotive cable products.

Saginaw Malleable Iron Division, Saginaw, Mich.: Mallable iron castings for passenger cars and trucks.

Saginaw Steering Gear Division, Saginaw, Mich.: Steering gears for passenger cars, trucks, and busses.

Sunlight Electrical Division, Warren, Ohio: Electric motors for washing machines, wringers, and ironers.

United Motors Service, Inc., Detroit, Mich.: Through its 25 branches in the United States and Canada provides authorized national service for Delco-Remy and North East starting, lighting, and ignition systems; Harrison hot-water car heaters; Delco steam heaters; AC and North East speedometers; Delco batteries; Delco-Lovejoy hydraulic shock absorbers; Delco commercial electric motors; automotive and household radios; Klaxon

Accessory and parts group—Continued.

horns; Harrison radiators; New Departure ball bearings; Hyatt roller bearings; AC air cleaners, oil filters, gasoline strainers, fuel pumps, gages, and spark plugs; Guide lamps. Also provides national distribution and service for Delco-Light electric power and light plants; Delco-Light batteries; Delco electric pumps and water systems; Delcogas systems; Delco vacuum cleaners; Delco electric fans.

Household appliance group:

Delco Appliance Division, Rochester, N. Y.: Delco Heat automatic oil burners, automatic boilers, and automatic furnaces—for residential and commercial heating purposes; Delco-Light individual electric power and lighting plants; Delco electric pumps and water systems; Delco gas, an automatic domestic gas service; Delco vacuum cleaners; Delco desk, ceiling, and ventilating fans; Delco small motors and blowers; Delco steam automobile heaters; voltage regulators; North East speedometers; radio transformers.

Frigidaire Division, Dayton, Ohio: Frigidaire electric refrigerating units for household and commercial use; household and apartment-house cabinets; ice-cream cabinets; milk-cooling equipment; Frigidaire beverage and water coolers; Frigidaire air-conditioning equipment for homes, offices, shops, other buildings, and railway cars.

Aviation group:

Allison Engineering Division, Indianapolis, Ind.: Aircraft power plant engineering; aviation engines, bearings, superchargers, gears, and mechanical equipment.

General Aviation Corporation, Wilmington, Del.: Owns large stock interest in North American Aviation, Inc.

North American Aviation, Inc., New York, N. Y.:

Wholly owned subsidiaries:

General Aviation Manufacturing Corporation (and B/J Aircraft Corporation), Baltimore, Md.: GA and B/J commercial and military landplanes, seaplanes, and flying boats.

Eastern Air Transport, Inc., Atlanta, Ga.: Air transportation, Atlantic seaboard.

Affiliates:

Western Air Express Corporation, Burbank, Calif.: Air transportation, California and Rocky Mountain States.

Transcontinental & Western Air, Inc., Kansas City, Mo.: Air transportation, New York to Los Angeles, via Kansas City.

Miscellaneous group:

Ethyl Gasoline Corporation, New York, N. Y.: Manufactures Ethyl and Q brands of antiknock compound and markets same to oil-refining companies, who blend these compounds with their gasoline to produce Ethyl gasoline and leaded regular gasoline.

Kinetic Chemicals, Inc., Deepwater Point, N. J.: Manufacture and sale of new types of refrigerant chemicals and allied products.

Winton Engine Division, Cleveland, Ohio: Rail car gasoline and oil engines, locomotive gasoline and oil engines, marine gasoline and oil engines, stationary gasoline and oil engines.

Financing, insurance, and accounting group:

General Motors Acceptance Corporation, New York, N. Y. (including subsidiaries): Finances wholesale distribution and purchases retail time sale contracts arising from sales by dealers in General Motors products; branch offices in 84 cities in the United States, Dominion of Canada, and overseas.

General Exchange Insurance Corporation, New York, N. Y.: Provides insurance service against accidental damage to cars sold at retail in the United States, Hawaiian Islands, Alaska, and Canada.

Motors Holding Division, New York, N. Y.: Invests in dealerships handling General Motors products.

General Motors Management Service of Canada, Ltd., Oshawa, Ontario: Installs and supervises standardized accounting practices for General Motors dealers and distributors in Canada.

Real-estate group:
- Argonaut Realty Corporation, Detroit, Mich.: Erects and finances salesrooms, parts depots, garages and service stations for General Motors divisions, subsidiaries, and affiliated companies; surveys and negotiates real-estate projects and leases for divisions, branches, and affiliated companies; acts as consultant on real-estate projects and leases for distributors and dealers.
- General Motors Building Corporation, Detroit, Mich.: Owns and operates central office building in Detroit.
- Modern Dwellings, Ltd., Oshawa, Ontario: Housing for employees in Oshawa.
- Modern Housing Corporation, Detroit, Mich.: Housing for employees in Flint and Pontaic, Mich., and Janesville, Wis.

Research and training:
- General Motors Research Laboratories, Detroit, Mich.: Maintained for the continuous improvement of General Motors products.
- General Motors Proving Ground, Milford, Mich.: A 1,268–acre outdoor laboratory for the testing of General Motors cars and trucks.
- General Motors Institute, Flint, Mich.: Specific educational and training programs primarily for General Motors employees and for employees of divisions and distributors. Training conducted on full time, part time, or extension basis, with special applications to the needs of the automobile industry.

Retail dealer outlets.—The General Motors Corporation's lines of motor vehicles, with the exception of trucks distributed by Yellow Truck & Coach Manufacturing Co., were distributed through the classes of dealers during 1937, as shown hereafter:

	Distributors	Direct dealers	Associate dealers	Total
Division of General Motors Sales Corporation:				
Chevrolet	(1)	7,069	2,361	9,430
Buick	9	2,542	369	2,920
Pontiac	8	3,479	466	3,953
Oldsmobile	1	3,293	308	3,602
Cadillac-La Salle	162	972	(1)	1,134
Total	180	17,355	3,504	21,039

[1] Type outlet not employed.

Operating organization.—As stated earlier in this report, General Motors dissolved its principal United States manufacturing subsidiaries as of December 31, 1916. After that action, the activities of these corporations have been conducted directly by the corporation through divisions. Subsequently, the assets and properties of other corporations were acquired, and in yet other cases the capital stocks of companies were acquired. Some of these companies were dissolved, and the assets and properties were taken over and organized as divisions. Briefly it can be stated that in general the United States manufacturing operations are conducted through divisions and that sales from the United States plants are handled by sales and service subsidiaries.

In operations outside of the United States, both manufacture and sale are handled by corporations organized for that purpose. For example, the Chevrolet, Pontiac, Oldsmobile, McLaughlin-Buick, La Salle and Cadillac lines of passenger cars are manufactured in Canada by General Motors of Canada, Ltd., which company also makes and sells Chevrolets commercial cars and trucks, Maple Leaf trucks, and General Motors trucks. The same lines of cars are sold through General Motors Overseas Corporation in the foreign markets other than Canada. The Opel line of passenger cars and the Opel commercials and Blitz trucks are completely manufactured in Germany and sold by Adam Opel, A. G. The Vauxhall line of passenger cars and Bedford commercials and trucks are completely manufactured in the British Isles and sold by Vauxhall Motors, Ltd.

Prior to December 1, 1936, General Motors Corporation marketed the products from the United States divisions through numerous sales corporations. As of December 1, 1936, most of these sales corporations were dissolved and in their place General Motors Sales Corporation was organized. This corporation carries on the activities previously carried on by the sales corporations. The organization of the sales corporation follows a somewhat similar plan as General Motors Corporation with regard to its manufacturing divisions. For illustration, the sales activities are carried on by divisions of the General Motors Sales Corporation. For example, there is the Buick Division, Chevrolet Division, Pontiac Division, Oldsmobile Division, Cadillac-La Salle Division, Motors Parts Division, Frigidaire Division, and other divisions of the General Motors Sales Corporation.

Each manufacturing division is headed by a general manager, who is responsible to the chairman of the board and the president for the operations of his respective division. Each division of the sales corporation is headed by a manager of sales, who in turn is responsible to the president of the General Motors Sales Corporation.

The products manufactured by the manufacturing divisions are sold to the sales and service subsidiaries of General Motors Corporation, which in turn sell the products to dealers and distributors. There are several exceptions to the foregoing outline of organization, namely, some of the manufacturing divisions own and operate retail selling branches. These retail sales by the manufacturing divisions are, however, of minor consequence to the total sales. In addition to the retail branches owned by the manufacturing divisions, General Motors Corporation owns an interest in numerous dealer outlets through the Motors Holding Division of General Motors Corporation.

During the year 1929 General Motors organized the General Motors Holding Corporation. This company was dissolved in December 1936 and has since been operated as a division. As stated in the annual report to the stockholders for 1937, the objective of this corporation or division was to promote greater effectiveness of the corporation's dealer organizations by an organized plan to make investments in approved dealerships having the purpose of:

> (*a*) Providing supplemental financial support where justified, (*b*) providing financial assistance to individuals of ambition, ability, and potentiality whose restricted financial resources did not permit them to qualify for a General Motors dealership. The policy of the corporation is to limit its normal functions to that of a producer and wholesale distributor of its manufactured products. It is of the belief that the distribution of its products at retail can best be effected by independent dealers operating on their own resources. Such a relationship supported by constructive and aggressive policies based upon equity and cooperation is believed to be the most desirable approach to this particular problem of retailing.

The relationship between the General Motors dealers within the Motors Holding Division and the corporation from the operating standpoint is not different from that of any other dealer within the General Motors group. From the financial standpoint the plan provides that, after 15 percent of the capital employed is deducted from the profits and distributed to the dealer and the corporation in proportion to their stockholding interests, 50 percent of the balance is paid to the dealer as a bonus in addition to a reasonable salary for operating the business. A substantial part of the bonus and all dividends received from the business must be used for retiring the interest of the corporation in the dealership on the basis of the book value of its holdings to the end that, as the business prospers and earnings accrue, the corporation's share will be retired automatically, and when completely eliminated, the dealer becomes the sole owner of the business.

Thus it will be seen that the Motors Holding plan really consists of a revolving fund. No permanent investment in any dealership is contemplated or desired. The use of the corporation's resources in this helpful way to provide an opportunity for capable and ambitious individuals to set themselves up in business and thus to reap the reward of their own endeavors, is certainly a forward-looking policy.

During the period of its operations from 1929 to 1937 Motors Holding Division of General Motors Corporation acquired 428 dealerships, disposed of 92 dealerships, and, as of December 31, 1937, held investments in 336 dealerships. There follows now a listing of the number of investments in retail dealerships during each year from 1929 to 1937, inclusive.

	Number investments beginning of year	Number acquired during year	Number disposed of during year	Number investments at end of year
1929	0	12	0	12
1930	12	57	0	69
1931	69	30	4	95
1932	95	18	29	84
1933	84	43	26	101
1934	101	38	14	125
1935	125	33	15	143
1936	143	143	1	285
1937	285	54	3	336
Total 1929 to Dec. 12, 1937		428	92	336

As indicated in the foregoing, Motors Holding disposed of 92 dealerships from 1931 to 1937. Of the number disposed of, 62 were liquidated and 30 sold. Of the number liquidated, 12 were for the purpose of reorganizing and the successors continue to operate: 48 companies were liquidated because of excessive losses and two companies were liquidated to assist other dealers in localities where there were too many outlets of the same car. Of the 30 companies sold, 11 were sold in accordance with the investment plan whereby operators purchased the Motors Holding investment from earnings; 6 were sold to other divisions of General Motors Corporation and 13 were sold to independent interests who offered to purchase them.

Combined financial statement of operations for Motors Holding retail dealerships.—There is submitted hereafter a combined statement of the operations of all dealer companies in which Motors Holding Division of General Motors Corporation owned an interest during the years 1935, 1936, and 1937.

Combined statements of operating results of all dealer companies in which Motors Holding Division owned an interest

	1935		1936		1937	
	Units	Amount	Units	Amount	Units	Amount
New cars, retail at list	47,522	$34,059,205	102,448	$72,009,393	126,831	$94,801,265
Used cars	82,258	19,441,997	177,166	42,294,713	237,571	63,179,890
Labor, customers		2,785,266		4,837,113		8,164,581
All other retail sales (parts, accessories, sublet repairs, duco, gas, oil and grease, and miscellaneous, etc.)		14,723,513		31,848,061		45,610,079
Total all sales		71,009,981		150,989,280		211,755,815
Cost of sales		58,639,071		125,948,050		176,402,703
Gross profit		12,370,910		25,041,230		35,353,112
Variable expenses		3,945,055		8,446,325		11,873,359
Fixed expenses		6,897,686		12,994,015		20,099,579
Total operating expenses		10,842,741		21,440,340		31,972,938
Total retail operating profit		1,528,169		3,600,890		3,380,174
Net additions and deductions, including wholesale gross profit	[1] 1,373	[2] 514,363	[1] 2,878	[2] 1,065,067	[1] 5,676	[2] 581,380
Net profit		1,013,806		2,535,823		2,798,794

[1] Wholesale units.
[2] Denotes deductions.

Operating divisions and sales subsidiaries.—There follows hereafter a list of the United States manufacturing divisions and of the subsidiaries that engage in the manufacture and sale of the corporation's products in the United States, Canada, and foreign countries, effective as of December 31, 1937.

UNITED STATES DIVISIONS

1. Buick Motor Division.
2. Cadillac Motor Car Division.
3. Chevrolet Motor Division.
4. Olds Motor Works Division.
5. Pontiac Motor Division.
6. Fisher Body Division.
7. Fleetwood Body Division.
8. Ternstedt Manufacturing Division.
9. A C Spark Plug Division.
10. Delco Brake Division.
11. Delco Products Division.
12. Sunlight Electrical Division.
13. Delco-Remy Division.
14. Delco Radio Division.
15. Brown-Lipe-Chapin Division.
16. Packard Electric Division.
17. Guide Lamp Division.
18. Harrison Division.
19. Hyatt Bearings Division.
20. Inland Division.
21. Moraine Product Division.
22. New Departure Division.
23. Saginaw Malleable Iron Division.
24. Saginaw Steering Gear Division.
25. Delco Appliance Division.
26. Frigidaire Division.
27. General Motors Export Division.
28. Motors Holding Division.

SALES CORPORATIONS

1. General Motors Sales Corporation.
2. General Motors Overseas Corporation.
3. AC Spark Plug Co.
4. Fleetwood Body Corporation.
5. Hyatt Roller Bearing Sales Co.
6. United Motors Service, Inc.
7. New Departure Co.

The activities of most of the sales corporations have been previously described. However, a few of these will be commented upon.

AC Spark Plug Co.—Engages in the distribution of AC Spark Plugs in the United States. This company was continued as a sales company when the assets and properties of AC Spark Plug Co. were taken over by General Motors Corporation and organized as a division.

Fleetwood Body Corporation.—This corporation engages in the sale of Fleetwood custom-built bodies made by the Fleetwood Division of General Motors Corporation.

United Motors Service, Inc.—Through its numerous branches this corporation engages in sales and service of accessories in the United States. It provides service for the products of AC Spark Plug Division, Delco Brake Division, Delco Products Division, Sunlight Electrical Division, Delco-Remy Division, Packard Electric Division, Guide Lamp Division, Harrison Radiator Division, Hyatt Bearing Division, and New Departure Division.

It distributes and services Delco automotive and home radios, Delco light plants, Delco electric water pumps and systems and other products of the Delco Appliance Division.

OTHER MANUFACTURING AND SALES COMPANIES

1. Yellow Truck & Coach Manufacturing Co., General Motors Truck Corporation, subsidiary.
2. Allison Engineering Co.
3. Winton Engine Manufacturing Corporation.
4. Electro-Motive Corporation.
5. Fisher Lumber Corporation.

Yellow Truck & Coach Manufacturing Co.—As shown in the subsequent discussion of investments the General Motors Corporation owns but slightly more than a 50 percent interest in this corporation. The corporation engages in the manufacture and sale of General Motors trucks, Yellow Coaches, and General Cabs. Its products are distributed through General Motors Truck Corporation, a subsidiary.

Allison Engineering Co.—Engages in aircraft power-plant engineering and manufacture of aviation engines, bearings, superchargers, and mechanical equipment.

Winton Engine Manufacturing Corporation.—This company manufactures power plants employed both by auto and Diesel vehicles. This company was reorganized during 1937 as the Cleveland Diesel Engine Division. It will continue the manufacture of Diesel engines of General Motors design at the original plant in Cleveland specializing more particularly in the adaptation of that design to marine purposes.

Electro-Motive Corporation.—This corporation engaged in designing and selling gas-electric power plants for self-propelled railroad cars, locomotives, and other purposes. The Diesel engine as designed by General Motors as first applied in a commercial way to transportation by rail through the development of an advance Diesel locomotive. Following the initial experiment the plant was erected in LaGrange, Ill., for the manufacture of locomotives of this type and the Electro-Motive Corporation was organized. During 1937 additional manufacturing units were added for the purpose of eventually making the operation of a complete and self-contained unit for the complete manufacture of Diesel locomotives. Locomotive engine building as previously conducted by Winton Engine in Cleveland will be carried on hereafter at LaGrange, Ill.

FOREIGN MANUFACTURING AND SALES COMPANIES

1. General Motors of Canada, Ltd.
2. Adam Opel A. G.
3. Vauxhall Motors, Ltd.
4. The McKinnon Industries, Ltd.
5. AC-Sphinx Sparking Plug Co., Ltd.
6. Frigidaire, Ltd.
7. General Motors Products of Canada, Ltd.
8. Delco-Remy & Hyatt, Ltd.
9. And 26 other foreign subsidiaries.

The operations of General Motors of Canada, Ltd., Adam Opel A. G., and Vauxhall Motors, Ltd., have been previously commented upon.

The McKinnon Industries, Ltd.—Acquired in 1929, and located at St. Catherines, Ontario. This company engages in the manufacture of automobile rear axles and differentials, steering gears, axle shafts, Delco-Lovejoy shock absorbers, Delco fractional commercial motors, AC Spark Plugs, Delco-Remy starting, lighting, and ignition systems; malleable castings, stampings, drop forgings, tool kits, and saddlery hardware.

AC-Sphinx Sparking Plug Co., Ltd.—Manufacture of spark plugs, air cleaners, oil filters, oil-pressure gages, gasoline pumps, filters, and gages in the British Isles.

General Motors Products of Canada, Ltd.—Sales and service in Canada of all General Motors accessory products.

Delco-Remy & Hyatt, Ltd.—Sales and service in the British Isles of all General Motors accessory products.

Officers and directors of General Motors Corporation.—There follows hereafter a list of the officers and directors of General Motors Corporation in 1917 and 1937:

1917—DIRECTORS

F. L. Belin.
W. C. Durant.
J. A. Haskell.
L. G. Kaufman.
J. H. McClement.
A. G. Bishop.
W. P. Chrysler.
C. S. Mott.
R. H. Collins.
W. C. Leland.
W. L. Day.
F. W. Warner.
Pierre S. du Pont.
J. J. Raskob.

1937—DIRECTORS

Alfred P. Sloan, Jr., chairman.
Donaldson Brown, vice chairman.
Arthur G. Bishop.
Albert Bradley.
Walter S. Carpenter, Jr.
Marvin E. Coyle.
Henry F. du Pont.
Irenee du Pont.
Lammot du Pont.
Pierre S. du Pont.
Lawrence P. Fisher.
William A. Fisher.
Richard H. Grant.
Ormond E. Hunt.
Louis G. Kaufman.
Charles F. Kettering.
William S. Knudsen.
Lord McGowan.
R. Samuel McLaughlin.
James D. Mooney.
Junius S. Morgan.
Charles S. Mott.
Fritz Opel.
DeWitt Page.
John L. Pratt.
Seward Prosser.
Arthur B. Purvis.
John J. Raskob.
John J. Schumann, Jr.
John Thomas Smith.
George Whitney.
Charles E. Wilson.
Clarence M. Woolley.
Owen D. Young.

1917—OFFICERS

W. C. Durant, president.
C. S. Mott, vice president.
A. G. Bishop, vice president.
T. S. Merrill, secretary.
H. H. Rice, treasurer.
M. L. Prensky, comptroller.
Standish Backus, counsel.

1937—OFFICERS

Alfred P. Sloan, Jr., chairman.
William S. Knudsen, president.
Albert Bradley, vice president.
Donaldson Brown, vice president.
Marvin E. Coyle, vice president.
Ronald K. Evans, vice president.
Lawrence P. Fisher, vice president.
William A. Fisher, vice president.
Richard H. Grant, vice president.
Ormond E. Hunt, vice president.
Charles F. Kettering, vice president.
R. Samuel McLaughlin, vice president.
James D. Mooney, vice president.
John Thomas Smith, vice president and general counsel.
Floyd O. Tanner, vice president.
Charles E. Wilson, vice president.
Meyer L. Prentis, treasurer.
Frederic G. Donner, general assistant treasurer.
Anthony C. Anderson, comptroller.
Lisle R. Beardslee, secretary.

Corporate organization.—The General Motors Corporation of 1937 is primarily an operating corporation owning the plants, properties, and other assets comprising its operations. It does, however, conduct some of its operations through subsidiaries, especially foreign, and to that extent it is also a holding corporation owning all or part of the capital stocks of other corporations engaged in certain activities.

The corporate organization as of December 31, 1937, follows, and is subdivided to show those corporations included in the consolidated financial statements and those carried as investments.

SUBSIDIARIES CONSOLIDATED

General Motors Corporation:
- General Motors Sales Corporation.
- General Motors Overseas Corporation.
- General Motors of Canada, Ltd.
- United Motors Service, Inc.
- AC Spark Plug Co.
- Allison Engineering Co.
- Argonaut Real Estate Corporation.
- Electro-Motive Corporation.
- Fisher Lumber Corporation.
- Fleetwood Body Corporation.
- General Motors Research Corporation.

General Motors Corporation—Continued.
Hyatt Roller Bearing Sales Co.
New Departure Co.
General Motors-Holden's, Ltd., Australia.
The McKinnon Industries, Ltd., Canada.
AC Spinx Sparking Plug Co., Ltd., British Isles.
Frigidaire, Ltd., foreign.
General Motors Japan, Ltd., Japan.
Delco-Remy & Hyatt, Ltd., British Isles.
General Motors Products of Canada, Ltd.
General Motors Argentina, S. A., Buenos Aires.
General Motors International, A. S., Denmark.
General Motors Nordiska, A. B, Sweden.
General Motors Continental, S. A, Belgium.
General Motors Peninsular, S. A., Spain.
General Motors Near East, S. A., Egypt.
General Motors do Brazil, S. A., Brazil.
General Motors South African, Ltd., Port Elizabeth.
General Motors New Zealand, Ltd., Wellington.
N. V. General Motors Java, Batavia.
General Motors of India, Bombay.
Eleven other foreign subsidiaries.

Investments in companies not consolidated, with amount and percent of ownership

Name	Amount	Percent
General Motors Acceptance Corporation	$84, 915, 319	100
General Exchange Insurance Corporation	22, 754, 927	100
Modern Dwellings, Ltd	102, 991	100
Other	371, 658	100
Yellow Truck & Coach Manufacturing Co	28, 603, 126	50. 36
Vauxhall Motors, Ltd	17, 420, 171	100
Adam Opel A. G	35, 030, 628	100
Motors Holding Division, dealerships	8, 857, 536	----------
Ethyl Gasoline Corporation	4, 432, 428	49. 7
Bendix Aviation Corporation	15, 341, 600	23. 8
North American Aviation, Inc	4, 507, 308	29. 1
Kinetic Chemicals, Inc	554, 618	49
National Bank of Detroit, common stock	6, 712, 525	53. 7
Land contracts and mortgages	8, 081, 492	----------
Miscellaneous	2, 973, 669	----------
Total, Dec. 31, 1937	240, 660, 056	----------

Section 3. Principal Acquisitions of Capital Stocks and Properties of Nonaffiliated Companies by General Motors Co., the New Jersey Corporation, 1908 to 1917

General.—While incorporated as an original organization, and not a consolidation of firms or corporations that had previously existed, the minutes of meetings of the board of directors of General Motors Co., from which was obtained nearly all of the information on acquisitions by the company presented with respect to the New Jersey company, showed that the acquiring of many of the important companies then engaged in the manufacture of automobiles and automobile parts was begun soon after General Motors Co. was formed. Twelve companies engaged in the manufacture of motor vehicles, including such important organizations as Buick, Olds, Cadillac, and Oakland, were soon acquired, as well as certain plant properties and numerous companies engaged in the manufacture of automobile parts. Some of the acquisitions were of companies supposed to own valuable patents.

Before the changes discussed in the following paragraph were effected, General Motors Co., in 1910, purchased from subsidiary companies the following shares of stock of other companies, which are discussed in greater detail elsewhere in this chapter of the Commission's report:

From Buick Motor Co.:
750 shares of Champion Ignition Co.
5,000 shares of The McLaughlin Motor Car Co., Ltd.
2,500 shares of Michigan Motor Castings Co.
1,330 shares of Oak Park Power Co.
2,440 shares of Welch Motor Car Co.
500 shares of Brown-Lipe-Chapin Co.
From Olds Motor Works: 500 shares of Brown-Lipe-Chapin Co.
From Cadillac Motor Co.: 700 shares of Brown-Lipe-Chapin Co.

On November 3, 1910, in order to facilitate the placing of a mortgage on plant properties as security for borrowed capital, the directors of General Motors Co. approved and ratified the sale of General Motors Co. of Michigan of all real estate, plant and equipment, and patents of the following companies, the respective plant properties to be leased back to the respective companies for operation:

Buick Motor Co.
Cadillac Motor Car Co.
Olds Motor Works
Oakland Motor Car Co.
Rapid Motor Vehicle Co.
Reliance Motor Truck Co.
The Cartercar Co.
Marquette Motor Co.
Northway Motor & Manufacturing Co.
The Welch Co. of Detroit.
Elmore Manufacturing Co.
Jackson-Church-Wilcox Co.
Champion Ignition Co.
Michigan Motor Castings Co.
Oak Park Power Co.
Welch Motor Car Co.

General Motors Co. of Michigan was organized by General Motors Co. in 1910, for the purpose of taking title to the physical properties of the above companies, thereby facilitating the use of such properties as mortgage security for the funds borrowed.

Certain changes were made during the course of the leasing period, but otherwise the plant-leasing arrangement between General Motors Co. of Michigan and other subsidiaries of General Motors Co. was continued to December 31, 1916. Changes that occurred during the leasing period and prior thereto included: The consolidation of assets of Rapid Motors Vehicle Co. and Reliance Motor Truck Co. to form General Motors Truck Co.; purchase by Northway Motor & Manufacturing Co. of all property and franchises, rights and privileges of Michigan Auto Parts Co. and Welch Motor Car Co.; acquisition by Buick Motor Co. of the W. F. Stewart body plant and all property, franchises, etc., of Oak Park Power Co.; sale of the Elmore plant, Randolph Motor Car Co., and the Heany companies to outside parties; dissolution of the Cartercar Co. The changes also included, according to the story of General Motors by Arthur Pound,[2] transfer of the Rainier, Marquette, and Welch-Detroit properties to the Peninsular Motor Co., another wholly owned subsidiary of General Motors Co., followed by sale of the properties to Chevrolet; the writing down of investments in Ewing Automobile Co., Seager Engine Works, and Dow Rim Co. to $1 in each instance; and the acquisition by Buick Motor Co. of the Michigan Motor Castings Co.

On January 31, 1916, as of which date the Cartercar Co. (later dissolved), Champion Ignition Co., and Weston-Mott Co. held title to their respective plants, the net book value, after depreciation, of lands, buildings, fixtures, machinery, and equipment comprising the

[2] The Turning Wheel—The Story of General Motors Through Twenty-five Years, 1908-33.

plants and certain other properties then owned by General Motors Co. of Michigan totaled $16,452,813.79, divided as follows:

Buick plant, Flint, Mich	$6, 118, 931. 56
Cadillac plant, Detroit, Mich	5, 516, 206. 32
Oakland plant, Pontiac, Mich	565, 409. 51
Olds plant, Lansing, Mich	735, 785. 32
General Motors Truck plant, Pontiac, Mich	543, 606. 64
Northway plant, Detroit, Mich	2, 315, 633. 79
Jackson-Church-Wilcox plant, Saginaw, Mich	276, 858. 50
Welch plant, Pontiac, Mich. (unoccupied)	38, 278. 58
Total	16, 110, 710. 22
Peninsular plant, Saginaw, Mich. (unoccupied)	99, 703. 76
Miscellaneous machinery	28, 918. 88
50 acres land (vacant), Detroit, Mich	213, 480. 93
Grand total	16, 452, 813. 79

As compared with the aggregate value of approximately $16,000,000, as of January 31, 1916, shown for the Buick, Cadillac, Oakland, Olds, General Motors Truck, Northway, Jackson-Church-Wilcox, and Welch plants, a total of approximately $29,426,000 as of September 30, 1910, was shown by the company as the aggregate value of its investments in the companies then owning these properties. At the earlier date, the balance sheet for General Motors Co. showed nothing for investment in goodwill; but the consolidated balance sheet as of that date for General Motors Co. and subsidiaries directly connected with the manufacture of its cars, parts, etc., showed $14,853,856 for investment in goodwill. The records indicated that goodwill as of January 31, 1916, was valued at $7,934,198.

On December 14, 1916, the directors of General Motors Co. adopted resolutions directing General Motors Co. of Michigan to convey, transfer, and assign to General Motors Co. all of its property at its book value and directing that that subsidiary be dissolved. At the same meeting the directors also adopted resolutions directing that the entire business and properties of the following subsidiaries, subject to debts and obligations, be transferred to General Motors Co. as of December 31, 1916; that the corporate existence of the respective vendor companies be terminated as of the same date; and that the operations of each of the plants should thereafter be conducted under the name of the respective company as then known but as a "division of General Motors Co.," except that the Weston-Mott plant was to be conducted as a division of the Buick plant as soon as practicable:

Buick Motor Co.
General Motors Truck Co.
Oakland Motor Car Co. of Michigan.
Olds Motor Works.
Jackson-Church-Wilcox Co.
Northway Motor & Manufacturing Co.
Weston-Mott Co.

In the case of the Cadillac Motor Car Co., the resolution did not direct termination of corporate existence but specified, in addition to future operation as a division of General Motors Co., the purchase by General Motors Co., at book value, of all property, rights, etc., excepting such part thereof as was determined to be necessary to be retained by the Cadillac company for proper conduct of its business as a selling company for the products of the Cadillac plant.

The resolutions adopted December 14, 1916, provided also for the creation, as of January 2, 1917, of new companies, each with an authorized capital stock of $10,000 to be fully paid in cash by General Motors Co., namely:

Buick Motor Co., to act as selling company for products of the Buick plant.
General Motors Truck Co., to act as selling company for products of General Motors Truck plant.
Oakland Motor Car Co. of Michigan, to act as selling company for the products of the Oakland plant.
Olds Motor Works, to act as selling company for the products of the Olds plant.
Jackson-Church-Wilcox Co., to act as selling company for the products of the Jackson-Church-Wilcox plant.
Northway Motor & Manufacturing Co., for the purpose of preserving the name "Northway Motor & Manufacturing Co."
Weston-Mott Co., for the purpose of preserving the name "Weston-Mott Co."

As will be observed in later discussion, the newly created "divisions" of General Motors Co. and the newly created companies as above listed, were developments that took place after General Motors Corporation had acquired General Motors Co., and they were among the operating units and subsidiaries taken over by General Motors Corporation in 1917. Also among the properties taken over by the successor corporation in 1917 were the outstanding stocks of General Motors Export Co., the business of which was foreign sales, and General Motors (Europe), Ltd., which General Motors Corporation indicated as a subsidiary of General Motors Export Co.; also $75,000 of capital stock of Champion Ignition Co., $500,000 of capital stock of the McLaughlin Motor Car Co., Ltd., $333,300 of Brown-Lipe-Chapin Co. stock, an investment of $15,050 in the Novelty Incandescent Lamp Co. stock, which investment later was shown as valued at $75,000, and an investment of approximately $254,000 in Independent Lamp Wire Co.

Before the expiration of 1908, General Motors Co., under the management of William C. Durant, had acquired all but a comparatively few of the outstanding shares of Buick Motor Co. and about 90 percent of the outstanding shares of Olds Motor Works; before the expiration of 1909 it had acquired the outstanding shares of Cadillac Motor Car Co., Marquette Motor Co., Reliance Motor Truck Co., the Cartercar Co., Elmore Manufacturing Co., Ewing Automobile Co., and all, or nearly all, of the outstanding shares of Oakland Motor Car Co.; and before the expiration of 1910 it had acquired the outstanding stock of Rapid Motor Vehicle Co., Randolph Motor Car Co., and Welch Motor Car Co. Ranier Motor Car Co. also was acquired. At the time of acquisition of the assets of General Motors Co. by General Motors Corporation the only cars of the foregoing companies that still continued to be produced by General Motors Co. were Buick, Olds, Oakland, and Cadillac; also General Motors trucks produced by General Motors Truck Co., which had been formed by merger of properties of Reliance and Rapid Motor Vehicle companies.

There follows now a discussion of the principal acquisitions made by General Motors Co. (New Jersey) during the period from 1908 to 1917. Only the larger and more important acquisitions are discussed in detail. Other smaller and less prominent ones are listed at the end of this section, together with the approximate consideration given therefor.

The acquisitions discussed in detail are:

Buick Motor Co.
Olds Motor Works.
Oakland Motor Car Co. of Michigan.
Cadillac Motor Car Co.
Reliance Motor Truck Co.
Rapid Motor Vehicle Co.
The Cartercar Co.
Elmore Manufacturing Co.
Ewing Automobile Co.
Marquette Motor Co.
Ranier Motor Car Co.
Randolph Motor Car Co.
Welch Motor Car Co.
The Heany Co. and allied companies.
The McLaughlin Motor Car Co., Ltd.
General Motors Truck Co.

Buick Motor Co.—The board of directors of General Motors Co., at a meeting held September 29, 1908, 2 weeks after incorporation of the company, voted to accept a proposition submitted by W. C. Durant, offering to deliver to General Motors Co., in exchange for $2,387,000 of General Motors preferred stock and $2,193,500 of General Motors common stock, 18,870 of the 20,000 outstanding shares of common stock of Buick Motor Co. and, in addition, to pay or cause to be paid to General Motors Co., on or before January 1, 1909, $500,000 in cash with interest thereon at the rate of 6 percent per annum from October 1, 1908, such cash to be received by the company as surplus and the Buick stock to be deemed equal in value to all General Motors stock given in the exchange.[3] Buick Motor Co. had been incorporated under the laws of Michigan on January 30, 1904, for a 30-year period, and was engaged in motorcar manufacturing at Flint, Mich.

The resolution authorizing the purchase above described also specified that, after careful investigation and appraisement, the board had—

> ascertained, adjudged, and determined * * * that the value of said 18,870 shares * * * (exclusive of the cash sum of $500,000 * * *) is equal at least to the par value of the stock of the General Motors Co. to be issued therefor * * *.

Before the end of June 1909 the remaining 1,130 outstanding common shares of the Buick Co. were acquired, in exchange for General Motors stock on the basis of $100 of General Motors preferred and $50 of General Motors common for each share of Buick. The total consideration, therefore, for all of the outstanding common stock of the Buick Co., plus $500,000 in cash, consisted of 25,000 shares of General Motors preferred, of $2,500,000 aggregate par value, and 22,500 shares of General Motors common, of $2,250,000 aggregate par value, together with the right to purchase from General Motors Co. a certain amount of the company's preferred stock

[3] Mr. Durant's proposition accepted by the board also provided that from the consideration to be paid him for stock of the Buick Co. he would return to General Motors, at par, $1,000,000 of General Motors common stock, with the understanding that General Motors was not to sell the stock until after payment, or until after expiration of the time limit for payment, to General Motors of the $500,000 provided for in the proposition; and that upon payment of the $500,000 the payors were to have the right, at any time prior to January 2, 1910, to subscribe for or purchase from General Motors, at par, preferred stock of General Motors Co. not exceeding in the aggregate such amount as shall equal the difference between the authorized and lawful issue of such preferred stock and the amount thereof theretofore issued, or which the company had obligated itself to issue for property, and not exceeding in the aggregate $2,000,000 at par value; and with each share of such preferred stock so subscribed for or purchased General Motors was to deliver therewith at par, ½ share of its common stock from the above-mentioned $1,000,000 of common returned to the company.

at par, but in any event not exceeding $2,000,000 in aggregate par value, and with each share of preferred so purchased the right to purchase one-half share of General Motors common at par.

Before the end of June 1909 General Motors Co. also had acquired 4,985 of the 5,000 outstanding preferred shares of the Buick Co., in exchange for General Motors stock, on the basis of 1 share of General Motors preferred and one-half share of General Motors common for each share of Buick preferred. The total consideration, therefore, for all but about 1 percent of the outstanding Buick preferred totaled $747,750 and consisted of General Motors preferred of $498,500 aggregate par value and General Motors common of $249,250 aggregate par value.

Buick Motor Co. held the following shares of capital stock of other companies, which it sold to General Motors Co. in 1910:

Brown-Lipe-Chapin Co.: 500 shares, comprising approximately a 3.7-percent interest.
Champion Ignition Co.: 750 shares, comprising a 75-percent interest.
McLaughlin Motor Car Co., Ltd.: 5,000 shares, comprising nearly a 50-percent interest.
Michigan Motor Castings Co.: 2,500 shares, comprising a 50-percent interest.
Welch Motor Car Co.: 2,440 shares, comprising approximately a 97-percent interest.
Oak Park Power Co.: 1,330 shares, comprising nearly a 67-percent interest.

Later in 1909 the sale to Buick Motor Co., for $472,500 in cash, of the W. F. Stewart body plant properties, which had been acquired by General Motors in 1908, was authorized; and in 1912 the sale by Oak Park Power Co. of all of its property, franchises, etc., to Buick Motor Co., in consideration of the Buick Co. assuming and paying the indebtedness of the vendor company, was authorized.

Olds Motor Works.—On November 12, 1908, the directors of General Motors Co. voted to accept a proposition submitted by F. L. Smith, offering to sell and assign to General Motors, for a consideration of $2,806,823.89, to consist of General Motors common stock of $1,152,530 aggregate par value and General Motors preferred stock for the balance, the following:

152,530 of the 200,000 outstanding shares of capital stock of Olds Motor Works.
Promissory notes of Olds Motor Works and open-account claims against that company amounting in the aggregate, with interest thereon to October 1, 1908, to $1,044,173.89.
United States Patents Nos. 886,526 and 886,527 for improvements to carburetors; No. 886,528 for motor vehicles; No. 826,461 for motor-vehicle tire; and No. 509,255 for a two-cycle hydrocarbon engine of the 3-port type; also rights to United States patent for which application had been filed, for a two-cycle, two-port hydrocarbon Scavenger engine.

The accepted proposition also provided that General Motors, at any time and from time to time before December 20, 1908, would purchase as many of the remaining shares of Olds stock as Mr. Smith or his appointees might offer, and would pay therefor $5 per share, $4 of which was to be paid in General Motors preferred at par and $1 in General Motors common at par. The resolution adopted on November 12, 1908, authorized the acquisition of all or any number of the remaining 47,470 outstanding shares and specified the value thereof as equal at least to $5 per share.

Before the close of January 1909, 29,100 of the remaining Olds shares had been acquired, in exchange for General Motors preferred of $116,400 aggregate par value and General Motors common of

$29,100 aggregate par value, or at an average of $5 per share. Before the close of 1909 all of the remaining 18,370 outstanding shares were acquired. Of the last 3,832 shares to be acquired, 2,205 shares were acquired for $14,906.25 in cash, or at an average cost of $6.76 per share; and payment of a price not exceeding $12.50 per share for the last 1,627 shares was authorized, which would make the consideration for the 1,627 shares—assuming that the maximum of $12.50 per share was paid—$20,337.50. Assuming that $5 per share was paid for all other shares, the total cost to General Motors Co., in cash and General Motors stock, for all outstanding stock of the Olds company was approximately $1,016,000.

Additional capital stock of the Olds company was later acquired by General Motors when the outstanding stock was increased, which included stock of $2,000,000 aggregate par value acquired in 1910.

Olds Motor Works was incorporated under the laws of Michigan May 9, 1899, for a 30-year period, and was engaged in motorcar manufacturing at Lansing, Mich. At the time of its acquisition by General Motors Co., the Olds company owned 500 shares of stock of Brown-Lipe-Chapin Co., which it sold to General Motors in 1910 for $50,000 cash.

Oakland Motor Car Co. of Michigan.—Before the end of June 1909 General Motors Co. had acquired 18,783 of the 30,000 outstanding shares of Oakland Motor Car Co. of Michigan, for $200,858 in cash, or at an average cost of about $10.70 per share. The resolution of the board of directors of General Motors authorizing acquisition of the Oakland shares specified that, after full investigation and appraisement, the board had ascertained, adjudged, and determined the value of the stock as equal at least to $11 per share.

The remaining 11,217 outstanding Oakland shares were acquired before the expiration of 1909. The exact cost of these acquisitions was not set forth in the records examined, but the records indicated that the cost of acquisition of all outstanding shares of the Oakland Co. totaled between $313,000 and $350,000. The records also indicated that part or all of the 11,217 outstanding Oakland shares finally acquired were purchased from W. C. Durant, who exchanged personally owned General Motors stock for some of the shares, the company not being in a position to hand over any of its own stock; and that, although Mr. Durant had acquired some of the shares at a cost, in par value of General Motors stock exchanged, exceeding $10 per share, he had sold such shares to General Motors at a price of $10 per share.

The above does not take into consideration stock of the Oakland Co. later issued and acquired by General Motors Co.

Oakland Motor Co. of Michigan was incorporated under the laws of Michigan August 28, 1907, for a 30-year period, and was engaged in the manufacture and sale of motor vehicles, with works located at Pontiac.

Cadillac Motor Car Co.—All of the outstanding stock of Cadillac Motor Car Co., consisting of 15,000 shares of the par value of $100 each, were acquired by General Motors Co. at a cost of $5,669,250. The total paid consisted of $500,050 in cash and 51,692 shares of General Motors preferred stock of $5,169,200 aggregate par value. Contract for purchase of this stock, dated July 1, 1909, was entered into by Buick Motor Co., then a subsidiary of General Motors, the parent company not being in a position at the time to make the required payments. The considerations above set forth were paid in reimbursement of Buick Motor Co. and Cadillac Motor Car Co. for advancements made to make possible consummation of the contract of purchase.

The resolution authorizing acquisition of the stock of Cadillac Motor Car Co. specified that the directors, after careful investigation and appraisement, had ascertained, adjudged, and determined that the value of the outstanding shares was equal at least to $5,669,250. It was estimated that the net earnings of the Cadillac Co. for 1910 would total approximately $3,000,000.

Cadillac Motor Car Co. was incorporated in Michigan October 27, 1905, for a 30-year period, and was engaged in motorcar manufacturing at Detroit. It owned 700 shares of stock of Brown-Lipe-Chapin Co., which it sold to General Motors Co. in 1910 for $70,000, payable in General Motors common at par.

Reliance Motor Truck Co.—Acquisition of as many of the outstanding shares of Reliance Motor Truck Co. as might be available at prices not exceeding $10 per share, this price also to apply to such unissued stock as might thereafter be issued and acquired, was authorized by the directors of General Motors Co. on February 23, 1909. Regarding this company, which was a Michigan corporation engaged in the manufacture of motortrucks at Owosso, Mich., W. C. Durant, who helped investigate the condition, products, and prospects of the Reliance Co., advised the directors—

> that the total authorized capital of said Reliance Motor Truck Co. is $250,000, divided into 25,000 shares of the par value of $10 each of which $140,000 is outstanding, the balance of $110,000 being in the treasury of the company; that it or its predecessor had been in business of manufacturing motortrucks for 6 or 7 years, and that its current bills are its only indebtedness; that after making ample reduction and allowances to the cost price of its machines, jigs, tools, and for experimental work, its assets, including equity in buildings, but exclusive of goodwill, are equal to the par value of its outstanding capital stock.
>
> Mr. Durant particularly called the attention of the board to the advantages he believed would be derived to this company should it acquire a controlling interest in the stock of the Reliance Motor Truck Co., and the wide opportunities thereby offered to this company to build up a considerable market for trucks and commercial vehicles to be manufactured and sold under the name of "Reliance," which already had a high reputation in the trade; he also advised that he had ascertained that nearly if not all of the outstanding stock of said company could be acquired by this company at a price not to exceed $11 per share and that all or any part of the treasury stock could be acquired at par.

In October 1910 General Motors held 98½ percent of the 48,120 $10-par shares of the Reliance Co. outstanding at that time, 34,120 new shares having been issued since acquisition of the stock of the company was first authorized. The records examined only showed 10,504⅓ shares as having been acquired at the par value of $10 per share and 1,333⅓ shares as having been acquired at a cost of $9 per share. Assuming that the other outstanding shares were acquired at the par value of $10 per share, the cost to General Motors of its 98½-percent interest was approximately $480,000.

The properties of the Reliance Co., together with those of Rapid Motor Vehicle Co., were sold to General Motors Truck Co. in 1911, which latter company became practically the successor to the two vendor companies.

Rapid Motor Vehicle Co.—All of the outstanding shares of this company were acquired by General Motors Co. in 1909 and 1910.

The first acquisition, in 1909, of 20,000 shares of $200,000 aggregate par value, representing a 40-percent interest, were purchased for $250,000 in cash. At that time Rapid Motor Vehicle Co. was described by an officer of General Motors as—

engaged in the manufacture of motor trucks, and one of the largest producers of commercial vehicles; that said company was originally capitalized at $250,000 divided into 25,000 shares of the par value of 10 each, paying large dividends and had a considerable surplus, and had recently increased its capital to $500,000 for the purpose of extending its business * * *.

The directors of General Motors Co. were advised by the chairman of the company's executive committee in 1910 that the book value of the stock of Rapid Motor Vehicle Co. was approximately $15 per share. The remaining 30,000 outstanding shares were acquired before the close of that year, and while the records examined did not show the total consideration paid, they showed 14,893 shares as acquired at various prices not exceeding $14 per share, and that $15 per share was authorized as the maximum to be paid, in cash or General Motors stock, for the remaining 15,107 shares. It appears, therefore, that the cost to General Motors Co. for all outstanding shares of this subsidiary was close to $685,000.

At about the time of the acquisition of Rapid Motor Vehicle Co., General Motors Co. also acquired about 90 percent of the outstanding stock of the Cartercar Co.; and it was stated, at a meeting of the directors of General Motors held October 26, 1909, that the product of the Cartercar plant, which was located in Pontiac close to the plant of Rapid Motor Vehicle Co., was readily adaptable for use for light trucks or light commercial vehicles, and that the management of the Rapid Motor Vehicle Co. contemplated using the Cartercar chassis for such purposes.

As already stated in the discussion of Reliance Motor Truck Co., the properties of Reliance and Rapid Motor Vehicle were taken over in 1911 by the newly formed General Motors Truck Co.

The Cartercar Co.—Acquisition of all, or as many as might be obtainable, of the 25,772 outstanding shares of common stock of the Cartercar Co., and payment therefor of a price not exceeding $5.56 per share, in cash, in General Motors preferred, or in both cash and General Motors preferred, was authorized by the directors of General Motors Co. on October 26, 1909. The resolution adopted specified that, after careful investigation and appraisement, the board had ascertained, adjudged, and determined the value of such shares as equal to at least $5.56 each.

The minutes of the directors' meeting held October 26, 1909, also set forth that the Cartercar Co., which was incorporated in Michigan September 26, 1905, for a 30-year period, was engaged in the manufacture of the automobile known as the Cartercar, and that its plant was located at Pontiac, in close proximity to the plant of Rapid Motor Vehicle Co., in which latter concern General Motors already was largely interested. They also set forth statements of the chairman of the executive committee of General Motors, that—

the Cartercar is friction driven and of simple and comparatively economical construction and that its product can readily be adapted for use as light trucks or light commercial vehicles, and that the management of the Rapid Co. contemplated using the Cartercar chassis for such purposes; that the Cartercar Co. has an authorized capital of $350,000, divided into $50,000 of 7 percent preferred stock and $300,000 of common stock, the par value of each share being $10, all of such preferred stock and $257,720 of common stock being outstanding. * * * that it was incorporated in 1905 and made its first shipments in 1906; has sold to date more than 1,000 cars, and is preparing for an output of 2,000 cars in 1910, which it is confidently expected will realize a profit to the company of over $200,000 and that after making due allowances for depreciation, etc., the present book value of its common stock is about $8.80 per share; that believing it would be for the best interests of this company to acquire the whole of or at least a controlling interest in the common stock of said Cartercar Co., the executive officers of this company had already secured options for the purchase of about 90 percent of the same from the several owners thereof at prices to be paid therefor not exceeding in any case $5.56 per share, the purchase price therefor to be paid in some instances in cash, in other instances in preferred stock of this company, and in certain instances partly in cash and partly in preferred stock, all of such options, running in the name of W. L. P. Althouse, who acted for this company in securing same.

The Cartercar Co. was acquired, and while the amount of consideration paid was not shown in the company's records examined, at $5.56 per share the 25,772 shares of common outstanding would have cost General Motors a total of approximately $143,000. In 1910 the Cartercar Co. issued 30,000 additional shares, and the directors of General Motors Co. authorized the acquisition of newly issued shares at the par value of $10 per share. As of September 30, 1910, General Motors owned all but 500 of the outstanding shares of the Cartercar Co.

In 1915 the directors of General Motors approved and ratified the sale, for $44,000, of the parts business which formerly was part of the Cartercar operations; and in 1916 consent of General Motors to the formal dissolution of the Cartercar Co. was voted.

According to Arthur Pound's story of General Motors, the Cartercar Co. was acquired when selective transmission and friction drive were in rivalry and when the Carter patents on friction drive appeared of possible value, but the rapid improvements in gear shifting that followed resulted in friction drive losing the chance of popularity.[4]

Elmore Manufacturing Co.—The entire outstanding stock of this company, comprising 6,000 shares of $600,000 aggregate par value, was acquired by General Motors Co. in 1909 in exchange for General Motors preferred stock of $600,000 par value. The resolution of the directors authorizing the purchase specified that after careful investigation and appraisement the board had ascertained, adjudged, and determined the value of the Elmore stock as equal at least to $100 per share. Elmore Manufacturing Co. was incorporated under the laws of Ohio October 20, 1909, and was engaged in motor-car manufacturing at Clyde, Ohio.

In 1916 the Clyde plant was sold to outside interests for $50,000, and the directors of General Motors voted in favor of the dissolution of the Elmore Co.

In Arthur Pound's book on General Motors, it is stated that when the Elmore Co. was purchased it was thought that the company had basic patents on a two-cycle engine that might prove valuable, and that, while the two-cylinder two-cycle car manufactured by Elmore was considered at the time thoroughly creditable, the expectations did not materialize and within a 5-year period the value of General Motors' investment in the Elmore Co. shrunk from $600,000 to $6,000, but that the plant finally sold for $50,000.[5]

[4] The Turning Wheel, pp. 121–122, 137.
[5] The Turning Wheel, pp. 121, 134, 485.

Ewing Automobile Co.—All of the oustanding preferred stock of $50,000 aggregate par value, and $74,250 of the $100,000 of outstanding common stock of Ewing Automobile Co. were acquired by General Motors in 1909 for a total consideration of $63,150, consisting of General Motors preferred of $51,100 par value and $12,050 in cash. Ewing Automobile Co. had a plant and factory at Geneva, Ohio.

This was another investment, according to Henry Pound's story of General Motors, that was written down to $1 in 1911.[6]

Marquette Motor Co., Rainier Motor Car Co.—All of the 3,000 outstanding shares of this company were acquired by General Motors Co. in 1909. In the story of General Motors written by Arthur Pound it is stated that Marquette Motor Co. was incorporated in Michigan in 1909, with $300,000 of authorized capital stock, to take over the assets of Rainier Motor Car Co., which had been manufacturing the big high-priced Rainier car in its plant at Saginaw, Mich., and, after failing in 1908, had been bought in by its president, J. T. Rainier, who in turn sold the company to General Motors; that the plan was to use the Rainier plant for production of a light Marquette car; and that both Rainier and Marquette later went first to Peninsular Motor Co., another wholly owned subsidiary of General Motors, and finally to Chevrolet.[7]

While the initial capitalization of Marquette Motor Co. called for 3,000 shares of $300,000 aggregate par value, all of which was issued, the minutes of General Motors directors' meetings showed that for 1,250 of the shares at least, which comprised the minority interest, General Motors paid $54.80 per share in excess of the par value, or a total of $193,500 as consideration for the 1,250 shares; also that before the close of 1910 General Motors acquired 4,930 additional newly issued $100-par shares of the Marquette Co. at the par value. Balance sheet of General Motors Co. for September 30, 1910, showed a total of $861,196.89 as invested in Marquette Motor Co. Assuming this investment as all applying to capital stock, and deducting the considerations totaling $686,500 here set forth as paid for 6,180 shares, leaves $174,696,89 applying to the 1,750 shares first acquired.

Randolph Motor Car Co.—In 1910 General Motors acquired $299,400 of the $399,400 of outstanding capital stock of Randolph Motor Car Co., at the par value, in exchange for General Motors preferred stock. The remaining 1,000 $100-par-value shares outstanding were acquired by General Motors in 1912, for the sum of $3,500, from the holder who had threatened suit against General Motors on the ground that General Motors had wrecked the business of the Randolph Co. after taking over its management, and on the further ground that General Motors had given him defective cars. Together with the 1,000 shares of Randolph stock, General Motors received a full release from all claims to December 20, 1911. At the same time, the vendor from whom the 1,000 Randolph shares were acquired purchased, for the sum of $6,700, the tangible assets and goodwill of the Randolph Co., and the merchandise, material, and supplies, tools, jigs, etc., excluding machines, on the premises used by the Randolph Co. and which had been known as the Ewing taxicab property.

Randolph Motor Car Co. was engaged in the manufacture of commercial vehicles.

[6] The Turning Wheel, p. 123.
[7] The Turning Wheel, pp. 123, 137.

Welch Motor Car Co.—General Motors Co. acquired 2,440 of the 2,500 outstanding shares of this company from Buick Motor Co. in 1910. The acquired shares had an aggregate par value of $244,000 and represented a 97.6 percent interest. General Motors valued its investment in Welch Motor Car Co. at $303,487.63 as at September 30, 1910.

In 1913 the directors of General Motors approved the sale of the property of Welch Motor Car Co. to Northway Motor & Manufacturing Co., another subsidiary of General Motors, to be followed by dissolution of the Welch Co.

Regarding the Welch venture, Mr. Pound states in his comment on the organization of General Motors: [8]

The Welch brothers, both noted engineers, had developed a large and heavy car of advanced design, which was expected to take place as the price-leader of General Motors. But Fred Welch, the driving force in the enterprise, was drowned in Lake St. Clair, and without him the operation languished to the point where it had to be cut adrift.

Acquisition of W. F. Stewart body plant.—This property, which comprised a large modern factory building at Flint, Mich., constructed and designed for the manufacture of vehicle bodies, was acquired by General Motors Co. in 1908, in exchange for 1,600 shares of General Motors preferred stock of $16,000 aggregate par value and 800 shares of General Motors common stock of $80,000 aggregate par value. The acquired properties later were sold to Buick Motor Co.

The Heany Co. and allied companies, viz, the Heany Lamp Co., the Heany Electric Co., and the Tipless Lamp Co.—In 1910 General Motors Co. acquired the following shares of capital stock of the Heany Co. and allied companies for a total consideration of $8,306,500, consisting of 8,290 shares of General Motors preferred stock of $829,000 par value and 74,775 shares of General Motors common stock of $7,477,500 par value:

17,090 shares of common and 4,025 shares of preferred of the Heany Co.
3,708 shares of common and 750 shares of preferred of the Heany Lamp Co.
650 shares of common of the Heany Electric Co.
750 shares of capital stock of the Tipless Lamp Co.

Public-source information shows the Heany Co., incorporated in Maine September 28, 1908, as having outstanding on April 1, 1910, 27,264 shares of common and 6,325 shares of preferred, each of the shares having a par value of $100; and, in its capacity of holding company, as controlling through stock ownership the Heany Lamp Co., engaged in the manufacture of incandescent electric lamps; and the Heany Fireproof Wire Co., engaged in the manufacture of asbestos-covered magnet wire.[9] It also was stated that at the time General Motors acquired the above-mentioned stock interests the Heany interests claimed patent rights to the modern tungsten filament electric light, but that unfortunately for General Motors the patent claims were not sustained by the Patent Office, and that the Heany plant at York, Pa., was of small value compared with the prospective value of the claimed Heany patent rights had they been sustained in the General Electric suit relative thereto.[10]

At the same meeting of General Motors directors when the above stock acquisitions were authorized, the acquisition of as many as

[8] The Turning Wheel, p. 122.
[9] Moody's Manual, 1910.
[10] The Turning Wheel, by Henry Pound, pp. 124, 135.

possible of the remaining shares of the Heany Co. and the Heany Lamp Co., at prices not exceeding $100 per share for preferred and not exceeding $300 per share for common, was authorized. A few months later 602 shares of common and 400 shares of preferred of the Heany Lamp Co. were reported as acquired for a total consideration of $35,000 in cash and notes, which averaged per share about one-sixth of the maximum authorized to be paid in the earlier resolution. At the beginning of 1911, 80 percent of the outstanding stock of the Heany Co. was held by General Motors, and in May of that year a report of an official of General Motors to the directors—

indicated that it would have been wiser not to have acquired any interest in these companies in the first place; that the condition of the plants as at present operated could not be made profitable; and that it seemed desirable to dispose of the same as promptly and expeditiously as possible.

A committee, appointed in May 1911, to negotiate for the sale of the Heany companies, reported a month later that it had been unsuccessful in negotiating a sale to General Electric Co. It appears, however, that the sale of General Motors interests in the electric-light business finally was effected. Mr. Pound, in his story of the company, states that $1,205,000 in cash and securities was received from General Electric for these interests. Mr. Pound commented further upon the Heany venture as follows: [11]

The Heany fiasco cost General Motors enormously, estimates running from $5,000,000 to $12,000,000. Its denouement, marked the withdrawal of Mr. Durant from the chairmanship of the finance committee on November 11, 1911, when he was succeeded by Mr. Storrow. Mr. Durant, although remaining on the board, was now entirely divorced from the management and devoted his energies to founding Chevrolet, on which he again rode into power 4 years later.

Having disposed of the Heany electric-light interests, the directors of General Motors, in May 1912, adopted resolutions providing for reorganization of the Heany Co. under name of Independent Lamp & Wire Co., or such other name as might be selected. The reorganization apparently was effected, later records showing General Motors Corporation, after it had taken over the assets of General Motors Co., as having an investment of approximately $254,000 in Independent Lamp & Wire Co.

The affairs of the Heany Lamp Co., the Heany Electric Co., and the Tipless Lamp Co. were wound up, and dissolution of these companies was consented to by General Motors in September 1916.

The McLaughlin Motor Car Co., Ltd.—The 5,000 shares of capital stock of this company included with the assets of General Motors Co. taken over by General Motors Corporation in 1917 were acquired by General Motors Co., together with certain shares of stock of other companies, from its subsidiary, Buick Motor Co., in 1910. In June of that year the chairman of the board of directors of General Motors called the board's attention—

to the McLaughlin Motor Car Co. (a Canadian corporation), having an authorized capital of $1,200,000, divided into 12,000 shares of the par value of $100 each, which company is engaged in the assembling, selling, and distributing of the McLaughlin-Buick car in the Dominion of Canada. He also advised the Board that said company was organized through the cooperation of the Buick Motor Co. and the McLaughlin Carriage Co. of Oshawa, Ontario, Canada, some years ago, and that the Buick Motor Co. is now the owner of 5,000 shares of the capital stock. * * *

[11] The Turning Wheel, pp. 135, 196.

As of September 30, 1910, General Motors valued its investment in the McLaughlin Motor Car Co. at $655,157.62.

The McLaughlin Motor Car Co., Ltd., was incorporated in the Province of Ontario November 20, 1907; and, according to Henry Pound's story of General Motors, it thereupon made a 15-year contract with Buick Motor Co. for the sole manufacturing rights of Buick in Canada and proceeded with the manufacture of the McLaughlin-Buick car.[12]

General Motors Truck Co.—This company was incorporated under the laws of Michigan July 22, 1911, for a 30-year period, as a wholly owned subsidiary of General Motors Co., and engaged in the manufacture of motorcars at Pontiac. It became practically a successor to Rapid Motor Vehicle Co. and Reliance Motor Truck Co. by purchase of the assets of these two former subsidiaries of General Motors.

Other acquisitions by General Motors Co.—There follows a statement of other acquisitions by General Motors Co., the New Jersey corporation, in addition to those just previously discussed.

Miscellaneous other acquisitions by General Motors Co., 1908–17

Acquisitions	Year	Consideration		
		Exchange of securities	Cash	Total
Properties:				
Jefferson Avenue Detroit plant	1909		$130,000	$130,000
Imperial Wheel Co. plant	1916		80,000	80,000
Companies making motors, transmission, gears, etc.:				
Northway Motor & Manufacturing Co	1909	$74,675	137,400	212,075
Michigan Auto Parts Co	1909		76,737	76,737
Michigan Motor Castings Co	1910		146,345	146,345
Jackson-Church-Wilcox	1910		373,764	373,764
Saeger Engine Works	1909		147,780	147,780
Brown-Lipe-Chapin Co	1910		333,300	333,300
Companies making axles, rims, spark plugs, etc.:				
Champion Ignition Co	1910		108,537	108,537
Weston-Mott Co	1909	1,481,000	1,473,000	2,954,000
Novelty Incandescent Lamp Co	1910	65,000	10,000	75,000
Dow Rim Co	1909	28,800	41,200	70,000
Other motorcar companies: Peninsular Motor Co.,[1] sold to Chevrolet		(2)	(2)	99,704
Other companies: Oak Park Power Co				(2)
Total		1,649,475	3,058,063	4,807,242

[1] Organized from Rainier, Marquette, Welch, Detroit properties.
[2] Not known.

Section 4. Organization of General Motors Corporation (Delaware) and Acquisition by That Corporation of the Capital Stock and Assets of General Motors Co. (New Jersey)

General Motors Corporation was incorporated on October 13, 1916, in Delaware, to acquire all of the outstanding capital stock of General Motors Co., New Jersey. The organization of this company followed closely the alliance between William C. Durant and the du Pont interests and their obtaining control of General Motors Co.

At the first meeting of the board of directors of General Motors Corporation held October 19, 1916, the directors authorized the acquisition of the outstanding shares of stock of General Motors Co. or as much thereof as it might be possible to obtain, up to and including

[12] The Turning Wheel, p. 236.

January 15, 1917, and to exchange therefor up to 200,000 shares of preferred stock and up to 826,000 shares of common stock. The basis of exchange was established at one and one-third shares of new preferred for one share of the old preferred and five shares of the new common for one share of the old common stock, and cash to be paid in lieu of the issuance of fractional shares at the rate of $100 per share for the new preferred and $150 per share for the new common stock. The exchange was effective as of November 1, 1916, and the number of shares of new stock specified as the aggregate maximum stock exchanged comprised all of the authorized capital of the new company. The records of the corporation show that $102,223,500 in par value of common and preferred stock was issued in acquiring the capital stock of the New Jersey company.

Under date of November 20, 1916, General Motors Corporation made application to the New York Stock Exchange for listing of the common and preferred stocks. This statement recited that the condition of the properties of General Motors Co. of New Jersey was as follows:

> Reference is made to a previous application, especially A-4475, and to its annual reports to stockholders (especially that for the fiscal year ending July 31, 1916), subject to which there has been no substantial change in the condition of its properties.

The net worth of the outstanding capital stock of the New Jersey company as of July 31, 1916, consisted of preferred stock, $14,985,200; common stock, $16,511,783; undistributed surplus, $36,995,597; or a total of $68,492,580. Comparing the total consideration of $102,-223,500 par value of stock exchanged for the capital stock of the New Jersey company, it is concluded that the stockholders received an excess over net worth of their stocks amounting to $33,731,000. In view of the fact that the stockholders of the old corporation became the stockholders of the new corporation in the same proportion, the sum of $33,731,000 is nothing more than an overstatement of net worth. The Commission's accountants were unable to obtain a statement of the assets and liabilities of General Motors Co., New Jersey, as of November 1, 1916; therefore the statement of July 31, 1916, was used in determining the overstatement of net worth.

A statement of the assets and liabilities of General Motors Co., New Jersey, as of July 31, 1916, follows:

ASSETS

Fixed assets: Real estate, plants, and equipment		$24, 347, 500. 14
Patents, agreements, etc		355, 800. 00
Miscellaneous investments:		
Brown-Lipe-Chapin Co. capital stock	$333, 300. 00	
Novelty Incandescent Lamp Co. capital stock	15, 050. 00	
Miscellaneous securities	10, 078. 50	
		358, 428. 50
Current and working assets:		
Cash in banks and on hand	22, 476, 574. 86	
Marketable securities	286, 000. 00	
Notes receivable	102, 829. 46	
Accounts receivable	5, 526, 803. 74	
Inventories at cost or less	25, 100, 349. 97	
Total		53, 492, 558. 03
Deferred expenses		389, 630. 14

ASSETS—continued

Goodwill, representing excess of appraised value over book value of capital stocks of subsidiary companies owned, less reserve		$7,934,198.14
Total		86,878,114.95

LIABILITIES

Capital stock:		
Preferred issued	$18,038,400.00	
Less, in treasury [1] of General Motors Co	3,053,200.00	
		14,985,200.00
Common issued	19,874,030.00	
Less, in treasury [1] of General Motors Co	3,362,246.95	
		16,511,783.05
Total		31,496,983.05
Outstanding capital stock (par value) and surplus of subsidiary companies, being the portion not owned by General Motors Co.:		
Capital stock	$540,500.00	
Surplus	687,958.19	
		1,228,458.19
Current liabilities:		
Accounts payable	7,264,443.70	
Pay rolls accrued, not due	880,756.92	
Taxes accrued, not due	1,025,386.10	
Sundry items accrued, not due	784,689.05	
		9,955,275.77
Proportion of preferred dividend payable Nov. 1, 1916		262,241.00
Reserves:		
For depreciation of plants and equipment	$5,981,095.44	
For sundry contingencies	958,464.14	
		6,939,559.58
Surplus		36,995,597.36
Total		86,878,114.95

[1] Not exchangeable for stock of General Motors Corporation.

Pursuant to the offer to exchange the new company's capital stock for the capital stock of the old company, the new company acquired all of the outstanding stock of the old company. Under date of July 23, 1917, the board of directors approved a resolution requesting the New Jersey company to transfer to the corporation all of the assets in consideration of the corporation assuming its liabilities and that the old company should be dissolved. Prior to this action, or on June 21, 1917, the directors of the corporation approved the surrender for cancelation of 146,103 shares of the New Jersey company's preferred stock for the sum of $14,865,980.25, or at the average price of $101.75 per share, and voted to loan the old company the entire sum in return for its demand note in the latter amount.

The General Motors Corporation took over the assets and business of the old company as of August 1, 1917, and the old company was forthwith dissolved. In taking over the assets of the old company, the new company revalued these assets and caused them to equal the aggregate of the par value of the stock issued in exchange for the capital stock of the old company. The overstatement of net worth previously determined in the amount of $33,731,000 was, therefore, reflected in the asset values set up by the new corporation and will be considered an overstatement of values when determining the sound investment employed in the business by General Motors Corporation.

Financial statement of General Motors Corporation after taking over the properties and assets of General Motors Co.—There follows hereafter a statement of the assets and liabilities of General Motors Corporation after taking over and recording the assets of General Motors Co. (New Jersey). The total of common stock shown on this statement differs from the amount previously referred to in this report and is less by the sum of $4,685,500. This difference was caused by the fact that the New Jersey company owned $4,685,500 par value of the corporation's common stock, and this stock has been deducted from the total issued in determining the amount outstanding after taking over the assets of the New Jersey company. The same condition existed with regard to the preferred stock in the sum of $11,300 par value.

Statement of assets and liabilities of General Motors Corporation as of Aug. 1, 1917

	Amount
ASSETS	
Current assets	$4, 752, 562
Investments:	
Manufacturing divisions	45, 943, 017
Allied companies	2, 353, 884
Real estate, plant and equipment	36, 386, 209
Other	1, 185, 063
Prepaid expenses	7, 328
Goodwill	11, 697, 503
Total	102, 325, 566
LIABILITIES	
Accounts payable	677, 374
Accrued liabilities	4, 368, 321
Reserves:	
Depreciation	34, 708
Notes and accounts receivable	13, 547
Sundry contingencies	24, 000
Common stock	77, 873, 300
Preferred stock	19, 653, 400
Surplus	[1] 319, 084
	102, 325, 566

[1] Deficit.

Section 5. Principal Acquisitions of Capital Stocks and Properties of Nonaffiliated Companies and Reorganization of These by General Motors Corporation, 1917–37

Introductory.—General Motors Corporation, and its predecessor from its very beginning, have been most active in the acquisition of numerous motor-vehicle and motor-vehicle parts and accessories producing companies, as well as companies making products not directly allied with motor vehicles. Except with regard to Chevrolet Motor Co., of Delaware, the assets of which were acquired in 1918, the lines of motor vehicles now in active production and sale were acquired soon after the formation of General Motors Co. in 1909.

As indicated in the previous discussion of acquisitions, General Motors acquired the plants of numerous former motorcar manufacturers, and it is common knowledge that except for the lines hereinafter enumerated, the manufacture of the line of cars that had been produced by these plants was suspended either prior to or soon after acquisition by General Motors. Following the earlier years of frenzied acquisitions, the expansion of General Motors in the motor-vehicle field came from development and expansion of the Buick, Olds, Cadillac, Oakland, Chevrolet, and General Motors Truck lines of motor vehicles, rather than through the acquiring and development of other established lines. Another source of growth came through the great activity of acquiring the capital stocks and properties of nonaffiliated companies engaged particularly in the manufacture of various parts and accessories going to make up the complete automobile, as well as a long line of other products.

The corporation further expanded its business through entrance into the foreign market. It acquired two important foreign motor-vehicle manufacturing companies, namely, Vauxhall Motors, Ltd., in England, and Adam Opel, A. G., in Germany. The corporation further expanded by branching out into certain new domestic fields, including the manufacture of automatic refrigerators, Diesel engines, gas-electric motor railway cars, gas and Diesel locomotives, and power plants, etc. The expansion into these fields involved acquisitions of companies already engaged in those lines of manufacture, but the facilities have been greatly increased since acquisition. In addition, the corporation acquired important interests in other companies, such as Yellow Truck & Coach Manufacturing Co., Bendix Aviation Corporation, Ethyl Gasoline Corporation, and Kinetic Chemicals, Inc.

Time was not available for the making of a complete study of all of the acquisitions of nonaffiliated companies by General Motors Corporation, but informative data relating to the more important acquisitions from the formation of the corporation in 1916 to the close of the year 1937 were obtained, and are presented in this section of the report. These acquisitions comprised capital stocks of the nonaffiliated companies in some instances and in other instances they comprised the companies' properties. In cases of complete acquisition of outstanding stocks, the assets, or at least the operating properties of the respective companies, in most instances, were later taken over by the corporation. The property acquisitions were in all cases complete or entire-interest acquisitions insofar as the particular properties were concerned. Most of the stock acquisitions applied to companies which at the outset or ultimately were fully acquired by the corporation, and such acquisitions are classed in the discussion that follows as entire-interest acquisitions. In the case of companies of which only portions of the voting stocks were acquired, such acquisitions are classed in the discussion as part-interest acquisitions.

As covered in this report, the important entire-interest acquisitions by General Motors Corporation of capital stocks and properties of outside companies, after reorganization of General Motors Co. had been effected and to the close of year 1937, involved 43 concerns. The acquired interests were as follows:

United States:
- AC Spark Plug Co., balance of capital stock.
- Allison Engineering Co., all capital stock.
- Armstrong Spring Co., certain assets.
- Brown-Lipe-Chapin Co., balance of capital stock.
- Chevrolet Motor Co. (Delaware), assets.
- Chevrolet Motor Co. of California, assets.
- Crosley Radio Corporation's Kokomo plant.
- Day Fan Electric Co., all capital stock (or assets).

United States—Continued.
- Dayton Metal Products Co. (The), all capital stock.
- Dayton-Wright Airplane Co. (The), certain assets.
- Domestic Engineering Co. (The), all capital stock.
- Electro-Motive Co., all capital stock.
- Fisher Body Corporation, assets.
- Fisher Body Ohio Co., balance of capital stock.
- Guide Lamp Co., assets and business.
- Harrison Radiator Corporation, balance of preferred stock and alienated interest in earnings.
- Heat Transfer Products Corporation, assets.
- Interstate Motor Car Co. properties.
- Industrial Terminal Corporation's "Saxon" plant.
- International Arms & Fuze Co. plant.
- Janesville Machine Co., all capital stock.
- Klaxon Co., balance of capital stock.
- Lancaster Steel Products Co., all capital stock.
- Liberty Starter Co., certain assets and patents.
- Martin-Parry Body Corporation properties.
- Michigan Crankshaft Co., all capital stock.
- New Departure Manufacturing Co., balance of capital stock.
- North East Electric Co., assets.
- Packard Electric Co., assets.
- Saginaw Malleable Iron Co., all capital stock.
- Samson Sieve-Grip Tractor Co., balance of capital stock.
- Scripps-Booth Corporation, balance of capital stock.
- Sunlight Electrical Manufacturing Co., assets.
- United Motors Corporation, assets.
- Warner, T. W., Co.'s plant and inventory.
- Winton Engine Co., all capital stock.

Canada:
- Chevrolet Motor Co. of Canada, Ltd., all capital stock.
- McKinnon Industries, Ltd. (The), all capital stock.
- McLaughlin Carriage Co., Ltd. (The), all capital stock.
- McLaughlin Motor Car Co., Ltd. (The), balance of capital stock.

England: Vauxhall Motors, Ltd., all ordinary shares.
Germany: Adam Opel, A. G., all outstanding stock.
Australia: Holdens Motor Body Builders, Ltd., assets.

The considerations paid for the interests above set forth totaled approximately $310,000,000 and consisted of newly issued General Motors Corporation stock with par and stated values aggregating $132,546,520, General Motors treasury stock; i. e., General Motors stock reacquired after its original issue, with an aggregate valuation of $26,435,226, and cash and other cash equivalent totaling $97,817,646. The total of $310,000,000 also includes amounts added to surplus, totaling $53,335,343, representing the difference between the par and market values of newly issued General Motors stock given as consideration; but it does not include $30,827,000 of write-up added to surplus in connection with the acquisitions; $27,727,000 applying to Fisher Body Corporation and $3,100,000 applying to United Motors Corporation.

Of the $310,000,000 total, approximately $54,300,000 applied to acquisition of interests in foreign countries, the considerations for which consisted of 49,000 $100 par-value shares of General Motors newly issued common stock of $6,420,869 market value, General Motors' treasury stock valued at $3,000,000, and cash and other cash equivalent aggregated $44,922,281.

On the books of the corporation the amounts added to goodwill valuation in connection with all of the above-described interests totaled approximately $76,500,000, and nearly all of the balance of approximately $233,500,000 was added to investments.

The part-interest acquisitions of General Motors were as follows:

Bendix Aviation Corporation, 25-percent interest.
Doehling Die Casting Co., 40-percent interest.
General Leather Co., 50-percent interest.
Ethyl Gasoline Corporation, 50-percent interest.
Fokker Aviation Corporation, 40-percent interest.
General Motors Radio Corporation, 51-percent interest.
Kinetic Chemicals, Inc., 49-percent interest.
National Bank of Detroit, 50-percent interest.
North American Aviation, Inc., 8.74-percent interest.
Yellow Truck & Coach Manufacturing Co., 57-percent interest.

The considerations paid by General Motors for the above-described part-interest acquisitions totaled approximately $79,500,000. The considerations consisted of General Motors' treasury debenture stock, valued at $369,000; securities of other companies, valued at nearly $7,873,000; assets of General Motors Truck Co., valued at approximately $10,811,000; and cash and other cash equivalent to the total amount of approximately $60,500,000.

General Motors Co. assets.—At the time General Motors Corporation acquired the outstanding common stock of General Motors Co., the assets of the latter consisted largely of equities in subsidiary companies and it was specifically stated that the predecessor company at that time did not directly own or operate any manufacturing plants and that its interests therein were represented by ownership of securities of other companies. The securities owned by General Motors Co. included all of the outstanding capital stocks of the following companies:

General Motors Co. of Michigan.
Buick Motor Co.
Cadillac Motor Car Co.
The Cartercar Co.
Olds Motor Works.
Oakland Motor Car Co.
Northway Motor & Manufacturing Co.
General Motors Truck Co.
Elmore Manufacturing Co.
Weston-Mott Co.
Jackson-Church-Wilcox Co.
General Motors Export Co.
General Motors (Europe), Ltd.

In addition to the foregoing, General Motors Co. owned stocks in other companies, as follows:

Champion Ignition Co. (75-percent interest).
The McLaughlin Motor Car Co., Ltd. (slightly less than a 50-percent interest).
Brown-Lipe-Chapin Co. (22.22-percent interest).
Independent Lamp & Wire Co.
Novelty Incandescent Lamp Co.

In preceding discussion of the capital stock and property acquisitions of General Motors Co., more detail regarding the foregoing companies is presented, including discussion relating to the transfer, as at the close of the year 1916, of the manufacturing operations of the wholly owned subsidiaries to "divisions" of General Motors Co.; dissolution of the old companies, except Cadillac, and the formation, as of January 2, 1917, of new selling companies with the same names as those of the old companies, etc. The divisions and selling companies so formed, which were taken over by General Motors Corporation on August 1, 1917, comprised the following:

Divisions:
- Buick Motor Co. Division.
- Cadillac Motor Car Co. Division.
- Oakland Motor Car Co. Division.
- Olds Motor Works Co. Division.
- General Motors Truck Co. Division.
- Weston-Mott Co. Division.
- Northway Motor & Mfg. Co. Division.
- Jackson-Church-Wilcox Co. Division.

Selling Companies:
- Buick Motor Co.
- Cadillac Motor Car Co.
- Oakland Motor Car Co.
- Olds Motor Works Co.
- General Motors Truck Co.
- Jackson-Church-Wilcox Co.

The assets taken over also included the outstanding capital stocks of Northway Motor & Manufacturing Co. and Weston-Mott Co., formed for the purpose of preserving the names of the old companies, and they included interests in other companies not wholly owned or not made divisions of General Motors Co.

The motorcar manufacturing divisions above listed, except General Motors Truck Division, were still being operated as divisions of General Motors Corporation at the close of the period covered by this report, the former Oakland Motor Car Division having since been renamed Pontiac Motor Division. General Motors Truck Co. Division and General Motors Truck Co. were merged with the nonaffiliated Yellow Cab Manufacturing Co. in 1925 to form Yellow Truck & Coach Manufacturing Co. Weston-Mott Co. Division, Northway Motor & Manufacturing Co. Division, and Jackson-Church-Wilcox Co. Division were later discontinued as divisions of General Motors Corporation and such of their activities as were continued were transferred to other divisions of the corporation.

General Motors Truck Co., as just stated, was merged with Yellow Cab Manufacturing Co. The other selling companies taken over from General Motors Co. have since been liquidated—General Motors Export Co., Buick Motor Co., Cadillac Motor Car Co., Oakland Motor Car Co. (later renamed Pontiac Motor Co.), and Olds Motor Works, in 1936, when sales activities were transferred to General Motors Sales Corporation. Jackson-Church-Wilcox Co., Weston-Mott Co., and Northway Motor & Manufacturing Co. were liquidated at some earlier dates. General Motors (Europe), Ltd., was listed by the corporation as a subsidiary of General Motors Export Co. in 1920.

The remaining outstanding stock of Champion Ignition Co., later renamed AC Spark Plug Co., was acquired by the corporation in 1929, and the manufacturing activities of this company at the close of the period covered by this report were being conducted by the AC Spark Plug Division of the corporation.[13]

The remaining outstanding stock of the McLaughlin Motor Car Co., Ltd., was acquired in 1918. Later in 1918 this company was transferred to General Motors of Canada, Ltd., which at that time was, and to the close of the period covered by this report continued to be, a wholly owned subsidiary of General Motors Corporation.

[13] See discussion of AC Spark Plug Co. p. 473.

In 1921 Novelty Incandescent Lamp Co. and Independent Lamp & Wire Co., part or all of the outstanding stocks of which had been acquired by the corporation, sold their assets to General Electric Co., and as part of the liquidating dividends declared by the lamp companies General Motors received 2,624 shares of General Electric Co. stock. Arrangements for the sale of these General Electric shares were approved by the finance committee of the corporation in June of the same year.

There follows now a discussion of the principal acquisitions made by General Motors Corporation during the period from 1917 to the end of 1937. Certain of this discussion relates to companies formed by General Motors to engage in specified activities, and their capital stocks were acquired by General Motors. Only the larger and more important acquisitions are discussed in detail. Other smaller and less prominent ones are listed at the end of this section, together with the approximate consideration given therefor.

The acquisitions discussed in detail are:

Chevrolet Motor Co. (Delaware).
United Motors Corporation.
Fisher Body Corporation.
Samson Sieve-Grip Tractor Co.
Janesville Machine Co.
Scripps-Booth Corporation.
AC Spark Plug Co.
North East Electric Co.
Brown-Lipe-Chapin Co.
Domestic Engineering Co. (The).
Dayton Metal Products Co. (The).
Chevrolet Motor Co. of Canada.
McKennon Industries, Ltd. (The).
McLaughlin Carriage Co. Ltd. (The).
McLaughlin Motor Car Co., Ltd. (The).
Vauxhall Motors, Ltd.
Adam Opel, A. G.
Holdens Motor Body Builders, Ltd.
Yellow Truck & Coach Manufacturing Co.
General Motors Acceptance Corporation.
General Exchange Insurance Corporation.
General Motors Holding Corporation.
General Motors Parts Corporation.
General Motors Sales Corporation.

Acquisition of assets of Chevrolet Motor Co., of Delaware.—Acquisition of the assets of Chevrolet Motor Co., of Delaware, with the exception of 450,000 shares of General Motors Corporation common stock owned, in consideration of the assumption by General Motors Corporation of the liabilities of the Chevrolet Co. and payment of 282,684 shares of the corporation's common stock, of $28,268,400 aggregate par value, was authorized by vote of the corporation's directors on February 21, 1918. The resolutions adopted also specified that this property was necessary for the business of General Motors Corporation and was reasonably worth at least $28,268,400 in excess of the liabilities to be assumed; also that, if acquired, the business should be conducted as a division of General Motors Corporation, the entire output of which would be sold to Chevrolet Motor Co., of New Jersey, a selling concern then a subsidiary of the Delaware company. The transaction was to be effective as of May 2, 1918. Organization of Chevrolet Motor Co., of Delaware, in 1915, was sponsored by W. C. Durant.

Records of General Motors Corporation show corporation common stock of $28,268,400 aggregate par value as having been issued for assets of Chevrolet Motor Co., of Delaware.

The acquired assets were recorded at an aggregate net value of $36,333,483.10, which included $6,998,991.06 for goodwill. The sum of $8,065,083.10 was added to surplus, which amount, according to the corporation, apparently represented the approximate difference between the par value and the market value of the 282,684 shares of corporation common given as consideration.

The consolidated balance sheet for Chevrolet Motor Co. and subsidiaries as of April 30, 1918, showed values as follows:

Assets:		
Receivables (less reserve for bad debts), cash, inventories, and deferred items		$21, 121, 990. 52
Security investments (including General Motors Corporation common stock of $45,000,000 par value)		48, 373, 051. 11
Real estate, plant, etc. (less reserves for depreciation)		7, 013, 839. 55
Goodwill		11, 953, 099. 26
Total		88, 461, 980. 44
Liabilities:		
Current and accrued liabilities		6, 374, 598. 47
Reserves		756, 442. 37
Net worth:		
Capital stock	$64, 109, 800. 00	
Surplus	17, 221, 139. 60	
		81, 330, 939. 60
Total		88, 461, 980. 44

Deducting from the total value of assets, the $45,000,000 of investment in General Motors common plus the current and accrued liabilities and the amount shown for reserves, leaves a net of $36,330,939.60, which is equal approximately to the amount recorded by the corporation as the net value of the assets acquired.

The assets acquired by General Motors Corporation from Chevrolet Motor Co. (Delaware) included all of the outstanding stocks of other companies, as follows:

Manufacturing companies:
- Chevrolet Motor Co. of Michigan.[14]
- Chevrolet Motor Co. of Bay City.[15]
- Toledo Chevrolet Motor Co.[16]
- St. Louis Manufacturing Corporation.[17]

Assembly companies:
- Chevrolet Motor Co. of New York.[18]
- Chevrolet Motor Co. of Texas.[19]

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[14] Incorporated November 3, 1911, for a 30-year period. Stock outstanding, $235,100 of preferred and $1,418,350 of common. Net worth April 30, 1918, $8,120,638.82. Principal business: Manufacture of automobiles at Flint, Mich. In addition to the wholly owned selling companies listed as owned by this company, the company also owned all of the outstanding stock of Mason Motor Co., amounting in par value to $100,000.

[15] Incorporated in Michigan April 17, 1916, for a 30-year period. Stock outstanding, $100,000, all common. Net worth April 30, 1918, $88,770 deficit. Took over plants of National Cycle Manufacturing Co. and National Motor Truck Co., at Bay City, engaged in the manufacture of connecting rods, axle parts, axle cones, and various motor parts.

[16] Incorporated in Ohio October 17, 1916, under perpetual charter. Capital stock outstanding, $250,000. Net worth, April 30, 1918. $248,711.46. Owned and operated a factory at Toledo engaged in the manufacture of transmission and differential gears.

[17] Incorporated in Missouri, February 19, 1918, under a 50-year charter. Stock outstanding, $100,000, all common. Net worth, April 30, 1918, $76,221.95. Engaged in the production of wooden framework for automobile bodies in a leased plant at St. Louis.

[18] Incorporated in New York June 17, 1912, with perpetual charter. Stock outstanding, $872,000, all common. Net worth April 30, 1918, $5,782,667.54. Engaged in the business of assembling automobiles, its principal plant being located at Tarrytown, N. Y., and equipped with a complete line for the production of automobiles and automobile parts. The company also owned all of the stock of the selling companies as listed.

[19] Incorporated in Texas October 1, 1916, for a 50-year period. Stock outstanding, $250,000 of class A and $350,000 of class B. Net worth, April 30, 1918, $1,048,771.37. Company conducted an assembly plant at Fort Worth.

Selling companies:[20]
- Subsidiaries of Chevrolet Motor Co. of Delaware:
  - Chevrolet Motor Co. of Kansas City.
  - Chevrolet Motor Co. of Atlanta.
  - Chevrolet Motor Co. of Minnesota.
  - Chevrolet Motor Co. of New Jersey.
- Subsidiaries of Chevrolet Motor Co. of Michigan:
  - Joe Rath, Inc. (New York).
  - Chevrolet Motor Co. of Chicago.
  - Chevrolet Motor Co. of Milwaukee.
  - Cleveland-Chevrolet Motor Co.
  - Cincinnati-Chevrolet Motor Co.
- Subsidiaries of Chevrolet Motor Co. of New York:
  - Chevrolet Motor Co. of Pennsylvania.
  - Chevrolet Motor Co. of Virginia.
  - Chevrolet Motor Co. of New England.

The assets acquired from Chevrolet Motor Co. of Delaware also included interests in companies as follows:

United Motors Corporation: 106,000 of the 1,101,640 outstanding shares of common.[21]
Scripps-Booth Corporation: 13,650 of the 58,275 outstanding shares.[22]
American Commercial Co.: $84,600 of the $338,400 of common stock outstanding.[23]

At the close of the period covered by the Commission's report, the manufacturing operations of Chevrolet Motor Co. of Michigan were being conducted by the Chevrolet motor division of General Motors; and all other wholly owned subsidiary companies acquired from Chevrolet Motor Co. of Delaware had since been liquidated and their activities discontinued or transferred to other departments or divisions of the General Motors organization.

The 450,000 shares of General Motors common stock held by the Chevrolet Co. comprised about 58½ percent of all common stock outstanding as of December 31, 1917.

Chevrolet Motor Co., of Delaware, was organized on or about September 23, 1915. Of the 641,095 shares of the company's stock outstanding in the hands of the public plus 1,405 shares held in treasury at the time of offer of exchange made by General Motors, 200,000 shares had been issued for the outstanding stocks of Chevrolet Motor Co. of Michigan and Chevrolet Motor Co. of New York, Inc., and for $4,420,000 in cash; 434,000 shares, for purchase of 450,000 shares of General Motors common stock; and 8,500 shares, for acquisition of properties of National Cycle Manufacturing Co. and National Motor Truck Co., of Bay City, Mich., and $550,000 in cash. The issued capital stock had a par value of $100 per share. The company paid its last dividend on August 1, 1918, and on October 11, 1918, offered to exchange for each share of Chevrolet stock 1¼ shares of General Motors common stock and 44 cents in cash, with no time limit.

Acquisition of assets of United Motors Corporation.—In 1918 General Motors Corporation acquired the entire assets and goodwill and assumed the liabilities of United Motors Corporation, organized in

[20] Chevrolet Motor Co. of New England, Chevrolet Motor Co. of Minnesota, and Chevrolet Motor Co. (New Jersey) each capitalized at $10,000. The other companies were capitalized at $5,000 each.

[21] The 106,000 shares of United Motor Corporation stock were delivered to United Motors Corporation for cancelation.

[22] Eleven thousand two hundred shares were owned by Chevrolet Motor Co. of Delaware and 2,450 shares were owned by Chevrolet Motor Co. of Michigan. Company was incorporated in New York July 28, 1916.

[23] A credit company, incorporated in Ohio in November 1909. Had outstanding $77,900 of preferred and $338,400 of common.

1916 by W. C. Durant for the purpose of taking over various accessories and parts companies.[24]

In the judgment of the directors of General Motors Corporation, as expressed in minutes of meeting held December 31, 1918, the fair and reasonable value of the acquired assets was $45,000,000 in excess of the liabilities assumed. The following considerations, after giving effect to certain adjustments made in 1920, were shown as having been paid for this acquisition:

General Motors Corporation newly issued common stock, at par	$9, 940, 170
General Motors Corporation newly issued 6 percent debenture stock, at par	29, 820, 500
General Motors Corporation treasury common stock (146 shares)	12, 118
106,000 shares of capital stock of United Motors Corporation (each share equivalent to $30 of General Motors Corporation preferred stock at par and $10 of General Motors Corporation common stock at par, as per terms of offer of acquisition)	2, 683, 000
Total	42, 455, 788

Records of General Motors Corporation show a net value of $52,235,325.59 as recorded for the acquired assets, including $16,174,814.34 for goodwill. The difference of $9,779,537.59 between the total net charge to assets and the value of $42,455,788 for stocks comprising the consideration was added to surplus. This sum added to surplus, according to statement of the corporation, exceeded by $3,100,000 the actual difference between the par and the market values of the stocks given as consideration.

As compared with the net value of $52,235,325.59 recorded by the corporation for the assets acquired, the consolidated balance sheet for United Motors Corporation and subsidiaries as of September 30, 1918, showed a total of $66,089,327 for net worth. United Motors Corporation, however, showed a total of $21,536,155 for goodwill, patents, etc., as compared with a total of $16,408,065 shown for these items by General Motors.

The assets acquired by General Motors from United Motors Corporation included manufacturing operations which had been conducted by divisions of United Motors designated as follows:

Jaxon Steel Products Division.[25]
Hyatt Roller Bearing Division.[26]
Remy Electric Division.[27]

The assets acquired also included all of the outstanding capital stocks of the following:

[24] The Turning Wheel, by Arthur Pound, pp. 162, 170.

[25] Took over the automobile wheel-rim manufacturing business formerly conducted at Jackson, Mich., by the Perlman Rim Corporation, which began active business on or about July 1, 1916, and was dissolved July 30, 1918, when its assets were acquired by United Motors for $6,500,000 in cash.

[26] Operated a plant at Harrison, N. J., engaged in the manufacture of roller bearings. Plant was formerly part of the properties of Hyatt Roller Bearing Co., incorporated in New Jersey November 7, 1892, and later acquired by United Motors, which latter company took over the properties, except certain office property in Detroit, assumed the liabilities, and operated the plant directly as a division of United Motors.

[27] Operated plant at Anderson, Ind., engaged in the manufacture of Remy ignition and lighting and self-starting devices. Plant was formerly the property of Remy Electric Co., incorporated in Indiana October 5, 1901, and later acquired by United Motors, which latter company took over the properties, except some office and laboratory property in Detroit, assumed the liabilities, and operated the plant directly as a division of United Motors.

Selling companies:
- Jaxon Steel Products Co.[28]
- Hyatt Roller Bearing Co.[29]
- Remy Electric Co.[30]
- United Motors Service, Inc.[31]

Manufacturing company: Dayton Engineering Laboratories, Inc.[32]

The following interests in other companies also were acquired:

New Departure Manufacturing Co.: $2,342,900 of the $2,500,000 of capital stock issued.
Harrison Radiator Corporation: All of the common and $400,000 of the $791,300 of preferred stock issued.
Klaxon Co.: $500,000 of the $1,000,000 of capital stock issued.
Bearings Service Co.: $25,000 of the $500,000 of capital stock issued.

The operating divisions of United Motors Corporation—i. e., Jaxon Steel Products Division, Hyatt Roller Bearing Division, and Remy Electric Division—were made divisions of General Motors Corporation by resolution of the finance committee adopted December 19, 1918; but at the close of the period covered by this report only the Hyatt Bearing Division, successor to Hyatt Roller Bearing Division, was included in the divisions listed by General Motors as then engaged in its manufacturing operations. The operations of the other two former divisions were discontinued or transferred to other departments of the organization.

The transfer of the manufacturing operations of the New Departure Manufacturing Co. to the New Departure Manufacturing Division and the transfer of the manufacturing operations of Harrison Radiator Corporation to the Harrison Radiator Division are discussed elsewhere in this section of the report.

Of the selling companies acquired from United Motors, all except United Motors Service, Inc., had been liquidated before the close of the period covered by this report.

Records of General Motors Corporation indicate that the manufacturing operations of Remy Electric Division and Dayton Engineering Laboratories, Inc.—later designated as Dayton Engineering Laboratories Co.—were merged in 1926 to form the Delco-Remy Corporation. Sometime previously the manufacture of Klaxon horns had been transferred to the Remy Electric Division. As of December 31, 1928, Delco-Remy Corporation was reorganized and from the reorganization emerged three companies, namely, Delco-Remy Corporation, to engage in the manufacture of starting, lighting, and ignition systems, horns, locks, and storage batteries; Delco Products Corporation, to engage in the manufacture of aviation ignition systems, Lovejoy shock absorbers, and fractional horsepower motors to be used by Frigidaire; and Guide Lamp Corporation, to engage in the manufacture of automobile lamps. Guide Lamp Co., an outside concern, had been acquired by General Motors earlier in 1928, and its business was consolidated with the lamp business carried on by Delco-Remy Corporation to form the Guide Lamp Corporation. In 1933 the businesses of the three corporations formed through reorganization of

[28] Selling organization for products of Jaxon Steel Products Division.
[29] Selling organization for products of Hyatt Roller Bearing Division.
[30] Selling organization for the products of the Remy Electric Division.
[31] A selling organization engaged in distributing the products of the various companies and divisions controlled by United Motors, and having under lease stores in 11 cities of the United States.
[32] Incorporated in Ohio July 22, 1909. Capital stock issued, $200,000 preferred and $150,000 common. Net worth September 30, 1918, $7,176,565.24. Company was the original manufacturer of starting and lighting equipment as applied to self-propelled vehicles and at the time of acquisition by General Motors was still the foremost manufacturer of similar apparatus.

the old Delco-Remy Corporation were transferred to three newly created divisions of General Motors Corporation, namely: Delco-Remy Division, Delco Products Division, and Guide Lamp Division. These divisions still were functioning at the close of the period covered by this report. Delco-Remy Corporation, Delco Products Corporation, and Guide Lamp Corporation were dissolved on November 30, 1936.

United Motors Corporation was incorporated in New York May 16, 1916, with a perpetual charter. It had an authorized capital of 1,200,000 shares of no-par-value stock, of which 1,101,640 shares were issued for purchase of the following stocks:

Entire common capital stock of Dayton Engineering Laboratories Co., consisting of 1,500 shares.
Entire outstanding common capital stock of Remy Electric Co., consisting of 7,963 shares.
Entire outstanding capital stock of Hyatt Roller Bearing Co., consisting of 3,997 shares.
23,429 shares of the common capital stock of New Departure Manufacturing Co.
97,637 shares of the capital stock of Perlman Rim Corporation.

The certificate of dissolution of United Motors Corporation was filed with the secretary of state of the State of New York January 2, 1919. The basis of distribution to stockholders, of the securities and cash received from the sale of its assets to General Motors Corporation, without any limit as to time, was set forth in a circular letter by the president of United Motors to the stockholders, under date of January 16, 1919, as follows:

For each 10 shares of United Motors stock:
- 3 shares of General Motors debenture stock;
- 1 share of General Motors common stock;
- $7.50 in cash, representing the dividend paid by General Motors on November 1, 1918; and
- $7.50 in cash, representing the dividend payable February 1, 1919.

The 106,000 shares of United Motors stock acquired by General Motors from Chevrolet Motor Co. (Delaware) were turned in for cancelation, and the amount of General Motors debenture and common stock and cash otherwise payable to United Motors was correspondingly reduced.

Acquisition of assets of Fisher Body Corporation.—On May 13, 1926, the board of directors of General Motors Corporation adopted resolutions authorizing the purchase of the assets, business, property, and goodwill of Fisher Body Corporation as a going concern and the assuming of its liabilities; and authorizing the payment therefor with 1,600,000 shares of General Motors common, on the basis of 1 share of such stock for each 1½ shares of Fisher Body Corporation stock; the assets to be taken over as of June 30, 1926, and the purchase to be made in proceedings for dissolution of Fisher Body Corporation. Issuance of 638,400 shares of General Motors common in part payment also was authorized.

Consummation of the transaction in pursuance of the resolutions above referred to resulted in the recording of debit and credit values in the records of General Motors Corporation as follows:

Debits:		
Goodwill:		
As recorded by Fisher Body at date assets were acquired	$3, 434, 372. 64	
Arising out of acquisition by General Motors on basis of contra credits	19, 187, 241. 38	
		$22, 621, 614. 02

Debits—Continued.		
Other net assets received (assets and liabilities entered on General Motors books at same amounts as carried by Fisher Body Corporation)		$96, 231, 513. 54
Total		118, 853, 127. 56
Credits:		
General Motors no-par common stock (stated value, $50 per share):		
638,401 shares newly issued (average per share, $50)	$31, 920, 050. 00	
26,319 shares from treasury (at book cost; average per share, $136.36)	3, 588, 841. 50	
935,280 borrowed shares (average approximately $62.29 per share)	58, 259, 693. 76	
		93, 768, 585. 26
Capital surplus (after deducting $2,000,000 credited reserve because of unrealized profit in General Motors Corporation inventory of Fisher bodies at car assembly plants)		23, 084, 542. 30
Reserve (estimated amount of Fisher profit taken by Fisher on product in General Motors inventory at June 30, 1926)		2, 000, 000. 00
Total		118, 853, 127. 56

Except for goodwill, the assets and liabilities acquired from Fisher Body Corporation were entered on the General Motors books at the same amounts as carried by Fisher Body. According to a statement of General Motors Corporation, the cost of the Fisher Body assets which determined the goodwill charge of $19,187,241.38 and the additions to surplus and reserve totaling $25,084,542.30, were computed as follows:

638,401 shares common issued at the book value of General Motors Corporation common stock at June 30, 1926, before acquisition of Fisher assets ($86.1599407 per share)	$57, 004, 592. 30
26,319 shares of treasury stock used, at book cost	3, 588, 841. 50
The equity value at June 30, 1926 (before disposition of assets), of 1,402,920 shares Fisher common held by General Motors Corporation	58, 259, 693. 76
Total	118, 853, 127. 56

The difference of $19,187,241.38 between the above purchase price and the net value of assets and liabilities acquired was charged to goodwill. The value ($25, 084, 542. 30) placed on the new stock issued in excess of the stated value was credited to capital surplus after deducting $2,000,000 which was credited to reserve because of unrealized profits in General Motors Corporation's inventory of bodies at car-assembly plants. This latter amount was the estimated amount of Fisher profit taken by Fisher on product in General Motors Corporation inventory at June 30, 1926.

The additions to surplus and reserve of amounts totaling $25,084,-542.30 were explained by General Motors Corporation as representing the difference between the stated value, at $50 per share, of the 638,401 shares of newly issued General Motors common given as part consideration and the book value of approximately $86.16 per share at the time of acquisition of the Fisher assets. As compared with this average of $86.16 per share, the 26,319 shares of General Motors treasury common given as part consideration was valued at an average of approximately $136.36 per share, which, the company stated, was the book cost. The 935,280 shares of borrowed General Motors common, which comprised the remaining consideration in the transaction, was valued at an average of approximately $62.29 per share, or at an aggregate value of $58,259,693.76. This amount, added to the values shown for the other shares given in the exchange, made a total of $118,853,127.56, or $19,187,241.38 in excess of the net ledger value of the assets of the Fisher Co. at that time.

This excess was regarded as cost of goodwill, and when added to the amount of $3,434,372.64 shown for goodwill on the books of Fisher, described in an earlier financial statement of the Fisher company as "going values of subsidiary companies purchased for cash," a total of $22,621,614.02 [33] for goodwill of the Fisher company was shown on the books of General Motors. This total was reduced to $21,055,503.50, by offsetting thereagainst, instead of adding to surplus, $1,566,110.52, representing excess over carrying charge as of June 30, 1926, received by General Motors Corporation for 39,000 shares of Fisher Body Corporation common stock sold by General Motors just prior to June 30, 1926.

The amount of $58,259,693.76 at which the 935,280 shares of borrowed General Motors common was valued when given as consideration in the Fisher transaction was stated by General Motors to have been the equity value at June 30, 1926, of the 1,402,920 shares of Fisher stock, representing a 58.455-percent interest, held by General Motors as of that date. This so-called equity value was approximately $27,000,000 in excess of the actual cost to General Motors Co. of the 1,402,920 shares. The substitution of the equity value for the actual cost of the 1,402,920 shares, when entering the consideration-value for the 935,280 borrowed General Motors shares shown in the records as part consideration in the transaction, resulted in the entering of the Fisher assets upon the books of General Motors at values not representing actual cost to General Motors, but at values approximately $27,000,000 above cost. The excess over cost was covered by an addition to surplus of $27,727,439.41 made by General Motors as of June 30, 1926. This increase in surplus covered the 1,402,920 shares plus 39,000 additional shares, or a total of 1,441,920 shares for which General Motors paid a total of $32,151,825, or an average of approximately $22.297925 per share.

Adding to this cost the amount added to surplus gives a total equity value of $59,879,264.41, or an average of approximately $41.527 per share. The sale of 39,000 of the Fisher shares, already referred to, reduced the number held at the time of taking over of the Fisher assets to 1,402,920, the equity value of which, at the average of approximately $41.527 per share, would account for approximately $27,000,000 of the credit to surplus.

By retaining its stock interest in the Fisher company, in lieu of surrendering that interest as part consideration for the assets acquired, General Motors shared in the distribution of the 1,600,000 shares of General Motors common stock held by the Fisher company at time of its liquidation. As holder of 1,402,920 shares, equivalent to 58.455 percent of the 2,400,000 outstanding Fisher shares, it received as its pro rata share 58.455 percent of the 1,600,000 General Motors shares held by Fisher, or 935,280 shares, which shares it used to repay the 935,280 shares borrowed.

[33] General Motors Corporation stated that just prior to June 30, 1926, General Motors Corporation sold 39,000 shares of Fisher common, realizing therefor $1,566,110.52 in excess of the June 30, 1926, carrying value; that this excess was credited goodwill and reduced the charge for goodwill on General Motors Corporation books to $21,055,503.50, of which $3,434,372.64 represented goodwill that had been on the Fisher books.

The stock interest in Fisher Body Corporation was first acquired by General Motors in 1919, for a consideration totaling $27,600,000 in cash and notes; and as additional new stock was issued by the Fisher company, General Motors acquired its pro rata share.

Following is a consolidated balance sheet for Fisher Body Corporation and its subsidiaries as of March 31, 1926, 3 months prior to the date of sale of the company's assets.

Assets:		
Real estate, plant and equipment, less depreciation and amortization reserves		$65, 329, 000. 84
Patents		191, 009. 12
Investments and advancements		2, 147, 242. 92
Sinking fund cash, for redemption of Fisher Body Ohio Co. preferred stock		74, 030. 00
Current assets		55, 034. 498. 98
Deferred charges		1, 264, 449. 84
Unamortized cost of alterations to plant and equipment		1, 694, 796. 68
Goodwill (going values of subsidiary companies purchased for cash)		3, 214, 604. 82
Total		128, 949, 633. 20
Liabilities:		
Current liabilities		16, 367, 674. 55
General Motors Corporation, advance account		5, 000, 000. 00
Land contract payable		500, 000. 00
5 percent serial gold notes		12, 500, 000. 00
Minority interest in Fisher Body Ohio Co		231, 332. 48
Reserve for contingencies		2, 073, 616. 66
Capital stock (2,400,000 shares)	$60, 000, 000. 00	
Surplus	32, 277, 009. 51	
		92, 277, 009. 51
Total		128, 949, 633. 20

Assets of Fisher Body Corporation at the time of their acquisition by General Motors Corporation included—

All of the capital stock of Fisher Body St. Louis Co., organized in Delaware in July 1912, and engaged in the manufacture of automobile bodies.

All of the capital stock of Ternstedt Manufacturing Co., organized in Michigan in April 1917, and engaged in the manufacture of automobile-body hardware and metal stampings.

All of the capital stock of National Plate Glass Co., organized in Maryland in 1920 and engaged in the manufacture of plate glass.

All outstanding stock of Fleetwood Body Corporation.

In excess of 98 percent of the capital stock of Fisher Body Ohio Co., organized in Ohio in 1919 and engaged in the manufacture of automobile bodies.

Plants located at Detroit, Flint, Pontiac, Lansing, and Saginaw, Mich.; Blairsville, Pa.; St. Louis, Mo.; Oakland, Calif.; Memphis, Tenn.; Cincinnati and Cleveland, Ohio; Janesville, Wis.; Ottawa, Ill.; Buffalo and Tarrytown, N. Y.; and Walkersville, Canada; also extensive tracts of timberlands and a controlling interest in several sawmills.

After acquisition of the Fisher Body assets in 1926, the manufacturing operations were continued by the Fisher Body Division of General Motors, which was stated to include the following subsidiary companies:

Fisher Body Ohio Co.
Fisher Body St. Louis Co.
National Plate Glass Co.
Ternstedt Manufacturing Co.
Fisher Lumber Corporation.
Fisher-Delta Log Co.
Fleetwood Body Corporation.

General Motors venture into the tractor field.—A majority of the outstanding shares of Samson Sieve-Grip Tractor Co., which was engaged in the manufacture of tractors at Stockton, Calif., was acquired by General Motors Corporation in 1917 as part of the assets taken over from General Motors Co. The shares taken over were recorded by the corporation at the amount paid therefor by the predecessor company—namely, $430,998.75. In 1918 the corporation acquired the remaining outstanding shares of the Samson Co., for a cash consideration of $750,000, which increased the investment in this subsidiary to $1,180,998.75.

In 1919 Samson Sieve-Grip Tractor Co. was dissolved, its assets having been turned over to General Motors and applied as a reduction of loans made to this subsidiary by the corporation. After such reduction, a balance of $197,776.11 still remained owing the corporation, and this amount, together with the corporation's investment of $1,180,998.75, was written off.

A more complete account of General Motors venture in the tractor-manufacturing field is contained in the following discussion of Janesville Machine Co.

In 1919 the entire $1,000,000 par value outstanding common stock of Janesville Machine Co. was acquired by General Motors Corporation for $1,000,000 in cash; and in 1919 the entire $1,250,000 par value preferred stock of the Janesville company was acquired by the corporation for a total consideration of $1,462,290, consisting of $463,690 in cash, 9,874 shares of newly issued corporation 6-percent debenture stock of $987,400 aggregate par value, and 112 shares of the corporation's treasury 6-percent debenture stock valued at $11,200. The acquired stocks were recorded by the corporation at the amounts of consideration paid, totaling $2,462,290.

The purpose of the acquisition by General Motors of the Janesville Machine Co. was to consolidate the business of the former with the tractor business of General Motors at Janesville, which became known as the Samson Tractor Division. After acquisition, the assets of the Janesville company were taken over and the company was dissolved. Goodwill of the dissolved company was recorded by General Motors at a value of $212,290.

Prior to acquisition of the Janesville Machine Co., General Motors had acquired the Samson Sieve-Grip Tractor Co., of Stockton, Calif., and in the corporation's annual report for 1917 it was stated:

> The manufacture of tractors will be extended as rapidly as possible to meet the increasing demand, the tractor to be made a permanent and important division of the business.

Loss from investment in tractor industry.—The investments of General Motors in tractor properties and facilities, and the later abandonment by the corporation of this field of manufacture, was described in the corporation's annual report for 1922 as follows:

> In the year 1917 General Motors Corporation purchased the stock of the Samson Sieve-Grip Tractor Co. of California. This company and its product had been under investigation by the president, and the purchase was made by him. He became general manager of the Samson Tractor Division of the General Motors Corporation. On his recommendation the executive and finance committees voted appropriations for permanent investment in the Tractor Division amounting to $10,428,416, afterwards increased by $3,021,034, principally to cover overrun expenditures, and, in May 1920, allotted to the division $7,000,000 for inventories. At the close of the year 1919 the division's new facilities for the production of

100,000 tractors per annum were reported practically complete. (At that time the total investment amounted to $7,485,346.) On October 31, 1920, the fixed investment in the Tractor Division amounted to $10,905,927, and working capital to $18,595,144, a total of $29,501,071. The operating losses prior to December 31, 1920, and exclusive of extraordinary write-offs of that year were:

1917	$24, 467
1918	1, 868, 986
1919	1, 823, 883
1920	8, 228, 956
	11, 946, 292

After the tractor was fully developed, and priced at $650, it was found that it could not be marketed profitably. Prices were raised only to discover that sales could not be made in competition with more cheaply designed tractors. In the meantime, numerous commitments for materials had been entered into, with a view to producing 70,000 tractors of this class, and, in addition, materials for producing 60,000 tractors of another class. This was the situation as it appeared December 1, 1920. The loss in liquidating inventories and commitments of this division amounted to $21,293,752, in addition to the operating losses above noted of $11,946,292, making a total loss incurred of $33,240,044. Today the plant of the tractor division has been turned, in greater part, to other uses. As the liquidation of this division has been completed, no further operating loss is to be expected.

Scripps-Booth Corporation.—Included in the assets of Chevrolet Motor Co., of Delaware, taken over by General Motors Corporation in 1918, were 13,650 shares of capital stock of Scripps-Booth Corporation, valued at $68,250 on the consolidated balance sheet of the Chevrolet Co. for April 30, 1918. All of the remaining 46,325 outstanding shares of Scripps-Booth were acquired by General Motors during years 1918–24, for considerations totaling $1,211,696.95, consisting of cash in the amount of $309,797.30 and General Motors treasury stock valued at $901,899.65 and comprising shares, as follows:

4,961 shares common ($100 par per share)	$489, 946. 00
2,800 shares, 6-percent debenture stock ($100 par per share)	280, 000. 00
8,621 shares common ($10 stated value per share)	131, 953. 65
	901, 899. 65

On the books of General Motors, $463,652.31 was added to book value of goodwill, $675,208.32 was added to investment in Scripps-Booth, and $72,836.32 was charged against reserve and profit and loss.

The Scripps-Booth Corporation later was liquidated and its properties sold, except that a few minor items were taken over by General Motors.

Scripps-Booth Corporation was incorporated under the laws of New York State July 28, 1916, and was engaged in the manufacture of Scripps-Booth cars.

AC Spark Plug Co. (*formerly Champion Ignition Co.*).—In 1929 General Motors Corporation acquired 25 percent of the outstanding capital stock of AC Spark Plug Co., representing the minority interest, for a cash consideration of $5,500,000. Of this total, $3,711,540 was added to the investment account and $1,788,460 was added to book value of goodwill. As part of the assets of the old General Motors Co. acquired in 1917, the corporation received $75,000 of the $100,000 of common stock of Champion Ignition Co. outstanding at that time. The predecessor General Motors Co. had held a majority interest in the Champion Co. since 1909. In 1921 or 1922 the name of the company was changed to AC Spark Plug Co.

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Champion Ignition Co. was incorporated in Michigan October 26, 1908, for a 30-year period, and was engaged in the manufacture of electric-ignition equipment at Flint. The products of AC Spark Plug Co. were expanded to include not only spark plugs but speedometers, air cleaners, ammeters, fuel pumps, gasoline strainers, instrument panels, and other automobile parts. In 1933 the manufacturing operations were transferred to AC Spark Plug Division, which still was functioning at the close of period covered by this report. AC Spark Plug Co. was continued as a selling company.

North East Electric Co.—All of the assets, business, and goodwill of this company were acquired by General Motors Corporation in 1929, for considerations as follows:

106,667 shares of General Motors Corporation "treasury" no-par common stock (stated value, $10 per share)	$6, 798, 282. 56
General Motors Corporation 7-percent preferred stock, par value	4, 000, 000. 00
Cash or its equivalent	46, 666. 67
Total	10, 844, 949. 23
Excess of market value over par value of the preferred stock given as consideration, added to surplus	865, 444. 45
Total	11, 710, 393. 68

The acquisition was recorded by the corporation at values aggregating $11,710,393.68, which included $3,985,274 added to book value of goodwill. The consolidated balance for North East Electric Co., as of June 30, 1929, showed a total of $7,659,724 for stockholders' equities. Nothing was shown for goodwill.

North East Electric Co. was organized under the laws of New York in August 1909, to take over the assets of Rochester Coil Co., which was engaged in the manufacture of electric generators for automobile lighting and coils of different kinds, and in electric-machinery repairing. The business of North East Electric Co. included the manufacture of varied equipment and accessories for motor vehicles, boats, and the like, in its plants located at Rochester, N. Y. It also operated, through subsidiaries, manufacturing branches in Paris and Toronto, and distributing branches in London and Antwerp; also a service organization known as North East Service, Inc.

Brown-Lipe-Chapin Co.—In 1922 General Motors Corporation purchased 11,667 shares of the outstanding capital stock of Brown-Lipe-Chapin Co., of $1,166,700 par value, for newly issued 7-percent debenture stock of the corporation of $5,250,000 par value and $1,750,200 in cash, or a total consideration of $7,000,200. The acquired stock was recorded by the corporation at the amount of consideration paid, namely, $7,000,200. The resolutions of the directors approving and confirming the acquisition, adopted January 8, 1923, specified that in the judgment of the board the fair and reasonable value of the shares was in excess of the price paid and that their acquisition was necessary for the purposes of the corporation. The balance sheet for Brown-Lipe-Chapin Co. as of November 30, 1922, showed $7,850,383 for stock outstanding plus surplus; and the portion thereof applicable to the 11,667 shares totaled approximately $6,067,000.

Before the purchase of the 11,667 shares above described, General Motors Corporation already had acquired, as part of the assets of the predecessor General Motors Co., the remaining 3,333 outstanding shares of Brown-Lipe-Chapin, which it had recorded at the par value of $333,300.

On January 8, 1923, the directors of General Motors Corporation approved the reduction of the capital stock of Brown-Lipe-Chapin Co. from $1,500,000 to $300,000, and the transfer of all of its assets, except $300,000 thereof, to General Motors Corporation. The manufacturing operations thereafter were conducted as a division of the corporation and the entire output was sold to Brown-Lipe-Chapin Co. on a basis that would result in an annual net profit to the latter of $2,500. The capital stock of Brown-Lipe-Chapin later was reduced to $10,000, and in 1935 the company was dissolved.

Brown-Lipe-Chapin Co. was incorporated in New York February 5, 1910, and took over the differential-gear department of Brown-Lipe Gear Co., of Syracuse, N. Y. It was claimed that at the time of its acquisition by General Motors the company was the largest manufacturer of differential gears in the world.

The Domestic Engineering Co. and Delco companies.—In 1919 General Motors Corporation acquired all of the outstanding common and preferred stocks of the Domestic Engineering Co., in exchange for General Motors' newly issued common stock of $3,545,100 par value, but the market value of which, according to the corporation, totaled $9,252,711. The resolutions of the directors specified that in their judgment the acquired properties were of the fair and reasonable value in excess of $9,000,000 and were necessary for the purposes of General Motors. On the books of the corporation the acquired properties were recorded at a value of $9,252,711, including $3,883,712.10 added to goodwill; and the difference of $5,707,611 between this total and the par value of the corporation's common stock given in the exchange was credited surplus.

The balance sheet for the Domestic Engineering Co., as of August 30, 1919, showed preferred stock outstanding of $2,107,000 par value, common stock outstanding of $1,200,000 par value, and $1,078,092 for surplus, or a total of $4,385,092 for the three items, as compared with the amount of $9,252,711 recorded by General Motors for the assets taken over. On the balance sheet of Domestic Engineering Co. referred to, $223,167.38 was shown for "goodwill, patents, models, etc.," whereas General Motors valued goodwill at $3,883,712.10.

In 1919 General Motors transferred the manufacturing activities of the Domestic Engineering Co. to the newly formed Delco-Light Co. Delco-Light Co. was reorganized in 1928, and out of the reorganization emerged two companies, namely: Delco-Light Co., to engage in the manufacture of farm electric power and light plants and water systems; and Frigidaire Corporation, to engage in the manufacture and merchandizing of automatic refrigerating systems known as frigidaire. Reports of General Motors Corporation indicate that in 1930 the business of Delco-Light Co. was transferred, or the company's name was changed, to Delco Appliance Corporation, which engaged in the manufacture of Delco electric fans, Delco motors for commercial purposes, North East starters, generators, ignition systems, speedometers, heaters, and small motors, in addition to farm electric power and light plants and water systems as above set forth. The Frigidaire Corporation created in 1928 was preceded by an earlier Frigidaire Corporation created in 1919 by so renaming Guardian Frigerator Co., of Detroit, acquired by General Motors during that year for a cash consideration of $56,366.50. In 1921 or 1922 the original Delco-Light Co. took over the manufacture of the electrically operated refrigerator which previously was being manufactured by the original Frigidaire Corporation.

In 1933 the manufacturing operations of Delco Appliance Corporation and Frigidaire Corporation were transferred to newly created divisions of General Motors, known as Delco Appliance Division and Frigidaire Division, which have continued to function to the close of the period covered by this report. Delco Appliance Corporation and Frigidaire Corporation continued as selling companies until 1936, when they were dissolved after the selling functions had been taken over by the newly created General Motors Sales Corporation.

The Domestic Engineering Co. was incorporated in Ohio February 11, 1916. At the time of its acquisition by General Motors the company was engaged in the manufacture and marketing of complete electric light and power plants of simple design for individual use and it owned a plant in Dayton, Ohio. The company was dissolved December 7, 1936.

The Dayton Metal Products Co.—Dayton-Wright Airplane Co.—In 1919 General Motors Corporation acquired the outstanding capital stock of the Dayton Metal Products Co., of Dayton, Ohio, in exchange for 25,338 shares of newly issued General Motors' 6-percent debenture stock of $2,533,800 par value and 21,457 shares of newly issued General Motors' common stock of $2,145,700 par value, together with 10,000 shares of capital stock of the Dayton Securities Co., then owned by the Dayton Metal Products Co. The market value of the stock given as consideration, exclusive of the securities-company stock, totaled $7,221,082.75, according to the corporation. On the books of the corporation the investment was recorded at a value of $7,221,082.75, and the difference of $2,541,582.75 between the market value and par value of the General Motors stock given as consideration was added to surplus.

The resolution of the directors authorizing this acquisition specified that in the judgment of the board the properties of the metal-products company were of the fair and reasonable value of $8,500,000 and were necessary for the purposes of the corporation.

The Dayton Metal Products Co. was organized in Ohio April 28, 1915. It had outstanding $6,000,000 of capital stock and owned 50 city lots in Dayton on which were located 6 buildings, leased to the Domestic Engineering Co. It also owned a number of patents relating to fuels for high-compression motors and relating to gas engines and motors. Since December 1918 the company had been engaged exclusively in research and experimental work and at the time of its acquisition by General Motors Corporation it had no quick assets or liabilities.

At about the same time as the Dayton Metal Products Co. was acquired, General Motors Corporation also acquired certain assets of the Dayton-Wright Airplane Co., also of Dayton, Ohio, in consideration of 10,960 shares of the corporation's newly issued 6-percent debenture stock of $1,096,000 par value. This acquisition, which was recorded by the corporation at the amount of consideration paid—namely, $1,096,000—included about 34 acres of land at Moraine, near Dayton, upon which were buildings of the monitor type with a total floor space of 463,843 square feet. The resolution of the directors authorizing the acquisition specified that in the judgment of the board the properties were of the fair and reasonable value in excess of $1,200,000 and were necessary for the purposes of the corporation.

Apparently the assets acquired from the Dayton-Wright Airplane Co. were merged with assets acquired from the Dayton Metal Products Co. to form the Dayton-Wright Co. Dayton-Wright Co. had outstanding, at the close of 1920, common stock of $100,000 par value, all owned by General Motors Corporation. In 1929 all of the assets of this company were exchanged for 400,000 shares of stock of Fokker Aircraft Corporation of America, representing a 40-percent interest. At the time of the exchange the assets of Dayton-Wright Co. consisted of cash to the amount of $6,500,000, a parcel of land known as McCook field, valued at $1,282,340, and certain patents, valued nominally at $1, making an aggregate valuation of $7,782,341, which was the value recorded by the corporation for the acquired Fokker stock, as of December 31, 1929.

Yellow Truck & Coach Manufacturing Co.—In 1925 General Motors Corporation acquired 800,000 shares of common stock of Yellow Truck & Coach Manufacturing Co., for a total consideration of $16,000,000, of which $5,188,690.12 was specified by the directors of General Motors to be paid in cash. The plant and other assets, except patents and patent rights, of the General Motors Truck Division, together with the outstanding capital stock of General Motors Truck Co. subject to decrease in book value by the withholding of $345,873 of cash assets, comprised the balance of the consideration. The 800,000 shares of common, which represented a 57-percent interest, were recorded on the books of the corporation at a value of $16,000,000.

Class B stock of Yellow Truck & Coach Manufacturing Co. also had voting rights, and when 700,000 additional shares of this stock were issued by the company in 1926 General Motors acquired its pro rata portion, or 404,550 shares, which it recorded at a value of $8,091,000, or $20 per share. Sales of a total of 154,500 shares of the class B stock, at $40 or better per share, were authorized in 1927 and 1928, but the sale of these shares still left control with General Motors. In 1936 General Motors purchased 460,710 shares of class B stock at $10 per share, which increased its investment in Yellow Truck & Coach by $4,607,100.

The above-described acquisitions, together with 104,450 shares of 7-percent preference stock acquired in 1928 and recorded at a value of $9,668,251, gave General Motors at the close of 1936, unchanged to the close of 1937, 800,000 shares of common, 710,760 shares of class B, and 104,450 shares of preference stock of Yellow Truck & Coach. A total of $28,603,125.74 as of December 31, 1937, was reported by General Motors as its recorded value of this investment, including the corporation's proportion of the undivided profits and losses since acquisition. As of that date, General Motors held slightly over 50 percent of the voting stock of the company.

Yellow Truck & Coach Manufacturing Co. was organized pursuant to the acceptance of an offer submitted by General Motors Corporation to Yellow Cab Manufacturing Co. on July 3, 1925, specifying—

That General Motors would cause to be organized a new corporation to which would be transferred all of the assets of the General Motors Truck Division of General Motors Corporation, except patents and patent rights, together with all issued and outstanding shares of General Motors Truck Co., except, however, that $345,873.08 cash appearing on the balance sheet would be withheld; the new corporation to assume all obligations and liabilities of the said Truck Division;

General Motors to pay $5,188,690.12 in cash to the new corporation; the new corporation to take over said business as of April 30, 1925.

That Yellow Cab Manufacturing Co. should change its name to "Yellow Truck & Coach Manufacturing Company," and should recapitalize as follows:

Redeem its outstanding 6,750 shares of class A stock, at the par value of $100 per share and accrued dividends.

Increase and change its capital stock so that the authorized capital should be as follows:

- 200,000 shares 7-percent cumulative preferred—par value, $100 per share;
- 600,000 shares class B—par, $10 per share;
- 1,000,000 shares common—par, $10 per share.

That General Motors Corporation should transfer and assign to Yellow Truck & Coach Manufacturing Co., on October 5, 1925, all of the issued and outstanding shares of the new corporation, in exchange for 800,000 shares of common stock of Yellow Truck & Coach Manufacturing Co.

The annual report of General Motors Corporation for 1925 stated that former stockholders of Yellow Cab Manufacturing Co. received 150,000 shares of preferred stock and 600,000 shares of class B stock of Yellow Coach & Truck Manufacturing Co.

Ethyl Gasoline Corporation.—This company was formed in 1924 for the purpose of taking over the business of General Chemical Co., engaged in merchandising tetra-ethyl lead, an antiknock compound developed by General Motors Research Corporation. Capital required by the new company was to be derived from the issuance and sale of capital stock as might be necessary from time to time, one-half to General Motors Corporation and one-half to Standard Oil Co. of New Jersey.

The first acquisition by General Motors of stock of Ethyl Gasoline Corporation, amounting to 5,750 shares, was made in 1924 at a cost of $575,000. Another 1,750 shares acquired in 1925 at a cost of $175,000 increased the corporation's investment in this affiliate to $750,000. The investment as of December 31, 1937, adjusted to include General Motors' proportion of undivided profits and losses subsequent to December 31, 1930, amounted to $4,432,428.55.

In 1935 General Motors sold 50 of its shares of Ethyl Gasoline Corporation to E. I. du Pont de Nemours & Co., at $5,800 per share, which was approximately 10 times the approximate estimated net earnings per share for that year. In January 1938 the policy committee of General Motors authorized and approved the repurchase from E. I. du Pont de Nemours & Co. of the 50 shares of Ethyl Gasoline Corporation at a price equal to 10 times the estimated earnings of the shares for 1937, which would make the price approximately $7,575 per share.

Acquisitions of foreign companies.—As in the case of the domestic acquisitions of outside companies, so also of the foreign acquisitions, only the more important of such acquisitions are discussed in this report. All of the voting stocks of the companies were acquired by the corporation, and some of the nonvoting shares also were acquired. The foreign acquisitions discussed are:

- Chevrolet Motor Co. of Canada, Ltd.
- McLaughlin Carriage Co., Ltd.
- McLaughlin Motor Car Co., Ltd.
- Vauxhall Motors, Ltd.

Adam Opel Aktiengesellschaft
The McKinnon Industries, Ltd.
Holdens Motor Body Builders, Ltd.

Chevrolet Motor Co. of Canada, Ltd.; McLaughlin Carriage Co., Ltd.; McLaughlin Motor Car Co., Ltd.—All of the outstanding stocks of Chevrolet Motor Co. of Canada, Ltd., and McLaughlin Carriage Co., Ltd., and 51 percent of the outstanding stock of the McLaughlin Motor Car Co., Ltd., were acquired by General Motors Corporation as of November 1, 1918. For these acquisitions General Motors paid $550,000 in cash and 49,000 shares of $100 par value newly issued General Motors common, having a market value of approximately $6,421,000 at date of approval of the transaction, according to the corporation. The resolution of the directors authorizing the acquisition, adopted December 31, 1918, also set forth that in the judgment of the directors the fair and reasonable value of the properties was at that time in excess of $6,490,000 and were necessary for the conduct of the business of General Motors. On the books of the corporation, the investments were recorded at an aggregate value of approximately $6,971,000.

Balance sheets as of September 30, 1918, for these three Canadian companies showed net worths as follows: Chevrolet Motor Co. of Canada, Ltd., $1,875,066; McLaughlin Carriage Co., Ltd., $3,222,604; McLaughlin Motor Car Co., Ltd., $2,725,335; or a total of $7,823,005 for all of the companies. Reducing the amount for the McLaughlin Motor Car Co., Ltd., by 49 percent, would leave a total of $6,487,591, as compared with the total of approximately $6,971,000 recorded by the corporation for value of the acquired stocks. The acquisition of 51 percent of the outstanding stock of the McLaughlin Motor Car Co., Ltd., represented the balance of that company's stock not already owned by the corporation, the other 49 percent of the stock having been acquired as part of the assets of General Motors Co. taken over in 1917.

Chevrolet Motor Co. of Canada, Ltd., was incorporated under the laws of Canada on or about September 23, 1915, with a perpetual charter, and was engaged in the business of manufacturing Chevrolet cars in its plant at Oshawa, Ont.

The McLaughlin Carriage Co., Ltd., was incorporated under the laws of Ontario, August 7, 1901, with a perpetual charter. It was engaged in the business of selling the product of the McLaughlin, Motor Car Co., Ltd., and for that purpose it owned and conducted in 12 Canadian cities, branch-house properties operated as service stations, garages, and salesrooms.

The McLaughlin Motor Car Co., Ltd., was incorporated under the laws of Ontario November 20, 1907, with a perpetual charter. It was engaged in assembling Buick cars, and its plant adjoined the plant of Chevrolet Motor Co. of Canada, Ltd., at Oshawa, Ont.

In December 1918 the three Canadian companies above described were transferred to General Motors Co. of Canada, Ltd. General Motors Co. of Canada, Ltd., was formed in 1918, and the first 10,000 shares of stock issued were acquired by General Motors Corporation at a cost of $1,000,000. Before the expiration of 1918, the corporation acquired 59,400 additional shares of General Motors Co. of Canada, Ltd., by transferring to that company the corporation's investments in various Canadian companies, aggregating $7,860,-850.67, and including the three Canadian companies referred to above.

The corporation's recorded investment in General Motors Co. of Canada, Ltd., thus was increased from $1,000,000 to $8,860,850.67. At the close of the period covered by this report, General Motors Corporation still held the 69,400 outstanding shares of this Canadian subsidiary.

Vauxhall Motors, Ltd.—In the latter part of 1925 General Motors Corporation acquired all of the 300,000 outstanding ordinary shares, aggregating £300,000 in par value, of Vauxhall Motors, Ltd., of England, in consideration of £510,000 in cash. The Vauxhall company showed a net worth of £410,000 as of September 30, 1925. The 300,000 shares acquired were recorded by General Motors at a value of $2,575,290.90. General Motors continued thereafter as sole owner of the Vauxhall company's ordinary shares. In 1927 and 1928 it acquired 150,000 additional newly issued ordinary shares for $3,643,890.57 in cash, and in 1936 it acquired 550,000 additional newly issued ordinary shares for $2,745,190 in cash. These acquisitions, together with a stock dividend of 500,000 ordinary shares declared in 1937, increased to 1,500,000 shares the corporation's holdings of ordinary shares of this foreign subsidiary as of December 31, 1937, all acquired at a cost in cash of $8,964,371.

In 1928 the acquisition of preference shares of the Vauxhall company was authorized, and later some of the 7 percent debenture stock was acquired. At December 31, 1937, 222,373 shares of the preference stock and 29,000 shares of the 7 percent debenture stock were held. The amount of $17,420,170.64 shown as the amount of investment in Vauxhall Motors as of December 31, 1937, includes the cost of these preference and debenture shares as well as cost of the ordinary shares, and the total has been adjusted to include the corporation's proportion of undivided profits or losses since acquisition, and to include charges on open account, if any.

At a meeting of the finance committee of General Motors held in October 1925, the chairman advised the committee that a report on Vauxhall Motors would be presented to the committee in due course, the details of which, briefly stated, would include the following:

> Vauxhall Motors, Limited, located at Luton, a town of about 65,000 inhabitants 31 miles northwest of London, manufactures passenger cars by name of "Vauxhall." The plant employs about 2,000 men and the present production calls for 1,700 cars per year. The plant is well laid out and can be expanded to produce about 25 000 cars per year by locating the body plant elsewhere. The equipment is generally good.

Adam Opel Aktiengesellschaft.—In 1929 General Motors acquired 80 percent of the outstanding capital stock of Adam Opel A. G., of Germany. Records of the corporation indicate that $25,965,196.39 in cash was paid for the 4,800 shares acquired, and that the remaining 1,200 shares were acquired in 1931 at a cost in cash of $7,394,756.33. The Opel company, at the time of acquisition by General Motors of an 80-percent interest, was manufacturing about 40 percent of the total number of cars produced in Germany and as to size it ranked among the first 10 German industrial organizations.

The original option obtained by General Motors, running to April 1, 1929, provided for the purchase of the whole Opel company for approximately $30,000,000, which amount exceeded the net value of the company's tangible assets by about $12,000,000, such excess representing contemplated cost of goodwill.

General Motors reported an investment of $35,030,628 in the Opel company as of December 31, 1937, this amount including the undivided profits or losses since acquisition and up to December 31, 1933.

The McKinnon Industries, Ltd.—All of the outstanding capital stock of this company was acquired by General Motors in 1929, in exchange for 37,500 shares of General Motors' treasury $10 par value common stock valued at $3,000,000. Of this amount, $1,869,806.85 was added to investments and the book value of goodwill was increased by $1,130,193.15. At the time of this acquisition the McKinnon Industries, Ltd., was located at St. Catherines, Ontario, and was engaged in the manufacture of automobile parts. Its acquisition, it was claimed, was for the purpose of strengthening the operating position of General Motors Corporation in Canada. The corporation's annual report for 1930 stated that the products manufactured by this foreign subsidiary included automobile differentials; starting, lighting and ignition systems; tool kits; malleable castings; stampings; drop forgings; and saddlery hardware.

In 1930 General Motors acquired from this subsidiary all beneficial interest in McKinnon Dash Co., which was transferred to the books of the corporation in the amount of $1,175,100, the par value of the stock. The business and assets of the Dash company were transferred to the newly created McKinnon Products Co., in 1931, at the net value of $1,096,648.36.

In 1932 the finance committee of General Motors voted to transfer to General Motors of Canada, Ltd., another subsidiary of the corporation, the total investment in the McKinnon Industries, Ltd., at the book value of $1,869,806.85. At the close of the period covered by this report the McKinnon Industries, Ltd., still was a subsidiary of General Motors of Canada, Ltd.

Holdens Motor Body Builders, Ltd.; General Motors Holdens, Ltd. (Australia).—The net assets of Holdens Motor Body Builders, Ltd., of Australia, were purchased in 1931 by General Motors (Australia) Pty., Ltd., a subsidiary of General Motors Corporation, for considerations totaling $4,125,877, consisting of $2,047,957 in cash and $2,077,920 in newly issued 6 percent preferred stock of General Motors Holdens, Ltd. The assets acquired were consolidated with those of General Motors (Australia) Pty., Ltd., and the name of this company was changed to General Motors Holdens, Ltd.

Before the purchase and taking over of the assets of Holdens Motor Body Builders, General Motors Corporation paid $1,307,956.73 for 165,800 additional ordinary shares of General Motors (Australia) Pty., Ltd.; and later in 1931, in order to provide General Motors Holdens, Ltd., with funds necessary to purchase certain stock of Holdens Motor Body Builders, Ltd., belonging to dissenting stockholders, the officers of General Motors Corporation were authorized to purchase 21,131 preferred shares of General Motors Holdens, Ltd., and to pay therefor $62,519.24.

In January 1938 the minority interest in General Motors Holdens, Ltd., consisting of 34,344 ordinary shares, were acquired by General Motors Corporation for $479,865.74 in cash. The book value of the shares, $353,363.98, was added to investment, and $126,501.76, representing the excess in cost over book value, was charged against income.

Other acquisitions by General Motors Corporation.—There follows a listing of other acquisitions by General Motors Corporation, the Delaware Corporation, during the period from 1917 to 1937, in addition to those just previously discussed:

Miscellaneous other acquisitions by General Motors Corporation, 1917 to 1937

	Year	Consideration		
		Exchange of securities	Cash or equivalent	Total
Motor vehicle manufacturing interests:				
Interstate Motor Car Co.	1919	$248,406	$94	$248,500
Industrial Terminal Corporation's "Saxon" plant	1919		1,277,000	1,277,000
Automobile body manufacturing interests:				
Fisher Body Ohio Co.	1926	406,819		406,819
Martin Parry Body Corporation	1930		900,000	900,000
Automobile parts and accessory manufacturing interests:				
Harrison Radiator Corporation	1918	1,887,100	38,710	1,925,810
New Departure Manufacturing Co.	1918		584,775	584,775
Lancaster Steel Products Co.	1918	2,279,458		2,279,458
Saginaw Malleable Iron Co.	1918–20	291,378	816,636	1,108,014
Klaxon Co.	1919		250,000	250,000
Michigan Crankshaft Co.	1919	250,000	30,000	280,000
T. W. Warner Co.	1921	3,123,800	856,900	3,980,700
Armstrong Spring Co.	1923	871,000	752,186	1,623,186
Guide Lamp Co.	1928		914,181	914,181
Liberty Starter Co.	1932	33,365	105,000	138,363
Packard Electric Co.	1932	1,056,698	60,085	1,096,783
Airplane interests:				
The Dayton Wright Airplane Co.	1919	1,096,000		1,096,000
Allison Engineering Co.			592,168	592,168
Mechanical refrigeration equipment interests:				
Sunlight Electrical Manufacturing Co.	1933		665,000	665,000
Heat Transfer Products Corporation	1934		200,000	200,000
Radio manufacturing interests:				
Day-Fan Electric Co.	1929	978,474	17,750	996,224
Crosley Radio Corporation's Kokomo (Indiana) plant	1936		460,776	460,776
Diesel engine interests:				
Winton Engine Co.	1930	5,897,331	1,000	5,898,331
Electro-Motive Co.	1930	1,194,143		1,194,143
Other plant acquisitions:				
International Arms and Fuze Co. plant	1919	667,400	572,600	1,240,000
Chevrolet Motor Co. of California	1920	4,732,000		4,732,000
Subtotal		24,993,370	9,094,861	34,088,231
Part interests acquired:				
Doehling Die Casting Co.—40 percent of outstanding common and preferred stocks	1918	369,000	631,000	1,000,000
General Leather Co.—60 percent of outstanding	1919		1,250,000	1,250,000
General Motors Radio Corporation—51 percent of voting stock	1929		1,530,000	1,530,000
Kinetic Chemicals, Inc.—49 percent of voting stock	1930		98,000	98,000
Bendix Aviation Corporation—25 percent of voting stock	1929	90,579	15,000,000	15,090,579
Fokker Aviation Corporation (later renamed General Aviation Corporation)—48.58 percent interest	1929, 1933	7,782,341	253,888	8,036,229
North American Aviation, Inc.—8.74 percent interest	1933		848,654	848,654
National Bank of Detroit—50 percent interest	1933		12,500,000	12,500,000
Housing companies:				
Bristol Realty Co.	1919		500,000	500,000
House Financing Corporation	1919		200,000	200,000
Janesville Improvement Co.	1919		100,000	100,000
Modern Dwellings, Ltd.	1925		163,000	163,000
Modern Housing Corporation	1919		3,500,000	3,500,000
New Departure Realty Co.	1919		250,000	250,000
Lansing Home Building Co.	1919		200,000	200,000
Miscellaneous:				
General Motors Building Corporation	1919		500,000	500,000
General Motors Research Corporation	1920		100,000	100,000
Inland Manufacturing Co.	1923		100,000	100,000
Argonaut Real Estate Corporation	1927		1,000,000	1,000,000
Electro Motive Corporation	1935		100,000	100,000
General Motors Overseas Corporation	1937		100,000	100,000
Total		33,235,290	48,019,403	81,254,693

Section 6. Extension of Activities of General Motors into the Fields of Financing Consumer Purchases, Insurance of Motor Vehicles, and Investment in Retail Dealerships

Introduction.—General Motors Corporation not only makes and sells motor vehicles to retail dealers but also invests in retail dealerships and provides the dealers with a means for financing consumer purchases through installment payments and provides insurance of all types for motor vehicles. The installment payment financing service is provided through a subsidiary, General Motors Acceptance Corporation. The insurance of motor vehicles is provided through a subsidiary, General Exchange Insurance Corporation. The investments in retail dealerships were at one time administered through General Motors Holding Corporation but are now administered by General Motors Holding Division of General Motors Corporations.

These activities, together with General Motors investment therein, are now discussed in greater detail.

General Motors Acceptance Corporation.—On December 19, 1918, the finance committee of General Motors Corporation adopted a resolution authorizing the formation of an automobile financing company, with an initial capital and surplus of $2,500,000, all to be subscribed for by General Motors Corporation. General Motors Acceptance Corporation was organized soon after, for the purpose of facilitating the sales of General Motors products by providing a means whereby dealers and users might defer full payment. All of its issued stock, of $2,500,000 par value, was acquired by General Motors for cash or its equivalent.

Records of General Motors Corporation show that, up to the close of 1927, 350,000 shares of the capital stock of this subsidiary, of $35,000,000 par value, had been acquired by General Motors Corporation and recorded at a total value of $43,750,000, or at an average of $125 per share; also, that at the close of 1928 the investment in this stock had increased to $50,000,000. The stock issues, at $125 per share, accounted for the 450,000 shares outstanding and the $11,250,000 of paid-in surplus shown on the balance sheet of the Acceptance Corporation as of December 31, 1934. Resolutions adopted, authorizing the acquisition by General Motors Corporation of the stock of the Acceptance Corporation, specified in numerous instances $125 per share as the purchase price.

The investment of General Motors Corporation in the stock of the Acceptance Corporation, which totaled $2,500,000 at the close of 1919, had increased, as already stated, to $50,000,000 at the close of 1928. At the close of 1937 an investment of approximately $84,900,000 in this subsidiary was reported, but after 1928 to the stock investment in this subsidiary was added the total of surplus and undivided profits of the subsidiary; and, except for subscriptions to newly issued stock amounting in aggregate par value to $6,250,000 in 1929 and $5,000,000 in a later year, the increases in investment in this subsidiary as reported were accounted for by the surplus and undivided profits items added.

In 1925, as stated in the following discussion of General Exchange Insurance Corporation, General Motors Acceptance Corporation held 60 percent of the outstanding stock of General Exchange Insurance

Corporation, purchased for $900,000, which it sold at the same price to General Motors Corporation in 1926. Also, in 1927, General Motors Corporation sold all of the outstanding stock of the insurance corporation, consisting of 5,000 shares, to the acceptance corporation for $2,176,702. In 1935 the insurance corporation had outstanding 40,000 shares of $4,000,000 par value, 80 of which were held by General Motors Corporation. The other 39,920 shares, held by the acceptance corporation, were turned over to General Motors as a dividend in December 1935, and recorded at the book value of $10,825,670.

General Exchange Insurance Corporation.—Approval of the formation of General Exchange Insurance Corporation, with a capital of $500,000 and a surplus of $1,000,000, was voted by the finance committee of General Motors on June 1, 1925. Of the 5,000 shares of stock authorized and issued, 60 percent was subscribed for by General Motors Acceptance Corporation, at $300 per share, and the remaining 40 percent was subscribed for by General Motors Corporation at the same price.

In January 1926, the officers of General Motors Corporation were authorized to purchase from General Motors Acceptance Corporation, at $300 per share, the 3,000 shares held by that company; and in August 1927, the finance committee of General Motors Corporation approved the sale to General Motors Acceptance Corporation of all of the 5,000 outstanding shares of the insurance corporation at its net asset value as shown on the books of the insurance corporation as of June 30, 1927, or for about $2,176,702. The activity of General Exchange Insurance Corporation was referred to as in reality a department of the activity of General Motors Acceptance Corporation.

The capital stock of General Exchange Insurance Corporation later was increased to 40,000 shares of $100 par value each, and paid-in surplus was increased from $1,000,000 to $1,500,000. As of December 31, 1934, 39,920 shares of the insurance corporation's stock were held by General Motors Acceptance Corporation and the remaining 80 shares were held by General Motors Corporation. In December 1935 the 39,920 shares held by General Motors Acceptance Corporation were turned over to General Motors Corporation as a dividend, representing a book value of $10,825,670, so that the entire stock of the insurance corporation was owned directly by General Motors Corporation as of December 31, 1935. The stock, which at this time and to the close of 1937 consisted of 40,000 shares of $4,000,000 par value, was valued in the records of the parent company at $10,986,886.64 as of December 31, 1935, and $22,754,927.44 as of December 31, 1937, these amounts representing net worth of the subsidiary for the respective years.

General Motors Holding Corporation.—The formation of Motors Holding Corporation, for the purpose of furnishing capital and assistance to dealers in cases where deemed essential so to do, was authorized by the finance committee of General Motors at a meeting held June 17, 1929. The authorizing resolution specified as the capital of the new company $2,500.000 of common stock, to be subscribed for by General Motors as needed to meet the operating requirements of the business. Soon after formation, the name of the company was changed to General Motors Holding Corporation. Prior to the formation of Motors Holding Corporation, General Motors had engaged in certain experiments to see what could be done to rehabilitate certain dealer situations.

On June 9, 1930, up to which time General Motors had paid a total of $1,650,000 on its subscription to the holding corporation's stock the finance committee of General Motors authorized an increase in the authorized capital of the holding corporation to $5,000,000 and subscription therefor by General Motors Corporation. At an executive committee meeting held June 11, 1931, it was stated that up to that time the holding corporation's investments had been limited to $3,000,000, and it was agreed at the meeting that the holding corporation should be permitted to increase its investments in suitable dealerships as opportunity offered to a total of $5,000,000, which was the amount of its authorized capital.

General Motors' investment in the holding corporation, carried at net worth as shown by the books of this subsidiary, amounted, approximately, to $2,790,000 at the close of 1933, $3,698,000 at the close of 1934, and $4,650,000 at the close of 1935. The company was dissolved December 12, 1936, and the operations assumed by Motors Holding Division. As of December 31, 1937, the investment in dealerships amounted to $8,857,536.44.

General Motors Parts Corporation.—The formation of General Motors Parts Corporation was approved by the executive committee of General Motors on December 7, 1933. Prior to 1935 this subsidiary had issued only 100 shares of stock, of $10,000 par value, all acquired by General Motors. In 1935, 900 additional shares, of $90,000 par value, were issued and acquired by General Motors, and these shares added to the 100 shares previously acquired comprised the entire investment in this subsidiary at the time of its dissolution in 1936.

General Motors Sales Corporation.—This company was incorporated under the laws of Delaware on October 23, 1936. Its paid-in capital, amounting to $1,000,000, was acquired through issuance of 100,000 shares of stock all subscribed for by General Motors Corporation. On December 1, 1936, the company commenced operations, consisting of the sale and distribution of the principal products of General Motors Corporation. The sales activities were formerly conducted by the following corporations, liquidated on November 30, 1936:

Buick Motor Co.
Cadillac Motor Car Co.
Chevrolet Motor Co.
Pontiac Motor Co.
Delco Appliance Corporation
Delco-Frigidaire Conditioning Corporation
Frigidaire Corporation
Frigidaire Sales Corporation of New England
General Motors Fleet Sales Corporation

The performance of the sales activities formerly conducted by Olds Motor Works, liquidated on December 31, 1936, was undertaken by General Motors Sales Corporation beginning January 2, 1937.

Section 7. Investment, Profits, and Rates of Return

Introduction.—The investment, profits, and rates of return referred to in the immediately following discussion are those pertaining to the consolidated operations of General Motors Corporation. The consolidated operations include the divisions and subsidiaries engaging in the manufacture and sale of passenger cars, commercial vehicles, parts and accessories, Diesel and gasoline engines for marine and industrial uses and streamlined trains, airplane engines and airplanes, refrigeration equipment, air-conditioning equipment, heating equipment, lighting equipment, household appliances, and numerous miscellaneous items.

A summary for the years 1927 to 1937, inclusive, of the total consolidated investment, the profits applying and rates of return thereon follows, and is designated as table 16. This summary shows four bases of investment, namely, the total investment employed, the total preferred and common-stock holders' investment, the common-stock holders' investment, and the investment in the manufacturing business after excluding the investment in securities and property not used in the current manufacturing operations.

The investment and profits shown in the summary represent the investment and profits as revised by the Commission's accountants. In revising the corporation's stated investment, the accountants excluded the equity in the undivided surplus of subsidiaries not consolidated that had been taken up in the consolidated surplus, the goodwill and appreciation of assets, surplus, and idle property and construction work in progress. The latter are commented upon in section 8, chapter XII.

In the introduction to the consolidated balance sheet, it is explained that certain companies in which General held a majority interest were not consolidated in the financial statements used in this report, but that General Motors' equity in the undivided profits or losses of these corporations was taken up in General Motors' surplus. The undivided profits, however, remained in the possession of the subsidiaries and cannot be treated as an investment in those subsidiaries that were consolidated nor as cost of investment in the securities of those companies held by General Motors.

Description of investment bases.—The investment in the total business operations consists of the average of the year beginning and end balances of the outstanding par and stated amount of the common and preferred stocks, the surplus account, the surplus reserves, the reserves for Federal, State, and foreign income taxes and borrowed money except trade notes. Borrowed money in this instance represented deposits by employees on which the corporation contracted to pay interest and had use of the money in the business. The employee saving deposits are more fully discussed on page 546.

The total preferred and common-stock holders' investment and profits excludes from the total investment and total profits and borrowed money and interest paid. The common-stock holders' investment and profits exclude from the total investment and total profits the borrowed money and interest and the preferred stock and preferred-stock dividends, or the profit accruing to the common-stock holders after paying interest on borrowed funds and dividends on the preferred stock.

The investment in the manufacturing business and profits earned thereon, represent the total investment and profits after excluding investments in securities, properties not used in the business, and other outside investments and the income and expenses thereon.

TABLE 16.—*General Motors Corporation, consolidated investments, profits, and rates of return on the investment (after excluding goodwill and appreciation) applying to the total consolidated operations, 1927 to 1937, inclusive*

AVERAGE INVESTMENT

Year	Total investment	Total stockholders' investment	Total common-stock holders' investment	Total investment in manufacturing business
1927	$611, 550, 256	$594, 266, 094	$472, 541, 022	$460, 086, 856
1928	724, 861, 737	697, 911, 153	563, 948, 609	481, 282, 948
1929	801, 189, 452	764, 276, 291	628, 812, 073	547, 416, 324
1930	852, 425, 917	809, 479, 884	647, 955, 805	577, 559, 090
1931	856, 889, 929	811, 602, 103	625, 810, 717	530, 653, 506
1932	791, 473, 581	754, 869, 6[illegible]3	570, 149, 011	474, 754, 200
1933	747, 804, 706	723, 759, 449	539, 440, 174	435, 001, 954
1934	762, 452, 139	741, 914, 973	557, 645, 592	454, 302, 662
1935	810, 097, 701	789, 345, 545	605, 076, 164	508, 241, 435
1936	866, 528, 276	848, 170, 034	663, 900, 653	583, 919, 075
1937	895, 247, 782	882, 215, 954	697, 946, 573	607, 523, 157
11-year average	792, 774, 680	765, 255, 560	597, 566, 035	514, 612, 836

REVISED PROFITS BEFORE FEDERAL AND STATE INCOME TAXES

Year	Total investment	Total stockholders' investment	Total common-stock holders' investment	Total investment in manufacturing business
1927	$298, 229, 205	$297, 341, 589	$288, 232, 259	$290, 084, 356
1928	331, 645, 989	330, 216, 167	320, 811, 410	318, 838, 004
1929	296, 598, 238	294, 580, 107	285, 101, 426	282, 113, 519
1930	176, 516, 581	174, 181, 084	164, 642, 424	154, 774, 033
1931	133, 991, 727	131, 528, 117	122, 152, 218	118, 443, 775
1932	10, 600, 184	8, 824, 212	[1] 382, 175	[1] 1, 340, 430
1933	94, 028, 432	92, 880, 387	83, 701, 542	84, 082, 794
1934	115, 826, 194	114, 853, 323	105, 675, 103	103, 145, 443
1935	207, 580, 866	206, 653, 946	197, 475, 726	177, 243, 204
1936	284, 415, 556	283, 696, 144	274, 517, 924	255, 572, 007
1937	252, 744, 534	252, 202, 546	243, 024, 326	226, 578, 100
11-year average	200, 197, 955	198, 814, 329	189, 541, 108	182, 684, 982

RATES OF RETURN

Year	Total investment	Total stockholders' investment	Total common-stock holders' investment	Total investment in manufacturing business
	Percent	*Percent*	*Percent*	*Percent*
1927	48. 77	50. 04	61. 00	63. 05
1928	45. 75	47. 31	56. 89	66. 24
1929	37. 02	38. 54	45. 34	51. 54
1930	20. 71	21. 52	25. 41	26. 80
1931	15. 64	16. 21	19. 52	22. 32
1932	1. 34	1. 17	[1] . 07	[1] . 28
1933	12. 57	12. 83	15. 52	19. 33
1934	15. 19	15. 48	18. 95	22. 70
1935	25. 62	26. 18	32. 64	34. 87
1936	32. 82	33. 45	41. 35	43. 77
1937	28. 23	28. 59	34. 82	37. 30
11-year average	25. 25	25. 98	31. 72	35. 50

[1] Denotes loss.

Comparison of rates of return on the various bases of investment.—By reference to the preceding table it will be observed that the 11-year average rate of return on the consolidated total investment was 25.25 percent and that the rate of return on the total stockholders' investment was 25.98 percent. There is very little difference in the two rates of return but what difference there is was caused by the inclusion of borrowed money in the total investment. The rate of interest paid on borrowed money was much lower than the average rate earned on the total investment, therefore, the exclusion of borrowed money and the interest increased the rate of return on the stockholders' investment. Borrowed money in the case of this corporation represented employees' saving deposits on which the corporation paid interest and had use of the funds and in no case did this money cost the corporation more than 6 percent during the period under survey.

A comparison of the average rate of return on the total stockholders' investment with the return on the common-stock holders' investment and the investment in the manufacturing business shows a much wider variation. For illustration, the 11-year average rate of return on the total stockholders' investment, including preferred stock, was 25.98 percent, on the common-stock holders' investment it was 31.72 percent, and 35.50 percent on the investment in the manufacturing business. The increase in the rate of return on the common-stock holders' investment as compared to the total stockholders' investment illustrates the leverage and the accruing increase in rate of return to the common-stock holders resulting from the fixed dividend rate of the preferred stock. The highest dividend rate provided for preferred stock was 7 percent while in all years except 1932 the corporation earned a rate of return in excess of 7 percent. Therefore, the rate of return on the common-stock holders' investment would naturally be increased by the difference between the fixed rate and the average rate on the total investment. With regard to the year during which the rate of return on the total investment did not equal the fixed dividend rate on the preferred stock it will be noted that the rate of return on the total stockholders' investment was 1.17 percent, but that after providing for the dividends on the preferred stock the rate of return on the common-stock holders' investment reflected a loss of 0.07 percent.

The investment in the manufacturing business showed an even higher 11-year average rate of return than the rate of return on the common-stock holders' investment; namely, 35.50 percent on the manufacturing business as compared to 31.72 percent on the common-stock holders' investment. The investment in the manufacturing business excludes investments in securities and property not used in the business and other outside investments together with the income thereon but includes borrowed money. The higher rate of return on the investment in the manufacturing business as compared to the other bases of investment was caused by the small rate of earnings on the securities and outside investments, as compared to the rate of return from the manufacture and sale of products.

Trend of rates of return.—Again by reference to the summary of the rates of return on the consolidated operations, it will be observed that the rates of return on each of the four bases indicated varied widely from year to year. This variation was primarily due to the fluctuations in the net profit resulting from the operations.

As shown by the summary, the 11-year average rate of return on the total investment was 25.25 percent. This average rate resulted from rates of return varying from a gain of 48.77 percent in 1927 to a low of 1.34 percent in 1932. Attention is then directed to the trend of the rates of return. Starting with a high of 48.77 percent in 1927, the rate declined each year until the low was reached in 1932. From that point the return steadily increased until it reached 32.82 percent in 1936 and declined in 1937 to 28.23 percent.

The decline in the rate of return in 1937, as compared to 1936, occurred even though the dollar volume of sales in 1937 exceeded the 1936 sales by approximately $167,000,000. The decline in the rate of return was caused partially by an increase in the investment in the business resulting from 1936 earnings that were retained in the business and further caused by an increase in the cost of goods sold because of increased cost of labor and material.

The rates of return on the total stockholders' investment, the common-stock holders' investment, and the investment in the manufacturing business while not identical to those of the total investment yet they followed approximately the same trend as the rates of return on the total investment.

Earning power of General Motors.—The year of greatest earnings during the period under survey was 1928, when a profit before provision for Federal, State, and foreign income taxes of $330,216,167 was realized. The next year of greatest earnings was 1927, closely followed by 1929, and the next best year from an earning standpoint was 1936, when a profit of $283,961,144 was earned. In no year during the 11 years, 1927 to 1937, did the corporation fail to realize some profit. A very remarkable record in view of the economic depression in the United States. The year of lowest earnings was 1932, when $10,600,184 was earned and the highest year has previously been stated, and the 11-year average was $200,197,955 per year before provision for income taxes, and an average of $173,236,252 after income and other taxes.

The tremendous earning power of the corporation is further illustrated by the fact that the corporation earned as high as 48.77 percent on the total investment, including investments in securities, and that the average rate of return during the 11 years was 25.25 percent. On its manufacturing operations the company earned as high as 66.24 percent, and the average rate of return was 35.50 percent for the 11-year period.

Investment, profit, and rates of return of the motor-vehicle group.—There follows hereafter a summary of the investment, profit, and rates of return for the motor-vehicle group of General Motors Corporation. This summary is designated as table 17. On page 487 of this report, the investment, profit, and rate of return have been shown for the combined operations of General Motors Corporation and consolidated subsidiaries. This inquiry was largely concerned with the investment in the motor-vehicle operations and the profit resulting therefrom. As already stated in this report, General Motors Corporation engages in the manufacture and sale of numerous products allied with the motor-vehicle operations and also engages in the manufacture and sale of numerous products not closely allied with the motor-vehicle industry. In order to establish the investment in the motor-vehicle operations and to determine the rates of return earned thereon, the combined investment and profit in all operations have been segregated so as to show the investment, profits, and rates of return by certain groups of products. The motor-vehicle group as here used includes the Chevrolet Division, the Buick Division, Cadillac-La Salle Division, the Oldsmobile Division, the Pontiac Division and the Fisher Body Division and the divisions of General Motors Sales Corporation which handle the sales of the cars just named.

The summary of investment, profit, and rates of return for the motor-vehicle group was computed for two bases of investment, namely, the total investment and profits and the investment and profits of the manufacturing business or in other words the investment in the manufacture and sale of motor vehicles, parts. and accessories by the motor-vehicle divisions. The principles applied in determining the investment and the profit of this group are similar in all respects to those applied with regard to the total combined operations and as more fully outlined on page 486. The difference between the total investment and the investment in the manufacturing operations consists of the exclusion from the total investment of the investments in securities, properties not used in the business and other outside investments and the income and expenses applying. The amount of the investments in these items and the income or the expenses applying were excluded from the total investment in order to arrive at the investment in the manufacture and sale of motor vehicles and parts and accessories of the motor-vehicle divisions.

The profits shown in this summary should in theory coincide with those shown in the division of profits following the income and expense statement. They do not, however, agree in exact figures for the reason that in computing the investment, profits, and rates of return, the investment and profits in subsidiaries not consolidated was deducted from the investment and the income therefrom was deducted from the profits before computing the rates of return. It was necessary to employ this method because of the practice of the corporation in taking up the corporation's equity in the profits or losses of those subsidiaries. Insofar as the total operations of General Motors Corporation were concerned, the portion of the surplus representing equity in the undistributed profits or losses of subsidiaries was excluded as ledger values not employed in the business. The Commission's accountants, however, were not furnished with the segregation of this equity with respect to each group of products; therefore, the only available method for eliminating this surplus was to eliminate the investment in subsidiaries not consolidated. The book value of the investment included in the cost of the investment and the equity in the undistributed profits or losses of the subsidiaries.

As indicated by the table, the 11-year average rate of return on the total investment in the motor-vehicle divisions was 29.18 percent, and on the investment in the manufacturing operations it was 32.32 percent, as compared to a rate of 35.50 on the consolidated manufacturing operations. The higher rate of return earned on the manufacturing and sales operations of the motor-vehicle group as compared to the rate of return earned on the total operations of that group is accounted for by the fact that the investment in securities and other outside investments did not produce an income equal to that produced by the investment in the manufacture and sale of motor vehicles and parts. The average, therefore, is lower on the total investment than on the investment in the manufacturing operations.

The average rate of return of 29.18 percent on the total investment resulted from profits of a widely varying yearly rate of return. For illustration, the rates of return on the total investment ranged from a loss of 1.13 percent in 1932 to a maximum rate of profit of 55.99 percent in 1927. The rate of return earned in 1936 was 36.01 percent and in 1937 it was 25.21 percent. The average rate of 32.32 percent earned by the motor-vehicle group during the 11-year period from 1927 to 1937, inclusive, resulted from rates that ranged from a loss of 2.07 percent in 1932 to a maximum rate of profit of 61.43 percent in 1927. The rate of return earned in 1936 was 37.93 percent and during 1937 the rate of return was 25.85 percent. With regard to rates, it will be noted that the rate of loss on the manufacturing operations in 1932 exceeded the rate of loss on the total business. This indicates that the rate of loss from investment and securities in outside operations was less than the loss resulting from the manufacture and sale of motor vehicles during this particular year.

TABLE 17.—*General Motors Corporation motor-vehicle group (including Fisher Body)*

INVESTMENT, PROFITS, AND RATES OF RETURN ON THE INVESTMENT (AFTER EXCLUDING GOODWILL AND APPRECIATION) APPLYING TO THE MOTOR-VEHICLE DIVISIONS, INCLUDING FISHER BODY DIVISION, FOR THE YEARS 1927 TO 1937, INCLUSIVE

Year	Average investment	Investment in motor-vehicle business
1927	$374, 615, 032	$338, 794, 722
1928	439, 355, 640	366, 641, 594
1929	439, 969, 091	386, 648, 532
1930	434, 863, 132	396, 888, 524
1931	446, 337, 696	372, 389, 556
1932	403, 730, 693	337, 094, 408
1933	361, 396, 490	317, 692, 052
1934	351, 850, 643	302, 321, 830
1935	389, 244, 459	345, 488, 500
1936	456, 844, 201	429, 735, 652
1937	480, 420, 823	467, 160, 178
11-year average	416, 239, 426	369, 168, 686
REVISED PROFITS BEFORE INCOME TAXES		
1927	$209, 733, 627	$208, 134, 435
1928	220, 114, 187	215, 899, 051
1929	190, 167, 531	187, 182, 780
1930	112, 453, 790	109, 623, 779
1931	97, 437, 279	94, 414, 022
1932	[1] 4, 559, 992	[1] 6, 973, 250
1933	55, 313, 138	53, 778, 019
1934	51, 266, 271	50, 204, 309
1935	118, 176, 526	116, 625, 067
1936	164, 498, 588	163, 015, 802
1937	121, 095, 202	120, 749, 942
11-year average	121, 447, 738	119, 332, 178
RATE OF RETURN, PERCENT		
1927	55. 99	61. 43
1928	50. 10	58. 89
1929	43. 22	48. 41
1930	25. 86	27. 62
1931	20. 83	25. 35
1932	[1] 1. 13	[1] 2. 07
1933	15. 31	16. 93
1934	14. 57	16. 61
1935	30. 36	33. 76
1936	36. 01	37. 93
1937	25. 21	25. 85
11-year average	29. 18	32. 32

[1] Loss.

Investment, profits, and rates of return—accessories and parts group.—There follows a statement of the investment, profits and rates of return for the accessories and parts group of General Motors Corporation. This statement is designated as table 18. Previously in this report, the investment, profits, and rates of return have been shown for the combined operations of General Motors Corporation and consolidated subsidiaries. The combined investment and profits in all operations were then segregated so as to show the investment, profits, and rates of return by certain groups of products. The group of products now under discussion consists of the accessories and parts operations as more definitely outlined on page 433.

The statement of investment, profits, and rates of return for the accessories and parts group were computed for two bases of investment, namely, the total investment and profits and the investment and profits of the manufacturing business or the investment in the manufacture and sale of accessories and parts. The principles applied in determining the investment and the profit have been previously stated and are not repeated here. The difference between the total investment and the investment in the manufacturing operations results from investments in securities, properties not used in the business, and other outside investments, and the income and expenses applying, that have been excluded from the total investment in order to arrive at the investment in the manufacture and sale of accessories and parts.

The profits shown in this summary should in theory coincide with those shown in the division of profits following the income and expense statement. They do not, however, agree in exact figures for the reason that in computing the investment, profits, and rates of return, the investment and profits in subsidiaries not consolidated was deducted from the investment and the income therefrom was deducted from the profits before computing the rates of return. It was necessary to employ this method because of the practice of the corporation in taking up the corporation's equity in the profits or losses in the undivided equity of those subsidiaries. Insofar as the total operations of General Motors Corporation were concerned, the portion of the surplus representing equity in the undistributed profits or losses of subsidiaries not consolidated, was excluded as book values not employed in the business. The Commission's accountants, however, were not furnished with the segregation of this equity with respect to each group of products; therefore, the only available method for eliminating this surplus was to eliminate the investment in subsidiaries not consolidated. The book value of the investment included in the cost of the investment and the equity in the undistributed profits or losses of the subsidiaries.

The next table shows that the 11-year average rate of return earned on the total investment in the parts and accessories group was 53.17 percent, and on the investment in the manufacturing operations of that group it was 57.94 percent, as compared to a rate of 32.32 percent on the new motor-vehicle-manufacturing operations.

The difference in the rates for the accessories and parts group is accounted for by the fact that the investment in securities and other outside investments did not produce an income equal to that produced by the investment in the accessories and parts operations, and therefore the average is lower on the total investment than on the investment in the manufacturing operations.

The average rate of return on the total investment resulted from profits representing a yearly rate of return of widely varying proportions. For illustration, the rates of return on the total investment ranged from 14.48 percent in 1932 to as high as 78.41 percent in 1928, and in 1936 the rate was 66.90 percent, and in 1937 it was 54.85 percent. The yearly rates of return earned on the investment in the accessories and parts manufacturing operations ranged from 16.33 percent in 1932 to a high of 87.13 percent in 1928, and were 70.16 percent in 1936 and 56 percent in 1937.

TABLE 18.—*General Motors Corporation (accessories and parts group)*

INVESTMENT, PROFITS, AND RATES OF RETURN ON THE INVESTMENT (AFTER EXCLUDING GOODWILL AND APPRECIATION) APPLYING TO THE ACCESSORIES AND PARTS GROUP FOR THE YEARS 1927 TO 1937, INCLUSIVE

Year	Total investment	Investment in accessories and parts business	Year	Total investment	Investment in accessories and parts business
1927	$77,902,472	$75,145,809	1934	$71,094,204	$62,889,567
1928	88,202,222	78,662,910	1935	71,107,554	69,882,482
1929	90,412,268	83,258,976	1936	92,294,765	87,608,303
1930	87,774,951	80,707,677	1937	105,397,597	103,139,485
1931	85,386,115	72,534,700			
1932	74,514,536	63,672,765	11-year average	83,811,247	76,250,633
1933	68,837,032	61,254,288			
REVISED PROFITS BEFORE INCOME TAXES					
1927	$56,252,844	$55,727,948	1934	$34,814,855	$34,585,889
1928	69,159,163	68,535,133	1935	43,985,300	43,705,320
1929	62,459,027	61,986,039	1936	61,743,163	61,465,932
1930	35,098,257	34,491,361	1937	57,815,100	57,756,980
1931	31,127,164	30,625,247			
1932	10,790,494	10,398,858	11-year average	44,565,191	44,180,092
1933	26,981,738	26,712,257			
RATE OF RETURN					
	Percent	*Percent*		*Percent*	*Percent*
1927	70.40	74.16	1934	48.97	54.99
1928	78.41	87.13	1935	57.04	62.54
1929	69.08	74.45	1936	66.90	70.16
1930	39.99	42.74	1937	54.85	56.00
1931	36.45	42.22			
1932	14.48	16.33	11-year average	53.17	57.94
1933	39.20	43.61			

Investment, profits, and rates of return for other-products group.— The next table, designated as table 19, presents a summary of the investment, profits, and rates of return for the so-called other-products group. As stated previously in this report, this inquiry was particularly concerned with the motor vehicles and the motor-vehicle accessories and parts operations of General Motors Corporation. In view of the fact that the corporation's combined operations comprised many activities other than the former, an effort was made to segregate these operations by preparing pro forma balance sheets and income and expense statements for certain groupings of the corporation's activities. More specifically, the motor-vehicle group, including Fisher Body Division, was segregated; then accessories and parts group was segregated; and all other operations and investments, including a major part of the investment in securities of other corporations, was grouped and designated as other-products group.

With regard to the latter group, attention is directed to the fact that a large proportion of this investment consists of investment in the securities of corporations not consolidated as a part of General

Motors operations, and more specifically it includes the investment in foreign subsidiaries, such as Adam Opel A. G. and Vauxhall Motors, Ltd., and the investment in General Motors Acceptance Corporation, General Exchange Insurance Corporation, Yellow Truck & Coach Manufacturing Co., and others, all as outlined on page 442.

The investment, profits, and rates of return of the so-called other-products group were computed for two bases of investment, namely, total investment and profits and the investment and profits of the manufacturing business after eliminating investments in securities and properties not used in the manufacturing operations. The same principles were applied in determining the investment and profit for this group as those applied in determining the investment and profits for the combined operations. These principles are fully outlined on page 523 and are not repeated here.

The profits shown in this summary should in theory coincide with those shown in the division of profits following the income and expense statement. They do not, however, agree in exact figures, for the reason that in computing the investment, profits, and rates of return, the investment and profits in subsidiaries not consolidated was deducted from the investment, and the income therefrom was deducted from the profits before computing the rates of return. It was necessary to employ this method because of the practice of the corporation in taking up the corporation's equity in the profits or losses of those subsidiaries. Insofar as the total operations of General Motors Corporation were concerned, the portion of the surplus representing equity in the undistributed profits or losses of subsidiaries was excluded as book values not employed in the business. The Commission's accountants, however, were not furnished with the segregation of this equity with respect to each group of products; therefore, the only available method for eliminating this surplus was to eliminate the investment in subsidiaries not consolidated. The book value of the investment included the cost of the investment and the equity in the undistributed profits or losses of the subsidiaries.

The summary which follows indicates that the average rate of return earned on the total investment during the 11 years of the period from 1927 to 1937, inclusive, was 7.32 percent, and the rate of return for the same period on the investment in the manufacture and sale of other products was 20.34 percent, as compared to rates of 35.50 percent for the consolidated manufacturing operations, 32.32 percent for the motor-vehicle group, and 57.94 percent for the accessories and parts group. This wide variation of the rates of return on the total investment and on the investment in the manufacturing operations for the other-products group is accounted for by the fact that this group includes a greater percentage of the total investment in securities and other outside investments as compared to the investment in the manufacture and sale of other products. The rate of return earned on the investment in securities and other outside investments was much lower than earned on the investment in the manufacture and sale of other products; therefore, the rate of investment in securities and other outside operations caused the average rate to be much lower than the rate earned on the manufacture and sale of other products.

The average rate of return earned during the 11-year period resulted from widely varying yearly rates of return. For illustration, the rate of return for the total investment varied from a loss of 1.86 percent in 1931 to a maximum gain of 20.37 percent in 1928, while the average rate of return on the investment in the manufacture and sale of other products ranged from a loss of 6.22 percent in 1931 to a maximum gain of 49.17 percent in 1928. The rate of return earned on investment in the manufacture and sale of other products in 1936 was 32.83 percent and increased to 47.27 percent in 1937.

TABLE 19.—*General Motors Corporation (other-products group)*

INVESTMENT, PROFITS, AND RATES OF RETURN ON THE INVESTMENT (AFTER EXCLUDING GOODWILL AND APPRECIATION) APPLYING TO THE OTHER-PRODUCTS GROUP, EXCLUSIVE OF THE MOTOR-VEHICLE DIVISIONS AND FISHER BODY AND THE ACCESSORIES AND PARTS GROUP

Year	Average investment	Investment in other manufacturing	Year	Average investment	Investment in other manufacturing
1927	$138,851,611	$59,302,927	1934	$302,921,056	$101,298,633
1928	173,265,201	69,976,600	1935	309,936,691	103,167,670
1929	247,420,851	99,177,228	1936	302,648,177	94,681,734
1930	311,929,843	123,427,949	1937	316,847,466	102,160,815
1931	305,047,904	105,796,247			
1932	287,136,928	88,659,106	11-year average	270,895,278	94,227,774
1933	283,842,332	88,856,609			
REVISED PROFITS BEFORE INCOME TAXES					
1927	$26,264,205	$25,545,218	1934	$18,803,876	$18,367,721
1928	35,291,059	34,401,948	1935	17,639,028	17,149,134
1929	33,671,444	33,019,278	1936	31,889,467	31,081,423
1930	11,458,437	10,669,746	1937	48,421,045	48,294,349
1931	[1] 5,671,784	[1] 6,585,063			
1932	[1] 4,004,423	[1] 4,760,742	11-year average	19,816,823	19,161,791
1933	4,222,609	3,593,685			
RATES OF RETURN					
	Percent	*Percent*		*Percent*	*Percent*
1927	18.92	43.03	1934	6.21	18.13
1928	20.37	49.17	1935	5.69	16.62
1929	13.61	33.29	1936	10.54	32.83
1930	3.67	8.64	1937	15.28	47.27
1931	[1] 1.86	[1] 6.22			
1932	[1] 1.39	[1] 5.37	11-year average	7.32	20.34
1933	1.49	4.04			

[1] Loss.

Summary comparing rates of return on the investment in the manufacturing operations, by groups of products.—The investment, profits, and rates of return have heretofore been shown on various bases for the total combined operations of General Motors and certain divisions of the combined operations, such as for the motor-vehicle group, the accessories and parts group, and for the other-products group. The rates of return earned on the manufacturing operations by each group is now summarized and compared to the rate of return earned by all of the groups of products combined. With regard to this comparative statement of rates of return, it should be clearly understood that these rates apply to the rate of return earned on the manufacture and sale of products after excluding investments in securities, properties not used in the business, and other outside investments from the total investment and after deducting goodwill and appreciation.

By reference to the summary of comparative rates, it will be observed that the average rate of return earned on the entire combined operations for the 11-year period from 1927 to 1937, inclusive, was 35.50 percent. This rate of return for all manufacturing operations combined resulted from the rate of 32.32 percent earned by the motor-vehicle group, a rate of 57.94 percent earned by the accessories and parts group, and 20.34 percent earned on the manufacture and sale of other products. From these rates, it will be noted that the accessories and parts earned the highest rate of return, the motor-vehicles group was second, and other products much lower than either of the other groups of operations.

TABLE 20.—*General Motors Corporation—Summary comparing rates of return on the investment manufacturing operations, by groups of products, 1927 to 1937, inclusive*

Year	Motor-vehicle group	Accessories and parts group	Other-products group	All groups combined	Year	Motor-vehicle group	Accessories and parts group	Other-products group	All groups combined
	Percent	*Percent*	*Percent*	*Percent*		*Percent*	*Percent*	*Percent*	*Percent*
1927	61.43	74.16	43.08	63.05	1934	16.61	54.99	18.13	22.70
1928	58.89	87.13	49.17	66.24	1935	33.76	62.54	16.62	34.87
1929	48.41	74.45	33.29	51.54	1936	37.93	70.16	32.83	43.77
1930	27.62	42.74	8.64	26.80	1937	25.85	56.00	47.27	37.30
1931	25.35	42.22	[1] 6.32	22.32					
1932	[1] 2.07	16.33	[1] 5.37	[1] .28	Average	32.32	57.94	20.34	35.50
1933	16.93	43.61	4.04	19.33					

[1] Loss.

SECTION 8. COMPARATIVE CONSOLIDATED BALANCE SHEET OF GENERAL MOTORS CORPORATION AND CONSOLIDATED SUBSIDIARIES, 1926 TO 1937, INCLUSIVE

Introduction.—A comparative consolidated balance sheet for General Motors Corporation for the years ending December 31, 1926, to December 31, 1937, inclusive, is presented by the next summary and designated as table 21. This balance sheet indicates the consolidated assets and liabilities of the parent corporation, including the divisions and certain subsidiaries, both foreign and United States corporations, engaging in the manufacture and sale of passenger cars, commercial vehicles, parts and accessories, Diesel and gasoline engines for marine, aviation, and industrial uses and streamlined trains, refrigeration equipment, air-conditioning equipment, heating equipment, small lighting-plant equipment, electric household appliances, and numerous miscellaneous items.

This consolidated balance sheet does not reflect the assets and liabilities of those subsidiaries listed on page 442 as not consolidated, except General Motors investment in the securities of those companies and equity in the undivided profits or losses of the subsidiary companies not consolidated. The undivided earnings taken up do not include such portions of the earnings of foreign subsidiaries as cannot be remitted on account of foreign-exchange restrictions. The earnings of Adam Opel A. G., the German company, have not been taken into account since December 31, 1933, because of these restrictions.

When taking into account such of the earnings of subsidiaries not consolidated and free from exchange restrictions, the corporation added its share of the uncollected profits to its investment or deducted the losses from the investment. As an offset to the increase or decrease in the investment, the corporation increased current profit for uncollected profits and decreased current profit for losses. The surplus account, therefore, represented the consolidated surplus of the parent corporation and all subsidiaries, except that portion of subsidiaries' surplus subject to foreign restrictions, although the gross assets and liabilities of those subsidiaries were not combined and consolidated with the parent company.

The principal companies not consolidated in the balance sheet except with regard to investment by the parent company and the combined surplus, are listed on page 442.

TABLE 21.—*General Motors Corporation consolidated balance sheet, 1926 to 1937, inclusive*

ASSETS

	1926	1927	1928	1929	1930	1931
Current assets:						
Cash	$117, 825, 372	$132, 272, 218	$99, 189, 839	$101, 085, 813	$145, 713, 657	$119, 842, 358
U. S. Government securities (at cost)	12, 840, 581	75, 542, 608	122, 351, 174	26, 265, 717	33, 037, 723	74, 615, 059
Other marketable securities	4, 732, 433	361, 282	4, 304, 217	----	285, 691	10, 571, 702
Due from General Motors Management Corporation	----	----	----	----	7, 000, 000	3, 125, 000
Sight drafts with bills of lading and c. o. d. items	12, 073, 434	14, 649, 097	9, 273, 824	13, 579, 613	6, 707, 616	6, 079, 681
Notes receivable	1, 895, 577	1, 560, 678	8, 788, 453	1, 977, 363	3, 587, 080	3, 514, 560
Accounts receivable:						
General Motors Acceptance Corporation in transit						
Subsidiaries not consolidated	----	----	----	----	----	----
Officers and employees	----	----	----	----	----	----
Other	27, 707, 286	31, 646, 089	34, 565, 680	33, 866, 864	28, 965, 096	30, 263, 463
Inventories (at cost or less)	156, 203, 663	172, 647, 715	196, 692, 868	188, 472, 999	136, 298, 891	106, 471, 332
Total current	333, 278, 346	428, 679, 777	465, 226, 055	365, 248, 369	361, 595, 754	354, 483, 155
Investments:						
Subsidiary companies, not consolidated	79, 715, 823	98, 262, 014	117, 819, 124	207, 270, 443	207, 750, 253	211, 548, 200
Other security investments	----	----	----	----	----	----
Miscellaneous investments	----	----	----	----	----	----
Balance in closed banks (less reserve)	----	----	----	----	----	----
Investment in General Motors Management Corporation:						
Indebtedness due from General Motors Management Corporation	----	----	----	----	43, 000, 000	39, 875, 000
General Motors Management Corporation capital stock	----	----	----	----	----	----
General Motors Corporation capital stock in treasury:						
Common ($10 par value)	----	----	----	----	10, 993, 627	10, 048, 113
Preferred ($5 series)	----	----	----	----	1, 026, 004	2, 464, 424
Preferred (7-percent series)	----	1, 381, 787	525, 125	2, 378, 438	----	----
Common (25 percent par value)	----	29, 956, 248	49, 528, 068	67, 551, 038	----	----
Common (no par value)	19, 491, 739	----	----	----	----	----
Fixed assets:						
Real estate, plants and equipment	434, 373, 904	480, 473, 509	542, 987, 155	609, 880, 375	614, 030, 329	604, 100, 810
Goodwill, patents, etc	43, 570, 095	43, 687, 708	43, 673, 475	50, 680, 426	51, 949, 115	51, 939, 157
Prepaid expenses and deferred charges	10, 464, 289	16, 036, 533	23, 135, 867	880, 675	25, 467, 977	25, 808, 363
Total assets	920, 894, 106	1, 098, 477, 576	1, 242, 894, 869	1, 324, 889, 764	1, 315, 813, 059	1, 300, 267, 222

	1932	1933	1934	1935	1936	1937
Current assets:						
Cash	$151, 152, 747	$150, 952, 197	$148, 326, 541	$185, 450, 398	$188, 559, 023	$143, 859, 608
U. S. Government securities (at cost)	19, 327, 083	26, 141, 791	35, 639, 240	11, 741, 527	4, 998, 667	4, 923, 977
Other marketable securities	2, 300, 865	209, 977	3, 000, 828	2, 243, 738	2, 100, 483	2, 100, 427
Due from General Motors Management Corporation		375, 000	838, 877	1, 675, 960	11, 947, 600	
Sight drafts with bills of lading and c. o. d. items	4, 126, 901	3, 070, 585	7, 025, 745	10, 008, 549	9, 859, 407	8, 074, 290
Notes receivable	2, 762, 870	2, 346, 632	1, 235, 523	982, 574	976, 758	1, 183, 539
Accounts receivable:						
General Motors Acceptance Corporation in transit	5, 779, 897	2, 733, 482	5, 934, 278	24, 107, 178	32, 233, 164	16, 056, 570
Subsidiaries not consolidated	754, 070	818, 256	1, 445, 151	1, 917, 400	5, 862, 257	3, 199, 232
Officers and employees	93, 279	127, 778	127, 931	144, 704	233, 099	90, 238
Other	18, 201, 640	15, 154, 529	21, 200, 910	30, 430, 962	31, 521, 178	34, 264, 573
Inventories (at cost or less)	75, 478, 612	115, 584, 600	138, 598, 157	196, 325, 118	225, 644, 813	279, 146, 383
Total current	279, 977, 964	317, 514, 827	363, 373, 181	465, 028, 108	513, 986, 449	492, 898, 837
Investments:						
Subsidiary companies, not consolidated	209, 579, 410	221, 689, 090	193, 523, 015	206, 823, 053	185, 258, 883	198, 526, 450
Other security investments			38, 328, 893	35, 417, 888	37, 928, 636	41, 496, 003
Miscellaneous investments					725, 033	637, 603
Balance in closed banks (less reserve)		5, 698, 459	3, 802, 218	3, 400, 444	4, 821, 014	3, 541, 195
Investment in General Motors Management Corporation:						
Indebtedness due from General Motors Management Corporation	39, 875, 000	38, 525, 000	36, 686, 123	31, 380, 160	7, 895, 280	
General Motors Management Corporation capital stock	1, 451, 491	1, 505, 976	2, 569, 597	2, 173, 395	2, 595, 834	1, 361, 779
General Motors Corporation capital stock in treasury:						
Common ($10 par value)	8, 641, 349	13, 377, 014	16, 892, 941	20, 282, 502	16, 507, 343	21, 754, 365
Preferred ($5 series)	3, 167, 432	3, 267, 219	3, 267, 219	3, 267, 219	3, 267, 219	3, 267, 219
Preferred (7-percent series)						
Common (25 percent par value)						
Common (no par value)						
Fixed assets:						
Real estate, plants and equipment	499, 982, 231	512, 703, 982	541, 507, 042	592, 150, 300	690, 190, 826	747, 817, 794
Goodwill, patents, etc	51, 839, 436	51, 837, 677	51, 836, 955	50, 325, 642	50, 324, 906	50, 322, 686
Prepaid expenses and deferred charges	20, 714, 328	17, 554, 762	16, 684, 842	4, 017, 587	4, 687, 377	5, 049, 865
Total assets	1, 115, 228, 641	1, 183, 674, 006	1, 268, 532, 026	1, 414, 266, 298	1, 518, 188, 800	1, 566, 673, 796

TABLE 21.—*General Motors Corporation consolidated balance sheet, 1926 to 1937, inclusive*—Continued

LIABILITIES

	1926	1927	1928	1929	1930	1931
Current liabilities:						
Accounts payable	$39, 947, 195	$41, 340, 478	$48, 836, 297	$32, 712, 831	$26, 975, 871	$33, 671, 796
Employees savings funds:						
Payable in year		6, 564, 202	9, 302, 494	9, 010, 571	12, 142, 369	14, 875, 637
Payable subsequently	13, 070, 288	14, 933, 834	23, 100, 639	32, 412, 618	32, 326, 509	31, 231, 138
Taxes, State and county		4, 102, 320	3, 436, 259	2, 536, 182	2, 704, 075	1, 653, 407
Pay rolls	16, 653, 245	5, 589, 263	6, 252, 183	5, 057, 499	4, 372, 609	5, 242, 507
Warranties and allowances		5, 556, 658	4, 494, 488	4, 416, 713	3, 200, 021	2, 889, 984
Consumer influence plans			842, 891	2, 118, 138	1, 366, 727	755, 504
Miscellaneous		5, 423, 627	9, 154, 494	8, 272, 893	6, 271, 616	5, 629, 826
United States and foreign income taxes	30, 324, 497	35, 224, 309	33, 225, 609	28, 701, 486	17, 013, 276	14, 339, 501
Contractual liability to General Motors Management Corporation	8, 274, 099	10, 488, 072	12, 408, 595	10, 181, 836	8, 170, 558	3, 965, 688
Accrued dividends on preferred stock	1, 274, 715	1, 567, 219	1, 567, 673	1, 615, 015	1, 562, 738	1, 562, 805
Extra dividend on common capital stock	34, 788, 558	43, 500, 000	43, 500, 000	13, 050, 000		
Reserves:						
Depreciation of plants and equipment	123, 892, 340	141, 872, 940	162, 680, 113	194, 094, 963	218, 656, 021	241, 472, 694
Employees bonus (based on cost of stock)	8, 520, 447	11, 715, 710	14, 078, 560	12, 539, 544		
Compensation insurance		618, 576	713, 782	741, 217	1, 044, 243	959, 799
Taxes withheld			24, 566	1, 000		13, 241
Warranty		31, 066	41, 582	58, 194	133, 077	360, 271
Liquidation and evaluation of investments			82, 943	30, 196	85, 288	204, 267
Foreign exchange			84, 608			90, 004
Foreign dividend taxes				190, 000	487, 914	377, 209
Contingencies	4, 613, 921	1, 651, 894	777, 570	1, 776, 607	1, 901, 781	5, 119, 451
Miscellaneous		1, 642, 030	807, 491	536, 363	2, 157, 678	2, 882, 270
Employees' investment fund	2, 856, 798	6, 316, 320	9, 019, 707	9, 915, 825	7, 995, 013	6, 830, 260
Capital stock and surplus:						
Common stock ($10 par value)	435, 000. 000	435, 000, 000	435, 000, 000	435, 000, 000	435, 000, 000	435, 000, 000
7 percent preferred	105, 333, 200	130, 835, 700	131, 108, 300	135, 513, 800		
6 percent preferred	1, 795, 900	1, 713. 400	1, 579, 500	1, 410, 500		
6 percent debenture stock	2. 786, 900	2, 366, 900	2, 228, 200	1, 991, 700		
Preferred stock ($5 series)					187, 536, 600	187, 536, 600
Minority interests	2, 420, 685	2, 603, 975	3, 087, 730	443, 800	443, 800	2, 336, 881
Surplus	89, 341, 318	187, 819, 083	285, 458, 595	380, 560, 273	344, 265, 275	301, 266, 482
Total liabilities	920, 894, 106	1, 098, 477, 576	1, 242, 894, 869	1, 324, 889, 764	1, 315, 813, 059	1, 300, 267, 222

Current liabilities:						
Accounts payable	$22, 990, 607	$33, 578, 895	$39, 259, 271	$70, 275, 797	$77, 622, 260	$55, 372, 055
Employees savings funds:						
Payable in year	15, 193, 659	11, 278, 956	11, 250, 122	10, 077, 267	6, 069, 320	2, 758, 486
Payable subsequently	11, 907, 362	9, 710, 537	8, 834, 717	11, 342, 206	9, 227, 692	8, 008, 159
Guaranty expense, 1929 investment fund			3, 580, 448			
Taxes, State and county	2, 081, 036	1, 863, 163	3, 463, 993	6, 095, 020	11, 166, 417	9, 557, 796
Pay rolls	4, 203, 073	4, 199, 038	5, 043, 070	7, 273, 520	6, 316, 784	2, 103, 052
Warranties and allowances	3, 461, 489	2, 239, 245	2, 695, 308	2, 645, 692	4, 893, 977	8, 682, 162
Consumer influence plans	1, 083, 677	1, 145, 247	1, 334, 674	2, 343, 445	4, 298, 536	4, 927, 127
Miscellaneous	6, 746, 868	7, 273, 818	5, 427, 245	13, 515, 865	13, 493, 572	14, 049, 980
United States and foreign income taxes	498, 466	12, 673, 537	15, 742, 691	29, 599, 585	43, 739, 311	46, 669, 257
Contractual liability to General Motors Management Corporation		368, 006	838, 877	1, 677, 893	5, 136, 915	
Accrued dividends on preferred stock	1, 562, 805	1, 562, 805	1, 562, 805	1, 562, 805	1, 562, 805	1, 562, 805
Reserves:						
Depreciation of plants and equipment	171, 708, 486	208, 939, 143	248, 269, 158	272, 972, 681	301, 979, 395	339, 351, 532
Employees bonus (based on cost of stock)		1, 368, 006	1, 838, 877	5, 677, 893	5, 304, 124	8, 725, 071
Compensation insurance	982, 870	1, 141, 194	1, 437, 294	1, 754, 327	2, 088, 925	2, 598, 250
Taxes withheld		162, 064	650, 242	140, 223	217, 661	
Warranty	394, 791	558, 733	558, 598	148, 018	2, 491, 713	4, 254, 758
Liquidation and evaluation of investments	350, 905	1, 036, 524	1, 547, 339	1, 570, 354	2, 749, 324	3, 993, 396
Foreign exchange	53, 030	2, 446, 874	3, 363, 061	3, 341, 456	3, 805, 731	4, 083, 623
Foreign dividend taxes	587, 283	536, 293	1, 132, 995	2, 074, 240	2, 658, 955	3, 859, 551
Intercompany profits not consolidated					2, 000, 000	3, 100, 000
Contingencies	5, 110, 448	3, 808, 282	9, 209, 881	6, 965, 954	13, 938, 955	14, 402, 476
Miscellaneous	2, 111, 517	3, 725, 380	4, 975, 877	4, 349, 642	4, 616, 978	6, 778, 068
Employees' investment fund	939, 079	301, 213	1, 628, 589	2, 518, 956		
Commodity commitments						2, 227, 604
Capital stock and surplus:						
Common stock ($10 par value)	435, 000, 000	435, 000, 000	435, 000, 000	435, 000, 000	435, 000, 000	435, 000, 000
Preferred stock ($5 series)	187, 536, 600	187, 536, 600	187, 536, 600	187, 536, 600	187, 536, 600	187. 536, 600
Minority interests	2, 492, 846	2, 259, 096	2, 241, 517	2, 126, 540	2, 191, 625	2, 282, 246
Surplus	238, 231, 744	248, 961. 357	270, 108, 777	331. 680, 319	368, 081, 225	394, 789, 742
Total liabilities	1, 115, 228, 641	1, 183, 674, 006	1, 268, 532, 026	1, 414, 266, 208	1, 518, 188, 800	1, 566, 673, 796

Principal assets—plant, real estate, and equipment.—The total assets of General Motors Corporation had a ledger value of $920,894,106, as of December 31, 1926, including $43,570,005 for ledger value of goodwill. The total assets had increased by December 31, 1937, to an aggregate of $1,566,673,796, including a ledger value of $50,322,686 for goodwill. The largest single item of assets consisted of the ledger value of the fixed investment in real estate, plant, and equipment of the corporation. This item had a ledger value of $434,373,904, as of December 31, 1926, and had increased to a ledger value of $747,-817,794 as of December 31, 1937. The second largest item of assets represented inventories with a ledger value of $279,146,383 at the close of 1937. The third largest item of assets consisted of the investments in subsidiary companies, which were not consolidated in this balance sheet, and that had a ledger value of $198,526,450, at the close of 1937. The fourth largest item of assets was the cash balances in banks maintained by the corporation. During the period 1926 to 1937, inclusive, these balances ranged from $99,000,000 to $188,000,-000, and averaged around $150,000,000 for the last 8 years. In certain years large amounts of cash were invested in Government and other marketable securities. These yearly investments ranged from $126,715,391 at the close of 1928 to $7,024,404 at the close of 1937. The year end balances of investment in Government and other marketable securities averaged $43,584,262 per year, from 1926 to 1937, inclusive.

It was the practice of the corporation to regularly provide a reserve for depreciation of the property and plant and for consumption of the equipment. This reserve amounted to a total of $123,892,340, as of December 31, 1926, and to $339,351,532, as of December 31, 1937. The reserve was built up by providing from gross income for depreciation and amortization at the following rates applied to the ledger value of the various classes of buildings and equipment.

Land improvements, 5 percent.
Buildings, 3 percent.
Machinery and equipment, 10 percent.
Furniture and fixtures, 10 percent.

Depreciation was not provided on surplus and idle property located in the United States nor on houses held for sale under the employee housing plan. Depletion on the timber tracts being currently utilized was based on timber cut at its cost per foot exclusive of land values plus a provision for losses arising from physical damage and decline in useful value.

Amortization of the investment in stamping dies, tools, jigs, etc., that are peculiar to current models of motor vehicles, was provided for so as to absorb the cost during the current model year. In case certain tools and stamping dies could be used in the following year model two-thirds of the cost was generally amortized in the first year and the remaining one-third in the succeeding model year. Replacements of small tools were charged to manufacturing expenses as purchased and therefore not subject to regular current depreciation.

The yearly total provisions for depreciation of plant property and equipment and amortization of models, stamping dies, tools, etc., for the 11 years, from 1927 to 1937, inclusive, are shown hereafter.

1927	$26, 928, 658	1934	$32, 616, 832
1928	30, 515, 441	1935	35, 361, 006
1929	35, 217, 071	1936	38, 785, 681
1930	37, 715, 088	1937	43, 014, 913
1931	37, 965, 731		
1932	37, 173, 647	Total	385, 443, 893
1933	30, 149, 825		

Goodwill, patents, etc.—To this account the corporation charged the valuation of goodwill and patents acquired among the assets of certain corporations. When acquiring the assets of other corporations, of which there were numerous instances, a part of the valuation of the assets was frequently assigned to goodwill, patents, etc. For example, when this corporation acquired the assets of General Motors Co. it recorded goodwill in the amount of $11,697,503 and patents at $274,100. The amount stated for goodwill exceeded the amount at which this item was carried by the predecessor company by the sum of $3,763,305.

The principal items added to goodwill during the period from 1917 to 1937 are shown by the tabulation which follows and designated as table 22. As shown by this tabulation the total goodwill valuation of $50,322,686, as of December 31, 1937, was built up largely by goodwill recorded in connection with the acquisition of the assets of General Motors Co. as previously indicated; Chevrolet Motor Co. (Delaware), $6,998,991; United Motors Corporation, $16,263,817; Dayton Metal Products Co., $3,522,278; Domestic Engineering Co., $3,883,712; Chevrolet Motor Co. (California), $2,265,061; Fisher Body Corporation, $21,224,501; AC Spark Plug Co., $1,788,460; North East Electric Corporation, $3,985,274; Winton Engine Corporation, $2,679,160; and other items too numerous to mention. The patent valuations recorded in this account were generally amortized within a period of short duration, therefore, the balance represented goodwill.

While the corporation amortized patents yet it did not regularly write off goodwill. However, when operations were discontinued or disposed of, the goodwill applying was written off. The goodwill was further reduced in 1919 by the sum of $23,552,529, and by $273,301 in 1920, or a total of $23,825,830. In those years the corporation appraised the real estate, plants, and equipment and appreciated them to the extent of $30,785,442, and added $6,959,612 to the reserve for depreciation and decreased goodwill by the difference.

The goodwill valuation was not considered as an investment in the business by the Commission's accountants because the consideration paid for the goodwill consisted of valuation assigned to capital stocks issued in exchange therefor.

TABLE 22.—*General Motors Corporation goodwill and patents account*

Acquisitions	Year	Additions to account	Deductions for amortization and adjustments
General Motors Co. (goodwill)	1917	$11, 697, 503	
General Motors Co. (patents)	1917	274, 100	
Do	1918		$274, 100
Chevrolet Motor Co. (Delaware) (goodwill)	1918	6, 998, 991	
General Motors of Canada (goodwill)	1918	560, 334	
United Motors Corporation (goodwill)	1918	16, 408, 065	
Do	1919		144, 248

TABLE 22.—*General Motors Corporation goodwill and patents account*—Continued

Acquisitions	Year	Additions to account	Deductions for amortization and adjustments
Appraisal increase in real estate plant and equipment applied to reduce (goodwill)	1919		$23, 552, 529
Dayton Metal Products Co. (goodwill)	1919	$3, 522, 278	
Domestic Engineering Co. (goodwill)	1919	3, 883, 712	
Janesville Machine Co. (goodwill)	1919	212, 290	
Scripps-Booth Corporation (goodwill)	1919	317, 399	
Klaxon Co. (goodwill and patents)	1919	215, 490	
Sundry acquisitions (goodwill)	1918–19	254, 604	50, 000
Appraisal increase in real estate, plant, etc., applied to reduce goodwill	1920		273, 301
Chevrolet Motor Co. (California)	1920	2, 265, 061	
Scripps-Booth Corporation	1920–21	146, 252	
Fisher Body Corporation (goodwill and patents)	1926	21, 224, 501	
Write-off Klaxon patents	1920–22		82, 804
Liquidate Klaxon	1924		132, 686
Sundry	1920–26	180, 323	81, 230
Fisher Body Corporation (Ohio)		146, 767	
AC Spark Plug Co	1927	1, 788, 460	
North East Electric Corporation	1929	3, 985, 274	
McKinnon Industries, Ltd	1929	1, 130, 193	
Winton Engine Corporation	1930	2, 679, 160	
United Motors, sale Jaxon Division	1930		1, 728, 965
Fisher Body, write-off goodwill, discontinue National Plate Glass operations	1935		1, 510, 577
Sundry	1927–37	609, 168	346, 799
Total		78, 499, 925	28, 177, 239
Balance Dec. 31, 1937			50, 322, 686
Grand total		78, 499, 925	78, 499, 925

Appreciation of assets.—In preceding parts of this report it has been established that General Motors appreciated certain assets. The various items of appreciation are now summarized.

Items of appreciation and year:	
Assets of General Motors Co., 1917	$33, 731, 000
Assets of United Motors Corporation, 1918	3, 100, 000
Through appraisal of assets General Motors Corporation, 1919	23, 825, 830
Assets of Fisher Body Corporation, 1926	27, 727, 439
Total	88, 384, 269

The amount of appreciation shown by the summary was deducted from the investment shown by the corporation in order to determine the investment employed in the business. The amount of appreciation was deducted from the yearly investment in the business because the book value did not represent cash or equivalent value. An identical amount was deducted each year, although it was known that the appreciated value was used as a basis in computing the yearly depreciation provisions. Had sufficient funds and time been available the Commission's accountants would have determined the undepreciated appreciation and deducted this from the investment rather than the total appreciation. The depreciation of appreciation would have then been eliminated from charges against income. Because of the lack of time and funds, however, this was not done and the total appreciation has been deducted yearly and the provision for depreciation allowed to remain as a charge against income.

Surplus and idle property.—It is the practice of General Motors Corporation to segregate its plant investment accounts and to set up accounts for surplus and idle property and active plants accounts. The amounts carried in the surplus and idle property accounts represent the valuation of those properties at salvage values. When property was transferred to the surplus and idle property accounts, the difference between the salvage value and book value was charged to the depreciation reserve. This transfer, of course, did not change the net book value of the plant accounts but did reduce the gross book value of the plant accounts and the gross amount of the depreciation reserves. For illustration, during 1932, the company established that the surplus real estate, plant, and equipment amounted to a book value of $115,491,946, and the estimated salvage value of this property was $22,779,411. The difference between the book value and the salvage value of $92,712,535, was charged against reserves for depreciation already provided and the reserves were reduced to net amount.

As operating conditions change from year to year, the investment in surplus real estate, plant, and equipment was adjusted according to whether certain property was used or not used. If certain portions of the surplus and idle property become useful in the operations then the investment in such property was reinstated in the active property accounts and the depreciation reserve increased by the difference between the salvage value and the book value of the property. If certain properties in the active accounts became no longer useful to the operations, the investment in turn was transferred to the surplus and idle property accounts and the depreciation reserves were reduced by the difference between the book value and the salvage value.

This practice of segregating investment in plants and properties between surplus and idle property accounts and active property accounts was inaugurated in 1932. The salvage value of the surplus and idle property as of December 31, 1932, and subsequent years, follows:

1932	$22, 779, 412	1935	$11, 651, 828
1933	17, 713, 418	1936	9, 960, 636
1934	13, 379, 654	1937	5, 959, 029

In computing the investment employed, the Commission's accountants excluded the surplus and idle property on the theory that this property was not in use and, therefore, not employed in the operations.

Construction work in progress.—The amount of construction work in progress in the following yearly amounts were excluded from the investment employed in the manufacturing operations because the plant and equipment represented by the investment had not, as of the years indicated, been placed in operation.

1926	$38, 471, 239	1932	$1, 774, 424
1927	15, 648, 791	1933	2, 054, 193
1928	36, 470, 749	1934	4, 382, 684
1929	28, 523, 444	1935	5, 184, 396
1930	3, 123, 417	1936	11, 692, 100
1931	2, 194, 491	1937	29, 973, 765

Summary of the investment and effect of the investment and profits on rates of return.—The component parts of the total average investment employed by General Motors Corporation in its consolidated operations during the years 1927 to 1937, inclusive, are shown by the next summary designated as table 23. In general, this summary merely breaks down in greater detail the various bases of investment shown on page 509. Most of the details in this table are self-explanatory; however, the more important changes in the investment will be briefly commented upon. For illustration, the average par or stated amount of the preferred stock increased from $121,725,072 in 1927 to $184,269,381 in 1937. The common stock increased from $410,276,040 in 1927 to $415,869,146 in 1937. During this same period the total stockholders investment increased from $726,279,219 in 1927 to an average of $1,020,924,019. By far the greater part of this increased investment was caused by an increase in the surplus account representing largely profits retained in the business. For illustration, the average surplus in 1927 was $138,580,201 and in 1937 it had increased to $381,435,483.

The various elements included in the total investment are presented in yearly comparative form by the next table.

As shown by the table, the total investment increased steadily from 1927 to 1931. There was a decrease in the investment during 1932 and 1933 and then it started a steady increase until the high was reached in 1937. The decrease in the investment employed during 1932 and 1933, followed the decrease in surplus reflected from the payments of cash dividends that exceeded the net profits earned during those years.

Reserves included in investment.—The reserves established for the payment of Federal, foreign, and State income taxes, for contingencies, for valuation of assets, etc., were included in the investment for the reason that the investment was related to the profit before deduction of the provisions for such taxes and other provisions were excluded from charges to income. The reserves were included for the further reason that in view of the fact that the provisions for the reserves were not treated as a deduction from the income related to the investment, therefore, the surplus in theory should be increased by the balance in the reserves.

TABLE 23.—*Summary of investments of General Motors Corporation and consolidated subsidiaries for years 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Capital stock:											
Common stock	$410,276,040	$395,257,842	$376,460,447	$395,727,667	$424,479,129	$425,655,269	$423,990,818	$419,865,024	$416,412,278	$416,605,077	$415,869,146
Preferred stock	121,725,072	133,962,544	135,464,218	161,524,079	185,791,386	184,720,672	184,319,275	184,269,381	184,269,381	184,269,381	184,269,381
Total	532,001,112	529,220,386	511,924,665	557,251,746	610,270,515	610,375,941	608,310,093	604,134,405	600,681,659	600,874,458	600,138,527
Minority interest	2,512,330	2,845,853	1,765,765	443,800	1,390,340	2,414,863	2,375,971	2,250,306	2,184,029	2,159,082	2,236,936
Surplus	138,580,201	236,638,839	333,009,434	362,412,774	322,765,879	269,749,113	243,596,550	259,535,066	300,894,548	349,880,772	381,435,483
Surplus reserves	17,837,546	21,821,352	24,110,476	17,122,126	11,068,030	9,277,205	6,457,229	10,369,356	15,478,922	19,362,780	24,556,673
Reserve for Federal, State, and foreign income taxes	32,774,403	34,224,959	30,963,548	22,857,381	15,676,388	7,418,983	6,586,002	14,208,114	22,671,138	36,669,448	45,204,284
Total	723,705,592	824,751,389	901,773,888	960,087,827	961,171,152	899,236,105	867,325,845	890,497,247	941,910,296	1,008,946,540	1,053,571,903
Deduct undistributed profits of subsidiaries not consolidated taken up in surplus	[1] 2,573,627	[1] 5,224,625	1,936,377	10,908,904	9,240,644	4,092,857	3,343,571	8,360,689	13,099,184	22,066,963	32,647,884
Total stockholders' investment	726,279,219	829,976,014	899,837,511	949,178,923	951,930,508	895,143,248	863,982,274	882,136,558	928,811,112	986,879,577	1,020,924,019
Deduct appreciation	132,013,125	132,064,861	135,561,220	139,699,039	140,328,405	140,273,565	140,222,825	140,221,585	139,465,567	138,709,543	138,708,065
Stockholders' investment as revised	594,266,094	697,911,153	764,276,291	809,479,884	811,602,103	754,869,683	723,759,449	741,914,973	789,345,545	848,170,034	882,215,954
Borrowed money	17,284,162	26,950,584	36,913,161	42,946,033	45,287,826	36,603,898	24,045,257	20,537,166	20,752,156	18,358,242	13,031,828
Total investment as revised	611,550,256	724,861,737	801,189,452	852,425,917	856,889,929	791,473,581	747,804,706	762,452,139	810,097,701	866,528,276	895,247,782
Deduct outside investments:											
U. S. Government securities	30,621,034	98,082,513	58,289,767	31,810,510	67,142,382	50,231,088	22,244,326	28,881,381	21,158,433	13,150,792	31,759,282
Other marketable securities	2,219,806	6,171,312	2,377,858	5,631,442	9,526,541	4,479,973	15,240,791	1,843,027	1,789,257	3,348,010	2,080,533
Due from General Motors Management Corporation	----------	----------	----------	3,500,000	5,062,500	1,562,500	187,500	606,938	1,257,418	6,811,780	5,973,800
General Motors Management Corporation serial bonds	----------	----------	----------	21,500,000	41,437,500	39,875,000	39,200,000	37,605,561	34,033,141	19,637,720	3,947,640
General Motors Management Corporation capital stock	----------	----------	----------	----------	----------	725,745	1,478,733	2,037,786	2,371,496	2,384,614	1,978,806
Security and other investments	88,988,918	108,040,569	162,544,783	207,510,348	209,649,226	210,563,805	215,634,250	226,770,499	237,046,424	240,098,768	245,839,683
Idle property and construction work in progress	27,060,015	26,059,770	32,497,097	15,823,431	2,658,918	13,374,127	22,160,723	18,764,974	17,299,281	19,244,480	28,792,765
Total outside investment	148,889,773	238,354,164	255,709,505	285,775,731	335,477,067	320,812,238	316,146,323	316,510,166	314,955,450	304,676,164	320,372,509

[1] Denotes loss.

TABLE 23.—*Summary of investments of General Motors Corporation and consolidated subsidiaries for years 1927 to 1937, inclusive*—Contd.

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Deduct undistributed profits, of subsidiaries not consolidated, taken up in surplus	[1] $2, 573, 627	[1] $5, 224, 625	$1, 936, 377	$10, 908, 904	$9, 240, 644	$4, 092, 857	$3, 343, 571	$8, 360, 689	$13, 099, 184	$22, 066, 963	$32, 647, 884
Total outside investments less undistributed profits of subsidiaries not consolidated	151, 463, 400	243, 578, 789	253, 773, 128	274, 866, 827	326, 236, 423	316, 719, 381	312, 802, 752	308, 149, 477	301, 856, 266	282, 609, 201	287, 724, 625
Total investment in manufacturing operations as revised	460, 086, 856	481, 282, 948	547, 416, 324	577, 559, 090	530, 653, 506	474, 754, 200	435, 001, 954	454, 302, 662	508, 241, 435	583, 919, 075	607, 523, 157
Common-stockholders' average less appreciation, goodwill, etc.:											
Stockholders' total average investment	594, 266, 094	697, 911, 153	764, 276, 291	809, 479, 884	811, 602, 103	754, 869, 683	723, 759, 449	741, 914, 973	789, 345, 545	848, 170, 034	882, 215, 954
Deduct preferred stockholders' average investment	121, 725, 072	133, 962, 544	135, 464, 218	161, 524, 079	185, 791, 386	184, 720, 672	184, 319, 275	184, 269, 381	184, 269, 381	184, 269, 381	184, 269, 381
Common-stock holders' average investment	472, 541, 022	563, 948, 609	628, 812, 073	647, 955, 805	625, 810, 717	570, 149, 011	539, 440, 174	557, 645, 592	605, 076, 164	663, 900, 653	697, 946, 573

[1] Denotes loss.

Treasury stock.—During the period from 1917 to 1937 the General Motors Corporation acquired and held substantial amounts of its own common and preferred stocks. The shares were acquired for corporate purposes, such as for use in acquiring stocks and properties of other companies, for operation of the management purchase plans, employee saving and investment plans, and payment of bonus to executives and employees.

The transactions involving acquisitions and sales of treasury stock were too numerous to present in detail in a report of this type.

Pro forma statement of investment in the business by divisions.—The foregoing consolidated balance sheet shows the investment in the combined businesses of General Motors Corporation by the stockholders. This investment, before deducting treasury-stock holdings, amounted to $1,019,608,588 as of December 31, 1937, and consisted of preferred stock, $187,536,600; common stock, $435,000,000; interests of minority stockholders, $2,282,246; and undivided surplus, $394,789,742.

As previously stated, the corporation engages in the manufacture and sale of a large number of products and invests in and holds securities. This inquiry was largely concerned with motor vehicles and motor-vehicle-replacement parts and accessories. In order, therefore, to determine the profitableness of the motor-vehicle operations, the corporation was requested to construct pro forma financial statements for each motor-vehicle group, the accessory and parts group and another group comprising all products except motor vehicles and parts and accessories. To submit all of those statements would make this report very cumbersome. In lieu thereof a brief statement showing a division of the investment is submitted. In a previous section of this report, the rates of return were indicated for the total consolidated operations and for certain divisions of the entire operations and the investment shown hereafter was employed as a basis for calculating the rates of return.

Allocation of total investment

	Motor vehicles and Fisher Body group	Accessory and parts group	Other products group	Total
1926	$444,944,824	$94,194,327	$95,116,841	$634,255,992
1927	510,276,948	92,854,698	154,602,111	757,733,757
1928	574,346,144	104,023,623	177,003,501	855,373,268
1929	547,427,294	107,052,307	299,996,672	954,476,273
1930	563,467,745	103,049,710	300,284,420	966,801,875
1931	551,766,707	97,531,348	276,398,108	925,696,163
1932	488,727,912	83,619,941	290,469,537	862,817,390
1933	483,339,809	88,437,988	301,979,255	873,757,052
1934	475,740,989	86,575,679	332,570,226	894,886,894
1935	546,733,011	97,286,178	312,324,270	956,343,459
1936	570,236,139	109,351,012	313,222,300	992,809,451
1937	562,909,430	115,979,757	340,719,401	1,019,608,588

Allocation of investment in the motor-vehicle group by lines of cars

	Chevrolet	Buick	Cadillac-La Salle	Oldsmobile
1926	$119,793,152	$76,693,117	$49,593,967	$14,723,106
1927	138,137,412	82,667,013	50,932,519	14,423,901
1928	172,500,030	83,112,219	50,545,533	19,239,434
1929	162,887,616	75,075,178	54,226,384	22,991,459
1930	176,652,880	79,425,273	56,950,945	23,031,530
1931	186,922,819	71,589,874	53,552,108	24,018,753
1932	174,707,651	57,666,585	46,723,639	19,160,735
1933	195,282,456	51,740,744	36,458,035	19,408,251
1934	189,524,302	47,506,643	31,851,597	23,753,741
1935	207,662,332	53,496,138	32,747,201	29,322,651
1936	210,859,685	62,684,356	31,144,174	33,513,090
1937	199,619,035	68,254,503	35,534,808	34,984,884

	Pontiac	Fisher Body	Total
1926	$30,265,771	$153,875,711	$444,944,824
1927	42,806,852	181,309,251	510,276,948
1928	52,866,890	196,082,038	574,346,144
1929	48,857,560	183,389,097	547,427,294
1930	42,611,647	184,795,470	563,467,745
1931	44,810,229	170,872,924	551,766,707
1932	39,061,954	151,407,348	488,727,912
1933	38,956,099	141,484,224	483,339,809
1934	35,719,358	147,385,348	475,740,989
1935	43,936,895	179,567,794	546,733,011
1936	42,395,741	189,639,092	570,236,138
1937	53,204,457	171,311,743	562,909,430

Summary of surplus account.—The next tabulation, designated as table 24, indicates the balance in the surplus account of General Motors Corporation and consolidated subsidiaries at the beginning of 1927 and subsequent additions to and deductions from the surplus account during the period from January 1, 1927, to December 31, 1937, and the resulting balance as of the latter date. This table shows that the corporation had a consolidated surplus balance of $89,341,319 on January 1, 1927, and that this had increased to the sum of $394,-789,741, as of December 31, 1937.

The surplus account as set up by General Motors Corporation may be said to be a combination of capital surplus and earned surplus. By way of illustration, the corporation employed but one surplus account and any premiums arising from the issue and sale of capital stocks in excess of the amount stated as capital was added to the surplus account. Likewise, any amounts transferred to the capital stock accounts in excess of the stated or par amount were charged to the surplus account.

Because of insufficient time and funds, the Commission's accountants did not reclassify the surplus account and segregate capital surplus items from the earned surplus account.

With regard to the deceptive practice of combing capital surplus and earned surplus, the Commission has expressed itself in its Summary Report on Utility Corporations, No. 72-A, 1935, page 514, as follows:

Earned surplus should reflect only the net profits arising from operations and profit from the sale of capital assets. As such, the earned surplus of a company is the only real, flexible element of net ownership subject to appropriations by the board of directors for dividends, the execution of contracts with creditors, and other matters in respect to sound financial policies.

Capital surplus should reflect those transactions that occur in the organization and capitalization of the corporation, together with subsequent transactions in the nature of changes of capital stock or the provisions of capital funds which immediately become a part of the permanent investment in the business, but, for clarity or other administrative purposes, are set apart from the so-called, "stated" capital account. Capital surplus properly arises in various ways, such as from the sale of preferred stock at a price above the par or liquidation value, the sale of common stock for proceeds in excess of par value, donations by stockholders and other items that are in the nature of contributed capital. Many corporations include as surplus a designated portion of the capital paid in upon the disposition of their no par capital stock. * * *

The Commission reiterates the position previously taken that corporations should clearly segregate and state the capital surplus and the earned surplus, and further, that corporations that create so-called earned surplus by various unsound and deceptive practices merit the severest criticism.

The analysis of the surplus account as set forth by the table reflects the profits earned yearly by the corporation after deducting Federal, State, and foreign income taxes and the direct additions and deductions from the surplus account. The information contained in this table varies considerably from the surplus statement included in the corporation's annual reports. More specifically the corporation's statements were revised so as to reclassify certain income and expense items and to reflect these in surplus direct rather than through additions or deductions to current income. The financial reports as furnished by the corporation combine the manufacture and sale of products with activities of a financial and capital nature including distribution of profits to the officers and executives, payments to promote savings by the employees and profits or losses on investments in securities. Transactions of such a type may well be considered as part of the corporation's activities, yet obviously they should be segregated so as not to distort the results obtained from the manufacture and sale of motor vehicles and other products. The position is, therefore, taken that items relating to distribution of profits and profit and losses relating to capital assets should not be combined with the operations of manufacture and sale of motor vehicles and other products from the standpoint of this inquiry.

The principal items excluded from the manufacturing operations consisted of the equity in the undivided profits or losses of subsidiaries not consolidated, profit or loss on sale of securities, employees' saving plan payments, fixed charges on idle property, employee bonus, payments under the management plan contracts and adjustments to reflect valuation and contingency reserves. Most of the reclassified items need no further comment; however, certain of these items, such as payments under the management plan contract, employees' bonus and employees' saving plan payments are discussed in section 10, chapter XII.

TABLE 24.—*General Motors Corporation and consolidated subsidiaries—Summary of surplus account*

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Surplus beginning of year	$89, 341, 319	$187, 819, 083	$285, 458, 594	$380, 560, 273	$344, 265, 275	$301, 266, 482	$238, 231, 744	$248, 961, 356	$270, 108, 777	$331, 680, 319	$368, 081, 225
ADDITIONS TO SURPLUS											
Net profit after income taxes	262, 268, 840	296, 256, 203	265, 824, 911	157, 595, 826	116, 739, 956	8, 359, 930	80, 509, 396	99, 124, 495	176, 696, 683	239, 550, 075	202, 672, 462
Less proportion of income applicable to minority interest	945, 715	1, 214, 821	1, 347, 350		[1] 106, 700	65, 620	210, 050	171, 640	204, 080	222, 768	265, 126
Net	261, 323, 125	295, 041, 382	264, 477, 561	157, 595, 826	116, 846, 656	8, 294, 310	80, 299, 346	98, 952, 855	176, 492, 603	239, 327, 307	202, 407, 336
Equity in undivided profit and loss of subsidiaries not consolidated (adjusted)	337, 761	[2] 263, 312	6, 330, 668	607, 270	[2] 6, 584, 294	[2] 2, 639, 175	9, 608, 692	10, 496, 901	1, 464, 463	7, 565, 132	7, 166, 479
Prior year income taxes	771, 586	[2] 1, 467, 842	37, 405	94, 846	[2] 1, 464	[2] 189, 250	160, 600				[2] 4, 664, 389
Adjustment of reserve for depreciation	1, 449, 508										
Profit on sale of securities	[2] 75, 000	3, 615, 344	[2] 106, 324		[2] 529, 168	[2] 29, 435	1, 119, 536	230, 325	768, 594	1, 982, 840	1, 726, 997
Profit on issue of 7-percent preferred stock	4, 104, 167										
Surplus from exchange of stock	75, 375	40, 890	60, 825	13, 545							
Equity in earned surplus at Dec. 31, 1928, of General Motors Acceptance Corporation and General Exchange Insurance Corporation			14, 344, 530								
Surplus from issue of 7-percent preferred stock in connection with acquisition of assets of North East Electric Co			865, 444								
Profit on sale of common stock to General Motors Management Corporation				10, 057, 559							
Interest refund on prior year's taxes				1, 043, 270							
Reduction of "Reserve for intercompany profit on inventories"				600, 000		600, 000					
Reversal of "Reserve for Chevrolet dealers' cash bonus"									777, 923		
Reversal of "Reserve for balances in closed banks"										3, 000, 000	
Reversal of portion of "Reserve for special contingencies"										4, 722, 077	4, 111, 696
Miscellaneous additions to surplus				296, 067							
Total additions to surplus	267, 986, 522	296, 965, 462	286, 010, 109	169, 708, 383	109, 731, 730	6, 036, 450	91, 188, 174	109, 680, 081	179, 503, 583	256, 597, 356	210, 748, 119
DEDUCTIONS FROM SURPLUS											
Preferred-stock cash dividends	9, 109, 330	9, 404, 757	9, 478, 681	9, 538, 660	9, 375, 899	9, 206, 387	9, 178, 845	9, 178, 220	9, 178, 220	9, 178, 220	9, 178, 220
Common-stock cash dividends	134, 836, 082	165, 300, 002	156, 600, 007	130, 500, 001	130, 500, 001	53, 993, 330	53, 826, 355	64, 443, 491	96, 476, 749	192, 903, 299	160, 549, 862
Provision for losses in closed banks	50, 000	63, 292	49, 257	42, 912	127, 422	34, 547	4, 997, 989				
Fixed charges on idle property	2, 149, 310	1, 849, 674	1, 314, 194	1, 399, 074	2, 446, 475	2, 770, 827	1, 388, 895	1, 061, 129	1, 666, 844	1, 103, 916	1, 662, 888
Employees-savings-plan payments	3, 447, 457	[2] 799, 882	3, 816, 900	4, 867, 215	4, 304, 644	2, 780, 852	[2] 2, 216, 428	1, 110, 767	[2] 2, 892, 206	[2] 1, 226, 552	[2] 351, 612

Employees' bonus	10,871,577	13,025,887	11,756,618	5,628,994	2,264,473		1,645,979	2,312,878	7,300,649	9,169,278	4,253,805
Payments under management-plan contract	9,002,707	10,383,355	7,428,930	3,458,618	1,408,517		944,468	1,104,367	3,398,997	4,982,702	4,041,705
Payment under employees' stock-subscription plan	40,412	58,976	72,120	69,890	55,420	36,154	21,112	13,442	6,532		
Loss and provision for loss on land and improvements	[2] 73,491		330,898	461,889	247,672	360,835	1,055,739	2,308,366	670,206	96,890	
Premium paid on call of 6- and 7-percent preferred stocks				2,593,630							
Underwriters' fee paid to J. P. Morgan & Co.				1,875,366							
Excess in $5 preferred stock given in exchange for 6- and 7-percent preferred and 6-percent debenture stock				44,392,600							
Discount on $5 preferred stock sold through J. P. Morgan & Co.				1,174,532							
General Motors Corporation equity in net losses of subsidiaries, since acquisition to Dec. 31, 1930							9,478,864				
Write-off of goodwill applicable to discontinued operations									1,510,577		
Interest on prior-year tax assessment									615,473		
Write-off of mortgage expense										988,697	
Provision for "Reserve for property and investments liquidation and valuation"											2,057,870
Special provision for patent litigation											1,200,000
Transfer to "Sundry contingency reserve"	75,375	40,890	60,825		2,000,000	[2] 111,744	136,744	7,000,000		3,000,000	1,375,000
Loss on disposal of land and leaseholds											71,865
Total deductions from surplus	169,508,759	199,326,951	190,908,430	206,003,381	152,730,523	69,071,188	79,458,562	88,532,660	117,932,041	220,196,450	184,039,603
Surplus at end of year	187,819,083	285,458,594	380,560,273	344,265,275	301,266,482	238,231,744	248,961,356	270,108,777	331,680,319	368,081,225	394,789,741

[1] Denotes loss.
[2] Denotes deduction.

SECTION 9. CAPITAL STOCK ISSUES 1917–37, AND AVERAGES OF THE INVESTMENT EMPLOYED IN THE BUSINESS

Introduction.—The original authorized capital in 1908 of the first General Motors Co., frequently referred to as the New Jersey company, consisted of common stock in the amount of $2,000. This was increased to $102,600,000 when the General Motors Corporation was incorporated under the laws of the State of Delaware in 1917. During the existence of General Motors many changes were made in the capital structure; however, these changes always resulted in increasing the total amount of the authorized and outstanding capital.

As stated before, the original General Motors started with an authorized capital of $2,000 and the capital and surplus had grown to over $1,000,000,000 by December 31, 1937. The outstanding capital as of the latter date consisted of the following, of which $21,754,364.83 of common and $3,267,219.38 of preferred was held in the treasury for corporate purposes.

Capital stock and surplus, Dec. 31, 1937

	Amount
Preferred stock, $5 series	$187, 536, 600
Common stock, $10 par value	435, 000, 000
Interest of minority stockholders	2, 282, 246
Surplus	394, 789, 742
Total	1, 019, 608, 588

The board of directors authorized numerous changes in the capital during the period from 1916 to 1937, and these are summarized in the next tabulation.

TABLE 25.—*General Motors Corporation—Changes in the authorization of the various classes of capital stocks issued from Oct. 13, 1916, to Dec. 31, 1937, inclusive*

Date authorized by board of directors	Common stock, $100 par value	6 percent preferred stock, $100 par value	6 percent debenture stock, $100 par value	7 percent debenture stock, $100 par value	7 percent preferred stock, $100 par value	Preferred stock, $5 series, no par
Oct. 13, 1916	$82,600,000	$20, 000, 000				
Mar. 10, 1918	$150,000,000	50, 000, 000				
Mar. 21, 1918	$200,000,000	100, 000, 000				
Nov. 7, 1918	$200,000,000	20, 000, 000	$150, 000, 000			
May 1, 1919	$500,000,000 (common stock, no par, $10 stated value)	20, 000, 000	500, 000, 000			
Nov. 26, 1919	50,000,000 shares common stock, no par, $50 stated value	20, 000, 000	90, 000, 000	$500, 000, 000		
Apr. 22, 1924	10,000,000 shares, common stock, $25 par value	16, 183, 400	60, 801, 000	500, 000, 000	$500, 000, 000	
Aug. 11, 1927	$750,000,000 (common stock, $10 par value)	1, 744, 900	2, 594, 900		500, 000, 000	
Nov. 8, 1928	$750,000,000	1, 609, 500	2, 274, 400		500, 000, 000	
May 1, 1930	$750,000,000	1, 410, 500	1, 921, 700		500, 000, 000	[1] $6,000,000
May 1, 1931	$750,000,000					[1] 6,000,000

[1] Stated in shares.

The preceding tabulation shows the date on which the board of directors voted to change the authorized amount of each class of capital stock already outstanding as well as the authorization for the issue of new classes of stocks. It will be noted that the common stock had a par value of $100 per share from the date of the initial authorization until November 26, 1919, when it was converted into a nopar stock, with a stated value of $10 per share. In 1924 the stated value was increased to $50 per share and in 1927 it was converted back to par stock with a value of $25 per share. The par value was reduced to $10 per share during 1928, and that was the last change in the common stock during the period under review, namely, to December 31, 1937.

Several changes in the various classes of preference and debenture stocks also occurred from time to time. For instance, early in 1919 a small portion of the 6 percent preferred stock was exchanged for 6 percent debenture stock. Then on November 26, 1919, the issuance of 7 percent debenture stock was authorized at which time subscription warrants were issued to the holders of both the 6 percent preferred and debenture stocks entitling them to subscribe to the new 7 percent debenture stock and to pay therefor either wholly in cash or one-half in cash and the balance by surrendering the 6 percent preferred or 6 percent debenture stocks on a par-for-par basis. As a result of this offer by the corporation, approximately 8,000 shares of the 6 percent preferred and 119,000 shares of the 6 percent debenture stocks were turned in and approximately 126,000 shares of the new 7 percent debenture stock was issued in exchange.

On April 22, 1924, the name of the 7 percent debenture stock was changed to 7 percent preferred stock. On the same date the board of directors adopted a resolution permitting holders of the 6 percent preferred and debenture stocks to exchange their shares at par ($100 per share) plus a payment in cash, the amount of which to be fixed by the board of directors from time to time, for the 7 percent preferred stock. Exchanges on this basis were made each year from 1924 to 1930, inclusive. On May 1, 1930, the board of directors voted to retire the 6 percent preferred, 6 percent debenture, and 7 percent preferred stocks by issuing therefor a nopar preferred stock bearing an annual dividend at the rate of $5 per share. These exchanges were made at varying ratios and all of the above-mentioned classes of stocks not turned in by July 21, 1930, were called for redemption for cash. The no-par preferred stock, $5 series, was the only class of preference stock outstanding from 1930 to 1937, inclusive.

In addition to the issues of capital stocks just mentioned, through exchange for other classes various classes were issued for properties, cash, bonus awards, and, in the case of the common stock, as stock dividends. Each of these principal issues will be discussed later.

Immediately following is a brief outline of the rights of the various classes of capital stocks listed in the preceding tabulation.

Capital-stock issues.—A statement showing each change in the amount authorized for each class of stock has been presented. This report now briefly outlines each new issue of the capital stocks by years and also discusses the various exchanges of one class for another. In subsequent parts of this report the purpose of issue, consideration received, and the effect upon the corporate worth will be discussed for each of the principal issues.

Six percent preferred stock, $100 par value.—The 6 percent preferred stock was initially issued during 1917, $19,676,800 par amount, in connection with the acquisition of the stock of General Motors Co. The corporation began to retire this class of stock during 1919 and continued until 1930, when the balance outstanding was retired through exchange for nopar preferred stock, $5 series, and the balance was called for redemption. The corporation gave 1.35 shares of the new no-par preferred for 1 share of the 6-percent preferred and the balance of this class of stock which was not turned in for this exchange was called for redemption at the rate of $110 per share.

6 percent debenture stock, $100 par value.—The 6 percent debenture stock was first issued in 1918 and during 1920 the corporation began to retire it through exchange for 7 percent debenture stock and in subsequent years for 7 percent preferred stock. During 1930, part of this stock was retired through exchange for no-par preferred stock, $5 series, at the rate of 1.15 shares of the debenture stock still outstanding for 1 share of the new no-par preferred stock and the balance was called for redemption at the rate of $115 per share. The next tabulation presents the issues and retirements of the 6 percent debenture stock.

TABLE 26.—*Summary of changes in number of shares and stated value of General Motors 6 percent debenture stock, $100 par value, by years*

Shares issued or retired for—	Shares	Stated as capital
Part payment of assets of United Motor Corporation [1]	298,692	$29,869,200
Minority interest in Harrison Radiator Co.	3,871	387,100
Capital stock of Lancaster Steel Products Co.[2]	5,000	500,000
Balance at Dec. 31, 1918	307,563	30,756,300
Part payment of capital stock of Dayton Metal Products Co.[3]	36,298	3,629,800
Issued in exchange for 6 percent preferred stock	27,514	2,751,400
Issued to purchase 6 percent preferred stock for the treasury	9,121	912,100
Cash	300,000	30,000,000
Preferred stock of Janesville Machine Co.	9,874	987,400
Certain assets of International Fuse & Arms Co.[4]	6,110	611,000
Certain assets of T. W. Warner & Co.	31,238	3,123,800
Balance at Dec. 31, 1919	727,718	72,771,800
Less adjustment for overissue in connection with acquisition of United Motor Corporation by credit to surplus	487	48,700
Retired through exchange for 7 percent debenture stock	119,221	11,922,100
Total	119,708	11,970,800
Balance at Dec. 31, 1920 to 1923, inclusive	608,010	60,801,000
Retired through exchange for 7 percent preferred stock 1920–30	592,592	59,259,200
Called for redemption ($115 per share)	15,418	1,541,800
Total retirements	608,010	60,801,000
Balance at Dec. 31, 1930	0	0

[1] In addition to $29,869,200 in 6 percent debenture stock, General Motors Corporation gave $9,956,400 in $100 par value common stock, $2,695,118 in United Motors Corporation's own stock (this stock was acquired by General Motors Corporation in the acquisition of Chevrolet Motor Co. of Delaware), and added $9,714,608 to surplus.

[2] In addition to $500,000 in 6 percent debenture stock, General Motors Corporation, gave $1,617,500 in common stock and added $245,358 to surplus.

[3] In addition to $3,629,800 in 6 percent debenture stock, General Motors Corporation gave $2,145,700 in common stock and added $2,541,583 to surplus.

[4] In addition to $611,000 in 6 percent debenture stock, General Motors Corporation gave $572,600 in cash and added $56,400 to surplus.

7 percent debenture stock, $100 par value.—The 7 percent debenture stock was first issued in exchange for 6 percent preferred and 6 percent debenture stocks during 1920. During the same year this class of stock was issued for bonus awards and cash and for properties in each of the years 1922 and 1923. On April 22, 1924, the board of directors adopted a resolution to change the name from 7 percent debenture to 7 percent preferred stock. This change in name did not affect the number of shares outstanding or the amount stated as capital. The various issues of the 7 percent debenture stock follow:

Shares issued or retired for—	Shares	Stated as capital
Exchanged for 6 percent preferred and 6 percent debenture stock	126,957	$12,695,700
Bonus awards	14,088	1,408,800
Cash	128,271	12,827,100
Balance at Dec. 31, 1920 and 1921	269,316	26,931,600
Part payment for stock of Brown-Lipe Chapin Co	52,500	5,250,000
Balance at Dec. 31, 1922	327,816	32,181,600
Part payment of assets of Armstrong Spring Co	7,500	750,000
Balance at Dec. 31, 1923 [1]	329,316	32,931,600

[1] Converted into 7 percent preferred stock.

7 percent preferred stock, $100 par value.—As stated before, this class of stock was first designated as 7 percent debenture stock and that during 1924 the name was changed to 7 percent preferred stock. It will be noted from the tabulation which follows, that excepting the issues for cash and properties during 1927 and 1929, respectively, the 7 percent preferred stock was issued in exchange for 6 percent preferred and debenture stocks. These exchanges were made on a par-for-par basis plus a cash payment by the stockholder, which amount varied from $10 to $15 per share as stipulated by the board of directors. The premiums, which represented the amount of cash payments received by the corporation from these exchanges, was credited to surplus.

The following tabulation also shows that nearly all of the 7 percent preferred stock outstanding in 1930 was retired through exchange for no-par-value preferred stock, $5 series, on a basis of 1.35 shares of the latter stock for 1 share of the former, and that the balance was called for redemption in cash at the rate of $125 per share. A summary of the issues and retirements of this class of stock follows:

TABLE 27.—*Summary of changes in number of shares and stated value of General Motors 7-percent preferred stock $100 par value, by years*

Shares issued or retired for—	Shares	Stated as capital	Stated as surplus	Total
7-percent debenture stock converted to 7-percent preferred stock	329,316	$32,931,600	0	$32,931,600
Exchange for 6-percent debenture and 6-percent preferred stock	693,192	69,319,200	$6,931,920	76,251,120
Balance at Dec. 31, 1924	1,022,508	102,250,800	6,931,920	109,182,720
Exchange for 6-percent debenture and 6-percent preferred stock	23,684	2,368,400	272,075	2,640,475
Balance at Dec. 31, 1925	1,046,192	104,619,200	7,203,995	111,823,195
Exchange for 6-percent debenture and 6-percent preferred stock	7,140	714,000	107,100	821,100
Balance at Dec. 31, 1926	1,053,332	105,333,200	7,311,095	112,644,295
Cash—Sold through J. P. Morgan & Co	250,000	25,000,000	4,250,000	29,250,000
Exchange for 6-percent debenture and 6-percent preferred stock	5,025	502,500	75,375	577,875
Balance at Dec. 31, 1927	1,308,357	130,835,700	11,636,470	142,472,170
Exchange for 6-percent debenture and 6-percent preferred stock	2,726	272,600	40,890	313,490
Balance at Dec. 31, 1928	1,311,083	131,108,300	11,677,360	142,785,660

TABLE 27.—*Summary of changes in number of shares and stated value of General Motors 7-percent preferred stock $100 par value, by years*—Continued

Shares issued or retired for—	Shares	Stated as capital	Stated as surplus	Total
Net assets of North East Appliance Corporation	40,000	4,000,000	865,444	4,865,444
Exchange for 6-percent debenture and 6-percent preferred stock	4,055	405,500	60,825	466,325
Balance at Dec. 31, 1929	1,355,138	135,513,800	12,603,629	148,117,429
Exchange for 6-percent debenture and 6-percent preferred stock	903	90,300	13,545	103,845
Total	1,356,041	135,604,100	12,617,174	148,221,274
Retired through exchange for no-par preferred stock, 5's [1]	1,265,793	126,579,300		126,579,300
Called for redemption ($125 per share) [2]	90,248	9,024,800		9,024,800
Total retired	1,356,041	135,604,100	0	135,604,100
Balance at Dec. 31, 1930	0	0	12,617,174	12,617,174

[1] 1,265,793 shares of 7-percent preferred stock ($100 par value) were retired through exchange for 1,708,820 shares of no-par preferred stock ($100 stated value) at the ratio of 1 share for 1.35 shares, respectively, and the premium of $44,302,755 was charged to surplus.

[2] The $25 per share premium paid on redemption by call of the 90,248 shares of 7-percent preferred stock resulted in the reduction of surplus by the sum of $11,281,000.

No-par preferred stock, $5 series.—This class of stock has an assigned value of $100 per share and was first authorized and issued during 1930. In that year all of the other classes of preference stocks, namely, 6-percent preferred, 6-percent debenture, and 7-percent debenture stock, were retired and the no-par preferred stock was issued. Of the total of this class of stock which was issued during 1930, amounting to $187,536,600, divided into 1,875,366 shares, 1,716,804 shares were issued through exchange for the above-mentioned classes of preference stocks and 158,562 shares were sold through J. P. Morgan & Co. for cash. There were no changes in the amount of this stock stated as capital or the number of shares from 1930 to 1937, inclusive.

Rights of preferred stock, $5 series stockholders.—The preferred capital stock $5 series is of no-par value and nonvoting. Dividends are cumulative only after dividends have first been paid on the 7-percent preferred stock then on 6-percent preferred stock and 6-percent debenture stock on an equal and pro rata basis, after which the holders of preferred stock $5 series, without par value, shall be entitled to receive cumulative dividends, when and as declared by the board of directors. The dividend rate of the preferred stock, $5 series, shall be $5 per share per annum and no more.

In the event of liquidation or dissolution or winding-up, whether voluntary or otherwise, of the corporation, the holders of the 7-percent preferred stock shall first be paid after which the holders of the 6-percent preferred stock and 6-percent debenture, pari passu, and after such payment in full, the holders of the preferred stock without par value, shall be entitled to be paid each class in full or $100 before distribution to the holders of common stock.

The holders of the preferred stock without par value shall not have any voting power whatsoever except: (1) Upon the question of selling, conveying, transferring or otherwise disposing of the property and assets of the corporation; (2) if and when the 7-percent preferred stock is retired, in the event the corporation shall fail to pay any dividends on the shares of any series of the preferred stock for a period exceeding 6 months, the holders of the shares of preferred stock without par value, as a class, during the continuance of such nonpayment shall have exclusive right to elect one-quarter of the total number of directors of the corporation.

In regard to the redemption price of the preferred stock without par value, article four of the certificate of incorporation states: At the option of the board of directors the preferred stock without par value was subject at the amount fixed for the respective series, together in the case of each class or series, with accrued dividends on the shares to be redeemed, on any dividend paying date in such manner as the board of directors may determine.

General Motors Corporation $100 par value common stock.—The various issues and retirements of the $100 par value common stock are shown in the text tabulation which follows. The transactions involving the issue of the $100-par-value-per-share common stock are self-explanatory with the exception of the issue for cash in 1918. These shares were subscribed for by du Pont American Industries at $120 per share, or a total of $28,800,000. Of this sum $24,000,000, or the total par amount, was added to capital and the balance of $4,800,000 was added to surplus.

This class of common stock was retired in 1919, and in its place the corporation issued no-par common stock with a stated value of $10 per share, and issued 10 shares of the new for each share of the old $100 par-value stock. This transaction did not cause any change in the valuation of the stock; however, after the change the corporation had 10 times as many shares outstanding as previously.

TABLE 28.—*Summary of changes in number of shares and stated value of General Motors common stock, $100 par value, by years*

Shares issued or retired for—	Shares	Stated as capital	Stated as surplus	Total
Common stock of General Motors Co.	825, 588	$82, 558, 800	0	$82, 558, 800
Total issued to Dec. 31, 1917	825, 588	82, 558, 800	0	82, 558, 800
Assets of Chevrolet Motor Co.	282, 684	28, 268, 400	$8, 065, 083	36, 333, 483
Chevrolet Motor Co. of Canada, Ltd. McLaughlin Motor Car, Ltd. McLaughlin Carriage Co., Ltd.	49, 000	4, 900, 000	0	4, 900, 000
Part payment of assets of United Motors Corporation [1]	99, 564	9, 956, 400	0	9, 956, 400
Stock of Lancaster Steel Products Co. [2]	16, 175	1, 617, 500	245, 358	1, 862, 858
Cash	240, 000	24, 000, 000	4, 800, 000	28, 800, 000
Balance at Dec. 31, 1918	1, 513, 011	151, 301, 100	13, 110, 441	164, 411, 541
For entire capital stock of Domestic Engineering Co.	35, 451	3, 545, 100	5, 707, 611	9, 252, 711
Part payment for entire capital stock of Dayton Metal Products Co. [3]	21, 457	2, 145, 700	2, 541, 583	4, 687, 283
Balance at Dec. 31, 1919	1, 569, 919	156, 991, 900	21, 359, 635	178, 351, 535
Retired through exchange for $10 no-par common stock	1, 567, 524	156, 752, 400	0	156, 752, 400
Balance at Dec. 31, 1920	2, 395	239, 500	21, 359, 635	21, 599, 135
Retired through exchange for $10 no-par common stock	2, 321	232, 100	0	232, 100
Balance at Dec. 31, 1921	74	7, 400	21, 359, 635	21, 367, 035
Retired through exchange for $10 no-par common stock	67	6, 700	0	6, 700
Balance at Dec. 31, 1922 and 1923	7	700	21, 359, 635	21, 360, 335
Retired through exchange for $10 no-par common stock	7	700	0	700
Balance at Dec. 31, 1924	0	0	21, 359, 635	21, 359, 635

[1] In addition to $9,956,400 in $100-par-value common stock, General Motors Corporation gave $29,869,200 in 6-percent debenture stock, $2,695,118 in United Motors Corporation's own stock (this stock was acquired by General Motors Corporation through the acquisition of Chevrolet Motors Co. of Delaware), and credited surplus with $9,714,603.

[2] In addition to $1,617,500 in common stock and credit to surplus of $245,358, General Motors gave $500,000 in 6-percent debenture stock.

[3] In addition to $2,145,700 in common stock and credit to surplus of $2,541,583, General Motors Corporation gave $2,533,800 in 6-percent debenture stock.

No-par common stock—stated value $10 per share.—This class of common stock was outstanding from 1920 until during the year 1924 when it was retired through an exchange for no-par value common stock with a stated value of $50 per share. The various issues and retirements of the nonpar common stock with a stated value of $10 per share are summarized in the following tabulation.

The transactions involving the issue and retirement of these shares are generally self-explanatory with the exception of the issue for cash in 1920. With regard to this issue the holders of common stock at the close of business June 12, 1930, were offered the right to subscribe to an additional issue of common stock at a price of $20 per share to the extent of 20 percent of the holdings. This issue was underwritten by J. P. Morgan & Co., who agreed to purchase or guarantee to sell at a price of $20 per share such amount of said stock as was not subscribed for by the stockholders on or before July 7, 1920. The available accounting records of General Motors Corporation indicate that all but 17,205 shares had been subscribed for by the stockholders up to July 7, 1920, and, accordingly, this number of shares was purchased by J. P. Morgan & Co. In consideration for underwriting this issue of stock, J. P. Morgan & Co. was paid the sum of $2,019,856, which amount was many times the subscription amount of 17,205 shares that J. P. Morgan was caused to purchase by the terms of the underwriting agreement.

The corporation exchanged the common shares with $10 stated value on the basis of four shares of the no-par common stock with a stated value of $10 per share plus a charge to surplus of $10, for one share of the new no-par common stock with a stated value of $50 per share. This change in the stated value of the no-par common stock resulted in reducing the number of shares outstanding, as of the date of this exchange, from 20,646,397 to 5,161,599 shares. The amount stated as capital was increased from $206,463,970 to $258,079,950, or a difference of $51,615,980 which represented the total charge to surplus resulting from the exchange.

TABLE 29.—*Summary of changes in number of shares and stated value of General Motors no-par common stock, $10 stated value, by years*

Shares issued or retired for—	Shares	Stated as capital	Stated as surplus	Total
Exchange of common stock, $100 par value for no-par common stock at rate of 10 shares for 1	15, 675, 240	$156, 752, 400	----------	$156, 752, 400
Bonus awards	214, 659	2, 146, 590	$4, 293, 180	6, 439, 770
Net assets of Chevrolet Motor Co. of California	140, 000	1, 400, 000	3, 332, 000	4, 732, 000
Stock dividend on common stock	1, 290, 366. 525	12, 903, 665	----------	12, 903, 665
Cash	3, 220, 702	32, 207, 020	32, 207, 020	64, 414, 040
Total issued	20, 540, 967. 525	205, 409, 675	39, 832, 200	245, 241, 875
Less: Adjustment for overissue in connection with acquisition of United Motors Corporation during 1918	1, 623	16, 230	16, 230	----------
Balance at Dec. 31, 1920	20, 539, 344. 525	205, 393, 445	39, 848, 430	245, 241, 875
Exchange of common stock, $100 par value	23, 210	232, 100	----------	232, 100
Bonus awards	83, 103	831, 030	332, 412	1, 163, 442
Balance at Dec. 31, 1921	20, 645, 657. 525	206, 456, 575	40, 180, 842	246, 637, 417
Exchange of common stock, $100 par value	670	6, 700	----------	6, 700
Total issued	20, 646, 327. 525	206, 463, 275	40, 180, 842	246, 644, 117

TABLE 29.—*Summary of changes in number of shares and stated value of General Motors no-par common stock, $10 stated value, by years*—Continued

Shares issued or retired for—	Shares	Stated as capital	Stated as surplus	Total
Less: Cancelation of subscriptions	88, 577	$885, 770		$885, 770
Warrants issued in error	. 525	5		5
Total retirements	88, 577. 525	885, 775		885, 775
Balance at Dec. 31, 1922	20, 557, 750	205, 577, 500	$40, 180, 842	245, 758, 342
Bonus awards	88, 577	885, 770	354, 308	1, 240, 078
Balance at Dec. 31, 1923	20, 646, 327	206, 463, 270	40, 535, 150	246, 998, 420
Exchange of common stock $100 par value	70	700		700
Total issued	20, 646, 397	206, 463, 970	40, 535, 150	246, 999, 120
Less: Exchange of 4 shares of no-par common stock ($10 stated value) for 1 share of no-par common stock $50 stated value (a charge to surplus of $10 per share was therefore made)	20, 646, 397	206, 463, 970		206, 463, 970
Balance at Dec. 31, 1924			40, 535, 150	40, 535, 150

No-par common stock—stated value $50 per share.—This class of capital stock was first issued in 1924 in the amount of $258,079,950, representing 5,161,599 shares. There were no changes in the amount issued during 1925. In 1926 the corporation acquired the assets of Fisher Body Corporation and issued, as part payment therefor, 638,401 shares representing a ledger value of $31,920,050. A 50 percent stock dividend, payable to stockholders of record on August 21, 1926, in the amount of $145,000,000 representing 2,900,000 shares, accounted for the only other change in this class of stock during 1926.

The corporation reduced the stated value of this class of stock from $50 per share to a par value of $25 per share in 1927. This change did not affect the amount stated as capital which at the time of the exchange amounted to $435,000,000 but did result in doubling the number of shares then outstanding from 8,700,000 to 17,400,000 shares.

Common stock $25 par value.—General Motors Corporation converted its common stock of no-par value into common stock with a par value of $25, per share, in 1927. The exchange did not alter the amount of $435,000,000 stated as capital but did result in increasing the number of shares to 17,400,000. There were no changes in the amount or number of shares of this stock issued and outstanding during 1928; however, in 1929 the par value was reduced to $10 per share. This reduction in par value caused the issuance of 2½ shares of the new common stock with a par value of $10 per share for 1 share of the common stock with a par value of $25 per share. The amount of $435,000,000 stated as capital remained the same but the number of shares issued increased to 43,500,000.

Common stock—$10 par value.—This class of common stock was issued in 1929 through an exchange for common stock with a par value of $25 per share. As stated above, there was no change in the total amount stated as capital, or $435,000,000 at the time of the exchange; however, the number of shares was increased to 43,500,000 shares.

There were no further changes in the total amount or number of shares of the common stock with a par value of $10 per share from the date of its issue in 1929 to December 31, 1937.

Rights, common-stocks stockholders.—The holders of the common stock have sole right of vote on all matters to the exclusion of all other classes of capital stocks excepting as otherwise stated with respect to the rights of the preferred stock.

Summary of capital stocks issued.—There is presented hereafter a summary of the total values assigned to the capital stocks issued, together with the consideration for issue. As shown by this summary, the net value assigned to the capital stocks issued, after deducting adjustments and retirements, was $724,866,547. Of this total amount, $435,000,000 was assigned to common stock, $187,536,600 to preferred stock, and $102,329,947 was added to surplus.

The sum of $102,329,947 added to surplus represented the excess over par or stated amounts that was assigned to the capital stock issued for property and assets and bonus awards or received in cash from the sale of capital stock in excess of the par or stated amount.

On numerous occasions, General Motors Corporation gave as consideration for property and assets a certain number of shares of preferred and common stock. On these occasions, the board of directors would state that the value of the property and assets received for these shares was of a designated amount. When recording these acquisitions, the corporation added the assigned values to the assets as properties acquired, and added to capital-stock accounts the par or stated value of the shares issued, and the difference was added to surplus. In some instances, the value of the assets and property acquired was calculated by multiplying the number of shares agreed to be given by the market price of the shares at that particular time. If the market price exceeded the par or stated amount, the difference was added to surplus when the transaction was recorded.

On several occasions the corporation was able to sell capital stock for cash at a price higher than the par or stated amount of the capital stock. In recording these sales, the corporation added to capital-stock accounts a sum equal to the par or stated amount of the stock issued and the difference between that and the price received was added to surplus.

In a final summarization of the consideration for which the capital stock was issued, it will be seen by reference to the next summary that capital stock was issued for property and assets in the amount of $292,331,279, for cash $178,798,276, as bonus awards $10,252,090, as stock dividends $157,903,665, and $97,183,112 as surplus distribution through conversion of shares of one stated value to another stated value.

TABLE 30.—*Summary of capital stocks issued by General Motors Corporation*

	Stated as capital		Added to surplus	Total
	Common stock	Preferred and debenture stock		
For property and assets	$166,295,720	$68,768,000	$57,267,559	$292,331,279
For cash	56,207,020	82,508,768	40,082,488	178,798,276
Bonus awards	3,863,390	1,408,800	4,979,900	10,252,090
Stock dividends	157,903,665			157,903,665
Surplus distribution in re conversion of shares	51,615,980	45,567,132		97,183,112
Total	435,885,775	198,252,700	102,329,947	736,468,422
Less adjustments and retirements	885,775	10,716,100		11,601,875
Balance Dec. 31, 1937	435,000,000	187,536,600	102,329,947	724,866,547

Section 10. Comparative Consolidated Income and Expense Statement for General Motors Corporation and Consolidated Subsidiaries, 1927 to 1937, Inclusive

Introduction.—Table 31, presents the comparative yearly income and expenses of General Motors Corporation and consolidated subsidiaries, for the period from January 1, 1927, to December 31, 1937. This statement was constructed so as to show the profit applying to the various bases of investment for which rates of return were computed. This statement represents the income and expenses, as determined by the Commission's accountants, after applying the revisions outlined under the discussion of the surplus account. The corporation's statements were revised in order to establish as nearly as possible, in the length of time available, the correct current profit and expenses applying to each year's operations.

The profit shown in the revised statement exceeded in substantial sum the profit shown by the statement submitted by the corporation. The increase in the amount of profit resulted from the reclassification of many items and the application of these items to surplus direct rather than through current income or expenses. The statement submitted by the corporation, combined the manufacturing and distribution operations with those of a financial and capital nature.

There is no question but what the latter type of operations may well be considered as part of the corporation's activities, yet obviously they should be segregated so as not to distort the facts with regard to the profit or losses resulting from the yearly manufacture and sale of motor vehicles and other products. More specifically, the position is taken that profits and losses relating to capital assets should not be combined with the results of manufacture and sale of motor vehicles and other products insofar as this inquiry is concerned. Likewise, items that pertain to the distribution of the corporation's profits should be excluded from the deductions from income of the corporation and charged direct to surplus. The principal items excluded from current income and expenses have already been described under the discussion of the surplus account and are not repeated here.

This inquiry was primarily concerned with the investment and profit or losses resulting from the motor-vehicle operations, but the corporation engaged in several types of businesses and it was frequently difficult, if not impossible, to definitely segregate the various types of businesses and all related financial transactions. For illustration, the corporation maintained cash balances which were undoubtedly excessive insofar as the manufacturing operations were concerned. A portion of this surplus cash was invested in Government and marketable securities when not needed in the business. These investments returned a rate of income much lower than the manufacturing operations. If a satisfactory basis had been available, the Commission's accountants would have eliminated the cash balances in excess of normal needs. Because of the fact that a satisfactory basis was not available, and because the needs for cash vary so greatly, depending upon the seasonal requirements, no effort was made to exclude the surplus balances from the investment. The investment in the total business, therefore, includes the surplus balances of cash and any income that was received from bank balances and investments in Government and marketable securities. A rate of return was computed on the investment in the manufacturing operations and this investment excluded the investment in Government and marketable securities, but even the exclusion of this investment did not exclude surplus balances of cash that remained on deposit in banks.

The rate of return on the investment in the motor-vehicle business, including the Fisher Body Division, as will be seen by reference to page 491, exceeded the rate of return on the other activities of the corporation with the exception of the motor-vehicle parts and accessories division. The latter division of the business produced a higher rate of return than any other division. These various divisions of the business were made, insofar as it was possible to do so, within the period of time available, with the thought that the user of motor vehicles is interested and entitled to know, with respect to the prices he pays for motor vehicles and parts and accessories, the essential facts regarding the rates of profit which result from the prices paid, and to make this possible it was necessary to eliminate from the expenses and income of the manufacturing and distributing divisions, the unrelated financial matters or the distribution of these profits to the shareholders, executives, and employees of the corporation. Furthermore, the income or net profit from operations other than manufacturing operations should not be confused with the profit or loss derived from the manufacture and sale of motor vehicles and other products. Such items were segregated insofar as possible by the Commission's accountants, and were not permitted to influence the results obtained from the manufacture and sale of motor vehicles and other products.

In general, the principles just outlined were applied to revise the income and expense statements as submitted by the corporation. The profits, expenses, and investment were analyzed, to the extent possible within the time available, for the purpose of determining the investment in the motor-vehicle division, the accessory and parts division, the other products division, and in the consolidated manufacturing operations, and to determine the real cost of operation and the profit resulting. Other expenses and losses or gains were treated as deductions from income or surplus, depending on their relation to the manufacturing business.

The income and expense statement as revised after applying the principles just outlined, follows:

TABLE 31.—*General Motors Corporation and consolidated subsidiaries—Statement of income and expenses, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932
Net sales	$1,289,231,917	$1,481,745,323	$1,532,213,745	$1,005,327,903	$828,207,978	$440,899,312
Less factory cost of goods sold	889,760,528	1,032,987,511	1,103,555,492	732,224,805	596,671,671	358,461,453
Gross profit on sales	399,471,389	448,757,812	428,658,253	273,103,098	231,536,307	82,437,859
Commercial expenses	114,794,584	135,409,499	154,260,920	124,671,535	110,331,532	84,199,336
Provision for doubtful accounts	399,493	163,930	566,121	779,761	1,131,787	1,426,097
Total expenses and doubtful accounts	115,194,077	135,573,429	154,827,041	125,451,296	111,463,319	85,625,433
Net profit on sales	284,277,312	313,184,383	273,831,212	147,651,802	120,072,988	[1] 3,187,574
Other income (net)	5,807,044	5,653,621	8,282,307	7,122,231	[1] 1,629,213	1,847,144
Net profit on manufacturing operations	290,084,356	318,838,004	282,113,519	154,774,033	118,443,775	[1] 1,340,430
Add income from outside investments:						
Dividends received	5,980,144	7,082,708	10,564,814	18,016,296	11,314,378	8,867,515
Provision for foreign dividend taxes			[1] 190,000	[1] 499,346	[1] 204,879	[1] 488,114
Interest on Government, marketable, and other investments	2,164,705	5,633,584	4,085,288	1,850,598	1,770,953	1,951,213
Interest on accounts with General Motors Management Corporation		91,693	24,617	2,375,000	2,667,500	1,610,000
Total income from outside investments	8,144,849	12,807,985	14,484,719	21,742,548	15,547,952	11,940,614
Net income on total operations	298,229,205	331,645,989	296,598,238	176,516,581	133,991,727	10,600,184
Interest expense	887,346	1,429,822	2,018,131	2,335,497	2,463,610	1,775,972
Net profit after interest and before income taxes	297,341,859	330,216,167	294,580,107	174,181,084	131,528,117	8,824,212
Provision for State, Federal, and foreign income taxes	35,073,019	33,959,964	28,755,196	16,585,258	14,788,161	464,282
Net profit after income taxes [2]	262,268,840	296,256,203	265,824,911	157,595,826	116,739,956	8,359,930

[2] Net profit after income taxes is equivalent to "Net profit to stockholders' investment."

TABLE 31.—*General Motors Corporation and consolidated subsidiaries—Statement of income and expenses, 1927 to 1937, inclusive*—Continued

	1933	1934	1935	1936	1937	Total, 1927-37
Net sales	$583, 746, 596	$862, 672, 670	$1, 155, 641, 511	$1, 439, 289, 940	$1, 606, 789, 841	$12, 225, 766, 736
Less factory cost of goods sold	428, 024, 934	685, 840, 349	900, 096, 946	1, 094, 059, 974	1, 286, 004, 580	9, 107, 688, 243
Gross profit on sales	155, 721, 662	176, 832, 321	255, 544, 565	345, 229, 966	320, 785, 261	3, 118, 078, 493
Commercial expenses	72, 578, 858	76, 877, 898	81, 513, 876	91, 214, 218	97, 484, 428	1, 143, 336, 684
Provision for doubtful accounts	1, 077, 063	211, 816	125, 372	380, 787	67, 673	6, 329, 900
Total expenses and doubtful accounts	73, 655, 921	77, 089, 714	81, 639, 248	91, 595, 005	97, 552, 101	1, 149, 666, 584
Net profit on sales	82, 065, 741	99, 742, 607	173, 905, 317	253, 634, 961	223, 233, 160	1, 968, 411, 909
Other income (net)	2. 017, 053	3, 402, 836	3, 337, 887	1, 849, 839	3, 321, 186	41, 011, 935
Net profit on manufacturing operations	84, 082, 794	103, 145, 443	177, 243, 204	255, 484, 800	226, 554, 346	2, 009, 423, 844
Add income from outside investments:						
Dividends received	8, 385, 028	11, 920, 038	28, 999, 024	27, 698, 261	27, 316, 688	166, 144, 894
Provision for foreign dividend taxes	[1] 873, 004	[1] 1, 191, 455	[1] 982, 695	[1] 1, 335, 516	[1] 1, 656, 576	[1] 7, 421, 585
Interest on Government, marketable, and other investments	719, 369	407, 169	222, 717	158, 882	238, 806	19, 203, 284
Interest on accounts with General Motors Management Corporation	1, 714, 245	1, 544, 999	2, 098, 616	2, 409, 129	291, 270	14, 827, 069
Total income from outside investments	9, 945, 638	12, 680, 751	30, 337, 662	28. 930, 756	26, 190, 188	192, 753, 662
Net income on total operations	94, 028, 432	115, 826. 194	207, 580, 866	284, 415, 556	252, 744, 534	2, 202, 177, 506
Interest expense	1, 148, 045	972, 871	926, 920	719, 412	541, 988	15, 219, 614
Net profit after interest and before income taxes	92, 880, 387	114, 853, 323	206, 653, 946	283, 961, 144	252, 202, 546	2, 186, 957, 892
Provision for State, Federal, and foreign income taxes	12, 370, 991	15, 728, 828	29, 957, 263	44, 146, 069	49, 530, 084	281, 359, 115
Net profit after income taxes [2]	80, 509, 396	99, 124, 495	176, 696, 683	239, 550, 075	202, 672, 462	1, 905, 598, 777

[1] Deduction.
[2] Net profit after income taxes is equivalent to "Net profit to stockholders' investment."

Division of net sales by groups of products.—The preceding consolidated income and expense statement shows the total net sales by General Motors Corporation, and consolidated subsidiaries, during each of the years of the period from January 1, 1927, to December 31, 1937. The total amount of net sales includes motorcars, accessories, parts and numerous other products. Shipments were billed to dealers at a delivered net price for the motor vehicles and specified accessories including a transportation charge to the purchaser's delivery point. The transportation charge was based on the main factory city of each line of motor vehicles in the event the line was assembled and shipped from more than one point. The transportation charge billed to dealers was added to sales. The cost of transportation paid to transportation companies was deducted from sales. The difference between cost and the amount collected was, therefore, reflected in sales.

The following tabulation, designated as table 32, shows a division of the consolidated net sales with respect to the sales by the motorcar divisions, the accessories and parts group and the other products group. In this table intercompany sales to the motorcar divisions by the Fisher Body Division have been eliminated. However, it was impossible, with the information available, to make the elimination of intercompany sales by the accessories and parts group and the other products group due to lack of information as to a division of the intercompany sales for the latter two groups. The intercompany eliminations with regard to accessory and parts group and other products group are, therefore, combined in the fourth column and eliminated from the total.

The lower half of the table referred to shows the percentages of sales by groups of products with relation to the total sales. By reference to the table it will be observed that the sales of the motorcar divisions represented from 73.19 to 81.45 percent of the total sales by the corporation and its consolidated subsidiaries. No comment is made upon the percent of sales by the accessory and parts group and other products group because it was impossible to eliminate the intercompany sales.

TABLE 32.—*General Motors Corporation and consolidated subsidiaries*

DIVISION OF NET SALES BY GROUPS OF PRODUCTS, 1927 TO 1936, INCLUSIVE

Year	Motorcar divisions	Accessories and parts group	Other products group	Intercompany accessories—parts and other products	Total
1927	$1,033,975,194	$197,599,861	$309,990,157	$252,333,295	$1,289,231,917
1928	1,144,418,236	231,657,148	416,458,155	310,788,216	1,481,745,323
1929	1,168.991,857	240,867,640	430,851.059	308.496,811	1,532,213,745
1930	735,751.315	154,037,684	264,049,434	148,510,530	1,005,327,903
1931	625,376,840	130,158,722	196,700,027	124,027,611	828,207,978
1932	322,779,234	76,308,297	110,052,132	68,240,351	440,899,312
1933	456,870,570	103,701,244	131,320,053	108,145,271	583,746,596
1934	674,763,444	144,939,729	229,989,030	187,019,533	862,672,670
1935	934,547,069	186,577,985	272,342,026	237,825,569	1,155,641.511
1936	1,131,266,070	236,261,171	340,612,013	268,849,314	1,439,289,940
1937	1,308,784,067	266,846,391	418,577,596	387,418,213	1,606,789,841

TABLE 32.—*General Motors Corporation and consolidated subsidiaries*—Continued

PERCENTAGES OF DIVISION SALES TO TOTAL

Year	Motorcar divisions	Accessories and parts group	Other products group	Intercompany accessories—parts and other products	Total
1927	80.20	15.33	24.04	19.57	100
1928	77.23	15.63	28.11	20.97	100
1929	76.29	15.72	28.12	20.13	100
1930	73.19	15.32	26.26	14.77	100
1931	75.51	15.71	23.75	14.97	100
1932	73.21	17.31	24.96	15.48	100
1933	78.26	17.76	22.50	18.52	100
1934	78.22	16.80	26.66	21.68	100
1935	80.87	16.14	23.57	20.58	100
1936	78.60	16.41	23.67	18.68	100
1937	81.45	16.61	26.05	24.11	100

Division of net sales by lines of cars.—The table just preceding gave a division of net sales by groups of products. The sales under the motorcar divisions group are now further divided so as to show the sales by each line of cars. This division of sales for the years during the period from January 1, 1927, to December 31, 1937, is shown by the next tabulation which is marked "table 33."

This inquiry was largely concerned with motor vehicles and motor-vehicle replacement parts and accessories. In order to segregate the motor-vehicle business from the other operations of General Motors Corporation, the corporation was requested to construct pro forma income and expense statements for each line of motor vehicles and for products grouped as to motor vehicles, parts and accessories, other products and the total consolidated. To submit all of these statements would make this report too cumbersome. In lieu thereof, a brief tabulation, such as the one referred to showing a division of the sales, is submitted. Subsequently a similar division of the consolidated profit will be introduced.

The lower half of the next table shows the percent of sales by each motor-vehicle division in relation to the total sales of motor vehicles. With regard to the percentage relation to the total sales, it is interesting to note the proportion of the total sales income of the corporation contributed by each motor-vehicle division. For example the Chevrolet Division contributed 46.95 percent of the total sales in 1927, and this increased to 68.50 percent in 1933. From that point this division's proportion declined to 49.98 percent in 1937. Although the proportion in relation to the total declined, yet the dollar amount of sales was greater in both 1936 and 1937 than in any previous year of Chevrolet Division's operation.

During the time that the Chevrolet Division was increasing its proportion of the net sales, the Buick Division showed a decline from 28.05 percent in 1927 to 10.39 percent in 1933, and Cadillac-La Salle Division showed a decrease from 8.63 percent in 1927 to 5.26 percent on 1933. Subsequent to 1933, the Buick Division showed a marked increase in its proportion of the net sales as did the Pontiac and Oldsmobile Divisions; but the Buick Division has not approached its 1927 and 1928 proportion of total sales, although it exceeded its 1929 dollar volume in 1937. Another interesting feature of this table is illustrated by the marked increase in sales by the Chevrolet Division after the low depression year of 1932 as compared to the other divisions. Furthermore, it will be noted that the Cadillac-La Salle Division increased its sales in 1937 as compared to 1932, but even this increase has never reached the volume of sales recorded in 1927, 1928, and 1929.

The tabulation of net sales by lines of cars, and percent of sales by lines in relation to the total sales of motor vehicles, follows.

TABLE 33.—*General Motors Corporation and consolidated subsidiaries*

DIVISION OF NET SALES BY LINES OF MOTOR VEHICLES

	Chevrolet Division	Buick Division	Cadillac-La Salle Division	Pontiac Division	Oldsmobile Division	Total
1927	$485,414,603	$290,092,919	$89,226,240	$128,443,285	$40,798,147	$1,033,975,194
1928	564,678,710	248,731,883	103,174,473	163,379,300	64,453,870	1,144,418,236
1929	642,017,584	213,325,229	90,754,165	145,892,665	77,002,214	1,168,991,857
1930	428,732,235	142,139,393	64,341,354	60,543,157	39,995,176	735,751,315
1931	386,644,040	102,745,721	45,489,812	54,197,121	36,300,146	625,376,840
1932	196,648,118	50,691,213	28,777,192	29,713,0 8	16,949,643	322,779,234
1933	312,957,782	47,475,065	24,041,747	47,495,055	24,900,921	456,870,570
1934	458,942,802	81,042,697	28,514,445	50,403,400	55,860,100	674,763,444
1935	556,679,261	103,864,535	41,251,816	107,164,592	125,586,865	934,547,069
1936	676,336,418	161,271,566	45,569,241	115,622,964	132,465,881	1,131,266,070
1937	654,111,543	235,707,696	59,743,176	181,355,869	177,865,783	1,308,784,067
PERCENTAGES OF SALES BY LINES TO TOTAL						
1927	46.95	28.05	8.63	12.42	3.95	100
1928	49.34	21.73	9.02	14.28	5.63	100
1929	54.92	18.25	7.76	12.48	6.59	100
1930	58.27	19.32	8.74	8.23	5.44	100
1931	61.83	16.43	7.27	8.67	5.80	100
1932	60.92	15.70	8.92	9.21	5.25	100
1933	68.50	10.39	5.26	10.40	5.45	100
1934	68.01	12.01	4.23	7.47	8.28	100
1935	59.57	11.11	4.41	11.47	13.44	100
1936	59.79	14.25	4.03	10.22	11.71	100
1937	49.98	18.01	4.56	13.86	13.59	100

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Division of net profit by groups of products.—The consolidated income and expense statement, page 525, shows the total net profit earned by General Motors Corporation and consolidated subsidiaries during each of the years during the period from January 1, 1927, to December 31, 1937. This total profit was realized from the combined operations of the corporation, including sales of motor cars, accessories, parts, and numerous other products as outlined on pages 432 to 435. The next following tabulation, designated as table 34, presents a division of the consolidated profits with respect to a certain grouping of products. This tabulation groups the motor-vehicle divisions, including Fisher Body, parts and accessories operations, and all other products in the third classification. This tabulation was prepared from pro forma statements submitted by the corporation and then revised by the Commission's accountants along the same lines as outlined in the discussion of the consolidated income and expense statement, page 523.

The lower half of the table referred to shows the percentages of the net profit, before provisions for income-tax payments, for each of the groups of products in relation to the total net profits. By reference to the table, it will be noted that during the period from 1927 to 1937, inclusive, the motor-vehicle division contributed 61.35 percent of the corporation's net profit, parts and accessories division contributed 22.42 percent, and other products 16.23 percent.

The other products group, as distinguished from the motor-vehicles group, shows a continual increase both in sales volume and aggregate profit as new products were added. In fact the activities of General Motors in other ventures outside the motor-vehicle business contributed $70,000,000 profit in 1937, and if parts and accessories profit were added, the total would equal the profit derived from the motor-vehicle operation. This illustrates the diversification of the General Motors operation and even though it failed to show a profit on motor-vehicle sales it would have earned a profit of approximately $128,000,000 in 1937.

TABLE 34.—*General Motors Corporation and consolidated subsidiaries. Division of net profit, before provision for payment of income taxes, by groups of products, 1927 to 1937, inclusive*

Year	Motor-vehicle group	Parts and accessory group	Other products group	Total all products
1927	$209,745,455	$56,252,844	$31,343,560	$297,341,859
1928	220,128,527	69,159,163	40,928,477	330,216,167
1929	190,181,871	62,459,027	41,939,209	294,580,107
1930	112,491,983	35,098,257	26,590,844	174,181,084
1931	97,501,603	31,127,164	2,899,350	131,528,117
1932	[1] 4,546,428	10,790,494	2,580,146	8,824,212
1933	55,313,238	26,981,738	10,585,411	92,880,387
1934	51,650,023	34,814,855	28,388,445	114,853,323
1935	120,534,271	43,985,300	42,134,375	206,653,946
1936	164,885,786	61,743,163	57,067,195	283,696,144
1937	123,909,263	57,815,100	70,478,183	252,202,546
Average	1,341,795,592	490,227,105	354,935,195	2,186,957,892
	Percent	*Percent*	*Percent*	*Percent*
1927	70.54	18.92	10.54	100
1928	66.66	20.94	12.40	100
1929	64.56	21.20	14.24	100
1930	64.58	20.15	15.27	100
1931	74.13	23.67	2.20	100
1932	[1] 51.52	122.28	29.24	100
1933	59.55	29.05	11.40	100
1934	44.97	30.31	24.72	100
1935	58.33	21.28	20.39	100
1936	58.12	21.76	20.12	100
1937	49.13	22.92	27.95	100
Average	61.35	22.42	16.23	100

[1] Loss.

Division of net profit by lines of cars.—The table just preceding gave a division of net profits by groups of products. The net profit realized by the motor-vehicle group is now further divided so as to show the yearly profit earned by each line of cars. This division of net profits earned during each year, of the period from January 1, 1927, to December 31, 1937, is presented by the next tabulation, which is marked table 35. This inquiry was largely concerned with motor vehicles and motor-vehicle replacement parts and accessories. In order to segregate the motor-vehicle business from the other operations of General Motors Corporation, the corporation was requested to construct pro forma income and expense statements for each line of motor vehicles and for products grouped generally as to motor vehicles, parts and accessories, other products, and then the total consolidated. To submit all of these statements would make this report very voluminous. In lieu thereof, a brief tabulation such as the one just previously referred to, is submitted and shows the yearly profit contributed by each line of motor vehicles and the total for the 11-year period.

In this tabulation, Fisher Body Division is set out separately because it was impossible, in any reasonable length of time, to obtain an analysis of Fisher Body Division operations so as to be able to eliminate the intercompany sales and profits with respect to each line of car. With regard to the Fisher Body Division, it is pointed out that practically all of Fisher Body Division profits were earned on sales made to the car divisions.

The lower half of the next table shows the percentages of net profit earned by each line of cars in relation to the total profit earned by the combined motor vehicle divisions. By reference to this table, it will be observed that during the 11 years from 1927 to 1937, inclusive, the Chevrolet Division contributed 51.62 percent of the total earnings of the combined motor vehicle divisions; Buick, 11.87 percent; Cadillac, 2.33 percent; Oldsmobile, 2.24 percent; Pontiac, 3.46 percent; and Fisher Body, 28.48 percent. Here again, attention is directed to the fact that Fisher Body profits accrued almost entirely from sales to the car divisions of General Motors Corporation.

Regarding the profits earned by each car division, it will be noted that the Chevrolet Division earned a substantial profit in each year of the 11-year period, and it is the only motor vehicle division that did earn a profit in every year. The Fisher Body Division also earned a profit in each year but, as previously pointed out, this profit accrued from sales to the car divisions.

TABLE 35.—*General Motors Corporation and consolidated subsidiaries—division of net profit from motor vehicle operations by lines of cars, before provisions for income taxes, 1927–1937, inclusive*

Year	Chevrolet	Buick	Cadillac	Oldsmobile	Pontiac	Fisher Body	Total motor vehicle division
1927	$74,824,586	$47,726,095	$10,893,318	$722,121	$13,545,609	$62,033,716	$209,745,455
1928	92,435,266	33,263,818	15,615,852	5,192,773	14,390,699	59,227,119	220,128,527
1929	104,361,035	20,453,447	9,815,344	3,150,635	5,106,321	47,295,089	190,181,871
1930	66,798,586	11,777,338	4,206,150	[1] 2,435,743	[1] 4,046,057	36,191,709	112,491,983
1931	63,584,224	3,711,324	[1] 3,109,673	[1] 322,838	[1] 1,494,781	35,133,347	97,501,603
1932	17,850,206	[1] 9,511,171	[1] 8,639,131	[1] 4,122,082	[1] 5,344,226	5,219,976	[1] 4,546,428
1933	40,584,694	[1] 1,705,063	[1] 5,739,162	[1] 142,660	1,589,549	20,725,880	55,313,238
1934	39,097,288	4,297,070	[1] 2,183,197	648,593	[1] 1,925,214	11,715,483	51,650,023
1935	60,446,916	9,075,293	3,298,035	11,439,451	6,601,548	29,673,028	120,534,271
1936	76,972,278	19,392,218	3,493,154	10,363,581	8,095,881	46,568,674	164,885,786
1937	55,714,456	20,805,345	3,594,636	5,496,390	9,927,137	28,371,299	123,909,263
Total	692,669,535	159,285,714	31,248,326	29,990,231	46,446,466	382,155,320	1,341,795,592
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
1927	35.68	22.75	5.19	.34	6.46	29.58	100.00
1928	41.99	15.11	7.10	2.36	6.54	26.90	100.00
1929	54.87	10.76	5.16	1.66	2.68	24.87	100.00
1930	59.38	10.47	3.74	[1] 2.16	[1] 3.60	32.17	100.00
1931	65.21	3.81	[1] 3.19	[1] .33	[1] 1.53	36.03	100.00
1932	392.62	[1] 209.20	[1] 190.02	[1] 90.67	[1] 117.55	114.82	100.00
1933	73.37	[1] 3.08	[1] 10.37	[1] .26	2.87	37.47	100.00
1934	75.70	8.32	[1] 4.23	1.26	[1] 3.73	22.68	100.00
1935	50.14	7.53	2.74	9.49	5.48	24.62	100.00
1936	46.68	11.76	2.12	6.29	4.91	28.24	100.00
1937	44.96	16.79	2.90	4.44	8.01	22.90	100.00
Average	51.62	11.87	2.33	2.24	3.46	28.48	100.00

[1] Loss.

Commercial expenses by classes of expense.—The income expense statement page 525, shows the yearly amounts of commercial expenses. The term "commercial expenses," as employed by the company in its classification of accounts, includes administration expenses, selling expenses, sales promotion expenses, consumer influence expenses, parts and accessories merchandising expenses, resale expenses by branches and retail stores, and provision for doubtful accounts reserve. The income and expense statement, as furnished originally by the company, groups all of these various classes of expenses under one item called "commercial expenses." For the purposes of this report, the provision for doubtful-account reserve was segregated from expenses and set up as a separate deduction from income. The total commercial expense remaining was then divided as to classes of expenses, as shown by the next tabulation marked "Table 36."

It will be noted that during some years, certain classes of expenses or certain classifications do not appear to have existed. The latter is not a fact, and the failure to show certain expenses in certain years was caused by the classification in use during those years, and the classes of expenses for which no amount is shown have been included under some other classification. The consumer-influence expense classification includes expenses of national advertising activities, national group-selling activities, and cooperative advertising fund contributions.

The table showing the yearly amounts of the various classes of expenses included in commercial expense follows:

TABLE 36.—*General Motors Corporation and consolidated subsidiaries—Classification of expenses included in commercial expenses, 1927–1937, inclusive*

Commercial expenses	1927	1928	1929	1930	1931
Administration	$14,349,354	$18,544,182	$20,169,808	$17,398,773	$10,517,556
Selling	61,635,110	69,243,465	46,874,001	34,492,849	25,883,574
Sales promotion				3,371,692	2,549,261
Consumer influence	36,476,400	42,731,489	44,679,892	25,811,626	25,538,113
Accessory and parts merchandising	13,677,333	17,035,180	17,068,572	16,216,094	15,530,950
Branches and retail stores			36,590,181	33,921,365	34,032,872
Total per corporation	126,138,197	147,554,316	165,382,454	131,202,399	114,052,326
Deduct Federal Trade Commission revisions	11,343,613	12,144,817	11,121,534	6,530,864	3,720,794
Revised total	114,794,584	135,409,499	154,260,920	124,671,535	110,331,532

Commercial expenses	1932	1933	1934	1935	1936	1937
Administration	$7,343,238	$9,651,828	$13,021,891	$15,518,081	$16,493,009	$17,417,827
Selling	22,209,259	21,754,919	24,303,515	28,870,693	30,581,646	32,445,482
Sales promotion	3,055,447	3,104,091	3,191,204	2,317,204	3,354,421	2,956,803
Consumer influence	17,737,535	15,547,073	17,931,274	20,763,896	28,537,936	26,199,565
Accessories and parts, merchandising	13,937,113	5,784,122	3,099,300	3,056,002	3,161,976	6,203,016
Branches and retail stores	21,025,928	17,526,664	17,460,757	16,560,820	16,593,078	16,762,116
Total per corporation	85,308,520	73,368,697	79,007,941	87,086,696	98,722,066	101,984,809
Deduct Federal Trade Commission revisions	1,109,184	789,839	2,130,043	5,572,820	7,507,848	4,500,381
Revised total	84,199,336	72,578,858	76,877,898	81,513,876	91,214,218	97,484,428

Volume of sales in relation to the capital employed.—In a preceding part of this chapter, the investment and rates of return have been shown for the various bases of investment as described. The following tabulation, marked "Table 37," related the investment by General Motors Corporation in the entire consolidated manufacturing operations to the net sales of motor vehicles, accessories and parts and other products, and shows the valume of sales (turn-over) in relation to the investment or capital employed in those operations.

In the discussion of rates of return, it was pointed out that the annual average rate of return on the investment in the total consolidated manufacturing business for the 11-year period was 35.50 percent. The average net sales during the same period amounted to $1,111,433,339 per year. The average yearly sales related to the average investment of $514,612,836 during this same period, gives an average of 2.1597 times the investment employed. This rate of sales volume to capital related to the 11-year annual average rate of net profit on sales of 16.44 percent, results in the annual average rate of return of 35.50 percent on the capital or investment employed. By reference to the table just referred to, it will be observed that the greatest volume of sales in relation to capital occurred during the year 1928, and was 3.0787 times, and resulted in a yearly rate of return of 66.24 percent on the capital employed. The lowest volume of sales to capital occurred during the year 1932, and was 0.9287 times, resulting in a loss of 0.28 percent rate of return on the capital employed.

The foregoing illustrates the relation of sales volume to capital, and the effect of sales volume on the profitableness or unprofitableness of the operations. The volume of sales is a widely varying factor, while the amount of capital investment is a more stable one. The sales volume, therefore, determines to a great extent the amount of profit earned on the capital during any period of time.

TABLE 37.—*General Motors Corporation and consolidated subsidiaries—volume of sales in relation to capital employed and rates of return, 1927 to 1937, inclusive*

Year	Average investment	Net sales	Times turnover of capital per year	Ratio of net profit to sales	Percent rate of return on investment
1927	$460, 086, 856	$1, 289, 231, 917	2. 8021	22. 50	63. 05
1928	481, 282, 948	1, 481, 745, 323	3. 0787	21. 52	66. 24
1929	547, 416, 324	1, 532, 213, 745	2. 7990	18. 41	51. 54
1930	577, 559, 090	1, 005, 327, 903	1. 7406	15. 40	26. 80
1931	530, 653, 506	828, 207, 978	1. 5607	14. 30	22. 32
1932	474, 754, 200	440, 899, 312	. 9287	[1].30	[1].28
1933	435, 001, 954	583, 746, 596	1. 3419	14. 40	19. 33
1934	454, 302, 662	862, 672, 670	1. 8989	11. 96	22. 70
1935	508, 241, 435	1, 155, 641, 511	2. 2738	15. 34	34. 87
1936	583, 919, 075	1, 439, 289, 940	2. 4649	17. 75	43. 77
1937	607, 523, 157	1, 606, 780, 841	2. 6448	14. 10	37. 30
Average	514, 612, 836	1, 111, 433, 339	2. 1597	16. 44	35. 50

[1] Loss.

Ratio of factory costs, commercial expenses and profits to net sales.—The next tabulation presents a comparative statement of the cost of sales, commercial expenses, and profits expressed in cents per dollar of net sales, for each year of the period from 1927 to 1937, inclusive.

By reference to the tabulation, it will be observed that the factory cost of sales in relation to per dollar of sales ranged from 69 to 81.30 cents per dollar of sales. The trend of factory cost of sales was largely upward from 1927, until a high was reached in 1932. It declined sharply in 1933 and just as sharply went upward in 1934, declined in 1935 and 1936 and then increased in 1937. The sharp decrease in factory cost of sales in 1933 was undoubtedly caused by carrying forward a low-valued inventory from 1932.

Commercial expenses followed approximately the same trend as that of factory cost of sales. Commercial expenses consumed 8.91

cents per dollar of sales in 1927, and increased to 19.10 cents in 1932. From that point it declined each year until commercial expenses consumed but 6.07 cents per dollar of sales in 1937. In the latter years, the trend of commercial expenses differed from factory cost of sales in that they did not increase during 1937, while factory cost of sales increased approximately 4 cents per dollar of sales.

During the period 1927 to 1937, inclusive, an average of 74.50 cents of each dollar of sales was spent for factory cost of the sales, 9.35 cents went for commercial expenses, 0.05 cent per dollar was set aside as provision for doubtful accounts, and the net profit to the corporation from each dollar of sales averaged 16.44 cents.

TABLE 38.—*General Motors Corporation and consolidated subsidiaries—ratio of factory costs, expenses, and profits to net sales, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	Average
	Pct.	*Pct.*	*Pct.*	*Pct.*	*Pct.*	*Pct.*	*Pct.*	*Pct.*	*Pct.*	*Pct.*	*Pct.*	*Pct.*
Net sales	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Factory cost of sales	69.00	69.71	72.02	72.83	72.04	81.30	73.32	79.50	77.89	76.01	80.04	74.50
Gross profit on sales	31.00	30.29	27.98	27.17	27.96	18.70	26.68	20.50	22.11	23.99	19.96	25.50
Commercial expenses	8.91	9.14	10.07	12.40	13.32	19.10	12.43	8.91	7.05	6.34	6.07	9.35
Provision for doubtful accounts	.03	.01	.04	.08	.14	.32	.19	.03	.01	.03	------	.05
Net profit on sales	22.06	21.14	17.87	14.60	14.50	[1] .72	14.06	11.56	15.05	17.62	13.89	16.10
Other operating income	.46	.38	.54	.71	[1] .20	.42	.34	.40	.29	.13	.21	.34
Net profit manufacturing operations	22.50	21.52	18.41	15.40	14.30	[1] .30	14.40	11.96	15.34	17.75	14.10	16.44

[1] Loss.

Analysis of sales, factory cost of sales and gross and net profit for the motor-vehicle divisions.—Table 39 presents an analysis of the sales, factory cost of sales, gross profit, and net profit for the motor-vehicle divisions of General Motors Corporation. The analysis applies only to the years 1929, 1932, 1934, 1935, 1936, and 1937, and segregates the sales, costs, and profit of new motor vehicles from the sales, costs, and profits of accessories and replacement parts.

The sales shown in this analysis represent the sales by the motor-vehicle divisions to the public and do not agree with the sales on page 527, because, for the purposes of this table, intercompany sales have been eliminated. The sales discussed here include only the accessories and parts sold by the motor-vehicle divisions, and not those sold to the public by other sales divisions. Sales of accessories and parts as shown on page 527 were made by other divisions not included in this analysis.

The ratios shown here are presented to show the trend of the different classes of expense in relation to sales and the effect of changes in ratio on net profit, as well as to indicate the profitableness of sales of accessories and parts as compared to sales of new motor vehicles. By reference to the table it will be observed that the highest rates of profit, during the years indicated, were earned on sales of accessories and parts. Accessories and parts produced an average net profit on sales during the 6 years of 24.85 cents for every dollar of sales as compared to an average net profit on new-car sales of 7.18 cents for every dollar of sales during the same years.

TABLE 39.—*General Motors Corporation—Summary of net sales, factory cost of sales, gross profit on sales, expenses, and net profits, by lines of products, years 1929, 1932, and 1934 to 1937, inclusive*

	New cars		Parts and accessories		Total	
	Amount	Ratio per dollar of sales	Amount	Ratio per dollar of sales	Amount	Ratio per dollar of sales
Net sales:		*Cents*		*Cents*		*Cents*
1929	$1, 187, 319, 627	100. 00	$81, 145, 886	100. 00	$1, 268, 465, 513	100. 00
1932	287, 541, 702	100. 00	43. 089, 717	100. 00	330, 631, 419	100. 00
1934	630, 240, 888	100. 00	54. 668, 072	100. 00	684, 908, 960	100. 00
1935	883, 838, 957	100. 00	67, 759. 278	100. 00	951, 598, 235	100. 00
1936	1, 086, 056, 912	100. 00	98, 871, 609	100. 00	1, 184, 928, 521	100. 00
1937	1, 211, 999, 904	100. 00	129, 073, 154	100. 00	1, 341, 073. 058	100. 00
Total	5, 286, 997, 990	100. 00	474, 607, 716	100. 00	5. 761, 605. 706	100. 00
Factory cost of sales:						
1929	975, 842, 392	82. 19	41, 774, 035	51. 48	1, 017. 616, 427	80. 22
1932	268, 795, 446	93. 48	23, 685, 803	54. 97	292, 481, 249	88. 46
1934	550, 545, 402	87. 35	40, 648, 762	74. 36	591, 194, 164	86. 32
1935	759, 224, 184	85. 90	46, 656, 742	68. 86	805, 880, 926	84. 69
1936	933, 675, 954	85. 97	65, 963, 681	66. 72	999, 639, 635	84. 36
1937	1, 075, 207. 177	88. 71	84, 894, 454	65. 77	1. 160, 101, 631	86. 50
Total	4, 563, 290, 555	86. 31	303, 623, 477	63. 97	4, 866. 914, 032	84. 47
Gross profit on sales:						
1929	211, 477, 235	17. 81	39, 371, 851	48. 52	250, 849, 086	19. 78
1932	18, 746, 256	6. 52	19, 403, 914	45. 02	38, 150, 170	11. 54
1934	79, 695, 486	12. 65	14, 019, 310	25. 64	93, 714, 796	13. 68
1935	124, 614, 773	14. 10	21, 102, 536	31. 14	145, 717, 309	15. 31
1936	152, 380, 958	14. 03	32, 907. 928	33. 28	185, 288, 886	15. 64
1937	136, 792, 727	11. 29	44, 178, 700	34. 23	180, 971, 427	13. 50
Total	723, 707, 435	13. 69	170, 984, 239	36. 03	894, 691, 674	15. 53
Distribution and administration expense:						
1929	91, 143, 178	7. 68	20, 396, 225	25. 14	111, 539, 403	8. 80
1932	39. 862, 017	13. 86	12, 661, 081	29. 38	52, 523, 098	15. 89
1934	44, 169, 591	7. 01	3, 782. 740	6. 92	47, 952, 331	7. 00
1935	51, 413, 421	5. 82	4, 290, 450	6. 33	55, 703, 871	5. 85
1936	58, 030, 273	5. 34	4, 383, 032	4. 43	62, 413, 305	5. 27
1937	59, 369, 778	4. 90	7, 527, 881	5. 83	66, 897. 659	4. 99
Total	343, 988, 258	6. 51	53. 041, 409	11. 18	397, 029, 667	6. 89
Net profit on sales:						
1929	120, 334, 057	10 13	18, 975, 626	23. 38	139. 309, 683	10. 98
1932	[1] 21, 115, 761	[1] 7. 34	6. 742, 833	15. 65	[1] 14, 372, 928	[1] 4. 35
1934	35, 525, 895	5. 64	10, 236. 570	18. 72	45. 762, 465	6. 68
1935	73. 201, 352	8. 28	16, 812, 086	24. 81	90, 013, 438	9. 46
1936	94, 350, 685	8. 69	28, 524, 896	28. 85	122, 875, 581	10. 37
1937	77, 422, 949	6. 39	36, 650, 819	28. 40	114, 073, 768	8. 51
Total	379, 719, 177	7. 18	117, 942, 830	24. 85	497, 662, 007	8. 64

[1] Loss.

Analysis of net sales, factory cost of sales, gross and net profit, by lines of cars.—Table 40, which follows, presents an analysis of the sales of new cars made by the motorcar sales divisions of General Motors Corporation. In preceding parts of chapter XII, the total sales of General Motors Corporation were segregated with regard to a division of sales, by lines of products, such as motor vehicles, accessories and parts, and other products. After that division, the sales were further segregated with regard to the sales made by each motorcar division of General Motors. The latter division of sales was then divided to show the sales cf new cars and accessories and parts, by the motorcar division. As shown by the next table, the sales of new motorcars are now segregated and divided, by lines of cars. This analysis is shown for only the years 1929, 1932, 1934, 1935, 1936, and 1937.

TABLE 40.—*General Motors Corporation—Summary of sales, factory cost of sales, expenses, and profit, by lines of cars sold in the United States and foreign countries, during 1929, 1932, 1934, 1935, 1936, and 1937*

	Units sold	Net sales	Factory cost of cars sold	Gross margin of profit	Distribution and administration expense	Net margin of profit
Buick passenger cars:						
1929	193, 255	$219, 100, 972	$182, 673, 229	$36, 427, 743	$18, 551, 295	$17, 876, 448
1932	46, 131	44, 100, 490	45, 750, 171	[1] 1, 649, 681	7, 649, 201	[1] 9, 298, 882
1934	77, 457	73, 281, 183	63, 691, 928	9, 589, 255	4, 631, 396	4, 057, 859
1935	106, 296	87. 655, 431	75, 122, 468	12, 532, 963	5, 698, 663	6, 834, 300
1936	180, 482	144, 606, 768	121, 579, 892	23, 026, 876	7, 209, 349	15, 817, 527
1937	232, 197	190, 291, 939	164, 721, 475	25, 570, 464	8, 032, 665	17, 537, 799
Total	835. 818	759. 036. 783	653, 539, 163	105, 497, 620	51, 772, 569	53. 725, 051
Cadillac passenger cars:						
1929	36, 355	84, 502, 750	68, 831, 934	15, 670, 816	9, 334, 524	6, 336, 292
1932	9, 005	20, 373, 699	23, 234, 649	[1] 2, 860, 950	6, 690, 127	[1] 9, 551, 077
1934	11, 329	20, 523, 558	19, 178, 992	1, 344, 566	4, 488, 914	[1] 3, 144, 348
1935	22, 329	31, 099, 754	25. 184, 084	5, 915, 670	4, 878, 257	1, 037, 413
1936	28, 278	36, 800, 979	30, 595, 860	6, 205, 119	5, 011, 137	1, 193, 982
1937	44, 547	50, 399, 897	43, 552, 926	6, 846, 971	5, 724, 565	1, 122, 406
Total	151, 843	243. 700, 637	210, 578, 445	33, 122, 192	36, 127, 524	[1] 3, 005, 332
Chevrolet:						
Passenger cars:						
1929	942, 549	489, 810, 918	405, 169, 310	84, 641, 608	28, 951, 101	55, 690, 507
1932	312, 845	141, 578, 405	127, 213, 740	14, 364, 665	13, 322, 600	1, 042, 065
1934	607, 457	318, 234, 829	284, 805, 596	33. 429, 233	17, 932, 158	15, 497, 075
1935	795, 936	414, 733, 683	365, 012, 367	49, 721, 316	20, 989, 566	28, 731, 750
1936	995, 682	523, 756, 602	461, 745, 943	62, 010, 659	24, 329, 483	37, 681, 176
1937	905, 928	503, 790, 103	454, 746, 395	49, 043, 708	23, 022, 267	26, 021, 441
Total	4, 560, 397	2, 391, 904. 540	2, 098, 693. 351	293, 211, 189	128, 547, 175	164, 664, 014
Commercial cars:						
1929	306, 853	172. 626, 848	122, 639, 961	49, 986, 887	14, 302, 203	35, 684, 684
1932	77, 146	39, 907, 731	29, 263, 300	10, 644, 431	4, 178, 028	6, 466, 403
1934	212, 547	114, 973, 096	87, 385, 630	27, 587, 466	6, 821, 118	20, 766, 348
1935	229, 451	123, 120, 406	95, 311, 703	27, 808, 703	6, 672, 703	21, 136, 000
1936	258, 911	140, 403, 547	107, 542, 708	32, 860, 839	6, 929, 484	25, 931, 355
1937	267, 434	156, 485, 999	127, 453, 720	29, 032, 279	7, 124, 941	21, 907, 338
Total	1, 352, 342	747, 517, 627	569, 597, 022	177, 920, 605	46, 028, 477	131, 892, 128
Oldsmobile:						
Passenger cars:						
1929	101, 676	76, 063, 804	66, 587, 261	9, 476, 543	7, 377, 807	2, 098, 736
1932	22, 011	15, 236, 791	15, 933, 089	[1] 696, 298	3, 251, 410	[1] 3, 947, 708
1934	79, 835	54, 628, 243	50, 447, 503	4, 180, 740	4. 496, 127	[1] 315, 387
1935	179, 121	122, 379, 066	105, 374, 545	17, 004, 521	6, 623, 851	10, 380, 670
1936	187, 658	126, 352, 228	110, 225, 809	16, 126, 419	7, 926, 434	8, 199, 985
1937	216, 598	152, 537, 990	140, 834, 461	11, 703, 529	7, 572, 699	4, 130, 830
Total	786, 899	547, 198, 122	489, 402, 668	57, 795, 454	37, 248, 328	20, 547, 126
Trucks (foreign only):						
1929						
1932						
1934						
1935						
1936	2, 296	1, 816, 200	1, 518, 685	297, 515	101, 593	195, 922
1937	3, 540	2. 979, 900	2, 473, 622	506, 278	138, 765	367, 513
Total	5, 836	4, 796, 100	3, 992, 307	803, 793	240, 358	563, 435
Pontiac passenger cars:						
1929	211, 948	145, 214, 335	129, 940, 697	15, 273, 638	12, 626, 248	2, 647, 390
1932	47, 031	26, 344, 586	27, 400, 497	[1] 1, 055, 911	4, 770, 651	[1] 5, 826, 562
1934	79, 461	48, 599, 979	45, 035, 753	3, 564, 226	5, 799, 878	[1] 2, 235, 652
1935	169, 705	104, 850, 617	93, 219, 017	11, 631, 600	6, 550, 381	5, 081, 219
1936	182, 046	112, 320, 588	100, 467, 057	11, 853, 531	6, 522, 793	5, 330, 738
1937	237, 401	155, 514, 076	141, 424, 578	14, 089, 498	7, 753, 876	6, 335, 622
Total	927, 592	592, 844, 181	537, 487, 599	55, 356, 582	44, 023, 827	11, 332, 755

[1] Loss.

Summary of unit sales, factory cost of sales, expenses, and profits per car.—Table 41, presents the units of different makes of General Motors Corporation cars sold during the years 1929, 1932, 1934, 1935, 1936, and 1937, and the average sales receipts per car, average factory cost of sales per car, and the average cost, per car, of distribution and administrative expenses, and the gross and net profit per car realized on the sales.

By reference to the table it will be observed that, in terms of units, Chevrolet was by far the most extensive selling line of General Motors cars during the 6 years designated. Of the other cars in General Motors line, Pontiac was second in terms of units sold, Buick was third, Oldsmobile was fourth, and Cadillac last in line. In a preceding discussion on page 531 it was shown that Chevrolet was also the most profitable, from the standpoint of aggregate amount of profit, during the years under consideration. With regard to the average profit per car realized on passenger cars, however, Buick was the most profitable in the line, Chevrolet was second, Oldsmobile third, Pontiac fourth, and Cadillac lost an average of $19.79 per car. The average loss on Cadillac cars results from large losses per car in 1932 and 1934. In the other 4 years of the 6 a profit was shown but not of sufficient proportions to offset the losses in the 2 years. The foregoing relates to passenger cars only, and, by reference to the table, it will be noted that Chevrolet commercial cars produced a net profit per car that exceeded the net profit produced by any of the line of passenger cars and averaged $97.52 per car during the 6 years. During the same 6 years the net profit per Buick car averaged $64.28, Chevrolet passenger cars $36.10, Oldsmobile $26.11, and Pontiac $12.22.

The average prices realized per car, as shown in the third column from the left of the table, represented the net prices charged dealers after adjustments of billings, discounts, and reducing sales by the transportation cost of delivering the cars to the dealers. As stated in the discussion of the profit and loss, in the income and expense section of chapter XII, General Motors added a charge to the cars billed to dealers for transportation, and this charge was included in sales receipts, but the sales receipts were reduced by the amounts of the transportation cost. The difference between receipts for transportation charges and the cost of transportation, therefore, is reflected in the net sales of motor vehicles. The average net price realized from the sales of Cadillac cars in 1929 was $2,324.38, and $1,131.39 in 1937. The average sales price realized on Buick cars was $1,133.74 in 1929, $801.22 in 1936, and $819.53 in 1937.

For Chevrolet passenger cars the average sales realization per car was $519.87 in 1929, $526.03 in 1936, and $556.10 in 1937. For Oldsmobile passenger cars the net sales realization per car was $748.10 in 1929, $673.31 in 1936, and $704.24 in 1937. For Pontiac passenger cars the net sales realization per car was $685.14 in 1929, $616.19 in 1936, and $655.07 in 1937.

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TABLE 41.—*General Motors Corporation—Summary of sales, factory cost of sales, expenses, and profit per car sold in the United States and foreign countries during 1929, 1932, 1934, 1935, 1936, and 1937*

	Units sold	Net sales per car	Factory cost of sales per car	Gross profit on sales per car	Distribution and administration expense per car	Net profit per car
Buick passenger cars:						
1929	193,255	$1,133.74	$945.24	$188.50	$95.99	$92.51
1932	46,131	955.98	991.74	[1] 35.76	165.81	[1] 201.57
1934	77,457	946.09	822.29	123.80	59.79	64.01
1935	106,296	824.63	706.73	117.90	53.61	64.29
1936	180,482	801.22	673.64	127.58	39.94	87.64
1937	232,197	819.53	709.41	110.12	34.59	75.53
Average per car	835,818	908.14	781.92	126.22	61.94	64.28
Cadillac passenger cars:						
1929	36,355	2,324.38	1,893.33	431.05	256.76	174.29
1932	9,005	2,262.49	2,580.20	[1] 317.71	742.93	[1] 1,060.64
1934	11,329	1,811.59	1,692.91	118.68	396.23	[1] 277.55
1935	22,329	1,392.79	1,127.86	264.93	218.47	46.46
1936	28,278	1,301.40	1,081.97	219.43	177.21	42.22
1937	44,547	1,131.39	977.68	153.71	128.51	25.20
Average per car	151,843	1,604.95	1,386.81	218.14	237.93	[1] 19.79
Chevrolet passenger cars:						
1929	942,549	519.67	429.87	89.80	30.72	59.08
1932	312,845	452.55	406.63	45.92	42.59	3.33
1934	607,457	523.88	468.85	55.03	29.52	25.51
1935	795,936	521.07	458.60	62.47	26.37	36.10
1936	995,682	526.03	463.75	62.28	24.43	37.85
1937	905,928	556.10	501.96	54.14	25.41	28.73
Average per car	4,560,397	524.49	460.20	64.29	28.19	36.10
Chevrolet Commercial cars:						
1929	306,853	562.57	399.67	162.90	46.61	116.29
1932	77,146	517.30	379.32	137.98	54.16	83.82
1934	212,547	540.93	411.14	129.79	32.09	97.70
1935	229,451	536.59	415.39	121.20	29.08	92.12
1936	258,911	542.29	415.37	126.92	26.76	100.16
1937	267,434	585.14	476.58	108.56	26.64	81.92
Average per car	1,352,342	552.76	421.19	131.57	34.05	97.52
Oldsmobile Passenger cars:						
1929	101,676	748.10	654.90	93.20	72.56	20.64
1932	22,011	692.24	723.87	[1] 31.63	147.72	[1] 179.35
1934	79,835	684.27	631.90	52.37	56.32	[1] 3.95
1935	179,121	683.22	588.29	94.93	36.98	57.95
1936	187,658	673.31	587.38	85.93	42.24	43.69
1937	216,598	704.24	650.21	54.03	34.96	19.07
Average per car	786,899	695.39	621.94	73.45	47.34	26.11
Oldsmobile trucks (foreign only):						
1929						
1932						
1934						
1935						
1936	2,296	791.03	661.45	129.58	44.25	85.33
1937	3,540	841.78	698.76	143.02	39.20	103.82
Average per car	5,836	821.81	684.08	137.73	41.19	96.54
Pontiac passenger cars:						
1929	211,948	685.14	613.08	72.06	59.57	12.49
1932	47,031	560.16	582.61	[1] 22.45	101.44	[1] 123.89
1934	79,461	611.62	566.77	44.85	72.99	[1] 28.14
1935	169,705	617.84	549.30	68.54	38.60	29.94
1936	182,046	616.99	551.88	65.11	35.83	29.28
1937	237,401	655.07	595.72	59.35	32.66	26.69
Average per car	927,592	639.12	579.44	59.68	47.46	12.22

[1] Loss.

SECTION 11. DEALER COOPERATIVE ADVERTISING PLANS

Introduction.—In order to understand the cooperative advertising fund and the method of handling the fund, it is necessary to first consider advertising as a whole and then distinguish between the classifications and types of advertising. Advertising in general may be classified in two principal classifications, namely, national advertising and local advertising. National advertising is an expense directly assumed by the car divisions of General Motors Sales Corporation in connection with their national sales programs. Local advertising is administered by the car divisions for the benefit of their dealers through the dealer cooperative advertising plan. The corporation takes the position that local advertising is an expense which is, and always has been, part of a local dealer's or retailer's cost of doing business.

The classification of advertising programs with regard to national and cooperative are defined more fully hereafter. National advertising includes those types of advertising used by the divisions to create general consumer demand for the product, and is intended to influence the general public as well as specific groups of people. National advertising also includes those types of advertising which from their very nature cannot be purchased locally by dealers, such as advertising in national magazines. Cooperative advertising applies to all expenditures for local advertising, identifying the local dealers with the product. Local advertising includes those types of advertising which could be carried on by dealers independently of General Motors Sales Corporation, such as local newspapers and billboard advertising.

Reason for establishing cooperative advertising funds.—The corporation officials stated that there were three important reasons for establishing the dealer cooperative advertising funds:

1. Prior to the establishment of this plan, some dealers were advertising more or less consistently, while other dealers adjacent to them, even in the same city, were doing practically no advertising at all. This resulted in an inequitable situation as between the dealers, and a very spotty local advertising effort. Further, due to the high cost of advertising space in large cities, no individual dealer or group of dealers in such cities could afford to stand the full cost of adequate local advertising in their respective cities. A study and an analysis of the situation and various methods of handling local dealer advertising were made, which were discussed with groups of dealers, after which it was decided to establish a dealer cooperative advertising plan, so that all dealers could join in a local advertising program on a fair and equitable basis.
2. A properly constructed and well directed local advertising program is of far more value and benefit to dealers than the scattered and inadequate efforts of individual dealers. Also under such a plan the local advertising programs of the dealers benefit by being tied in with the divisions' national advertising programs which are intended to create general consumer demand, thereby stimulating further the interest of buyers and directing them more specifically to the local dealer's place of business.
3. A third objective of the dealer cooperative advertising plan was to secure for dealers the advantage of better local advertising at a lower cost than they themselves could obtain locally.

Contribution to advertising fund.—The dealer cooperative advertising fund for local advertising is made up of contributions from the dealers and from the divisions on the basis of definite amounts per new car or per new truck sold to the dealers by the divisions. The amounts of the dealer contribution per car or truck and the amounts of the divisions' contribution per car or truck, are specified in the dealers' selling agreements, and are as follows:

	Dealer contribution per car	Division contribution per car
Chevrolet	$6.00	$2.50
Pontiac:		
6-cylinder	7.50	3.75
8-cylinder	10.00	5.00
Oldsmobile:		
6-cylinder	7.50	3.75
8-cylinder	10.00	5.00
Buick:		
40 Series	10.00	4.00
Others	14.00	6.00
Cadillac:		
La Salle	17.00	8.50
Cadillac	23.00	11.50

The division is under obligation to use dealer's contribution only for local advertising in the dealer's own territory, and to identify the dealer (or dealers in case of a metropolitan area) with the program; and where it is not practical to list the names of all the dealers in the case of a metropolitan area, a suitable dealer reference is used such as "See your local Chevrolet dealer."

Administration of advertising fund.—The total cooperative fund is considered as being in the nature of a trust fund, and is administered by the car divisions of General Motors. The portion of the fund contributed by General Motors was used for advertising purposes for the dealers in accordance with the decisions of the divisions. The divisions maintained the dealer portion of the cooperative advertising fund separate from the divisions portion in their accounting, and a separate ledger account was maintained for each individual dealer. It was stated that the divisions will provide the dealer with a statement of his cooperative advertising account at any time upon request.

If there is a credit balance in the dealer's account at the end of the calendar year, this credit balance is carried forward to a new ledger sheet for the new year. If the dealer's account shows a debit balance at the end of the calendar year, this balance is not carried forward to the ledger sheet for the new year. Hence, his advertising program for the new year is not curtailed by the reason of having a deficit to his account. The debit balance, however, is carried in a memorandum record so that a complete history on behalf of each dealer's account is kept in permanent form, to be used in the event of final settlement. Any balance remaining unspent upon termination of the dealer's selling agreement is returned to the dealer by the divisions. Refunds of this nature were made in the past 4 years in the following amounts:

	Dealer refunds
1934	$21,042
1935	40,406
1936	65,453
1937	78,265

The amount of refunds in any year were very insignificant in comparison to the total paid in by the dealers and represented less than 1 percent of the yearly contributions. In any event the sums contributed by the dealer were, in most cases, undoubtedly passed on to the consumer and the refunds, although insignificant, were just so much more income to the dealers.

Cooperative advertising.—At the beginning of each year, a questionnaire is sent to each dealer, asking him how he would like to have his cooperative advertising money spent; that is, the proportion between newspapers, outdoor, screen advertising, etc. The dealer may also specify the name of the newspaper in which he desires to advertise. These questionnaires are filed with the dealer's account cards and when expenditures are made for advertising, the officials stated that all possible consideration is given to the dealer's preferences.

At certain times, the expenditures from the dealer cooperative advertising fund have exceeded the amounts collected. When such a condition arose, the shortage was advanced by the divisions. There have also been times when sales were low and the money in the cooperative advertising fund was not sufficient to adequately advertise. In such instances where overexpenditures were made, and there was no prospect of dealers' purchases of cars providing sufficient contributions to bring the accounts into balance within a reasonable time, the deficits have been taken care of by additional contributions by General Motors. There follows hereafter a statement showing the contributions, both regular and additional, by the divisions and by the dealers during the years 1934 to 1938, inclusive.

	Divisions, regular, per car	Divisions, additional	Divisions, total	Dealer contribution, net, after refunds
1934	$2,927,208	$1,130,392	$4,057,600	$6,539,347
1935	4,277,832		4,277,832	9,403,163
1936	5,301,849	615,000	5,916,849	11,660,135
1937	5,582,432		5,582,432	12,070,822
1938 (estimate)	3,016,907	700,000	3,716,907	6,843,083

Section 12. Executive and Employee Profit-Sharing Plans, Employee Investment and Insurance Plans and Officers' Salaries and Extra Compensation

Introduction.—Early in 1918 the General Motors Corporation adopted its first bonus plan. This plan and subsequent ones provided for distribution of stock of the corporation as a bonus to certain classes of employees. The purpose of the plan as described in the 1918 annual report was "a reward to its employees, including employees of subsidiary companies, who have contributed to its success in a special degree, by their inventions, ability, industry, loyalty, or exceptional service. It is hoped thereby, not only to compensate services rendered, but also to encourage further efforts by making its employees partners in the corporation's prosperity."

Subsequent to the 1918 plan, other cooperative plans have been adopted from time to time. During the period from January 1, 1927, to December 31, 1937, four general plans were operated. These were:

1. Management plan.
2. Employee bonus.
3. Employees savings and investment plan.
4. Group-insurance plan.

Under the management and employees bonus plan adopted in 1918, the amount which may be distributed each year was determined by taking 10 percent of the net earnings of the corporation after deducting from the net earnings an amount equal to 6 percent of the capital employed. The amount distributed as bonuses in any one year was not to exceed the amount paid out as dividends in that year.

Effective for the year 1922, the 1918 plan was superseded by a new plan. The new plan provided for the establishment of a bonus fund which was credited with an amount not in excess of 10 percent of the net earnings of the corporation after deducting 7 percent of the capital employed but not in excess of the amount of dividends paid during the year.

Originally the funds were invested in General Motors Corporation common stock and the shares were awarded by the finance committee. In 1923 the Managers Securities Co. was organized and succeeded by General Motors Management Corporation as of January 1, 1930. Since 1923, one-half of 10 percent of net profits was set aside for the employee bonus and one-half paid to or credited to the Managers Securities Co. and the Management Corporation. From 1930 to 1933, inclusive, the employee bonus fund was invested in class A stock of the Management Corporation, and the stock so acquired was distributed to the employees. Beginning with the year 1933 the subscription to the class A stock of the Management Corporation was discontinued, and the funds available for employee bonus were distributed in the form of General Motors common stock.

The General Motors Management Corporation completed its contemplated objective on March 15, 1937, and payments to it were terminated by limitation on December 31, 1936. For the year 1937 and thereafter, or until terminated, the entire bonus-fund provision will be distributed in accordance with the employee-bonus plan and in the General Motors common stock.

Management bonus.—Under date of November 26, 1923, the stockholders of General Motors approved a plan of management bonus to be operated through a contract with Managers Securities Co., organized for this purpose. The contractual relations between the Securities Co. and General Motors Corporation terminated at the end of the year 1930.

The Management Plan of 1923, provided that the corporation would sell to the Securities Corporation 2,250,000 shares of its common stock. The annual report of 1923 states:

> The corporation had to call upon E. I. du Pont de Nemours & Co., under its agreement, to supply the equivalent of practically all of the 2,250,000 shares of common stock of General Motors Corporation required.

By the terms of the contract previously referred to, General Motors Corporation agreed to pay to Managers Securities Co. an amount equal to one-half of 10 percent of its net profits after deducting 7 percent on the capital employed.

The plan was continued in 1930, through the organization of the General Motors Management Corporation and the purchase from General Motors of 1,375,000 shares of its common stock at $40 per share. The latter price represented the approximate market price at time of sale. The corporation had acquired this stock in the open market at an average price of $33 per share. In selling this stock to the Management Corporation at $40 per share a profit of $9,482,860 was recorded.

The total purchase price of the 1,375,000 shares was $55,000,000 and paid for by cash in the amount of $5,000,000 and by Management Corporation 7-year 6-percent serial bonds in the amount of $50,000,000. The same arrangement for payments by the corporation applied as described with regard to the first contract plan.

The Management Corporation issued 50,000 shares of common stock, of which 38,880 shares were subscribed to by approximately 250 General Motors executives. The balance of the Management Corporation common stock was subscribed for by General Motors as additional participation if and when needed. The income paid to the Management Corporation under the contract, after making provision for income taxes, accrued exclusively to the benefit of the common stock. The income was capitalized and paid to the common-stock holders as a dividend in class B stock, and there was allocated to the class B stock as many shares of General Motors common stock at the price specified by the directors, so that each share of the class B stock outstanding had allocated to it a share of General Motors common stock.

Certain changes in the plan were authorized by the directors and approved by the stockholders on September 27, 1934. Originally the plan provided for payment of interest on the bonds at the rate of 6 percent per annum. The plan as modified: (1) For a retroactive adjustment of the interest rate from 6 to 5 percent from the inception of the plan to March 15, 1934, with the provision that subsequent to that date, the interest rate was 6 percent cumulative but not in excess of the amount of dividends received by the Management Corporation on the General Motors common stock held against its remaining indebtedness; (2) for the retirement of indebtedness each year in the amount of contract earnings after deducting taxes applicable thereto; and (3) for the retirement of the outstanding indebtedness on March 15, 1937, either by the delivery of General Motors common stock at $40 per share or by payment of one-half of such indebtedness by delivery of General Motors common stock at $40 per share and by the concurrent payment of the balance in cash.

The 1930 management plan was terminated on March 15, 1937, and all indebtedness of the Management Corporation was liquidated over the period by the payment of $38,276,080 in cash and through the delivery of 293,098 shares of General Motors common. That all of the 1,375,000 shares were not paid for, was caused by the fact that that plan was in operation during the period that coincided with the world economic depression.

The main purpose of the management plan, as stated in the 1928 annual report, was—

> enabling the more important executives of the corporation to acquire a substantial interest in the corporation's common stock. It is essential in developing a personnel of the degree of ability required to cope with the corporation's tremendous operating and financial problems that the more important executives should be placed in a position from the standpoint of financial reward comparable to what they would occupy were they conducting a business on their own individual account. In no other way, it is believed, can the corporation attract to its organization the type of executive absolutely essential to its continued success.

The management plans contained provisions for flexibility in participations through an annual review of the General Motors Management stock holdings by the finance committee of General Motors Corporation. Reductions in the allotments of the Management stock could be made, because each of the common-stock holders granted to General Motors Corporation an irrevocable option to purchase all or any part of the common or class B holdings, up to April 1, 1936, upon notice given between February 1 and April 1, in any year, at the net asset value thereof as shown on the books of the Management Corporation as of March 31, in said year.

Employee bonus plans.—The General Motors bonus plan was established in 1918. At the beginning of the plan, all salaried employees of the corporation who had been with the corporation for the full year were eligible to participate. Subsequently, the eligibility was confined to those receiving $5,000 a year or more. This limitation was later reduced to $4,200 a year. Beginning with the 1936 bonus distribution, the salary requirement was reduced and the group eligible for bonus consideration now consists of all those who receive salaries at the rate of $2,400 a year or more.

Bonus awards are made by the bonus and salary committee of the board of directors and are based on recommendations made by the chairman of the board. The actions of the bonus and salary committee are submitted to the board of directors for review and final approval. Awards to employees receiving less than $4,200 are delivered in total. The bonus beneficiaries receiving salaries at the rate of $4,200 or more, one-fourth of the award is delivered immediately after notification and the balance in three equal annual installments, provided the beneficiary remains in the service of the corporation. If the beneficiary leaves the service of the corporation of his own free will or is dismissed because of unsatisfactory service, the balance of the award unpaid then reverts to the bonus fund. Should a beneficiary be dismissed from the service of the corporation for no fault of his own, he may continue a beneficiary under the bonus plan with regard to unmatured bonus awards to such an extent as the executive committee may determine.

As previously stated all salaried employees earning more than a certain salary were eligible for the bonus. The fact that an executive participated in the Management Corporation bonus did not prevent him from sharing in the employee bonus plan. The rights of every executive eligible under the bonus plan were maintained whether or not they participate in the General Motors Management Corporation. During 1936 there were 135 members of the bonus group who participated in the bonus fund through the management plan who also received additional supplementary compensation in the form of bonus awards.

The chairman of the board did not participate in the 1937 bonus distribution.

The payments made by the corporation to the bonus and management funds, together with the number of salaried employees participating, from the inception of the plans to and including the year 1937 are summarized in the next tabulation.

TABLE 42.—*General Motors Corporation—Bonus and number of salaried employees participating, 1918–37*

Year	Bonus plan		Management plan		Total provision
	Number of awards	Amount	Number participating	Amount	
1918	2,279	$3,335,000			$3,335,000
1919	6,453	8,025,940			8,025,940
1920	6,578	1,488,558			1,488,558
1921 [1]					
1922	550	1,341,997			1,341,997
1923	647	1,962,591	73	$1,820,023	3,782,614
1924	676	779,800	79	1,146,005	1,925,805
1925	947	3,969,227	79	4,633,535	8,602,762
1926	1,514	8,522,322	79	8,025,876	16,548,198
1927	2,007	11,568,343	76	9,407,800	20,976,143
1928	2,504	13,910,034	72	10,907,155	24,817,189
1929	2,839	12,640,749	64	7,722,922	20,363,671
1930	1,933	4,492,091	249	5,378,467	9,870,558
1931	1,377	2,450,993	246	1,514,695	3,965,688
1932 [1]					
1933	1,234	1,720,953	232	1,015,058	2,736,011
1934	1,563	2,740,833	195	1,234,622	3,975,455
1935	2,391	7,957,343	188	3,764,443	11,721,786
1936	9,588	10,132,618	175	5,574,432	15,707,050
1937	10,191	9,182,571			9,182,571
Total		106,221,963		62,145,033	168,366,996

[1] No earnings available for bonus.

Annual pay rolls and number of employees.—The number of employees of the corporation during each of the years from 1917 to and including 1937, and the annual total pay rolls is presented by the next tabulation. The pay rolls for 1921 and subsequent years include salaries and wages. Neither the number of employees nor the pay rolls include certain subsidiary companies such as Adam Opel A. G., Vauxhall Motors, Ltd., Yellow Truck & Coach Co., and Fisher Body Corporation, prior to acquisition of the minority interest as of June 30, 1926.

The appreciation-fund distribution included in the pay rolls for 1935 and 1936 represented a special bonus paid to those employees who did not participate in the other bonus and management plans. The 1935 fund was distributed to those who were in the employ of the corporation on July 1, 1935, and who had been on the pay roll for 1 year and earning less than $4,200 per annum. Each employee received a flat sum of $25. The 1936 fund carried similar provisions except the awards were graduated according to the rates of earnings. The basis of award follows:

Hourly wage employees	Salary employees	Amount of award
Less than 60 cents per hour	Less than $24 per week	$35
60 cents to 69 cents per hour	$24 to $27.99 per week	40
70 to 79 cents per hour	$28 to $31.99 per week	45
80 to 89 cents per hour	$32 to $35.99 per week	50
90 to 99 cents per hour	$36 to $39.99 per week	55
$1 and more per hour	$40 and more per week	60

In the case of employees paid upon the basis of piece work, group piece work, or group bonus, the hourly earnings projected by the time study will apply.

General Motors Corporation—Summary of number of employees and annual pay rolls

Year	Number of employees	Total annual pay roll	Yearly average per employee	Year	Number of employees	Total annual pay roll	Yearly average per employee
1918	49,118	$52,500,000	$1,069	1928	208,981	$365,352,304	$1,748
1919	85,980	104,380,000	1,214	1929	233,286	389,517,783	1,670
1920	[1] 80,612	(2)	----------	1930	172,938	279,410,144	1,616
1921	45,965	66,020,481	1,436	1931	157,586	236,520,474	1,368
1922	65,345	95,128,435	1,456	1932	116,152	143,255,070	1,233
1923	91,265	138,290,734	1,515	1933	137,764	171,184,315	1,243
1924	73,642	110,478,000	1,500	1934	191,157	263,204,225	1,377
1925	83,278	136,747,178	1,642	1935	211,712	[4] 327,677,624	1,548
1926	[3] 129,538	220,918,568	1,705	1936	230,572	[4] 384,153,022	1,666
1927	175,666	302,904,988	1,724	1937	261,977	460,451,744	1,758

[1] Beginning with 1920 figures in this column are averages for the year.
[2] Not available.
[3] Average for 1926 does not include Fisher Body prior to June 30.
[4] Includes appreciation fund distributions of $4,647,025 in 1935 and $9,165,554 in 1936.

Employees savings and investment plan.—This plan inaugurated in 1919 and suspended as of December 31, 1935. The annual report for 1936 states that the plan was discontinued "because of uncertainty concerning legal rqeuirements under the Social Security Act and the Securities Act of 1933." No class was formed in 1936, but the rights of employees with respect to payments which had been made by them into the savings fund prior to January 1, 1936, were in no way affected by the discontinuance.

Originally the plan provided that any of the employees were permitted to deposit a certain percent of their wages not to exceed $300 in any one year. Beginning with 1933 the plan was amended to allow only those employees receiving less than $4,500 to deposit. The minimum salary for employees eligible to deposit was reduced to $4,200 for the year 1935. To every dollar deposited, the corporation added a contribution through the investment fund. The corporation allowed interest on the employees' deposits. The total of the deposits, interest, and contribution were paid to the employees at the end of each 5-year plan.

Under the 1919, 1920, and 1921 plan the corporation guaranteed to the employees depositing in the savings fund an amount equal to 100 percent of the employees' deposits. During that time forfeitures on account of withdrawals did not revert to the corporation but remained in the investment fund. Beginning with the 1922 class and up to and including the class of 1930, the plan provided that forfeitures in the investment fund reverted to the corporation and it guaranteed that the investment fund at maturity should equal an amount equivalent to 50 percent of saving-fund deposits. Starting with the class of 1931 the guaranty was withdrawn. However, the reversion to the corporation on account of withdrawals remained in effect. An exception was made to the forfeiture in that the employees' savings could be applied to the purchase or building of homes without losing any benefits of plan.

The various changes in the plans are outlined hereafter.

Date of changes	Percent of salary which could be deposited	Contribution by corporation to investment fund (percent of employees' deposit)	Rate of semiannual interest paid on the deposit
1919	10	100	6
1922		50	
1926	20		
1930	(1)	(1)	(1)
1932	(2)	(2)	(2)
1933 [3]	10	25	5
1934		35	
1935	(4)	(4)	(4)

[1] Guaranty withdrawn.
[2] Operations of plan suspended.
[3] Operations of plan resumed.
[4] Operations of plan again suspended.

Group-insurance plan.—A plan to provide the employees of the corporation with life insurance was inaugurated in 1926 and amended in 1928 to include accident and health insurance. The group-insurance plan is available to all employees of the corporation after 3 months' service. The plan is cooperative, the direct cost being shared equally by the corporation and the employees, but the corporation bears the entire expense of administering the plan. In March 1937 disability benefits were increased 40 percent with no additional cost to the employees, the entire additional cost being borne by the corporation. At the end of 1937 over 99 percent of the employees were participating.

Officers' compensation.—The compensation paid to General Motors executives consists of a fixed salary and a plan of participation in the profits of the business. Based on the 7-year period, from 1930 through 1936, the maximum and minimum annual salary, profit participation and total compensation of each of the three highest-paid officers are now presented.

The highest-paid executive received a maximum salary of $150,000 per year, and a minimum of $112,500. The participation in profits by this officer was a maximum of $411,161 in 1936, and in 1932 the earnings did not permit of a profit participation. The second-highest-paid executive received a maximum sum of $120,000, and a minimum salary of $76,666. The maximum participation, by this officer, in profits was $387,450 in 1936, and profits did not permit of a participation in 1932. The third-highest-paid executive received a maximum salary of $120,000, and a minimum of $90,000. This officer's maximum participation in profits amounted to $258,615 in 1936, and profits in 1932 did not permit of a participation. After 1936, the chairman of the board was, at his own request, excluded from further participation in the profits.

The next tabulation shows the number of executives in various salary groups, receiving salaries of $10,000 or more per annum, as of December 31, 9137:

Amount of salary	Number of executives
$100,000 and over (none over $200,000)	7
$75,000 to $99,999	9
$50,000 to $74,999	7
$30,000 to $49,999	13
$20,000 to $29,999	47
$10,000 to $19,999	263
Total	346

The number of executives receiving a profit participation of $10,000 or more, in 1937 (distributable in the form of General Motors common stock, at a cost to the corporation of $34.61 per share) is shown by the next tabulation.

Amount of profit participation	Number of executives
$100,000 and over (none over $167,000)	6
$75,000 to $99,999	7
$50,000 to $74,999	7
$30,000 to $49,999	13
$20,000 to $29,999	19
$10,000 to $19,999	64
Total	116

CHAPTER XIII. CHRYSLER CORPORATION

SECTION 1. HISTORY OF ORGANIZATION AND DESCRIPTION OF ORGANIZATION IN EFFECT AS OF DECEMBER 31, 1937

Introduction.—In August 1920 Walter P. Chrysler was requested by a banking group to undertake a reorganization of the bankrupt Maxwell Motor Co., Inc. At that time Maxwell Motor Co., Inc., had debts of $25,000,000, an inventory of 26,000 unsold new cars, a lease on the properties of the Chalmers Motor Corporation, and a disrupted dealer organization of some 50 discouraged distributors.

A reorganization committee of Maxwell Motor Co., Inc., was formed and the committee purchased the manufacturing facilities of the Maxwell Co. at public auction and reorganized the business through a successor corporation named Maxwell Motor Corporation, organized in 1921. Walter P. Chrysler was elected chairman of the board of the new corporation. The new corporation assumed the obligations of its predecessor and the bankers, although heavily involved financially, agreed to make available additional funds in the sum of $15,000,000.

The new corporation was successful under the new management and Maxwell Motor Corporation reported earnings of $831,662 in 1922, $2,677,853 in 1923, and $4,115,540 in 1924. In 1923 Walter P. Chrysler was made president as well as chairman of the board.

During the preceding specified years the Maxwell plants were modernized and new equipment was installed. The notes payable were converted into term notes, the corporation's debts were paid, inventories were liquidated, and cash reserves of some $5,000,000 were accumulated. In August 1923 the properties of Chalmers Motor Corporation, previously held under lease, were acquired by outright purchase.

During the year 1922 the successor corporation sold 50,000 Maxwell cars and 6,052 Chalmers cars. The following year it sold 59,733 Maxwell cars, and 9,323 Chalmers cars. During this period Walter P. Chrysler was assisting in the development of a high-compression motor, with a view to introducing a new car which would provide the users with improved motor vehicles.

During the development period of the high-compression motor, Chrysler first met Fred M. Zeder, Owen Skelton, and Carl Breer. Zeder was a graduate of the University of Michigan and was employed at one time by the Studebaker Corporation. Breer was a graduate of Leland Stanford Junior University and had served an apprenticeship with Allis-Chalmers. Skelton was a graduate of the engineering school of Ohio State University, and had been employed by Packard in the designing rooms where he was known as a talented expert on transmissions and axles.

Previous to his connection with Maxwell Corporation, Walter P. Chrysler had managed the Willys-Overland Co. for the bankers and had brought these three engineers into the Willys organization and commissioned them to design a new type of motor and automobile. They were assigned to a part of the Elizabeth, N. J., plant then owned by the Willys-Overland Co. Later this plant was sold to William C. Durant and with it he received the blue prints and the design of the car that Zeder, Skelton, and Breer had been working on. This car was put on the market by Durant and named the Flint. Subsequently, Zeder, Skelton, and Breer, together with Chrysler, started work on a new type of high-compression motor that Zeder had in mind and had been working on independently. Shortly thereafter the three engineers were taken into the Maxwell organization and established in the old Chalmers plant at Detroit, where they could continue with their experiments with Zeder's high-compression engine.

By 1924 the development of this new motor had reached the point that Chrysler was ready to bring out a car of entirely new design and under his own name. With the advent of the new car, the production of Chalmers cars was discontinued.

The first Chrysler car was of a 6-cylinder design and was introduced at a price of $1,565, f. o. b. Detroit, for the sedan model. In 1924 the Maxwell Corporation sold 31,745 Chrysler cars in addition to 51,324 Maxwell cars. The manufacture of Maxwell cars was discontinued in 1925, and a new 4-cylinder car was added to the Chrysler line to take the place of the Maxwell car in that price field. At the time the Chrysler car was introduced, there were approximately 100 car manufacturers, and it is a generally accepted fact that competition among them was most keen. A large proportion of the manufacturers in business during 1925 subsequently discontinued operations, for one reason or another, until there remained but 11 manufacturers of passenger cars in 1937, and Chrysler was second in number of units sold.

An interesting event occurred when the time arrived to display the new Chrysler models. The American Automobile Chamber of Commerce allotted space at the New York show in which to display the 1924 models of the Maxwell cars, but it rules forbade allotment of space to models of cars which had not been produced and sold. The Chrysler car was therefore barred from the New York Automobile Show of 1924. To overcome this situation, Chrysler and his associates rented the lobby of the Hotel Commodore and displayed their cars there rather than at the New York Show.

During the 13 years of its operations Chrysler Corporation has built and sold approximately 5,935,000 cars and trucks. In 1925 it sold but 3.16 percent of all motor vehicles produced in the United States, while in 1937 it sold 23.16 percent of the total.

The yearly number of units follows:

	Units		*Units*
1925	134, 478	1933	438, 236
1926	135, 494	1934	581, 161
1927	182, 627	1935	820, 553
1928	340, 061	1936	1, 032, 915
1929	422, 242	1937	1, 113, 900
1930	254, 531		
1931	261, 898	Total	5, 933, 776
1932	215, 680		

Organization of Chrysler Corporation.—The Chrysler Corporation was incorporated under the laws of the State of Delaware on June 6, 1925. Its charter is perpetual and provided for the acquisition of all the properties and assets of the Maxwell Motor Corporation through an exchange of stock pursuant to a plan and agreement dated April 15, 1925. The decision to reorganize followed soon after the successful introduction of the Chrysler cars.

The Maxwell Motor Corporation was incorporated in West Virginia on May 7, 1921, for the purpose of accomplishing a reorganization of Maxwell Motor Co., Inc., and Chalmers Motor Corporation under a plan dated September 1, 1920. When acquiring the assets of the Maxwell Motor Co., Inc., the corporation secured all right, title, and interest in Maxwell Motor Sales Corporation, Briscoe Manufacturing Co., Newcastle Realty Co., and Maxwell Motor Co. of Canada, Ltd.

The Maxwell Motor Corporation held a lease on the plant and facilities of the Chalmers Motor Corporation. The property of the latter was mortgaged to the noteholders. By the terms of a plan of readjustment dated August 31, 1922, all of the property of Chalmers, both mortgaged and unmortgaged, including a claim of Chalmers against Maxwell Motor Corporation, was sold to Maxwell in consideration for stock and cash as follows: An exchange of 10 shares of Maxwell class-A stock ($100 par per share), 10 shares of class-B stock (no par value), and $60 in cash for each $1,000 principal amount of Chalmers Motor Corporation notes deposited with the noteholders' committee. The acquisition was completed on December 7, 1922, at a stated cost of $1,987,600, consisting of stocks and cash.

As of June 1, 1928, Chrysler Corporation secured additional production and distribution facilities through purchasing the properties and assets of Dodge Brothers, Inc.

In 1928 Clarence Dillon of Dillon, Read & Co., approached Walter P. Chrysler with the suggestion that Chrysler Corporation acquire the business and assets of Dodge Brothers, Inc. The latter corporation was organized as of April 8, 1925, under the sponsorship of Dillon, Read & Co., to acquire and hold the business and assets of the partnership formerly operated by John and Horace Dodge, then deceased.

The business of the Dodge Co. had reached a peak in 1926, after which it experienced a severe decline in the face of markets which showed no comparable decline in selling opportunity. The Dodge percentage of national passenger-car production declined from 6.71 percent in 1926 to 4.76 percent in 1927 and 4.45 percent in 1928. Dodge production of commercial cars, trucks, and busses similarly declined in relation to national production. The Dodge output of cars, trucks, and busses fell from 12.62 percent of the total national production in 1926 to 9.10 percent in 1928. Following acquisition by Chrysler Corporation, the demand for Dodge cars was stimulated to the extent that the peak production of 331,764 units in 1926, which had declined to 83,121 units in 1928, was exceeded by 4,827 units in 1936, or a total of 336,591.

Officers and directors.—There follows a list of the names of the officers and directors of Chrysler Corporation, as of December 31, 1926, and as of December 31, 1937.

OFFICERS AND DIRECTORS OF CHRYSLER CORPORATION

AS OF DECEMBER 31, 1926

Board of directors:
- W. P. Chrysler, chairman of board.
- J. S. Bache.
- J. C. Brady.
- Harry Bronner.
- Hugh Chalmers.
- Delos W. Cooke.
- Allen F. Edwards.
- B. E. Hutchinson.
- W. F. Kenny.
- D. R. McLain.
- Giles W. Mead.
- W. Ledyard Mitchell.
- Mercer P. Moseley.
- Henry Sanderson.
- E. R. Tinker.

Officers:
- W. P. Chrysler, president and chairman of board.
- W. Ledyard Mitchell, vice president and general manager.
- B. E. Hutchinson, vice president and treasurer.
- J. E. Fields, vice president.
- F. M. Zeder, vice president.
- K. T. Keller, vice president.
- F. A. Morrison, secretary.
- H. A. Davies, assistant treasurer.
- L. A. Moehring, assistant comptroller.
- J. C. Holmes, assistant comptroller.

AS OF DECEMBER 31, 1937

Board of directors:
- W. P. Chrysler, chairman of board.
- F. M. Zeder, vice chairman of board.
- J. S. Bache.
- J. C. Brady.
- Carl Breer.
- Harry Bronner.
- Waddill Catchings.
- W. P. Chrysler, Jr.
- George W. Davison.
- Allen F. Edwards.
- J. E. Fields.
- Byron C. Foy.
- John A. Hartford.
- B. E. Hutchinson.
- K. T. Keller.
- Nicholas Kelley.
- W. Ledyard Mitchell.
- O. R. Skelton.
- Matthew S. Sloan.
- Harold E. Talbott, Jr.
- Juan T. Trippe.

Officers:
- W. P. Chrysler, chairman.
- K. T. Keller, president.
- J. S. Bache, vice president.
- J. E. Fields, vice president.
- Byron C. Foy, vice president.
- B. E. Hutchinson, vice president.
- Nicholas Kelley, vice president.
- W. Ledyard Mitchell, vice president.
- W. L. Weckler, vice president.
- F. M. Zeder, vice president.
- H. A. Davies, treasurer.
- L. A. Moehring, comptroller.
- R. P. Fohey, secretary.
- D. J. Hutchinson, assistant treasurer.
- B. T. Moyer, assistant comptroller
- G. W. Troost, assistant comptroller.
- R. B. Pomeroy, assistant secretary.

Principal stockholders.—At the close of 1937, the common stock of Chrysler Corporation outstanding, amounting to 4,351,132 shares, was held by 42,660 stockholders. The five largest holders of record together with the number of shares held, were:

Name	Shares	Percent
Chrysler Management Trust	150,000	3.45
Walter P. Chrysler	109,122	2.51
Wenonah Development Co. of Canada, Ltd	85,501	1.96
Brady Securities & Realty Corporation	26,494	.61
Fisher & Co., Inc., Detroit, Mich	25,000	.57
Total	396,117	9.10

The Chrysler Management Trust, as stated by the board of directors' minutes, was formed for the purpose of interesting the officers, executives, and employees, charged with the responsibility of carrying on and building up the business of Chrysler Corporation, as partners with the stockholders and sharing profits with them.

Fisher & Co., Inc., is a Michigan corporation chartered March 2, 1925, to hold and manage the joint investments and interests of the Fisher brothers. The Fisher brothers have been, for a long period, prominent in General Motors Corporation, and as of December 31, 1937, Lawrence P. Fisher and William A. Fisher were vice presidents and directors of General Motors Corporation.

Corporate structure as of 1937.—The Chrysler Corporation, directly or through subsidiaries, owned the entire capital stock of the following companies on December 31, 1937.

SUBSIDIARY COMPANIES OF CHRYSLER CORPORATION

Wholesale and retail branches, domestic: Chrysler Philadelphia Co., Philadelphia, Pa.; Chrysler Illinois Co., Chicago, Ill.; Chrysler Detroit Co., Detroit, Mich.; Chrysler Kansas City Co., Kansas City, Mo.; Chrysler Pittsburgh Co., Inc., Pittsburgh, Pa.; Chrysler New York Co., Inc., New York, N. Y.; Dodge Motors New York, Inc., New York, N. Y.; DeSoto New York Co., Inc., New York, N. Y.

Chrysler Corporation owns 100 percent of the capital stock of the above companies, organized primarily to wholesale automobiles. The operations of some of them have been extended to retailing automobiles, selling of parts wholesale and retail, and maintaining and operating automobile repair facilities. In general they operate as distributors or dealers similar to independent distributors or dealers.

Selling companies: Amplex Manufacturing Co., Detroit, Mich.; Chrysler Sales Corporation, Detroit, Mich.; DeSoto Motor Corporation, Detroit, Mich.; Dodge Brothers Corporation, Detroit, Mich.; Plymouth Motor Corporation, Detroit, Mich.; Chrysler Export Corporation, Detroit, Mich.; Chrysler Marine Engine Corporation, Detroit, Mich.

Chrysler Corporation owns 100 percent of the capital stock of the above companies whose chief activity is the development of territory, sale of cars, etc., and the conducting of all activities in the various States and countries which constitute doing business in that State.

Foreign branches: Chrysler Corporation of Canada, Ltd., Windsor, Ontario; Chrysler Corporation of Canada (Sales) Ltd., Windsor, Ontario; Societe Anonyme Chrysler, Antwerp, Belgium; Chrysler Motors, Ltd., London, England; Dodge Brothers (Britain) Ltd., London, England.

Chrysler Corporation owns 100 percent of the capital stock of the above companies whose chief functions are to assemble or manufacture, sell and distribute cars, trucks, parts, etc., outside continental United States.

MISCELLANEOUS OTHER SUBSIDIARIES

Chrysler Motors of California, Los Angeles, Calif.: Owned by Chrysler Corporation and organized to assemble and sell cars and trucks as directed by Chrysler Corporation.

The Pekin Wood Products Co., Helena, Ark.: Owned 100 percent by Chrysler Corporation and functions chiefly in the manufacture of wood parts for cars and trucks and wood boxes.

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Fargo Motor Corporation, Detroit, Mich.: Owned 100 percent by Chrysler Corporation. Chief activity the sale of cars, trucks, etc., to large fleet operators, the Federal Government, the various States and municipalities.

Chrysler Motors Parts Corporation, Detroit, Mich.: Owned 100 percent by Chrysler Corporation and organized to sell parts and maintain inventories of accessories to the various distributors and dealers of Chrysler Corporation through the various depots located at points chosen by Chrysler.

Newcastle Realty Co., Newcastle, Ind.: Owned 100 percent by Chrysler Corporation. Chief activity is sale of lots and houses to Corporation employees at Newcastle, Ind.

Zap Development Co., New York City: Owned 100 percent by Chrysler Corporation and chiefly concerned in special engineering development work.

Hamtramck Plumbing & Heating Co., Detroit, Mich.: Owned 100 percent by Chrysler Corporation. Chief activity purchasing of plumbing supplies.

Airtemp New York Co., Inc., New York City.

Airtemp Inc., Dayton, Ohio.

Airtemp Sales Corporation, Dayton, Ohio.

Airtemp Construction Corporation, Dayton, Ohio: Owned 100 percent by Chrysler Corporation, and organized to manufacture, sell, distribute, install, etc., the various items of heating and cooling equipment.

Products and plants.—The Chrysler Corporation and its subsidiaries are principally engaged in the manufacture and sale of motor vehicles and parts.

The trade names of its lines of motor vehicles are Chrysler, De Soto, Dodge, and Plymouth. Chrysler and De Soto cars are made only in passenger models; Dodge cars are made in passenger, truck, and commercial models; and Plymouth cars in passenger and commercial models. In addition to its lines of cars the corporation and its subsidiaries engage in the manufacture and sale of marine and industrial engines and air-conditioning equipment.

As of December 31, 1938, the corporation and subsidiaries operated 19 plants in the United States, 2 in Canada, and 3 in Europe. The locations and descriptions of the plants follow and the listing is intended to indicate the order in which the producing properties of Chrysler Corporation in the United States and Canada were acquired and brought into production, together with a few brief facts regarding the plants as they have been developed.

Highland Park plant, Highland Park, Mich.—This plant, originally acquired from Maxwell in 1925, includes 67 acres of land with floor area of 1,865,849 square feet. The plant originally functioned as a car-manufacturing plant but changed to service and parts manufacturing. Numerous buildings have been added to this plant since the original acquisition and it now includes the engineering building, administration building, and buildings which house the facilities for packing and shipping for export.

Newcastle plant, Newcastle, Ind.—This plant was acquired from Maxwell in 1925, and covers 65 acres of land with building floor space of 613,491 square feet. Since acquisition, the plant has been completely renovated and now manufactures front axles, forgings, steering gears, free wheeling units, and shock absorbers.

Chrysler plant, Detroit, Mich.—This is the former Chalmers plant and was acquired from Maxwell in 1925. This plant is used for the manufacture of Chrysler cars, Chrysler marine engines, De Soto engines, and 1½- and 2-ton truck engines.

Dayton plant, Dayton, Ohio.—Originally two Dayton plants were acquired from Maxwell in 1925. One of these plants was sold. The North Dayton plant after standing idle for some years, has been completely rebuilt and now manufactures Airtemp air-conditioning equipment. It covers 23 acres of land with buildings covering 213,136 square feet.

Arkansas plant, Helena, Ark.—This plant includes 34 acres of land with buildings of 162,247 square feet of floor area. It was acquired from Maxwell and its operations consist of woodworking mills.

The Windsor plant, Windsor, Ontario.—The Windsor plant consists of two plants designated as Nos. 1 and 2. No. 1 plant was acquired from Maxwell in 1925 and now assembles trucks for Canadian requirements and the offices of the Canadian subsidiary are located in this plant. In 1927 the No. 2 plant was built and now assembles Plymouth, Dodge, De Soto, and Chrysler cars for the Canadian subsidiary. The plant covers 87 acres of land with buildings having a floor area of 732,969 square feet.

Kercheval Plant, Detroit, Mich.—This plant was purchased from the American Body Co. in 1925, and covers 23 acres of land with buildings having 879,861 square feet of floor area. Its operations now consist of building bodies for Chrysler and De Soto cars and some bodies for Plymouth cars. It has a capacity of from 1,100 to 1,200 bodies per day.

Dodge main plant, Hamtramck, Mich.—This plant was acquired from Dodge Bros., Inc., covers 58 acres of land with a floor area of 4,586,574 square feet. Dodge passenger cars are manufactured in this plant and many of the assemblies and subassemblies used in the other Chrysler Corporation cars.

Dodge truck plant, Detroit, Mich.—This plant is also known as the Lynch Road plant and was acquired from Dodge Bros. in 1928. It covers 46 acres of land and has buildings with floor area of 617,845 square feet. This plant engages in the manufacture of truck bodies and the assembly of Dodge trucks.

Dodge forge plant, Detroit, Mich.—This plant was acquired from Dodge Bros. and covers 27 acres of land with buildings having a floor area of 283,859 square feet. The plant houses the manufacture of forgings of various Chrysler Corporation products.

Plymouth plant, Detroit, Mich.—The land on which the Plymouth plant now stands was acquired from Dodge Bros. The Plymouth plant started in 1928 on 78 acres of land consists of buildings with a floor area of 1,118,500 square feet. The plant was originally tooled up for making 1,000 Plymouths per day including the machining of motors. It was also built to make 200 De Sotos per day and 300 to 400 trucks. Under expanding demand for Plymouth production, the De Soto assembly line and the truck chassis were removed from this plant in 1932. In 1937 the capacity was again expanded to 2,800 motors per day and a maximum of 2,000 cars per day can now be assembled in the plant. Plymouth cars are also assembled in Los Angeles, Calif., and Evansville, Ind.

Harper plant, Detroit, Mich.—This plant was acquired from Dodge Bros. and covers 5 acres of land with buildings having a floor area of 150,060 square feet. This property is now entirely used for the manufacture of Oilite self-lubricating bushings.

Los Angeles plant, Los Angeles, Calif.—This plant was designed and built for Chrysler Corporation and contains the assembly of Plymouth cars and Dodge trucks for Pacific coast business. The plant is situated on a tract of land covering 27 acres with buildings having a floor area of 383,774 square feet.

Evansville plant, Evansville, Ind.—This plant was acquired from Dodge Bros. and is situated on a tract of land covering 46 acres with buildings having a floor area of 4,981 square feet. For a few years after acquisition it remained idle but in 1935 it was enlarged and expanded and now used for the assembly of Plymouth cars.

Conant Plant, Detroit, Mich.—This plant was acquired in the Dodge purchase. It is situated on a tract of land covering 5 acres with buildings having a floor area of 200,835 square feet. It is now used for storage purposes by the Dodge main plant.

De Soto plant, Detroit, Mich.—This plant was purchased from General Motors Corporation in 1934 and was situated on a tract of land covering 38 acres with buildings having a floor area of 720,596 square feet. Plant now houses the assembly of De Soto cars and engages in the manufacture of stampings for Plymouth, Chrysler, and De Soto cars.

Marysville plant, Marysville, Mich.—This plant was purchased in 1935 from Wills St. Clair, Inc., and is situated on a tract of land covering 134 acres and has buildings with a floor area of 957,371 square feet. This plant houses the service departments stock of replacement parts.

Kokomo plant, Kokomo, Ind.—This plant formerly a Haynes automobile property, was purchased in 1937 and is situated on a tract of land covering 7.43 acres with buildings having a floor area of 285,728 square feet. After acquisition, this plant was entirely remodeled and equipped for the manufacture of transmissions. It has a capacity of 1,000 transmissions per day.

McKinstry plant, Detroit, Mich.—This plant was purchased in 1937 from Graham-Paige, and is situated on a tract of land covering 3.48 acres with buildings having a floor area of 238,848 square feet. It is now used for car parts storage.

Mound Road plant, Macomb County, Mich.—This plant was constructed during 1938 on a tract of land covering 134 acres with buildings having a floor area of 679,453 square feet. This plant was equipped and designed to build Dodge trucks of all sizes from ½ to 3 tons.

Operating and sales organization.—From the foregoing description of the Chrysler Corporation plants it will be observed that the various plants are not self-contained units, building and assembling a single car, but instead the various plants make and assemble subassemblies and parts for the various lines of cars. Likewise the subsidiary corporations are not independent operating units in the manufacture and sale of motor vehicles. For example, the Chrysler Corporation owns and operates all plants, buys all materials, and enters into all dealer agreements.

Subsidiaries such as Chrysler Sales Corporation, Dodge Bros. Corporation, Plymouth Motor Corporation, De Sotó Motor Corporation, etc., do not manufacture motor vehicles. Their chief activity is the development of sales territory and promotion of sales. They do not sell cars, take title to cars, or collect for car sales, except refused shipments, but exist largely to facilitate marketing operations. For example, Dodge Bros. Corporation was organized after acquiring the Dodge properties. It has a capitalization of $10,000 and a license to do business in all States, and its primary operations consist of assisting Chrysler Corporation in the promotion of sales of Dodge and Plymouth cars. Chrysler Corporation, therefore, is essentially a manufacturing company. It does, however, enter into agreements with retail dealers, accepts orders and payments for shipments, but its contacts with dealers and distributors are made through the subsidiary selling companies.

Retail dealer outlets.—The Chrysler Corporation's lines of cars were distributed through the number of direct and associate dealers during 1937, as shown hereafter:

Type	Dodge-Plymouth	De Soto-Plymouth	Chrysler-Plymouth	Total
Direct dealers	1,583	761	451	2,795
Associate dealers	3,664	2,467	3,787	9,918
Total	5,247	3,228	4,238	12,713

Comparative history of sales, profits, dividends, earnings reinvested, and surplus balances.—Table 43 presents the consolidated sales, profits, cash dividends paid, and earnings reinvested in the business by the Chrysler Corporation from its beginning as of January 1, 1925, to December 31, 1937. As indicated by this statement, the sales volume of the corporation increased from $141,828,000 in 1925 to $774,472,677 in 1937. The net profit before provision for Federal and State income taxes in the first year of operations was $19,597,000 and amounted to $83,150,619 in 1936 and $72,038,602 in 1937. During the 13 years of its existence, the corporation's sales amounted to $4,263,955,150. From these sales, the corporation realized net profit amounting to $355,049,438 before provision for payment of Federal and State income taxes. The total earnings were disposed of by paying cash dividends on the common stock amounting to $174,273,429, by paying cash dividends on the preferred stock amounting to $6,238,341, by setting aside $53,831,494 for payment of income taxes, and other deductions from surplus amounted to $37,972,471. Thus the Chrysler Corporation has in effect during the first 13 years of its operations made net profits (after allowing for income and other taxes) of $301,217,943, distributed $180,511,770 in dividends, and reinvested more than $82,000,000 of profits in the business.

The other deductions from surplus just referred to included losses from sale of properties and securities, and distribution of profits to Walter P. Chrysler and other officers and executives of the corporation. The distribution of profits for the purposes designated are shown in subsequent discussions in this report.

TABLE 43.—*Summary of goods invoiced, profits, dividends, earnings reinvested, and surplus balance of Chrysler Corporation (Consolidated), 1925 to 1937, inclusive*

	Goods invoiced	Net profit before provision for income taxes	Provision for Federal and State income taxes	Net profit after taxes	Cash dividends, common stock
1925	$141,828,000	$19,597,000	$2,471,000	$17,126,000	----------
1926	168,887,000	17,643,309	2,194,722	15,448,587	$8,121,240
1927	173,726,545	25,437,988	3,263,090	22,174,898	8,131,595
1928	315,937,196	38,608,107	4,138,963	34,469,144	10,705,312
1929	375,178,522	28,725,786	2,438,021	26,287,765	13,335,764
1930	207,549,008	[1] 1,948,331	70,257	[1] 2,018,588	11,065,268
1931	183,289,479	3,308,326	118,414	3,189,912	4,412,240
1932	136,794,393	[1] 11,569,191	----------	[1] 11,569,191	4,390,243
1933	238,061,987	16,955,243	2,058,909	14,896,334	4,303,568
1934	362,631,079	11,718,067	1,847,023	9,871,044	5,432,235
1935	519,072,907	51,383,913	8,931,095	42,452,818	8,664,652
1936	666,526,357	83,150,619	14,000,000	69,150,619	52,190,692
1937	774,472,677	72,038,602	12,300,000	59,738,602	43,520,620
Total	4,263,955,150	355,049,438	53,831,494	301,217,943	174,273,429

	Cash dividends, preferred stock	Other deductions from surplus	Earnings reinvested in business	Surplus balance
Begin	----------	----------	----------	$6,782
1925	$1,750,000	$1,515,014	$13,860,986	13,867,768
1926	1,725,588	121,925	5,479,834	19,347,602
1927	1,720,758	2,689,425	9,633,120	28,980,722
1928	1,041,995	3,477,349	19,244,488	48,225,210
1929	----------	4,385,597	8,566,404	56,791,614
1930	----------	[2] 2,252,743	[3] 10,831,113	45,960,501
1931	----------	1,720,977	[3] 2,943,305	43,017,196
1932	----------	[2] 314,959	[3] 15,644,475	27,372,721
1933	----------	2,767,214	7,825,552	35,198,273
1934	----------	336,207	4,102,602	39,300,875
1935	----------	7,476,999	26,311,166	65,612,041
1936	----------	7,040,076	9,919,851	75,531,892
1937	----------	9,009,390	7,208,592	82,740,484
Total	6,238,341	37,972,471	82,733,702	82,740,484

[1] Loss.
[2] Additions to earnings.
[3] Reduction.

SECTION 2. ACQUISITION OF ASSETS OF MAXWELL MOTOR CORPORATION

Introduction.—Under date of April 15, 1925, Walter P. Chrysler, as president and chairman of the board of Maxwell Motor Corporation, addressed an open letter to the holders of class A and class B stock of Maxwell Motor Corporation. Accompanying the open letter there was a plan and agreement providing for the organization of a new company to be called Chrysler Corporation, or some other appropriate name. The term "Chrysler Corporation" as used was intended to mean the company which shall issue new stocks provided in the plan, acquire all of the properties and assets of Maxwell, and assume and pay all of the liabilities and obligations of Maxwell Motor Corporation.

The open letter addressed to the stockholders is quoted herewith:

APRIL 15, 1925.

To the Holders of Class A and Class B Stock of Maxwell Motor Corporation:

After conferences with the owners or representatives of class A and class B stock constituting nearly, if not more than, a majority of each class of stock, the attached plan has been prepared which they have approved and which the board of directors of Maxwell Motor Corporation by unanimous vote has recommended to the stockholders for their adoption.

The commercial and financial situation of your company is today far different from what it was when it commenced operations in June 1921, at the conclusion of the preceding reorganization. It was then believed that your company could be operated at a profit, but it was somewhat discredited financially and commercially and was faced with problems of finance, of manufacture, and of distribution. Today the possibilities foreseen in 1921 have become realities; your company is sound financially, its credit is of the highest; it occupies an outstanding position in the automobile world, and its Maxwell and Chrysler cars are held in high esteem by the public at large and are used by thousands of satisfied and enthusiastic patrons.

A copy of the balance sheet of your company as at December 31, 1924, is hereto attached. It is expected that a statement of earnings of your company for the first 3 months of 1925 will be shortly available. It is indicated that they will be very much larger than for the same period in 1924.

At the time of the organization of your company it was impossible to create a class of stock carrying an appeal to the conservative investor. The condition and problems of your company at that time precluded that possibility. Today, with its demonstrated earning power, its management, and physical assets, your company is in a position to create a preferred stock which will be an investment stock. This the class A stock is not. It is noncumulative, on liquidation it is entitled only to par and declared dividends, and while it has the right to share in any year equally with class B shares in all dividends declared in that year after the declaration of 8 percent dividends on the class B stock, it must be subject to wide market fluctuations, its market price at any time largely depending on whether it is believed that earnings will be sufficient so that dividends thereon will be declared at all, or at 8 percent or a part thereof, or on whether the earnings will be sufficient to justify full 8 percent dividends on both A and B stock and a further dividend in which both classes of stock will participate at an equal rate per share.

It is believed that the new stock provided in the plan for distribution to class A stockholders will fully compensate them for surrendering their right to participating dividends; that is, the right to share equally with B stock in dividend declarations (on the basis of A and B stock outstanding at December 31, 1924) exceeding the annual sum of $6,858,000. The new preferred stock allotted under the plan to holders of class A stock should appeal to conservative investors. It will be preferred as to assets and dividends. Dividends will be cumulative, at the rate of $8 per share per year from January 1, 1925, in priority to any dividend on the common stock. It is to be redeemable at 115 and all accumulated and unpaid dividends and will have the benefit of the sinking fund provided in the plan to be established to provide for its purchase or retirement. In liquidation it is to receive in priority to the common stock $100 a share, and if such liquidation be voluntary or caused other than by bankruptcy or insolvency, the additional sum of $15 per share, and also in every case of dissolution an amount equal to all arrears in dividends whether or not earned. Under the plan the holders of class A stock are to receive share for share in new preferred stock and, in addition, new common stock at the rate of 1 share of new common stock for each 10 shares of class A stock.

The common stock of a motor manufacturing company is necessarily subject to fluctuations in market value, depending upon whether the earnings in any particular year are large or small. In view of the fact that your company has now been established so that properly directed it should hereafter earn sufficient moneys to reasonably insure continued regular payment of dividends on the proposed new preferred stock, it is believed that the class B stock is sufficiently compensated for giving to the new preferred the cumulative feature, the sinking fund, the fixed redemption price, and a more liberal share in the assets in case of dissolution by requiring in return that the new common stock shall represent the entire equity after the preferred stock and have the exclusive benefit of the entire earning power after the payment of cumulative dividends on the preferred stock and providing the sinking fund for its eventual retirement.

In submitting the attached plan to the stockholders I desire to express my hearty approval of the same and recommend it to the stockholders of both classes.

At the request of the board of directors, Messrs. George W. Davison, Charles A. Boody, and Leo M. Butzel have consented to act on behalf of the stockholders under the plan for the purpose of carrying it out. The board of directors has authorized its finance committee to endeavor to carry out the plan in case it is approved by the stockholders.

It is expected upon the consummation of the plan that a policy of full dividend payments on the new preferred stock can be immediately inaugurated, and in order to enable the plan to be consummated without delay the stockholders of both classes are urged to deposit their stock thereunder at once. In no event are the stockholders to be charged with any expense in connection with carrying out the plan, as your company has agreed to itself defray all the expenses connected therewith.

WALTER P. CHRYSLER,
President and Chairman of the Board, Maxwell Motor Corporation.

The plan and agreement, in the manner therein provided, was declared operative, and Chrysler Corporation acquired the assets and business of Maxwell Motor Corporation on June 30, 1925, effective as of January 1, 1925.

Provisions of plan of acquisition for statement of assets and liabilities acquired.—The plan contained a provision to the effect that it was intended that the Chrysler Corporation, in setting up its consolidated balance sheet, shall attribute as invested capital the amounts set forth in the consolidated balance sheet of the Maxwell Co. as at the close of business December 31, 1924, after giving effect to the capital transactions of the Maxwell Co. from January 1, 1925, to the date the Chrysler Corporation shall commence to operate the business; and that there shall be set up in the balance sheet of the Chrysler Corporation as surplus available for dividends the surplus shown on the consolidated balance sheet of the Maxwell Co. as at the close of business on December 31, 1924, with such additions and changes as shall be required on account of the transactions and operations of the Maxwell Co. up to the time of taking over the business by the Chrysler Corporation, in all respects as nearly as is reasonably practicable as if the operations from January 1, 1925, had been by the Chrysler Corporation, with its consolidated balance sheet as of January 1, 1925, substantially identical with the aforesaid consolidated balance sheet of the Maxwell Co.

Assets acquired from Maxwell Motor Corporation and capital stocks issued therefor.—The assets acquired and liabilities assumed were recorded on the books of the Chrysler Corporation in the manner provided for in the plan and in the amounts as carried by Maxwell on January 1, 1925, after giving effect to transactions between that date and June 30, 1925.

A list of the assets and liabilities of Maxwell Motor Corporation as of January 1, 1925, follows:

Assets and liabilities, Maxwell Motor Corporation, Jan. 1, 1925

ASSETS

Cash		$5, 680, 610. 71
Car shipments against bills of lading drafts		3, 104, 215. 44
Bank acceptances and certificates of deposit		481, 191. 39
Customers' notes receivable secured by trust receipts		1, 437, 663. 23
Customer and dealers' accounts, less allowance		916, 127. 66
Duty refunds due Canadian Government		11, 428. 23
Inventories		11, 398, 161. 43
Plant and equipment, net of depreciation		15, 930, 353. 34
Miscellaneous real estate and investments		222, 466. 90
Miscellaneous notes and accounts		94, 944. 13
Due from Maxwell Motors, Ltd., of London		765, 062. 36
Prepaid expenses		400, 589. 27
Goodwill		25, 000, 000. 00
Total		65, 442, 814. 09
LIABILITIES AND RESERVES		
Accounts payable	$5, 244, 642. 53	
Accrued interest, taxes, etc	209, 504. 93	
Dealers and distributors' deposits	308, 545. 82	
Provision for Federal income tax	489, 345. 65	
Reserves, including contingent	945, 725. 89	
Reserve for insurance	54, 722. 93	
Debentures called Jan. 26, 1935, at $105	511, 455. 00	
Deduct liabilities and reserves		7, 763, 942. 75
Net assets Jan. 1, 1925		57, 678, 871. 34
Net assets represented by—		
Class A stock outstanding		23, 937, 300. 00
Class B stock outstanding		33, 734, 789. 12
Surplus		6, 782. 22
Total		57, 678, 871. 34

After giving effect to the transactions between January 1 and June 30, 1925, the assets and liabilities of Maxwell were recorded on the books of the new Chrysler Corporation at a like stated amount, and the capital of the new corporation was stated in corresponding amounts.

The stated value of the new preferred stock was determined as follows:

Item	Shares	Amount
Class A Maxwell, Jan. 1, 1925	239, 373	$23, 937, 300
Class A issued	146	14, 600
Adjustment with class B stock	181	18, 100
Less purchased and in treasury	[1] 20, 900	[1] 2, 090, 000
Less shares deliverable per plan	[1] 264	
Preferred stock of Chrysler	218, 536	21, 880, 000

[1] Debit or deduction.

The stated value of the new common stock (non-par) was determined in the following manner:

Item	Shares	Amount
Class B Maxwell, Jan. 1, 1925		$33, 734, 789. 12
Sold January to June 30, 1925		626, 280. 00
Profit on A stock purchased		40, 637. 50
Expense retirement of debentures		[1] 3, 666. 66
Adjustment with class A stock		[1] 18, 100. 00
Common stock of Chrysler	661, 333	34, 379, 939. 96

[1] Deduction.

After transfer of the Maxwell business to Chrysler Corporation, the new corporation did not have any more stated value of capital stock outstanding than if the Maxwell Co. had continued to operate as such, even though the plan provided that the holders of Maxwell class A stock should receive share for share of preferred stock and one share of common for each 10 shares held. As a part of the plan, the Maxwell Co. agreed to purchase in the market and not present for exchange, class B stock in the amount equal to the number of shares of common stock deliverable to the class A holders. The cost of the class B stock purchased in the market was charged off to surplus.

There follows a reconciliation of the surplus of Maxwell at January 1, 1925, and Chrysler Corporation at June 30, 1925.

Item		*Amount*
Surplus, Maxwell, Jan. 1, 1925		$6, 782. 22
Profits, Jan. 1 to June 30, 1925		7, 978, 106. 93
Total		7, 984, 889. 15
Deduct:		
Dividends	$875, 200. 00	
Class B stock retired per plan	1, 514, 750. 00	
		2, 389, 950. 00
Surplus, June 30, 1925		5, 594, 939. 15

Section 3. Acquisition of Assets of Dodge Bros., Inc.

Plan for acquisition.—Under date of June 1, 1928, the stockholders of Dodge Bros., Inc., were presented with a plan to exchange their holdings of Dodge stock for Chrysler Corporation common stock.

Under date of July 30, 1928, Dodge Bros., Inc. (hereafter referred to as the vendor), and Chrysler Corporation (hereafter referred to as the purchaser) entered into an agreement whereby the vendor agreed to sell or exchange to and with the purchaser, and the purchaser agreed to buy or receive, all of the property and assets of the vendor as an entirety, including its goodwill and franchises, subject to its debts and liabilities, on the following terms and conditions:

1. The purchaser agreed to assume the due and punctual payment of the principal of, and the interest on, the outstanding 6 percent gold debentures of the vendor. The principal amount outstanding on June 30, 1928, the effective date of the acquisition, was $56,705,000.
2. The purchaser agreed to assume the due and punctual payment of the principal of, and the interest on, the outstanding 5 percent serial notes due May 1, 1929, of the vendor. The principal amount outstanding on June 30, 1928, the effective date of the acquisition, was $2,750,000.
3. The purchaser agreed to issue and deliver 1,253,557 shares of its fully paid and nonassessable common stock, entitled to the same

participation in dividends paid after July 31, 1928, on the common stock of the purchaser as common stock of the purchaser then outstanding.

The plan and deposit agreement provided that the Dodge Bros., Inc., stockholders would receive Chrysler Corporation common stock on the following basis:

(*a*) One share of common stock of the Chrysler Corporation for each share of preference stock of the Dodge Co.

(*b*) One share of common stock of the Chrysler Corporation for each five shares of common stock class A of the Dodge Co.

(*c*) One share of common stock of the Chrysler Corporation for each 10 shares of common stock class B of the Dodge Co.

Simultaneous with the execution of the purchase agreement, Dillon, Read & Co., controlling a majority of the voting shares of the Dodge Co., and Chrysler Corporation entered into an agreement, whereby:

(1) Dillon, Read & Co. agreed, if and to the extent that 90 percent of the preference stock of Dodge was not shown to be on deposit, then it represented that it had purchased, or caused to be purchased for it, on July 27, 1928, or on July 28, 1928, or on July 29 or on July 30, 1928, such a number of shares of preference stock as, together with the total number of shares of preference stock stated to be on deposit under the plan shall equal not less than 90 percent of the preference stock outstanding. And that preference stock so purchased, either will be deposited under the plan without expense to Chrysler Corporation, or will be exchanged at the rate provided for in the plan for shares of common stock of Chrysler Corporation delivered as part consideration for the property and assets of Dodge Brothers, Inc. as contemplated by the purchase agreement.

(2) If and to the extent that 90 percent of the common stock class A of Dodge Brothers, Inc., was now shown to be on deposit, Dillon, Read & Co. agreed that within 3 months after the date thereof, either (*a*) out of the shares of class A undeposited such a number of shares of class A as shall, together with the total number of shares stated to be on deposit under the plan equal not less than 90 percent of Dodge Brothers, Inc., outstanding, will be deposited under the plan without expense to Chrysler Corporation, or (*b*) the holders thereof will accept at the rate provided in the plan shares of Chrysler Corporation common stock delivered as part of the consideration for the property and assets of Dodge Brothers, Inc., as contemplated by the purchase agreement.

The agreement between Dillon, Read & Co. and Chrysler Corporation further provided that—

Whenever from time to time by reason of the sale, or other action taken by Dodge pursuant to, or as contemplated by, the purchase agreement, or by reason of any action taken by the trustee of the trust contemplated by the purchase agreement, or because of any provision thereof, Chrysler shall pay to any stockholder of any class of Dodge, in respect of shares which have not been bound by the plan or which shall not have been exchanged for stock of Chrysler at the rate provided for in the plan, any amount determined by legal, statutory, or equitable proceedings to be due to said stockholder from Dodge or from Chrysler or any amount which the parties hereto in writing agree as hereinafter provided shall be paid to said stockholder, Dillon, Read shall pay to Chrysler in the manner hereinafter set forth an amount (hereinafter called Dillon, Read's settlement share) computed as follows: The sum of the amount that Chrysler shall have paid to said stockholder plus the reasonable expenses and disbursements of Chrysler in connection with said proceedings, excluding the compensation of Chrysler attorneys and counsel, is hereinafter called the gross settlement expense. The number of shares of common stock of Chrysler which said stockholder would have been entitled to receive, out of the common stock delivered by Chrysler as part of the consideration under the purchase agreement for the property and assets of Dodge, if said stockholder had participated in the plan and received stock of Chrysler at the rate therein provided, is hereinafter called the settlement stock. The remainder resulting from subtracting from the gross settlement expense the sum of the market value (ascertained as hereinafter stated) of the settlement stock on the day of payment by the purchaser to said stockholder plus any and all dividends thereon paid after July 31, 1928, and return to or repaid to the purchaser, is hereinafter called the net settlement expense. Dillon, Read's settlement share (to be paid to Chrysler) shall be one-half of the gross settlement expense, provided that if the settlement stock shall theretofore have been returned to the purchaser, the amount of Dillon, Read's settlement share shall be one-half of the net settlement expense.

If, however, in the pursuance of the provisions of this article, Dillon, Read shall at any time have paid, as its settlement share one-half of the gross settlement expense (because at the time of payment the settlement stock had not been returned to the purchaser) and thereafter the settlement stock shall be returned to the purchaser, with or without dividends thereon, or if in lieu of the return of any of the settlement stock or of dividends thereon, Chrysler shall receive cash or other thing of value then it shall forthwith deliver to Dillon, Read one-half of the settlement stock and of any dividends thereon returned or repaid to Chrysler, or as the case may be, shall pay to Dillon, Read one-half of the cash so received in lieu of the return of the settlement stock or of dividends thereon and shall account to Dillon, Read for one-half of whatever other thing of value Chrysler so shall have received.

In case at the time of any payment by Chrysler to any stockholder of Dodge as hereinbefore provided, the settlement stock or any of it shall theretofore have been returned to Chrysler and the sum of the market value on that day, of the settlement stock so returned plus any and all dividends thereon paid after July 31, 1928, and returned or repaid to Chrysler and of the fair market value of any other thing of value received by Chrysler in lieu of the return of any part of the settlement stock or of dividends thereon, shall be in excess of the gross settlement expense, Chrysler shall account for and pay over to Dillon, Read one-half of such excess within 24 hours after said payment to said stockholder of Dodge.

The agreement provided that for all the purposes of this agreement the market value of the Chrysler stock should be computed as follows: The price per share at which each sale of a share or shares of said stock was made on the New York Exchange (as reported in the official record of the stock exchange) during the 5 business days, excluding Saturdays, immediately preceding the day as of which the market value of said stock is to be determined, shall be multiplied by the number of shares included in the sale and the sum of the amounts so determined shall be divided by the total number of shares of said stock included in all the sales made during the said 5 days, and the quotient shall in each case be the market value for the purpose hereof, but with the proper deduction of an amount to allow for the dividend if the purchaser's stock shall sell on the stock exchange ex-dividend on the first of said 5 days or at any time thereafter to and including the day on which the stock the market value of which is so to be determined is to be delivered.

Assets acquired from Dodge Bros., Inc., and capital issued.—A listing of the assets acquired from Dodge Bros., Inc., and the liabilities assumed follows. By reference to this statement it will be observed that the net book value, after deducting the liabilities, of the assets received through the acquisition of Dodge Bros., Inc., was $107,763,756.34. In consideration for these assets, including $15,295,832.57 in cash, the Chrysler Corporation assumed the payment of $59,455,000 of notes and debentures and the interest accruing thereon. The balance, or the difference between the total book value of the assets and the debt assumed, of $48,308,756.34 was paid for by the issuance and delivery of 1,253,557 shares of Chrysler Corporation nonpar common stock. The ledger value of the balance applying to the common stock was subsequently adjusted and written down, all as described hereafter.

Chrysler Corporation—Assets received and liabilities assumed through acquisition of Dodge Bros., Inc., July 30, 1928

ASSETS		*Amount*
Cash		$15, 295, 832. 57
Marketable securities		2, 815, 963. 79
Accounts receivable, car shipments, etc		6, 431, 880. 19
Inventories, at book value		22, 503, 577. 12
Notes receivable and interest		21, 256. 50
Traveling advances		89, 804. 34
Real estate not used in operations		4, 116, 142. 28
Land contracts receivable and interest		444, 610. 56
Loans to employees		13, 729. 39
Land, buildings, machinery, etc. (net)		67, 665, 334. 72
Goodwill		7, 926, 326. 34
Prepaid insurance, taxes, etc		191, 494. 13
Investment, Dodge Bros. Corporation		10, 000. 00
Total assets		127, 525, 951. 93
DEDUCT LIABILITIES ASSUMED AND RESERVES		
Accounts payable		14, 305, 268. 72
Accrued interest, taxes, insurance, etc		2, 365, 063. 52
Dealers' deposits		699, 194. 50
Unpaid installments, 1927 income tax		671, 969. 80
Reserve for income tax, Jan. 1 to June 30		617, 205. 20
Reserve for price reductions		231, 836. 10
Reserve for contingencies		871, 657. 75
Total		19, 762, 195. 59
Net assets		107, 763, 756. 34
Deduct funded debt assumed:		
5-percent serial notes	$2, 750, 000	
6-percent gold debentures	56, 705, 000	
		59, 455, 000. 00
Balance applying to common stock issued		48, 308, 756. 34

Adjustment of assets to agree with stated value assigned to common stock issued in consideration.—The consideration given for the assets of Dodge Bros., Inc., consisted of 1,253,557 shares of Chrysler Corporation common stock and the assumption of the liability for the payment of the principal of, and interest on, funded debt of the Dodge company outstanding in the amount of $59,455,000. On the books of Chrysler Corporation a value of $14,896,276.09 was assigned to the shares of common stock delivered. Adding the latter sum to the funded debt assumed it is determined that the net amount of Dodge assets were recorded on the books of Chrysler Corporation at a value of $74,351,276.09. The same assets were carried by the Dodge company at a value of $107,763,756.34, or in an amount of $33,412,480.25 in excess of that recorded by Chrysler Corporation. The difference between the two valuations was written off by decreasing the value of certain assets as shown by the following statement:

Write-down of the ledger value of the net assets as carried on the books of Dodge Bros., Inc.

Ledger value (as carried by Dodge Bros., Inc.) of net assets delivered July 30, 1928		$48, 308, 756. 34
Write-down and adjustments:		
Revaluation of plant investment	$10, 000, 000. 00	
Revaluation of tools, dies, jigs, etc	5, 400, 000. 00	
Reserve for inventories	5, 544, 993. 50	
Reserve for changes in Dodge plant	5, 000, 000. 00	
Reserve for cancelation of commitments	850, 000. 00	
Write-off goodwill	1. 00	
Write-off investment in Graham Bros. represented by goodwill	7, 926, 325. 34	
Total write-down	34, 721, 319. 84	
Deduct:		
Adjustment of prepaid group insurance	61, 109. 77	
Adjustment of accrued insurance	103, 335. 87	
Adjustment of prepaid and accrued taxes	1, 144, 393. 95	
Total	1, 308, 839. 59	
Reduction in ledger value of net assets acquired from Dodge Bros., Inc		33, 412, 480. 25
Adjusted ledger value of net assets acquired and stated value of Chrysler Corporation common stock issued in consideration		14, 896, 276. 09

Section 4. Investment, Profits, and Rates of Return

Consolidated operations excluding foreign subsidiaries and sales branches.—Description of the investment, profits, and rates of return referred to herein are those pertaining to the operation of the Chrysler Corporation (parent company), the sales promotion companies, Chrysler Export Corporation and Chrysler Motors of California. These operations pertain more specifically to the United States plants and do not include the manufacture and sale of products from the Canadian and foreign plants nor sales branches operations, except as products are sold from the United States plants to the Canadian and foreign subsidiaries and sales branches.

A summary of the investment, profits, and rates of return is shown on page 567. This summary shows the investment on three bases, namely, the total investment employed, the total stockholders' investment, and the total investment in the motor vehicle business after excluding outside investments.

The investment and profits shown in this table represent the revised investment and profits as determined by the Commission's accountants. The total investment in the business consists of the stated value of the common stock and the preferred stock, the unappropriated earned and capital surpluses, the surplus reserves, the reserves for Federal income tax payments and for State income tax payments, and all borrowed money except trade notes, including dealer and distributor deposits. The stockholders' investment consists of the common and preferred stock, unappropriated earned and capital surpluses, surplus reserves, and reserve for Federal and State income taxes. The investment in the so-called motor vehicle business represents the total investment, less investments in securities of other companies and properties not used in the motor-vehicle business.

The last mentioned investment, while designated as the motor-vehicle business, however, includes the manufacture and sale of industrial and marine engines and air-conditioning equipment. It was not practical to segregate these operations, but, they constitute only a minor part of the total.

The property not used in the motor vehicle business consisted largely of the last unimproved river front site on the River Rouge. The Great Lakes Steel Co. holds an option on this site at an increasing rental as the option is extended. This property came into possession of the Chrysler Corporation through acquisition of the property and assets of Dodge Bros., Inc.

The average of the investment at the beginning and end of the year was employed to determine the yearly average investment except with regard to funded debt and bank loans. The latter were averaged on the basis of the monthly balances at the end of each month.

The reserves for Federal and State income-tax payments were included in the investment for the reason that the investment was related to the profit before the deduction of provisions for such taxes. The reserves were included for another reason; viz., that provisions for the reserves were not considered as deductions before the determination of net income.

The revised investment in each of the three forms used for computing the rates of return required also the elimination of the ledger value of appreciation in the assets which in this case occurred with respect to the item of goodwill. The ledger value of the Maxwell Co. assets included an item of $25,000,000 for goodwill and this sum got into the books of Chrysler Corporation when the assets were taken over. Evidence is lacking as to the origin of this amount on the Maxwell Co. books. The Chrysler Corporation did not depreciate this goodwill during the period from 1926 to up 1932 in which year it wrote down the amount of goodwill to $1. The decision to deduct the average amount of goodwill from the capital employed was partially based on the action of the directors and stockholders in deducting goodwill from capital employed when computing the amount of net earnings in the corporation that was set aside for bonuses to officers and executives. Stated in the words of the minutes of the annual meeting of the stockholders, dated April 16, 1929, the amounts set aside for the latter purposes—

> * * * shall not exceed for said year 6½ percent of the net earnings of the corporation for that year determined after deducting an amount equal to 7 percent of the capital, surplus, and undivided profits of the corporation (after deducting from said capital, surplus, and said undivided profits, goodwill of the corporation), as shown by the books of the corporation at the beginning of the year * * *.

Dealer deposits.—The inclusion of dealer deposits in the investment employed in the business was referred to in describing the investment. With regard to dealer deposits, the treasurer of Chrysler Corporation advised that until a few years ago, it was generally standard practice in the motor-vehicle industry to require the dealer to place a cash deposit with the manufacturer. The deposit was intended as a cushion against open account parts shipments, freight advances, or other advances made by the manufacturer for the dealer. The deposits usually were figured as nearly as possible at so much a car on the number of cars specified in the dealer's contract. A Chrysler Corporation dealer's contract for any number of cars from 1 to 99, inclusive, called for a deposit of $250, 100 to 299 cars, $500, and 300 cars and up, $1,000.

The Chrysler Corporation retained the privilege in connection with the deposits that in case of the severance of relations, the deposit might be applied against any unpaid dealer indebtedness. The dealer was paid interest once a year on the balance of the deposit at the rate of 6 percent per annum. The corporation stated that the policy of requiring dealer deposits as a practice was discontinued in 1933, simply because it seemed the desirable thing to do.

A summary of the yearly average investment, the net profits, and rates of return follows:

TABLE 44.—*Chrysler Corporation—investment, profits, and rates of return on the investment applying to the consolidated operations, excluding foreign subsidiaries and sales branches, 1927 to 1937, inclusive*

	Total United States operations investment	Total stockholders' investment	Total motor-vehicle investment
Average investment:			
1927	$58, 346, 835	$56, 603, 164	$45, 527, 458
1928	114, 659, 139	83, 184, 722	93, 716, 608
1929	164, 066, 356	106, 468, 350	140, 390, 505
1930	151, 685, 476	101, 412, 430	120, 732, 827
1931	139, 356, 275	92, 052, 905	104, 599, 322
1932	128, 470, 694	84, 220, 926	92, 886, 543
1933	123, 049, 093	81, 245, 546	86, 841, 711
1934	125, 044, 709	87, 442, 350	101, 871, 097
1935	127, 207, 291	105, 838, 193	109, 080, 307
1936	133, 630, 142	130, 290, 518	107, 466, 270
1937	143, 374, 297	143, 367, 482	113, 482, 612
11-year annual average	128, 210, 824	97, 595, 940	101, 507, 933
Revised yearly net profits, before income taxes:			
1927	26, 311, 592	26, 173, 339	26, 049, 884
1928	38, 855, 067	37, 267, 549	38, 509, 367
1929	30, 303, 365	26, 923, 966	29, 970, 254
1930	1, 537, 716	[1] 1, 498, 273	771, 214
1931	6, 072, 873	3, 234, 195	5, 315, 123
1932	[1] 7, 168, 517	[1] 9, 826, 635	9, 056, 937
1933	18, 366, 983	15, 835, 969	17, 751, 435
1934	14, 290, 662	11, 981, 630	12, 400, 280
1935	51, 175, 266	50, 291, 487	50, 095, 378
1936	81, 629, 463	81, 558, 258	80, 015, 244
1937	69, 862, 984	69, 862, 575	67, 452, 719
11-year annual average	30, 112, 496	28, 345. 824	29, 024, 906
Rates of return:	*Percent*	*Percent*	*Percent*
1927	45. 10	46. 24	57. 22
1928	33. 89	44. 80	41. 09
1929	18. 47	25. 29	21. 35
1930	1. 01	[1] 1. 48	. 64
1931	4. 36	3. 51	5. 08
1932	[1] 5. 58	[1] 11. 67	[1] 9. 75
1933	14. 93	19. 49	20. 44
1934	11. 43	13. 70	12. 17
1935	40. 23	47. 52	45. 93
1936	61. 09	62. 60	74. 46
1937	48. 73	48. 73	59. 44
11-year annual average	23. 49	29. 04	28. 59

[1] Loss.

Comparison of rates of return on the various bases of investment.—As indicated in the preceding table, the 11-year average rate of return on the total investment in the United States operations was 23.49 percent and the rate of return on the stockholders' investment was 29.04 percent. The difference in rate of return was caused by the borrowed money with a rate of interest lower than the average for the total business. More specifically, borrowed money in no instance cost the corporation more than 6 percent during this period. However, the average of the earning on the total investment was 23.49 percent, and after deducting borrowed money and interest paid on borrowed money, the rate of return on the stockholders' investment in the business increased from the average on total investment to 29.04 percent for the stockholders' investment. The investment in the motor-vehicle business after deducting outside investments and the income thereon, but including borrowed money, resulted in the rate of return of 28.59 percent on the investment in the motor-vehicle business. This rate varied only slightly from the stockholders' investment.

Trends of rates of return.—As indicated by the summary of rates of return, the rates on each of the three bases showed a wide variation from year to year. This was due primarily to the fluctuations in the net income from the business.

As shown, the 11-year annual average rate of return on the total investment in the United States operations was 23.49 percent. This average rate resulted from rates of return varying from a gain of 61.09 percent in 1936 to a low of a loss of 5.58 percent in 1932. Attention is directed to the trend of the rates of return. Starting with a return of 45.10 percent in 1927, the rate steadily decreased with the exception of a slight upturn in 1931 until the low of a loss of 5.58 percent was reached in 1932. From that point, the return increased to a profit of 14.93 percent in 1933 and then dipped to 11.43 percent in 1934. In 1935, the return again showed a substantial increase and the maximum rate for the period was reached in 1936 when a return of 61.09 percent was obtained. The return again declined in 1937 from the 1936 maximum, however, the return of 48.73 percent was higher, except for 1936, than any previous year during the period from 1927 to 1937, inclusive.

The decline in the rate of return in 1937 as compared with 1936, occurred even though the dollar volume of sales in 1937 exceeded the 1936 sales. The decrease in rate of return earned was primarily caused by an increased investment due to 1936 earnings retained in the business that may not have been employed at the maximum rate of profit of most of the investment and a decline in net profits, some portion of which was caused by an increase in the cost of labor and materials.

The rates of return on the stockholders' investment and the investment in the motor-vehicle business, while not identical with those on the total investment, nevertheless followed the same trend as the return on the total investment.

Summary of investment and effect of the investment and profits on rates of return.—The component parts of the total average investment at the beginning and end of the year employed by the Chrysler Corporation in the United States motor-vehicle operations during the years 1927 to 1937, inclusive, are shown in the summary table 45. In general, this summary is self-explanatory. However, the more important changes in the investment will be briefly commented upon.

For example, the average par or stated value of the common stock increased from $34,494,000 in 1927 to $73,509,000 in 1930. This increase is largely accounted for by the issuance of common stock as part of the consideration given for the property and assets of Dodge Brothers, Inc., and by the issue and sale to stockholders of 449,235 shares at $57.50 per share in 1928. The latter transaction is referred to on page 581, and as there indicated, a large portion of the net amount realized from the sale of these shares was employed to retire the preferred stock. The ledger value of the common stock was restated during 1932 and more than $51,000,000 of ledger value was transferred to capital surplus. Subsequently, $24,999,999 of capital surplus was transferred to reserve for writing down the goodwill to $1.

The other principal changes in the average investment occurred in the earned surplus and surplus reserve accounts. The surplus account variation reflected the amount of profit or loss added to or deducted from surplus.

The total investment employed in the business also reflected the increase or decrease in the outstanding amount of borrowed money. As shown on page 561, the corporation assumed the funded debt of Dodge Bros., Inc., when acquiring the property and assets. This funded debt was reduced from time to time and entirely paid off during 1935. The effect on the average investment from paying off the borrowed money is not noticeable to any great degree because an increase in surplus from earnings usually preceded the retirement of funded debt.

TABLE 45.—*Chrysler Corporation—Summary of investments applying to the consolidated operations excluding foreign subsidiaries and sales branches—1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932
Capital stocks:						
Common stock	$34,494,002	$53,468,534	$73,042,679	$73,509,592	$73,192,659	$47,484,846
Preferred stock	21,534,647	10,785,700	----	----	----	----
Total	56,028,649	64,254,234	73,042,679	73,509,592	73,192,659	47,484,846
Capital surplus	----	----	----	----	----	12,661,022
Earned surplus	21,479,489	37,362,259	50,111,029	46,837,822	39,865,979	32,513,337
Surplus reserves	1,411,663	3,067,524	5,290,455	4,951,811	3,958,562	4,018,495
Reserve for Federal and State income taxes	2,683,363	3,500,705	3,024,187	1,113,205	35,705	43,226
Total stockholders' investment unrevised	81,603,164	108,184,722	131,468,350	126,412,430	117,052,905	96,720,926
Deduct:						
Appreciation—Goodwill	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	12,500,000
Stockholders' investment as revised	56,603,164	83,184,722	106,468,350	101,412,430	92,052,905	84,220,926
Borrowed money	1,484,000	30,665,666	56,196,582	49,061,167	46,409,500	43,438,166
Dealer deposits	259,671	808,751	1,401,424	1,211,879	893,870	811,602
Total investment as revised	58,346,835	114,659,139	164,066,356	151,685,476	139,356,275	128,470,694
Deduct: Outside investments:						
Marketable securities	6,891,088	8,854,254	5,780,398	13,152,972	18,611,537	19,565,180
Investment in subsidiaries entirely owned (not consolidated)	5,427,580	9,301,558	10,987,891	9,213,823	7,254,949	6,790,767
Investments in subsidiaries not entirely owned	----	----	----	----	----	----
Loans to Chrysler Corporation Management Trust	----	----	1,749,073	3,289,073	3,376,843	3,646,668

TABLE 45.—*Chrysler Corporation—Summary of investments applying to the consolidated operations excluding foreign subsidiaries and sales branches—1927 to 1937, inclusive*—Continued

	1927	1928	1929	1930	1931	1932
Deduct outside investments—Continued.						
Real estate not used in operations		$2,143,549	$4,286,373	$4,309,070	$4,307,052	$4,323,228
Miscellaneous	$500,709	643,170	872,116	987,711	1,206,572	1,258,308
Total outside investments	12,819,377	20,942,531	23,675,851	30,952,649	34,756,953	35,584,151
Investment in motor-vehicle business revised	45,527,458	93,716,608	140,390,505	120,732,827	104,599,322	92,886,543

	1933	1934	1935	1936	1937
Capital stocks:					
Common stock	$21,827,170	$21,768,037	$21,695,285	$21,726,792	$21,773,807
Preferred stock					
Total	21,827,170	21,768,037	21,695,285	21,726,792	21,773,807
Capital surplus	24,775,836	24,165,019	24,029,592	24,662,241	25,328,799
Earned surplus	30,393,937	36,336,876	51,410,299	68,728,908	76,281,544
Surplus reserves	3,264,581	3,386,996	3,626,747	4,228,528	7,680,910
Reserve for Federal and State income taxes	984,022	1,785,422	5,076,270	10,944,049	12,302,422
Total stockholders' investment unrevised	81,245,546	87,442,350	105,838,193	130,290,518	143,367,482
Deduct:					
Appreciation—Goodwill					
Stockholders' investment as revised	81,245,546	87,442,350	105,838,193	130,290,518	143,367,482
Borrowed money	41,353,250	37,557,500	21,363,253	3,333,334	
Dealer deposits	450,297	44,859	5,845	6,290	6,815
Total investment as revised	123,049,093	125,044,709	127,207,291	133,630,142	143,374,297
Deduct: Outside investments:					
Marketable securities	21,948,338	9,828,636	4,152,501	11,230,997	12,446,031
Investment in subsidiaries entirely owned (not consolidated)	5,528,303	5,299,986	6,373,381	7,896,308	10,668,064
Investments in subsidiaries not entirely owned		179,127	590,457	878,278	993,791
Loans to Chrysler Corporation Management Trust	3,479,832	3,231,335	2,410,784	1,209,810	645,854
Real estate not used in operations	3,540,529	2,741,674	2,701,187	2,661,538	2,620,323
Miscellaneous	1,719,380	1,892,854	1,898,674	2,286,941	2,517,622
Total outside investments	36,207,382	23,173,612	18,126,984	26,163,872	29,891,685
Investment in motor-vehicle business revised	86,841,711	101,871,097	109,080,307	107,466,270	113,482,612

As shown by the preceding table, the total investment increased from $58,346,000 in 1927, as revised, to a high of $164,066,000 in 1929. From that point, it steadily decreased until the lowest investment of $123,049,000 was recorded in 1933. In 1934, investment was $125,044,000 and increased during each of the following years until it amounted to $143,374,000 in 1937. The net profit before provision for payment of Federal and State income taxes, was $26,173,339 in 1927 and $37,267,549 in 1928. During the period from 1927 to 1937, inclusive, a loss was recorded in only 2 years, and the average profit per year for the 11-year period was $28,345,824 per year before provision for income taxes, and $24,213,767 after income taxes. From 1933 to 1937, the profits were substantial in each year and reached a maximum of $81,558,258 on an investment of $130,290,518 in 1936. During that year, the rate of profit on the investment in the operations was 61.09 percent. The return on the stockholders' investment was 62.6 percent and from the motor-vehicle investment 74.46 percent. The rate of returned earned during 1937, while substantial, was considerably less than 1936 because of increased cost of materials and labor. The rate of return on the total investment in 1937 was 48.73 percent, for the stockholders' investment 48.73 percent, and for the motor-vehicle investment 59.44 percent.

The enormous earning power of the Chrysler Corporation, both as to aggregate and as to rate of return, is illustrated by the fact that the corporation's profits before provisions for Federal and State income taxes amounted to $311,804,060 during the 11 years 1927 to 1937, inclusive. The earning power is further demonstrated by the fact that the corporation earned a rate as high as 61.09 percent in 1 year, including investments in securities, and that the average yearly rate of return for the 11 years was 23.49. From its manufacturing operations, excluding investments in securities and outside investments, the corporation earned as high as 74.46 percent in 1 year and the average yearly rate of return for the 11 years was 28.59 percent.

Section 5. Consolidated Balance Sheet (Excluding Foreign Subsidiaries and Sales Branches) and Balance Sheet Accounts

Comparative balance sheets for years 1926 to 1937, inclusive.—A comparative consolidated balance sheet for the Chrysler Corporation, exclusive of foreign subsidiaries and retail branches, is presented by the next summary, designated as table 46. This balance sheet includes the assets and liabilities of the Chrysler Corporation (parent company), the sales-promotion companies (Chrysler Sales Corporation, De Soto Motor Corporation, Dodge Bros. Corporation, Plymouth Motor Corporation and Chrysler Motor Parts Corporation, Chrysler Export Corporation, etc.), and Chrysler Motors of California. It does not include the wholesale and retail distribution branches owned by Chrysler Corporation, nor the Canadian and European subsidiaries except the parent company investment in securities of these subsidiaries.

This balance sheet should not be confused with the consolidated balance sheet of Chrysler Corporation, which includes the assets and liabilities of foreign subsidiaries, wholesale and retail branches, and subsidiaries engaging in activities other than motor-vehicle manufacture and sale. This inquiry is principally concerned with the manufacture and sale of motor vehicles to distributors and dealers in the United States. For this reason the present and principal discussion in this section will deal with those operations. However, the consolidated statements will be shown in condensed form in the latter part of this chapter.

TABLE 46.—*Chrysler Corporation consolidated balance sheet, excluding foreign subsidiaries and sales branches, 1926 to 1937, inclusive*

	1926	1927	1928	1929	1930	1931
ASSETS						
Current assets:						
Cash on hand and on deposit	$8,294,968.04	$16,821,520.24	$48,413,660.29	$35,619,265.97	$31,217,461.65	$20,467,536.79
Marketable securities at cost	7,820,698.95	15,276,106.71	3,719,553.88	1,709,147.64	9,478,429.66	27,050,538.55
Drafts against car shipments	3,483,775.33	1,840,331.54	5,915,307.38	4,946,202.42	2,266,925.09	1,912,698.65
Notes and accounts receivable	3,065,465.86	1,350,186.54	3,471,512.31	5,428,754.20	1,596,756.38	1,077,360.85
Less reserves	[1] 103,034.82	[1] 138,084.05	[1] 88,033.94	[1] 225,146.26	[1] 175,146.26	[1] 157,588.58
Inventories	14,272,392.41	13,435,639.68	39,845,692.75	33,224,578.82	24,449,502.22	21,500,297.27
Less reserves	[1] 357,916.29	[1] 274,302.87	[1] 2,226,698.00	[1] 1,487,072.05	[1] 1,403,920.13	[1] 1,602,321.31
Total	36,476,349.48	48,311,397.79	99,050,994.67	79,215,730.74	67,430,008.61	70,248,522.22
Investments and other assets:						
Real estate not used in the business	------	------	4,287,098.20	4,285,648.20	4,332,493.47	4,321,611.93
Sundry investments and miscellaneous accounts	497,108.30	504,310.48	782,030.81	962,200.62	1,013,220.78	1,399,924.16
Advances to Chrysler management trusts	------	------	------	3,498,146.91	3,080,000.00	3,673,686.44
Total	497,108.30	504,310.48	5,069,129.01	8,745,995.73	8,425,714.25	9,395,222.53
Investments in and accounts with wholly owned subsidiaries	3,272,753.09	7,582,408.29	11,020,708.43	10,955,074.71	7,472,571.37	7,037,328.38
Sinking fund cash	169.50	311.50	501,695.88	------	106,228.92	639.94
Property, plant, and equipment:						
Land, buildings, machinery, equipment, and dies	34,283,319.98	34,352,623.12	125,476,384.84	127,013,553.34	122,726,453.88	120,902,869.02
Less reserves for depreciation	10,709,821.05	12,820,236.42	43,251,314.17	46,544,124.54	51,563,444.33	58,193,757.81
Total	23,573,498.93	21,532,386.70	82,225,070.67	80,469,428.80	71,163,009.55	62,709,111.21
Goodwill	25,000,000.00	25,000,000.00	25,000,000.00	25,000,000.00	25,000,000.00	25,000,000.00
Deferred: Prepaid taxes, insurance, etc	388,761.50	363,334.58	1,729,236.60	1,803,184.53	2,182,634.14	2,013,534.22
Total assets	89,208,640.80	103,294,149.34	224,596,835.26	206,189,414.51	181,780,166.84	176,404,358.50
LIABILITIES						
Current liabilities:						
Accounts payable and accrued pay rolls	6,277,345.92	6,482,364.54	23,763,671.64	13,066,296.79	8,884,042.43	9,164,946.49
Accrued insurance and taxes, interest	502,258.69	143,039.33	1,849,986.31	779,796.28	849,443.62	718,180.40
Federal, State, and foreign taxes on income	2,158,690.57	3,208,035.98	3,793,375.23	2,255,000.00	[1] 28,590.25	100,000.00
Distributors' and dealers' deposits	262,294.27	257,048.00	1,360,454.08	1,442,394.75	981,362.50	806,377.46
Dividends payable	2,492,666.75	2,534,523.00	------	------	------	------
Total	11,693,251.20	12,625,010.85	30,767,487.26	17,543,487.82	10,686,258.30	10,789,504.35

Deposits under employees' preferred stock purchase plan		222,035.11				
Funded debt:						
5½ percent serial gold bonds, Maxwell Motor Corporation	2,800,000.00	2,450,000.00	2,100,000.00	1,750,000.00		
Less: In treasury	[1] 1,116,000.00	[1] 1,282,000.00	[1] 1,173,000.00	[1] 1,163,000.00		
5 percent serial notes, Dodge Bros., Inc.			2,750,000.00			
Less: In treasury			[1] 445,000.00			
6 percent gold debentures, Dodge Bros., Inc.			56,705,000.00	49,178,000.00	48,186,000.00	47,483,500.00
Less: In treasury					[1] 603,000.00	[1] 2,490,000.00
Held in sinking fund						[1] 582,000.00
Total	1,684,000.00	1,168,000.00	59,937,000.00	49,765,000.00	47,583,000.00	44,411,500.00
Reserves for contingencies, etc.	1,305,382.43	3,998,921.66	13,581,269.91	10,180,139.16	5,614,443.00	6,446,252.43
Total outstanding capital stock	34,379,939.96	34,608,064.96	72,329,003.35	73,756,354.00	73,262,830.45	73,122,488.25
Preferred stock	21,497,894.30	21,571,401.50				
Surplus:						
Earned surplus: Unappropriated	16,216,535.21	26,742,442.76	47,982,074.74	52,239,983.18	41,435,661.19	38,296,297.37
Appropriated	2,431,637.70	2,358,272.50		2,704,449.75	3,197,973.90	3,338,316.10
Total earned and capital surplus	18,648,172.91	29,100,715.26	47,982,074.74	54,944,432.93	44,633,635.09	41,634,613.47
Total capital stock and surplus	74,526,007.17	85,280,181.72	120,311,078.09	128,700,787.53	117,896,465.54	114,757,101.72
Total liabilities	89,208,640.80	103,294,149.34	224,596,835.26	206,189,414.51	181,780,166.84	176,404,358.50

TABLE 46.—*Chrysler Corporation consolidated balance sheet, excluding foreign subsidiaries and sales branches, 1926 to 1937, inclusive*—Con.

	1932	1933	1934	1935	1936	1937
ASSETS						
Current assets:						
Cash on hand and on deposit	$31,856,113.42	$11,214,329.78	$30,191,683.35	$56,011,991.76	$42,789,475.08	$32,757,652.07
Marketable securities at cost	8,866,632.70	24,760,444.56	955,176.35	1,688,961.84	14,352,803.18	12,916,197.82
Drafts against car shipments	2,883,932.09	389,922.89	6,444,032.27	8,960,203.94	9,874,662.82	7,340,856.41
Notes and accounts receivable	1,259,844.87	1,446,196.67	9,516,121.14	9,936,209.10	6,615,541.69	5,104,267.42
Less reserves	[1] 65,113.59	[1] 75,855.69	[1] 57,491.80	[1] 48,871.17	[1] 40,503.72	[1] 64,590.12
Inventories	18,716,989.04	34,704,831.26	36,512,043.40	47,856,736.00	59,322,258.93	45,073,552.01
Less reserves	[1] 1,604,731.28	[1] 1,792,194.25	[1] 2,477,119.14	[1] 3,318,710.63	[1] 4,492,911.42	[1] 4,471,548.41
Total	61,913,667.25	70,647,675.22	81,084,445.57	121,086,520.84	128,421,326.56	98,656,387.20
Investments and other assets:						
Balances in closed banks, less reserves		1,995,056.81	1,493,471.36	1,309,242.35	874,426.44	433,454.31
Real estate not used in the business	4,324,844.45	2,756,213.90	2,727,135.32	2,675,239.40	2,647,837.08	2,592,809.60
Sundry investments and miscellaneous accounts	1,116,692.27	2,322,068.08	1,463,640.05	2,333,709.47	2,240,173.07	2,795,071.94
Expense advances and current accounts, officers and employees		263,865.58	128,070.96	156,251.52	178,905.00	163,635.76
Investments in and accounts with subsidiaries, not wholly owned			358,254.32	822,659.80	933,896.55	1,053,686.98
Advances to Chrysler management trusts	3,619,650.00	3,322,015.16	3,140,655.54	1,680,913.43	738,708.19	553,000.00
Total	9,061,186.72	10,659,219.53	9,311,227.55	8,978,015.97	7,613,946.33	7,591,658.59
Investments in and accounts with wholly owned subsidiaries	7,544,206.03	4,512,400.61	6,087,571.98	6,659,190.03	9,133,426.18	12,202,701.51
Sinking fund cash	20,341.57		500,000.00			
Property, plant, and equipment:						
Land, buildings, machinery, equipment, and dies	122,444,390.85	124,630,934.88	124,818,879.13	109,969,339.07	111,670,941.81	107,685,950.32
Less reserves for depreciation	63,367,334.78	66,657,162.01	67,856,702.90	58,979,379.95	54,919,609.03	47,616,411.54
Total	59,077,056.07	57,973,772.87	56,962,176.23	50,989,959.12	56,751,332.78	60,069,538.78
Goodwill	1.00	1.00	1.00	1.00	1.00	1.00
Deferred: Prepaid taxes, insurance, etc	1,753,191.72	1,623,218.33	2,086,133.84	2,101,152.74	2,069,872.76	2,028,419.85
Total assets	139,369,650.36	145,416,287.56	156,031,556.17	189,814,839.70	203,989,905.61	180,548,706.93
LIABILITIES						
Current liabilities:						
Accounts payable and accrued pay rolls	14,402,659.55	17,745,749.66	33,448,989.41	50,584,854.30	56,890,838.84	21,898,385.58
Accrued insurance and taxes, interest	587,670.82	639,171.58	565,500.44	621,393.42	775,947.72	842,005.34
Federal, State, and foreign taxes on income	[1] 13,547.27	1,981,591.74	1,589,251.62	8,563,287.08	13,324,811.08	11,280,032.37
Distributors' and dealers' deposits	816,827.14	83,767.76	5,950.00	5,740.32	6,840.32	6,790.32
Notes payable to banks, due Apr. 25, 1936				5,000,000.00		
Total	15,793,610.24	20,450,280.74	35,603,741.47	64,775,275.12	70,998,437.96	34,027,213.61

Funded debt:						
6 percent gold debentures, Dodge Bros., Inc.	46, 194, 000. 00	45, 625, 500. 00	30, 526, 500. 00			
Less: In treasury	[1] 3, 317, 000. 00	[1] 5, 599, 000. 00	[1] 376, 000. 00			
Held in sinking fund	[1] 546, 000. 00					
Total	42, 331, 000. 00	40, 026, 500. 00	30, 150, 500. 00			
Notes payable to banks, due Apr. 25, 1937				5, 000, 000. 00		
Reserves for contingencies, etc.	5, 770, 479. 47	4, 230, 503. 28	5, 138, 767. 00	9, 454, 574. 29	11, 950, 410. 87	19, 498, 113. 88
Capital stock and surplus:						
Capital stock, par value $5 per share:						
Authorized	30, 000, 000. 00	30, 000, 000. 00	30, 000, 000. 00	30, 000, 000. 00	30, 000, 000. 00	30, 000, 000. 00
Less: Unissued	[1] 7, 577, 860. 00	[1] 7, 578, 120. 00	[1] 7, 578, 120. 00	[1] 7, 578, 125. 00	[1] 7, 578, 125. 00	[1] 7, 578, 125. 00
In treasury	[1] 574, 935. 00	[1] 614, 745. 00	[1] 692, 940. 00	[1] 760, 245. 00	[1] 629, 920. 00	[1] 666, 215. 00
Total outstanding capital stock	21, 847, 205. 00	21, 807, 135. 00	21, 728, 940. 00	21, 661, 630. 00	21, 791, 955. 00	21, 755, 660. 00
Surplus:						
Capital surplus: Unappropriated	25, 322, 043. 67	24, 229, 627. 69	24, 100, 410. 27	23, 958, 773. 59	25, 365, 707. 33	25, 291, 890. 63
Appropriated	574, 935. 00	614, 745. 00	692, 940. 00	760, 245. 00	629, 920. 00	666, 215. 00
Earned surplus: Unappropriated	27, 730, 376. 98	34, 057, 495. 85	38, 616, 257. 43	64, 204, 341. 70	73, 253, 474. 45	79, 309, 613. 81
Total earned and capital surplus	53, 627, 355. 65	58, 901, 868. 54	63, 409, 607. 70	88, 923, 360. 29	99, 249, 101. 78½	105, 267, 719. 44
Total capital stock and surplus	75, 474, 560. 65	80, 709, 003. 54	85, 138, 547. 70	110, 584, 990. 29	121, 041, 056. 78	127, 023, 379. 44
Total liabilities	139, 369, 650. 36	145, 416, 287. 56	156, 031, 556. 17	189, 814, 839. 70	203, 989, 905. 61	180, 548, 706. 93

[1] Denotes deductions.

Investment in property, plant, and equipment.—The total assets of Chrysler Corporation, exclusive of foreign subsidiaries and sales branches, had a ledger value of $89,208,641, including $25,000,000 for goodwill, as of December 31, 1926. The total assets, as of December 31, 1937, had a ledger value of $180,548,707 after writing goodwill down to a valuation of $1. The largest single item of assets consisted of the ledger value of the property, plant, and equipment of the corporation. This item of assets was recorded at a ledger value of $34,283,320, as of December 31, 1926, and stood on the books at a ledger value of $107,685,950 on December 31, 1937. The greatest increase in the property and plant account occurred in 1928, through the acquisition of the property and plants of the Dodge Bros. Inc., corporation.

It was the practice of the corporation to regularly provide a reserve for depreciation of the property and plant and for consumption of the equipment. This reserve amounted to a total of $10,709,821, as of December 31, 1926, and a total of $47,616,412, as of December 31, 1937. The reserve was built up by providing for depreciation at the following rates for the various classes of buildings and equipment:

	Percent
Buildings and improvements:	
Architect's fees	2½
Buildings (construction)	2½
Real-estate improvements	7
Water and sewer systems	5
Heating and ventilating equipment	5
Electric wiring and equipment	7½
Gas lines, etc	7½
Fire-protection equipment	5
Air-pressure systems	7½
Machinery and equipment:	
Machinery	10
Power transmissions	10
Power equipment	7½
Furnaces, ovens, tanks, etc	15
Miscellaneous equipment	15
Cars and trucks	33⅓
Furniture and fixtures	10

The foregoing applies to the annual rates providing for depreciation. However, in making monthly charges against income for the reserve provisions, the monthly rate was based on production of cars, provided, however, that the accumulation on a production basis was not less than the amount that would be provided on a one-twelfth of the annual rate each month. More specifically, if the corporation's estimate of a year's operation was 600,000 motor vehicles, and the annual depreciation provision was to be $15,000,000, then the provision would be accumulated at the rate of $25 per vehicle. If in the month of January, for example, the corporation made 60,000 cars, then the provision for depreciation during that month would amount to $1,500,000. If operations continued during February and March at the same rate, a similar amount would be provided, making a total of $4,500,000 provided in the first 3 months. If in the month of April the corporation produced only 30,000 vehicles, then the provision for depreciation would be $750,000, and the accumulated total would be $5,250,000, and thus greater than four times one-twelfth of the total provision to be made during the year of $15,000,000. If the plants were shut down completely during the month of May, only enough would be provided during that month to bring the total provision to five-twelfths of the total amount to be provided during the year.

Consumption of the investment in stamping dies, tools, jigs, and fixtures that are peculiar to the current models of motor vehicles were amortized generally on a basis of the life of the model, which was generally 1 year. The provision for amortization of this investment was accumulated through the specification costs of each motor vehicle as it was produced. The rate per motor vehicle was determined by dividing the estimated unit production into the cost of stamping dies, tools, etc., for a particular model and body type. As production progressed through the model year, the production to date, together with forward schedules, were reviewed monthly with respect to their relation to the original forecasts, and if the rates were deemed to be inadequate to completely amortize the investment, the rates were adjusted upward so that the investment was fully amortized when the production of the particular model ceased.

The basis for determining the monthly provision for depreciation and amortization would, of necessity, cause a variation in the monthly deductions from income, depending on the number of units produced. In view of the fact that the amount of the provision was determined largely on a basis of the number of units produced, it is only natural that the provisions during the first months of a new-model year would be larger than subsequent months because it usually follows that the production rate steps up soon after a new model is introduced. The last quarter provision in any year may also show a much greater provision because of the adjustment to cause the aggregate of the monthly provisions to equal the yearly amounts to be provided. For illustration, during the year 1937, the corporation and all subsidiaries provided $6,043,717 during the first quarter for depreciation and amortization, during the second quarter the provision amounted to $3,909,105, in the third quarter it was $1,613,228, and in the fourth quarter it amounted to $4,075,119, bringing the total for the year to equal $15,641,168.

Capital stocks issued and outstanding—General.—The Chrysler Corporation began business with authorized capital stock consisting of 800,000 shares of non-par-common stock and 275,000 shares of preferred stock, series A. In December 1925 the authorized common stock was increased to 3,200,000 shares and further increased to 6,000,000 shares during July 1928.

The shares issued for the property and assets of Maxwell Motor Corporation and Dodge Brothers, Inc., have been previously discussed. The principal issues, retirements, and changes in capital stocks, other than for the purposes of those acquisitions, will be discussed hereafter:

Preferred stock—Series A.—Of the authorized preferred stock, 218,773 shares were issued as part of the consideration given for the property and assets of Maxwell Motor Corporation. During 1926 the corporation repurchased 4,066 shares in the open market at a cost of $382,105.70. During 1927 and 1928 the corporation sold 1,127 shares to employees, leaving a balance of 215,834 shares outstanding. All of the outstanding preferred stock was called for redemption at $115 per share and accrued dividends on August 6, 1928. The premium paid for the retirement of this stock amounted to $3,286,674.20; was charged to the stated value of the common stock.

The transactions in the preferred stock are shown in the summary:

Chrysler Corporation—Summary of preferred stock, series A ($8 cumulative dividend)

	Year	Shares	Amount
Part of consideration for assets of Maxwell Motor Corporation	1925	218, 536	$21, 880, 000. 00
Issued in exchange for Maxwell stock	1926	234	
Repurchased in market	1926	[1] 4, 066	[1] 382, 105. 70
Sold to employees	1927	741	73, 507. 20
Issued in exchange for Maxwell stock	1927	3	
Sold to employees	1928	386	37, 654. 30
Total		215, 834	21, 609, 055. 80
Called for redemption at $115 per share	1928	[1] 215, 834	[1] 21, 609, 055. 80

[1] Stock repurchased or retired.

Common stock.—The original authorized common stock was without par value and consisted of 800,000 shares. Following organization the stockholders approved an increase in the authorized shares to 3,200,000 shares and approved the exchange of one share of the original issue for 4 shares of the new stock without par value. This exchange did not result in an increase of the total common stock stated value but there were four times as many shares outstanding after the exchange.

On October 28, 1932, the stockholders approved the change in the value of common capital stock non-par value to a par value of $5 per share. This change resulted in the transfer from the capital account of $51,041,668, to capital surplus. Subsequently, the directors authorized the creation of a reserve amounting to $24,999,999 out of capital surplus. This reserve was employed to write off or reduce the stated amount of goodwill from $25,000,000 to $1.

The various changes involving the common stock are presented by the tabulation marked "Table 47." This tabulation is divided into two sections; the first of which shows the changes in the non-par stock and the second section which shows the changes in the $5 par-value stock.

TABLE 47.—*Chrysler Corporation*

CHANGES IN NUMBER AND LEDGER VALUE OF NON-PAR COMMON STOCKS, 1925 TO 1932, INCLUSIVE

Nature of change	Year	Number of shares	Ledger amount	Consideration			
				Assets	Cash	Compensation	Adjustments and reacquired
Part consideration for assets of Maxwell Motor Corporation	1925	661,333	$34,379,939.96	$34,379,939.96			
Exchange of shares 4 for 1		[1] 661,333					
Outstanding after exchange	1925	2,645,342					
Issued in exchange for Maxwell stock	1926	52,883					
Adjustment—purchased and charged to surplus	1926	[1] 4,560					
Delivered as compensation to vice presidents	1927	5,000	228,125.00			$228,125.00	
Issued in exchange for Maxwell stock	1927	676					
Issued and sold to stockholders at $57.50	1928	449,235	25,831,012.50		$25,831,012.50		
Premium on preferred stock redeemed	1928		[1] 3,286,674.20				[1] $3,286,674.20
Repurchased	1928	[1] 4	[1] 321.00				321.00
Adjustment per organization plan	1928	446	[1] 3,105.00	[1] 3,105.00			
Part consideration for assets of Dodge Bros.	1928	1,253,557	14,896,276.09	14,896,276.09			
Delivered as compensation to vice presidents	1928	5,000	283,750.00			283,750.00	
Adjustment per organization plan	(2)	2,452	230.00	230.00			
To Chrysler Management Trust	1929	60,000	3,600,000.00		3,600,000.00		
Delivered as compensation to vice presidents	1929	4,500	531,250.00			531,250.00	
Repurchased in market	1929	[1] 41,150	[1] 2,704,128.75				[1] 2,704,128.75
Bonus compensation to employees	1930	6,340	220,949.00			220,949.00	
Repurchased in market	1930	[1] 25,800	[1] 760,448.59				[1] 760,448.59
Sold	1930	1,500	45,975.44		45,975.44		
Adjust compensation to vice presidents	1931	[1] 352	[1] 12,267.20			[1] 12,267.20	
Repurchased in market	1931	[1] 10,600	[1] 128,075.00				[1] 128,075.00
Do	1932	[1] 24,100	[1] 156,304.80				[1] 156,304.80
Adjust compensation to vice presidents	1932	[1] 66	[1] 2,300.10			[1] 2,300.10	
Adjust deliverable shares per plan	1932	4,244					
Stock changed from non-par to $5 par		4,384,413	72,963,883.35	49,273,341.05	29,476,987.94	1,249,506.70	[1] 7,035,952.34

[1] Deductions.
[2] Various years.

Table 47.—*Chrysler Corporation*—Continued

CHANGES IN THE NUMBER AND LEDGER VALUE OF COMMON STOCK, $5 PAR VALUE PER SHARE, 1932 TO 1937, INCLUSIVE

Nature of change	Year	Number of shares	Ledger amount	Capital surplus	Consideration			
					Assets	Cash	Compensation	Adjustments and reacquired
Continued—Balance to date		4,384,443	$72,963,883.35		$49,273,341.05	$29,476,987.94	$1,249,506.70	$7,035,952.34
Restatement of capital-non-par to $5 and transfer to capital surplus	1932		[1] 51,041,668.35	$51,041,668.35				
Write-off goodwill	1932			[1] 24,999,999.00				
Adjust compensation to vice presidents	1932	[1] 2	[1] 10.00	[1] 59.70			[1] 69.70	
Repurchased in the market	1932	[1] 15,000	[1] 75,000.00	[1] 144,630.98				219,630.98
Do	1933	[1] 84,695	[1] 423,475.00	[1] 1,816,696.26				2,240,171.26
To officers and employees	1933	76,733	383,665.00	764,090.28		1,147,755.28		
Adjust restatement	1933	[1] 52	[1] 260.00					260.00
To officers and employees	1934	1,500	7,500.00	14,882.53		22,382.53		
Acquired from employees savings plan	1934	[1] 17,139	[1] 85,695.00	[1] 65,904.95				151,599.95
Adjustment	1935	[1] 1	[1] 5.00					5.00
Acquired from employees savings plan	1935	[1] 13,461	[1] 67,305.00	[1] 74,331.68				141,636.68
Do	1936	[1] 17,935	[1] 89,675.00	[1] 3,791.26				93,466.26
To first adjustment management trust	1936	26,000	130,000.00	756,600.00		886,600.00		
To executive management trust	1936	18,000	90,000.00	523,800.00		613,800.00		
Purchased	1937	[1] 1,200	[1] 6,000.00	[1] 70,410.00				76,410.00
Acquired from employees savings plan	1937	[1] 6,059	[1] 30,295.00	32,888.30				[1] 2,593.30
Total, Dec. 31, 1937		4,351,132	21,755,660.00	25,958,105.63	49,273,341.05	32,147,525.75	1,249,437.00	[1] 9,956,539.17

[1] Deduction.

By reference to the tabulation it will be observed that the common stock was issued for the following purposes:

Purpose of issue	*Amount*
For property and assets	$49, 273, 341. 05
For cash	32, 147, 525. 75
For compensation to officers	1, 249, 437. 00
Total	82, 670, 303. 80
Less retirements and adjustments	9, 956, 539. 17
Balance	72, 713, 764. 63

Disposition of consideration for issue	*Amount*
Outstanding common stock Dec. 31, 1937	$21, 755, 660. 00
Capital surplus	25, 958, 105. 63
Reserve to write-off goodwill	24, 999, 999. 00
Total	72, 713, 764. 63

Issue and sale to stockholders in 1928.—During the year 1928 the stockholders of Chrysler Corporation were offered additional no-par common stock at $57.50 per share. Through this offer 449,235 shares were subscribed for. The gross proceeds amounted to $25,831,012.50. These shares were sold to provide funds for the retirement of the preferred stock at $115 per share. The cost of retiring the preferred stock, consisting of $21,609,055.80 stated value and premium of $3,286,674.20, was $24,895,730.

Repurchase of stock in open market.—During the years 1929 to 1933, inclusive, the Chrysler Corporation purchased substantial quantities of its common stock in the open market. A large proportion of the shares repurchased were resold to the officers and employees, either outright or through the management trust. The principal repurchases and resales are summarized hereafter.

Repurchases in open market

Year	Shares	Total amount	Average per share
1929	41, 150	$2, 704, 128. 75	$65. 71
1930	25, 800	760, 448. 59	29. 47
1931	10, 600	128, 075. 00	12. 08
1932	24, 100	156, 304. 80	6. 49
1932	15, 000	219, 630. 98	14. 64
1933	84, 695	2, 240, 171. 26	26. 45
Total	201, 345	6, 208, 759. 38	30. 84

Resales

	Year	Shares	Amount	Average per share
To management trust	1929	60, 000	$3, 600, 000. 00	$60. 00
To officers and employees	1933	76, 733	1, 147, 755. 28	14. 96
Do	1934	1, 500	22, 382. 53	15. 92
To management trust	1936	26, 000	886, 600. 00	34. 10
To executive management trust	1936	18, 000	613, 800. 00	34. 10
Total		182, 233	6, 270, 537. 81	34. 41

Acquisitions from employees saving plans.—In addition to the acquisitions in the open market, the corporation acquired certain shares from the "employee saving plan funds." These shares were purchased in the open market for the "plans," and neither the shares nor funds were reflected on the corporation's books. The employees were permitted to withdraw from the plan and receive the amount deposited. Many employees did withdraw from the plan during the economic depression and the corporation purchased the shares held for those that withdrew.

Common stock issued to officers as compensation.—At a meeting of the board of directors held December 10, 1926, the board approved a plan for distributing to the vice presidents of Chrysler Corporation 25,000 shares of common stock of the corporation as part of the compensation to be paid the vice presidents during the 4 years beginning January 1, 1927. The plan as approved provided that the shares be distributed in amounts of 5,000 shares among the vice presidents in the proportion to be fixed by the chairman of the board. The first 5,000 shares to be distributed about the middle of 1927, and 5,000 shares to be distributed at the end of each of the years 1927, 1928, 1929, and 1930, the chairman of the board, however, to have full discretion to determine whether or not in any year any distribution whatever shall be made. If the chairman determined that a distribution be made, then he had full discretion to determine whether all or only a part of the number of shares provided to be distributed in any year should be distributed. It was understood that if in any year there shall, by reason of the exercise of the discretion authorized to the chairman of the board, be distributed a less number of shares than provided by the plan to be distributed in any year, then the difference in number of shares thereupon becomes subject to the further order of the board of directors.

As provided by the terms of the plan, the following distributions of common stock were made to the vice presidents as part of their compensation:

	Shares	Stated amount
Year:		
1927	5,000	$228,125
1928	5,000	283,750
1929	4,500	531,250
Total	14,500	1,043,125

Coincident with the approval of the plan of distributing common stock to the vice presidents, the board also authorized the payment of $7,500 in cash as additional compensation to the five vice presidents for the year 1926, in such proportions as the chairman of the board directed.

The amount of stated value of the common stock distributed to the vice presidents and the cash paid as additional compensation was added to expenses of the respective years' operations by the corporation; however, the Commission's accountants, in revising the income and expense statement, treated this expense as a direct deduction from surplus.

Funded debt.—The entire funded debts of Chrysler Corporation were assumed in acquiring properties and assets. These were paid off as they became due or retired in advance of the due dates.

In acquiring Dodge Brothers, Inc., the corporation assumed $2,750,000 principal amount of 5-percent serial notes and $56,705,000 principal amount of 6-percent gold debentures. The notes were due May 1, 1929, and retired on that date. The debentures were due on May 1, 1940. The amount outstanding had been reduced to $30,150,500 by January 1, 1935. The latter amount was paid off on May 1, 1935. In order to pay off the debentures the corporation borrowed $25,000,000 from depository banks. Of this loan, $15,000,000 was repaid in 1935 and the balance during 1936.

As of December 31, 1937, the corporation had no funded debt; its authorized capital consisted of 6,000,000 shares, of $5 par value per share. Of the common shares 4,351,132 were outstanding, 133,243 shares were held in the treasury, and 1,515,625 remained unissued. The consolidated earned surplus as of December 31, 1937, was $82,740,483.10.

Summary of earned surplus account.—Table 48 indicates the balance in the earned surplus account at the beginning of 1927 and subsequent additions to and deductions from the surplus account during the period of 1927 to 1937, inclusive, and the resulting balance as of December 31, 1937. This tabulation shows that the corporation had an earned surplus of $18,648,000 as of January 1, 1927, and earned surplus of $79,309,000 on December 31, 1937.

This tabulation reflects profits, direct additions, and deductions from surplus that vary considerably from the statements submitted by the corporation. More specifically, the corporation's statements were revised so as to reclassify certain items and to reflect these items in surplus direct rather than through charges to current income. The financial reports as submitted by the corporation combined the manufacturing and distribution operations with those of a financial and capital nature, including distribution of profits to the officers and executives. Transactions of such a type may well be considered as a part of the corporation's activities, yet obviously they should be segregated so as not to distort the results obtained from the manufacture and sale of motor vehicles and other products. The position is, therefore, taken that profits and losses relating to capital assets should not be combined with the operations of manufacture and sale of motor vehicles from the standpoint of this inquiry. The principal items excluded from the current motor-vehicle operations consisted of adjusting reserves to reflect a reversal of excess provisions for price adjustments, commitments in excess of markets, handling charges and excise tax, provision for royalties, etc. Other revisions consisted of excluding from expenses provisions for depreciation of investments and gains or losses on securities purchased and sold. Likewise, all bonus payments or provisions for payments to officers and executives that were based on earnings were charged to surplus rather than against current income. Certain of these items, such as payments to Chrysler Management Trust, payments for executive bonus, and payments to Walter P. Chrysler under the employment contract, will be subsequently discussed.

TABLE 48.—*Chrysler Corporation—Summary of earned surplus account applying to consolidated operations, excluding foreign subsidiaries and sales branches, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	Total
Balance, beginning of year	$18,648.173	$29,100,715	$47,982,075	$54,944,433	$44,633,635	$41,634,613	$27,730,377	$34,057,496	$38,616,257	$64,204,342	$73,253,474	$18,648,173
ADDITIONS												
Profit or loss for year	22,981,989	34,100,788	24,668,966	[1] 1,498,273	3,134,195	[1] 9,828,952	13,854,378	10,392,829	41,728,200	68,233,447	58,583,865	266,351,432
Deficit of Airtemps, N. Y., now eliminated from consolidation										46,453		46,453
Liquidation:												
Highland Development Co											2,285	2,285
New York Motor Warehouse Co								1,183				1,183
Chrysler Texas Co			14,679									14,679
Adjustment of reserve for price adjustment		24,006	362,001	240,330	583,677		185,434			85,523		1,480,971
Reverse reserve for miscellaneous investments			778,303									778,303
Gain on 6-percent debentures, Dodge Bros., Inc			121,828	152,468	464,091	447,101	153,329					1,338,817
Gain on marketable securities			15,000					542,970		20,858	153,736	732,564
Adjust reserve for commitments, etc				1,901,244		778,051	599,826	756,409	752,584			4,788,114
Refund:												
Federal income tax				28,590		15,864						44,454
Processing tax										88,158		88,158
Reverse, special distribution (1935)										139,889		139,889
Excess for handling (excise tax)										260,323		260,323
Reverse, 1936 price adjustment reserve											2,190,006	2,190,006
Excess provision for fleet distribution set up in 1936											150,000	150,000
Reverse, 1936 provision for employees' bonus											1,850,951	1,850,951
Excess provision for royalties—United Chromium Co											217,079	217,079
Royalty paid to United Chromium Co											38,000	38,000
Miscellaneous additions	12,923	5,227	30,200	292,474	290,473	85,573	30,618	4,097	1,536	321		753,442
Total surplus additions	22,994,912	34,130,021	25,990,977	1,116,833	4,472,436	[1] 8,502,363	14,823,585	11,697,488	42,482,320	68,874,972	63,185,922	281,267,103
DEDUCTIONS												
Dividends:												
Common stock	8,131,595	10,705,312	13,335,764	11,065,268	4,412,240	4,390,243	4,303,568	5,432,235	8,664,652	52,190,692	43,520,620	166,152,189
Preferred stock	1,720,758	1,041,995										2,762,753
Provision for C reserve	907,211	2,466,941	1,550,000				370,000					7,142,152
Provision for dividend equivalent	38,843	26,087										64,930
Adjustment: Reserve for price adjustment	1,072,088					166,741		204,090	2,049,537		6,446,829	9,939,285

Liquidation:												
L. E. C. I., Paris								70,906				70,906
Berlin company							456,478					456,478
Loss on property sold or retired		151,827	60,959	192,047	173,694	235,357	359,311	440,592	490,544	455,424	229,217	2,788,972
Adjust reserve for commitments, etc		324,820	2,756,424		1,824,875					22,551	1,381,719	6,310,389
Executive bonus, and management plan	511,875	531,250	1,302,486			115,905	644,875		3,070,260	4,574,594	3,648,374	12,711,619
Provision for employees' saving and investment plan and bonus	160,000			162,565	149,343		20,200	392,946				725,054
Provision for contingencies reserve					200,000		50,000	17,823				267,823
Loss on investments					5,164	355,000						360,164
Provision for reserve for miscellaneous investments					9,355		60,000		120,967		115,000	305,322
Provision, reduce carrying value of net assets (except permanent) of foreign subsidiaries to basis of exchange rates prevailing at Dec. 31, 1931					642,946							642,946
Reserve for deposits in closed banks						65,000	1,500,000					1,565,000
Additional provision for obsolescence of parts inventoried							650,000			500,000		1,150,000
Premium on 6-percent Dodge debentures								522,333	1,530,093			2,052,426
Excess for handling (excise tax)									260,323			260,323
London suit (legal fees, etc.)									500,453			500,453
Processing tax—Windfall tax										81,628		81,628
Excess fleet discount reversed in 1937										150,000		150,000
1936 employees' bonus reversed in 1937										1,850,951		1,850,951
Provision for Indiana-gross income tax											255,062	255,062
Provision for 1937 employees' bonus											1,476,188	1,476,188
Miscellaneous deductions		429	22,986	7,751	53,841	73,627	82,034	57,802	207,406		56,773	562,649
Total surplus deductions	12,542,370	15,248,661	19,028,619	11,427,631	7,471,458	5,401,873	8,496,466	7,138,727	16,894,235	59,825,840	57,129,782	220,605,662
Balance, end of year	29,100,715	47,982,075	54,944,433	44,633,635	41,634,613	27,730,377	34,057,496	38,616,257	64,204,342	73,253,474	79,309,614	79,309,614

[1] Denotes a deduction.

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Section 6. Consolidated Income and Expenses, Excluding Foreign Subsidiaries and Sales Branches

Introduction.—Table 49 presents a comparative statement of Chrysler Corporation's consolidated income and expenses, excluding foreign subsidiaries and sales branches, for the period from January 1, 1927, to December 31, 1937. This statement indicates the profit applying to the various bases of investment on which the rates of return were computed.

This statement further presents the income and expenses as determined by the Commission's accountants after applying the revisions outlined under the discussion of the earned-surplus account. The basis of "gross sales," "net sales," "factory cost of sales," and "gross profit on sales," as employed in this statement, have been defined on page 538.

The net sales shown on this statement will be analyzed in subsequent parts of this section so as to show the result obtained from each of the products manufactured and sold and then further analyzed to show the results obtained from each line of cars. Following these analyses, certain tabulations will be presented to show the ratio of factory cost and distribution cost to the amount realized from sales of products and also to present the operating results on a per-car basis for the principal lines of cars.

TABLE 49.—*Chrysler Corporation—Statement of consolidated income and expenses, excluding foreign subsidiaries and sales branches, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932
Gross sales	$164,173,453	$291,058,412	$350,806,772	$197,986,909	$175,788,065	$131,507,382
Less deductions			362,001	4,187,802	3,458,277	2,801,905
Net sales	164,173,453	291,058,412	350,444,771	193,799,107	172,329,788	128,705,477
Factory cost of sales	130,114,787	235,500,552	296,270,720	173,894,156	149,659,693	121,345,305
Gross profit on sales	34,058,666	55,557,860	54,174,051	19,904,951	22,670,095	7,360,172
Commercial and administrative expenses:						
Engineering and development	1,237,388	2,207,309	4,010,425	3,056,617	3,320,128	3,473,961
Advertising	4,251,606	7,214,347	9,633,649	6,205,525	5,062,522	5,198,987
Officers and office salaries	3,158,879	5,728,062	9,268,611	5,424,075	4,794,820	4,339,687
General expenses	1,497,279	4,584,356	4,485,969	5,909,334	5,248,710	4,505,206
Total expenses	10,145,152	19,734,074	27,398,654	20,595,551	18,426,180	17,517,841
Net profit on sales	23,913,514	35,823,786	26,775,397	[1] 690,600	4,243,915	[1] 10,157,669
Other income (net of expenses)	2,136,370	2,685,581	3,194,856	1,461,814	1,071,207	1,100,732
Net profit from motor-vehicle business	26,049,884	38,509,367	29,970,253	771,214	5,315,122	[1] 9,056,937
Income from investments:						
Rent and options on real estate not used		[1] 120,467	[1] 120,426	[1] 121,755	[1] 121,319	[1] 110,614
Sundry investments					9,231	98
Marketable securities	182,645	287,508	167,760	387,950	579,206	444,426
From subsidiaries not consolidated	79,063	178,659	198,278	350,307	220,034	1,500,214
Loans to Chrysler Management Trust			87,500	150,000	70,598	54,295
Total income from outside investments	261,708	345,700	333,112	766,502	757,750	1,888,419
Total net profit before interest and income taxes	26,311,592	38,855,067	30,303,365	1,537,716	6,072,872	[1] 7,168,518
Deduct: Interest on borrowed funds	138,253	1,587,518	3,379,399	3,035,989	2,838,677	2,658,117
Net profit before provision for income taxes	26,173,339	37,267,549	26,923,966	[1] 1,498,273	3,234,195	[1] 9,826,635
Provision for Federal and State income taxes	3,191,350	3,166,761	2,255,000		100,000	2,317
Net profit after providing for income taxes	22,981,989	34,100,788	24,668,966	[1] 1,498,273	3,134,195	[1] 9,828,952

TABLE 49.—*Chrysler Corporation—Statement of consolidated income and expenses, excluding foreign subsidiaries and sales branches, 1927 to 1937, inclusive*—Continued

	1933	1934	1935	1936	1937	Total, years 1927–37
Gross sales	$230, 518, 073	$351, 901, 160	$505, 658, 049	$643, 217, 800	$741, 135, 529	$3, 783, 751, 604
Less deductions	5, 111, 396	5, 869, 795	7, 241, 876	8, 714, 086	13, 107, 877	50, 855, 015
Net sales	225, 406, 677	346, 031, 365	498, 416, 173	634, 503, 714	728, 027, 652	3, 732, 896, 589
Factory cost of sales	192, 110, 717	307, 254, 389	416, 512, 843	521, 727, 720	626, 296, 261	3, 170, 687, 143
Gross profit on sales	33, 295, 960	38, 776, 976	81, 903, 330	112, 775, 994	101, 731, 391	552, 209, 446
Commercial and administrative expenses:						
Engineering and development	3, 673, 971	4, 777, 824	5, 076, 579	5, 878, 875	5, 975, 988	42, 689, 065
Advertising	2, 915, 559	9, 525, 171	14, 812, 938	14, 854, 472	15, 958, 213	95, 632, 989
Officers and office salaries	4, 619, 297	7, 153, 196	7, 245, 226	8, 599, 649	10, 122, 167	70, 453, 669
General expenses	4, 741, 025	6, 445, 001	6, 353, 961	6, 582, 119	6, 420, 786	56, 773, 746
Total expenses	15, 949, 852	27, 901, 192	33, 488, 704	35, 915, 115	38, 477, 154	265, 549, 469
Net profit on sales	17, 346, 108	10, 875, 784	48, 414, 626	76, 860, 879	63, 254, 237	296, 659, 977
Other income (net of expenses)	405, 328	1, 524, 495	1, 680, 752	3, 154, 366	4, 198, 482	22, 613, 983
Net profit from motor-vehicle business	17, 751, 436	12, 400, 279	50, 095, 378	80, 015, 245	67, 452, 719	319, 273, 960
Income from investments:						
Rent and options on real estate not used	[1] 37, 108	30, 288	84, 755	134, 980	159, 823	[1] 221, 843
Sundry investments	13, 871	34, 634	121, 400	319, 477	404, 475	903, 186
Marketable securities	499, 141	261, 289	29, 750	132, 907	164, 414	3, 136, 996
From subsidiaries not consolidated	85, 348	1, 514, 342	798, 872	1, 016, 267	1, 673, 755	7, 615, 139
Loans to Chrysler Management Trust	54, 295	49, 830	45, 111	10, 587	7, 798	530, 014
Total income from outside investments	615, 547	1, 890, 383	1, 079, 888	1, 614, 218	2, 410, 265	11, 963, 492
Total net profit before interest and income taxes	18, 366, 983	14, 290, 662	51, 175, 266	81, 629, 463	69, 862, 984	331, 237, 452
Deduct: Interest on borrowed funds	2, 531, 013	2, 309, 033	883, 779	71, 205	409	19, 433, 392
Net profit before provision for income taxes	15, 835, 970	11, 981, 629	50, 291, 487	81, 558, 258	69, 862, 575	311, 804, 060
Provision for Federal and State income taxes	1, 981, 592	1, 588, 800	8, 563, 287	13, 324, 811	11, 278, 710	45, 452, 628
Net profit after providing for income taxes	13, 854, 378	10, 392, 829	41, 728, 200	68, 233, 447	58, 583, 865	266, 351, 432

[1] Loss.

Deductions from gross value of goods invoiced.—The deductions from gross income as shown on the statement of income and expenses, table 49, consisted largely of overriding discounts, retroactive quantity discounts, and provision for price adjustments and other sundry adjustments. The amounts are shown in the following tabulation:

Sales deductions for the years 1930 to 1937, inclusive

[Sales recorded, net]

Year	Overriding discount	Retroactive quantity discount	Highway safety plan	Sundry sales adjustments	Total
1930	$581,003	$118,375	$270,802	$3,217,622	$4,187,802
1931	1,242,976	74,931	385,927	1,754,443	3,458,277
1932	1,218,222	122,316	138,771	1,322,596	2,801,905
1933	2,494,427	251,538	3,823	2,361,608	5,111,396
1934	4,357,946	324,428		1,187,421	5,869,795
1935	5,729,205	950,578		562,093	7,241,876
1936	7,166,357	1,574,527		[1] 26,798	8,714,086
1937	8,615,779	1,994,573		2,497,525	13,107,877
Total	31,405,915	5,411,266	799,323	12,876,510	50,493,014

[1] Red figures.

Overriding discounts.—Chrysler Corporation invoiced cars to distributors and direct dealers at the Detroit delivered prices less the stated dealer discounts. An additional or overriding discount of 3 percent of Detroit delivered prices was allowed to distributors and direct dealers as follows:

(1) To Chrysler-Plymouth distributors on car sales to dealers and on car sales to the distributor's own branches outside the corporate limits of the city in which the distributor was located.

(2) Chrysler-Plymouth direct dealers on car sales to associate dealers and on sales to the direct dealer's own branches outside the corporate limits of the city in which the direct dealer was located.

(3) Dodge-Plymouth direct dealers on sales of Plymouth cars sold to associate dealers and on sales of Plymouth cars to direct dealer's own branches outside the corporate limits of the city in which the direct dealer was located. The overriding discount did not apply to Dodge cars as they were sold to the associate dealers at a lesser base discount than allowed by the manufacturer. During 1938, the direct dealers allowed 2 percent less than allowed by the manufacturer.

(4) De Soto-Plymouth direct dealers: The provisions applying to these were the same as for a Chrysler-Plymouth direct dealer.

In handling the overriding discount the corporation created a reserve by charging sales as the sales were made to distributors and dealers. The reserve provisions were based on an estimated percent of sales of cars that would be resold. The overriding discounts allowed distributors and dealers were charged to the reserve. A reserve was provided for each car model, and as each model was discontinued, the balance in the reserve was added to sales by the corporation.

Retroactive quantity discounts.—The dealer agreements provided for retroactive quantity discount on purchases, by distributors and dealers, of Chrysler, Dodge, and De Soto motor vehicles. It did not apply to purchases of Plymouth cars. For illustration, if a dealer purchased

1 to 10 1938 model Dodge cars he received a base trade discount of 22.5 percent. But if the purchases exceeded 100 cars then the dealer was allowed a discount of 24.5 percent, and when the purchases reached 101 cars then the 24.5 percent discount applied to all cars billed at a discount less than the latter.

When accounting for the retroactive quantity discount, the corporation created a reserve as cars were shipped by deducting an estimated amount from the billings to dealers and distributors. The reserve provisions were computed by the difference between the billing discount and the estimated effective rate of discount determined by experience. When the retroactive discount was allowed to the distributors and dealers it was deducted from the reserve. A reserve was provided for each car model. The balance in the reserve after a model was discontinued, was added to sales. In revising the income and expenses as reported by the corporation, the Commission's accountants reflected the adjustments of the reserve in other income because the adjustments were not made until a time subsequent to that during which the cars were billed.

Provision for price-adjustment reserve.—The corporation created a yearly reserve to provide for possible price reductions on the new motor vehicles in the hands of dealers. At times it was necessary for Chrysler to make a price adjustment on new-cars stock in dealer's hands in order to clear such stock before the introduction of a new model.

The reserve was created by deducting an estimated sum, from the billings to dealers, that was considered adequate to provide for future price adjustments of a particular model. The reserve provisions were set up as cars were billed to dealers and any price adjustments were deducted from the reserve. When accounting for the reserve the corporation added the balance to sales as the respective models were discontinued. The Commission's accountants revised this procedure and reversed the deductions and additions from sales and substituted therefor the actual adjustments allowed the dealers.

Advertising.—In marketing motor vehicles advertising has, for a long period, been an important feature. Although the manufacturer deals with distributors and large dealers and not the users of motor vehicles, yet the manufacturer extends certain sales aids to dealers and advertises extensively to the users in order to create a demand for the product sold by the dealers. The Chrysler Corporation's sales prices of automobiles to the users include a provision for advertising expense. This holds true whether the charge is listed as a separate item in billing or included in the base price.

From 1927 to 1936, inclusive, Chrysler Corporation made charges for advertising to the dealers on the car invoices at a fixed amount per car as designated in the dealer agreements or price bulletins. On December 23, 1936, the delivered "ready to run" f. o. b. Detroit price was put into effect and since that date advertising has not been billed as a separate item on the car invoices. The statements made regarding the charges on car invoices for advertising do not mean that the company did not expend more per car in advertising than the advertising billed separately.

The advertising charges per car billed in car invoices and the expenditures per car are illustrated for three of Chrysler lines of cars.

Year	Plymouth				Dodge			
	Advertising billed in invoice	Number cars sold	Total advertising	Expenditure per car	Advertising billed in invoice	Number cars sold	Total advertising	Expenditure per car
1930	$19.50	63,287	$920,905	$14.55	$8.50-$38.50	77,963	$3,699,746	$47.46
1931	5.00	101,381	1,847,645	18.22	8.50- 20.00	65,024	2,276,576	35.01
1932	5.00	117,673	2,787,983	23.69	8.50- 20.00	35,335	1,573,292	44.53
1933	5.00	242,315	2,795,090	11.53	8.50- 20.00	118,304	2,656,409	22.45
1934	.75	315,764	3,459,922	10.96	6.00- 8.00	150,864	3,198,722	21.20
1935	3.50	385,685	4,140,176	10.73	6.00- 8.00	261,646	[1]	--------
1936	3.50	459,722	4,811,865	10.47	6.00- 8.00	336,591	4,510,457	13.40

[1] Not available.

The advertising invoice charge per Dodge car in 1930 ranged from $8.50 for the Six to $38.50 for the Senior Eight. The intermediate models such as Standard Eight carried a charge of $12 and the Deluxe Six carried a charge of $27.50 per car.

Year	Chrysler				Chrysler				
	Advertising billed in invoice	Number cars sold	Total advertising	Expenditure per car	Year	Advertising billed in invoice	Number cars sold	Total advertising	Expenditure per car
1930	$26.00-$70.50	54,192	$3,334,363	$61.53	1934	$1.25-$2.00	33,076	$1,097,917	$33.19
1931	10.00- 25.00	47,742	2,303,286	48.24	1935	10.00-15.00	45,609	[1]	--------
1932	10.00- 25.00	23,282	1,335,368	57.36	1936	10.00-15.00	65,536	3,135,671	47.85
1933	10.00- 25.00	27,583	1,101,278	39.93					

[1] Not available.

The advertising invoice charges per Chrysler car in 1930 ranged from $17 to $70.50. The various models carried the following charges:

Chrysler CJ	$17.00	Chrysler 75	$35.50
Chrysler 66	26.00	Chrysler 77	36.00
Chrysler 65	29.00	Chrysler I. M. P.–C. G	50.00
Chrysler 70	30.00	Chrysler I. M. P. 6	70.50
Chrysler 8—CD	30.00		

During 1936 the charges were $6 on the Airstream sixes and eights; and on the Airflows, C–9, $12.50; C–10, $15; and C–11, $15.

With regard to handling advertising, the Chrysler Corporation advised that the sales divisions were told what their advertising appropriations were to be, based on an amount per car. This amount consisted of a combination of the amount billed as a separate item on car invoices plus an amount to be provided by the corporation. In applying amounts collected on car invoices for advertising, consideration was always given to a provision which might be necessary in order that the number of cars in the hands of dealers would not be overlooked in connection with advertising expenditures. Stated differently: For budget-control purposes the advertising fund contributed by the corporation might well be spent when cars were shipped to dealers. However, it was always necessary to give consideration to the advertising per car collected as a separate item on the invoices, to the end that the expenditures were regulated more as the cars were sold at retail by the dealers than at the time the cars were shipped from the factory.

The advertising charges billed to dealers as advertising were covered by the factory suggested retail prices as furnished to dealers; therefore, the charges presumably were collected by the dealers when they sold the cars at retail.

Chrysler Corporation advertising during 1938 for Chrysler cars was placed through Lee Anderson Advertising Co., of Detroit, Mich.; for Plymouth and De Soto cars, it was placed through J. Sterling Getchell, of New York and Detroit; and Dodge advertising was placed through Ruthrauff & Ryan, of New York and Detroit. Each division advertised through its own agency on an independent basis, but the divisions obtained the advantages of quantity advertising rates as the advertising agencies worked together to obtain quantity rates in the event two or more divisions are using the same advertising medium. The advertising agencies charged the Chrysler Corporation for the cost of the mechanical preparation, including art work, engraving, and composition, plus 15 percent of the cost. The advertising agencies then collected 15 percent of the cost of placing the advertising from the advertising mediums.

The foregoing discussion pertains to the general advertising of the Chrysler Corporation. At times the corporation assisted in local dealer sales-promotion programs. For example, officials of the corporation stated that the Dodge dealers in the metropolitan Detroit area agreed among themselves that they would do some additional advertising and requested the factory to bill $2 on each car or truck which they purchased. The corporation included such a charge on the car invoices and the funds so collected were retained in an account called "Dodge dealers sales-promotion fund."

The manufacturer did not enter into the commitment but the dealers did consult with the Dodge regional manager and the Dodge advertising department, and the invoices for advertising, after approval, were sent to the manufacturer and paid from the fund collected. Similar arrangements have at various times existed for other districts on the various lines of cars. The charges resulting from such plans are not imposed by the manufacturer and the manufacturer enters into the arrangement only as a collecting agent for the dealer.

There also have been times when the dealers in a given district have either individually or collectively arranged to expend a certain amount for advertising, provided the manufacturer would contribute toward the program. On numerous occasions the factory has contributed toward such advertising campaigns and in such cases it might alter its original program for advertising in a particular section and substitute the contribution for that which originally had been planned.

As illustrated by the next tabulation, the Chrysler Corporation billed advertising separately to dealers in the amount of $31,309,492, during the period from 1927 to 1936, inclusive. The dealers in turn included these charges in the prices charged the consumers. In the same period, plus the year 1937, the Chrysler Corporation spent $95,632,989 in advertising its products. Of this amount only $31,309,492 was billed separately as advertising, but regardless of whether advertising was billed separately or included in the base prices, yet the consumers, in the final analysis, paid the total cost of advertising.

Year	Billed on cars and trucks	Total advertising per expense statement	Year	Billed on cars and trucks	Total advertising per expense statement
1927	$2,637,305	$4,251,606	1934	$1,382,659	$9,525,171
1928	3,466,471	7,214,347	1935	3,653,379	14,812,938
1929	5,904,720	9,633,649	1936	4,550,747	14,854,472
1930	2,514,171	6,205,525			
1931	2,463,475	5,062,522	Total	31,309,492	79,674,776
1932	1,615,603	5,198,987	1937	(2)	15,958,213
1933	3,120,962	[1] 2,915,559			

[1] Charge to expenses was less in 1933 than the amount billed, because of an adjustment amounting to $4,689,628.40.
[2] Billed in car prices.

Components of sales and cost of sales per income and expenses.—In the discussion of the financial statements presented for the United States operations of Chrysler Corporation, it was stated these operations were conducted by several corporations. These corporations not only conducted business with the public but their operations involved intercompany transactions. This situation complicated the work of the Commission's accountants, especially in obtaining any analysis of sales, factory cost of sales, and commercial and administrative expenses.

For illustration, an analysis of sales and factory cost of sales was available for the Chrysler Corporation and Chrysler Motor Parts Corporation as separate entities, but not available for the other sales companies and Chrysler Motors of California. Furthermore, if the analysis had been available for the latter, there would have arisen the problem of separating in detail the billings by Chrysler Corporation of goods to the subsidiaries. This information was not readily available and to obtain it would have involved a considerable amount of work.

In view of this situation it was concluded to confine the analysis of sales, factory cost of sales, and commercial and administrative expenses to the operations of Chrysler Corporation and Chrysler Motor Parts Corporation because they represented by far the larger portion of the total. This is illustrated by the fact that the goods billed by the latter two corporations amounted to $715,295,026 during 1937, while the total billings by the consolidated United States operations amounted to $728,027,652.

In order to reconcile the analysis statements, which follow, with the income and expense statement, page 587, it is necessary to refer to the statement reconciling the two which follow. The first part of the next statement, table 50, shows the components of the sales amounts and factory cost of sales presented by the income and expense statement. The second part then starts with the sales and cost of sales by the Chrysler Corporation and then takes up the sales and cost of sales to subsidiaries and the sales and cost of sales of the Parts Corporation. After giving effect to certain adjustments, the result represents the sales and cost of sales that permitted of further analysis within a reasonable time.

The first part of the next statement shows sales by Chrysler Corporation to the public amounting to $612,252,817 during 1937. Add to this the sum of $83,279,688 and $7,913,327 for goods billed to United States and foreign subsidiaries, deduct the billings of $7,813,819 to Chrysler Motor Parts Corporation and add the sales

TABLE 50.—*Chrysler Corporation—Components of sales and cost of sales per income statement and analysis by lines of products*

SALES AND COST OF SALES OF COMPANIES IN CONSOLIDATION OF UNITED STATES BUSINESS

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Sales of companies included in special consolidation:									
Chrysler Corporation to public	$323,065,257	$181,279,480	$158,229,047	$113,071,804	$201,636,596	$309,825,429	$420,010,639	$536,503,474	$612,252,817
Chrysler Corporation to subsidiaries not consolidated	27,234,447	12,759,957	14,661,939	14,413,818	17,357,908	21,402,631	28,654,157	42,745,812	52,120,827
Chrysler Motors of California				1,058,143	6,388,521	14,918,857	28,602,230	34,898,908	36,328,639
Chrysler Motor Parts Corporation							10,931,814	11,940,858	12,913,526
Sales companies							8,270,392	9,193,962	7,882,403
Adjustment of sales by corporation			[1] 45,572	[1] 86,158	637,617	[1] 492,005	[1] 295,683	[1] 167,266	1,864,602
Total net sales before Federal Trade Commission adjustments	350,299,704	194,039,437	172,845,414	128,457,607	226,020,642	345,654,912	496,173,599	635,115,748	723,362,814
Adjustments by Federal Trade Commission	145,067	[1] 240,330	[1] 515,626	247,870	[1] 613,965	376,452	2,242,574	[1] 612,034	4,664,838
Total net sales per income statement	350,444,771	193,799,107	172,329,788	128,705,477	225,406,677	346,031,365	498,416,173	634,503,714	728,027,652
Factory cost of sales included in special consolidation:									
Chrysler Corporation to public	262,153,135	148,790,091	133,916,147	98,101,411	173,624,417	274,952,559	360,432,727	440,445,884	527,321,104
Chrysler Corporation to subsidiaries not consolidated	23,013,364	10,453,491	12,241,944	12,333,310	14,946,724	19,494,902	24,663,825	36,074,099	46,755,235
Chrysler Motors of California				949,945	5,509,761	13,618,721	26,374,725	31,940,813	33,652,539
Chrysler Motor Parts Corporation							7,286,561	7,317,746	7,813,819
Sales companies							8,187,666	9,465,137	7,844,327
Gross profit on sales by Chrysler Corporation to California and sales companies	12,316,328	12,376,540	5,003,357	[1] 220,878	[1] 269,547	[1] 769,550	[1] 2,115,850	[1] 4,297,279	[1] 4,392,978
Adjustment by corporation				9,351,862	[1] 1,520,857	[1] 956,076	[1] 8,978,807	1,184,338	[1] 97,264
Under absorbed factory burden									6,954,142
Total cost of goods before Federal Trade Commission adjustments	297,482,827	171,620,122	151,161,448	120,515,650	192,290,498	306,340,556	415,850,847	522,130,738	625,850,924
Adjustments by Federal Trade Commission	[1] 1,212,107	2,274,034	[1] 1,501,755	829,655	[1] 179,781	913,833	661,996	[1] 403,018	445,337
Total cost of goods after Federal Trade Commission adjustments	296,270,720	173,894,156	149,659,693	121,345,305	192,110,717	307,256,389	416,512,843	521,727,720	626,296,261

[1] Deduction.

RECONCILIATION OF SALES AND COST OF SALES USED FOR PURPOSE OF ANALYSIS WITH THOSE INCLUDED IN UNITED STATES INCOME AND EXPENSE STATEMENT

Net sales:									
Chrysler Corporation to public	$323,065,257	$181,279,480	$158,229,047	$113,071,804	$201,636,596	$309,825,429	$420,010,689	$536,503,474	$612,252,817
Chrysler Corporation intercompany:									
United States and Canada	27,234,447	12,759,957	12,640,198	13,840,715	19,276,190	29,297,014	61,096,666	76,644,173	83,279,688
Foreign			2,021,741	1,803,571	2,061,272	3,754,909	4,102,507	6,396,094	7,913,327
Total	350,299,704	194,039,437	172,890,986	128,716,090	222,974,058	342,877,352	485,209,862	619,543,741	703,445,832
Eliminate sales of Chrysler Corporation to Motor Parts Corporation							[1] 7,286,561	[1] 7,317,746	[1] 7,813,819
Sales by Motor Parts Corporation							10,931,814	11,940,858	12,913,526
Total net sales before Federal Trade Commission adjustments	350,299,704	194,039,437	172,890,986	128,716,090	222,974,058	342,877,352	488,855,115	624,166,853	708,545,539
Adjustments by Federal Trade Commission	145,067	[1] 240,330	[1] 561,198	163,045	31,790	[1] 115,551	2,066,895	[1] 511,391	6,749,487
Total sales per analysis, by divisions	350,444,771	193,799,107	172,329,788	128,879,135	223,005,848	342,761,801	490,922,010	623,655,462	715,295,026
Factory cost of sales:									
Chrysler Corporation to public	262,153,135	148,790,091	133,916,147	98,101,411	173,624,417	274,952,559	360,432,727	440,445,884	527,321,104
Chrysler Corporation intercompany:									
United States and Canada	23,013,364	10,453,491	10,691,048	11,920,499	17,027,700	27,243,156	55,838,095	67,257,134	75,040,818
Foreign			1,550,896	1,422,402	1,629,030	3,131,489	3,263,245	4,834,838	6,410,353
Total	285,166,499	159,243,582	146,158,091	111,444,312	192,281,147	305,327,204	419,534,067	512,537,856	608,772,275
Under or over absorbed [1] factory burden	12,316,328	12,376,540	7,506,566	8,434,352	[1] 1,902,555	297,924	[1] 11,273,282	[1] 4,681,242	7,017,353
Total cost of goods before Federal Trade Commission adjustments	297,482,827	171,620,122	153,664,657	119,878,664	190,378,592	305,625,138	408,260,785	507,856,614	615,789,628
Adjustments by Federal Trade Commission	[1] 1,212,107	2,274,034	[1] 4,004,964	1,732,546	158,036	[1] 618,950	2,985,268	5,609,861	345,425
Total cost of goods per analysis, by divisions	296,270,720	173,849,156	149,659,693	121,611,210	190,536,623	305,006,178	411,246,053	513,466,475	616,135,053

[1] Deduction.

by the latter amounting to $12,913,526 plus the adjustments of $6,749,487, gives a result of total sales of $715,295,026 for Chrysler Corporation and Chrysler Motor Parts Corporation combined. This amount was then analyzed to obtain the operating results by lines of products and motor vehicles.

Analysis of sales, factory cost of sales, and gross and net profit, by lines of products.—The next tabulation presents an analysis of the net sales and cost of sales and profit, by classes of goods, manufactured in and sold from the United States plants of the Chrysler Corporation. The classes of products indicated in this tabulation are readily understood. The term "production parts," as used here, means parts of cars produced in the United States plants and sold to Canadian and foreign subsidiaries for assembly into motor vehicles. The term "other products," in general, refers to industrial engines, marine engines, and air-conditioning equipment.

As shown under the description of Chrysler Corporation plants and subsidiaries, the corporation maintained a sales-promotion company for each of its lines of cars and products. Each sales-promotion company enters into a contract with the Chrysler Corporation whereby the sales company agrees to promote the sales of products, and in consideration for this service the Chrysler Corporation agrees to pay all of the expenses of the sales company plus 2 percent of such expenses other than expenses for advertising. The sales company also agrees to purchase from the Chrysler Corporation all shipments to distributors, dealers, and associate dealers which are not accepted by the distributors, dealers, and associate dealers, and to take delivery thereof, and to pay therefor at the agreed prices to the distributors, dealers, and associate dealers. For the latter service, the sales company receives 1 percent of the invoice price of all products purchased and paid for by the sales company.

In constructing the balance sheets and income and expense statements submitted in this report, the Commission's accountants consolidated the sales-promotion companies with the Chrysler Corporation parent company statements and eliminated the profit of the sales companies, taking into account the actual expenses. The Chrysler Corporation's corporate structure was so arranged and accounts kept in such a manner that the Commission was able to obtain a sound distribution of the selling and administrative expenses that applied to each line of products and from that determined the actual profit realized from each line of products.

TABLE 51.—*Chrysler Corporation—Summary of net sales, factory cost of sales, gross profit on goods, expenses, and net profit, by lines of products, applying to the United States operations, 1927 to 1937, inclusive*

	New motor vehicles	Parts and accessories	Production parts	Other products	Total
Net sales:					
1929	$335,724,983	$14,719,788			$350,444,771
1930	182,247,356	11,074,857		$476,894	193,799,107
1931	163,512,316	8,396,528		420,944	172,329,788
1932	122,562,181	5,933,161		383,793	128,879,135
1933	215,883,922	6,491,862		630,064	223,005,848
1934	331,294,628	10,636,703		830,470	342,761,801
1935	448,042,498	16,838,067	$24,720,855	1,320,590	490,922,010
1936	570,305,347	22,161,626	29,307,431	1,881,058	623,655,462
1937	654,068,197	28,458,583	30,747,256	2,020,990	715,295,026
Total	3,023,641,428	124,711,175	84,775,542	7,964,803	3,241,092,948

TABLE 51.—*Chrysler Corporation—Summary of net sales, factory cost of sales, gross profit on goods, expenses, and net profit, by lines of products, applying to the United States operations, 1927 to 1937, inclusive*—Continued

	New motor vehicles	Parts and accessories	Production parts	Other products	Total
Factory cost of sales:					
1929	$288, 738, 437	$7, 532, 283			$296, 270, 720
1930	166, 549, 378	6, 890, 647		$454, 131	173, 894, 156
1931	144, 488, 067	4, 793, 585		378, 041	149, 659, 693
1932	117, 506, 563	3, 750, 681		353, 966	121, 611, 210
1933	186, 307, 656	3, 803, 577		425, 395	190, 536, 628
1934	297, 346, 890	7, 030, 814		628, 474	305, 006, 178
1935	377, 051, 916	10, 980, 615	$22, 163, 842	1, 049, 680	411, 246, 053
1936	471, 555, 829	14, 051, 292	26, 505, 149	1, 354, 205	513, 466, 475
1937	568, 355, 563	18, 304, 785	28, 138, 990	1, 335, 715	616, 135, 053
Total	2, 617, 900, 299	77, 138, 279	76, 807, 981	5, 979, 607	2, 777, 826, 166
Gross profit on sales:					
1929	46, 986, 546	7, 187, 505			54, 174, 051
1930	15, 697, 978	4, 184, 210		22, 763	19, 904, 951
1931	19, 024, 249	3, 602, 943		42, 903	22, 670, 095
1932	5, 055, 618	2, 182, 480		29, 827	7, 267, 925
1933	29, 576, 266	2, 688, 285		204, 669	32, 469, 220
1934	33, 947, 738	3, 605, 889		201, 996	37, 755, 623
1935	70, 990, 582	5, 857, 452	2, 557, 013	270, 910	79, 675, 957
1936	98, 749, 518	8, 110, 334	2, 802, 282	526, 853	110, 188, 987
1937	85, 712, 634	10, 153, 798	2, 608, 266	685, 275	99, 159, 973
Total	405, 741, 129	47, 572, 896	7, 967, 561	1, 985, 196	463, 266, 782
Distribution and administration expenses:					
1929	24, 950, 968	2, 447, 686			27, 398, 654
1930	18, 915, 590	1, 613, 813		66, 148	20, 595, 551
1931	16, 136, 229	2, 184, 224		105, 727	18, 426, 180
1932	15, 953, 884	1, 369, 035		107, 313	17, 430, 232
1933	14, 207, 288	1, 546, 619		100, 494	15, 854, 401
1934	24, 818, 105	2, 855, 744		158, 009	27, 831, 858
1935	28, 145, 420	3, 354, 140		159, 078	31, 658, 638
1936	30, 819, 590	4, 815, 117		260, 303	35, 395, 010
1937	32, 320, 935	5, 731, 572		217, 137	38, 269, 644
Total	205, 768, 009	25, 917, 950		1, 174, 209	232, 860, 168
Net profit on sales:					
1929	22, 035, 578	4, 739, 819			26, 775, 397
1930	[1] 3, 217, 612	2, 570, 397		[1] 43, 385	[1] 690, 600
1931	2, 888, 020	1, 418, 719		[1] 62, 824	4, 243, 915
1932	[1] 10, 898, 266	813, 445		[1] 77, 486	[1] 10, 162, 307
1933	15, 368, 978	1, 141, 666		104, 175	16, 614, 819
1934	9, 129, 633	750, 145		43, 987	9, 923, 765
1935	42, 845, 162	2, 503, 312	2, 557, 013	111, 832	48, 017, 319
1936	68, 429, 928	3, 295, 217	2, 802, 282	266, 550	74, 793, 977
1937	53, 391, 699	4, 422, 226	2, 608, 266	468, 138	60, 890, 329
Total	199, 973, 120	21, 654, 946	7, 967, 561	810, 987	230, 406, 614

[1] Loss.

Ratios of expenses in gross and net profit to per dollar of sales.—Table 52 presents a comparative statement of ratios of cost of goods sold, of distribution and administrative expenses, and gross and net profit on sales in relation to the total net sales.

These ratios are presented to show the trend of the different items of expense in relation to sales and their effect on net profit as well as to indicate the profitableness of the various divisions of sales and products. By reference to the table it will be observed that the highest rates of profit were earned on sales of replacement parts and accessories. Replacement parts produced an average net profit of 17.3 cents for every dollar of sales made during the 9 years 1929 to 1937, inclusive. This rate of profit compares to an average net profit on new car sales of 6.40 cents for every dollar of sales during the same period.

Other products produced and sold produced an average net profit of 10.2 cents for every dollar of sales.

With regard to factory costs of total sales during the 9 years, it will be observed that this classification of costs represented 85.7 cents for every dollar of sales. The factory cost of sales was 84.5 cents per dollar in 1929 and increased to 94.4 cents in 1932. From that point it decreased to 82.3 cents in 1936 and then increased to 86.1 cents in 1937. Distribution and administrative expenses followed a similar trend from 1929 to 1932 but after that the trend was constantly downward rather than upward in 1937 as was factory cost of sales. Distribution and administrative expenses represented 7.8 cents for every dollar of sales in 1929 and increased to 13.5 cents in 1932. From that point it declined to 7.1 cents in 1933; increased to 8.1 cents in 1934, and then declined to 5.4 cents in 1937.

TABLE 52.—*Chrysler Corporation—Ratios of expenses, gross profit, and net profit to per dollar of sales, 1929 to 1937, inclusive*

	New motor vehicles	Parts and accessories	Production parts	Other products	Total
	Cents	*Cents*	*Cents*	*Cents*	*Cents*
Per dollar of sales:					
1929	100.0	100.0	100.0	100.0	100.0
1930	100.0	100.0	100.0	100.0	100.0
1931	100.0	100.0	100.0	100.0	100.0
1932	100.0	100.0	100.0	100.0	100.0
1933	100.0	100.0	100.0	100.0	100.0
1934	100.0	100.0	100.0	100.0	100.0
1935	100.0	100.0	100.0	100.0	100.0
1936	100.0	100.0	100.0	100.0	100.0
1937	100.0	100.0	100.0	100.0	100.0
Total	100.0	100.0	100.0	100.0	100.0
Factory cost of sales:					
1929	86.0	51.2			84.5
1930	91.4	62.2		95.2	89.7
1931	88.4	57.1		89.8	86.9
1932	95.9	63.2		92.2	94.4
1933	86.3	58.6		67.5	85.4
1934	89.8	66.1		75.7	89.0
1935	84.1	65.2	89.7	79.5	83.8
1936	82.7	63.4	90.4	72.0	82.3
1937	86.9	64.3	91.5	66.1	86.1
Total	86.6	61.9	90.6	75.1	85.7
Gross profit on sales:					
1929	14.0	48.8			15.5
1930	8.6	37.8		4.8	10.3
1931	11.6	42.9		10.2	13.1
1932	4.1	36.8		7.8	5.6
1933	13.7	41.4		32.5	14.6
1934	10.2	33.9		24.3	11.0
1935	15.9	34.8	10.3	20.5	16.2
1936	17.3	36.6	9.6	28.0	17.7
1937	13.1	35.7	8.5	33.9	13.9
Total	13.4	38.1	9.4	24.9	14.3
Distribution and administrative expenses:					
1929	7.4	16.6			7.8
1930	10.4	14.6		13.9	10.6
1931	9.9	26.0		25.1	10.7
1932	13.0	23.1		28.0	13.5
1933	6.6	23.8		16.0	7.1
1934	7.5	26.8		19.0	8.1
1935	6.3	19.9		12.0	6.4
1936	5.3	21.7		13.8	5.7
1937	4.9	20.1		10.7	5.4
Total	6.8	20.8		14.7	7.2

TABLE 52.—*Chrysler Corporation—Ratios of expenses, gross profit, and net profit to per dollar of sales, 1929 to 1937, inclusive*—Continued

	New motor vehicles	Parts and accessories	Production parts	Other products	Total
Net profit on sales:	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*
1929	6.6	32.2			7.7
1930	[1] 1.8	23.2		[1] 9.1	[1] .3
1931	1.7	16.9		[1] 14.9	2.4
1932	8.9	13.7		[1] 20.2	[1] 7.9
1933	[1] 7.1	17.6		16.5	7.5
1934	2.7	7.1		5.3	2.9
1935	9.6	14.9	10.3	8.5	9.8
1936	12.0	14.9	9.6	14.2	12.0
1937	8.2	15.6	8.5	23.2	8.5
Total	6.6	17.3	9.4	10.2	7.1

[1] Loss.

Volume of sales in relation to capital employed.—In a preceding part of this report the investment and rates of return earned on the investment have been shown for the various bases of investment, as described. The rate of profit earned on the investment is now related to the rate of profit earned on the sales. This is done by table 53, which shows the net sales, the investment employed, and the relation of the sales volume turn-over to the investment employed.

By referring to the preceding table it will be observed that the rate of profit earned on sales in this table does not agree with the rate of profit on sales in the next following table. The difference represents miscellaneous income accruing to the corporation from operations but which cannot be allocated to the classes of sales. This miscellaneous income, however, must be taken into consideration when relating the net profit on sales to the rate of return on the investment.

TABLE 53.—*Chrysler Corporation—Volume of sales in relation to capital employed and rates of return applying to consolidated operations excluding foreign subsidiaries and sales branches, 1927 to 1937, inclusive*

Year	Average investment	Volume of net sales	Times sales volume exceeded capital	Percent of net profit to sales	Percent rate of return on investment
1927	$45,527,458	$164,173,453	3.6060	15.87	57.22
1928	93,716,608	291,058,412	3.1057	13.23	41.09
1929	140,390,505	350,444,771	2.4962	8.55	21.35
1930	120,732,827	193,799,107	1.6052	.40	.64
1931	104,599,322	172,329,788	1.6475	3.08	5.08
1932	92,886,543	128,705,477	1.3856	[1] 7.04	[1] 9.75
1933	86,841,711	225,406,677	2.5956	7.88	20.44
1934	101,871,097	346,031,365	3.3968	3.58	12.17
1935	109,080,307	498,416,173	4.5693	10.05	45.93
1936	107,466,270	634,503,714	5.9042	12.61	74.46
1937	113,482,612	728,027,652	6.4153	9.27	59.44
Average	101,507,933	339,354,235	3.3431	8.55	28.59

[1] Loss.

In the section dealing with rates of return it was shown that the annual average rate of return on the investment in the manufacturing business, for the 11-year period, was 28.59 percent. The average net sales during the same period amounted to $339,354,000 per year.

The average yearly sales related to an average investment of $101,-507,000 results in a sales volume of 3,343 times the capital employed. Relating the sales volume in proportion to the annual average rate of net profit on sales of 8.55 percent results in the annual average rate of return of 28.59 percent on the investment.

By reference to the tabulation just referred to it will be observed that the greatest volume of sales were obtained in the year 1937 and was 6.415 times the capital employed. The lowest volume of sales occurred in 1932 and was 1.385 times the capital employed.

Effect of volume on profit.—The cost of manufacturing and selling motor vehicles and the profitableness to the manufacturer were influenced tremendously by the volume of production and sale. A substantial portion of the manufacturer's overhead expenses continue even when the volume of business sharply declines. The importance of volume is clearly illustrated by the summary of percentages of expenses and profit in relation to per dollar of goods sold during specified years, in the preceding table 53.

For illustration, during 1929 the Chrysler Corporation invoiced 366,077 units from the United States plants and the margin of profit on the dollar amount of the cars invoiced was 6.3 percent. The volume declined to 202,408 in 1932, and a loss of .9 percent of the dollar amount of car sales resulted. Beginning in 1932 the volume increased each year until it reached the total of 911,629 units in 1936, and the margin of profit on the dollar amount of units sold was 12 percent.

At this point it should be observed that the percent of profit on the amount of sales during 1934 did not follow the trend of increase in volume because of increased cost for labor and material. The same condition holds true in 1937, when the volume of business continued to increase and 979,514 units were invoiced from the United States plants. The percentage of profit on the amount of sales, however, declined from 12 percent in 1936 to 8.5 percent in 1937. The decrease was accounted for by a corresponding increase in cost for labor and materials.

The relation of capital to sales likewise followed the trend of volume and the increase in frequency of turn-over was usually indicative of the profitableness of operations.

The frequency of inventory turn-over is significant from the standpoint of integration. The greater the integration the less frequent was the turn-over of inventory. The Ford Motor Co. is more integrated than other motor vehicle manufacturers with General Motors second in line. The Chrysler Corporation purchased a large proportion of its production parts from independent suppliers. Its assembly was scheduled so that many parts were assembled into cars and shipped on the same day the parts were received.

The beginning and end of year average inventory is shown in the next tabulation together with the frequency of turn-over in relation to the yearly amount of goods invoiced.

Frequency of yearly turn-over of inventory

Year	Average inventory	Net sales	Rate of turn-over	Percent of profit to sales
			Times	*Percent*
1927	$13,537,906	$164,173,453	12.13	14.6
1928	25,390,166	291,058,412	11.46	12.3
1929	34,678,251	350,444,771	10.11	7.7
1930	27,391,544	193,799,107	7.08	[1].3
1931	21,471,779	172,329,788	8.03	2.4
1932	18,505,117	128,705,477	6.96	[1]7.9
1933	25,012,447	225,406,677	9.01	7.5
1934	33,473,780	346,031,365	10.34	2.9
1935	39,286,474	498,416,173	12.69	9.8
1936	49,683,686	634,503,714	12.77	12.0
1937	47,715,676	728,027,652	15.26	8.5
Average	30,283,756	339,354,235	11.21	8.5

[1] Loss.

Summary of net sales, factory cost of sales, gross and net profit by lines of cars.—In the preceding section, the sales were analyzed to show the sales in the United States and foreign countries by line of products. The sales of new cars sold in the United States are now further analyzed to show the sales, cost of sales, distribution, and administrative expenses and margins of profit by lines of cars. The terms "by lines of cars" means, in this instance, Chrysler cars, De Soto cars, Dodge cars and trucks, and Plymouth cars.

The column designated as "Fargo sales" means motor vehicles sold by the Fargo Motor Corporation. This corporation at one time sold Fargo trucks. Subsequently, the manufacture of Fargo trucks was discontinued and the company experimented with the manufacture of passenger busses. This venture proved unprofitable and was discontinued. The chief activities of this corporation during 1937 consisted of the sale of cars, trucks, and other products to large fleet operators, the Federal Government and various State and municipal departments. In this capacity, it did not take title to the cars nor record sales of cars but merely promoted the sales of cars. In consideration for its services, Chrysler Corporation is under contract to pay (*a*) a 5 percent overriding discount on all cars, trucks, and car and trucks accessories purchased by Fargo from Chrysler Corporation; (*b*) a 3-percent commission which will be based on the net wholesale price of all Chrysler cars or trucks and accessories sold to fleet operators but not purchased by Fargo from Chrysler.

By reference to the tabulation, it will be observed that during the 6 years under consideration, the Dodge line of cars and trucks was the most profitable from the standpoint of aggregate amount, Plymouth was second in aggregate profit and Chrysler third, while De Soto cars reflected a loss for the 6 years specified. At this point, it is proper to point out that this analysis was prepared for only the 6 specified years and left out the years 1930, 1931, and 1933. However, it includes the only year in which the Chrysler Corporation's total operations show a loss.

The analysis was restricted to the 6 years because of the necessity of restricting the work to the minimum. This type of analysis necessitates a considerable amount of work in order to divide the various elements shown by the table.

TABLE 54.—*Chrysler Corporation—Summary of net sales, factory cost of sales, expenses, and profit by lines of cars sold from United States plants, during the years 1929, 1932, 1934, 1935, 1936, and 1937*

	Chrysler cars	De Soto cars	Dodge cars and trucks	Plymouth cars	Fargo sales	Total
Units sold:						
1929	81, 857	56, 763	139, 272	84, 200	3, 985	366, 077
1932	23, 282	26, 070	35, 335	117, 673	48	202, 408
1934	33, 076	13, 903	150, 864	315, 764	2	513, 609
1935	45, 609	31, 605	261, 646	385, 685		724, 545
1936	65, 536	49, 780	336, 591	459, 722		911, 629
1937	101, 874	82, 983	336, 139	458, 518		979, 514
Total	351, 234	261, 104	1, 259, 847	1, 821, 562	4, 035	3, 697, 782
Net amount of sales:						
1929	$87, 357, 064	$38, 522, 468	$113, 926, 770	$46, 627, 519	$2, 830, 777	$289, 264, 598
1932	18, 753, 561	15, 410, 483	22, 954, 157	57, 165, 367	298, 398	114, 581, 966
1934	26, 645, 368	10, 957, 111	93, 481, 535	171, 964, 080	28, 728	303, 079, 822
1935	35, 038, 870	21, 884, 799	154, 341, 210	205, 607, 824		416, 872, 703
1936	49, 906, 819	33, 236, 392	197, 201, 089	249, 867, 411		530, 211, 711
1937	77, 233, 483	55, 843, 474	208, 322, 142	262, 817, 732		604, 216, 831
Total	294, 935, 165	175, 854, 727	790, 229, 903	994, 049, 933	3, 157, 903	2, 258, 227, 631
Factory cost of cars sold:						
1929	71, 289, 625	32, 656, 691	98, 649, 027	44, 287, 906	2, 475, 279	249, 358, 528
1932	17, 329, 397	14, 605, 636	21, 732, 509	55, 852, 301	438, 841	109, 958, 684
1934	25, 752, 036	11, 945, 754	80, 642, 822	155, 056, 598	6, 907	273, 404, 117
1935	31, 600, 741	20, 568, 640	125, 114, 685	174, 873, 796		352, 157, 862
1936	43, 647, 883	29, 024, 536	157, 245, 812	209, 732, 156		439, 650, 387
1937	69, 273, 308	50, 123, 015	177, 331, 539	230, 715, 501		527, 443, 363
Total	258, 892, 990	158, 924, 272	660, 716, 394	870, 518, 258	2, 921, 027	1, 951, 972, 941
Gross margin of profit:						
1929	16, 067, 439	5, 865, 777	15, 277, 743	2, 339, 613	355, 498	39, 906, 070
1932	1, 424, 164	804, 847	1, 221, 648	1, 313, 066	[1] 140, 443	4, 623, 282
1934	893, 332	[1] 988, 643	12, 841, 713	16, 907, 482	21, 821	29, 675, 705
1935	3, 438, 129	1, 316, 159	29, 226, 525	30, 734, 028		64, 714, 841
1936	6, 258, 936	4, 211, 856	39, 955, 277	40, 135, 255		90, 561, 324
1937	7, 960, 175	5, 720, 459	30, 990, 603	32, 102, 231		76, 773, 468
Total	36, 042, 175	16, 930, 455	129, 513, 509	123, 531, 675	236, 876	306, 254, 690
Distribution and administrative expenses:						
1929	5, 855, 385	3, 584, 223	7, 375, 269	4, 507, 493	459, 756	21, 782, 126
1932	2, 645, 170	2, 788, 916	3, 681, 091	5, 427, 155	382, 769	14, 925, 101
1934	2, 893, 615	2, 119, 872	7, 569, 578	9, 636, 091	389, 203	22, 608, 359
1935	2, 355, 350	1, 532, 571	9, 346, 076	13, 051, 479		26, 285, 476
1936	4, 152, 354	3, 120, 794	9, 811, 870	10, 016, 273		27, 101, 291
1937	5, 763, 317	4, 244, 817	9, 759, 552	9, 507, 914		29, 275, 600
Total	23, 665, 191	17, 391, 193	47, 543, 436	52, 146, 405	1, 231, 728	141, 977, 953
Net margin of profit:						
1929	10, 212, 054	2, 281, 554	7, 902, 474	[1] 2, 167, 880	[1] 104, 258	18, 123, 944
1932	[1] 1, 221, 006	[1] 1, 984, 069	[1] 2, 459, 443	[1] 4, 114, 089	[1] 523, 212	[1] 10, 301, 819
1934	[1] 2, 000, 283	[1] 3, 108, 515	5, 272, 135	7, 271, 391	[1] 367, 382	7, 067, 346
1935	1, 082, 779	[1] 216, 412	19, 880, 449	17, 682, 549		38, 429, 365
1936	2, 106, 582	1, 091, 062	30, 143, 407	30, 118, 982		63, 460, 033
1937	2, 196, 858	1, 475, 642	21, 231, 051	22, 594, 317		47, 497, 868
Total	12, 376, 984	[1] 460, 738	81, 970, 073	71, 385, 270	[1] 994, 852	164, 276, 737

[1] Red figures.

Summary per car or sales, factory cost of sales, expenses, and profits for cars sold from United States plants.—Table 55 presents the number of the different makes of Chrysler Corporation cars, the average per car for sales receipts, factory cost of sales, cost of selling and administrative expenses and net profit per car for the years 1929, 1932, 1934, 1935, 1936, and 1937.

By reference to this table, it will be observed that in terms of units, Plymouth was the largest selling line of Chrysler Corporation cars, Dodge was second, Chrysler cars third, and De Soto fourth. As shown in the preceding discussion, the Dodge line of cars was the most profitable from the standpoint of aggregate amount of profit during the 6-year period under consideration. However, it is again pointed out that the Plymouth line was the largest selling line in number of units. During the 6 years indicated above, the Dodge cars produced an average net profit of $65.06 per car, Plymouth cars an average profit of $39.19 per car, Chrysler cars $35.24 per car and the sale of De Soto cars resulted in a loss of $1.77 per car average for the 6 years under consideration.

The average prices realized per car, as shown in this tabulation, represented the net prices charged dealers after adjustments for overriding discounts, retroactive discounts and mechanical adjustments. This analysis shows that the net realizations from sales of Chrysler cars in 1929 was $1,067.19 and declined to $758.13 in 1937. The average sales realization from sales of Dodge cars was $818.02 in 1929 and $619.75 in 1937. For Plymouth cars, the average sales realization per car was $553.77 in 1929, $543.52 in 1936, and $573.19 in 1937. For De Soto cars, the net sales realization per car was $678.65 in 1929, increased to $788.11 in 1934, and then declined to $672.95 in 1937.

TABLE 55.—*Chrysler Corporation—Summary of sales, factory cost of sales, expenses and profits per car sold from United States plants during the years 1929, 1932, 1934, 1935, 1936, and 1937*

	Chrysler cars	De Soto cars	Dodge cars and trucks	Plymouth cars	Fargo sales	Total
Units sold:						
1929	81,857	56,763	139,272	84,200	3,985	366,077
1932	23,282	26,070	135,335	117,673	48	202,408
1934	33,076	13,903	150,864	315,764	2	513,609
1935	45,609	31,605	261,646	385,685		724,545
1936	65,536	49,780	336,591	459,722		911,629
1937	101,874	82,983	336,139	458,518		979,514
Total	351,234	261,104	1,259,847	1,821,562	4,035	3,697,782
Net sales per car:						
1929	$1,067.19	$678.65	$818.02	$553.77	$710.36	$790.17
1932	805.50	591.12	649.62	485.80	6,216.63	566.09
1934	805.58	788.11	619.66	544.60	14,364.26	590.10
1935	768.24	602.44	589.88	533.10		575.36
1936	761.52	667.67	585.88	543.52		581.61
1937	758.13	672.95	619.75	573.19		616.85
Average per car	839.71	673.50	627.24	545.71	7,876.28	610.70
Factory cost of sales per car:						
1929	870.90	575.32	708.32	525.98	621.15	681.16
1932	744.33	560.25	615.04	474.64	9,142.52	543.25
1934	778.57	859.22	534.54	491.05	3,453.87	532.32
1935	692.86	650.80	478.18	453.41		486.04
1936	666.02	583.06	467.17	456.22		482.27
1937	679.99	604.02	527.55	503.18		538.47
Average per car	737.09	608.66	524.44	477.89	7,239.23	527.88
Gross profit on sales per car:						
1929	196.29	103.33	109.70	27.79	89.21	109.01
1932	61.17	30.87	34.58	11.16	[1] 2,925.90	22.84
1934	27.01	[1] 71.11	85.12	53.55	10,910.39	57.78
1935	75.38	41.64	111.70	79.69		89.32
1936	95.50	84.61	118.71	87.30		99.34
1937	78.14	68.93	92.20	70.01		78.38
Average per car	102.62	64.84	102.80	67.82	58.71	82.82

[1] Loss.

TABLE 55.—*Chrysler Corporation—Summary of sales, factory cost of sales, expenses and profits per car sold from United States plants during the years 1929, 1932, 1934, 1935, 1936, and 1937*—Continued

	Chrysler cars	De Soto cars	Dodge cars and trucks	Plymouth cars	Fargo sales	Total
Selling, advertising and administrative expenses per car:						
1929	71.53	63.14	52.96	53.53	115.37	59.50
1932	113.61	106.98	104.18	46.12	7,974.36	73.74
1934	87.48	152.48	50.17	30.52	194,601.51	44.02
1935	51.64	48.49	35.72	33.84		36.28
1936	63.36	62.60	29.15	21.79		29.73
1937	56.57	51.15	29.03	20.74		29.89
Average per car	67.38	66.61	37.74	28.63	305.26	38.39
Net profit per car:						
1929	124.76	40.19	56.74	[1] 25.74	[1] 26.16	49.51
1932	[1] 52.44	[1] 76.11	[1] 69.60	[1] 34.96	[1] 10,900.26	[1] 50.90
1934	[1] 60.47	[1] 223.59	34.95	23.03	[1] 183,691.12	13.76
1935	23.74	[1] 6.85	75.98	45.85		53.04
1936	32.14	21.92	89.56	65.51		69.61
1937	21.57	17.78	63.17	49.27		48.49
Average per car	35.24	[1] 1.77	65.06	39.19	[1] 246.55	44.43

[1] Loss.

Items of other income and expenses.—The income and expense statement, table 56, shows a yearly amount classified as other income. This amount represents the net amount after deducting certain items of other expense which have been charged against other income. The principal items of income included in this classification are shown by the tabulation and call for little comment.

By reference to the summary, it will be observed that the most important items of other income were interest earned, cash discount on purchases, participation in Commercial Credit Co. contracts and the adjustments of provisions for reserves. Most of the items of other income and expenses are self-explanatory, or are technical details of accounting not sufficiently important to describe in connection with this inquiry. The participation in Commercial Credit Co. contract is further commented on following the table.

TABLE 56.—*Chrysler Corporation—Summary of other income and expenses applying to the consolidated operations excluding foreign subsidiaries and sales branches, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
ITEMS OF OTHER INCOME											
Interest earned, intercompany	$79,063.21	$178,659.15	$198,278.31	$350,306.71	$220,033.84	$500,213.82	$85,348.17	$62,972.23	$41,712.05	$14,550.57	
Interest earned, public	913,079.38	2,475,523.11	3,741,157.31	1,524,131.37	1,049,503.66	925,100.76	701,312.16	359,640.68	113,967.00	195,962.03	$237,364.27
Dividends from subsidiaries not consolidated						1,000,000.00		1,441,268.88	732,465.86	973,625.00	1,642,230.05
Dividends received from investments					253,061.95	115,098.50	13,871.65	34,182.73	121,400.10	319,476.49	404,475.20
Royalties received				3,094.32	26,651.68	79,405.03	154,895.91	46,396.96	61,003.08	95,233.57	197,557.91
Rents received and options							50,000.00	100,000.00	150,000.00	202,625.00	230,250.00
Participation, Commercial Credit contract			107,267.91	47,625.06	41,521.32	39,148.64	105,928.26	88,221.75	445,139.76	1,328,604.00	1,339,130.86
Cash discounts on purchases	361,034.00	669,525.56	903,426.26	405,075.19	348,314.22	420,804.72	473,362.73	985,216.36	778,387.26	890,866.14	2,612,001.14
Unclaimed retail delivery-record deposit							5,455.00	300,000.00	200,000.00	238,795.00	
Finance subsidy							41,177.37		[1] 10,960.00		
Excess handling and delivery									333,373.83	951,875.34	
Unclaimed wages, etc			11,316.97		4,666.31	3,430.87	2,870.91	4,257.72	6,117.48	2,076.63	9,390.98
Garnishee fees				763.54	809.89		1,508.08	1,666.43	1,819.70	1,942.34	2,620.35
Pay-station telephone revenue				1,190.17	753.36		940.64			1,717.80	1,891.57
Exchange adjustment			[1] 8,723.12	[1] 6,343.75	984.36	[1] 53,162.35	20,573.10	10,108.12			15,339.67
Returned-parts income				73,408.72							
Outstanding checks				4,601.74					2,408.99		
Reverse retail sales, finance provision				141,051.91	74,613.23	41,226.88		54,427.40		[1] 942.09	
Freight				13,469.40				14,833.79			
Brokerage	95,091.32	13,649.92	11,178.98								
Gain on material purchased for vendors							4,077.29			35,761.61	2,839.94
Realized on investment previously written to $1					9,749.00						
Write-off, accrued royalties					100,727.00						
Profit in subsidiary inventories	1,261,912.24	494,993.41	[1] 812,575.02	[1] 158,854.34	[1] 20,582.58	64,509.85	[1] 461,986.33	152,167.36	85,180.08	96,357.92	523,865.47
Excise tax refunds, United States Government				180,099.34							
Reverse excess Plymouth commission							52,062.81				
Miscellaneous			76,360.10	6,992.78	6,148.41	119,635.89		30,010.86	41,186.53	56,885.03	30,569.38
Total income	2,710,180.15	3,832,351.15	4,227,687.70	2,586,612.16	2,116,955.65	3,255,412.61	1,251,397.85	3,685,371.27	2,103,201.72	5,405,412.38	7,249,526.79
ITEMS OF OTHER EXPENSE											
Interest paid, general	1,595.71	24,218.40	72,224.51	47,524.51	34,249.64	61,092.54	39,797.65	26,955.40	11,228.86	17,670.34	7,999.03
Cash discount allowed on parts	310,505.75	656,384.57	507,068.37	172,305.96	128,907.95	86,129.85	94,940.16	172,363.50	266,087.55	535,687.36	558,014.86
Special-development expense										18,450.80	9,588.70
Brokerage				16,710.54	3,521.92	8,424.61	7,176.18	1,461.70			

[1] Red figures.

TABLE 56.—*Chrysler Corporation—Summary of other income and expenses applying to the consolidated operations excluding foreign subsidiaries and sales branches, 1927 to 1937, inclusive*—Continued

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
ITEMS OF OTHER INCOME—continued											
Expenses on property not used in business		$120,467.46	$120,426.71	$121,754.48	$121,318.91	$110,614.01	$87,108.11	$69,712.55	$65,245.34	$65,019.75	$65,176.80
Interest paid on dealer deposits							1,500.86				
Total expenses	$312,101.46	801,070.43	699,719.59	358,295.49	287,998.42	266,261.01	230,522.96	270,493.15	342,561.75	636,828.25	640,779.39
Net other income	2,398,078.69	3,031,280.72	3,527,968.11	2,228,316.67	1,828,957.23	2,989,151.60	1,020,874.89	3,414,878.12	2,760,639.97	4,768,584.13	6,608,747.40
Deduct items reclassified on income and expense	261,708.39	586,635.07	573,965.22	1,010,011.16	1,000,387.70	2,109,647.78	615,547.17	1,890,383.44	1,079,888.29	1,614,218.58	2,410,265.55
Balance in other income	2,136,370.30	2,444,645.65	2,954,002.89	1,218,305.51	828,569.53	879,503.82	405,327.72	1,524,494.68	1,680,751.68	3,154,365.55	4,198,481.85

Section 7. Profit Sharing Plans and Officers' Salaries

Introduction.—At a special meeting of directors of Chrysler Corporation held on April 12, 1929, and subsequently approved by the stockholders, certain plans for (*a*) profit sharing, (*b*) bonuses, and (*c*) savings and investment were established. The profit sharing and bonus plans in brief provided:

1. Paying at the end of each year, beginning with the year 1929, and continuing for a period of 10 years, for the purposes of the profit-sharing plans and the bonus plan a sum not exceeding 6½ percent of the net earnings of the corporation, for each year determined after deducting an amount equal to 7 percent of the capital, surplus, and undivided profits of the corporation (after deducting goodwill) as shown by the books of the corporation at the beginning of the year; and after deducting payments for the year made by the corporation under any savings and investment plan, and after deducting all other charges except (1) the annual payments made out of net earnings for each year as required by all profit-sharing plans then in effect; (2) bonuses to officers and employees under all bonus plans then in effect, including contractual compensation of any officer measured by percent of net earnings; and (3) Federal taxes.
2. The corporation, as from time to time authorized by the board of directors, to issue or sell to the trustees of trusts formed for the purpose of carrying out the profit-sharing plans not exceeding in the aggregate 100,000 shares of the common stock of the corporation at a price or prices to be determined by the board of directors but not in any event less than $60 per share.
3. Funds of Chrysler Corporation may be loaned to the trust organized for the purposes of profit-sharing plans sums not exceeding the aggregate amount of $8,000,000. The sums so loaned to bear interest at the rate of not less than 5 percent per annum, and the beneficiaries of the trusts not to be liable individually for either principal or interest of the sums so loaned.

Pursuant to the action of the board of directors and stockholders in approving the establishment of certain profit sharing, bonus and saving and investment plans for the benefit of executives, officers, and employees, the following described plans were put into operation by the Chrysler Corporation and its subsidiaries.

Chrysler management trust.—As stated in the minutes, the board of directors were of the opinion that it was for benefit of the Chrysler Corporation and its stockholders, to interest in the Corporation as partners with the stockholders, the officers, executives, and employees charged with the responsibility of carrying on and building up the business of Chrysler Corporation and its subsidiaries. Three percent of the net earnings of the corporation, after deducting 7 percent on the capital invested, were allocated and paid into the trust. Each beneficiary contributed $750 to the trust. The trust was to accumulate for a period of 10 years, except for amounts necessary for the reduction of indebtedness, payment of interest, and necessary expenses. The trustees were authorized to use their discretion in investing accumulated funds in Chrysler Corporation common stock purchased in the open market. The trust was to terminate at the end of 10 years, and each beneficiary was to receive his pro rata share of the net accumulation by the trust.

In the event of death prior to termination of the trust, or in case an employee leaves the service of Chrysler Corporation through no fault of his own (of which the corporation shall be sole judge), the corporation has the right to acquire the interest of any beneficiary at an amount equal to the capital which he has contributed, his pro rata share of accumulated dividends and his pro rata share of 80 percent of all accumulations by the trust out of the profit-sharing payments made by the corporation, after deducting interest and expenses.

During 1929, Chrysler Corporation issued and sold 60,000 shares of its common stock to the trust at $60 per share. The corporation loaned the trustees $3,000,000 at 5 percent per annum, to enable the trustees to complete payment for the stock.

During 1934, the board of directors approved the establishment of other management trusts and earmarked and reserved 60,000 shares of treasury common stock for this purpose. As of August 15, 1936, the sale to the first adjustment Chrysler management trust of 20,000 of the reserved shares at $34.10 per share was approved. The selling price was stated to be substantially the price at which the corporation had repurchased the shares and not less than said price.

As of August 15, 1936, the sale of 18,000 of the reserved shares to the executive management trust at $34.10 per share was approved. The selling price again was stated to be the price at which the shares had been repurchased.

During the period from 1929 to 1937, inclusive, the Chrysler Corporation contributed the following amounts to the management trust:

	Amount
1929	$1, 081, 536. 56
1932	115, 905. 00
1935	3, 070, 259. 69
1936	4, 574, 593. 97
1937	3, 648, 373. 63
Total	12, 490, 668. 85

Employees bonus plan.—The employees bonus plan was established for the stated purpose of awarding shares of Chrysler Corporation common stock to selected employees as approved by the bonus committee on the basis of individual effort and achievement. The bonus committee had full discretion as to whether or not bonus distribution was to be made in any year. The plan provided, however, that distribution for any year was not to exceed an amount equal to 3½ percent of net earnings, after deducting 7 percent on the invested capital of the Chrysler Corporation. The Chrysler Corporation purchased shares of its common stock in the market for bonus distribution. The only bonus distribution made was in 1930, based on 1929 earnings, when 6,340 shares with a total value of $220,949 were awarded. One-fourth of the shares awarded were delivered immediately to the employees and the remaining three-fourths were retained by the Chrysler Corporation for 1, 2, and 3 years, respectively. Any officer or employee leaving the service of the Chrysler Corporation, except by reason of death, disability, or exceptional cause, lost his right to receive out of the shares not previously delivered to him a proportion to be fixed by the bonus committee.

Employees savings and investment plan.—The employees savings and investment plan was established for the stated purpose of making it possible for employees who had been with the corporation for more than 1 year, and whose annual compensation was less than $5,000, to become owners of common stock on a favorable basis. Such employees were permitted to deposit with the corporation 20 percent of their wages, but not in excess of $300 per plan. Yearly plans were established, and an employee could participate in each plan. For each dollar contributed by the employee, the corporation contributed 50 cents. The established fund, together with the income thereon, was invested in Chrysler Corporation common stock, purchased in the open market, and distributed to participating employees at the expiration of 4 years. In the event an employee severed his connection with the Corporation, except in case of death, disability, etc., he was entitled to receive only his cash deposit plus 6 percent interest thereon, the remainder of the fund then standing to his credit being retained by the corporation. The employees savings and investment plan was discontinued by the board of directors on March 2, 1933. The board of directors on July 31, 1933, authorized the officers of the Chrysler Corporation in their discretion to renew the employees savings and investment plan.

During the period 1929 to 1937, inclusive, the Chrysler Corporation contributed the following amounts to the employees savings and investment plan:

	Amount
1930	$162, 565. 00
1931	149, 342. 50
1933	20, 200. 00
1934	392, 945. 85
Total	725, 053. 35

Regarding Chrysler management trust, the treasurer of the corporation advised that as of December 31, 1937, there were 108 holders of shares of beneficial interest. These beneficiaries are officers or executives of Chrysler Corporation and in subsidiary corporations. Not all of the holders of shares were officers of the corporations but those that were not held responsible executive positions in the organization. In short, the beneficiaries of the trust consisted of officers and executives charged with the responsibility of carrying on and building up the business of the corporation. Walter P. Chrysler is not a member of the Chrysler management trust and has no financial interest in the trust.

The selection of beneficiaries eligible to participate in the trust and the determination of the number of shares which each shall be entitled to was made by a committee consisting of the chairman of the board of directors, chairman of the finance committee, and the president of the corporation. There were five trustees of the trust, namely, Walter P. Chrysler, B. E. Hutchison, George W. Davison, J. S. Bache, and Harry Bronner. There were two directors of the corporation who are not officers that have an interest in the management trust.

These directors, however, are employed by the corporation and are actively engaged in carrying on and building up the business of the corporation.

Walter P. Chrysler employment contract.—Under date of April 29, 1927, Walter P. Chrysler entered into an employment contract with Chrysler Corporation, providing that he was to have general charge and control of all the business and affairs of the corporation, subject only to the supervision of the board of directors, and to perform one or more of the offices of chairman of the board, president, director, member of the executive committee, member of the finance committee, etc. The contract under the above date succeeded a former contract entered into between Walter P. Chrysler and Maxwell Motor Corporation, which was assumed when Chrysler Corporation acquired the assets of the Maxwell Corporation. The period of employment under the last referred to contract ended May 31, 1927.

The new contract provided for the employment of Walter P. Chrysler for a term beginning on June 1, 1927, and continuing until December 31, 1927, and thereafter until terminated by death or in the manner provided.

As compensation the Chrysler Corporation agreed to pay Walter P. Chrysler as follows:

1. The sum of $8,033.33 per month for the month of June 1927, and each succeeding month in the year 1927, and unless Chrysler shall have given to the corporation 30 days' notice as provided hereafter, for each month thereafter during the term of this agreement.
2. His expenses in maintaining the office and clerical assistance in the city of New York.
3. For the period beginning June 1, 1927, and ending December 31, 1927, and unless Chrysler shall have given to the corporation 30 days' notice as provided hereafter, for the remainder of the period of this agreement, 5 percent of the net profits of the corporation, including all its subsidiary and controlled companies after deduction of interest, taxes, depreciation, and an amount sufficient to pay $8 per share on the preferred stock of the corporation from time to time outstanding, not exceeding 200,000 shares thereof.

If not less than 30 days before January 1, 1928, Walter P. Chrysler shall give to the corporation notice that he prefers for the remainder of the term of this contract after December 31, 1927, to receive in lieu of the compensation previously outlined, then the following terms of compensation shall apply:

4. The sum of $12,500 for the month of January 1928, and for each succeeding calendar month during the term of this agreement.
5. His expenses in maintaining the offices and clerical assistance in the city of New York.
6. Ten percent of the net profits of the corporation, including all its subsidiary and controlled companies after deduction of interest, taxes, depreciation, an amount sufficient to pay $8 per share on the preferred stock of the corporation from time to time outstanding, not exceeding 200,000 shares thereof, and an amount sufficient to pay $3 per share on the common stock of the corporation from time to time outstanding, not exceeding 2,700,000 shares thereof.

On November 29, 1927, Walter P. Chrysler gave notice to the corporation that he elected to receive his compensation in accordance with the last preceding provisions after December 31, 1927. This employment contract remained in effect until October 1, 1933.

On the latter date a new contract was executed, changing the amount of compensation to be paid to Walter P. Chrysler. This contract provided that on and after October 1, 1933, the corporation will pay to Chrysler and he shall receive as his compensation, (*a*) the sum of $16,666.66 for the month of October 1933, and for each succeeding calendar month during the term of this agreement, subject to general salary reductions by the corporation, and (*b*) his expenses in maintaining the offices and clerical assistance in the city of New York. The contract continues in force unless either party gives due notice of termination or upon the death of Walter P. Chrysler.

Pursuant to the profit-division feature of the foregoing contract, which was terminated by the new contract in 1933, the corporation accrued the following amounts for payment to Walter P. Chrysler. These sums appear under the heading of "Provisions for C Reserve":

	Amount
1927	$907, 211
1928	2, 466, 941
1929	1, 550, 000
1933	370, 000
Total	5, 294, 152

Officers' salaries.—Officers' salaries in the following total yearly amounts were paid by Chrysler Corporation during the period from January 1, 1929, to December 31, 1937:

	Number of officers	Amount		Number of officers	Amount
1929	12	$546, 399. 61	1934	12	$643, 626. 44
1930	12	533, 827. 68	1935	13	654, 425. 02
1931	12	547, 933. 15	1936	13	756, 274. 98
1932	12	532, 926. 00	1937	15	755, 661. 71
1933	12	564, 432. 80	1938	16	662, 960. 74

The above amounts apply only to salaries and do not include any amounts accruing to the officers from the shares of beneficial interest owned in the management trust. (See page 607.) Neither do the above sums include extra compensation paid to certain officers in the form of common stock as outlined on page 582. The chairman of the board did not participate in the management trust but during certain years did receive additional compensation as provided in the employment contract.

The highest paid officer of the corporation received yearly salaries, exclusive of extra compensation, ranging from $123,750 in 1932 to $200,000 during 1936. The salaries paid this officer during 1937 and 1938 were $188,636.32 and $150,583.47, respectively.

The second highest paid officer received salaries, exclusive of extra compensation, of $100,000 during 1936; $94,318.27 in 1937; and $77,666.72 in 1938.

The third highest paid officer received salaries, exclusive of extra compensation, of $90,000 in 1936; $84,886.37 in 1937; and $70,157.50 in 1938.

The variations in the yearly amounts of salaries was caused by general salary reductions applying to all officers and office employees.

The next tabulation shows the number of executives in various groups of salaries paid during the years 1929 and 1938:

Salary groups	Number, 1929	Number, 1938	Salary groups	Number, 1929	Number, 1938
$100,000 and over	1	1	$20,000 to $29,999	2	2
$70,000 to $99,999	1	2	$10,000 to $19,999	1	4
$60,000 to $69,999	1	1	$5,000 to $9,999	2	2
$50,000 to $59,999	1	1			
$40,000 to $49,999	2	2	Total	12	16
$30,000 to $39,999	1	1			

Section 8. Arrangement for Financing Sales With Commercial Credit Company

Agreement of December 10, 1934, by and between Chrysler Corporation and Commercial Credit Co. of Baltimore, Md.—For many years Chrysler Corporation has had arrangements with Commercial Credit Co. for making available to its distributors and dealers financing facilities for selling their new cars on deferred- or time-payment plans at moderate rates. In 1934 Chrysler Corporation expressed a desire to make available to its distributors and dealers more advantageous rates and terms for selling their cars on the deferred- or time-payment plan. The agreement recited that Chrysler Corporation desired to eliminate abuses prevalent in the industry relating to the deferred- or time-payment plans of purchasing cars and by this means to increase the sales of Chrysler products, and to insure to the retail purchasers of its products a low cost of purchasing on the deferred time-payment plan, and therefore, the parties entered into the agreement.

To effectuate this plan the agreement provided that Commercial Credit would apply charges and rates in the United States as follows for all Chrysler distributors and dealers whose credit and financial responsibility were acceptable to Commercial Credit unless the distributor or dealer did not in turn make available to purchasers the same rates which include the official dealer reserves and approved official insurance coverages:

(1) Rates not to exceed in city territory a basic rate of 6½ percent flat charge on the unpaid balance owing by the purchaser in the case of contracts maturing in 12 months (and an adjusted basic rate for contracts maturing under or over 12 months) plus the cost of conference insurance applicable to that territory, included in the contract, and plus dealer protective reserves.

(2) Rates not to exceed in other than city territory a basic rate of 8 percent, and in all other respects the same as (1) preceding.

(3) The definition of "city territory" and "other than city territory" was left to the judgment and discretion of Commercial Credit Co., but on request by Chrysler, Commercial Credit must furnish information as to specific rates applicable to either city or other than city territory.

(4) Amendment of finance rates: Under date of November 1, 1935, the finance rates as provided in the original agreement were amended so that the rate on instruments maturing in 12 equal consecutive monthly installments shall not exceed a flat 6-percent charge on the total of the unpaid balance, plus the conference costs, in the territory in which the purchaser resides, of insurance against fire, theft, collision, and other accidental damage. In the case of instruments maturing in more or less than 12 equal consecutive monthly installments the finance rate shall accordingly be increased or decreased a flat one-half of 1 percent per month.

The original agreement and amendments thereto recited that Commercial Credit recognized that the designated services to be performed by Chrysler would be a valuable advertisement of Commercial Credit Co. and its business, plans, and financing facilities, and would save it a substantial sum in promoting and acquiring business from dealers and should increase its business and profits, and for such services agreed to pay Chrysler Corporation each calendar year a sum computed as follows:

Minimum payment to Chrysler, $150,000.

Maximum payment to Chrysler, 10 percent of its consolidated net profit from all sources before giving effect to any payment to Chrysler and excluding appropriate nonoperating charges and nonoperating credits to surplus during the year.

Payments to be subject to the minimum and maximum limitations, and calculations to be based on a percentage of profits after deducting a return on Commercial Credit's investment equal to 7 or 8 percent, as the case may be.

The deduction for percent of return on investment was 8 percent for the calendar year, unless the actual amount of business exceeded the standard amount by 25 percent, in which event it was 7 percent. The investment was specified to be the monthly average of the consolidated outstanding capital stock, surplus, and undivided profit.

The "standard" amount of business in any year was defined to be 20 percent of Chrysler Corporation cars registered in United States and Canada that were financed by Commercial Credit.

The "actual" amount of business in any year was defined as the actual percentage of Chrysler Corporation cars so registered in that year which Commercial Credit financed in that year.

If in any year the actual amount of business equaled the standard amount, then the sum payable to Chrysler was equivalent to 15 percent of the net profit after deducting the return on the investment. If the actual amount of business was greater or less than the standard amount, the percentage payable was increased or decreased so as to bear the same proportion to 15 percent as the actual for the year bears to the standard.

Under date of November 1, 1935, the terms of payment were amended to provide that not any sum shall be payable by Commercial Credit to Chrysler if the actual amount of business was less than the standard amount and the minimum payment of $150,000 was removed. This amendment was canceled as of the 3d day of August 1936.

Favored-company clause.—The agreement further provided that if Commercial Credit should provide financing to any other automobile manufacturer, its distributors and/or dealers or the purchasers of its cars at rates lower than herein provided, then Commercial Credit will modify this agreement so that the financing would be as favorable to Chrysler, its distributors and dealers, and purchasers of its cars as those enjoyed by any other manufacturer, its distributors and dealers, and purchasers at retail. This provision applies to identical territory in which the more favorable terms may be in effect. This provision did not apply to rates, terms, or conditions with respect to Ford cars, provided, however, Commercial Credit and its affiliates will from time to time inform Chrysler of the names and addresses of any dealers or distributors in Ford cars to which the rates or terms of financing are more favorable than herein provided for Chrysler, its dealers, distributors, and purchasers.

Finance charges.—Commercial Credit agreed to apply charges and rates in the United States not exceeding those previously set forth. Commercial Credit agreed to remit promptly to dealers for notes purchased by it from them the full face amount owing on such notes at the time of purchase less the charge of Commercial Credit and less the dealer reserve at the time in effect, in accordance with the contract between Commercial Credit and dealer. If Chrysler requests Commercial Credit to put into effect in any territory or territories rates less than the standard finance rates established by Commercial Credit at that time for that territory or territories (which established rates in no event shall be higher than the maximum rates previously set forth), Chrysler Corporation agreed to pay to Commercial Credit on demand after the close of each month a sum equal to the difference between the established finance rate of Commercial Credit and the rate charged, provided Commercial Credit submitted to Chrysler evidence that cars have been financed at the reduced rates. Chrysler was not obligated to pay in such instances where Commercial Credit, without the request of Chrysler, put into effect finance rates below the established rates of Commercial Credit for the territory concerned.

Term of contract.—The contract began on January 1, 1935, and continued in any event until December 31, 1935, and thereafter for successive periods of 1 year ending December 31, unless on or before September 30 of any year either of the parties thereto gave to the other written notice terminating the contract on December 31 next succeeding the notice. The contract was terminated on December 31, 1937, by Chrysler Corporation.

Under date of November 15, 1938, a consent decree was entered against Chrysler Corporation in the District Court of the United States for the Northern District of Indiana because of this arrangement with Commercial Credit Co. For further information with regard to the decree, see chapter III.

Pursuant to the payment provision of the agreement, Commercial Credit Co. paid to Chrysler Corporation the following sums in the years indicated:

1935	$445, 139. 76
1936	1, 328, 604. 00
1937	1, 339, 130. 86
Total	3, 112, 874. 62

Dealer contract provision for retail sales finance plan.—The 1936 and 1937 contracts between Chrysler Corporation and its distributors, except those in Texas, contained the following clause:

Distributor shall not charge time-payment-plan buyers financing rates in excess of the rates available for his territory under the Chrysler Motors-Commercial Credit Co. plan, and distributors shall provide time-payment-plan buyers with the various classes of insurance provided by and part of said Chrysler Motors-Commercial Credit Co. plan.

The 1938 dealer contracts contained the following clause regarding retail financing by the dealers, except those in the State of Texas, which contracts did not contain any reference to financing:

It is to the interest of direct dealer and Chrysler to see to it that the cost to the public of retail-financed Chrysler and Plymouth motor vehicles be kept low. Direct dealer will not at any time charge time-payment-plan buyers rates for financing in excess of the rates then available for his sales area under any time-payment finance plan that Chrysler may have provided, or may have recommended if terms as so recommended are reasonably available to direct dealer, and direct dealer shall provide time-payment-plan buyers with the various classes of insurance charged for under, and part of, any such plan.

It is not the policy of Chrysler to require its dealers to use any particular finance company. Direct dealer may use any finance company he chooses, but agrees that in keeping with Chrysler's purpose to make motor vehicles available to the public at low prices, finance and insurance charges be no higher than those established under a plan provided or recommended by Chrysler as mentioned above in this paragraph 17.

Purchase and sale of Commercial Credit Co. capital stock by Chrysler Corporation.—Coincident with entering into the foregoing-described contract, the Chrysler Corporation purchased from Commercial Credit Co. 50,000 of the latter's common stock at book value of $21.31 per share. Previously Chrysler Corporation had purchased 100 shares.

The total cost of the 50,100 shares to Chrysler Corporation was $1,067,200. The shares were disposed of in the open market; 400 shares in 1936, 3,300 shares in 1937, and 46,400 shares in February 1938, for a total of $2,098,577.17. The total profit realized by Chrysler Corporation amounted to $1,031,377.17.

Prior contracts between Chrysler Corporation and subsidiaries and Commercial Credit Co.—Prior to the execution of the 1934 contract for financing, the Chrysler Corporation and its subsidiaries had entered into three other contracts with Commercial Credit Co. providing for the financing of dealer and user purchases of cars during the years 1926 to 1935. These previous contracts embodied the general features of the agreement of December 10, 1934, but contained different provisions for payment.

Briefly, these prior agreements provided that the Chrysler Corporation, or its subsidiaries, should pay the difference between (*a*) the aggregate amount of the finance charges at the rates and terms prescribed by the Chrysler companies in force during each month, included in the notes purchased by Commercial Credit during said month, and (*b*) the amount of the finance charges that would have been included had there been in force the rates and terms set forth by Commercial Credit.

Commercial Credit agreed to pay to Chrysler Corporation a sum equal to the proportion of the excess profits as the aggregate of the finance charges contained in the notes financed by Commercial Credit in connection with the retail sales of Chrysler Corporation's cars and sales of used cars for the month of year bear to the total aggregate finance charges collected by Commercial Credit on all its operations for the said year. The excess profits were defined to be the profits, after deducting taxes and all charges, in excess of 15 percent of the consolidated invested capital, surplus, and undivided profits for the year in question.

In addition to the payment provided in the last preceding paragraph to be made by Commercial Credit, the latter further agreed to pay to the Chrysler Corporation the sum of $1 for each and every one of the Chrysler Corporation's cars sold at retail and financed by Commercial Credit, payments made under this provision to be deemed to be an expense of Commercial Credit in determining the amount of net profit for the purpose of excess-profits payments.

By the provisions of these earlier contracts, Chrysler Corporation paid, or received, or accrued the following sums in the years indicated:

	Paid	Received		Paid	Received
1927	$593,738.12		1934		$88,221.75
1928	880,422.56		1935		445,139.76
1929		$139,093.98	1936		1,328,604.00
1930		186,116.04	1937		1,339,130.86
1931		148,877.06			
1932		39,148.64	Total	$1,474,160.68	3,820,260.45
1933		105,928.36			

Section 9. Consolidated Financial Statement

Consolidated balance sheet.—The preceding financial statements discussed in this chapter referred to the manufacture and sale of products from the United States plants of the Chrysler Corporation. The latter also owns plants in Canada and certain of its foreign subsidiaries assemble motor vehicles in Europe.

There is presented in table 57 the consolidated balance sheet of Chrysler Corporation as of December 31, 1926 to 1937, including the foreign subsidiaries and sales branches.

TABLE 57.—*Chrysler Corporation, consolidated balance sheet, 1926 to 1937, inclusive*

ASSETS

	1926	1927	1928	1929	1930	1931
Current:						
Cash	$8, 500, 426. 60	$17, 355, 770. 60	$49, 509, 233. 44	$36, 977, 837. 20	$32, 145, 410. 39	$23, 200, 861. 52
Marketable securities at cost	7, 819, 641. 95	15, 286, 231. 71	3, 760, 759. 71	1, 729, 709. 64	9, 498, 991. 66	27, 031, 974. 17
Car shipments against bill of lading drafts	3, 798, 469. 44	2, 30[illegible], 746. 18	6, 550, 203. 06	5, 052, 474. 36	2, 284, 370. 69	1, 983, 957. 08
Notes and accounts receivable	3, 672, 918. 33	2, 997, 598. 71	5, 805, 109. 49	8, 686, 916. 40	4, 240, 264. 23	2, 166, 684. 92
Less allowances		[1] 138, 0[illegible]4. 05	[1] 94, 098. 11	[1] 236, 197. 48	[1] 195, 456. 07	[1] 167, 661. 61
Inventories, at lower of cost or market	16, 417, 102. 02	17, 845, 318. 33	44, 985, 395. 06	38, 102, 157. 67	26, 055, 412. 20	22, 104, 293. 07
Other assets:						
Real estate not used in operations	4, 451. 00	4, 451. 00	4, 344, 823. 90	4, 305, 687. 83	4, 352, 740. 64	4, 341, 861. 10
Sundry investments and miscellaneous accounts	492, 677. 30	548, 351. 93	903, 156. 47	1, 115, 691. 59	1, 125, 865. 33	1, 638, 141. 12
Advances to Chrysler management trusts				3, 498, 146. 91	3, 080, 000. 00	3, 673, 686. 44
Preferred stock sinking fund	169. 50	311. 50				
Dodge Bros. Inc., debentures sinking fund			501, 695. 88		106, 228. 92	639. 94
Property, plant and equipment: Land, buildings, machinery, equipment, dies, etc	34, 960, 852. 59	35, 324, 973. 61	124, 427, 320. 23	131, 135, 183. 34	126, 767, 176. 28	124, 957, 641. 89
Less provision for depreciation, etc	[1] 10, 856, 524. 82	[1] 13, 079, 005. 60	[1] 40, 723, 692. 14	[1] 47, 511, 002. 45	[1] 52, 594, 552. 99	[1] 59, 444, 314. 45
Goodwill	25, 000, 000. 00	25, 000, 000. 00	25, 000, 000. 00	25, 000, 000. 00	25, 000, 000. 00	25, 000, 000. 00
Deferred: Prepaid insurance, taxes, etc	403, 459. 15	440, 016. 90	1, 875, 426. 55	1, 884, 774. 18	2, 265, 541. 05	2, 121, 896. 39
Total assets	90, 213, 643. 06	103, 894, 680. 82	226, 845, 333. 54	209, 741, 379. 19	184, 131, 992. 33	178, 609, 662. 48

	1932	1933	1934	1935	1936	1937
Current:						
Cash	$33, 735, 861. 76	$12, 609, 531. 03	$31, 460, 066. 25	$57, 428, 625. 52	$46, 551, 620. 78	$35, 397, 377. 85
Marketable securities at cost	8, 866, 632. 70	24, 760, 444. 56	955, 176. 35	1, 688, 961. 84	14, 352, 803. 18	12, 916, 197. 82
Car shipments against bill of lading drafts	2, 956, 058. 12	435, 291. 99	6, 597, 376. 73	9, 326, 360. 34	10, 460, 516. 55	7, 736, 206. 89
Notes and accounts receivable	1, 821, 660 45	2, 370, 107. 72	10, 606, 425. 13	11, 053, 887. 72	8, 222, 964. 00	6, 626, 198. 57
Less allowances	[1] 75, 881. 63	[1] 92, 426. 14	[1] 64, 741. 04	[1] 59, 029. 61	[1] 51, 664. 13	[1] 79, 831. 13
Inventories, at lower of cost or market	18, 377, 464. 85	34, 556, 769. 27	37, 533, 615. 61	48, 765, 678. 55	60, 565, 446. 72	50, 132, 862. 12
Other assets:						
Balances in closed banks		2, 012, 087. 83	1, 501, 890. 23	1, 316, 109. 31	880, 599. 14	438, 911. 28
Real estate not used in operations	4, 344, 938. 42	2, 776, 307. 87	2, 747, 229. 29	2, 695, 489. 18	2, 666, 607. 69	2, 611, 580. 21
Sundry investments and miscellaneous accounts	1, 195, 492. 67	2, 400, 717. 82	1, 968, 524. 46	2, 872, 373. 94	2, 787, 858. 16	2, 889, 255. 80
Expense advances and accounts, officers and employees		263, 865. 58	139, 950. 06	174, 603. 49	208, 270. 93	203, 210. 48
Investments and accounts, subsidiaries not entirely owned			358, 254. 32	823, 499. 80	934, 736. 55	1, 054, 526. 98
Advances to Chrysler management trusts	3, 619, 650. 00	3, 322, 015. 16	3, 140, 655. 54	1, 680, 913. 43	738, 703. 19	553, 000. 00
Dodge Bros., Inc., debentures sinking fund	20, 341. 57		500, 000. 00			
Property, plant, and equipment: Land, buildings, machinery, equipment, dies, etc	126, 518, 814. 30	128, 755, 693. 83	129, 081, 860. 54	114, 676, 799. 74	117, 605, 115. 40	116, 471, 824. 82
Less provision for depreciation, etc	[1] 64, 822, 274. 01	[1] 68, 346, 468. 59	[1] 69, 725, 476. 52	[1] 61, 099, 315. 41	[1] 57, 375, 360. 85	[1] 50, 407, 351. 63
Goodwill	1. 00	1. 00	1. 00	1. 00	1. 00	1. 00
Deferred: Prepaid insurance, taxes, etc	1, 827, 942. 57	1, 693, 710. 65	2, 157, 867. 26	2, 165, 572. 63	2, 127, 960. 79	2, 259, 105. 87
Total assets	138, 386, 702. 77	147, 517, 649. 58	158, 959, 275. 21	193, 510, 531. 47	210, 676, 184. 10	188, 803, 076. 93

LIABILITIES

	1926	1927	1928	1929	1930	1931
Current:						
Accounts payable	$6,702,560.08	$6,933,612.45	$25,122,959.52	$13,925,348.41	$9,298,808.61	$9,538,968.04
Accrued interest, insurance, taxes, etc.	199,817.44	170,644.26	1,921,755.35	854,824.50	905,376.18	733,635.72
Dividends payable	2,492,666.75	2,534,523.00				
Distributors' and dealers' deposits	304,019.27	357,693.51	1,527,016.24	1,650,543.62	1,121,846.64	927,678.23
Provision for income taxes	2,194,722.25	3,279,776.31	4,101,713.59	2,497,003.18	128,699.75	127,414.23
Deposits, employees, preferred stock purchase plan	90,596.80	222,035.11				
Funded debt:						
10-year 5½-percent serial gold bonds, Maxwell Motor Corporation	1,684,000.00	1,168,000.00	927,000.00	587,000.00		
Dodge Bros. Inc., 5-percent serial notes			2,305,000.00			
Dodge Bros., Inc., 6-percent gold debentures			56,705,000.00	49,178,000.00	47,583,000.00	44,411,500.00
Capital stock:						
Preferred	21,497,894.30	21,571,401.50				
Common	34,379,939.96	34,608,064.96	72,329,003.35	73,756,354.60	73,262,830.45	73,122,488.25
Reserves and surpluses:						
Contingent	1,319,824.54	4,068,207.89	13,680,675.03	10,500,690.42	5,870,929.27	6,730,781.52
Earned surplus:						
Appropriated	2,431,637.70	2,358,272.50		2,704,449.75	3,197,973.90	3,338,316.10
Unappropriated	16,915,963.97	26,622,449.33	48,225,210.46	54,087,164.71	42,762,527.53	39,678,880.39
Total liabilities	90,213,643.06	103,894,680.82	226,845,333.54	209,741,379.19	184,131,992.33	178,609,662.48

	1932	1933	1934	1935	1936	1937
Current:						
Accounts payable	$14,845,708.22	$18,293,288.03	$35,239,236.36	$52,306,075.68	$60,289,874.01	$25,445,252.67
Accrued interest, insurance, taxes, etc.	616,643.67	670,595.78	594,162.17	658,481.02	835,161.59	922,152.33
Distributors' and dealers' deposits	933,027.95	199,812.48	5,950.00	5,740.32	6,840.32	6,790.32
Provision for income taxes		2,058,908.97	1,847,022.79	8,931,095.46	14,000,000.00	12,300,000.00
Notes payable to banks				10,000,000.00		
Funded debt: Dodge Bros., Inc., 6-percent gold debentures	42,331,000.00	40,026,500.00	30,150,500.00			
Capital stock: Common	21,847,205.00	21,807,135.00	21,728,940.00	21,661,630.00	21,791,955.00	21,755,660.00
Reserves and surpluses:						
Contingent	4,543,418.37	4,418,763.32	5,299,238.63	9,616,448.97	12,224,833.45	19,674,632.18
Capital surplus: Appropriated	574,935.00	614,745.00	692,940.00	760,245.00	629,920.00	666,215.00
Unappropriated	25,322,043.67	24,229,627.69	24,100,410.27	23,958,773.59	25,365,707.33	25,201,890.63
Earned surplus: Unappropriated	27,372,720.89	35,198,273.31	39,300,874.99	65,612,041.43	75,531,892.40	82,740,483.80
Total liabilities	138,386,702.77	147,517,649.58	158,959,275.21	193,510,531.47	210,676,184.10	188,803,076.93

[1] Deduction.

Investment, profits, and rates of return, consolidated operations.—The investment, profits, and rates of return referred to herein reflect those pertaining to the entire consolidated operations of the Chrysler Corporation. A summary of the investment, profits, and rates of return follows in table 58. This summary shows the investment on three bases, namely, the total investment, the stockholders' investment, and the investment in the manufacture and sale of products and after excluding outside investments.

The investments reflected in this table represent the investment arrived at in the same manner as that in which the investment for the United States operations was determined, and as described on page 571. The profits related to the investment in this table represent the revised profits as determined by the Commission's accountants. The bases for determining both profits and investment have been previously referred to in this report, page 566, and are not repeated here.

TABLE 58.—*Chrysler Corporation—Investment, profits, and rates of return on the investment applying to the total consolidated operations, 1927 to 1937, inclusive*

	Total investment	Total stockholders' investment	Total motor-vehicle investment
Average investment:			
1927	$58,808,488	$56,993,632	$51,382,310
1928	115,127,761	83,519,740	103,337,129
1929	165,728,911	107,943,549	152,844,198
1930	153,879,763	103,432,401	131,967,164
1931	141,162,375	93,728,113	113,424,129
1932	129,836,038	85,467,519	100,843,411
1933	124,287,038	82,367,368	93,488,598
1934	126,333,113	88,672,732	108,127,064
1935	128,701,048	107,331,950	116,394,797
1936	136,165,417	132,825,793	117,334,328
1937	147,341,969	147,335,154	127,777,801
11-year average	129,988,202	99,283,295	110,856,292
Revised yearly earnings before deductions for Federal and State income taxes:			
1927	25,576,241	25,437,988	25,393,140
1928	40,195,624	38,608,107	40,026,783
1929	32,105,185	28,725,786	31,969,352
1930	1,087,658	[1] 1,948,331	670,463
1931	6,147,003	3,308,326	5,604,087
1932	[1] 8,911,074	[1] 11,569,191	[1] 9,300,281
1933	19,486,256	16,955,243	18,955,056
1934	14,027,099	11,718,067	13,639,958
1935	52,267,692	51,383,913	51,857,152
1936	83,221,824	83,150,619	82,495,032
1937	72,039,011	72,038,602	71,231,851
11-year average	30,658,411	28,891,739	30,231,145
Rates of return:	*Percent*	*Percent*	*Percent*
1927	43.49	44.63	49.42
1928	34.91	46.23	38.73
1929	19.37	26.61	20.92
1930	.71	[1] 1.88	.51
1931	4.35	3.53	4.94
1932	[1] 6.86	[1] 13.54	[1] 9.22
1933	15.68	20.58	20.28
1934	11.10	13.21	12.61
1935	40.61	47.87	44.55
1936	61.12	62.60	70.31
1937	48.89	48.89	55.75
11-year average	23.59	29.10	27.27

[1] Loss.

By reference to the preceding table, it will be observed that the 11-year average rate of return on the total investment in the consolidated operations was 23.59 percent, on the stockholders' investment it was 29.10 percent, and 27.27 percent on investment in the so-called motor-vehicle investment. The latter term, as used here, includes some small amount of other products, such as industrial engines, marine engines, and air-conditioning equipment; however, approximately 99 percent of the company's total sales represented motor vehicles and replacement parts.

The variation in the rate of return between the total investment and the stockholders' investments, amounting to 5.51 points percent, was caused by the influence of borrowed money on the rate of return on the total investment. Borrowed money was excluded from the stockholders' investment, and, inasmuch as it did not cost the corporation in any instance more than 6 percent, the exclusion of borrowed money increased the rate of return after deducting interest. The investment in the so-called motor-vehicle business, after deducting outside investments and property not used in the business and the income or expenses, but including borrowed money, resulted in a rate of return of 27.27 percent on investment in the motor-vehicle business.

The rates of return on the consolidated operations, including the foreign, varied only slightly from the return realized on the United States operations. This does not mean that the two divisions of operations resulted in the same degreee of profit or loss on the investment. The United States operations comprised such a large proportion of the total consolidated business that the foreign business would have little effect on the rate of return, even though there was considerable variation in the rate of profit realized per dollar of sales.

Income and expenses, consolidated operations.—Table 59 presents a comparative statement of Chrysler Corporation's income and expenses applicable to the total consolidated operations for the period January 1, 1927–October 31, 1936. This statement further indicates the profit applying to the investment in the manufacture and sale of products, the total stockholders' investment, and the total investment, including that portion of the investment in securities or properties not used in the business.

This statement should not be confused with the income and expense statement for the United States operations, because it includes the sales, expenses, and profits or losses of the Canadian and foreign subsidiaries. The income and expenses reflected by this statement were determined by the Commission's accountants after applying certain revisions, which have been previously outlined on page 583, with the exception that the accountants did not make a detailed analysis of the income and expenses of the foreign subsidiaries.

In revising the corporation's consolidated statement, only the revisions were applied that were obtained from analyzing the United States operations. This method was followed because it was difficult to obtain details of the foreign subsidiaries' accounts and because it was thought that the result would not justify the time that would be needed, and further because the United States operations comprised such a large proportion of the total business. For example, net sales from the United States plants amounted to $723,362,000 during 1937, and the total consolidated net sales amounted to $774,472.00 during the same year.

TABLE 59.—*Chrysler Corporation, consolidated profit-and-loss statement, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932
Net sales	$173,726,545.30	$315,937,196.16	$375,178,522.22	$207,549,008.09	$183,289,478.82	$136,794,392.76
Factory cost of sales	137,340,602.31	254,376,317.41	315,037,669.80	185,412,678.22	157,937,604.32	127,443,000.59
Gross profit on sales	36,385,942.99	61,560,878.75	60,140,852.42	22,136,329.87	25,351,874.50	9,351,392.17
Total commercial and administrative expenses	11,993,914.55	23,999,367.02	32,425,835.77	23,625,637.81	21,219,814.74	20,095,198.70
Net profit	24,392,028.44	37,561,511.73	27,715,016.65	[1] 1,489,307.94	4,132,059.76	[1] 10,743,806.53
Other income (net of expenses)	1,001,111.89	2,465,272.29	4,254,334.74	2,159,771.60	1,472,027.65	1,443,527.00
Net profit from manufacturing	25,393,140.33	40,026,784.02	31,960,351.39	670,463.66	5,604,087.41	[1] 9,300,279.53
Income from investments:						
Real estate not used in operations		[1] 120,467.46	[1] 120,426.71	[1] 121,754.48	[1] 121,318.91	[1] 110,614.01
Sundry investments					13,430.95	98.50
Marketable securities	183,100.81	289,307.81	168,760.20	388,948.97	580,205.72	445,426.69
In subsidiaries not consolidated						
Loans to Chrysler Management Trust			87,500.00	150,000.00	70,598.28	54,294.76
Total income from outside investments	183,100.81	168,840.35	135,833.49	417,194.49	542,916.04	389,205.94
Total net profit before interest and income taxes	25,576,241.14	40,195,624.37	32,105,184.88	1,087,658.15	6,147,003.45	[1] 8,911,073.59
Deduct: Interest on borrowed funds	138,253.10	1,587,517.75	3,379,399.36	3,035,989.43	2,838,677.53	2,658,117.09
Net profit before provision for income taxes	25,437,988.04	38,608,106.62	28,725,785.52	[1] 1,948,331.28	3,308,325.92	[1] 11,569,190.68
Provision for Federal and State income taxes	3,263,090.49	4,138,962.81	2,438,020.52	70,256.92	118,414.23	
Net profit after providing for income taxes	22,174,897.55	34,469,143.81	26,287,765.00	[1] 2,018,588.20	3,189,911.69	[1] 11,569,190.68

	1933	1934	1935	1936	1937	Total years 1927–37
Net sales	$238,061,986.63	$362,631,079.34	$519,072,906.98	$666,526,357.30	$774,472,676.92	$3,953,240,150.52
Factory cost of sales	201,786,270.17	319,812,729.30	431,653,670.96	545,635,431.11	662,300,495.61	3,338,736,469.80
Gross profit on sales	36,275,716.46	42,818,350.04	87,419,236.02	120,890,926.19	112,172,181.31	614,503,680.72
Total commercial and administrative expenses	18,414,388.65	30,746,918.98	37,316,963.02	41,592,062.03	44,760,738.77	306,190,840.04
Net profit	17,861,327.81	12,071,431.06	50,102,273.00	79,298,864.16	67,411,442.54	308,312,840.68
Other income (net of expenses)	1,093,729.56	1,568,526.07	1,754,879.06	3,196,166.75	3,820,407.62	24,229,754.23
Net profit from manufacturing	18,955,057.37	13,639,957.13	51,857,152.06	82,495,030.91	71,231,850.16	332,542,594.91

Income from investments:						
Real estate not used in operations	[1] 37, 108. 11	30, 287. 45	84, 754. 66	134, 980. 25	159, 823. 20	[1] 221, 844. 12
Sundry investments	13, 871. 65	34, 634. 41	225, 730. 10	420, 226. 49	443, 600. 20	1, 151, 592. 30
Marketable securities	500, 140. 70	262, 289. 05	30, 250. 00	132, 907. 17	164, 414. 19	3, 145, 751. 31
In subsidiaries not consolidated	----------	10, 101. 18	24, 694. 45	28, 091. 71	31, 524. 84	94, 412. 18
Loans to Chrysler Management Trust	54, 294. 76	49, 830. 24	45, 111. 17	10, 587. 19	7, 798. 27	530, 014. 67
Total income from outside investments	531, 199. 00	387, 142. 33	410, 540. 38	726, 792. 81	807, 160. 70	4, 699, 926. 34
Total net profit before interest and income taxes	19, 486, 256. 37	14, 027, 099. 46	52, 267, 692. 44	83, 221, 823. 72	72, 039, 010. 86	337, 242, 521. 25
Deduct: Interest on borrowed funds	2, 531, 013. 85	2, 309, 032. 86	883, 779. 24	71, 204. 81	408. 90	19, 433, 393. 92
Net profit before provision for income taxes	16, 955, 242. 52	11, 718, 066. 60	51, 383, 913. 20	83, 150, 618. 91	72, 038, 601. 96	317, 809, 127. 33
Provision for Federal and State income taxes	2, 058, 908. 97	1, 847, 022. 79	8, 931, 095. 46	14, 000, 000. 00	12, 300, 000. 00	49, 165, 772. 19
Net profit after providing for income taxes	14, 896, 333. 55	9, 871, 043. 81	42, 452, 817. 74	69, 150, 618. 91	59, 738, 601. 96	268, 643, 355. 14

[1] Loss.

CHAPTER XIV. REPORT ON FORD MOTOR CO.

Section 1. Historical Sketch

Introduction.—In the history of the development of the motor vehicle industry in the United States there have been at least two manufacturing companies named Ford Motor Co. The company operating under that name at the present time is a Delaware corporation that was incorporated on July 9, 1919, under the name of Eastern Holding Co. The original Ford Motor Co. was incorporated in Michigan on June 16, 1903.

The names of the original stockholders, together with their residences and the numbers of shares subscribed by them were as follows:

	Shares
Alex. Y. Malcolmson, of Detroit, Mich	255
Henry Ford, of Detroit, Mich	255
John S. Gray, of Detroit, Mich	105
John F. Dodge, of Detroit, Mich	50
Horace E. Dodge, of Detroit, Mich	50
Albert Strelow, of Detroit, Mich	50
Vernon C. Fry, of Detroit, Mich	50
Charles H. Bennett, of Plymouth, Mich	50
Horace H. Rackham, of Detroit, Mich	50
John W. Anderson, of Detroit, Mich	50
James Couzens, of Detroit, Mich	25
Charles F. Woodall, of Detroit, Mich	10
Total	1,000

The authorized capital stock was $150,000 par value in amount, of which $100,000 was subscribed and fully paid in at the date of organization.

The original officers were as follows: John S. Gray, president; Henry Ford, vice president; James Couzens, secretary; Alex. Y. Malcolmson, treasurer. Henry Ford was elected general manager with a salary of $3,600 a year; and James Couzens was elected business manager with a salary of $2,500 a year.

It will be observed that, of the original 1,000 shares subscribed and issued, Alex. Y. Malcolmson and Henry Ford each subscribed for 255 shares. Together, these holdings amounted to 510 shares, or 51 percent of the capital stock of the company. These 510 shares were paid for by turning into the newly organized company certain patents, patents applied for, machinery, and contracts for supplies. A valuation of $40,000 was placed on the patents and patents applied for; the machinery was valued at $10,000; and the contracts for supplies were valued at $1,000.

Events leading up to organization of Ford Motor Co.—The organization of the original Ford Motor Co. was the culmination of a series of researches, activities, and events that developed and happened over a series of years. Back in 1885, Henry Ford, then a machinist in Detroit, obtained an opportunity to repair an Otto gas engine, which was designed to use illuminating gas as a fuel. This engine, it is said, appealed to Ford's imagination and set up a train of thought and experimentation that resulted eventually in the development of the early Ford type of gasoline driven automobile.[1] The earliest practical product of this process was the so-called gasoline buggy, which Henry Ford commenced operating in the spring of 1893. This was a single seated automobile, the wheels of which were bicycle wheels, and which was driven by a motor with two cylinders each with a 2½-inch bore and a 6-inch stroke, the cylinders being set side by side over the rear axle of the "machine." It is said that Ford operated this car over a total distance of about 1,000 miles and then sold it for $200 because he needed the money.[2]

Ford built a second car in 1896.[3] It is said that up to this time, Ford's associates sought to discourage his experiments with a view to developing a practical motor-driven vehicle along the lines he was trying to develop, but that, after describing his mechanism and idea to Thomas A. Edison, the latter gave him great encouragement to proceed with his researches and experiments, telling him that he was proceeding along the correct lines.[4]

During most of this period of research and development of his motor-driven vehicle, Ford was a mechanic in the employ of Edison Illuminating Co. of Detroit; and it is said that he had risen to the position of chief engineer with a salary of $125 a month. It is also said that, about 1899, Edison Illuminating Co. of Detroit offered to make him its general superintendent on condition that he would "stop fooling with his gas engine and devote his time to useful work."[5] The result was that Ford resigned his position in 1899 and went into the automobile business.

After leaving the service of the electric company, Ford associated with him a group of men and formed a company known as Detroit Automobile Co. Ford held a small part of the stock of this company and was manager and chief engineer. It is said that few cars were sold, hardly any money was made, and just before the expiration of the third year of the company's life, Ford decided to resign and develop his own business; and that he rented a one-story brick shed and went on with his experiments, trying out engines and building improved models on the principle of his first car.[6]

One of the early methods of obtaining publicity for a make of automobile was to compete in races. In 1902, Ford designed a compact 2-cylinder engine and fitted it onto a skeleton chassis, thus constructing a racing car. This racer was driven by Henry Ford in a race against the track champion, Alexander Winton of Cleveland; and Ford won the race.[7] Ford then built two "big racing cars," naming one the "999" and the other "Arrow." The engines in these racers were said to have developed 80 horsepower. The 999 was entered in a race in 1903, but neither Ford nor his partner was willing to drive the car in the race. Barney Oldfield, then a bicycle racer of fame, was engaged for the purpose of driving this racer; and it is said that he finished the race about a half mile in front of the second car.[8] The original Ford Motor Co. was organized 1 week later.

[1] Ford, My Life and Work, pp. 28–31.
[2] Ibid., p. 33.
[3] Ibid., p. 33.
[4] W. J. Cameron, The Ford Sunday Evening Hour Talks, First and Second Series, pp. 72–73.
[5] Ford, My Life and Work, p. 33.
[6] Ibid., pp. 36–37.
[7] Ibid., p. 37.
[8] Ibid., pp. 50–51.

One commentator stated that of the original $100,000 par value of stock issued by Ford Motor Co., only $28,000 was paid in cash.[9] The company's minutes indicate that only $51,000 of this stock was paid for by turning in patents, patent rights, machinery, and contracts for supplies, and that the remaining $49,000 was sold to the subscribers therefor at par. There is nothing in the minutes to show that this payment for the 490 shares was made in other than cash. All additional capital employed in expanding the plant and business of the company in after years was obtained by retaining the major portion of the company's profits in its business.

Ford's ideas with reference to automobiles.—It is said that Henry Ford had certain ideas concerning the proper construction of a "machine" if it were to be practicable for general use in personal transportation. Lightness was one essential—illustrated by the fact that the first "gasoline buggy" weighed about 500 pounds. When the automobile industry was in its early infancy, the general idea seemed to be that an automobile was a luxury vehicle—something that could be afforded only by the wealthy and the very well-to-do, something that would represent an investment of several thousands of dollars in a single unit. It is said that Ford's idea was to construct a motor vehicle that would be so low priced as to be within the means of the great multitude. During the period 1900 to 1910, the general idea seemed to be that after an automobile had been in use approximately 2 years, there had developed a potential and prospective repair bill of such magnitude that the economical course of procedure was to dispose of the automobile in use and buy a new one. In contrast with this, Ford expressed publicly the idea of building a motor vehicle of such sturdiness that it would have a serviceable life of 5 years, and of furnishing it to the public at such a low price that, at the conclusion of 5 years of service, the owner could afford to throw away the worn-out car. An important part of this idea was that of furnishing interchangeable repair parts at prices such that the owner of a Ford car could better afford to buy new replacement parts, when needed, than to have old parts repaired. In short, while other automobile makers expected to supply only a limited demand found among wealthy and very well-to-do people, Ford had the vision of 95 percent of the population as the source of demand for a low-priced sturdily built motor vehicle.[10]

Ford's original associates.—There were 11 men associated with Henry Ford in the organization of Ford Motor Co., the Michigan corporation. It is said that Malcolmson was a coal man. It is also inferred that he was a partner with Henry Ford in the latter's experimental and developmental work carried on just prior to the formation of Ford Motor Co., inasmuch as he received one-half of the 510 shares that were issued in the purchase of the patents, patent rights, machinery, and contracts for supplies. Couzens, later United States Senator from Michigan, was at that time a clerk in Malcomson's office. Gray was a manufacturing confectioner and a friend of Malcomson. John F. Dodge and Horace E. Dodge, who later (in 1914) formed a corporation to manufacture and distribute automobiles under the name of Dodge, were the owners of a machine shop in Detroit and apparently did most of the early work of assembling

[9] Seltzer, a Financial History of the American Automobile Industry, p. 88; Ford, My Life and Work, p. 51.
[10] Ford, My Life and Work, pp. 47–50; p. 53; pp. 54–57.

Ford automobiles. Woodall is said to have been Malcomson's bookkeeper. Fry was a bookkeeper. Bennett was an employee of a company that made toy guns. Strelow was a carpenter. Rackham and Anderson were lawyers.[11]

Facilities and arrangement for manufacturing.—It is said that the original plan of the Ford Motor Co. was to purchase from various manufacturers the engines, bodies, wheels, tires, and other parts and to assemble these into the complete "machines," according to plans worked out by Henry Ford. The company rented a carpenter shop on Mack Avenue, Detroit, where, probably, the original $10,000 worth of machinery was housed.[12] Probably, however, this machinery was inadequate for carrying on all the processes of manufacture and assembly, as is evidenced by the fact that at the meeting of the board of directors on October 13, 1903, there was authorized a contract between the company and Dodge Brothers for "machines to be delivered as follows": 5 per day in January 1904; 6 per day in February, March, and April, 1904; and 7 per day in May 1904—a total of 755 "machines"—with the privilege of ordering 500 more by April 1, 1904, to be delivered, 7 per day during June and July and 6 per day during August, the "price to be $265 each less spark coils and plugs providing we furnish them."

Early Ford models.—The design of automobiles that was manufactured and offered by Ford Motor Co. during the first 15 months of its existence was designated as "model A". It was a 2-cylinder 8 horsepower "machine" with a 72-inch wheelbase and a fuel capacity of 5 gallons. The regular style was the runabout, which was priced to retail at $850 f. o. b. Detroit. This was designed so that a tonneau could be lifted onto and installed on the chassis, in which case the price was $950. These prices did not include lamps, horn, or windshield, for which the purchasers of these cars had to pay extra if they desired these accessories.[13] The sales of these motor vehicles amounted to 1,708 units during the first 15 months.

For the year October 1, 1904, to September 30, 1905, Ford Motor Co. offered three models of passenger car. Model B was a 4-cylinder touring car priced to retail for $2,000. Model C was an improved model A, priced to retail at $900 as a runabout, or at $1,000 as a touring car.[14] Model C was equipped with a 2-cylinder motor. Apparently the year was started with these two models; but later in this year, model F was offered and was priced at $1,200 as a touring car or $1,100 as a runabout. The company's minutes show that on November 15, 1904, the company had orders for 697 model C units and for 285 model B units. Apparently the 2-cylinder model C units did not appeal to the public. For, on May 16, 1905, the board of directors held a discussion "on the general conditions of the sales," in which a large number of letters from agents was submitted showing the conditions and the reasons for the "small demand of the 2-cylinder models."

One source shows sales during 1905 amounting to 1,695 units.[15] This number may have pertained to the calendar year 1905; the company's minutes show 1,745 "machines shipped during fiscal year"

[11] Graves, Triumph of An Idea, pp. 30-31.
[12] Ford, My Life and Work, p. 52.
[13] Ford, My Life and Work, p. 54.
[14] Ibid., p. 57.
[15] U. S. Board of Tax Appeals Reports, vol. 11, p. 1067.

1904–5, with a total sales value of $1,901,102.82 as compared with total dollar sales in 1903–4 of $1,162,815.87.

For the year, October 1, 1905, to September 30, 1906, two models of automobile were offered by Ford Motor Co.; namely, a 4-cylinder touring car priced to retail at $2,000; and a 2-cylinder touring car to retail at $1,000.[16] The sales dropped to 1,599 units.

Change of policy and methods.—At this point, apparently, Henry Ford decided to take active control and to enforce his own policies in the conduct of the business of Ford Motor Co. At the outset, he held only 25½ percent of the voting stock. He purchased another 25½ percent of the stock—probably that of Malcolmson. One commentator states that the wooden carpenter shop was replaced by a three-story plant.[17] Apparently Ford organized a separate company for the purpose of constructing this plant. For the company's minutes show that on April 29, 1907, Ford Motor Co. accepted a proposal submitted by Ford Manufacturing Co. for the purchase of the latter's real estate, buildings, leases, contracts for material, contract for sale of engines, machinery, tools, fixtures, business, and goodwill for the sum of $450,000 and for the purchase of merchandise on hand at inventory, at prices paid by Ford Manufacturing Co., which inventory amounted to $86,364.73. A condition of the purchase was that Ford Manufacturing Co. should go out of business and that no subsequent company should be formed in which stockholders of the Ford Motor Co. should become members for the purpose of manufacturing any part or parts of the products of Ford Motor Co. unless the stockholders should have decided that Ford Motor Co. should not manufacture the part or parts so proposed to be manufactured by a new company.

One source states that during the year ended September 30, 1907, Ford Motor Co. offered only three varieties of runabout, priced to retail at from $600 to $750, and that the sales jumped to 8,423 units.[18] The corporate minutes show two models; namely, model N, which, equipped with 2½-inch tires and without lamps or horn, was listed at $500, or equipped with 3-inch tires, but without lamps or horn, was listed at $550; and model K, listed at $2,800. Model K was equipped with a 6-cylinder 50 horsepower motor. The sales for the 12 months ended September 30, 1907, totaled $5,773,851 as compared with $1,491,626 during the 11 months of the preceding year

Experience with model K.—The offering of this 6-cylinder model of automobile was the occasion of the first practice of "full-line forcing" by Ford Motor Co., insofar as the records show. While model N was equipped with 2½-inch tires, it was decided to discourage the use of 2½-inch tires by not guaranteeing them and by delaying orders through the process of giving preference to orders with 3-inch tires—customers to be informed on applying for 2½-inch tires that, after greater experience, the company had decided that the 3-inch tire was the only satisfactory size, and to be urged to take the 3-inch tires at $50 extra. It was also decided to establish no agencies or branch subagencies with any concern that did not take model K cars. Those concerns who were in position to take model K's were to be allotted 10 model N's for every model K ordered to be taken during the life of the contract; and any agency then on the company's books was to be dropped unless it could market model K. In order to make sure

[16] Ford, My Life and Work, p. 58.
[17] Ford, My Life and Work, p. 58.
[18] Ibid., p. 58.

that agents would accept deliveries of model K cars ordered, a deposit of $200 was required on each model K car for which an order was received, this deposit to be retained until such cars were taken by the agents.

Although the corporate minutes show that model K was offered at the beginning of the year October 1, 1906, to September 30, 1907, one commentator [19] avers that this model was offered during the year 1907–8, that the effect of this and of the 1907 panic was a large drop in the sales, and that on the basis of this experience the Ford management decided against high-priced cars for the future. So far as the drop in sales is concerned, the statement is corroborated by the report of sales during 1908 of 6,398 Ford cars as compared with 8,423 in 1907; also, the company's income statement shows a drop in the amount of sales from $5,773,851 for the 12 months ended September 30, 1907, to $4,701,298 for the like period ended September 30, 1908. This was a year of general business depression.

Model T, the universal car.—Whatever the facts about model K, the manufacture and distribution of the 6-cylinder car as well as of the 2-cylinder car was discontinued; and during a period of 18 years commencing in 1908, Ford Motor Co. manufactured and offered for sale only one basic model of passenger automobile, although this was offered in several styles of body. This was model T.

In model T, Ford realized his ideals and embodied his ideas with reference to a "universal car." One of these ideas was that of standardization of the design of the vehicle and of the parts thereof and of the manufacture of these parts with such precision that any part could be replaced from stock with another part so exactly like it that the replacement part would fit exactly into the mechanism, notwithstanding any changes that may have been made in the car design. The idea of interchangeable parts as applied to a specific model of machine was standard practice long before this in some industries, but it had not been fully applied in the automobile industry; and the development of it in this industry, especially as applied to improvements in structural design, was apparently largely due to Ford.

It is said that in 1903, Ford said to John W. Anderson, "The way to make automobiles is to make one automobile like another automobile, to make them all alike, to make them come through the factory just alike—just like one pin is like another pin when it comes from a pin factory, or one match is like another match when it comes from a match factory." [19a] By such standardization and such precision in manufacture it would be possible to manufacture the parts in quantity production in different factories, located in different communities, and yet have these parts fit together perfectly in the process of assembling them into completed automobiles. If, in the operation of such a motor vehicle, a part should fail, this part could be replaced by its exact duplicate from a conveniently located stock of repair parts. A part of the idea was to manufacture parts and completed automobiles in large quantities so as to reduce cost, reduce the price to the ultimate purchaser, and to stimulate demand. An important idea was that of lightness of the motor vehicle, bringing about economy in operation by the owner. Analysis of a light but strong valve strip stem taken from a wrecked French racer in 1905 resulted in discovery

[19] U. S. Board of Tax Appeals Reports, vol. 11, p. 1095.
[19a] Ford, My Life and Work, p. 59.

that the material contained vanadium. No steel maker in America at that time knew how to make vanadium steel and a man with such knowledge was imported from England. The process was difficult, because it required a temperature of 3,000 degrees Fahrenheit whereas ordinary furnaces did not go beyond 2,700 degrees. A small steel company made trials under a guaranty against loss and was successful. The result was steel with a tensile strength of 170,000 pounds as compared with 60,000 to 70,000 pounds for ordinary steels.[20] With steel of such tensile strength, parts could be made lighter and yet be sturdier than parts made out of ordinary steel. Simplicity of design and accessibility of the engine, frame, axles, etc., were important for the purpose of minimizing repair costs when repairs should be necessary. Sturdiness of design resulting in durability, so as to assure a long useful life and to economize first cost, was an important part of the idea. Ford's policy and practice was to carry on research for the purpose of improving the structure of the product and the processes in fabricating it so as to increase the economy to the owner and to reduce the price. Price reductions, Ford stated, should be made because of the economies achieved in manufacture, not because of public dissatisfaction with the product.

Model T was a small, light-weight car, with a 100-inch wheel base and a 56-inch tread, equipped with a 20-horsepower, water-cooled motor with 4 cylinders of 3¾-inch diameter and a 4-inch piston stroke, all cast in one block. Originally, it was equipped with a Holly carburetor, a vertical tube radiator, a 10-gallon gasoline tank, and two sets of brakes—one operated by a foot lever acting on the transmission, the other by hand lever acting on the rear axle. The principal distinguishing features were a planetary transmission, a rear axle of unusual design, a magneto built into the flywheel as an integral part of the motor, the use of vanadium steel, and relative lightness and power. Incorporation of the magneto as a part of the flywheel reduced the weight of the car. Vanadium steel was used in the car to make it stronger and lighter, increasing the ratio of the horsepower to the weight and making the car cheaper to operate. The car was simple of design, making it easy to operate and easy to maintain and repair. The parts were so precisely manufactured that a number of cars could be disassembled, the parts mixed, and the same number of cars rebuilt from the parts. It is said that this could not be done with any other car in the low-priced field as late as 1913.[21]

Speaking of this car in 1928, the United States Board of Tax Appeals stated:

> Model T was a utility car. It was a good car. It had a good reputation and a thoroughly accepted standing in 1913. It was used by all classes of people. It was the cheapest car on the market and was a greater value for its price than any other car. Because of its low price it had a much larger field of demand than any other car. It was within the purchasing power of the greatest number of people and they were rapidly availing themselves of it. There was a greater demand for it than for the car of any other company.[22]

In order to manufacture model T cars with the maximum production economy, Ford Motor Co. built a plant at Highland Park, Mich. (just outside of Detroit), designed and laid out specially for the production of this car. Construction of this plant was begun in

[20] Ford, My Life and Work, p. 66.
[21] U. S. Board of Tax Appeals Report, vol. 11, pp. 1095, 1096.
[22] Ibid., p. 1117.

1909; and the plant was completed, occupied, and placed in operation near the end of 1910. A noteworthy feature of the construction of this plant was that it was designed and laid out on what has come to be known as the "line production system." In the plant previously used, as in other ordinary factories, machines, such as drill presses, milling machines, lathes, boring mills, planers, etc., were located in groups according to the type or class of operation; and the material in the process of manufacture was conveyed from group to group according to the sequence of operations. This resulted in a large amount of crisscrossing of the lines of progress and a large amount of shop transportation. The Highland Park plant was designed to avoid this by having the machines and the employees operating them placed in such sequence that the material would move in a predetermined line of production without interruption or loss of time in transporting material from the place of one operation to the place of the next. This means a production line for each part that is to be processed within the factory. For example, in the connecting rod production line, a babbitting operation occurred between two machine tool operations; and a babbitting furnace was placed between the two machine tools, so that the part, after passing through the first of the two machining operations, moved only a few feet to the place of the babbitting operation, and, after the completion of this operation, moved only a few feet to the place of the next machining operation. While similar methods of mechanical handling and economical operation were used before this in some other industries, such as the steel industry, Ford seems to have taken the lead in this matter in the manufacture of such complex mechanisms as automobiles. It reduced inventories, eliminated storage rooms and eliminated the transportation of materials from one department to another—materially lowering the cost of production. It is said that Ford Motor Co. was the first company to use conveyors to bring material to workmen instead of having the workmen go after the material. This conveyor system was designed so as to keep the material 3 feet off the floor at all times.

An important idea in the design and the subsequent improvements of the Highland Park plant, and of later plants, was the development of specialized machinery designed to perform specific operations in the process of making the respective parts of this car. Each manufacturing operation was studied, and special machinery was designed to perform the operation. Research was carried on for the purpose of improving machine design and of developing new machines so as to reduce the operations to the smallest possible unit. After such a machine was developed, the operation was performed by unskilled labor which could be trained in a few days. New improvements and developments that reduced costs were installed every year. In this manner production costs were lowered progressively.

It is said that in 1913, this plant was equipped with a large number of very expensive single-purpose machines and unique manufacturing contrivances and fixtures. Among these special machines were multiple drilling machines, which drilled simultaneously 45 holes in one cylinder block from four directions in 1½ minutes. With these machines, it was not necessary to take a casting out and turn it bottom side up or around in order to continue the drilling process, as would be required if a standard general-purpose drill press were used. The use of these machines secured accuracy in drilling, avoided loss of castings, minimized the time of operation, and economized floor space. This particular machine as built could be used only on model T motors. Another specialized machine was a milling machine that permitted the milling of 12 cylinder blocks in one operation. A special radiator assembly machine inserted many tubes through a large number of punched sheets in one stroke of a press. Special machines were used for painting wheels, the entire wheel being immersed in the paint and being dried by spinning, the excess paint being thrown off by centrifugal force. Bliss presses were used to press the forms of crank cases out of flat steel plates in one operation; these were also used to form, in one operation, fender plates from rectangular pieces of steel. It is said that these were the first steel crank cases to be used on motor cars; and by making the crank cases of sheet steel, the weight of the car was reduced and its efficiency was increased.

Experiments were also carried on in a research department for the purpose of improving the steels used in making high-speed tools and in treating these high-speed tools so as to improve the quality of red-hardness and increase the speed at which these tools could do their work of drilling, turning, boring, milling, and planing metal parts.[23]

The United States Board of Tax Appeals stated, in 1928, with reference to this Highland Park factory:

> All machines were grouped more closely together in the Ford plant than in the ordinary factory. In many instances to accomplish this the beds of lathes and of milling machines were cut off. This close grouping economized operation.
>
> In every detail the factory was laid out on a large-production scale. It had been tooled regardless of cost, having in mind only the greatest efficiency, and was laid out with the idea of taking advantage of every possible economy and of producing the quantity desired at the lowest possible price. At that time no other company was able to tool in the same manner or manufacture as cheaply. The plant was recognized as the greatest advance in manufacturing methods in the country at that time, and was the best automobile producing layout in the United States.[24]

It is said that in 1910, Ford Motor Co. was purchasing its bodies, wheels, and radiators from other manufacturers. In June 1912, plans were started for buildings known as W and X, to be erected at Highland Park. Construction was started in May 1913. In preparation for this construction, railroad tracks were rearranged so as to provide shipping facilities for the proposed buildings. Each of these buildings was a 6-story structure, 840 feet long by 60 feet in width, and each having a floor space of 348,800 square feet. They were separated by a craneway that was 800 feet long, 40 feet wide, and that was roofed with glass. This provided a light well throughout the length of the buildings. The craneway side of each building was left open without a wall. Heating plants and air washers were installed on the roofs and the heated or washed air was forced through the buildings by means of hollow columns, the buildings being thus ventilated and the temperature regulated. As air escaped from the open sides of the buildings, it automatically provided heat and ventilation for the craneway without extra expense. It is said that in these respects, these buildings were unique in factory construction. A railroad track entered the craneway, and projecting platforms were built at several places in each floor of these buildings in such manner that materials

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[23] Ibid, pp. 1096 and 1098.
[24] Ibid., p. 1099.

could be loaded or unloaded at any point on any floor in either building by means of a crane. The buildings were designed so that material could be hoisted as near to the roof as possible and would progress downward from floor to floor during the manufacturing operation. Holes were cut through the floors, and parts that started in rough at the top floor could pass by gravity down through chutes, conveyors or tubes, emerging as finished articles on the ground floor.

Assembly plants.—Another idea adopted, developed and put into practice by the Ford management was that of decentralization of manufacture, using specialized plants in the vicinity of Detroit as plants in which to manufacture parts, much of the assembling of these parts into the completed automobiles taking place in branch assembly plants located in various parts of the United States. Time was required for the purpose of giving full effect to this plan. Eventually, assembly plants were put into operation in the following cities: Kansas City, Mo., in October, 1910; Long Island, N. Y., in July 1911; Chicago and San Francisco in October 1913; Memphis, Los Angeles, and Denver in November 1913; Detroit and Portland (Oreg.) in January 1914; Seattle in February, 1914; Cambridge (Mass.) and St. Louis in April 1914; Columbus in June 1914; Dallas and Houston in July 1914; Minneapolis in December 1914; Indianapolis and Pittsburgh in February 1915; Atlanta in March 1915; Cincinnati in April 1915; Cleveland in August 1915; Louisville in October 1915; Buffalo during November 1915; and Milwaukee, Washington, Oklahoma City, and Omaha at dates not specified but not earlier than 1915.

Parts were manufactured in the factories in the vicinity of Detroit, or were purchased from factories located at other points, were shipped to these assembly points and were there assembled into the completed automobiles. Several economies are claimed for this system of branch assembly plants. Transportation costs were economized by shipping parts instead of completed automobiles to these assembly plants because the freight cars could be more heavily laden, the straight carloads of parts took lower class rates, and ordinary freight cars could be used instead of special cars. Loading and handling costs were minimized; and diversion and reconsignment were made more practicable and available. Parts made by other manufacturers could be shipped directly to the assembly plants instead of to Detroit; thereby minimizing the freight charges and handling costs. Another advantage was that stocks of parts could be accumulated at the various assembly plants, economizing storage space at the Detroit factories and permitting production of the parts in those portions of the year in which business was slow, thus eliminating the sharp curves of production. The assembly plants also established immediate sources of supply in the regions in which they were located. Dealers were furnished with stocks of parts from these assembly plants; and in many cases were able to drive the cars from the assembly plants to their places of business instead of having them transported by rail.

Also with the establishment of these branches, supervision of dealers was taken over by branch managers. It is said that very close supervision was maintained over the dealer, the control extending even to the appearance of the dealers' salesrooms. Dealers were also required to carry adequate stocks of those parts that were most in demand, thus enabling prompt service and prompt repairs to the car owners.[25]

[25] Ibid, pp. 1104 to 1106.

Models in 1908–09.—Pursuant to this policy of concentrating on the production of one model of car, Ford Motor Co. offered this model in five styles of body during the fiscal year 1908–09; namely, a touring car retailing at $850, a town car at $1,000, a roadster at $825, a coupe at $950, and a landaulet at $950, these prices being f.o.b. Detroit. All of these were merely style variations of model T. The sales during the first year of model T production amounted to 10,607 cars.

Price policy and prices of model T cars.—As before stated, the policy of Ford Motor Co. was to manufacture a car of such design and in such manner that it could be offered to the public at a low price and also to reduce prices in line with reduced costs as production economies were achieved through improvement in the structure of the product and in processes of manufacture and through attained volume. Table 60 shows the prices, f.o.b. Detroit, of the model T runabout and the model T touring car as of various dates from October 1, 1908, to February 11, 1926.

TABLE 60.—*Prices of model T runabouts and touring cars, by dates, Oct. 1, 1908, to Feb. 11, 1926* [1]

Date	Runabout	Touring	Date	Runabout	Touring
Oct. 1, 1908		$850	Aug. 16, 1918	$500	$525
Oct. 1, 1909		950	Mar. 4, 1920	550	575
Oct. 1, 1910		780	Sept. 22, 1920	395	440
Oct. 1, 1911	$590	690	June 7, 1921	370	415
Oct. 1, 1912	525	600	Sept. 2, 1921	325	355
Aug. 1, 1913	500	550	Sept 16, 1922	319	348
Aug. 1, 1914	440	490	Oct. 17, 1922	269	298
Aug. 1, 1915	390	440	Oct. 2, 1923	265	295
Aug. 1, 1916	345	360	Dec. 2, 1924	260	290
Feb. 21, 1918	435	450	Feb. 11, 1926	290	310

[1] U. S. Board of Tax Appeals Reports, vol. 11, p. 1116.

It will be observed from the foregoing table that the price of the touring car on October 1, 1908, was $850, and that it was increased to $950 on October 1, 1909. From that date there was a progressive reduction of the price of this car until it reached a low of $360 on August 1, 1916. During the period of rising wage rates and prices of materials in the latter part of the war period and the immediate post-war period, the prices were increased from time to time to a maximum of $575 on March 4, 1920. After that date, prices were again reduced progressively and reached a new low of $290 on December 2, 1924. There was an increase of $20 on February 11, 1926. Commencing with a price of $590 on October 1, 1911, the prices of the runabout followed a course paralleling that of the prices of the touring car. A minimum of $345 was reached on August 1, 1916, after which the prices were increased progressively to $550 on March 4, 1920, and again were progressively decreased thereafter to a new low of $260 on December 2, 1924. The price of the runabout was increased $30 on February 11, 1926.

With these progressively diminishing prices, the sales of model T cars increased by leaps and bounds. The aggregate sales during the calendar year 1908 amounted to 5,986 cars. The sales during the succeeding calendar years up to 1919 were as follows: 1909, 12,292 cars; 1910, 19,293 cars; 1911, 40,402 cars; 1912, 78,611 cars; 1913, 182,809 cars; 1914, 260,720 cars; 1915, 355,276 cars; 1916, 577,036 cars; 1917, 802,771 cars; 1918, 402,908 cars; and 1919, 777,694 cars. During a considerable portion of 1918, the factories of Ford Motor Co. were engaged in the manufacture of Liberty motors and submarine chasers, and the production and sale of automobiles were greatly reduced, pursuant to the policy of the United States Government to limit the production of commodities that were not deemed necessaries of life in order to concentrate as much of the productive resources as practicable in the production of war materials and munitions. This explains the reduction of the company's sales by approximately one-half in 1918 as compared with 1917.[25]

During the same period sales increased in invoice value from a little over $4,700,000 during the year ended September 30, 1908, to more than $24,656,000 in 1911, to nearly $89,109,000 in 1913, to more than $206,867,000 during the year ended July 31, 1916, and to approximately $305,637,000 in the year ended July 31, 1919.

Foreign business.—Very soon after its organization, Ford Motor Co. took steps for the purpose of extending its business into foreign countries. The corporate minutes of October 24, 1903, record authorization to the secretary to sign a contract with Mr. R. M. Lockwood of New York to represent the company in all export business. At an early date, Canada Cycle & Motor Co. of Toronto became an "agent" of Ford Motor Co. in that territory.

Apparently in June 1904 Ford Motor Co. received a proposition from certain parties in Walkerville, Ontario, for the establishment of a branch factory at that point. This proposition was investigated and resulted in the formation of Ford Motor Co. of Canada, Ltd. This company was organized with a capital stock of $150,000, of which 51 percent, or $76,500, was to be issued to the stockholders of Ford Motor Co., and the remaining $73,500 was to be obtained in subscriptions—presumably from the parties proposing the enterprise. The controlling stock in the Canada company was divided among the stockholders of Ford Motor Co. in proportion to their holdings of the stock of the latter company, under arrangements in which this stock as well as that of Ford Motor Co. was to be closely held. Apparently there was an arrangement between Ford Motor Co. and the Canadian company whereby the latter was permitted to sell its products only in the Dominion of Canada and in the British colonies.

In the years that followed, the Ford family evidently organized many companies whose business was auxiliary to that of Ford Motor Co., as is evidenced by the number and variety of corporations whose capital stocks were acquired from members of the Ford family by the newly formed Ford Motor Co., of Delaware, immediately after the reorganization that was consummated early in 1920.

Section 2. Reincorporation of Ford Motor Co. in Delaware in 1919

Causes leading up to reincorporation.—Early in 1919 Henry Ford and Edsel Ford, who held 58½ percent of the voting stock of Ford Motor Co., the Michigan corporation, decided to purchase the shares of the minority stockholders and to transfer the incorporation of the business from Michigan to Delaware. This decision was caused in considerable part by the outcome of a suit against Ford Motor Co. and the dominant

[25] Ibid., p. 1119.

directors and officers thereof that was instituted by certain minority stockholders in 1916. In order to obtain a full appreciation of the reasons for this decision, it is useful to review the economic progress of the business of Ford Motor Co. and certain other events.

Table 61, shows the net sales, the net income after provision for taxes, the amounts of cash dividends distributed to stockholders and the accumulation of earnings in the business of Ford Motor Co. by accounting periods from the date of formation of the company on June 16, 1904, to the date of practical termination of its existence, April 30, 1920.

TABLE 61.—*Net sales, net income after provision for taxes, cash dividends, surplus adjustment deductions and earnings reinvested in the business by Ford Motor Co., of Michigan, from date of organization to date of dissolution, by accounting periods, June 16, 1903–Apr. 30, 1920.*

Period	Net sales	Net income after taxes	Cash dividends	Surplus adjustments (deductions)	Earnings reinvested in the business during period	Accumulated surplus
15 months ended Sept. 30, 1904	$1,162,816	$246,080	$100,000	----------	$146,080	[1] $183,037
13 months ended Oct. 30, 1905	1,839,236	285,232	200,000	[2] $4,962	90,194	273,231
11 months ended Sept. 30, 1906	1,491,626	102,398	----------	[2] 25,117	127,515	400,746
12 months ended Sept. 30, 1907	5,773,851	1,233,772	10,000	123	1,223,649	1,621,395
12 months ended Sept. 30, 1908	4,701,298	1,179,237	500,000	147,007	532,230	2,156,625
3 months ended Dec. 31, 1908	366,400	15,491	200,000	49,844	[3] 234,353	[4] 22,272
12 months ended Dec. 31, 1909	10,584,338	3,218,377	1,800,000	42,570	1,378,007	1,398,279
12 months ended Dec. 31, 1910	16,971,274	4,206,857	2,000,000	60,955	2,145,902	3,544,181
12 months ended Dec. 31, 1911	28,013,444	7,579,334	3,005,000	37,841	4,536,493	8,080,674
9 months ended Sept. 30, 1912	36,951,578	11,548,154	4,900,000	[2] 16,267	6,664,421	14,745,095
12 months ended Sept. 30, 1913	89,103,885	25,046,767	11,200,000	332,689	13,514,078	28,259,173
12 months ended Sept. 30, 1914	119,489,317	30,338,455	9,200,000	573,955	20,564,500	48,823,673
10 months ended July 31, 1915	121,130,860	24,641,423	14,200,000	122,081	10,319,342	59,143,015
12 months ended July 31, 1916	206,867,327	59,994,958	6,200,000	977,066	52,817,892	111,960,907
12 months ended July 31, 1917	274,575,052	30,364,350	8,200,000	2,520,350	19,644,000	131,604,907
12 months ended July 31, 1918	308,719,034	52,834,237	8,200,000	996,416	43,637,821	175,242,728
5 months ended Dec. 31, 1918	62,622,406	15,850,738	300,000	[2] 1,045,951	16,596,689	191,839,417
12 months ended Dec. 31, 1919	468,460,989	64,301,427	[5] 24,175,386	6,954,288	33,171,753	275,011,170
4 months ended Apr. 30, 1920	203,300,131	36,047,126	5,000,000	[2] 938,361	31,985,487	256,996,657
Total	1,962,129,862	369,034,413	99,390,386	10,784,327	258,859,700	----------

1 Includes $36,957 as of commencement of business June 16, 1903.
2 Net addition.
3 Net deduction before a stock dividend of $1,900,000.
4 After appropriation of $1,900,000 for purpose of a stock dividend.
5 Including special dividend of $19,275,385.96 declared July 10, 1919, as of Dec. 5, 1917, pursuant to decree of the Supreme Court of Michigan in the case of *John F. Dodge et al.* v. *Ford Motor Company et al.*, payable with interest at 5 percent per annum from Dec. 5, 1917.

The data presented in the foregoing table were obtained from the books and records of Ford Motor Co. Some of the amounts shown in this table differ from similar amounts stated in the preceding section. These differences are due in part to differences in the periods to which the data pertain, some of the earlier data pertaining to calendar years, whereas the data presented in the above table pertained to the official fiscal periods of Ford Motor Co., of Michigan.

The foregoing table shows that during this period of a little less than 17 years, Ford Motor Co. had net sales of motor vehicles, repair parts, and the like aggregating more than $1,962,000,000. During this period, the net income of the company after making provision for taxes amounted, according to the company's account, to a little more than $369,000,000. Surplus adjustments reduced this by a little more than $10,784,000; but a considerable portion of this bookkeeping reduction may have represented costs of rearranging factory equipment from time to time, as the factories were reconstructed and the production lines were relocated. Out of this net income, the company distributed to its stockholders in cash dividends more than $99,390,000 but retained in the business for the purpose of expanding production facilities and of providing a very substantial cash balance a total of nearly $259,000,000. July 31, 1916, was an important date in the history of this company. Up to that date, the aggregate profit of this company's business was more than $169,636,000, of which $53,550,000 had been distributed in dividends, nearly $113,861,000 had been retained in the business, and nearly $111,961,000 stood in the company's accounts as surplus.

During this time Ford Motor Co. had purchased the plant and assets of Ford Manufacturing Co. in 1907, had purchased the plant of John R. Keim Mills, Inc., of Buffalo (which had been manufacturing certain parts of the Ford cars) and moved it to Detroit, had constructed a 47-acre plant at Highland Park (just outside of Detroit), and had constructed large additions to this plant, financing all of these acquisitions and construction out of the retained profits of the company. In 1916 plans had been made for further construction and expansion of the plant to be financed in a similar manner. Notwithstanding large amounts that had been distributed to the stockholders in cash dividends, certain of the minority stockholders were dissatisfied with this practice of using so much of the profits for such expansions and reconstructions. In 1916 Horace E. and John F. Dodge and other minority stockholders brought suit in the Michigan courts to restrain the Ford management from executing certain of its planned construction and to compel the company to distribute a considerable portion of its cash surplus in dividends. This suit was carried up to the Supreme Court of Michigan; and early in 1919 this court handed down a decree requiring Ford Motor Co. to distribute out of its surplus as of August 1, 1916, a cash dividend of $19,275,385.96 as of December 5, 1917, together with interest thereon at the rate of 5 percent per annum from that date until the date of payment of the dividend. The company complied with this decree by action taken on July 10, 1919.

A feature of this case was the fact that the corporation law of Michigan forbade the formation of a corporation with a capital in excess of $25,000,000; and it was argued by the plaintiffs in the suit that the accumulation of so large a surplus as $111,960,907 on a capital stock of only $2,000,000 was a violation of this provision of the Michigan corporation law and was an inordinate amount of surplus to retain in the business. The Supreme Court of Michigan held that the limitation of capital stock of corporations, stated in the act under which Ford Motor Co. was organized applied to the amount of capital that in the first instance might be employed in the corporate enterprises and not to be the legislature's intent to limit the capital assets of corporations; but it held that the accumulation of so large a surplus in the face of protests from stockholders was inordinate and arbitrary. A part of the construction plan to which objection was made by the minority stockholders was the construction of a smelting plant and blast furnace and a plant for the production of iron and steel out of the raw ores, this being objected to on the ground that this was not an essential part of the process of manufacturing automobiles and therefore that the corporation's charter did not give it authority to construct such plant and carry on such ore-reducing processes, so that this proposed course of procedure was ultra vires. The court held that the smelting of iron ore by a corporation engaged in the manufacture of automobiles, so that its castings might be made direct from the ore rather than from pig iron, was not beyond the power of the corporation.

It will be recalled that at the beginning of the operations of Ford Motor Co., a considerable portion of the manufacture of its completed cars was carried on under contract by Dodge Bros. in their machine shop. The construction by Ford Motor Co. of its own plant for the purpose of assembling cars and of manufacturing many of the parts deprived Dodge Bros. of a portion of their business. It appears, nevertheless, that Dodge Bros. continued for a number of years to manufacture certain parts required by Ford Motor Co.; but as the latter company gradually took over the manufacture of these parts in its own plants, Dodge Bros. were faced with the prospect of complete loss of this portion of their business; and Dodge Bros. took steps to conserve their business by themselves entering upon the manufacture of automobiles. All contracts between Dodge Bros. and Ford Motor Co. ceased in 1914, when the former began manufacturing automobiles on their own account. Horace E. and John F. Dodge each owned 1,000 shares of Ford Motor Co. stock in 1914. It will be appreciated that the cash dividends received by them on these holdings furnished them with considerable amounts of funds that were potentially available for use in the development and expansion of their automobile business. However, their share of the cash surplus of Ford Motor Co. constituted additional capital funds potentially available for use in their own business if they could procure distribution of those funds in dividends.

One idea of Henry Ford was that a large bank balance was a source of strength, making the company independent of bankers and of the investment market when decision was made to expand the production facilities or to extend the area of operation. Being hampered by these objections and actions of minority stockholders in the carrying out of their own policies and in the execution of the decisions of the management, the Fords decided to free themselves from such restraints by purchasing the holdings of these minority stockholders.

Method of operation.—The Fords engaged intermediaries for the purpose of negotiating with the minority stockholders. Apparently the Dodge Bros., the Andersons, Rackham, and the heirs of the estate of John S. Gray were offered $12,500 per share and gave options to the intermediaries at an option price of $125 per share. Inasmuch as these minority stockholders held an aggregate of 6,100 shares, these prospective purchases would require a very large amount of cash funds. In order to provide these funds, Ford Motor Co. entered into an agreement with Chase Securities Corporation of New York City, Old Colony Trust Co. of Boston, and Messrs. Bond & Goodwin, of New York City, whereby the corporation was to procure a credit up to $75,000,000 and these security houses and underwriters were to underwrite the sale of $75,000,000 face amount of negotiable promissory notes of Ford Motor Co., of which $70,000,000 face amount was to be discounted and the funds were to be available to Ford Motor Co. on July 16, 1919, and the remainder was to be discounted and the proceeds made available to the company at such time after

July 16, 1919, and before June 16, 1920, as Ford Motor Co. should request, upon 15 days prior written notice to Chase Securities Corporation, which, apparently, was the syndicate manager.

The $70,000,000 face amount of notes to be issued on July 16, 1919, was to be discounted at the rate of 5½ percent per annum; and all notes subsequently discounted were to be discounted at the market rate for commercial paper then current in New York. Ford Motor Co. agreed to redeem at least $10,000,000 face amount of these notes on October 16, 1919, and at least $2,500,000 face amount of notes outstanding on the 16th day of each month following October 1919, until and including June 16, 1920, and to redeem the balance of all notes then outstanding on July 16, 1920. Ford Motor Co. paid to this syndicate an underwriting fee of $750,000, or 1 percent of the face amount of the notes involved in the agreement.

It will be appreciated that there might have been some technical legal difficulties if Ford Motor Co., the Michigan corporation, had made the proposed purchases from these minority stockholders direct. As a vehicle through which to make these acquisitions, and looking forward to a transfer of the incorporation of the business, the Fords caused the formation and incorporation under the laws of Delaware of a corporation originally styled Eastern Holding Co. Ford Motor Co., the Michigan corporation, advanced the funds with which to pay the expenses of incorporation of this Delaware company. The funds with which to pay for the options on the holdings of the minority stockholders were paid or advanced by the Michigan corporation, as also were the funds with which were made the final payments to the minority stockholders, to the underwriting syndicate, and as also were the funds with which payment was made to the intermediaries for commissions and expenses. However, all of these payments were made for the account of the Delaware corporation and as advances of funds to it for these purposes.

The holders of the 6,100 shares of capital stock of Ford Motor Co. accepted the offers during July 1919, after having obtained from the United States Commissioner of Internal Revenue a valuation of this stock as of March 1, 1913, of $9,489.34 per share. Immediately after receiving the acceptances from these minority stockholders, the Ford management commenced steps looking to acquisition of the shares held by James Couzens and his sister; and these arrangements were completed by September 3, 1919, and were approved by the directors of the Delaware corporation on that date.

These acquisitions accounted for all of the minority stock, amounting to 8,300 shares. Inasmuch as decision had been made to transfer the incorporation of the Ford motor business from Michigan to Delaware, it was also necessary that the 11,700 shares held by Henry Ford and Edsel Ford also be brought into the ownership of the Delaware corporation, the name of which was changed in July 1919 to Ford Motor Co. The two Fords had formed a New York corporation named Henry Ford & Son, Inc.; and they transferred to this corporation their holdings in Ford Motor Co., the Michigan corporation. It appears also that this New York corporation had acquired certain real estate and had made certain plans for construction of another automobile factory; at the date at which it came into relationship with Ford Motor Co., of Delaware, it owned certain real estate representing an investment of $205,000; and it had a capital stock with a par value of $1,375,000, which was the sum of this investment in real estate and of the amount, $1,170,000, at which it carried in its accounts the 11,700 shares of capital stock of Ford Motor Co., the Michigan corporation.[26]

Henry Ford held 13,450 shares and Edsel Ford held 300 shares of the capital stock of Henry Ford & Son, Inc., the New York corporation. On July 16, 1919, the Delaware corporation accepted the offer of Henry and Edsel Ford to sell these shares to it in exchange for an equal par value of capital stock of the Delaware company. The Delaware corporation then purchased from its New York subsidiary the 11,700 shares of capital stock of Ford Motor Co., of Michigan, giving a noninterest demand note for $1,170,000. The capital stock of the New York corporation was then reduced to $205,000, which was the amount of the investment in real estate. The Delaware corporation then repurchased from the New York corporation its note for $1,170,000 and surrendered, in payment therefor, $1,170,000 par value of capital stock of the New York corporation. This left the Delaware corporation with $205,000 par value of the capital stock of the New York corporation, which was represented by the latter's real estate with that valuation. Thus indirectly the 11,700 shares of capital stock of Ford Motor Co., of Michigan, were acquired by Ford Motor Co., of Delaware, at a cost of $1,170,000 paid in capital stock of the latter company.

Cost of Ford Motor Co.'s shares acquired.—Table 62 sums up the costs to Ford Motor Co., of Delaware, of the 20,000 shares of capital stock of Ford Motor Co., of Michigan, that were acquired in 1919.

TABLE 62.—*Cost to Ford Motor Co. of Delaware, of 20,000 shares of capital stock of Ford Motor Co. of Michigan, acquired in 1919*

I. Cost of acquiring 8,300 shares from minority stockholders:		
A. Paid minority stockholders, including costs of options on 6,100 shares		$76, 250, 000. 00
B. Paid fees and commissions:		
1. E. T. Burger, commission on purchase of stock from Dodge Bros		675, 000. 00
2. Old Colony Trust Co., commissions, fees, and expenses		565, 799. 04
3. Bond & Goodwin for purchasing Liberty bonds for J. W. Anderson		5, 071. 07
4. Detroit Trust Co., depository fee		7, 500. 00
C. Paid vendors of 2,200 shares		29, 570, 894. 57
D. Other costs:		
1. Revenue stamps	$16, 532. 87	
2. Traveling expenses	773. 51	
3. Interest to Ford Motor Co., Michigan, on advances for options	3, 106. 71	
		20, 413. 09
Total		107, 094, 677. 77
II. Cost of Ford family holdings, paid in stock (11,700 shares)		1, 170, 000. 00
Total cost of 20,000 shares of stock of the Michigan corporation		108, 264, 677. 77

The foregoing table shows that the vendors of 6,100 shares of stock of Ford Motor Co. of Michigan, received $76,250,000 for their holdings, or $12,500 per share. Fees and commissions brought the total

26 The stated purpose of this company was to construct a power plant to furnish power to the plant at Green Island, and that construction was commenced in 1923.

cost of these shares to Ford Motor Co. of Michigan, up to $77,503,307.11, or an average of $12,705.47 per share. The vendors of 2,200 shares received $29,570,894.57, or $13,441.32 per share. The total cost of all 8,300 shares of stock acquired from the minority stockholders including the revenue stamps, etc., as well as the amounts paid the vendors, was $107,094,677.77. In contrast with this cost of the minority holdings of 8,300 shares, the 11,700 shares acquired from Henry and Edsel B. Ford cost the Delaware corporation $1,170,000. The cost of all 20,000 shares to the Delaware corporation was $108,264,677.77.

Shortly after consummation of the acquisition of all of the capital stock of Ford Motor Co. of Michigan, Ford Motor Co. of Delaware, took over the assets of the Michigan corporation, assumed its liabilities, and surrendered this capital stock in full payment for the net assets. Thereafter the business was carried on in the name of Ford Motor Co., the Delaware corporation.

Acquisition of other Ford companies.—In the preceding section, the story was told of the formation of Ford Motor Co. of Canada, Ltd., and the division of 51 percent of its stock among the stockholders of Ford Motor Co. of Michigan, pro rata according to their holdings of the latter company's stock. The story was also told of the purchase in April 1907 of the assets of Ford Manufacturing Co. under the condition that that company should go out of business and that no other company should be formed by the stockholders of Ford Motor Co. for the purpose of manufacturing any parts of the Ford car unless decision was made by Ford Motor Co. not to manufacture those parts itself. Notwithstanding this prohibition, or possibly pursuant to it, it appears that the Fords organized many companies auxiliary to the business of Ford Motor Co. of Michigan. At a special meeting of the board of directors of Ford Motor Co. of Delaware held on September 3, 1919, the company took action to purchase from certain holders the capital stock of Ford Motor Co. of England, Inc., Ltd., at the book value thereof, which was represented to amount to $31,415.55 per share. At a special meeting of directors on April 21, 1920, the Delaware corporation took action to purchase from Henry Ford and Edsel B. Ford and Mrs. Clara J. Ford 27,360 shares, 20,640 shares, and 2,000 shares, respectively, of capital stock of Henry Ford & Son, Inc., a Michigan corporation, these shares to be paid for by exchange of stock of the Delaware corporation, par for par. On the same date, Ford Motor Co. of Delaware accepted the offer of Henry Ford and Edsel B. Ford and of Mrs. Clara J. Ford of 332 shares, 250 shares, and 18 shares, respectively, of the capital stock of Hamilton & Rossville Hydraulic Co., an Ohio corporation, the consideration again being capital stock of the Delaware corporation, par for par. The company also accepted the offer by Henry Ford and Edsel B. Ford and Mrs. Clara J. Ford of 552 shares, 417 shares, and 31 shares, respectively, of the capital stock of Dearborn Publishing Co., a Michigan corporation, the consideration again being an equal amount par value of capital stock of Ford Motor Co. of Delaware. At the same meeting, the Delaware company accepted the offer of Henry Ford and Edsel B. Ford and of Mrs. Clara J. Ford of 276 shares, 208 shares, and 16 shares, respectively, of the capital stock of Ford Motor Co of Denmark, the consideration once more consisting of an equal amount par value of the stock of the Delaware corporation.

The directors also accepted the offer of Henry Ford and Edsel B. Ford and of Mrs. Clara J. Ford of 552 shares, 417 shares, and 31 shares, respectively, of the capital stock of Dearborn Realty & Construction Co., a Michigan corporation, in exchange for an equal amount par value of the Delaware company's capital stock.

Finally, the directors also accepted the offer of Henry Ford and Edsel B. Ford and of Mrs. Clara J. Ford of 276,060 shares, 208,260 shares, and 15,680 shares, respectively, of the captal stock of Henry Ford & Son, Ltd. (of Cork), the consideration again being an equal amount par value of capital stock of Ford Motor Co. of Delaware.

The 500 shares of Hamilton & Rossville Hydraulic Co. stock, spoken of above, constituted only a part of the capital stock of that company. On June 10, 1921, Ford Motor Co. accepted the offer of Henry Ford to sell to it additional stock with a par value of $599,050 at par, the proceeds being credited to Henry Ford's personal account on the books of the company.

After consummating these acquisitions of the capital stocks of these companies, the Delaware corporation purchased the assets of Henry Ford & Son, Inc., of Michigan, and surrendered that company's capital stock in payment therefor.

It appears that Henry Ford & Son, Inc., of Michigan, was the vehicle through which Henry Ford and Edsel B. Ford entered the field of the manufacture of farm tractors. This venture dated back to 1916. On February 2, 1916, Ford Motor Co., the Michigan corporation, took action to release and to quitclaim to Henry Ford and his assigns any rights or claims that the Michigan company had "to the so-called tractor business, including designs, patterns and experimental matter, and trade-mark, copyrights and patents on farm tractors, and to the use in any form of the name of 'Ford' in connection with the tractor business," the consideration being the payment by Henry Ford to Ford Motor Co. of the sum of $46,810.76. So that the acquisition of the assets of Henry Ford & Son, Inc., (Michigan) by Ford Motor Co. of Delaware constituted a merger of the business of manufacturing Ford cars and of manufacturing Fordson tractors.

Financing retirement of loans.—The loans obtained by Ford Motor Co., of Michigan, and assumed by Ford Motor Co., of Delaware, for the purpose of helping to pay for the stock acquired from minority stockholders, together with the industrial depression that set in in the middle of 1920, created what appeared to be an acute financial situation at the end of 1920. On December 31, 1920, Ford Motor Co. had current liabilities outstanding as follows:

Accrued salaries and wages	$1, 135, 605
Accrued expenses	1, 572, 811
Accounts payable	20, 408, 233
Notes payable	41, 670, 866
Total	64, 787, 515

The notes payable included that portion of the $70,000,000 face amount of short-term notes placed through the banking syndicate in 1919 that had not yet been paid but would all become payable by April 18, 1921. In addition to these liabilities as of the end of 1920, Ford Motor Co. had the prospective of income-tax payments on or before April 18, 1921, aggregating $18,000,000. Furthermore, the company desired to pay to its employees the bonuses on the basis of their work during 1920 aggregating about $7,000,000.

As against these current and prospective liabilities, Ford Motor Co. had current assets at the end of 1920 as follows:

Cash	$13, 557, 244
Due from stockholders	6, 311, 028
Accounts and notes receivable	22, 547, 071
Bonds	13, 857, 885
Total liquid assets	56, 273, 228
Due from subsidiaries	2, 659, 996
Merchandise and supplies	88, 604, 429
Total assets	147, 537, 653

Including the amounts due from subsidiaries and the investment in merchandise and supplies on hand, Ford Motor Co. had, apparently, more than sufficient current assets with which to meet these obligations. However, subsidiaries could not pay unless they had the cash; and obligations could not be met by delivering merchandise and supplies to the creditors. So that the financial situation of Ford Motor Co. appeared to be very serious.

How had this situation arisen? Due to the high materials and labor costs that had arisen during the war and the immediate post-war period, the prices of the Ford cars had been increased: the price of the touring car had been increased from $360 in 1916 to $575 in 1919. Soon after the industrial depression set in in the middle of 1920, the sales of Ford cars began to decline. Ford Motor Co. had on hand large stocks of materials and parts that had been purchased at the high prices prevailing during the post-war period; and, Ford stated, he was not able to get the sources of supply to make more than nominal reductions in price. In September 1920 Ford Motor Co. had an inventory of supplies that had cost about $105,000,000. The company reduced the valuation of this inventory on the basis of price reductions that had occurred, to $88,000,000; and the company reduced the retail price of the touring car, f. o. b. Detroit, from $575 to $440. This price reduction stimulated sales for a while; but with the intensification of the industrial depression, sales again declined. However, production was continued practically unabated at the Detroit factories until late in December 1920—production exceeding sales to such an extent that at the time of the December shut-down for inventory, the company had on hand a stock of about 93,000 unsold cars.

Ford stated that the continuation of production at full capacity during the autumn of 1920 was a step in preparation for bringing pressure to bear upon the sources of supply to make substantial reductions in their prices. Purchasing from these sources was cut to the minimum during this period; and the materials on hand were converted into finished parts, and the finished parts were either assembled into completed automobiles in the Detroit factories or were shipped to the numerous assembly plants. Late in December the Detroit plants were closed, ostensibly for the purpose of taking inventory; the real purpose, according to Ford, was that of putting pressure upon the sources of supply of materials and parts. The plants did not reopen on January 2, 1921. When asked how soon the plants would reopen the Ford management stated that they were closed for an indefinite period. Actually, they resumed operation on January 23, 1921.

Rumors had been current that Ford Motor Co. was experiencing financial difficulties. The failure of the company to resume operation of the Detroit plants at the beginning of 1921 seemed to substantiate these rumors. Early in January, according to press stories of an interview with Henry Ford, the representative of a group of bankers visited Ford with a view to making an offer of financial assistance and outlining the terms thereof. It appears, however, that these bankers wished to have appointed as treasurer of the company a man who would be suitable to them, so that they could have an influence in determining the company's expenditures. This was not acceptable to Ford, who stated that he had already matured definite plans for financing the situation.

How did Ford Motor Co. meet the requirements of obligations amounting to about $58,000,000 in addition to the requirements of cash working capital with which to buy new stocks of materials and parts and to meet pay rolls during the period January 1 to April 18, 1921? According to a press statement of an interview with Henry Ford, these funds were provided in the following manner:

Sale of liberty bonds	$7, 900, 000
Sale of byproducts	3, 700, 000
Collections from agents at foreign ports	3, 000, 000
"Release of stock in transit"	28, 000, 000
Turning stock into cash	24, 700, 000
Total increase in cash funds	67, 300, 000

The increase of the cash funds in this manner, coupled with about $19,868,000 of cash on hand and amounts due from the stockholders (Henry Ford, Edsel B. Ford, and Clara J. Ford) at the beginning of the year furnished Ford Motor Co. with sufficient cash to meet its maturing obligations.

Increasing the cash funds to the extent of $28,000,000 by "release of stock in transit" was an interesting item. Ford stated that, during the post-war boom, the transportation situation was such that the movement of materials from sources of supply through the factory and out to the dealers consumed about 22 days. With the decline in the total volume of traffic as the industrial depression intensified, this movement was speeded up. Also, the Ford management arranged to have incoming supplies routed over the lines of the controlled Detroit, Toledo & Ironton Railroad from the junction points of that company's lines with the various trunk railroads, thereby expediting the movement to the factories; and outgoing parts and cars consigned to dealers were routed in trainloads over the lines of this railroad to those junction points, thereby expediting the movement of these products to dealers. In this manner, according to Ford, the average time of transit of purchased supplies and parts through the factory and out to the dealers was reduced from 22 to 14 days. So expediting the movement of supplies and products, together with a policy of more nearly hand-to-mouth purchasing, enabled Ford Motor Company to reduce its average inventories in stock from $88,000,000 for a production of 93,000 cars per month to about $60,000,000 for a production of 114,210 cars per month—thereby freeing $28,000,000 of investment in stock.

The most spectacular phase of this financing, however, was the method by which Ford Motor Co. turned its stock of 93,000 finished cars into cash. A press account reported Ford as stating that in the company's contracts with its dealers, they agreed to take a certain quota each year, each according to his district; that the company shipped to each dealer enough cars to take care of approximately 25 days' sales, thus selling nearly 60,000 cars during January 1921, or about 3 1/2 cars per dealer. These cars, and the cars that were shipped to dealers during the later months of this period, were shipped sight draft attached to the bills of lading. Newspaper accounts were to the effect that these shipments were greatly in excess of the dealers' requirements at the time. The effect was to put upon about 17,000 Ford dealers throughout the United States the burden of cash financing of these shipments; that is, Ford Motor Co. caused its dealers to assist to this extent in financing it out of the difficult situation in which it found itself in the early part of 1921.

Section 3. Operations of Ford Motor Co. of Delaware

Introduction.—After the completion, in April 1920, of the process of reincorporation in Delaware, the business of manufacturing and selling motor vehicles that had been carried on during a period of nearly 17 years in the name of the Michigan corporation was carried on thenceforth in the name of Ford Motor Co., the Delaware corporation. The Delaware company also continued the business of manufacturing and selling Fordson tractors that had been carried on previously under the name of Henry Ford & Son, Inc., of Michigan.

Acquisition of the Lincoln motor business.—It is convenient at this juncture to continue the story of the economic progress of the Ford venture under the name of Ford Motor Co., the Delaware corporation, by presenting data similar to those presented in table 61 in the previous section for the Michigan corporation. Before doing so, however, it is desirable to take note of the acquisition of the business of manufacturing and selling the high-priced Lincoln automobile. This business was acquired in the early part of 1922.

There have been three successive companies named Lincoln Motor Co. The original company was organized on August 29, 1917, by H. M. Leland and associates for the purpose of manufacturing Liberty motors for the United States Government during the World War; and it was incorporated in Michigan. At the conclusion of the war, Lincoln Motor Co. had the problem of finding a means of continuing its business. On January 19, 1920, this business was reincorporated in Delaware. The first Lincoln cars were produced in 1920; and all of the funds obtained by selling stock had been put into machinery, tools, and dies. During the depression that set in in the middle of 1920 and continued through 1921, the dealers canceled their purchase orders with this company, its business collapsed, and it could not pay its creditors.

Detroit Trust Co. was appointed receiver for Lincoln Motor Co. on November 8, 1921; and it continued operating the property until February 4, 1922. On that date all of the property and assets of Lincoln Motor Co. were sold to Harold H. Emmons, attorney and agent for Ford Motor Co., for $8,000,000 in cash, subject to land contracts payable amounting to $237,280 and to certain accounts payable for materials and unpaid pay rolls. The receiver paid all taxes, mortgage bonds and expenses of the receivership.

In addition to paying $8,000,000 in cash for the property and assets of this business, Henry Ford arranged for the payment in full of all proper creditors' claims. The receiver paid 47½ percent of the creditors' claims; and the new Lincoln Motor Co. (Michigan) paid the remainder. These payments included reimbursement to H. M. Leland and certain associates for their liability as endorsers of notes of the old Lincoln Motor Co.

Lincoln Motor Co., a Michigan corporation, was organized in 1922, to acquire from the receiver the assets of the old Lincoln Motor Co. of Delaware. Ford Motor Co. advanced the $8,000,000 with which to purchase the property and assets at the receiver's sale; and it also made additional payments to the creditors and stockholders amounting to $3,655,699.21, as arranged by Henry Ford. The total of $11,655,699.21, was charged on the books of Ford Motor Co. to an open account with Lincoln Motor Co. of Michigan. The latter issued its common stock in the amount of $11,291,700 in part payment of this account.

Henry M. and Wilfred C. Leland, founders of the original Lincoln Motor enterprise, were assigned important positions in the executive organization of the new Lincoln Motor Co. Shortly thereafter they were ousted from these positions, following which Wilfred C. Leland, who apparently had understood his position to be permanent, and about 2,000 stockholders of the old Lincoln Motor Co. filed a bill in equity asking that the Fords be required to fulfill certain of the terms of an alleged oral agreement entered into prior to the receiver's sale. Leland alleged that on November 21, 1921, 2 weeks after the receivership and more than 2 months before the receiver's sale of the assets took place, he had contacted the Fords and had made a satisfactory agreement with them whereby, in consideration for receiving the business as a going concern with the manufacturing and sales personnel intact and retention by the Lelands of important positions in the business after the sale, and in further consideration of the Lelands' refraining from interesting other capital in the sale of the assets of the business at the impending receiver's sale, the Fords agreed to purchase the property at the receiver's sale, paying a price reasonable and fair, to pay all the creditors, and to refund to holders of a certain class of stock the amount invested by them ($1,500,000), and to pay the holders of the remaining class of stock, except such stock as might be in the hands of brokers and held by other persons who had bought the same at $3 or less per share, the full amount of their investment in the stock; that the contracting parties communicated information as to this arrangement to the Federal judge in whose court the sale was to be ordered, that no further efforts were made to interest other capital, and that the sale was held pursuant to the arrangement, the Fords purchasing the tangible assets for $8,000,000.

In a motion to dismiss, the Fords maintained that the oral argument was invalid and unenforceable because against public policy in that it was made for the Lelands especially and only a part of the stockholders and excluded other stockholders from its benefits; that it was within the statute of frauds in that the defendants' promise, if made, was one to answer for the debt, default, or misdoings of another; and that it was a contract to stifle bidding at a judicial sale.

The Supreme Court of Michigan held that the contract was not within the statute of frauds since the alleged promise by the Fords to pay the stockholders was a direct promise and not conditioned upon the promise of another; that the contract apparently was not void on the grounds that it stifled competition for in instances where large sums were necessary to purchase assets at a receiver's sale, it is often necessary that preliminary negotiations be entered into in order that the large sums of money be raised. The court found, however, that since the Lelands had publicly announced that they were representing the interests of the stockholders and had apparently represented the interests of a part only, that the oral contract was void, unless an amended bill would show facts not brought out in the original bill. The court also stated that an agreement by the director of a corporation to keep another person permanently in place as officer of such corporation is void as against public policy even though there was not to be any direct gain by the promissor. An amended bill failed to cure the defects; and the contract was recognized as one void and unenforceable because against public policy and because it constituted a fraud upon the rights of third parties; and the parties were left by the court as it found them, neither party having the right to receive affirmative action from a court of equity.

Lincoln Motor Co. has been maintained as a separate corporation to own and operate the plant in the production of Lincoln automobiles and, in more recent years, of Lincoln-Zephyr automobiles. Lincoln Motor Co. has no distributive organization of its own. All of its product is sold to Ford Motor Co.; and the latter company effects the sales of the Lincoln products to its dealers; so that the sales of Lincoln and Lincoln-Zephyr cars are included in the total sales of Ford Motor Co.

Summary of sales, profits, dividends, and expansion of the business of Ford Motor Co., 1920–37.—Table 63, continues the story of the economic progress of the business carried on in the name of Ford Motor Co., presenting data for the period May 1, 1920, to December 31, 1937, inclusive.

TABLE 63.—*Summary of sales, net income after taxes, cash dividends, surplus adjustments, earnings retained in the business and surplus accumulation of Ford Motor Co., of Delaware, by years 1920 to 1937, inclusive*

Year ended Dec. 31	Net sales (thousands)	Net income after taxes	Cash dividends	Surplus adjustments		Earnings retained in the business	Surplus balance
				Additions	Deductions		
1920 [1]	$483,708	$40,147,111	$8,632,250		$121,365,907	[2] $89,851,046	$167,145,611
1921	546,000	66,463,963	8,632,250	$9,081,518		66,913,231	234,058,842
1922	640,436	120,192,643	13,811,600		3,896,841	102,484,196	336,543,038
1923	929,065	99,971,410	12,948,375	10,115,409		97,136,444	433,679,482
1924	913,819	109,039,109	14,674,825		489,681	93,874,603	527,554,085
1925	965,630	114,451,720	16,401,275		24,955,401	73,095,044	600,649,129
1926	811,490	68,974,155	12,948,370	16,849,288		72,875,073	673,524,202
1927	355,222	[3] 33,136,791	10,358,700	1,112,548		[2] 42,382,943	631,141,259
1928	551,254	[3] 73,958,168	6,042,575	31,489,047		[2] 48,511,696	582,629,563
1929	1,143,828	88,414,891	6,042,575	5,537,007		87,909,323	670,538,386
1930	873,928	55,607,220	6,905,800	2,997,737		51,699,157	722,238,043
1931	462,769	[3] 43,387,153	8,632,250		1,604,524	[2] 53,623,927	668,614,116
1932	258,968	[3] 72,425,012		6,087,625		[2] 66,337,387	602,276,729
1933	301,262	[3] 2,111,501	3,432,900		481,315	[2] 6,045,716	596,231,013
1934	532,914	11,049,748	7,769,025	1,522		3,282,245	599,513,258
1935	835,630	15,770,880	10,013,410	582,265		6,339,735	605,852,993
1936	764,253	17,930,948	11,221,925		9,569,143	2,860,120	602,992,873
1937	847,547	6,760,967	4,661,415	3,139,800		5,229,352	608,232,225
Total	12,217,723	589,856,140	163,149,520	86,991,766	162,362,818	351,235,568	
Total since 1903	14,179,854	958,790,543	262,539,906	89,022,424	175,177,803	610,095,268	

[1] 8 months, May 1 to Dec. 31.
[2] Net impairment of surplus.
[3] Loss.

While table 63, above, presents data for the period May 1, 1920, to December 31, 1927, similar to the data presented in table 61 in the preceding section for the period June 16, 1903, to April 30, 1920, it should be borne in mind that it is not a true continuation of the preceding table, inasmuch as the present table reflects the operations in the manufacture and sale of Fordson tractors from May 1, 1920, to the date on which the tractor business was discontinued, whereas the preceding table did not reflect the tractor business of Henry Ford & Son, Inc., of Michigan.

As compared with net sales amounting to $1,962,000,000 during the first 17 years of the Ford enterprise carried on in the name of the Michigan corporation, the sales of Ford Motor Co., of Delaware, during the 17⅔ years from May 1, 1920, to December 31, 1937, amounted to $12,217,723,000.[27] The net income after taxes, as counted by the company, aggregated nearly $590,000,000 during this period. Of this total, a little more than $163,000,000 was distributed in cash dividends to the company's stockholders, the Ford family; and more than $351,000,000 was retained in the business of the company and used either in maintaining a large balance of cash and of investment securities (mostly Government bonds) or in expanding the production and assembly facilities of the company.

It will be recalled that the surplus of the old Ford Motor Co. on April 30, 1920, amounted to nearly $257,000,000. The above table shows that on December 31, 1920, the surplus of Ford Motor Co., of Delaware, stood on its books at $167,145,611; that the surplus had been impaired to the extent of slightly more than $89,851,000. This impairment reflected the very large premiums at which the stock previously held by the minority stockholders of the Michigan corporation was acquired. It was shown in the preceding section that 8,300 shares of this stock, with an aggregate par value of $830,000, were acquired at a total cost of $107,094,677.77, i. e., at a premium of more than $106,000,000. This premium is reflected in the $121,365,907 shown in the foregoing table as having been deducted from surplus in 1920.

The foregoing table also presents a partial summary of the operations of the Ford enterprise during approximately 34½ years of its operations from June 16, 1903, to December 31, 1937. During that entire period, the net sales of the products of this enterprise aggregated more than $14,000,000,000; the net income after provision for taxes aggregated nearly $959,000,000; and, of this, more than $262,500,000 was distributed to the stockholders in cash dividends and slightly more than $610,000,000 was retained in the business for the purpose of expanding the production and assembly facilities and of building up large balances of cash and investment securities with which to keep the Ford enterprise independent of banks and the investment-securities market.

From the viewpoint of aggregate profits, the most profitable period in the conduct of this enterprise was the period 1920–26. The greatest amount of net income after provision for taxes was realized in 1922, an amount exceeding $120,000,000 in 1 year. The profits

[27] The amounts shown in this table somewhat overstate the net sales of products, inasmuch as they include a certain amount of rental income and of interest on bank loans, which Ford Motor Co., in its accounting, credited to sales. This fact produces certain discrepancies between the amounts shown as net sales and net income in the present table and the corresponding amounts shown in certain tables subsequently presented.

dropped more than $20,000,000 in 1923, but increased to a new but lower maximum of nearly $114,452,000 in 1925, which was also a year of maximum net sales. In 1926, however, the sales dropped more than $154,000,000, and the net income dropped to an amount slightly less than $69,000,000.

It was at this point that the Ford management made a very important decision and change of policy with reference to the kind of passenger car that it should offer to the public thereafter. It may be that the desire of the automobile-purchasing public was shifting away from the low-priced utility automobile expressed in model T to automobiles that embodied more comfort and more pleasing appearance. It is also said that there had been brought out in 1925 in England the Morris car, which was much more economical in the consumption of gasoline than was model T, and that Henry Ford was informed that Ford Motor Co. was faced with the loss of the major portion of its foreign business in consequence thereof. Whatever the reasons, the Ford management, after there came off the assembly line in 1927 the fifteen-millionth Ford car, decided to discontinue the manufacture and distribution of model T and to change to the policy of manufacturing a low-priced automobile that should combine comfort, style, and the standard gearshift, with utility. The result was the new model A.

The structure of model A was very different from that of model T. In consequence, much of the plant that had been designed, laid out, and erected for the purpose of manufacturing the motors and other parts of model T was not adapted to carrying on the specific processes involved in the manufacture of the parts of model A; and the plant had to be reconstructed in considerable part. It was also decided to transfer the plant from Highland Park to River Rouge. There had been many previous partial reconstructions of the Ford plant, but these had not involved complete cessation of production, inasmuch as, preparatory to reconstruction of a section, a large stock of the parts involved was accumulated so that assembly of completed cars could go on in undiminished volume during such partial reconstruction.

The reconstruction in 1927 was wholesale, however; the plant was shut down in the spring of 1927, except for the manufacture of model T parts, and the new plant did not commence operations until the following autumn. It is said that approximately 40,000 machines in the old plant were scrapped and were replaced in the new plant with machinery of more modern design and adapted to the manufacture of the parts of model A; also that the entire power plant at Highland Park was abandoned and was replaced at River Rouge with turbogenerators developing 250,000 horsepower, or more than twice the amount previously used.[28] It is also said that the reconstruction of this plant cost the Ford Motor Co. approximately $100,000,000.

The first model A car came off the assembly line on October 20, 1927, and the new cars were put on display on December 2. The long shut-down and the time required to progress the manufacture of the various parts up to the point that completed cars were coming off the assembly line in considerable volume account in large part for the very greatly reduced volume of sales during 1927, which amounted to $355,222,000, as compared with nearly $811,500,000 during the preceding year. As compared with a net income of more than $68,974,000

[28] Ralph H. Graves, The Triumph of an Idea, pp. 98 and 99.

in 1926 and of nearly $114,452,000 in 1925, the operations of Ford Motor Co. showed a loss of nearly $33,137,000 in 1927 and of more than $73,958,000 in 1928.

Ford motor sales rose to a new and all-time maximum of $1,143,828,000 in 1929; and in that year, the company netted a profit, after making provision for taxes, amounting to more than $88,400,000.

Thereafter the business and profits of Ford Motor Co. were seriously affected by the industrial depression. During the relatively mild depression in 1930, the sales fell below $874,000,000, and the net income dropped to approximately $55,600,000. As the depression intensified in 1931, the sales dropped below $463,000,000, and with this greatly reduced volume of business, the company netted a loss, after provision for taxes, of nearly $43,400,000. With the greater intensity of depression in 1932, the sales dropped below $259,000,000, or less than one-fourth of their amount in 1929, and the company netted a loss of more than $74,400,000.

As before stated, the amounts shown as net sales in the foregoing table include interest on bank balances and rental income. The decline of the company's business during the first 3 depression years is indicated by the following statement of the number of vehicles sold, the receipts from their sales, and the profit or loss contained therein:

	Units sold	Sales	Profit
Year:			
1929	1, 687, 251	$830, 288, 000	$48, 988, 000
1930	1, 256, 600	624, 466, 000	15, 372, 000
1931	616, 702	299, 495, 000	[1] −31, 292, 000
1932	329, 819	159, 771, 000	[1] −46, 039, 000

[1] Loss.

The Ford management had been working for some time on the design of a motorcar to be driven by an eight-cylinder motor. After experiencing the great decline of business in 1930, 1931, and the forepart of 1932, with the large net loss in 1931, the Ford management decided to bring out the eight-cylinder model. Production was interrupted in March 1932, and there was a partial reconstruction of the factory in order to provide facilities and production lines with which to manufacture the parts of the new model and to assemble the new cars. The V-8 was put on display on March 31, 1932. The prices of this car ranged from $460 to $650, as compared with a price range of $410 to $600 for the model A, which was continued in production.[29] Although the original announcement was that Ford Motor Co. would continue to manufacture model A, and manufacture of it did continue during several years, the manufacture of the four-cylinder model was discontinued eventually.

The following tabular statement shows the number of units sold, the receipts from sales, and the profit or loss contained therein during the years 1933 to 1937, inclusive:

	Units sold	Sales	Profit
Year:			
1933	381, 510	$193, 378, 000	[1] −$5, 887, 000
1934	670, 231	350, 202, 000	15, 361, 000
1935	1, 093, 497	573, 622, 000	2, 056, 000
1936	927, 068	485, 914, 000	9, 650, 000
1937	981, 961	518, 821, 000	[1] −5, 328, 000

[1] Loss.

[29] Ralph H. Graves, The Triumph of an Idea, p. 128.

It will be observed that during the first 2 years of the period of business recovery, the sales of Ford Motor Co. increased rapidly. Selling more than 670,000 motor vehicles in 1934, the company netted a profit of $15,361,000. With the increase in the number of vehicles sold to more than 1,093,000 in 1935, however, the profits dropped to $2,056,000. The year 1936 was a year of maximum prosperity in many industries in the United States. However, the sales of Ford motor vehicles dropped to a little over 927,000 units, but the profits increased to $9,650,000. It will be recalled that the so-called business recession of 1937 set in about the middle of that year. Notwithstanding the recession, the sales of Ford motor vehicles increased to nearly 982,000 units; but, despite this increase in volume, the company netted a loss of $5,328,000.

Consolidated operations of Ford Motor Co. and Lincoln Motor Co., 1927 to 1937, inclusive.—The results shown in the last-presented table pertain to Ford Motor Co. of Delaware per se. It included the sales of Lincoln cars and of Lincoln-Zephyrs by Ford Motor Co.; but it also reflected the amounts paid by Ford Motor Co. to its subsidiary, Lincoln Motor Co., for these cars, and also the management fees charged by the former to the latter.

Table 64 is a consolidated summary of net sales, net income after provision for taxes, cash dividends paid, surplus adjustments, earnings retained in the business, and accumulated surplus of Ford Motor Co. and Lincoln Motor Co. for the years 1927 to 1937, inclusive.

TABLE 64.—*Ford Motor Co. and Lincoln Motor Co. consolidated summary of sales, profits, dividends, earnings reinvested, and surplus balance, as adjusted for years 1927 to 1937, inclusive*

Year ended Dec. 31—	Net sales	Net profit after taxes	Cash dividends, common stock	Surplus adjustments		Earnings reinvested in the business	Surplus balance
				Additions (net)	Deductions (net)		
1926							$698, 987, 075
1927	$355, 975, 669	[1]$30, 447, 190	$10, 358, 700	$4. 130, 257		[1]$36, 675, 633	662, 311, 442
1928	551, 710, 332	[1] 70, 640, 628	6, 042, 575	6, 446, 075		[1] 70, 237, 128	592, 074, 314
1929	1, 144, 688, 097	91, 531, 572	6, 042, 575	4, 791, 056		90, 280, 053	682, 354, 367
1930	873, 515, 070	39, 996, 121	6, 905, 800	1, 820, 852		34. 911, 173	717, 265, 540
1931	460, 069, 223	[1] 37, 181, 192	8, 632, 250		$2, 370, 527	[1] 48, 183, 969	669, 081, 571
1932	254, 680, 008	[1] 70, 851, 153		473, 037		[1] 70, 378, 116	598, 703, 455
1933	297, 146, 871	[1] 7, 888, 718	3, 452, 900	5, 048, 967		[1] 6, 292, 651	592, 410, 804
1934	531, 926, 851	21, 362. 118	7, 769, 025		10, 316, 080	3, 277, 013	595, 687, 817
1935	834, 493, 626	18, 573. 804	10, 013, 410		2, 173, 644	6, 386, 750	602, 074, 567
1936	760, 487, 306	21, 463. 529	11, 221, 925		13, 243, 390	[1] 3, 001, 786	599, 072, 781
1937	847, 492, 463	8, 218, 784	4, 661, 415	1. 597, 640		5, 155, 009	604, 227, 790
Total	6, 912, 185, 516	[1] 15, 862, 953	75, 100, 575	24, 307, 884	28, 103, 641	[1] 94, 759, 285	

[1] Red figures.

A comparison of the amounts shown in the foregoing table as net sales and the net profit or loss after provision for taxes of Ford Motor Co. and Lincoln Motor Co. consolidated with those shown in the preceding table which pertained to Ford Motor Co. alone, shows certain anomalous results in 1930, 1931, 1933, and all years subsequent thereto. The amounts shown as net sales of Ford Motor Co. exceeded the amounts shown as net sales of Ford Motor Co. and Lincoln Motor Co. combined. This is due to the fact that the amount shown for Ford Motor Co. includes not only the sales of its products but also rental income and interest on bank balances. Furthermore, the net income, after provision for taxes, shown in the preceding table reflects the inclusion in operating expenses of bonuses paid to officers and executives of Ford Motor Co., and these bonuses have been transferred out of operating expenses for the purpose of the present table.

One striking feature of the present table, as of the preceding table, is the large amount of losses during the reconstruction period in 1927 and during 1928—losses of more than $30,000,000 and of nearly $71,000,000 respectively—also the large losses during the severe depression years of 1931 to 1933, inclusive—losses of more than $37,000,000, of nearly $71,000,000, and of nearly $8,000,000, respectively. The maximum amount of sales, nearly $1,144,700,000, was effected in 1929; and that was also the year of the largest net profit during the period since the abandonment of model T, a profit, after provision for taxes, of nearly $91,532,000.

The sales declined very rapidly during the first 3 years of the depression period and amounted to less than $255,000,000 in 1932, this relatively small volume of sales being accompanied by a net loss, after provision for taxes, of approximately $70,851,000. With the partial recovery of business after 1933, the sales increased to nearly $834,500,000 in 1935. They fell off approximately $74,000,000 in 1936, but recovered to a new high of nearly $847,500,000 in 1937. During the period 1934 to 1937, inclusive, the company netted profits. It is curious, however, that with the increase in sales of approximately $302,500,000 from 1934 to 1935, the profits declined approximately $7,200,000, that with the decline of $74,000,000 in sales during 1936, the profits increased approximately $2,900,000, and that with the increase of more than $87,000,000 in sales in 1937 as compared with 1936, the amount of net profit after provision for taxes declined more than $13,200,000.

Another striking feature of the above table is that over the whole period of 11 years after Ford Motor Co. abandoned model T and turned to the manufacture of low-priced cars embodying features of comfort, appearance, and the standard gear shift, the net result of the company's operations was a loss of nearly $15,863,000 as compared with the large profits realized by Ford Motor Co. during the period 1920 to 1926, inclusive. During these 11 years, there was a net impairment of the company's surplus of approximately $94,759,000.

Distribution of business among lines of products, 1929–37.—Table 65 shows the distribution of the net sales of Ford Motor Co. and Lincoln Motor Co. between sales of motor vehicles, sales of motor-vehicle parts and accessories, and sales of other products, also the division of motor-vehicle sales and of parts and accessories sales between domestic and export business—the period covered being 1929 to 1937, inclusive. It also shows the division of factory cost of products sold, of commercial, general, and administrative expenses, and of the net profit or loss on manufactured products sold among the same divisions.

TABLE 65.—*Ford Motor Co. and Lincoln Motor Co. consolidated and adjusted summary of net sales, factory cost of sales, commercial, general, and administrative expenses, and net profits by lines of products applying to domestic and export operations for years 1929 to 1937, inclusive*

	Motor vehicles, domestic	Parts and accessories, domestic	Motor vehicles, export	Parts and accessories, export	Other products	Total
Net sales:						
1929	$855,351,160	$106,703,854	$36,234,907	$52,176,573	$94,221,603	$1,144,688,097
1930	638,349,416	66,526,527	25,624,472	47,236,880	95,777,775	873,515,070
1931	310,274,437	55,302,455	11,998,174	27,051,634	55,442,523	460,069,223
1932	167,402,612	32,724,913	6,827,980	13,655,675	34,068,828	254,680,008
1933	197,589,098	27,085,541	7,854,264	12,601,526	52,016,442	297,146,871
1934	356,125,099	43,877,436	17,757,896	23,640,436	90,525,984	531,926,851
1935	581,199,177	69,755,590	26,031,256	34,001,143	123,506,461	834,493,627
1936	507,607,461	86,492,708	27,917,289	33,119,568	105,350,280	760,487,306
1937	547,049,734	94,890,306	48,145,064	45,512,481	111,894,878	847,492,463
Total	4,160,948,194	583,359,330	208,391,302	288,995,916	762,804,774	6,004,499,516
Factory cost of sales:						
1929	772,172,562	67,307,239	29,749,726	58,057,641	93,818,484	1,021,105,652
1930	589,603,472	43,626,082	22,270,694	48,869,264	94,133,293	798,502,805
1931	322,178,389	47,881,251	11,481,456	29,278,879	56,716,858	467,536,833
1932	199,830,017	36,402,901	7,741,960	19,534,218	42,806,145	306,315,241
1933	189,712,243	19,366,651	7,444,161	12,392,263	55,542,765	284,458,083
1934	321,405,421	26,409,687	16,013,545	21,422,917	91,821,217	477,072,787
1935	556,198,674	47,205,989	23,786,904	29,174,215	124,746,485	781,112,267
1936	473,884,050	64,675,353	26,000,443	28,630,855	102,000,590	695,191,291
1937	523,610,030	73,348,633	44,686,722	40,417,577	108,064,993	790,127,955
Total	3,948,594,858	426,223,786	189,175,611	287,777,829	769,650,830	5,621,422,914
Commercial, general, and administrative expense:						
1929	31,827,809	5,189,483	1,978,401	284,721	207,687	39,488,101
1930	35,817,193	4,557,125	2,627,150	3,383,584	397,620	46,782,672
1931	24,707,164	9,899,740	1,708,935	3,201,304	1,626,336	41,143,479
1932	17,706,201	6,990,653	1,032,629	1,861,738	1,127,154	28,718,375
1933	16,118,881	6,567,372	842,487	1,507,179	449,808	25,485,727
1934	20,791,495	11,388,750	1,219,599	1,800,678	1,721,062	36,924,544
1935	24,738,361	12,600,535	2,181,593	3,240,321	1,36[illegible],994	44,130,804
1936	25,101,751	14,107,300	2,307,075	3,050,014	1,040,254	45,606,434
1937	30,605,939	15,404,640	3,341,572	4,124,763	1,313,814	54,790,728
Total	227,414,794	86,705,598	17,239,441	22,454,302	9,256,729	363,070,864
Net profit on manufactured products sold:						
1929	51,350,789	34,207,132	4,506,780	[1] 6,165,789	195,432	84,094,344
1930	12,928,751	18,343,320	726,628	[1] 5,015,968	1,246,862	28,229,593
1931	[1] 36,611,116	[1] 2,478,536	[1] 1,192,217	[1] 5,428,549	[1] 2,900,671	[1] 48,611,089
1932	[1] 50,133,606	[1] 10,668,641	[1] 1,946,609	[1] 7,740,281	[1] 9,864,471	[1] 80,353,608
1933	[1] 8,242,026	1,151,518	[1] 432,384	[1] 1,297,916	[1] 3,976,131	[1] 12,796,939
1934	13,928,183	6,078,999	524,752	416,881	[1] 3,019,295	17,929,520
1935	262,142	9,949,066	62,759	1,586,607	[1] 2,610,018	9,250,556
1936	8,621,660	7,710,055	[1] 390,229	1,438,659	2,309,436	19,689,561
1937	[1] 7,166,235	6,137,033	116,770	970,141	2,516,071	2,573,780
Total	[1] 15,061,458	70,429,946	1,976,250	[1] 21,236,215	[1] 16,102,785	20,005,738

[1] Loss.

The foregoing table shows that over the entire 9-year period from 1929 to 1937, inclusive, the total sales of products of Ford Motor Co. and Lincoln Motor Co. amounted to nearly $6,004,500,000. Of this total, 87.3 percent consisted of sales of motor vehicles and of parts and accessories thereto, and 12.7 percent consisted of sales of other products of the company. Sales of motor vehicles constituted 72.77 percent of the total, these being divided 69.30 points percent to domestic sales and 3.47 points percent to export sales of motor vehicles.

An expected feature of the table consists of the losses sustained during the severe depression years of 1931, 1932, and 1933. Such losses were sustained in all lines in the first 2 of those years.

Another feature of the foregoing table is that over the entire 9-year period, the domestic motor-vehicle sales netted a loss of more than $15,000,000, whereas the domestic sales of parts and accessories netted a profit of nearly $70,430,000. The export parts and accessories business was carried on at a loss consistently during the first 5 of these 9 years, and for the whole period, the result was a loss of more than $21,236,000. The sale of the other products was also carried on with substantial losses during the 5 years, 1931 to 1935, inclusive; and this business resulted for the 9 years in a net loss of nearly $16,103,000.

The net result for all products was a net profit, over the 9 years, of a little more than $20,000,000; and this result was brought about mostly by the profitableness of the sales of parts and accessories.

The foregoing table presents the data with reference to net sales, factory cost of sales, commercial, general, and administrative expense, and net profit or loss in amounts. Table 66 shows the percentages in the respective years that the factory cost of sales, the commercial, general, and administrative expenses, and net profit or loss on manufactured products were of net sales, these percentages being presented by the same divisions as in the preceding table.

TABLE 66.—*Ford Motor Co. and Lincoln Motor Co. percentage of factory cost of sales, commercial, general, and administrative expenses and net profit on manufactured products sold to net sales for years 1929 to 1937, inclusive*

	Motor vehicles, domestic	Parts and accessories, domestic	Motor vehicles, export	Parts and accessories, export	Other products	Total
Factory cost of sales:						
1929	90.28	63.08	82.10	111.27	99.57	89.20
1930	92.36	65.58	86.91	103.46	98.28	91.41
1931	103.84	86.58	95.69	108.23	102.30	101.62
1932	119.37	111.24	113.39	143.05	125.65	120.27
1933	96.01	71.50	94.78	98.34	106.78	95.73
1934	90.25	60.19	90.18	90.62	101.43	89.69
1935	95.70	67.68	91.38	85.50	101.00	93.60
1936	93.36	74.78	93.13	86.45	96.82	91.41
1937	95.72	77.30	92.82	88.81	96.58	93.23
9-year average	94.90	73.07	90.78	99.58	100.90	93.62
Commercial, general, and administrative expense:						
1929	3.72	4.86	5.46	.55	.22	3.45
1930	5.61	6.85	10.25	7.16	.42	5.36
1931	7.96	17.90	14.24	11.83	2.93	8.94
1932	10.58	21.36	15.12	13.63	3.30	11.28
1933	8.16	24.25	10.72	11.96	.86	8.58
1934	5.84	25.96	6.87	7.62	1.90	6.94
1935	4.26	18.06	8.38	9.53	1.11	5.29
1936	4.94	16.31	8.27	9.21	.99	6.00
1937	5.59	16.23	6.94	9.06	1.17	6.47
9-year average	5.46	14.86	8.27	7.77	1.21	6.05
Net profit on manufactured products sold:						
1929	6.00	32.06	2.44	[1] 11.82	.21	7.35
1930	2.03	27.57	2.84	[1] 10.62	1.30	3.23
1931	[1] 11.80	[1] 4.48	[1] 9.93	[1] 20.06	[1] 5.23	[1] 10.56
1932	[1] 29.95	[1] 32.60	[1] 28.51	[1] 56.68	[1] 28.95	[1] 31.55
1933	[1] 4.17	4.25	[1] 5.50	[1] 10.30	[1] 7.64	[1] 4.31
1934	3.91	13.85	2.95	1.76	[1] 3.33	3.37
1935	.04	14.26	.24	4.67	[1] 2.11	1.11
1936	1.70	8.91	[1] 1.40	4.34	2.19	2.59
1937	[1] 1.31	6.47	.24	2.13	2.25	.30
9-year average	[1] .36	12.07	.95	[1] 7.35	[1] 2.11	.33

[1] Loss.

A striking feature of the foregoing table is the relatively low margin of the domestic motor-vehicle sales over the costs of these vehicles as they came from the factory. During no year was the factory cost of sales less than 90¼ percent of the receipts from sales, and the average for the entire 9 years was 94.9 percent. During the severe industrial depression years of 1931 and 1932, the cost of the product as it came from the factory exceeded the receipts from sales by 3.84 percent in the first-mentioned year and by 19.37 percent during the second mentioned year.

In contrast with this relatively narrow average margin on which the sales of domestic motor vehicles were effected, the margins on parts and accessories were much larger. The factory costs of these parts and accessories as they came from the factories averaged 73.07 percent of the receipts from their sales during the 9-year period, and were as low as 60.19 percent in 1934. During the year of severest depression, 1932, however, the factory costs of parts exceeded the receipts from sales by 11.24 percent.

The net margin on domestic sales of motor vehicles ranged from a profit amounting to 6 percent of the net sales in 1929 to a loss of nearly 30 percent during the severe depression year 1932; and it averaged 0.36 percent loss for the entire 9-year period. During the same period, the net margin on domestic sales of parts and accessories ranged from a profit of a little over 32 percent of the receipts from sales to a loss of 32.6 percent; but the net result for the entire period was a profit of 12.07 percent.

Distribution of domestic automobile sales by makes.—Table 67 shows, for the respective years 1929 to 1937, inclusive, the numbers of Ford motor vehicles sold, the receipts from sales, the factory cost of these vehicles, the commercial, general, and administrative expenses assigned to these sales and the net profit or loss made or sustained in them. It shows the like data for the Lincoln automobiles for all of those 9 years and for the Lincoln-Zephyr automobiles during the period in which they were made and sold, 1935 to 1937, inclusive.

TABLE 67.—*Ford Motor Co. and Lincoln Motor Co. consolidated and adjusted summary of unit sales, net sales, factory cost of sales, commercial, general, and administrative expense and net profit on motor vehicles manufactured and sold in the United States for years 1929 to 1937, inclusive*

	Ford Motor vehicles	Lincoln autos	Lincoln-Zephyr autos	Total motor vehicles, domestic
Units sold:				
1929	1,687,251	6,399	------------	1,693,650
1930	1,256,600	3,865	------------	1,260,465
1931	616,702	3,055	------------	619,757
1932	329,819	2,783	------------	332,602
1933	381,510	2,011	------------	383,521
1934	670,231	2,125	------------	672,356
1935	1,093,497	1,737	1,868	1,097,102
1936	927,068	1,279	17,715	946,062
1937	981,961	844	25,186	1,007,991
Total	7,944,639	24,098	44,769	8,013,506
Net sales:				
1929	$830,288,224	$25,062,936	------------	$855,351,160
1930	624,465,839	13,883,577	------------	638,349,416
1931	299,495,388	10,779,049	------------	310,274,437
1932	159,770,601	7,632,011	------------	167,402,612
1933	193,337,752	4,251,346	------------	197,589,098
1934	350,202,015	5,923,084	------------	356,125,099
1935	573,621,773	5,647,034	$1,930,370	581,199,177
1936	485,916,581	4,192,837	17,498,043	507,607,461
1937	518,821,188	3,010,962	25,217,584	547,049,734
Total	4,035,919,361	80,382,836	44,645,997	4,160,948,194

TABLE 67.—*Ford Motor Co. and Lincoln Motor Co. consolidated and adjusted summary of unit sales, net sales, factory cost of sales, commercial, general, and administrative expense and net profit on motor vehicles manufactured and sold in the United States for years 1929 to 1937, inclusive*—Continued

	Ford Motor vehicles	Lincoln autos	Lincoln-Zephyr autos	Total motor vehicles, domestic
Factory cost of sales:				
1929	750, 643, 309	21, 529, 253		772, 172, 562
1930	574, 142, 727	15, 460, 745		589, 603, 472
1931	308, 362, 033	13, 816, 356		322, 178, 389
1932	190, 954, 582	8, 875, 435		199, 830, 017
1933	184, 580, 718	5, 131, 525		189, 712, 243
1934	314, 854, 717	6, 550, 704		321, 405, 421
1935	547, 891, 873	6, 435, 013	1, 871, 788	556, 198, 674
1936	453, 132, 014	4, 150, 988	16, 601, 048	473, 884, 050
1937	495, 978, 348	3, 259, 269	24, 372, 413	523, 610, 030
Total	3, 820, 540, 321	85, 209, 288	42, 845, 249	3, 948, 594, 858
Commercial, general, and administrative expense:				
1929	30, 656, 837	1, 170, 972		31, 827, 809
1930	34, 951, 301	865, 892		35, 817, 193
1931	22, 425, 428	2, 281, 736		24, 707, 164
1932	14, 855, 295	2, 850, 906		17, 706, 201
1933	14, 644, 235	1, 474, 646		16, 118, 881
1934	19, 985, 805	805, 690		20, 791, 495
1935	23, 673, 499	684, 510	380, 352	24, 738, 361
1936	23, 134, 895	412, 391	1, 554, 465	25, 101, 751
1937	28, 170, 935	335, 412	2, 099, 592	30, 605, 939
Total	212, 498, 230	10, 882, 155	4, 034, 409	227, 414, 794
Net profit on manufactured products sold:				
1929	48, 988, 078	2, 362, 711		51, 350, 789
1930	15, 371, 811	[1] 2, 443, 060		12, 928, 751
1931	[1] 31, 292, 073	[1] 5, 319, 043		[1] 36, 611, 116
1932	[1] 46, 039, 276	[1] 4, 094, 330		[1] 50, 133, 606
1933	[1] 5, 887, 201	[1] 2, 354, 825		[1] 8, 242, 026
1934	15, 361, 493	[1] 1, 433, 310		13, 928, 183
1935	2, 056, 401	[1] 1, 472, 489	[1] 321, 770	262, 142
1936	9, 649, 672	[1] 370, 542	[1] 657, 470	8, 621, 660
1937	[1] 5, 328, 095	[1] 583, 719	[1] 1, 254, 421	[1] 7, 166, 235
Total	2, 880, 810	[1] 15, 708, 607	[1] 2, 233, 661	[1] 15, 061, 458

[1] Loss.

The number of Ford motor vehicles sold were previously stated in tabular statements presented in the text, as also were the amounts shown as net sales and as profits or losses.

A feature of the foregoing table is the decline in the volume of business after 1929 and through the years of severest depression, together with the decline in the receipts from sales and in the profits, the latter turning into large losses during the period 1931–33. Another feature of the table is the fact that the manufacture and sale of Lincoln automobiles was almost consistently carried on at a loss—a loss in every year except 1929 and an aggregate loss of nearly $15,709,000 over the whole 9-year period. The sales of Lincoln-Zephyrs were also effected at a loss during each of the 3 years in which that make of car was manufactured—the loss for the entire 3 years amounting nearly to $2,234,000. The net result for the 9 years in the sale of Ford motor vehicles was a profit a little under $2,881,000. The losses on Lincolns and Lincoln-Zephyrs resulted in a net loss in the domestic sales of all motor vehicles amounting to more than $15,061,000.

Write-up of assets on May 1, 1920.—Preparatory to presentation and discussion of the consolidated balance sheets of Ford Motor

Co., of Delaware, and the Lincoln Motor Co., as of December 31 of the years 1926 to 1937, inclusive, it is desirable to deal with the adjustment that was made at the beginning of the history of the enterprise under the name of Ford Motor Co., of Delaware, resulting from the large amount of funds paid in reacquisition and retirement of the stock of the old Ford Motor Co. held by the minority stockholders.

With reference to the cost of that minority stock, and to the adjustments to be made in the accounts of the new company, the following statement was found in the records of the Ford Motor Co., of Michigan.

Statement showing elements making up cost of stock of Ford Motor Co. (Michigan) acquired from minority interests

Item (1)	Amount (2)	Total (3)
Total cost of stock acquired from minority interests		[1] $107,079,223.40
Deduct payments for commissions and sundry organization expenses		1,258,328.83
Payment for 41½ percent of tangible property and goodwill of Ford Motor Co. (Michigan)		105,820,894.57
Represented by—		
Par value of stock acquired	$830,000.00	
Book value of minority surplus (see schedule I)	71,033,837.43	
Surplus arising through appreciation of assets and creation of intangible values (see schedule II)	33,957,057.14	
		105,820,894.57

[1] The cost of this stock as shown in sec. 2 above was $107,094,677.77, or $15,454.37 more than the amount shown in this statement. The difference is probably due to the assignment to the cost of minority stock of all of the fees paid in connection with the organization of Ford Motor Co., of Michigan, and the acquisition of the capital stock of the old company, whereas the company assigned only a part of those fees and expenses to the cost of the stock acquired from the minority interests.

In other words, the management of Ford Motor Co. figured that it had paid minority stockholders $33,957,057.14 more than the book value of these 8,300 shares at the time of their acquisition and, apparently, it felt that adjustments had to be made in the accounts of the new company in order to meet this fact.

Pursuant to this idea, a revaluation of the assets of the old Ford Motor Co. was made as of June 30, 1919, in such manner that 41½ percent of the net increase in the valuation of assets would amount to $33,957,057.14. Then adjustments were made in the valuations of certain assets and in the amounts of depreciation and depletion reserves pertaining thereto so as to effect a net write-up of $32,730,862.17. This was distributed in the following manner:

Increase in gross valuation of land, buildings, and equipment	$17,691,242.36
Less increase in depreciation reserves	5,764,505.42
Net increase	11,926,736.94
Valuation placed on goodwill	21,262,833.40
Total	33,189,570.34
Less write-down in valuation of bonds	458,708.17
Net write-up	32,730,862.17

This net write-up was credited to surplus. Then there was deducted from surplus, the amount of $106,264,677.77, which was the amount of the excess of the total cost of acquiring all 20,000 shares of the old Ford Motor Co. from all stockholders, including the stock acquired from members of the Ford family.

It will be observed that the effect of the write-up in the valuation of the company's assets was practically to reserve on the books of the new company the amount of surplus that had accrued on the 11,700 shares of capital stock of the old company that were held by the Ford family.

At the end of 1920, $744,847.58 of the goodwill was written off and deducted from surplus. The remaining $20,517,985.82 of goodwill was written off to surplus on October 31, 1925.

Later adjustments of the valuations of land, buildings, and equipment reduced the amount of this write-up as of May 1, 1920, to $17,038,471.74. Later write-offs for retirements and sales of these written-up assets during the period from January 1, 1921, to September 20, 1926, reduced this write-up by $3,131,953.99. There were further adjustments; and, on December 31, 1936, the remaining $14,684,529.07 was written off to surplus, the appreciated valuation having been disallowed by the United States Treasury Department.

Consolidated balance sheets of Ford Motor Co. and Lincoln Motor Co., 1926–37.—Table 68 presents the consolidated balance sheets of Ford Motor Co., of Delaware, and Lincoln Motor Co., of Michigan, as of December 31 of the years 1926 to 1937, inclusive.

TABLE 68.—*Ford Motor Co. and Lincoln Motor Co. comparative consolidated balance sheets as adjusted for years ending Dec. 31*

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
ASSETS												
Cash on hand and in banks	$246,209,040	$245,463,088	$161,068,777	$145,414,624	$146,979,356	$116,830,182	$49,003,774	$112,679,279	$122,826,977	$137,024,960	$163,167,290	$119,845,220
Securities:												
U. S. Government	93,765.078	56,792,373	24,767.092	102,448,086	130.525.015	128,458,799	125,720,088	74,722.318	90.776.975	82,026,814	65,661,071	40,517,843
Other	4,750 000	4.500,000	6,250,000	4,559,752	4.914.071	3,631,341	3.077,177	7,269,950	12,043,156	8,861.226	5,569,357	5,211,568
Notes receivable	276,724	32.645	3.050.645	2,111,785	3.096,270	6,694,872	10,930,269	10 036,520	998,554	2,961,304	3,843,416	3,877,113
Accounts receivable	26,614,423	17,080,696	31,159.992	38,586,259	36,500,369	37,954,544	36,624,190	76,431,336	69,672.841	79,059,959	75,840,936	78,276,548
Interest receivable	1,308,741	1.052,738	616,050	635,411	713,432	708,742	497,994	1,106.090	880.837	649.998	312,583	195,462
Inventories: Freight, etc	92,829,763	76,603,142	106.865,450	121,345,506	115,677,368	68,359,832	60,578.273	50,344,392	65,070,784	70,603,363	97,568,331	139,010,057
Investments:												
Affiliated companies	24,425,643	24,967.309	26,375,533	41,759.119	45,383,790	63,853.887	63,632.588	43,053.489	46,146.088	48,084,937	50,979,056	50.989,057
Miscellaneous	142,200	143,700	2,397,955	139,350	139,201	100,201	100,201	5,627,688	7,108,999	7,036,515	6,695,012	6,448,610
Land, plants, and property accounts	407,013,556	445,172,875	462,304.065	466.557 971	474.837.303	489,607,957	491,754,111	476.877,191	476,271,753	487,598.252	468,506,227	485,251,268
Prepaid expenses	1,560 903	898.739	1,095.793	2.054,556	2,112.333	1,976.787	5,912,642	6,241,065	4,152,553	3,132,333	2,443,476	3,577,380
Total assets	898,896,071	872,707.305	825 951,352	925,612,419	960,878,508	918,177,144	847,831,257	864,389,318	895.949,517	927.039,661	940,586,755	933,200,126
LIABILITIES												
Accounts payable	22,994,379	21,645,852	38,433,878	34,800,414	25,728,627	20.784,075	17,839,474	30,985,669	41,489,270	61,068,369	74,027,919	57,063,090
Employees investment	23,060,527	22,486,927	22,458,411	21,141,982	19,602,591	18,041,212	12,160,680	7,343,649	7,779,120	9,682,143	11,892,812	14.663,444
Accrued pay rolls and salaries	1,837,729	3,771,743	5,311,908	4,000,790	2,004.405	2,452,988	1,181,950	1,438,963	2,993,888	2,557,061	4,197,411	3,015,760
Accrued income taxes	11,674,910	4,810,128	1,888,384	2.546.397	4,268,337	2,724,464	1,122,499	1,128,816	2,789,275	2,566,895	4,228,504	283,689
Accrued other taxes	3,635,981	4,060 827	2,960,181	3,238,685	3,731,678	3,302,583	2,977,931	2,872,113	2,780,196	2,709,963	2,614,800	2,635,462
Accrued expenses	1,804,982	1,148,854	645,376	977,215	661,138	527,334	381,116	438,012	356,702	351,627	532,569	564,195
Accrued interest on employee's investments	6,334	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------
Advertising fund	52,368	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------
Reserves:												
Cash discount	----------	----------	----------	----------	----------	----------	----------	----------	39,110	63,085	83,053	80,922
Depreciation and depletion	117,264,259	134,883,642	144,726,514	158,660,083	169,480,199	183,034,039	195,168,750	209,373,386	223,618,409	227,140,603	220,769,000	230,503,203
Insurance	94,361	128,984	184,722	126,658	222,525	275,989	326,802	394,827	425,049	522,801	597,168	636,350
Patents	----------	----------	----------	148,302	142,840	139,766	139,306	137,820	137,614	137,503	135,809	129,274
Sundry	218,666	194,406	3,164	11,364	64,168	57,340	66,125	61,313	588,567	900,644	5,170,429	2,132,456
Repairs	----------	----------	----------	341,662	441,960	491,283	498,669	539,446	----------	----------	----------	----------
Surplus	698,987,075	662,311,442	592,074,314	682,354,367	717,265,540	669,081,571	598,703,455	592,410,804	595,687,817	602,074,567	599,072,781	604,227,791
Capital stock:												
Common class A	17,264,500	17,264,500	17,264,500	17,264,500	17,264,500	17,264,500	17,264,500	17,264,500	16,401,275	16,401,275	16,401,275	16,401,275
Common class B	----------	----------	----------	----------	----------	----------	----------	----------	863,225	863,225	863,225	863,225
Total liabilities	898,896,071	872,707,305	825,951,352	925,612,419	960,878,508	918,177,144	847,831,257	864,389,318	895,949,517	927,039,661	940,586,755	933,200,126

The consolidated balance sheets of Ford Motor Co. and Lincoln Motor Co. as of the ends of the years 1926 to 1937, inclusive, shown in the above table, present certain striking features. The first feature that attracts attention is the relatively very large amount of the cash balance at the end of each year. Commencing with a balance of more than $246,200,000 at the end of 1926, the amount of the cash balance diminished during succeeding years up to the depth of the industrial depression. But the cash balance of more than $49,000,000 at the end of 1932 was not small. With the partial recovery from industrial depression, during the ensuing years, the cash balance again mounted, so that it was nearly $163,200,000 at the end of 1936. Coupled with the company's operating losses in 1937 and the continuance of cash dividends in that year, the cash balance was again reduced, but still exceeded $119,800,000 at the end of 1937.

Another striking feature is the amount of investment securities that was owned by Ford Motor Co. on each balance-sheet date. These investments exceeded $98,500,000 at the end of 1926. Concurrent with the reconstruction operations carried on in 1927 and with the large operating loss that was incurred in 1928, the amount of investment securities fell to a little less than $61,300,000 by the end of 1927, and to a little more than $31,000,000 by the end of 1928. During the ensuing 2 years, in which the company's business was conducted profitably, the amount of these investments increased to more than $135,400,000. They declined in amount during the 3 years of severest depression, but even at the end of 1933, they amounted to almost $82,000,000. These investments reached a new maximum of nearly $103,000,000 by the end of 1934. They diminished year by year thereafter; but at the end of 1937 they still exceeded $45,700,000.

These large cash balances and these large amounts of funds represented in holdings of investment securities reflect the Ford policy of maintaining at all times a large balance of cash and other liquid capital, so as to free the management of the company from those restrictions to which it would be subject, if it had to depend upon bank borrowings and excursions into the securities market for the purpose of raising funds with which to carry on expansions of facilities, reconstructions, and to give effect to other policies. It will be observed, as another striking feature, that these balance sheets do not display, among the liabilities, either bonded debt or debts in the form of bank loans.

Coming to the item of land, plants, and properties, the gross valuations of these fixed assets increased from a little over $407,000,000 at the end of 1926 to a little more than $491,754,000 for the end of 1932. The gross investment in these assets fluctuated during the remainder of the period, declining in 1933 and 1934, rising again in 1935, declining again in 1936, and increasing once more in 1937—the amount at the end of the last-named year exceeding $485,251,000.

The valuations just spoken of for land, plants, and properties, were gross. They were largely offset at each balance-sheet date by the provision standing in the accounts for depreciation and depletion. At the end of 1926, these reserves aggregated more than $117,264,000, or more than 28 percent of the gross value of the assets. At the end of 1932, when the gross value of these fixed assets was at its maximum of more than $491,754,000, the depreciation and depletion reserve was nearly $195,169,000, or approximately 40 percent. Although the gross investment in these fixed assets declined on the whole during the remaining years of the period under review, the depreciation and depletion reserves increased year by year, except for a reduction in 1936; and at the end of 1937, they amounted to more than $230,500,000, or a little less than one-half the gross investment in these fixed assets.

Thus, while the maximum gross investment in land, plants, and property accounts was attained in 1932, the maximum net investment, after deduction of the depreciation and depletion reserves, was attained in 1928, at which time it amounted to approximately $317,578,000. The net investment declined almost continuously thereafter until the end of 1934, at which time it amounted to $252,-653,000. The net investment fluctuated thereafter; and on December 31, 1937, it amounted to a little more than $254,748,000.

A statement was made that the reconstruction of the factories of Ford Motor Co. in 1927, preparatory to bringing out model A, cost the company approximately $100,000,000. In connection with that statement, it is interesting to note that the gross investment of the company in land, plants, and property accounts increased during 1927 only little more than $38,100,000, and that the net investment, as reflected in the company's consolidated balance sheets, increased from a little more than $289,749,000 to a little more than $310,289,000, or approximately $20,540,000. The difference between these increases and the stated $100,000,000 is not represented in deductions from surplus; and the company's charges to operating costs for repairs to plants and for depreciation do not account for the difference. However, it is noted that from the end of 1924 to the end of 1927, a period during which the sales of old model T were falling off, so that additional plant was not needed for the production of the old model, the gross value of the company's investment in land, buildings, and property accounts increased more than $117,089,000. It is therefore inferred that the reconstruction preparatory to the abandonment of model T and the bringing out of model A commenced earlier and was carried on during 1925 and 1926, and was only completed in 1927.

Another feature of balance sheets presented in table 68 above, is the item among the liabilities entitled "Employees' investment." This source of capital funds employed in the business of Ford Motor Co., or in its outside investments, amounted to more than $23,000,000 at the end of 1926. It declined in amount year by year thereafter, falling rapidly during the depression; and at the end of 1933, it amounted only to a little less than $7,344,000, or less than one-third of what it was at the beginning of the period under review. It increased in amount year by year thereafter; and it amounted to a little more than $14,663,000 at the end of 1937. During this 11-year period, Ford Motor Co. paid to the employees contributing these funds regular interest amounting to $9,678,108.05; and it paid them additional "special returns" aggregating $4,389,230.38—making a total of regular interest and special returns during the 11-year period amounting to $14,067,338.43.

The balance sheets shown in table 68 above also show investments in affiliated companies amounting to $24,425,643 at the end of 1926, and increasing to a maximum of $63,853,887 at the end of 1931, declining thereafter, and amounting to $50,989,057 at the end of 1937. The balance sheet also shows miscellaneous investments ranging in amount from $142,200 in 1926 to a maximum of nearly $7,109,000 at the end of 1934 and declining to $6,448,610 at the end of 1937. Following is a list of the principal investments of Ford Motor Co. at the end of 1937:

Ford Motor Co., Ltd	$19,984,000
Ford Motor Co. of Cologne	7,914,600
Ford Motor Co. of Japan	3,873,200
Ford Motor Co. of Canada, Ltd	4,758,100
Fordson Coal Co	14,771,700
Fordson Finance Co., Japan	898,125
Compania Ford Industrial do Brasil	956,900
Terrenos y Factorias S/A (Mexico City)	693,100
Fords S. A. F. "Asmieres"	714,800
Hamilton & Rossville Hydraulic Co	629,000
Detroit Trust Co	471,000
Universal Dealers Co	400,000
Miami Farms	358,000
Total	56,422,525

It will be observed that Ford Motor Co. had subsidiaries bearing its own name in England (Ford Motor Co., Ltd.), France, Japan, and Canada. It also had industrial subsidiaries in Mexico and Brazil. Apparently, sales to dealers in Japan and to the customers of these dealers were assisted by a subsidiary finance company, Fordson Finance Co., Japan. Ford Motor Co. assured itself of full supplies by investments in coal properties, ownership or control of which was vested in Fordson Coal Co. The banking crisis of the early part of 1933 is reflected by an investment of Ford Motor Co. in the stock of Detroit Trust Co. to the extent of approximately $471,000. The company also had interests in other banks that felt the pressure of that situation, but the other investments were largely written off to profit and loss.

Universal Credit Corporation, experiment in finance.—During the 11-year period under review in the table of balance sheets presented above, Ford Motor Co. had interests in numerous other corporations, some of which were sold, some of which were written off to profit and loss. One of these interests merits special attention. That was the creation of Universal Credit Corporation.

In 1919, there was organized General Motors Acceptance Corporation as a finance company to facilitate the sales of General Motors products by financing dealers' time sales of these products and by financing the wholesale purchases of them from the factories of General Motors Corporation. Later, the Studebaker Corporation entered into a contractual relationship with Commercial Investment Trust Corporation for the purpose of financing and facilitating export sales. Also, the Chrysler Corporation entered into a relationship with Commercial Credit Co. for the purpose of rendering special financial service in connection with the time sales of Chrysler products by dealers and in connection with dealers' purchases of those products from the Chrysler factories. In 1928, the management of Ford Motor Co. decided to form a finance company for the purpose of rendering similar service to Ford dealers. It was stated that a specific purpose in the formation of this finance company was that of determining a yardstick in the financing of sales of the products of Ford Motor Co.

Commencing with an investment of $75,100 in the stock of Universal Credit Corporation on April 9, 1928, this investment was built up rapidly as follows: A further investment of $675,000 on May 8, an investment of $500,000 on September 6, a further investment of $1,000,000 at the end of September 1928, investments in 1929 of $1,000,000 each on January 3, February 1, March 1, March 29, May 3, June 4, and June 24. There was another investment of $500,000 on June 26 followed by investments of $1,000,000 each on June 28, July 30, August 30, September 3, September 17, September 24, September 27, October 8, October 29, November 15, and November 20.

Thus, up to the end of 1929, the investment by Ford Motor Co. in the stock of Universal Credit Corporation had been built up to $20,750,100. This finance company operated under Ford management from the time of its inception in the spring of 1928 until the end of May 1933.

Early in May 1933, Ford Motor Co. entered into negotiations with Commercial Investment Trust Corporation for the purpose of selling the former's holdings in Universal Credit Corporation to the latter, and of determining the price at which the sales should be effected. On May 15, 1933, Ford Motor Co. made a further investment in common stock of Universal Credit Corporation, purchasing 7,499 shares at a cost of $1,124,850. Probably these shares were acquired from other holders of the stock of this finance company, and were acquired pursuant to the arrangements made with Commercial Investment Trust Corporation. This acquisition brought the total investment by Ford Motor Co. in the stock of this finance company up to $21,874,950.

The contract with Commercial Investment Trust Corporation provided that Ford Motor Co. would cause Universal Credit Corporation to take such preliminary action by its directors and stockholders as might be requested by Commercial Investment Trust Corporation to expedite the reduction of the capital of the finance company to $14,500,000 and the reclassification of its capital stock so as to consist of 135,000 shares of 7-percent cumulative preferred stock of par value of $100 each and 20,000 shares of common stock without par value. The agreement also provided that the amount of the purchase price payable by Commercial Investment Trust Corporation should be $15,500,000, which was to be the book value of the stock after giving effect to certain adjustments and actions. An important action to be taken was that, after distribution by Universal Credit Corporation to Ford Motor Co. of the accrued dividend to April 15, 1933, on its preferred stock, there should be a further distribution by the finance company to Ford Motor Co. of such an amount as should be necessary to bring the book value of the finance company's stock down to $15,500,000.

In this sale Ford Motor Co. counted a profit of $7,837,825.31, a part of which was a liquidating dividend by Universal Credit Corporation amounting to $7,087,791.98.

Investment in C. E. Johansson, Inc.—In view of statements made by W. J. Cameron, of the staff of Ford Motor Co., in certain of his Ford Sunday Evening Hour Talks, relative to the use in the factories of Ford Motor Co. of approximately 36,000 precision gages controlled by Johansson master precision gages that are accurate in their measurements to a millionth part of an inch, the investment by Ford Motor Co. in the stock of C. E. Johansson, Inc., is interesting.

On October 1, 1923, Ford Motor Co. acquired 6,107 shares, and on June 30 of the next year it acquired an additional 500 shares of the capital stock of C. E. Johansson, Inc. The par value of this stock was $660,700; and the cost of it to Ford Motor Co., paid in cash, was $460,816.75. On November 30, 1928, the assets of this company were taken over by Ford Motor Co., and 6,097 shares were surrendered to the subsidiary in part payment for these assets. The book value of the stock was written down to the extent of $459,816.75, of which $206,678.80 was charged to accounts receivable and the remaining $253,137.95 was deducted from surplus.

This left Ford Motor Co. holding 510 shares of C. E. Johansson, Inc., with a par value of $51,000 and a book value of $1,000 on April 30, 1932. This $1,000 was written off and charged to the open account of C. E. Johansson, Inc., in the dissolution of that company.

It is said that C. E. Johansson, Inc., manufactured precision gages not only for the use of Ford Motor Co. but for other customers as well.

Consolidated income statements of Ford Motor Co. and subsidiaries from 1927 to 1937.—Table 69 presents the consolidated and adjusted income statements of Ford Motor Co. and its subsidiaries for the years 1927 to 1937, respectively.

TABLE 69.—*Ford Motor Co. and Lincoln Motor Co. consolidated and adjusted comparative profit and loss statement for years 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932
Net sales of manufactured products	$355,975,669	$551,710,332	$1,144,688,097	$873,515,070	$460,069,223	$254,680,008
Factory cost of sales	367,883,337	598,861,938	1,021,105,652	798,502,805	467,536,833	306,315,241
Gross profit or loss	[1] 11,907,668	[1] 47,151,606	123,582,445	75,012,265	[1] 7,467,610	[1] 51,635,233
Commercial, general, and administrative expense	29,246,604	32,472,523	39,488,101	46,782,672	41,143,479	28,718,375
Net profit or loss on manufactured products sold	[1] 41,154,272	[1] 79,624,129	84,094,344	28,229,593	[1] 48,611,089	[1] 80,353,608
Miscellaneous earnings	9,908,699	6,825,400	6,997,496	8,999,782	7,383,598	5,480,738
Net profit or loss from motor-vehicle business	[1] 31,245,573	[1] 72,798,639	91,091,840	37,229,375	[1] 41,227,491	[1] 74,872,870
Income from outside investments	2,294,008	3,687,279	2,093,042	5,693,332	5,129,659	4,990,622
Net profit or loss from total business	[1] 28,951,565	[1] 69,111,360	93,184,882	42,922,707	[1] 36,097,832	[1] 69,882,248
Interest on borrowed funds	1,275,732	1,277,298	1,298,231	1,197,559	1,083,360	968,905
Net profit or loss before provision for Federal income tax	[1] 30,227,297	[1] 70,388,658	91,886,651	41,725,148	[1] 37,181,192	[1] 70,851,153
Federal income tax	219,893	251,970	355,079	1,729,027		
Net profit or loss after provision for Federal income tax	[1] 30,447,190	[1] 70,640,628	91,531,572	39,996,121	[1] 37,181,192	[1] 70,851,153

	1933	1934	1935	1936	1937	Average
Net sales of manufactured products	$297,146,871	$531,926,851	$834,493,627	$760,487,306	$847,492,463	$628,380,502
Factory cost of sales	284,458,083	477,072,787	781,112,267	695,191,291	790,127,955	598,924,381
Gross profit or loss	12,688,788	54,854,064	53,381,360	65,296,015	57,364,508	29,456,121
Commercial, general, and administrative expense	25,485,727	36,924,544	44,130,804	45,606,434	54,790,728	38,617,272
Net profit or loss on manufactured products sold	[1] 12,796,939	17,929,520	9,250,556	19,689,581	2,573,780	[1] 9,161,151
Miscellaneous earnings	2,376,139	1,397,112	1,036,391	1,136,684	1,250,623	4,799,341
Net profit or loss from motor-vehicle business	[1] 10,420,800	19,326,632	10,286,947	20,826,265	3,824,403	[1] 4,361,810

[1] Loss.

TABLE 69.—*Ford Motor Co. and Lincoln Motor Co. consolidated and adjusted comparative profit and loss statement for years 1927 to 1937, inclusive*—Continued

	1933	1934	1935	1936	1937	Average
Income from outside investments	$2,953,099	$3,971,011	$10,119,522	$4,321,266	$5,406,216	$4,605,369
Net profit or loss from total business	[1] 7,467,701	23,297,643	20,406,469	25,147,531	9,230,619	243,559
Interest on borrowed funds	421,017	293,305	396,151	480,473	595,803	844,349
Net profit or loss before provision for Federal income tax	[1] 7,888,718	23,004,338	20,010,318	24,667,058	8,634,816	[1] 600,790
Federal income tax		1,642,220	1,436,514	3,203,529	416,032	841,297
Net profit or loss after provision for Federal income tax	[1] 7,888,718	21,362,118	18,573,804	21,463,529	8,218,784	[1] 1,442,087

[1] Loss.

Much of the data appearing in the foregoing table were presented in previous tables and discussions, particularly the amounts shown as net sales of manufactured products, the factory cost of the products sold, the commercial, general, and administrative expenses, the net profit or loss on manufactured products sold, and the net profit or loss after provision for Federal income tax. Only three of the lines contained in the table need discussion in this connection.

One of these lines is that showing miscellaneous earnings. As shown in the table, these earnings amounted to nearly $9,909,000 in 1927, the year in which the factories were largely idle during the process of reconstruction preparatory to bringing out model A. These earnings dropped rather abruptly in 1928 to a little more than $6,825,000—the year during which the company's cash balances were greatly diminished in conjunction with a loss of more than $79,624,000 in the sale of manufactured products—but increased during the next 2 years and amounted to a little less than $9,000,000 in 1930. These miscellaneous earnings declined rapidly during the depression years and even after recovery had commenced, so that they reached a minimum of a little more than $1,036,000 in 1935. They increased thereafter; and they amounted to a little less than $1,251,000 in 1937.

The main component of these miscellaneous earnings consisted of interest on bank deposits. This amounted to approximately $9,253,000 in 1927, was under $7,000,000 during 1928 and 1929, rebounded to nearly $8,400,000 in 1930, but declined rapidly thereafter; amounting to nearly $7,237,000 in 1931, it dropped to a little more than $4,111,000 in 1932, then to a little more than $943,000 in 1933, and to less than $209,000 in 1934. The amount of interest on bank deposits in 1937 was only $115,744.

The second line meriting attention is that designated as income from outside investments, which ranged from approximately $2,294,000 in 1927 to a maximum of about $5,693,000 in 1930. This income declined greatly during the 3 years of intensifying industrial depression and amounted to only a little more than $2,953,000 in 1933. A new maximum of nearly $10,120,000 was attained in 1935, after which income from this source again dropped abruptly and fluctuated between approximately $4,321,000 and $5,406,000.

This income consisted of interest from investments in Government bonds, net rental income from properties not used in the business, and of income from dividends on stocks of subsidiary companies. During most of the years, interest on Government bonds and net rental from properties not used in the business constituted the principal sources of income of this class. Among the subsidiaries, Ford Motor Co. of Yokohama was an important source of dividend income from 1928 to 1933, inclusive, and Ford Motor Co. of Japan was an important contributor thereafter. Dividends from Universal Credit Corporation contributed $268,208 during 1929, $1,325,290 during 1930, $1,106,258 during 1931, $1,162,515 during 1932, and $625,008 during the first 5 months of 1933. The principal reasons for the large increase in income from this source during 1935 consisted of a dividend of $4,750,000 from Ford Motor Co. Export, Inc., a dividend of $1,028,810 from Ford Motor Co. of England, and an increase in the dividend from Ford Motor Co. of Japan amounting to nearly $1,353,000. The dividend from Ford Motor Co. Export, Inc., in 1936, was only $437,500; and the dividend from the Japanese subsidiary was a little under $646,000. The decreases in these dividends accounted in large part for the drop in income from outisde investments from a little under $10,120,000 in 1935 to a little more than $4,321,000 in 1936.

The third line meriting attention is that indicated as interest on borrowed funds. As stated in the discussion of the balance sheets presented in table 68 above, Ford Motor Co. had no funded debt during the period under review; and the balance sheets at the end of the year disclosed no indebtedness in the form of bank loans. The only interest-bearing debt shown in the balance sheets were the amounts shown as employees' investments. The amounts shown in the above table as interest on borrowed funds were less in each year than the total amount of interest and special return paid by Ford Motor Co. to the employees on these employees' investments. The interest paid on the employees' investments were paid at a guaranteed rate; the amounts paid as special returns were based upon the net profits of the company, and were appropriated from the net profit rather than being charged to interest expense.

Section 4. Wage and Personnel Policy and Practices

Introduction.—In the discussion of the consolidated balance sheets of Ford Motor Co. and its subsidiaries, presented in section 3 of this chapter, it was shown that the principal, if not the only, source of borrowed funds employed in the business of the company consisted of the employees' investment. This is one feature in the company's policy and practice with reference to its employees; and it brings up the subject of wage and personnel policies and practices of the Ford management. It is said that this feature and the other features of the personnel policy and practices of the company are the result, in part, of Henry Ford's experience as an employee before he went into the business of manufacturing automobiles.

Employees' investment.—Important features of the Ford investment plan are as follows: The plan, according to the company's statement, was created for the benefit of Ford employees. The company's policy is to supply complete information concerning the plan to all employees who are interested, but not to solicit employees for investments. Each employee, except those hired temporarily, has the privilege of making investments, or deposits, under the plan, but this is entirely optional with the employee.

The operation of the investment plan is similar to the operation of savings accounts in a savings bank. The investment payments, or deposits, may be made by the employee only out of wages or salary received from the company. Money received by the employee as guaranteed interest on the investment, or as a special return thereon, or as a special bonus of any kind, or received from any outside source, may not be invested under this plan. Employees are allowed to make investment payments not to exceed one-fourth of the wages or salaries received each pay day. Payments, or deposits, are permitted to be made on pay day or either of the 2 working days immediately following pay day, although, if an employee is absent during such period for reasons that the company believes is beyond the employee's control, the time for making deposits may be extended. No return is allowed on deposits in excess of these limits.

Interest and special returns are paid on all fully paid-up amounts of $50, or multiples thereof, from the date the items are deposited to, but not including, the day on which they are refunded. A return is guaranteed at the rate of 4½ percent per annum. In addition to the guaranteed return, special returns may be made by action of the board of directors; and these special returns are considered as additional compensations to the employees for services rendered. These guaranteed and these special returns, if any, are paid to the employees on items of $50 standing to the credit of the employee, and they are computed and paid semiannually for the periods beginning January 1 and July 1, respectively, and ending June 30 and December 31, respectively. Items of $50, or multiples thereof, that were refunded between the dates of the regular semiannual payment periods are not included in the computation of any special return that is authorized for the period but draw only the guaranteed return for the length of time within the period that they were invested.

The company reserves the right to require 30 days' notice in writing of an employee's intention to withdraw investments, but this rule is not invoked during a specific period unless ordered by the head office. Subject to this reservation, an employee may withdraw any invested money at any time.

The rules of the company state that at the time employees are given leaves of absence, or laid off for reasons beyond their control, careful consideration is to be given to ascertain whether the employees are expected to return to work shortly. If it is felt that they will return to work within 90 days, their investment accounts may be allowed to stand and to draw the guaranteed return, together with any special return authorized during the 90-day period. If it is decided at any time before the 90 days have elapsed that the individual's services will not be required at the end of 90 days, the investment account is to be closed out immediately. If the employee has not returned to work at the end of 90 days, the investment account becomes payable immediately and ceases to share in any further return after that date. However, in the event of unusual circumstances, such as prolonged illness, exception will be made to this general rule. When employment is terminated, the entire amount invested, with the accrued return thereon, becomes payable immediately; and from the date of termination of employment the investment ceases to participate in any subsequent guaranteed or special return. If an investment account has been refunded for any reason the amount withdrawn cannot be redeposited. However, the employee may begin again as a new investor.

In the case of a deceased employee with an investment account of not more than $100, the amount of the investment may be paid to the employee's widow; or if he leaves no widow or children, the investment may be paid jointly to the father and mother or the surviving parent. In case of a deceased employee with an investment in excess of $100, the investment is paid, with the accrued return, to the administrator of the deceased employee's estate or to the executor of his will, upon presentation of a duly certified copy of authority from the court having jurisdiction in probate matters.

It will be seen from the above-stated provisions of this investment plan that the effect of large and prolonged lay-offs of employees, such as occurred during the depression years of 1931 to 1934, inclusive, is to cause payments of large amounts of these investments to the employees laid off. This accounts, in part, for the rapid decrease in the amount of the employees' investment during that period.

Table 70 shows the dates on which the guaranteed interest and special returns were paid to the employees participating in this plan from January 2, 1927, to July 1, 1937.

TABLE 70.—*Return paid to employees by Ford Motor Co. under investment plan, 1927–37*

Date paid	Amount paid [1]		
	Interest	Special return	Total
1927:			
Jan. 2	$649, 109. 95	$1, 081, 849. 93	$1, 730, 959. 88
July 1	642, 536. 35	428, 357. 57	1, 070, 893. 92
1928:			
Jan. 2	656, 749. 64	437, 833. 09	1, 094, 582. 73
July 1	671, 806. 70		671, 806. 70
1929:			
Jan. 2	651, 595. 49		651, 595. 49
July 1	666, 735. 10		666, 735. 10
1930:			
Jan. 2	590, 312. 08	393, 541. 38	983, 853. 46
July 1	591, 961. 79	789, 282. 40	1, 381, 244. 19
1931:			
Jan. 2	683, 926. 73		683, 926. 73
July 1	536, 228. 29	357, 485. 53	893, 713. 82
1932:			
Jan. 2	507, 758. 19		507, 758. 19
July 1	538, 175. 16		538, 175. 16
1933:			
Jan. 2	441, 047. 45		441, 047. 45
July 1	257, 885. 49		257, 885. 49
1934:			
Jan. 2	166. 958. 54	55, 652. 85	222, 611. 39
July 1	156, 621. 02	87, 011. 67	243, 632. 69
1935:			
Jan. 2	163, 246. 69	90, 692. 69	253, 939. 38
July 1	178, 855. 46	99, 364. 14	278, 219. 60
1936:			
Jan. 2	197, 745. 85	109, 858. 80	307, 604. 65
July 1	217, 594. 95	120, 886. 08	338, 481. 03
1937:			
Jan. 2	240, 221. 27	186, 838. 77	427, 060. 04
July 1	271, 035. 86	150, 575. 48	421, 611. 34
Total	9, 678, 108. 05	4, 389, 230. 38	14, 067, 338. 43

[1] Included in the amounts shown as paid on the above dates are minor items paid during the preceding 6 months to employees who withdrew their entire balances.

The foregoing table shows that during this 11-year period a total of $9,678,108.05 was paid to the Ford employees as guaranteed interest on their investments, and that additional special returns were paid from time to time aggregating $4,389,230.38. It will be observed that the special return was omitted, on January 2, 1931, for the second half of 1930, also that it was omitted for the second half of 1931, all of 1932, and the first half of 1933. These omissions evidence the effect of the industrial depression upon the profitableness of the Ford motor enterprise. The special return was also omitted for the entire year 1928, in which year the company netted a very large loss; and it was also omitted for the first half of 1929, notwithstanding that this was the year of maximum profit during the entire 11-year period.

Minimum wage plan.—Another feature of the attitude of the management of Ford Motor Co. toward employees is expressed in the so-called minimum-wage plan. The minutes of a meeting of the directors of the original Ford Motor Co., held on January 5, 1914, contain the following statement:

> It was suggested by the officers that a plan of better equalizing of the company's earnings between the stockholders and labor employed by the company be inaugurated.
>
> The plan was gone over at considerable length, but, briefly, it carried with it, in addition to wages, sums to make the minimum income of all men over 22 years of age $5 for 8 hours' work, and that other increases were to be made to men getting above the minimum wage to maintain the same rate between the minimum, intermediate, and maximum wages.
>
> After considerable discussion it was moved by Director Rackham, and supported by Director Couzens, that such a plan be put into force as of January 12, 1914, which plan it was distinctly understood would approximate an additional expenditure for the same volume of business of $10,000,000 for the year 1914. Carried unanimously.

The public announcement of this minimum-wage plan a few days later created a Nation-wide sensation. The details of the plan were not set forth in the corporate minutes. One commentator [30] stated that in order to make sure that the employees benefiting under the plan should not become wasteful and cocksure, after the usual manner of those who go suddenly prosperous, the Ford management founded a welfare department designed to teach the men how to prevent "sharpers" from taking their new gains away from them. The minimum wage was to be regarded as a bonus, and those entitled to its benefits had to prove that they ought to have it. It was prescribed at the beginning that the bonus should go to married men living with their families and taking proper care of them, to single men of thrifty habits over 22 years of age, and to younger men and women responsible for the support of next of kin. Immediately 60 percent of the force qualified to share the benefits of the plan, and the percentage increased to 78 percent in 6 months, and to 87 percent in a year. The same commentator stated that the wage increase under this plan was in effect a profit-sharing plan, but that, unlike profit-sharing plans instituted by other manufacturers under which profits were divided with the employees at the end of a year, the Ford plan was different in that, under it, the profits were estimated in advance and the employees' share was paid to them in the form of regular wages.

During the war period that followed the inauguration of this wage plan, the general level of prices, costs of living, and wage rates in-

[30] Ralph H. Graves, The Triumph of an Idea, pp. 62–65.

creased. When Ford Motor Co., of Michigan, resumed normal operations in 1919, the minimum wage was increased to $6 per 8-hour day.[31] The minimum continued at this level until December 1, 1929, on which date it was increased to $7 per day. It is noteworthy that this increase in the minimum wage was put into effect very shortly after the stock-market crash of October and November 1929; that is, at the beginning of a prospective period of industrial depression. As the depression intensified and the business of Ford Motor Co. fell off rapidly and was converted from a business carried on at a profit to a business carried on at a large loss, the Ford management found itself unable to continue the minimum wage at this level, and it was reduced to $4 per day near the end of 1931. Early in 1934, the business of the company began a rapid improvement; and on March 13 of that year the minimum wage was again advanced to $5 per 8-hour day. Business continued to improve during 1934 and 1935; and on May 25 of the latter year, the minimum wage was advanced once more, this time to $6 per day.[32]

Average wages at the River Rouge plant, 1929 to 1937.—Table 71 shows the average wages paid to employees at the River Rouge plant in 1929 and during the years 1932 to 1937, inclusive, together with the average number of employees on the pay roll.

TABLE 71.—*Average wages and numbers of employees on pay roll of Ford Motor Co.'s River Rouge plant, by years, 1929 and 1932 to 1937, inclusive*

Year	Average rates of wage		Average number of pay-roll employees [1]	Year	Average rates of wage		Average number of pay-roll employees [1]
	Per hour	Per week (40 hours)			Per hour	Per week (40 hours)	
	Cents				*Cents*		
1929	92.425	$36.97	101,069	1935	74.3	$29.72	70,474
1932	78.825	31.53	56,277	1936	80.45	32.18	70,203
1933	58.95	23.58	32,514	1937	87.95	35.18	83,010
1934	66.225	26.49	49,563				

[1] Based on the number of employees on the pay roll on the last day of each month during the year.

The foregoing table shows that the average rate of wage paid the Ford employees at the River Rouge plant was a little over 92.42 cents per hour, or $36.97 for a full 40-hour week, during 1929. The effect of the industrial depression, and the reduction of the minimum wage in connection therewith, is shown in the drop in the average wage per hour to a little more than 78.82 cents, or $31.53 per week, in 1932, and to 58.95 cents per hour, or $23.58 per week, in 1933. The effect of the business improvement and of the increases in the minimum wages in 1934 and 1935 is shown in the increase in the average rates of wages paid these employees year by year during the period 1934 to 1937. In the last-named year, the average rate of wage paid these employees was 87.95 cents per hour, or $35.18 for a full 40-hour week.

There are industries in which the average rates of wage paid the employees were higher than the average rates shown in the above table as paid to the employees at the River Rouge plant of Ford

[31] Ibid., p. 77.
[32] W. J. Cameron, the Ford Sunday Evening Hour Talks, first and second series, p. 118.

Motor Co. In making comparisons with the average wage rates paid employees in other industries, however, it should be borne in mind that probably the force of employees at the River Rouge plant contained a much greater proportion of relatively unskilled labor than did the employees of many other industries. As described in an earlier section, the Ford factories were laid out on the production-line system, much specialized machinery was used, and a large part of the work was so minutely subdivided and made so simple for the individual employee, that unskilled labor could be taught the work in very brief time and could perform it.[33]

Policy with reference to the partly incapacitated.—The same commentator stated that a person entering the employ of Ford Motor Co. is medically examined and given work that fits his condition. Disability, it was stated, does not necessarily bar an applicant from employment. It was stated that in 1934, 20 percent of the workmen were in the physically disabled class—some of them being blind, some deformed, some not very strong; but that each employee's work was selected to fit his case.

In this connection a further statement of the Ford policy is interesting.[34] For many years, it was stated, it has been the theory of the Ford Motor Co., with reference to age and disability, that its pay roll must represent a cross-section of the community. With 1 blind man to every 6,000 men of employable age in the country, the company's theory is that it should have at least 1 blind man for every 6,000 employees. Similarly with reference to other physical handicaps that do not utterly incapacitate for work.

Thus—

says the commentator—

> we have tubercular persons, specially provided with open-air work under suitable protection. And, working at jobs carefully adapted by medical supervisors to their condition, we have epileptics, blood-pressure cases, heart-disease cases, men who have had infantile paralysis, victims of sleeping sickness, and so on. Here is an old man putting washers on bolts—he is blind; the man beside him, who daily leads him to his work bench is a paralytic; and all around are men born deaf and men born mute, men with a leg or an arm or both legs gone—each performing some work suited to his strength. Altogether, we have 11,632 men in various stages of disability earning full pay. Frankly, this is far more than our share. But the company does not regard this as philanthropy or sentimental humanitarianism; it does not feel that these men owe it anything, they give full value for their wages; they simply feel that the policy is possible and practicable.

This commentator stated that the same practice is followed with reference to age; that a cross-section of age groups in a community must be represented on the pay roll and, as a consequence, men of almost every age are hired when suitable positions are open. An

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[33] This is illustrated in the assembly work by the fact that, in certain cases, the work of one employee consisted of that of placing nuts on the ends of bolts and starting to screw them down, the completion of the work of screwing down the nuts and tightening them being performed by 1 or 2 other workmen as the product moved past them on the conveyor. An incident was related in 1916 to a present member of the staff of the Federal Trade Commission by the superintendent of an automobile factory in Geneva, Switzerland. There applied for work at this factory one day a man who represented himself to be a skilled erector of automobiles. The plant needed such a man, hired the applicant, and assigned to him the assembly of an automobile. It soon become apparent that this employee did not even know where or how to commence the assembly. The superintendent said to him:

"We thought you said that you were a skilled erector of automobiles."

"I thought I was," replied the new employee.

"Where did you work?"

"At the plant of Ford Motor Co."

"What did you do?"

"I screwed on nut No. 58."

[34] W. J. Cameron, the Ford Sunday Evening Hour Talks, third and fourth series, pp. 168 and 169.

instance was cited of an employee 84 years of age who entered the company's employ at the age of 60.

This policy and practice with reference to the employment of partially disabled persons and of persons who are no longer young or even middle-aged is in accord with the wider view, that although our industrial organization, in which industry is carried on under private initiative for profit, takes the form of owners (or their representatives) hiring workers to perform needed work, this is only a specific form of organization in which the entire population cooperates in the production of the necessaries, comforts, and luxuries of life desired by the entire population, and the ultimate purpose of an enterprise is not merely that of producing profit for the so-called owners or stockholders, but also that of meeting the needs of the community for the commodities or services and of providing members of the community with opportunities to participate in production and to share accordingly in the total product of all industry.

Section 5. Rates of Return on Investment

Introduction.—At this juncture are presented data showing the average investment during the respective years, the amount of net profit or loss thereon before provision for Federal income taxes, and the rates of return on the investment. In this connection, there are three amounts of investment to be considered in each year. First comes the total investment as shown in the balance sheets. This includes not only the investment in the motor-vehicle business but also the investment in assets not used in the motor-vehicle business, such as the investments in Government bonds and in properties not used in the business. Such investment includes not only the funds contributed by the stockholders and the funds accumulating in the ownership of the company by retaining profits, but also the funds borrowed from the employees and represented in the item of employees' investment. The income on this investment includes the income from outside investments and the net rental income from properties not used in the business; and it is the income before deduction of the interest and special return on the employees' investment.

Deduction from the total investment of the borrowed funds leaves the stockholders' investment; and deduction from the income on the total investment of the interest and special return paid on the borrowed funds leaves the income on the stockholders' investment.

The investment in the motor-vehicle business is that part of the total investment that remains after deduction of the investments outside the business, i. e., after deduction of the investments in Government bonds and miscellaneous securities and the investment in properties not used in the business. The income on the investment in the motor-vehicle business is that part of the income on the total investment that remains after deducting the income from outside investments.

Investment and rate of return.—Table 72 shows the amounts of these three kinds of investments in each of the years 1927 to 1937, inclusive, the amounts of profit or loss thereon in each of the years, and the rates of return thereon that these profits and losses constituted.

TABLE 72.—*Investment, profits and rates of return on the investment applicable to Ford Motor Co. and Lincoln Motor Co., consolidated operations, 1927 to 1937, inclusive*

	Total average-investment	Stockhoder's average investment	Average investment in motor-vehicle business
1927	$728, 930, 005	$706, 156, 278	$599, 229, 842
1928	670, 279, 303	647, 806, 634	583, 611, 583
1929	678, 496, 428	656, 696, 231	596, 944, 975
1930	740, 854, 107	720, 481, 821	641, 013, 820
1931	732, 756, 358	713, 934, 456	6, 4, 144, 801
1932	668, 181, 441	653, 080, 495	538, 917, 001
1933	623, 699, 452	613, 947, 287	483, 245, 491
1934	620, 834, 241	613, 272, 856	453, 605, 078
1935	627, 554, 409	618, 823, 777	466, 511, 757
1936	632, 023, 351	621, 235, 874	488, 903, 910
1937	634, 449, 010	621, 170, 882	505, 208, 163
11-year annual average	648, 502, 848	653, 327, 872	542, 848, 766

	Net income before interest and income taxes	Net income after interest and before income taxes	Net income from motor-vehicle business before interest and income taxes
1927	−$28, 951, 565	−$30, 227, 297	−$31, 245, 573
1928	−69, 111, 360	−70, 388, 658	−72, 798, 639
1929	93, 184, 882	91, 886, 651	91, 091, 840
1930	42, 922, 707	41, 725, 148	37, 229, 375
1931	−36, 097, 832	−37, 181, 192	−41, 227, 491
1932	−69, 882, 248	−70, 851, 153	−74, 872, 870
1933	−7, 467, 701	−7, 888, 718	−10, 420, 800
1934	23, 297, 643	23, 004, 338	19, 326, 632
1935	20, 406, 469	20, 010, 318	10, 286, 947
1936	25, 147, 531	24, 667, 058	20, 826, 265
1937	9, 230, 619	8, 634, 816	3, 824, 403
11-year annual average	243, 559	−600, 790	−4, 361, 810

	Rates of return		
	Percent	*Percent*	*Percent*
1927	−3. 97	−4. 28	−5. 21
1928	−10. 31	−10. 86	−12. 47
1929	13. 73	13. 99	15. 26
1930	5. 79	5. 79	5. 81
1931	−4. 93	−5. 21	−6. 71
1932	−10. 46	−10. 85	−13. 89
1933	−1. 20	−1. 28	−2. 16
1934	3. 75	3. 75	4. 26
1935	3. 25	3. 23	2. 20
1936	3. 98	3. 97	4. 26
1937	1. 45	1. 39	. 76
11-year annual average	. 04	−. 09	−. 80

Minus sign (−) denotes loss.

The foregoing table shows that the total investment averaged a little more than $728,930,000 in 1927, that it fluctuated from year to year, attaining a maximum of a little more than $740,854,000 in 1930, and a minimum of a little more than $620,834,000 in 1934 and averaged approximately $648,503,000 during the 11-year period. The net income on this investment before provision for Federal income taxes ranged from a maximum of a little under $93,185,000 in 1929 to a loss of approximately $69,882,000 in the severe depression year of 1932; and it averaged a profit of only $243,559 a year for the entire period. Losses were sustained during 5 of the 11 years under review.

The losses of 3.97 percent in 1927 and of 10.31 percent in 1928 were incurred during the period of reconstruction of the factories in order to produce model A and during the first year of the production and sale of that model. The maximum rate of return was netted in 1929, when it amounted to 13.73 percent. The rate of return naturally declined with the onset and the intensification of the industrial depression, so that the company netted a loss of 10.46 percent in 1932. With the partial business recovery experienced in 1934 and thereafter, the company netted profits; but at no time did the rate of return on the total investment amount to as much as 4 percent. The average rate of return per annum on the total investment during the entire 11-year period was 0.04 percent.

The income and rate of return on the stockholders' investment followed a course parallel to that of the income and rate of return on the total investment. This was to be expected inasmuch as the amount of borrowed funds, represented in the employees' investments, was a source of only a relatively small portion of the total investment. Due to the fact that interest on the borrowed funds was guaranteed and had to be paid even in the years in which the company was netting large losses, the net result for the entire 11-year period was a loss on the stockholders' investments of 0.09 percent.

The course of the rates of return on the investment in the motor-vehicle business also paralleled the course of the rates of return on the total investment. Due to the fact that the outside investments were income-producing, the percentages of loss on the investment in the motor-vehicle business were naturally larger in the years of loss than were the percentages of loss on the total investment. The converse was not always true, however, during the years in which the motor-vehicle business was carried on with a profit. The maximum rate of return on the investment in the motor-vehicle business was netted in 1929, in which year it amounted to 15.26 percent, as compared with 13.73 percent on the total investment.

With the onset and the intensification of the industrial depression, the rate of return on the investment in the motor-vehicle business declined rapidly. There was a profit of 5.81 percent in 1930, but losses during the next 3 years, the maximum loss being 13.89 percent and occurring in 1932, the year of most intense depression. With the partial recovery experienced in the last 4 years of the period under review, the motor-vehicle business of Ford Motor Co. was conducted at a profit; but the rates of return were moderate—not more than 4.26 percent in any of the 4 years, and amounted only to 0.76 percent during the recession year of 1937. The net result for the entire 11 years was an average loss of 0.80 percent per annum.

CHAPTER XV. OTHER MOTOR-VEHICLE MANUFACTURERS

Section 1. Importance of Independent Companies

The automobile industry in the United States may be said to have developed since the beginning of the twentieth century. During the first decade the development was made by numerous independent concerns. Growth of these companies was largely through the reinvestment of earnings. The first important enlargement through acquisition of independent companies was that of General Motors Corporation. Many of the early manufacturing concerns acquired by General Motors grew from reinvested earnings to become important factors in the industry at the time they were acquired. Chrysler Corporation is the only other concern that has acquired an important company, namely, Dodge Bros.

The motor-vehicle industry as now developed requires large investment. For example, the present Ford Motor Co. began with a capitalization of $100,000, less than half of which was in cash or personal notes. In contrast, Packard Motor Car Co. expended approximately $3,500,000 in 1934 in bringing out a smaller car and The Studebaker Corporation invested a like amount in developing its new car to sell in the Chevrolet-Ford-Plymouth price class.

The automobile industry and the trade press refer to all of the passenger-car manufacturers other than Chrysler, Ford, and General Motors as "independents." The automobile-consuming public has been greatly benefited through the competition of the independent companies. An independent automobile manufacturer must produce, in a given price class, a car at least as good as his large competitors in order to remain in business. Moreover, the independent manufacturer must at least keep up with style trends, and contribute his share of improvements if he is to remain a factor in the industry.

At the present time, 1939, there are only eight independent manufacturers actively producing passenger cars. Two or three other producers make cars to order, and a press statement of April 20, 1939, announced a new low-priced car by Crosley Corporation. The following independent companies regularly manufacture passenger automobiles:

American Bantam Co., Butler, Pa.
Graham-Paige Motors Corporation, Detroit, Mich.
Hudson Motor Car Co., Detroit, Mich.
Hupp Motor Car Corporation, Detroit, Mich.
Nash-Kelvinator Corporation, Kenosha, Wis.
Packard Motor Car Co., Detroit, Mich.
The Studebaker Corporation, South Bend, Ind.
Willys-Overland Motors, Inc., Toledo, Ohio.

Owing to lack of time and funds available for the inquiry the accounts of only four of the independent companies were examined, namely: Hudson Motor Car Co., Nash-Kelvinator Corporation, Packard Motor Car Co., and the Studebaker Corporation. The Commission's examiners were afforded excellent cooperation by each of the companies examined.

Section 2. Hudson Motor Car Co.

Introduction.—Hudson Motor Car Co. has been an important factor in the automobile industry since its organization more than 28 years ago. Its production of motor vehicles aggregated 4,107 for the first 16 months' operations ending June 30, 1910. This quantity, while small in comparison with present-day sales, constituted almost 2 percent of the total for the industry. Hudson Motor Car Co.'s annual sales of motor vehicles increased quite steadily from year to year, except for periods of business recession, to its maximum of 300,783 in 1929, or 5.6 percent of total sales. During the depression, Hudson, like other companies, was forced to curtail its production sharply, and it lost both in number of units produced and also in its proportion of the United States total. In 1933 Hudson sold 39,314 motor vehicles, or about 2 percent of total sales for the motor-vehicle industry. Beginning in 1934 Hudson sales increased to 118,923 in 1936. The following year, 1937, Hudson sold 106,647 units. In 1938, its proportion of the new passenger cars registered in the United States was 2.16 percent.

From the date of organization of Hudson Motor Car Co., February 24, 1909, to December 31, 1937, it sold a total of 2,502,991 passenger cars and 19,212 commercial vehicles, or a total of 2,522,203 motor vehicles, in the 28-year period. Hudson's passenger-car sales constituted nearly 4 percent of the total number of passenger cars sold by the industry from 1900 to 1938, inclusive.

Organization.—On October 28, 1908, J. L. Hudson, R. B. Jackson, Hugh Chalmers, H. E. Coffin, F. O. Bezner, Roy D. Chapin, J. J. Brady, and Lee Counselman, all of whom were then prominent in the automobile industry, formed a partnership for the development of automobiles to sell at medium prices. There was an understanding among the partners that a corporation would be formed if satisfactory models were developed. Three models satisfactory to the partners were decided upon and on February 24, 1909, Hudson Motor Car Co. was incorporated under the laws of the State of Michigan. The term of the incorporation was 30 years, with the right of renewal for another 30 years.

Contracts with Chalmers-Detroit Motor Co. gave Hudson Motor Car Co. a developed distributor and dealer organization which contributed materially to its early success. During the first 16 months of the company's operations, its net sales aggregated $3,980,999, net profits after Federal income taxes were $587,356, and $50,000 cash dividends were paid.

Capitalization.—The capitalization of Hudson Motor Car Co. at organization was $100,000, of which amount $25,000 was issued for models and drawings developed by the predecessor partnership.

At the time of organization of Hudson Motor Car Co., all of the capital stock was held by 12 stockholders. These 12 stockholders continued to hold a controlling interest in the company until 1922, when approximately 40 percent of the total stock outstanding was sold by a group of stockholders to a syndicate for $7,000,000. The stock was then listed on the New York Stock Exchange and since that time has been widely held. In 1938, there were approximately 11,000 stockholders, none of whom held a substantial block of stock.

The changes in the capital of the company, its funded debt, and surplus from its organization to the end of 1937, are shown in the following tabulation:

	Common capital stock, net, less treasury stock	Funded debt and notes payable, net, less unamortized debt discount and expense	Undistributed surplus
Organization [1]	$100,000		[2] $17,187
June 30, 1910	100,000		562,576
June 24, 1911	900,000		190,288
June 8, 1912	890,000		799,811
June 30, 1913	895,000	$400,000	1,351,782
May 31, 1914	1,790,000		1,402,529
May 31, 1915	1,890,000		2,146,115
Dec. 5, 1916	1,964,960		5,317,718
Nov. 30, 1917	1,986,770		6,676,127
Nov. 30, 1918	1,963,970		7,367,087
Nov. 30, 1919	1,998,780		9,190,479
Nov. 30, 1920	1,999,980	8,600,000	9,629,678
Nov. 30, 1921	1,987,260		10,508,287
Nov. 30, 1922	13,201,000		5,289,475
Nov. 30, 1923	13,201,000		9,450,979
Nov. 30, 1924	16,501,625		10,201,419
Nov. 30, 1925	16,626,625		20,375,360
Dec. 31, 1926	19,958,250		23,119,760
Dec. 31, 1927	19,958,250		30,482,580
Dec. 31, 1928	19,958,250		35,611,081
Dec. 31, 1929	19,958,250		38,726,136
Dec. 31, 1930	18,709,081		30,266,069
Dec. 31, 1931	18,217,320		20,145,503
Dec. 31, 1932	19,656,731		11,730,535
Dec. 31, 1933	19,053,694	1,000,000	7,306,047
Dec. 31, 1934	19,316,606	1,800,000	3,924,770
Dec. 31, 1935	18,825,804	5,045,355	4,987,155
Dec. 31, 1936	18,825,804	4,713,355	8,255,952
Dec. 31, 1937	19,790,044	3,580,780	8,497,623

[1] At organization Feb. 24, 1909.
[2] Deficit.

There were 1,588,810 shares of common stock outstanding at December 31, 1937, with a ledger value of $19,790,044. A summary of the issuance and reacquisition of common stock from the date of organization to the end of 1937, is given below.

	Shares	Ledger value
Issued for drawings of car models at the time of organization	12,500	$25,000
Issued for cash at the time of organization and other dates from 1909 to 1925, inclusive	149,995	404,990
Issued in exchange for stock of Essex Motors in 1922	200,000	500,000
Total issued for consideration	362,495	929,990
Issued from time to time as stock dividends or capitalization of earnings and stock split-up	1,234,165	19,028,260
Total above	1,596,660	19,958,250
Less treasury stock at Dec. 31, 1937	7,850	168,206
Common capital stock outstanding at Dec. 31, 1937	1,588,810	19,790,044

Summary of sales, profits, dividends, and reinvested earnings.—In the annual report of Hudson Motor Car Co., for December 31, 1927, R. B. Jackson, president and general manager of the company, reported:

Nineteen years ago the total cash investment of the Hudson Motor Car Co. was but $15,000. The expansion of the business since then has been entirely through earnings—not a cent has been added from outside sources.

Previous to this date, Hudson Motor Car Co. borrowed money from outside sources on only two occasions, namely, $400,000 during the fiscal year ending June 30, 1913, and $8,600,000 in the fiscal year ending November 30, 1920. On both occasions the loan was paid before the end of the next fiscal year.

The following table shows the aggregate of net sales, net profit after deducting Federal income taxes, cash dividends paid, and earnings capitalized through the issuance of stock dividends, for the period from organization, February 24, 1909, to December 31, 1937:

TABLE 73.—*Hudson Motor Car Co.—summary of net sales, net profit, cash dividends and surplus from organization Feb. 24, 1909, to Dec. 31, 1937*

Period ended	Net sales	Net profit after deducting Federal income tax	Cash dividends paid on common capital stock	Other additions to or deductions from surplus	Earnings capitalized through stock dividends and transfers to capital stock account	Balance in surplus at the end of each period
June 30, 1910	$3,980,999	$587,356	$50,000	$43,417	$1,010	$562,576
June 24, 1911	5,939,434	451,643		[1] 23,931	800,000	190,288
June 8, 1912	7,260,616	822,414	205,000	[1] 7,891		799,811
June 30, 1913	11,147,147	840,741	220,000	[1] 68,770		1,351,782
May 31, 1914	11,215,646	1,256,260	37,800	[1] 272,713	895,000	1,402,529
May 31, 1915	14,356,614	1,427,517	576,400	[1] 107,531		2,146,115
Dec. 5, 1916	37,579,356	2,734,948	192,000	628,655		5,317,718
Nov. 30, 1917	29,738,108	1,492,511	521,292	387,190		6,676 127
Nov. 30, 1918	23,390,468	1,226,601	475,193	[1] 60,448		7,367,087
Nov. 30, 1919	59,331,458	2,287,104	516,992	53,280		9,190,479
Nov. 30, 1920	84,005,524	1,156,452	715,705	[1] 1,548		9,629,678
Nov. 30, 1921	39,825,144	915,850		[1] 37,241		10,508,287
Nov. 30, 1922	67,899,950	7,242,677	1,761,489		10,700,000	5,289,475
Nov. 30, 1923	90,510,848	8,003,624	3,601,255	[1] 231,865		9,459,979
Nov. 30, 1924	114,688,292	8,073,459	3,781,394	[1] 250,000	3,300,625	10,201,419
Nov. 30, 1925	200,843,742	21,378,504	4,974,563	[1] 230,000		26,375,360
Dec. 31, 1926	162,964,304	5,372,874	5,188,772	[1] 108,071	3,331,625	23,119,766
Dec. 31, 1927	187,298,738	14,451,678	6,918,443	[1] 170,421		30,482,580
Dec. 31, 1928	185,852,158	13,483,040	8,178,862	[1] 175,677		35,611,081
Dec. 31, 1929	202,723,252	11,629,828	8,179,800	[1] 334,973		38,726,136
Dec. 31, 1930	78,992,454	260,674	6,480,890	[1] 2,239,851		30,266,069
Dec. 31, 1931	38,426,377	[1] 2,002,046	1,558,135	[1] 6,560,385		20,145,503
Dec. 31, 1932	23,346,527	[1] 5,285,352		[1] 3,129,616		11,730,535
Dec. 31, 1933	20,883,968	[1] 4,343,854		[1] 80,634		7,306,047
Dec. 31, 1934	48,022,226	[1] 3,375,205		[1] 6,072		3,924,770
Dec. 31, 1935	58,237,793	541,372		521,013		4,987,155
Dec. 31, 1936	71,889,455	3,307,132		[1] 38,335		8,255,952
Dec. 31, 1937	68,291,991	717,299	397,203	[1] 78,425		8,497,623
Total	1,948,642,589	94,655,101	[1] 54,531,188	[1] 12,580,843	[2] 19,028,260	

[1] Loss or deduction.
[2] This $19,028,260 of net earnings transferred from surplus to capital consisting of $6,527,250 of stock dividends and $12,501,010 of capitalized earnings.

From the foregoing table it will be noted that the net earnings, after deducting provisions for Federal income tax of $16,400,498, for the entire period of operations from 1909 to 1937, inclusive, amounted to $94,655,101, that $54,531,188 was distributed in cash dividends on the common capital stock, and $19,028,260 capitalized through transfers to the common stock account. Other additions to or deductions from surplus amounted to a net deduction of $12,580,843. There remained $8,497,623 as undistributed earnings in the surplus account at December 31, 1937.

Principal stockholders, May 5, 1938.—As of May 5, 1938, there were 12 stockholdings of 1 percent or more of the total number of shares of Hudson Motor Car Co. outstanding December 31, 1937. Two other holders had holdings slightly under 1 percent. The list of principal stockholders follows:

Holders of 1 percent or more of capital stock of Hudson Motor Car Co., as of May 5, 1938

Stockholders	Number of shares	Percent of stock outstanding [1]
Guido G. Behn	16,255	1.0
Helen V. Behn	15,766	1.0
Cornelius K. Chapin, Roy D. Chapin, and Inez T. Chapin (trustees)	70,000	4.4
Inez T. Chapin	10,396	.7
Roy D. Chapin, care of Inez T. Chapin and Cornelius K. Chapin, administrators	68,497	4.3
Horneblower & Weeks	15,435	1.0
E. A. Pierce & Co.	22,159	1.4
Susan P. McAneeny	16,644	1.0
Louise Webber Jackson, executrix	70,046	4.4
Elouise J. Webber	50,280	3.2
Elouise J. Webber (trustee)	18,960	1.2
Richard H. Webber	27,555	1.7
Richard H. Webber (trustee)	12,000	.8
Brockman's Administratickants	170,500	10.7
Total	584,493	36.8

[1] 1,588,810 shares outstanding at Dec. 31, 1937.

The largest stockholder as of May 5, 1938, was Brockman's Administratickants, of the Netherlands. There were three other large holdings, two of 4.4 percent and one of 4.3 percent in the names of trustees and administrators.

Officers and directors.—As already stated the company was founded in 1909, by J. L. Hudson, R. B. Jackson, Hugh Chalmers, H. E. Coffin, F. O. Bezner, Roy D. Chapin, J. J. Brady, R. H. Webber, George W. Dunham, and Lee Counselman. J. L. Hudson was elected the first president. The founders of the company continued to control the company for many years. The officers and directors in recent years have held only relatively small stock equities in the company. Usually the board of directors was made up of the officers and department heads and some others who were not actively engaged in the operations of the company.

The officers as of December 31, 1937, were:

A. E. Barit, president, general manager, and director.
S. G. Baits, first vice president, assistant general manager, and director.
W. R. Tracy, vice president, in charge of sales, and director.
J. B. Swegles, vice president, in charge of manufacturing, and director.
C. A. Costdyk, vice president, in charge of purchasing, and director.
A. Hood, treasurer and director.
C. D. Sterling, secretary and director.
C. K. Chapin, director.
H. H. Northrup, director.

Comparative balance sheets, 1927–37.—The more recent growth of Hudson Motor Car Co. is shown by the comparative balance sheets for the period 1927–37 following:

TABLE 74.—*Hudson Motor Car Co.—Comparative balance sheets at Dec. 31 each year, 1926 to 1937, inclusive.*

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
ASSETS												
Cash	$4, 463, 385	$5, 285, 962	$6, 014, 640	$4, 760, 030	$4, 953, 106	$1, 840, 887	$2, 054, 892	$2, 196, 229	$2, 138, 834	$9, 144, 643	$9, 694, 446	$4, 275, 184
Marketable securities	6, 079, 797	8, 005, 312	13, 989, 063	12, 393, 862	9, 095, 663	7, 067, 938	2, 088, 813	344, 607			1, 999, 289	4, 999, 638
Inventories	9, 185, 933	13, 989, 296	13, 167, 880	13, 466, 679	6, 843, 900	4, 475, 668	3, 014, 084	4, 088, 045	3, 556, 533	4, 095, 467	6, 605, 104	5, 033, 661
Accounts and notes receivable	1, 422, 899	3, 027, 636	3, 764, 658	2, 337, 926	2, 230, 605	1, 014, 431	776, 607	382, 396	1, 176, 295	1, 559, 464	1, 355, 957	982, 731
Investments in subsidiaries	510, 955	557, 688	1, 263, 136	1, 542, 813	2, 093, 881	3, 415, 024	3, 103, 285	1, 066, 938	1, 482, 518	1, 240, 332	1, 700, 930	1, 953, 847
Miscellaneous investments and assets	20, 500	22, 000	21, 250	19, 900	19, 750	11, 625	11, 340	62, 074	146, 133	141, 686	115, 230	120, 955
Prepaid and deferred items	707, 341	1, 065, 158	1, 048, 332	1, 215, 021	590, 856	2, 010, 310	475, 285	538, 083	786, 903	702, 108	702, 639	744, 565
Real estate, buildings, and equipment	28, 324, 028	29, 752, 631	29, 072, 338	33, 276, 309	30, 172, 792	29, 337, 533	24, 064, 575	22, 971, 731	21, 293, 771	19, 745, 698	18, 839, 177	17, 997, 259
Total assets	50, 714, 838	61, 705, 683	68, 341, 297	69, 012, 540	56, 000, 553	49, 173, 416	35, 588, 881	31, 650, 103	30, 580, 987	36, 629, 398	41, 012, 772	36, 107, 840
LIABILITIES												
Accounts payable	4, 322, 662	5, 402, 401	6, 882, 245	4, 146, 160	3, 564, 689	2, 381, 744	1, 491, 244	2, 745, 168	3, 442, 374	4, 299, 436	5, 787, 110	1, 876, 740
Accrued liabilities	693, 127	729, 090	741, 737	803, 047	629, 481	691, 646	525, 750	494, 149	1, 114, 486	1, 531, 454	1, 931, 344	1, 196, 246
Employees' stock purchase contracts		178, 029	412, 759	594, 326	623, 047	568, 821						
Dealers' deposits on contracts	165, 977	248, 892	317, 219	144, 020	130, 720	117, 251	70, 451	68, 551	64, 651	58, 951		
Provision for Federal income tax	765, 100	2, 218, 580	1, 781, 350	1, 410, 000						92, 500	568, 000	147, 188
Accrued dividends	1, 397, 044	2, 044, 950	2, 044, 950	2, 044, 950	1, 197, 495	399, 165						
Contingency reserve	292, 912	442, 911	591, 705	1, 185, 651	879, 971	6, 651, 966	2, 114, 170	982, 494	918, 100	888, 743	931, 207	1, 019, 219
Borrowed money, less unamortized expense								1, 000, 000	1, 800, 000	5, 945, 355	4, 713, 355	3, 580, 780
Common capital stock, less treasury stock	19, 958, 250	19, 958, 250	19, 958, 250	19, 958, 250	18, 709, 081	18, 217, 320	19, 656, 731	19, 053, 694	19, 316, 606	18, 825, 804	18, 825, 804	19, 790, 044
Surplus	23, 119, 766	30, 482, 580	35, 611, 082	38, 726, 136	30, 266, 069	20, 145, 503	11, 730, 535	7, 306, 047	3, 924, 770	4, 987, 155	8, 255, 952	8, 497, 623
Total liabilities	50, 714, 838	61, 705, 683	68, 341, 297	69, 012, 540	56, 000, 553	49, 173, 416	35, 588, 881	31, 650, 103	30, 580, 987	36, 629, 398	41, 012, 772	36, 107, 840

The balance sheets show that the ledger value of real estate, buildings, and equipment decreased from a maximum of $33,276,309 December 31, 1929, to $17,997,259 December 31, 1937. The items of cash and marketable securities which aggregated approximately $20,000,000 December 31, 1928, decreased to only $2,139,000 at the end of 1934, and, with better business, increased to nearly $11,700,000 December 31, 1936, and remained at nearly $9,275,000 at the end of 1937.

The surplus of the company, which reached a maximum of over $38,725,000 December 31, 1929, was steadily and rapidly decreased to about $3,925,000 December 31, 1934, after which it was built up to nearly $8,500,000 at the end of 1937.

Rates of return.—The ratios of annual net profit to the average investment are presented on three bases, namely, total investment, common-stock holders' investment, and investment in the domestic manufacture and wholesale distribution of motor vehicles.

The total investment of Hudson Motor Car Co. consisted of common stock, borrowed funds, reinvested surplus, and surplus reserves. There was no appreciation included in any of these investments. The rate of return on the total investment was 34.12 percent in 1927 and declined to 21.80 percent in 1929 and 0.48 percent in 1930. During 1931 to 1934, inclusive, the company had losses but in later years profits were made of 3.17 percent in 1935, 13.12 in 1936, and 3.25 percent in 1937. For the 11-year period, 1927 to 1937, inclusive, the average annual rate of return on total investments was 7.96 percent.

The stockholders' investment was practically the same as the total investment for the reason that there were relatively only small amounts of borrowed funds which were excluded from the stockholders' investment. The differences in rates of return on the two bases were negligible. For the 11-year period the annual average rate of return on the stockholders' investment was 8.06 percent.

The rates of return on the investment in the domestic motor-vehicle business generally were higher in profitable years and the losses were greater in unprofitable years than the rates on the total investment. During the 11-year period, 1927 to 1937, inclusive, the annual average rate of return was 9.40 percent. As shown in the following table, the years 1927, 1928, and 1929 were the most profitable with rates of return of 41.36, 35.69, and 29.35 percent, respectively. Losses were sustained during each year from 1930 to 1934, inclusive. The profits for 1935, 1936, and 1937 were relatively smaller than for other profitable years as the investment was smaller after the depression than prior thereto. However, the rates of return for those 3 years in chronological order were 3.50, 14.39, and 3.73 percent.

The investments, profits, and rates of return on the three bases discussed above are presented in the following table:

TABLE 75.—*Hudson Motor Car Co.—Summary of investments, profits, and rates of return, 1927 to 1937, inclusive*

	Total investment	Stockholders' investment	Investment in domestic motor-vehicle business
Average investment: [1]			
1927	$48,903,849	$48,619,175	$39,528,914
1928	55,806,913	55,522,354	41,522,794
1929	59,867,045	59,611,212	42,487,937
1930	55,701,129	55,567,579	41,555,297
1931	47,559,155	47,434,955	34,104,603
1932	39,522,845	39,058,113	31,127,200
1933	30,374,458	30,221,839	25,414,623
1934	27,195,989	25,750,855	24,758,439
1935	29,447,650	24,476,839	26,923,518
1936	32,189,291	26,687,583	29,390,791
1937	33,136,406	29,017,518	29,066,577
Annual average	41,791,339	40,178,911	33,261,881
Profits: [2]			
1927	16,683,958	16,670,258	16,359,818
1928	15,278,462	15,264,390	14,820,908
1929	13,053,848	13,039,828	12,470,589
1930	267,249	260,674	[3] 150,505
1931	[3] 1,996,139	[3] 2,002,046	[3] 2,273,442
1932	[3] 5,265,785	[3] 5,285,352	[3] 5,394,207
1933	[3] 4,336,202	[3] 4,343,854	[3] 4,387,961
1934	[3] 3,326,449	[3] 3,375,205	[3] 3,317,672
1935	932,563	633,872	941,188
1936	4,222,163	3,875,132	4,230,674
1937	1,075,497	864,487	1,083,635
Annual average	3,326,288	3,236,562	3,125,729
Rates of return:	*Percent*	*Percent*	*Percent*
1927	34.12	34.29	41.39
1928	27.38	27.49	35.69
1929	21.80	21.88	29.35
1930	.48	.47	[3] .36
1931	[3] 4.20	[3] 4.22	[3] 6.66
1932	[3] 13.32	[3] 13.53	[3] 17.33
1933	[3] 14.28	[3] 14.37	[3] 17.27
1934	[3] 12.23	[3] 13.11	[3] 13.40
1935	3.17	2.59	3.50
1936	13.12	14.52	14.39
1937	3.25	2.98	3.73
Annual average	7.96	8.06	9.40

[1] Investments averaged at beginning and end of year except that borrowed money was averaged monthly.
[2] Before deduction of provisions for Federal income tax.
[3] Loss.

The domestic motor-vehicle business referred to in the preceding table and text represents the operations of Hudson Motor Car Co. only, excluding subsidiaries engaged in operating distributorships in the United States and foreign countries which operations were somewhat comparable to those of independent motor-vehicle dealers. Thus the domestic motor-vehicle business consisted of domestic manufacturing and the wholesale distribution to domestic and foreign dealers or distributors. The investments in marketable securities and other miscellaneous outside or idle investments, together with the income thereon, were also eliminated from the total investment to determine the investment in the domestic motor-vehicle business and the profit applicable thereto.

Income and expenses.—The net sales and net profit after deducting Federal income tax was previously shown in table 73 for the entire period of operations from 1909 to 1937, inclusive. It will be noted in that table that the only years in which losses were recorded were 1931, 1932, 1933, and 1934. Profits were made in 1935, 1936, and 1937, but the total profit for these 3 years did not equal the loss for 1932. The total profit for the 11-year period from 1927 to 1937, inclusive, amounted to $29,384,566 as compared with a profit of $21,378,504 for the year ended November 30, 1925. A summary of the income and expenses for Hudson Motor Car Co., for each calendar year and in total for the 11-year period, 1927 to 1937, inclusive, is presented in the following table.

TABLE 76.—*Hudson Motor Car Co.—Summary of income and expenses and net profits applicable to various bases of investments, by calendar years, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932
Net sales	$187,298,737	$185,852,157	$202,723,252	$78,992,453	$38,426,377	$23.346,527
Factory cost of sales	161,663,477	160,650.806	178,150,182	69,995,4[illegible]6	35,870,481	23,266,058
Gross profit	25,635,260	25,201,351	24,573,070	8,997,037	2,555,8[illegible]6	80,469
Commercial expense	10,149,755	11,291,187	13,152,277	9,495,320	5,003,660	5,573.993
Net profit on sales	15,485,505	13,910,164	11,420,793	[1] 498,283	[1] 2,447,764	[1] 5,493,524
Other income, net	874,313	910,744	1,049,796	347,778	174,322	99,317
Net profit from domestic motor-vehicle business	16,359,818	14,820,908	12,470,589	[1] 150,505	[1] 2,273,442	[1] 5,394,207
Net income from outside investments	324,140	457,554	583,259	417,754	277,304	128,422
Net profit before interest and Federal income tax	16,683,958	15,278,462	13,053,848	267,249	[1] 1,996,138	[1] 5,265,785
Interest on borrowed money	13,700	14,072	14,020	6,575	5,908	19,567
Net profit before Federal income tax—stockholders' equity	16,670,258	15,264,390	13,039,828	260,674	[1] 2,002,046	[1] 5,285,352
Federal income and surtax	2,218,580	1,781,350	1,410,000			
Net profit after Federal income tax	14,451,678	13,483,040	11,629,828	260,674	[1] 2,002,046	[1] 5,285,352

	1933	1934	1935	1936	1937	Total, 1927–37
Net sales	$20,883,968	$48,022,226	$58,237,793	$71,889,455	$68,291,991	$983,964,936
Factory cost of sales	20.846,069	45,909,708	51,167,085	61,657,100	60,832,715	870,009,097
Gross profit	37,899	2,112,518	7,070,708	10,232,355	7,459,276	113,955,839
Commercial expense	4,508,058	5,551,747	6,317,453	6,209,720	6,578,046	83,831,216
Net profit on sales	[1] 4,470,159	[1] 3,439,229	753,255	4,022,635	881,230	30,124,623
Other income, net	82,198	121,556	187,932	208,039	202.405	4,258,400
Net profit from domestic motor-vehicle business	[1] 4,387,961	[1] 3,317,673	941,187	4,230,674	1,083,635	34,383,023
Net income from outside investments	51,759	[1] 8,776	[1] 8,624	[1] 8,511	[1] 8,138	2,206,143
Net profit before interest and Federal income tax	[1] 4,336,202	[1] 3,326,449	932,563	4,222,163	1,075,497	36,589,166
Interest on borrowed money	7,652	48,756	298,691	347,031	211,010	986,982
Net profit before Federal income tax—stockholders' equity	[1] 4,343,854	[1] 3,375,205	633,872	3,875,132	864,487	35,602,184
Federal income and surtax			92,500	568,000	147,188	6,217,618
Net profit after Federal income tax	[1] 4,343,854	[1] 3,375,205	541,372	3,307,132	717,299	29,384,566

[1] Loss.

From the foregoing table it will be noted there were wide variations in operations from year to year. For instance, the net sales were $202,723,252 in 1929 and only $20,883,968 in 1933. The increases or decreases in sales had corresponding effects on profits although these were not directly correlated as evidenced by the fact that the greatest profit amounted to $14,451,678, during the year 1927, and the greatest loss was $5,285,352, recorded in 1932.

Details of sales.—The net sales include motor vehicles and replacement parts plus the gross profit on sales of certain assembly parts. The number of motor vehicles sold from the date of incorporation to the end of 1937, is given by years or periods below:

Year or period	Number of motor vehicles sold	Year or period	Number of motor vehicles sold
Feb. 24, 1909, to June 30, 1910	4,107	Nov. 30, 1924, to Nov. 30, 1925	263,937
June 30, 1910, to June 24, 1911	5,448	Nov. 30, 1925, to Dec. 31, 1926	244,667
June 24, 1911, to June 8, 1912	5,449	1927	276,330
June 8, 1912, to June 30, 1913	6,221	1928	282,152
June 30, 1913, to May 31, 1914	7,199	1929	300,783
May 31, 1914, to May 31, 1915	10,918	1930	113,671
May 31, 1915, to Dec. 5, 1916	33,186	1931	58,516
Dec. 5, 1916, to Nov. 30, 1917	21,320	1932	39,995
Nov. 30, 1917, to Nov. 30, 1918	13,348	1933	39,314
Nov. 30, 1918, to Nov. 30, 1919	39,286	1934	81,827
Nov. 30, 1919, to Nov. 30, 1920	48,439	1935	97,024
Nov. 30, 1920, to Nov. 30, 1921	25,415	1936	118,923
Nov. 30, 1921, to Nov. 30, 1922	61,233	1937	106,647
Nov. 30, 1922, to Nov. 30, 1923	88,184		
Nov. 30, 1923, to Nov. 30, 1924	128,664	Total	2,522,203

Of this total of 2,522,203 motor vehicles, 2,502,991 were passenger cars and 19,212 commercial vehicles. The manufacture of commercial vehicles was begun in 1929. The largest number sold within 1 year was during 1937, when 6,910 commercial vehicles were sold.

The number of motor vehicles exported as compared with the domestic sales for each year from 1927 to 1937, inclusive, is shown below:

Year	Number of motor vehicles sold			Year	Number of motor vehicles sold		
	In United States	Exported	Total		In United States	Exported	Total
1927	248,973	27,357	276,330	1934	69,858	11,969	81,827
1928	246,535	35,617	282,152	1935	86,031	10,993	97,024
1929	268,800	31,983	300,783	1936	108,106	10,817	118,923
1930	95,737	17,934	113,671	1937	93,297	13,350	106,647
1931	56,739	1,777	58,516				
1932	37,092	2,903	39,995	Total	1,345,956	169,226	1,515,182
1933	34,788	4,526	39,314				

The trade names of the motor vehicles manufactured by Hudson Motor Car Co. included "Hudson," "Essex," "Terraplane," and "Dover," or combinations of these. During the 11-year period, 1927 to 1937, inclusive, the number of motor vehicles sold by trade names was as follows:

Hudson passenger cars	350,180
Terraplane and Essex passenger cars	1,145,790
Terraplane, Essex, and Dover commercial vehicles	19,212
Total motor vehicles sold, 11-year period	1,515,182

The number of motor vehicles sold and the details of net sales, showing the deductions from gross billing and the segregation of sales between motor vehicles, accessories, replacement parts, and assembly parts, from 1927 to 1937, inclusive, are presented in the following table:

TABLE 77.—*Hudson Motor Car Co., details of net sales, by calendar years, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	Total 1927-37
Number of motor vehicles sold:												
Hudson	65, 991	52, 301	71, 136	36, 557	17, 470	7, 010	2, 280	25, 764	28, 295	24, 328	19, 048	350, 180
Terraplane and Essex	210, 339	229, 851	227, 527	76, 051	40, 326	32, 573	36, 608	54, 170	67, 450	90, 206	80, 689	1, 145, 790
Total, passenger cars	276, 330	282, 152	298, 663	112, 608	57, 796	39, 583	38, 888	79, 934	95, 745	114, 534	99, 737	1, 495, 970
Terraplane, Essex, and Dover commercial vehicles			2, 120	1, 063	720	412	426	1, 893	1, 279	4, 389	6, 910	19, 212
Total, motor vehicles sold	276, 330	282, 152	300, 783	113, 671	58, 516	39, 995	39, 314	81, 827	97, 024	118, 923	106, 647	1, 515, 182
Net sales:												
Hudson	$66, 040, 037	$52, 484, 843	$63, 498, 948	$29, 571, 776	$13, 582, 092	$5, 829, 489	$1, 713, 608	$16, 686, 060	$18, 213, 181	$15, 973, 630	$13, 373, 171	$296, 966, 835
Terraplane and Essex	112, 430, 046	123, 382, 961	122, 094, 029	41, 889, 739	19, 893, 598	15, 686, 232	17, 107, 297	27, 248, 037	33, 796, 060	46, 601, 506	44, 096, 739	604, 226, 244
Terraplane, Essex, and Dover commercials			1, 155, 644	308, 799	162, 401	94, 621	162, 099	807, 520	581, 198	2, 073, 710	3, 442, 817	8, 788, 809
Gross billing of motor vehicles, less trade discounts	178, 470, 083	175, 867, 804	186, 748, 621	71, 770, 314	33, 638, 091	21, 610, 342	18, 983, 004	44, 741, 617	52, 590, 439	64, 648, 846	60, 912, 727	909, 981, 888
Sales of options and accessories	377, 229	1, 156, 748	4, 517, 598	2, 834, 040	1, 082, 250	454, 756	955, 005	1, 149, 699	3, 258, 900	3, 989, 844	3, 726, 086	23, 502, 155
Revenue from advertising	1, 610, 623	1, 373, 043	4, 603, 610	393, 000	965, 000	338, 323	455, 256	1, 215, 650	1, 411, 815	1, 740, 255	1, 519, 135	15. 655. 715
Revenue from loading	1, 420, 034	1, 709, 209	4, 638, 716	897, 740	187, 888	170, 864	164, 439	421, 145	526, 641	630, 276	801, 506	8, 568, 458
Additional billing, export				20, 880								20, 880
Dealers' infringement	3, 973	2, 493	8, 370	3, 802	1, 025	419	1, 143	1, 259	1, 489	994	528	25, 495
Freight, insurance, etc., export	1, 048	2, 458	2, 086	5, 908	1, 828	1, 000	4, 169	5, 178	10, 671	9, 272	9, 529	53, 147
Unclaimed deposits for retail report cards											5, 185	5, 185
Total above	181, 882, 990	180, 111, 755	197, 519, 001	75, 925, 684	35, 876, 082	22, 575, 709	20, 563, 016	47, 534, 548	57, 799, 955	71, 019, 487	67, 004, 696	957, 812, 923
Less discounts and allowances:												
Wholesale discounts					162, 858	340, 105	645, 622	1, 502. 105	1, 762, 452	2, 133, 609	1, 932, 139	8, 478, 890
Retail volume discounts										90, 034	114, 439	204, 473
Sales price adjustments	101, 057			872, 776	167, 748	175, 000	108, 733	83, 967	20, 800			1, 530, 081
Special allowances			810, 117			37, 600	155, 425	44, 082				1, 047, 224
Allowance for junking plan					160, 884	146, 655						307, 539
Cars unsold									10, 552	14, 741	51, 335	76, 628
Total discounts and allowances	101, 057		810, 117	872, 776	491, 490	699, 360	909. 780	1, 630, 154	1, 793, 804	2, 238, 384	2, 097, 913	11, 644, 835
Net sales of motor vehicles and accessories	181, 781, 933	180, 111, 755	196, 708, 884	75, 052, 903	35, 384, 592	21, 876, 349	19, 653, 236	45, 904, 394	56, 006, 151	68, 781, 103	64, 906, 783	946. 168, 088
Net sales replacement parts	5, 516, 804	5, 740, 402	6, 014, 368	3, 939, 545	3, 011, 785	1, 469, 405	1, 203, 243	1, 973, 829	2, 126, 200	2, 977, 369	3, 257, 062	37, 260, 012
Body part sales, net profit only									9, 853	12, 099	5, 366	27, 318
Parts shipped to Canada, net profit only						773	27, 489	144, 003	95, 589	118, 884	122, 780	509. 518
Total, net sales	187, 298, 737	185, 852, 157	202, 723, 252	78, 992, 453	38, 426, 377	23, 346, 527	20, 883, 968	48, 022, 226	58, 237, 793	71, 889, 455	68, 291, 991	983, 964, 936

The changes in the method of billing motor vehicles with respect to additional charges and allowances accounted for the different items included in net sales. The regular trade discounts, which varied from 24 to 30 percent on Hudsons, from 26 to 30 percent on Essex cars, and 21 to 24 percent on Terraplanes, during the period from 1927 to 1937, inclusive, were deducted on the invoices, thus the amounts of gross billing shown in the foregoing table are after deducting trade discounts. However, such items as wholesale discounts, special discounts, and other allowances are shown separately. The wholesale discounts, or overriding discounts, ranging from 1 to 4 percent, were inaugurated in 1931 as compensation for distributors on motor vehicles sold by their dealers. From 1931 to 1937, inclusive, the amount of wholesale discounts was $8,478,890. Prior to 1931 the trade discounts given by distributors to dealers were less than the trade discounts allowed by the factory to distributors, thereby the distributors were compensated during the earlier years for wholesale business, but the amounts of such compensation did not appear as a deduction from sales. In 1936 and 1937 the distributors received additional compensation in the form of a volume discount on retail sales only which amounted to $204,473 for the 2 years. From time to time the sales prices of certain models—or the full line of motor vehicles—were reduced, necessitating refunds to distributors and dealers for cars in stock. These sales-price adjustments aggregated $1,530,081 during the 11-year period. The amount of such adjustments obviously is not consequential, as it is directly affected by the number of vehicles in transit or in stock, which varies materially from one period to another. In 1929 the special allowance of $810,117 represented volume discount allowed to direct factory dealers. Hudson Motor Car Co. has always distributed its motor vehicles through distributors who sold at both retail and wholesale, except during 1929 the company appointed certain direct dealers, but this practice was discontinued the same year, and since that time the distributors have appointed the dealers with factory approval.

Revenue from advertising and expense of advertising.—The practice whereby the manufacturer does the advertising and the distributors and dealers share in the cost thereof was started soon after the company was organized and has continued to the present time. All the new-car advertising in local and national publications has been done by the manufacturer, and a part of the cost has been passed on to the distributors and dealers as a charge for advertising. The balance of the cost of advertising, of course, goes into operating expenses and is passed on to the distributors and dealers in the cost of the car.

The method of billing or calculating the advertising charge to distributors and dealers has changed from time to time. From the time this practice was inaugurated, soon after the formation of the company, to the end of 1928 the basis for the charge to each distributor was 50 percent of the cost of all newspaper advertising and billboard advertising in his respective territory.

Since the beginning of 1929 the revenue from advertising was based on a flat charge per motor vehicle, as set forth here:

1929: $20 per Hudson and $15 per Essex with some variations on certain export shipments.

1930: No separate charge at all from the beginning of 1930 until August 13, when there was a reduction in list prices and an advertising charge was established at $20 per Hudson and $15 per Essex.
1931: $20 per Hudson and $15 per Essex.
1932: $15 per Hudson, $10 per Essex, and $6 per Terraplane.
1933: $15 per Hudson eight, $12 per Hudson six, $10 per Terraplane eight, and $8 per Terraplane six.
1934–35: $15 per car on all cars, except the long wheel base Hudson eight, which was $25.
1936–37: $15 per car on all models.

The total amount collected and included in sales for advertising purposes was $15,655,715 during the 11-year period, while the expense of advertising (including the advertising departmental expense) amounted to $38,328,489, of which $1,400,000 was deducted from surplus and the balance from income. Included in the advertising expense was the amount of $29,176,559 expended for advertising space, consisting of $19,171,694 for newspaper space, $7,520,223 for magazine space, $1,664,271 for radio broadcasting, and $820,371 for outdoor or billboard advertising. The advertising expenses are shown in detail in the following table:

TABLE 78.—*Hudson Motor Car Co.—Summary of advertising expenses, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	Total, 1927–37
Domestic advertising expense:												
Magazine space	$925,323	$1,148,714	$1,197,912	$944,826	$701,214	$531,632	$105,792	$213,672	$519,736	$579,049	$652,353	$7,520,223
Newspaper space	2,947,331	2,582,386	3,315,296	2,581,673	1,182,960	969,084	805,873	1,084,542	1,450,561	1,227,194	1,024,794	19,171,694
Radio broadcasting			163,788	16,6[illegible]2	108,384		535,283	381,602	275,106		183,426	1,664,271
Outdoor-billboard advertising	303,561	191,895	67,195						95,083	104,908	57,729	820,371
Total space	4,176,215	3,922,995	4,744,191	3,543,181	1,992,558	1,500,716	1,446,948	1,679,816	2,340,486	1,911,151	1,918,302	29,176,559
Promotional expense, literature, shows, supplies, preparatory expense, etc	504,398	622,066	653,845	858,797	367,353	718,183	361,666	630,616	715,375	659,274	659,427	6,751,000
Publicity			30,999	33,156	44,759	40,090	79,445	23,871	28,808	27,092	27,100	335,320
Share of dealers' used-car advertising					20,631	81,002	41,220	47,116	11,196	52,245	27,879	290,289
Expenses of advertising department	50,516	55,496	36,219	22,268	17,174	47,004	51,935	48,480	32,336	27,150	30,403	418,981
Total domestic advertising expense	4,731,129	4,600,557	5,465,254	4,457,402	2,451,475	2,386,995	1,981,214	2,429,899	3,128,201	2,676,912	2,663,111	36,972,149
Total export advertising expense	95,963	195,463	240,918	209,266	78,218	53,083	49,836	87,302	73,679	94,809	177,803	1,356,340
Total advertising expense	4,827,092	4,796,020	5,706,172	4,666,668	2,529,693	2,440,078	2,031,050	2,517,201	3,201,880	2,771,721	2,840,914	[1] 38,328,489

[1] The amount of $1,400,000 was deducted from surplus in 1931, so that the advertising expense deducted from income for 1931 was $1,129,693, and the total for the 11-year period was $36,928,489.

Charges for loading motor vehicles.—The company collected from distributors and dealers an amount, varying from time to time for loading, boxing, or delivering motor vehicles. These sums, in most cases, are passed on to the consumer. The charges on domestic shipments from 1927 to 1938, inclusive, are set forth below:

Year	Staging (per freight car containing 3 or 4 motor vehicles)	Decking (per freight car containing 3 or 4 motor vehicles)	Loading (per motor vehicle)	Drive-away delivery at factory (per motor vehicle [1])	Loading at Windsor, Canada, for shipment to United States (per freight car)	Outside drive-away station for distributors (per motor vehicle)
1927	$7.50	$12.50				
1928	7.50	12.50				
1929	7.50	12.50				
1930	7.50	12.50				
1931	7.50	12.50			$6.00	
1932	7.50	12.50			6.00	
1933	7.50	12.50				$3.00
1934			$3.50	$7.50		
1935			3.50	7.50		
1936			3.50	7.50		
1937			3.50	8.50		
1938			3.50	8.50		

The loading charge of $3.50 per motor vehicle beginning in 1934 was at a higher rate than in prior years for the reason that three or four motor vehicles were loaded in one freight car. The cost of loading was decreased with the installation of the Evans loading equipment in freight cars. During each year from 1927 to 1932, inclusive, the cost of loading exceeded the revenue but from 1933 to 1937, inclusive, the revenue exceeded the cost. For the 11-year period the revenue from loading was $8,568,458, while the costs and expenses of loading were $9,261,989 for both domestic and export shipments. On export shipments it was generally necessary to box the assembled or unassembled cars. The charge for boxing, included in the revenue from loading, varied periodically for different models and varied for the same model according to destinations. For instance, the charges for boxing assembled 1938-model motor vehicles ranged from $29 to $44.50 while for the unassembled 1938 models the charge ranged from $22.50 to $75 per motor vehicle.

Commercial expense.—All operating expenses, except factory or manufacturing costs and expenses, are classified as commercial expenses. Included in the commercial expenses were also the advertising expenses, the subsidies paid finance company together with all other general, administrative, and selling expenses, in the following amounts:

Year	General administrative and selling expenses	Advertising expenses	Subsidies paid to finance company	Total commercial expense
1927	$5,170,602	$4,827,092	$143,061	$10,149,755
1928	6,111,372	4,796,020	383,795	11,291,187
1929	6,832,738	5,706,172	613,367	13,152,277
1930	4,697,951	4,666,668	130,701	9,495,320
1931	3,827,046	1,129,693	46,921	5,003,660
1932	3,123,906	2,440,078	10,009	5,573,993
1933	2,479,678	2,031,050	[2] 2,670	4,508,058
1934	3,034,546	2,517,201		5,551,747
1935	3,115,573	3,201,880		6,317,453
1936	3,437,999	2,771,721		6,209,720
1937	3,737,132	2,840,914		6,578,046
Total	45,577,543	36,928,489	1,325,184	83,831,216

[1] Includes 10 gallons of gasoline, car wash, and installation of bumpers.
[2] Correction of prior years' payment.

Advertising constitutes an important part of the general expenses of the company. During the 11-year period, it ranged from a low of about $1,130,000 in 1931, to over $5,706,000 in 1929, with an 11-year average for the period 1927–37 of nearly $3,360,000.

Subsidies paid to finance company.—Contractual arrangements between Hudson Motor Car Co. and Commercial Investment Trust, Inc., have been in existence since September 15, 1922, providing for retail and wholesale financing of the sales of Hudson motor vehicles by the latter company. For this service, the finance company was paid a subsidy, in addition to the finance charges, which subsidy payments were at the following rates:

September 15, 1922, to April 15, 1924, at the rate of 1 percent of the amounts financed on retail sales.

May 18, 1927, to December 21, 1928, at the rate of $20 per Hudson car and $7 per Essex car financed for customers.

December 21, 1928, to sometime in 1932, at the rate of $4 per Hudson car and $2 per Essex car financed for customers.

During the period from 1923 to 1932, inclusive, the total subsidy payments to Commercial Investment Trust, Inc., amounted to $1,470,797.

Operating ratios.—The trends of income and expenses are shown by ratios to net sales and dollars per motor vehicle sold. The factory cost of sales, gross profit on sales, distributing and administrative expenses, other net income, and net profit from motor-vehicle business, are expressed in cents per dollar of net sales in the following table. It will be noted that the factory cost of sales ranged from 85.77 cents in prosperous years, to 99.82 cents per dollar of net sales in depression years. General and administrative expenses ranged from 5.42 cents to 23.87 cents per dollar of net sales, depending upon volume of business.

TABLE 79.—*Hudson Motor Car Co.—Costs, expenses, and profits per dollar of net sales, 1927 to 1937, inclusive*

Year	Net sales, including accessories and parts	Factory cost	Factory profit	Advertising expense	Other general and administrative expense	Total general and administrative expense	Net profit on sales	Other income (net)	Net profit
	Cents	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*
1927	100.00	86.31	13.69	2.58	2.84	5.42	8.27	0.46	8.73
1928	100.00	86.44	13.56	2.58	3.50	6.08	7.48	.49	7.97
1929	100.00	87.88	12.12	2.82	3.67	6.49	5.63	.52	6.15
1930	100.00	88.61	11.39	5.91	6.11	12.02	−.63	.44	−.19
1931	100.00	93.35	6.65	2.94	10.08	13.02	−6.37	.45	−5.92
1932	100.00	99.66	.34	10.45	13.42	23.87	−23.53	.43	−23.10
1933	100.00	99.82	.18	9.72	11.86	21.58	−21.40	.39	−21.01
1934	100.00	95.60	4.40	5.24	6.32	11.56	−7.16	.25	−6.91
1935	100.00	87.86	12.14	5.50	5.35	10.85	1.29	.33	1.62
1936	100.00	85.77	14.23	3.86	4.78	8.64	5.59	.29	5.88
1937	100.00	89.08	10.92	4.16	5.47	9.63	1.29	.30	1.59
Annual average, 1927–37	100.00	88.42	11.58	3.75	4.77	8.52	3.06	.43	3.49

[1] Minus signs (−) denote loss.

The preceding table shows the ratios to net sales on the total motor-vehicle business, consisting of motor vehicles, accessories, and parts. The ratios for the total business are slightly different from those for only the motor-vehicle and accessory business and considerably different than those for the replacement-parts business. The accessory business is not shown separately as many of the accessories were installed on the motor vehicles at the factory. Such equipment or options, such as special paint jobs, de luxe equipment, and some accessories, were an integral part of the motor vehicle. Therefore, operating ratios are presented separately for the motor-vehicle and accessory business and the repair-parts business. The following table shows the factory cost of sales and the gross and net profits expressed in cents per dollar of net sales of motor vehicles and accessories only, excluding repair parts.

TABLE 80.—*Hudson Motor Car Co.—Costs, expenses, and profits per dollar of net sales of motor vehicles and accessories, excluding repair-parts business, 1927 to 1937, inclusive*

Year	Net sales, motor vehicles and accessories	Factory cost of sales	Factory profit on sales	Advertising expense	Other distribution and administrative expense	Total distribution and administrative expense	Net profit on sales	Other income (net)	Net profit
	Cents	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*
1927	100	87.39	12.61	2.66	2.41	5.07	7.54	0.48	8.02
1928	100	87.53	12.47	2.66	3.10	5.76	6.71	.50	7.21
1929	100	88.93	11.07	2.90	3.24	6.14	4.93	.53	5.46
1930	100	90.31	9.69	6.22	5.51	11.73	[1] 2.04	.46	[1] 1.58
1931	100	96.11	3.89	3.19	9.12	12.31	[1] 8.42	.49	[1] 7.93
1932	100	102.10	[1] 2.10	11.15	12.52	23.67	[1] 25.77	.46	[1] 25.31
1933	100	103.01	[1] 3.01	10.33	10.95	21.28	24.29	.42	[1] 23.87
1934	100	97.64	2.36	5.48	5.62	11.10	[1] 8.74	.26	[1] 8.48
1935	100	89.12	10.88	5.72	4.61	10.33	.55	.34	.89
1936	100	87.13	12.87	4.03	4.12	8.15	4.72	.30	5.02
1937	100	90.68	9.32	4.38	4.73	9.11	.21	.31	.52
Annual average, 1927–37	100	89.77	10.23	3.90	4.19	8.09	2.14	.45	2.59

[1] Loss.

The factory and net margins of profit on repair parts were higher than those for the motor-vehicle and accessory business only. The variations in factory profits on repair parts were from 36.64 cents to 50.01 cents per dollar of net sales. The net profits due to variations in volume of sales ranged from 9.69 to 32.28 cents per dollar of net sales. The costs, expenses, and profits on the repair-parts business, expressed in cents per dollar of net sales, are presented for each year from 1927 to 1937, inclusive, in the next table.

TABLE 81.—*Hudson Motor Car Co.—Costs, expenses, and profits per dollar of net sales of repair parts, 1927 to 1937, inclusive*

Year	Net sales of repair parts	Factory cost of sales	Factory profit on sales	Distribution and general administrative	Net profit on sales of repair parts
	Cents	*Cents*	*Cents*	*Cents*	*Cents*
1927	100.00	50.83	49.17	16.89	32.28
1928	100.00	52.12	47.88	16.04	31.84
1929	100.00	53.65	46.35	17.72	28.63
1930	100.00	56.21	43.79	17.62	26.17
1931	100.00	61.22	38.78	21.31	17.47
1932	100.00	63.36	36.64	26.95	9.69
1933	100.00	49.99	50.01	26.10	23.91
1934	100.00	55.09	44.91	21.34	23.57
1935	100.00	59.14	40.86	23.34	17.52
1936	100.00	57.89	42.11	19.22	22.89
1937	100.00	60.51	39.49	19.82	19.67
Average	100.00	55.48	44.52	19.07	25.45

The average factory cost of sales for the 11-year period, 1927–37, was a little over 55 cents per dollar of sales, and the average net profits approximately 25 cents. The higher net profits in the depression years are partly the result of the relatively high volume of the sales of parts in times of unsatisfactory business conditions.

Average profits per motorcar.—It is of interest to compare the costs, expenses, and profits on an average basis per motor vehicle sold. These average figures, of course, apply to all models of vehicles sold within each calendar year and there were a number of different-priced motor vehicles sold by Hudson Motor Car Co. Therefore, these data do not apply to any particular vehicle but are illustrative of the general trend of operations. For instance, during the 11-year period, from 1927 to 1937, inclusive, the average net sales per motor vehicle was $624.46. This included $592.96 for motor vehicles, $10.33 for optional equipment or accessories, $5.66 for loading, and $15.51 for advertising. The sales of replacement parts were not included. The average net sales per motor vehicle, including accessories, loading, and advertising, varied from $499.90 to $660.26 for a calendar year during the 11-year period. Comparisons of the net sales and the gross and net profits per motor vehicle are presented in the following table:

TABLE 82.—*Hudson Motor Car Co.—Sales, cost, and expenses averaged per motor vehicle sold, for the motor vehicle and accessory business only, excluding repair parts, by calendar years, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	Average, 1927-37
Sales—Gross billing, less trade discounts:												
Hudson, passenger vehicles	$1,000.74	$1,003.51	$892.64	$808.92	$777.45	$831.60	$751.58	$647.65	$643.69	$656.59	$702.08	$848.04
Essex and Terraplane, passenger vehicles	534.52	536.80	536.61	550.81	493.32	481.57	467.31	503.01	501.05	516.61	546.50	527.34
Essex, Dover, and Terraplane, commercial			545.11	290.50	225.56	229.66	380.51	426.58	454.42	472.48	498.24	457.46
All motor vehicles	645.86	623.31	620.87	631.38	574.85	540.33	482.85	546.78	542.03	543.62	571.16	600.58
Less adjustments and allowances	.35	[1].02	2.66	7.40	8.35	17.45	23.00	19.84	18.36	18.74	19.53	7.62
Net sales of motor vehicles	645.51	623.33	618.21	623.98	566.50	522.88	459.85	526.94	523.67	524.88	551.63	592.96
Net sales of options or accessories	1.36	4.09	15.02	24.93	18.49	11.37	24.29	14.05	33.59	33.55	34.94	10.33
Revenue from loading	5.14	6.05	5.45	7.90	3.21	4.27	4.18	5.15	5.43	5.30	7.52	5.66
Revenue from advertising	5.83	4.88	15.31	3.45	16.50	8.46	11.58	14.85	14.55	14.64	14.52	15.51
Total net sales	657.84	638.35	653.99	660.26	604.70	546.98	499.90	560.99	577.24	578.37	608.61	624.46
Factory cost of motor vehicles sold	567.33	548.81	563.90	574.08	567.93	546.72	490.90	534.22	484.98	479.32	523.53	544.15
Factory cost of optional equipment or accessories sold	.85	2.70	10.89	12.91	8.81	7.26	20.38	8.57	25.76	21.41	23.41	10.29
Loading expense	6.71	7.26	6.77	9.30	4.44	4.47	3.66	4.98	3.66	3.24	4.99	6.11
Total factory cost of sales	574.89	558.77	581.56	596.29	581.18	558.45	514.94	547.77	514.40	503.97	551.93	560.55
Gross profits	82.95	79.58	72.43	63.97	23.52	[1]11.47	[1]15.04	13.22	62.84	74.40	56.68	63.91
Commercial expense, excluding advertising	15.89	19.76	21.21	36.37	55.13	68.46	54.71	31.51	26.64	23.82	28.79	26.18
Advertising expense	17.46	17.00	18.97	41.06	19.30	61.01	51.66	30.76	33.00	23.31	26.64	24.37
Total commercial expense	33.35	36.76	40.18	77.43	74.43	129.47	106.37	62.27	59.64	47.13	55.43	50.55
Net profit on sales of motor vehicles, accessories and options	49.60	42.82	32.25	[1]13.46	[1]50.91	[1]140.94	[1]121.41	[1]49.05	3.20	27.27	1.25	13.36
Other income, net [2]	3.16	3.23	3.49	3.06	2.98	2.49	2.09	1.49	1.94	1.75	1.90	2.81
Net profit from motor-vehicle business excluding repair parts [2]	52.76	46.05	35.74	[1]10.40	[1]47.93	[1]138.45	[1]119.32	[1]47.56	5.14	29.02	3.15	16.17

[1] Loss.

[2] Other income (net) included principally cash discount on purchases which was assumed for the purpose of this tabulation, to apply only to the motor vehicle and accessory business, excluding the repair-parts business.

The foregoing table shows that the gross profit per motor vehicle before deducting distribution and administrative expenses, decreased from $82.95 in 1927, to $23.52 in 1931. In 1932 and 1933, there were losses of $11.47 and $15.04, respectively. From 1934 to 1936, the gross profit increased from $13.22 to $74.40, and dropped to $56.68 in 1937. In 1937, the Hudson plants were closed for 5 weeks on account of labor difficulties. The net profit per motor vehicle from the sales of motor vehicles and accessories, excluding repair parts, averaged $16.17 for the 11-year period, and ranged from a profit of $52.76 in 1927, to a loss of $138.45 per motor vehicle in 1932. Losses were shown from 1930 to 1934, inclusive, and profits of $5.14, $29.02, and $3.15 per motor vehicle were made during 1935, 1936, and 1937, respectively.

Capital turn-over.—The variations in profits from year to year were primarily caused by the range in the annual volume of sales. The changes in the investment to some extent influenced the rates of return but in general the resulting high profits some years and large losses other years were reflected in corresponding rates of return. The turn-over of capital ranged from a low of 0.75 times in 1932 to a high of 4.77 times in 1929. The rapidity of capital turn-over is common to the industry. Raw materials are generally purchased on 90-day terms while the motor vehicles are sold for cash immediately after they are assembled. The high rate of turn-over of capital during profitable years is an important factor in accounting for the high rates of return. Comparisons of the investments, sales, capital turn-over, ratios of net profit and rates of return of Hudson Motor Car Co. are presented in the following tabulation:

TABLE 83.—*Turn-over of capital correlated to rates of return, 1927 to 1937, inclusive*

Year	Average investment in motor-vehicle business	Net sales	Annual turn-over of capital	Ratio of net profit to net sales	Rate of return on investment
			Times	*Percent*	*Percent*
1927	$39,528,914	$187,298,737	4.74	8.73	41.30
1928	41,522,794	185,852,157	4.48	7.97	35.69
1929	42,487,937	202,723,252	4.77	6.15	29.35
1930	41,555,297	78,992,453	1.90	[1] .19	[1] .36
1931	34,104,603	38,426,377	1.13	[1] 5.92	[1] 6.66
1932	31,127,200	23,346,527	.75	[1] 23.10	[1] 17.33
1933	25,414,623	20,883,968	.82	[1] 21.01	[1] 17.27
1934	24,758,439	48,022,226	1.94	[1] 6.91	[1] 13.40
1935	26,923,518	58,237,793	2.16	1.62	3.50
1936	29,390,791	71,889,455	2.45	5.88	14.39
1937	29,066,577	68,291,991	2.35	1.59	3.73
Average	33,261,881	89,451,358	2.69	3.49	9.40

[1] Loss.

Although 1937 automobile sales were exceeded only by those of 1929, Hudson showed lower net sales and a much lower rate of return on investment for 1937, as compared with 1936. This result was partly due to higher cost of manufacture and partly to the fact that the Hudson plants were idle for 5 weeks during the period of heaviest automobile sales.

SECTION 3. NASH-KELVINATOR CORPORATION

Introduction.—Nash-Kelvinator Corporation and its predecessor, Nash Motors Co., have been among the more important independent motor-vehicle manufacturers during the last 23 years. The production of motor vehicles increased from 12,179 units for the 16 months ending 1917, to a maximum of 124,038 in 1927. In that year, 1927, Nash produced 3.65 percent of the Nation's total output. During the depression, Nash was forced to curtail its production sharply, and it lost both in number of units produced and in its percentage of the national total. In 1933 Nash produced only 11,752 motor vehicles. Beginning in 1934 its production increased steadily to 72,822 motor vehicles in 1937. This was the largest annual total since 1929. In 1938 the registration of new Nash motor vehicles totaled 31,814, or 1.68 percent of the Nation's total. From August 1916 to December 31, 1938, Nash manufactured nearly 1,200,000 motor vehicles.

Organization of the company.—The Nash Motors Co. was organized in 1916 by Charles W. Nash and his financial backers, Lee, Higginson & Co., to acquire the assets and business of Thomas B. Jeffery Co., Kenosha, Wis., manufacturers of automobiles and trucks. The Jeffery Co. was established in 1901, for the manufacture and sale of Rambler automobiles. Thomas B. Jeffery, the organizer, died in 1910, but the business had been continued by his wife and sons until its sale to Charles W. Nash and Lee, Higginson & Co.

The minutes of the board of directors of the Nash Motors Co., held August 10, 1916, show that the following action was unanimously taken:

> Whereas Messrs. Lee, Higginson & Co. and Charles W. Nash are the owners of all outstanding stock of the Thomas B. Jeffery Co., of Kenosha, Wis., which is a going concern actively carrying on the business of the manufacture and sale of automobiles and trucks under their direction, and have offered to transfer, deliver, and turn over to this company all the business and assets of the Thomas B. Jeffery Co., subject to the assumption of its liabilities, together with all said outstanding stock of the company, in exchange and full payment for 50,000 shares of Nash Motors preferred stock of the aggregate par value of $5,000,000 and 49,990 shares of Nash Motors common stock without par value and have caused appropriate corporate action to be taken by the Thomas B. Jeffery Co. authorizing such transfer of assets; and
>
> Whereas said assets of the Thomas B. Jeffery Co. consist of its automobile- and truck-manufacturing plants situated in Kenosha, Wis., raw materials, manufactured automobiles and trucks, parts, accessories, etc., cash, accounts receivable, and miscellaneous investments; all being subject to the existing liabilities of said company incurred in the ordinary course of business; and said property is suitable for the purposes of this corporation; and
>
> Whereas said property and assets less said liabilities incurred in the ordinary course of business are of a value of $5,049,990 and more; it is accordingly
>
> *Resolved*, That the foregoing offer be approved and submitted to the stockholders of this company with the recommendation of the board of directors that the same be accepted; and it is hereby declared advisable to issue 49,990 shares of common stock without par value and 50,000 shares of preferred stock of the aggregate par value of $5,000,000, for the said property and assets of the Thomas B. Jeffery Co. and all its outstanding shares of stock, and to assume all liabilities of that company.

These same minutes provided for the calling of a meeting of the stockholders of the corporation, provided the consent of all stockholders was secured, to be held August 11, 1916, at 11 o'clock, at the principal office of the company at 1409 Continental Building, Baltimore, Md.

In a circular dated July 31, 1916, Lee, Higginson & Co. made a public offer of the sale of the 50,000 shares ($100 par value) of the preferred stock and of 12,500 shares of the common stock in blocks consisting of 4 shares of preferred stock and 1 share of common stock, at a unit price of $400.

An examination of the records of the Jeffery Co. at the time of the acquisition of its stock by Charles W. Nash and Lee, Higginson & Co., and a comparison with the books of account of Nash Motors Co., as of August 16, 1916, shows that the real estate, buildings, and equipment (less reserve for depreciation), as carried on the books of the Jeffery Co., were $1,302,475 less than the amount at which this item was entered on the books of the new corporation. The other assets were recorded at $18,021 less than on the books of the Nash Co., making a difference in the total assets of $1,284,454.

Comparison of net assets and net worth of Nash Motors Co. at organization with Thomas B. Jeffery Co.—The following tabulation compares the ledger value of net assets and the net worth of Thomas B. Jeffery Co., as of August 15, 1916, with the ledger value of the net assets and net worth of the Nash Motors Co., as of August 16, 1916:

Item	Thomas B. Jeffery Co. as of Aug. 15, 1916	Nash Motors Co. as of Aug. 16, 1916	Increase or decrease
Net assets:			
Real estate, buildings, and equipment (less equipment (less reserve for depreciation)	$1,549,190	$2,851,665	$1,302,475
Other assets (net)	2,986,806	2,968,785	[1] 18,021
Total net assets	4,535,996	5,820,450	1,284,454
Net worth:			
Capital stock	3,000,000	5,050,000	2,050,000
Surplus	1,535,996	770,450	[1] 765,546
Net worth	4,535,996	5,820,450	1,284,454

[1] Decrease.

The amount of the excess of the ledger value of real estate, buildings, and equipment (less reserve for depreciatoin), as recorded on the books of Nash Motors Co., over the amount at which this item was carried on the books of Thomas B. Jeffery Co., as of August 15, 1916, amounted to $1,302,475. Other net assets were recorded at $18,021 less on the books of Nash Motors Co. than on the books of Thomas B. Jeffery Co., making the net assets $1,284,454 in excess of the ledger value of net assets of Nash Motors Co.

Capital stock.—The net worth of capital stock was increased from $3,000,000 for Thomas B. Jeffery Co., to $5,050,000 for Nash Motors Co., an increase of $2,050,000, while the surplus was decreased from $1,535,996 for Thomas B. Jeffery Co. to $770,450 for Nash Motors Co., a decrease of $765,546. The excess of the net worth, as shown by the books of Nash Motors Co., over that of Thomas B. Jeffery Co. was $1,284,454.

The amount of the excess in the ledger value of the total net assets and the total net worth of Nash Motors Co., as of August 16, 1916, over that of Thomas B. Jeffery Co., as of the day before, was subsequently reduced substantially through retirements. In addition, Nash Motors Co. accrued depreciation on the book value of the depreciable property so that at September 30, 1937, the value of this excess, less the applicable reserve for depreciation, was estimated at $262,577.

Expansion of manufacturing activities.—Immediately after its acquisition of the properties of Thomas B. Jeffery Co., Nash Motors Co. began an active program of expansion to provide for a larger volume of business. The company, at that time, manufactured six-cylinder passenger cars, 1-ton, 2-ton, and quad trucks. The expansion of the passenger-car business was delayed, owing to the fact that most of the company's manufacturing facilities were devoted to the production of quad trucks during the World War period. In 1919 Nash Motors Co. again resumed full production of passenger cars.

Although the property acquired from the Thomas B. Jeffery Co. included a body plant, this plant was not equipped to supply the increasing demand for closed automobile bodies which developed rapidly after 1919. Consequently, in order to obtain an established and adequate source of supply for automobile bodies, Nash Motors Co. purchased a one-half interest in Seaman Body Corporation, of Milwaukee, Wis. This purchase was made in October 1919. Subsequently, in 1936, the remaining 50 percent interest in the Seaman Body Corporation was purchased by Nash Motors Co., and in 1938 Nash-Kelvinator Corporation absorbed by merger Seaman Body Corporation. Prior to 1921, Seaman Body Corporation manufactured bodies for Velie, Booth, and Sterling automobiles and for motorcycle side cars. Since 1919, the plant of Seaman Body Corporation has manufactured bodies for Nash automobiles and, after Nash Motors discontinued the operations of its own body plant, Seaman Body Corporation was the sole source of automobile-body supply.

In 1919, in line with its expansion program, Nash Motors Co. purchased a tract of land at Milwaukee and erected a plant for the production of a line of four-cylinder automobiles. Later this plant was used for the production of a new line of six-cylinder cars. This plant was closed in 1931, and the machinery and equipment removed. The land and buildings remained on the books of Nash-Kelvinator Corporation and, as of September 30, 1937, were carried at a depreciated value of $562,236.

Beginning in 1921, Nash Motors Co. became involved in an unprofitable venture. Lafayette Motors Co. was organized in 1919, to manufacture and sell a high-priced V–8 motorcar. The sale of the capital stock of this company was underwritten by Lee, Higginson & Co. who insisted that Mr. Nash be made president of the new company. Soon after Lafayette Motors Co. began production it encountered financial difficulties and large loans were obtained from Nash Motors Co. In 1922 the Lafayette Motors Co. was reorganized and Nash Motors Co. underwrote the issue of new stock to the extent of $2,020,000, all of which it was required to take, giving it control of Lafayette Motors Co.

In the meantime, the Lafayette operations were moved from its plant at Indianapolis to the Nash plant at Milwaukee. Notwithstanding this transfer of manufacturing operations the company continued to lose heavily, and, in 1924, it went into receivership. Nash Motors Co. lost its entire investment of over $2,000,000 in the Lafayette Motors Co., salvaging only the copyrighted name "Lafayette," which Nash Motors Co. began to use several years later as the name of a new low-priced six-cylinder car. At the present time, Nash

Motors Co. produces two series of Lafayette cars; namely, Nash Lafayette DeLuxe series and Nash Lafayette special series.

In 1924 Nash Motors Co. caused to be organized Ajax Motors Co., to manufacture a newly designed light six-cylinder automobile. The plant of the former Mitchell Motors Co., at Racine, Wis., was purchased at a receiver's sale and was equipped for the manufacture of this new car. Ajax Motors Co. began production in 1925, and continued as a separate corporation although it was wholly owned by Nash Motors Co. until December 1, 1926, when it was merged with the Nash Motors Co. The production of automobiles was continued at the Racine, Wis., plant until August 1938, when it was closed because of labor difficulties.

In addition to the purchase of existing plants, Nash Motors Co. made extensive improvements and enlargements as its manufacturing activities necessitated. As of September 30, 1937, the undepreciated ledger value of the real estate, buildings, machinery, general equipment, office furniture and fixtures, construction and idle property of Nash Division of Nash-Kelvinator Corporation was $8,387,830, the depreciation reserve amounted to $4,736,526, leaving a depreciated value of total real estate, buildings, equipment, etc., of $3,651,304, as is shown in the following statement:

Classification	Total amount	Reserve for depreciation	Net amount
Real estate	$326, 953		$326, 953
Buildings	2, 348, 398	$1, 431, 107	1, 417, 291
Machinery	2, 557, 446	2, 329, 478	227, 968
General equipment	1, 468, 068	557, 641	910, 427
Office furniture and fixtures	24, 399	9, 741	14, 658
Construction	191, 771		191, 771
	7, 417, 035	4, 327, 967	3, 089, 068
Idle property	970, 795	408, 559	562, 236
Total real estate, buildings, and equipment	8, 387, 830	4, 736, 526	3, 651, 304

Merger of Kelvinator Corporation into Nash Motors Co.—In accordance with an agreement of merger, dated November 17, 1936, Kelvinator Corporation, Detroit, Mich., manufacturers of electric refrigerators, was merged by the Nash Motors Co. as of January 5, 1937. At the same time, the latter changed its corporate title to Nash-Kelvinator Corporation. The merger was effected by the issue of one and three-eighths shares of capital stock by Nash-Kelvinator Corporation for each share of capital stock of Kelvinator Corporation, the shares of capital stock of the Nash Motors Co. being unaffected. However, the aggregate capital stock and surplus of the constituent companies was not changed, as shown by the following tabulation:

NET WORTH OF CONSTITUENT COMPANIES

	Shares	Amount
Nash Motors Co.		
Capital stock	2,730,000	$13,887,000.00
Capital surplus		839,909.00
Earned surplus		15,507,781.00
Total net worth		30,234,690.00
Net worth per share		11.07
Kelvinator Corporation		
Capital stock	1,196,800	12,468,401.00
Capital surplus		1,513,061.00
Earned surplus		3,550,509.00
Total net worth		17,531,971.00
Net worth per share		14.65
Combined net worth		47,766,661.00

NET WORTH OF NASH KELVINATOR CORPORATION

	Shares	Amount
Capital stock	4,375,600	$21,878,000.00
Capital surplus		6,830,371.00
Earned surplus		19,058,290.00
Total net worth		47,766,661.00
Net worth per share		10.92

Activities of Nash Division.—The Nash Division of Nash-Kelvinator Corporation manufactures and distributes medium and low-priced automobiles. It is currently manufacturing and selling 4 series of automobiles; namely, the Nash Ambassador eight series, the Nash Ambassador six series, the Nash Lafayette de luxe series, and the Nash Lafayette special series. The 2 Nash Lafayette series are six-cylinder motorcars. The 1939 products consist of 21 models, 9 of which are priced next to the lowest-priced cars.

Since August 1938 the company has operated only its plant at Kenosha, Wis. Its plant at Racine, Wis., was closed because of labor difficulties. The Nash Division also operates a body plant in Milwaukee. This plant was wholly acquired from the Seaman Body Corporation in 1936. From 1919 to 1936, the Nash Motors Co., predecessor of Nash-Kelvinator Corporation, had owned a 50 percent interest in Seaman Body Corporation. The remaining 50 percent was acquired in July 1936.

In January 1937 Kelvinator Corporation, Detroit, Mich., manufacturers of electrical refrigerators, was merged with the Nash Motors Co. and the corporate name changed to Nash-Kelvinator Corporation. In this report the use of the term "Nash Company," or "Nash Motors," includes both the Nash Motors Co. and the Nash Division of Nash-Kelvinator Corporation.

This report covers, in general, the activities of the Nash Motors Co. from its organization and, in detail, the operations of this company from December 1, 1926, to September 30, 1937. This period includes 10 full fiscal years and a 10-month fiscal period in 1937, which was caused by the change of the closing of the fiscal year from November 30 to September 30.

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Officers and directors.—The list which follows gives the names of the officers and directors of Nash Motors Co., as of November 30, 1917, and the names of the officers and directors of Nash-Kelvinator Corporation, as of September 30, 1937.

November 30, 1917:
- Charles W. Nash, president and director.
- Walter H. Alford, vice president and comptroller.
- George H. Eddy, treasurer.
- Horace J. Mellum, secretary.
- James J. Storrow, chairman of board and director.
- Frederic W. Allen, director.
- Emory W. Clark, director.
- Robert F. Herrick, director.
- Charles T. Jeffery, director.
- Thomas M. Kearney, director.
- Samuel F. Pryor, director.
- Edward A. Taft, director.

September 30, 1937:
- Charles W. Nash, chairman of board and director.
- G. W. Mason, president and director.
- W. F. Armstrong, vice president.
- H. G. Perkins, vice president and director.
- C. H. Bliss, vice president, sales, Nash Motors Division.
- H. W. Burritt, vice president, sales, Kelvinator Division.
- N. E. Wahlberg, vice president, engineering, Nash Motors Division.
- R. B. Elliott, vice president, production, Nash Motors Division.
- Horace J. Mellum, secretary.
- Howard A. Lewis, treasurer.
- George H. Eddy, assistant treasurer.
- G. V. Egan, assistant secretary and assistant treasurer.
- W. R. Crosett, comptroller.
- L. J. Holly, assistant comptroller.
- J. J. Timpy, assistant comptroller.
- P. J. Ebbott, director.
- H. T. Pierpont, director.
- Ernest Stauffen, Jr., director.
- James T. Wilson, director.

The only officers and directors of Nash-Kelvinator Corporation, as of September 30, 1937, who were officers or directors of Nash Motors Co., as of November 30, 1917, were Charles W. Nash, chairman of the board and director; George H. Eddy, assistant treasurer; and Horace J. Mellum, secretary.

Comparative balance sheets.—As an indication of the recent growth of the Nash Motors Co., there is presented a comparative balance sheet of Nash Motors Co., as of November 30, 1926, to November 30, 1936, inclusive, and of the Nash Motors Division of Nash-Kelvinator Corporation, as of September 30, 1937.

TABLE 84.—*Comparative balance sheet of Nash Motors Co., 1926 to 1937, inclusive*

	Nov. 30, 1926	Nov. 30, 1927	Nov. 30, 1928	Nov. 30, 1929	Nov. 30, 1930	Nov. 30, 1931	Nov. 30, 1932	Nov. 30, 1933	Nov. 30, 1934	Nov. 30, 1935	Nov. 30, 1936	Sept. 30, 1937
ASSETS												
Current assets:												
Cash	$21,246,896	$23,344,163	$20,947,663	$17,214,333	$13,947,892	$12,003,188	$4,348,768	$2,374,969	$1,972,363	$3,765,546	$3,460,514	$1,665,655
Notes receivable	40,417	18,000	63,000	321,000	200,000	234,600	124,400	102,500				
Accounts receivable	3,305,402	3,201,435	6,533,529	5,160,272	1,996,709	1,342,210	511,671	689,134	403,572	1,131,244	1,430,038	1,464,749
Accrued interest receivable		283,461	297,295	402,238	327,928	329,753	384,981	424,872	374,973	258,830	197,363	5,417
Inventories	6,708,383	4,100,814	5,809,040	5,246,094	2,768,024	1,347,702	1,022,820	2,077,014	2,137,741	2,733,120	4,225,864	8,349,528
Total current assets	31,301,098	30,947,873	33,650,527	28,343,937	19,240,553	15,257,453	6,392,640	5,668,489	4,888,649	7,888,740	9,313,779	11,485,340
Prepaid and deferred expenses	82,332	77,732	69,212	537,400	788,529	89,489	319,873	629,411	416,274	486,938	273,374	513,807
Investments:												
U. S. Government securities	15,445,952	18,930,171	20,297,071	24,797,071	24,147,071	24,545,227	27,785,508	27,540,399	25,284,873	20,754,969	17,545,569	10,006,724
Investments in affiliated companies	255,031	255,031	457,031	457,031	457,031	457,031	750,431	804,908	1,049,459	1,086,323	3,106,052	3,281,574
Other investments	645,016	658,795	829,016	790,415	675,069	625,100	1,183,235	668,512	533,053	271,411	184,065	158,239
Treasury stock	54,915	1	1	1	750,551	465,690	1,016,075	1,578,076	1,518,875	1,393,175	1,476,975	419,000
Total investments	16,400,914	19,843,998	21,583,119	26,044,518	26,029,722	26,093,048	30,735,249	30,591,895	28,386,260	23,505,878	22,312,661	13,865,557
Real estate, plant, and equipment	14,910,366	15,900,601	15,020,091	15,838,822	15,265,190	13,980,104	13,171,208	12,450,085	11,166,583	8,960,026	7,906,065	8,387,830
Goodwill					1	1	1	1	1	1	1	1
Total assets	62,694,710	66,770,204	70,322,949	70,764,677	61,323,995	55,420,095	50,618,971	49,339,881	44,857,767	40,841,613	39,805,880	34,252,5[illegible]4
LIABILITIES												
Current liabilities:												
Accounts payable	2,512,515	1,596,911	2,890,101	2,900,691	1,506,769	1,135,540	754,628	2,146,900	1,306,557	2,335,898	3,316,899	5,557,882
Accrued taxes	279,960	187,051	199,470	223,315	213,696	189,856	140,672	165,441	100,628	201,117	196,169	230,853
Total current liabilities	2,792,475	1,783,962	3,089,571	3,124,006	1,720,465	1,325,396	895,300	2,312,341	1,407,185	2,537,015	3,513,068	5,788,735
Reserves:												
Reserve for depreciation	6,285,728	7,460,602	6,804,033	6,677,892	6,922,536	7,160,902	7,410,291	7,619,326	7,166,480	5,592,983	4,909,986	4,736,526
Reserve for bad debts	124,749	43,346	32,138	18,260	18,510	18,010	33,010	18,010	18,010	18,010	18,010	18,010
Reserve for Federal and State income taxes	10,320,136	7,439,146	6,667,405	5,735,533	4,037,203	2,524,005	1,385,190	1,120,899	1,120,899		40,000	123,000
Reserve for contingencies	4,275,613	2,300,030	1,682,135	1,516,954	782,831	939,339	408,383	383,281	372,330	1,000,000	1,000,000	1,000,000
Sundry reserves	332,659	159,023	23,487	34,070	233,324	442,535	298,481	205,551	419,770	111,622	90,125	121,673
Total reserves	21,338,885	17,402,147	15,209,198	13,982,709	11,994,404	11,084,791	9,535,355	9,347,067	9,097,489	6,722,615	6,058,121	5,999,209
Capital stock, common	13,887,000	13,887,000	13,887,000	13,887,000	13,887,000	13,887,000	13,887,000	13,887,000	13,887,000	13,887,000	13,887,000	

TABLE 84.—*Comparative balance sheet of Nash Motors Co., 1926 to 1937, inclusive*—Continued

	Nov. 30, 1926	Nov. 30, 1927	Nov. 30, 1928	Nov. 30, 1929	Nov. 30, 1930	Nov. 30, 1931	Nov. 30, 1932	Nov. 30, 1933	Nov. 30, 1934	Nov. 30, 1935	Nov. 30, 1936	Sept. 30, 1937
LIABILITIES—continued												
Surplus:												
Earned surplus	$23, 836, 441	$32, 857, 186	$37, 297, 271	$38, 931, 053	$32, 882, 217	$28, 282, 999	$25,461,407	$22,953,564	$19,626,184	$16,855,074	$15,507,782	$1, 222, 049
Capital surplus	839, 909	839, 909	839, 909	839, 909	839, 909	839, 909	839, 909	839, 909	839, 909	839, 909	838, 909	
Total surplus	24, 676, 350	33, 697, 095	38, 137, 180	39, 770, 962	33, 722, 126	29, 122, 908	26, 301, 316	23, 793, 473	20, 466, 093	17, 694, 983	16, 347, 691	1, 222, 049
Nash Division investment												21, 242, 591
Total liabilities	62, 694, 710	66, 770, 204	70, 322, 949	70, 764, 677	61, 323, 995	55, 420, 095	50, 618, 971	49, 339, 881	44, 857, 767	40, 841, 613	39, 805, 880	34, 252, 584

Investments in affiliated companies.—As shown by table 84, the investment in affiliated companies, at September 30, 1937, amounted to $3,281,574, which represented the investment in capital stocks of the following companies, after deduction of applicable reserves:

Name of company	Date acquired	Amount
Seaman Body Corporation	1919	$2,205,915
Nash New England Co.	1928	202,000
Nash Philadelphia Co.	1932	1
Nash Motors Co. of Pittsburgh	1933	16,780
Nash Sales, Inc., Chicago	1932	120,740
Nash Motors Co., New York	1935	[1] 736,138
Total		$3,281,574

[1] Including notes receivable.

Real estate, plant, and equipment.—The following tabulation represents the growth and decline of the fixed capital of Nash Motors business, by years, and the reserve applicable thereto, for each year, 1926 to 1937, inclusive:

Year	Real estate, plant and equipment	Reserve applicable thereto	Net amount	Year	Real estate, plant, and equipment	Reserve applicable thereto	Net amount
1926	$14,910,366	$6,285,728	$8,624,638	1932	$13,171,208	$7,410,291	$5,760,917
1927	15,900,601	7,460,602	8,439,999	1933	12,450,085	7,619,326	4,830,759
1928	15,020,091	6,804,033	8,216,058	1934	11,166,583	7,166,480	4,000,103
1929	15,838,822	6,677,892	9,160,930	1935	8,960,026	5,592,983	3,367,043
1930	15,265,190	6,922,536	8,342,654	1936	7,906,065	4,909,986	2,996,079
1931	13,980,104	7,160,902	6,819,202	1937	8,387,830	4,736,526	3,651,304

Reserve for depreciation was accrued at the following rates:

Buildings	3 percent.
Machinery	10 percent.
Equipment	10 and 20 percent.

Fully depreciated property has been retired through the depreciation reserve.

Capital stock.—As of September 30, 1937, the total outstanding capital stock was 2,730,000 shares of common stock, at a value of $13,887,000.

A summary of the capital stock issued and outstanding at September 30, 1937, together with the consideration for which it was issued, follows:

Date	Consideration issued for—	Shares	Price per share	Amount
Aug. 16, 1916	Issued in part payment of net assets of the Thos. B. Jeffery Co.	50,000	$1	$50,000
1919	Employees' subscriptions	4,500	100	450,000
1921	do	100	100	10,000
1922	Stock dividend charged to surplus	218,400	5	1,092,000
1926	do	2,457,000	5	12,285,000
	Total	2,730,000		13,887,000

Preferred stocks have been issued and retired from time to time during the earlier years of operations. The following summaries indicate the nature of such issues and retirements:

Date	Consideration issued for—	Shares	Price per share	Amount	
				Debit	Credit
	PREFERRED				
Aug. 16, 1916	Issued in part payment of the net assets of the Thos. B. Jeffery Co.	50,000	$100		$5,000,000
1919	Exchanged for common stock	[1] 2,000	100	$200,000	
1920	do	[1] 3,000	100	300,000	
1921	do	[1] 5,000	100	500,000	
1922	do	[1] 5,000	100	500,000	
1924	Called for redemption at $110 per share	[1] 35,000	100	3,500,000	
	Total			5,000,000	5,000,000
	PREFERRED A				
Dec. 26, 1922	Stock dividend—Charged to surplus	163,800	100		16,380,000
1924	Purchased at par	[1] 6,191	100	619,100	
1924	Purchased—Premium of $9,970.30	[1] 7,557	100	755,700	
1925	Purchased—Premium of $361,873.58	[1] 69,668	100	6,966,800	
1926	Called for redemption at $105 per share	[1] 80,384	100	8,038,400	
	Total			16,380,000	16,380,000

[1] Deduction.

Earned surplus.—There is presented on page 706, in this report, a summarized statement of earned surplus additions and deductions, together with a discussion of same.

Capital surplus.—The initial surplus of $839,909 originated through the acquisition of the assets, and assumption of the liabilities on August 16, 1916, of the Thomas B. Jeffery Co., the consideration for which was 50,000 shares of common stock of no-par value and 50,000 shares of preferred stock of a par value of $100 per share.

Nash Division investment.—This item, amounting to $21,242,591, represents the transfer of capital stock, and adjusted surplus to the Nash-Kelvinator Corporation at date of merger, and is more fully discussed on page 705 of this report.

Rates of return.—A summary of investments, profits, and rates of return, for each year from 1927 to 1937, inclusive, is presented in the following table on two bases—that is, on the total investment in the business and on the investment in the motor-vehicle business. There were no borrowed funds, therefore, the stockholders investment is equivalent to the total investment.

The total investment consists of the common stock less treasury stock, surplus, reserve for contingencies, and reserve for Federal and State income taxes, less the amount of appreciation and goodwill, the latter amounting to $1. The investment in the motor-vehicle business represents the total investment less investments in United States Government securities, affiliated companies, other investments, and idle property.

The profits used in computing the rates of return on the total investment represent the net profit on sales, plus other income (net), and income from outside investments. The profit applicable to the motor-vehicle investment was the net profit on sales plus other income (net). The net profits above referred to are before provision for Federal and State income taxes.

TABLE 85.—*Nash Motors Co.—Summary of investment, profits, and rates of return, 1927 to 1937, inclusive*

	Total investment (revised)	Investment in motor-vehicle business
Average investment:		
1927	$54, 827, 794	$36, 987, 827
1928	58, 474, 500	38, 015, 973
1929	60, 280, 027	36, 721, 240
1930	55, 944, 410	30, 537, 597
1931	48, 504, 903	23, 306, 669
1932	43, 160, 443	14, 808, 609
1933	38, 971, 888	9, 123, 347
1934	35, 664, 042	7, 319, 839
1935	32, 467, 696	7, 610, 140
1936	30, 214, 767	9, 574, 347
1937	26, 215, 626	10, 707, 423
Annual average	44, 066, 063	20, 410, 274
Profits:		
1927	28, 678, 669	27, 972, 976
1928	25, 740, 682	24, 928, 816
1929	22, 267, 210	21, 219, 323
1930	9, 167, 717	8, 200, 394
1931	5, 841, 190	4, 991, 957
1932	1, 022, 485	188, 446
1933	[1] 816, 323	[1] 1, 737, 821
1934	[1] 1, 518, 147	[1] 2, 415, 219
1935	[1] 459, 568	[1] 1, 191, 071
1936	908, 110	292, 942
1937 (10 months)	655, 408	334, 783
Annual average	8, 328, 956	7, 532, 035
Rate of return:	*Percent*	*Percent*
1927	52. 31	75. 63
1928	44. 02	65. 57
1929	36. 94	57. 78
1930	16. 39	26. 85
1931	12. 04	21. 42
1932	2. 37	1. 27
1933	[1] 2. 09	[1] 19. 05
1934	[1] 4. 26	[1] 33. 00
1935	[1] 1. 42	[1] 15. 65
1936	3. 01	3. 12
1937	[2] 3. 00	[2] 3. 75
Annual average	[2] 18. 90	[2] 36. 90

[1] Loss.
[2] Adjusted to annual basis.

The rates of return on the total investment rapidly decreased from 52.31 percent in 1927 to 2.37 percent in 1932, and further declined to a loss of 4.26 percent in 1934. After a loss of 1.42 percent in 1935, the trend of losses was reversed and a profit was realized during 1936 and 1937 of 3.01 and 3.0 percent, respectively. The annual average rate of return on the total investment for 11-year period was 18.9 percent (year 1937 representing a period of 10 months, profit adjusted to an annual basis by addition of 20 percent).

The rates of return on the investment in the motor-vehicle business ranged downward from a peak of 75.63 percent in 1927 to a return of 1.27 percent in 1932, with a loss occurring during the years 1933, 1934, and 1935 of 19.05, 33.0, and 15.65 percent, respectively, after which the trend was upward to a return of 3.12 percent for 1936 and 3.75 percent for 1937 (the latter period being adjusted to an annual basis as discussed in preceding paragraph). The annual average rate of return on the investment in the motor-vehicle business for the 11-year adjusted period was 36.90 percent.

Investments.—As shown in the preceding discussion of rates of return, the investments were computed on two bases—on the total investment in the business and on the investment in the motor-vehicle business. The former consists of the common stock less stock held in the treasury, surplus, reserve for contingencies, and reserve for Federal and State income taxes, less the amount of appreciation and goodwill. The investment in the motor vehicle business consists of the total investment, less amount of outside investments. The following table shows the average investments on each basis for each of the years 1927 to 1937, inclusive:

TABLE 86.—*Nash Motors Co.—Summary of investment,[1] 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932
Common stock outstanding	$13,859,542	$13,886,999	$13,886,909	$13,511,724	$13,278,880	$13,146,118
Nash Motors Division investment:						
Capital surplus	839,909	839,909	839,909	839,909	839,909	839,909
Earned surplus	28,346,813	35,077,228	38,114,162	35,906,635	30,582,608	26,872,203
Reserve for contingencies	3,287,822	1,991,083	1,599,545	1,149,893	861,085	673,861
Reserve for Federal and State income taxes	8,879,641	7,053,276	6,201,469	4,886,368	3,280,604	1,954,597
Total investment	55,213,727	58,848,495	60,642,084	56,294,529	48,843,086	43,486,688
Deduct:						
Appreciation	385,933	373,995	362,057	350,119	338,182	326,244
Goodwill					1	1
Total	385,933	373,995	362,057	350,119	338,183	326,245
Total investment, as revised	54,827,794	58,474,500	60,280,027	55,944,410	48,504,903	43,160,443
Deduct, outside investments:						
U. S. Government securities	17,188,062	19,613,621	22,547,071	24,472,071	24,346,149	26,165,368
Investments in affiliated companies		101,000	202,000	202,000	202,000	348,700
Other investments	651,905	743,906	809,716	732,742	650,085	904,168
Idle property						933,598
Total outside investments	17,839,967	20,458,527	23,558,787	25,406,813	25,198,234	28,351,834
Investment in motor-vehicle business	36,987,827	38,015,973	36,721,240	30,537,597	23,306,660	14,808,609

	1933	1934	1935	1936	1937
Common stock outstanding	$12,589,925	$12,338,525	$12,430,975	$12,451,925	$5,995,513
Nash Motors Division investment					10,621,295
Capital surplus	839,909	839,909	839,909	839,909	419,954
Earned surplus	24,207,485	21,289,874	18,240,629	16,181,428	8,364,916
Reserve for contingencies	395,832	377,805	686,165	1,000,000	1,000,000
Reserve for Federal and State income taxes	1,253,045	1,120,899	560,450	20,000	81,500
Total investment	39,286,196	35,967,012	32,758,128	30,493,262	26,483,178
Deduct:					
Appreciation	314,307	302,369	290,431	278,494	267,551
Goodwill	1	1	1	1	1
Total	314,308	302,370	290,432	278,495	267,552
Total investment, as revised	38,971,888	35,664,642	32,467,696	30,214,767	26,215,626
Deduct, outside investments:					
U. S. Government securities	27,662,954	26,412,636	23,019,921	19,150,269	13,776,147
Investments in affiliated companies	522,639	672,152	812,860	865,715	987,898
Other investments	925,873	600,783	402,232	227,738	171,152
Idle property	737,075	659,232	622,543	596,698	573,006
Total outside investments	29,848,541	28,344,803	24,857,556	20,840,420	15,508,203
Investment in motor-vehicle business	9,123,347	7,319,839	7,610,140	9,374,347	10,707,423

[1] Average of investments at beginning and end of year.

As shown by the foregoing table, the total average investment before deduction of appreciation and goodwill increased from $55,213,727 in 1927, to $60,642,084 in 1929, and decreased each year thereafter to an amount of $26,483,178 in 1936, or a decrease in the average investment during the 11-year period of $28,730,549. This decline was partly accounted for by the decrease in the average earned surplus from $28,346,813 in 1927, to $8,364,916 in 1937, through payment of cash dividends on common stock in excess of earnings during this period in amount of $6,472,097, and a transfer of $15,507,782 earned surplus to Nash Division of Nash-Kelvinator Corporation in January 1937. Other earned surplus additions and deductions are submitted later in this report. The reserves for contingencies, and Federal and State income taxes likewise decreased during this period, $2,287,822 and $8,798,141, respectively.

The following tabulation represents the transfer of investments from Nash Motors Co. to the Nash-Kelvinator Corporation in January 1937:

		Debit	Credit
Capital stock	$13,650,000		
Capital surplus	237,000		
		$13,887,000	
Initial surplus		839,909	
Earned surplus		15,507,781	
To reduce carrying value of 83,800 shares of Nash Treasury Stock to $5 per share			$1,057,975
To transfer control for current accounts			7,927,812
To write down carrying value of Nash stock held by Seaman Body Corporation (a subsidiary)			6,312
Total		30,234,690	8,992,099
Balance transferred to Nash-Kelvinator Corporation			21,242,591
		30,234,690	30,234,690

The appreciation of $385,933 deducted from total investment in 1927 represented the undepreciated balance of $1,302,475 which was a write-up of Thomas B. Jeffery Co. assets in 1916 and which appreciation had been subsequently depreciated to an average of $267,551 in 1937.

As will be noted from table 86, the investment in the motor-vehicle business followed the same downward trend as the total investment, except for the years 1936 and 1937. From 1927 to 1929, variation of investment in the motor vehicle business was small with a decline in each succeeding year through 1934, the decrease from 1929 to 1934, amounting to $29,401,401, or 80.1 percent. This decrease was accounted for principally by reductions in the following accounts:

Capital stock outstanding	$1,548,474
Earned surplus	16,824,288
Reserve for contingencies	1,221,740
Reserve for Federal and State income taxes	5,080,570
Total	24,675,072
Increased investment in United States securities	3,865,565
Total	28,540,637

From 1935 to 1937, there were small increases in the motor-vehicle investment over the low of 1934. However, at the end of 1937, this investment had decreased from the peak of 1929, the amount of $26,013,817, or 70.8 percent.

Reserve for contingencies.—Provisions for reserve for contingencies were made by charges to selling expense and manufacturing expense (about equally) of approximately 10 percent of the current net profits. The reserve was charged on the company records with bonuses to executives and salary adjustments to other salaried employees. However, the reserve has been adjusted by the Commission's examiners to exclude bonuses by charge to surplus of the excess provision, and a credit to selling and manufacturing expense, with the necessary provision remaining for salary adjustments. Bonus payments were discontinued in 1932, and adjustments were not required after that date.

The following tabulation shows the amount of provision per company records, adjustments to surplus, and net provision for contingencies, 1927 to 1937, inclusive:

Year	Provision, per company records	Adjustments to surplus	Net provision	Year	Provision, per company records	Adjustments to surplus	Net provision
1927	$2,587,483	$2,045,703	$541,780	1933	$35,000		$35,000
1928	1,611,414	1,084,184	527,230	1934	60,000		60,000
1929	1,411,663	811,483	600,180	1935	101,911		101,911
1930	670,745	72,755	597,990	1936	60,000		60,000
1931	516,564	190,264	326,300	1937	30,000		30,000
1932	103,078	[1] 83,610	186,688				

[1] Deduction.

Transfers between this reserve and other reserves or surplus have been made from time to time. However, these do not affect the provision or expense account.

Surplus.—The following table presents a summary of earned surplus additions and deductions for each of the years 1927 to 1937, inclusive. The surplus balance shown at the beginning and end of each year is as recorded on the company's books.

TABLE 87.—*Nash Motors Co.—Comparative summary of earned surplus additions and deductions, 1927 to 1937, inclusive*

	Nov. 30, 1927	Nov. 30, 1928	Nov. 30, 1929	Nov. 30, 1930	Nov. 30, 1931	Nov. 30, 1932
Balance, beginning of year	$23,836,441	$32,857,186	$37,297,271	$38,931,053	$32,882,217	$28,282,999
Additions:						
Profit or loss for year	24,088,693	21,342,542	18,634,302	7,618,245	4,850,979	1,022,485
Profit or loss on sale of capital assets				240,730	325,000	200,000
Profit or loss on sale of investments	[1] 25,625			[1] 73,405	[1] 13,860	
Profit or loss on sale of capital stock	618,286		161			
Valuation of goodwill				1		
Adjustment of taxes		[1] 113,540	166,820	4,580	809,857	
Adjustment of rebate reserve		644,703				
Adjustment of guarantee reserve						
Adjustment of reserve for contingencies						
Miscellaneous additions	6,094	24,631	976			
Total surplus additions	24,687,448	21,898,336	18,802,259	7,790,151	5,971,976	1,222,485

[1] Deduction.

TABLE 87.—*Nash Motors Co.—Comparative summary of earned surplus additions and deductions, 1927 to 1937, inclusive*—Continued

	Nov. 30, 1927	Nov. 30, 1928	Nov. 30, 1929	Nov. 30, 1930	Nov. 30, 1931	Nov. 30, 1932
Deductions:						
Cash dividends on common stock	13, 611, 000	16, 356, 000	16, 356, 000	13, 606, 900	9, 453, 500	3, 990, 200
Adjust value of treasury stock					284, 861	277, 140
Adjust value of investments		18, 067			386, 844	[1] 151, 331
Write-off losses on bank deposits						
Provisions for reserve for contingencies	2, 045, 703	1, 084, 184	811, 483	72, 755	190, 263	[1] 83, 610
Transfer to Nash Division investment						
Write-off plant and property				57, 585	254, 051	
Provision for royalty reserve						
Miscellaneous deductions	10, 000		994	101, 747	1, 675	11, 678
Total surplus deductions	15, 666, 703	17, 458, 251	17, 168, 477	13, 838, 987	10, 571, 194	4, 044, 077
Balance, end of year	32, 857, 186	37, 297, 271	38, 931, 053	32, 882, 217	28, 282, 999	25, 461, 407

[1] Deduction.

TABLE 87.—*Nash Motors Co—Comparative summary of earned surplus additions and deductions, 1927 to 1937, inclusive*—Continued

	Nov. 30, 1933	Nov. 30, 1934	Nov. 30, 1935	Nov. 30, 1936	Sept. 30, 1937	Total
Balance, beginning of year	$25, 461, 407	$22, 953, 564	$19, 626, 184	$16, 855, 074	$15, 507, 782	$23, 836, 441
Additions:						
Profit or loss for year	[1] 816, 323	[1] 1, 518, 147	[1] 459, 568	868, 111	532, 408	76, 163, 727
Profit or loss on sale of capital assets		[1] 10, 382			7, 624	762, 972
Profit or loss on sale of investments	13, 950	118, 183	145, 020	362, 452	880, 579	1, 407, 294
Profit or loss on sale of capital stock						618, 447
Valuation of goodwill						1
Adjustment of taxes			[1] 5, 456	35, 774	[1] 48, 978	849, 057
Adjustment of rebate reserve						644, 703
Adjustment of guarantee reserve			300, 000			300, 000
Adjustment of reserve for contingencies	60, 000		493, 229			553, 229
Miscellaneous additions	14, 820	10, 202	335	12, 268	416	69, 742
Total surplus additions	[1] 727, 553	[1] 1, 400, 144	473, 560	1, 278, 605	1, 372, 049	81, 360, 172
Deductions:						
Cash dividends on common stock	1, 984, 650	1, 984, 650	2, 646, 200	2, 646, 724		82, 635, 824
Adjust value of treasury stock	[1] 562, 001	59, 201	[1] 25, 700	[1] 83, 800		101, 101
Adjust value of investments	116, 003	[1] 116, 615	397, 980	61, 603		712, 551
Write-off losses on bank deposits	137, 454					137, 454
Provisions for reserve for contingencies						4, 120, 778
Transfer to Nash Division investment					15, 507, 782	15, 507, 782
Write-off plant and property						311, 636
Provision for royalty reserve					150, 000	150, 000
Miscellaneous deductions	104, 184		74, 790	1, 370		306, 438
Total surplus deductions	1, 780, 290	1, 927, 236	3, 244, 670	2, 625, 897	15, 657, 782	103, 983, 564
Balance, end of year	22, 953, 564	19, 626, 184	16, 855, 074	15, 507, 782	1, 222, 049	1, 222, 049

[1] Deduction.

A summary of the earned surplus for the entire 11-year period from December 1, 1926, to September 30, 1937, inclusive, follows:

Surplus, Dec. 1, 1926	$23, 836, 441
Net income for the 11-year period	76, 163, 727
Total	100, 000, 168
Less dividends paid in cash:	
Common stock [1]	82, 635, 824
Net income after dividends	17, 364, 344
Other surplus deductions (net)	16, 142, 295
Surplus, Sept. 30, 1937	1, 222, 049

[1] Exclusive of dividends on Treasury stock.

The total surplus for the 11-year period from December 1, 1926, to September 30, 1937, decreased $22,614,392, or 94.9 percent, which represented the amount of cash dividends paid in excess of the net income from operations and other net charges to surplus. In the "other surplus deductions" shown in the foregoing summary was an amount of $15,507,782, representing the amount of earned surplus at the end of the year 1936, which was transferred to Nash Division of the Nash-Kelvinator Corporation at the date of merger of Nash Motors Co. and Kelvinator Corporation at January 1937. The amount of $15,507,782 represents 65.1 percent of the decrease in total surplus for the 11-year period or a net decrease of 29.8 percent through payment of dividends in excess of earnings and other charges to earned surplus other than the transfer of 1936 surplus balance. The amount of earned surplus remaining at September 30, 1937, represents earnings for the year 1937 amounting to $532,408 and other surplus additions and deductions amounting to $689,641.

It will be noted from the summary of earned surplus additions and deductions that the dividends paid in each of the years from 1930 to 1936, inclusive, were in excess of the net earnings for these years, consequently in those years it was necessary for the company to pay any dividends from accumulated surplus.

The following tabulation shows the amount of cash dividends paid, net profit after taxes and the excess dividend payments of net profit for each year, 1927 to 1936, inclusive.

Year	Cash dividends	Net profit after taxes	Dividends paid in excess of net profit	Year	Cash dividends	Net profit after taxes	Dividends paid in excess of net profit
1927	$13, 611, 000	$24, 088, 693	[1] $10, 477, 693	1934	$1, 984, 650	[2] $1, 518, 147	$3, 502, 797
1928	16, 356, 000	21, 342, 542	[1] 4, 986, 542	1935	2, 646, 200	[2] 459, 568	3, 105, 768
1929	16, 356, 000	18, 634, 302	[1] 2, 278, 302	1936	2, 646, 724	868, 111	1, 778, 613
1930	13, 606, 900	7, 618, 245	5, 988, 655	1937		532, 408	[1] 532, 408
1931	9, 453, 500	4, 850, 979	4, 602, 521				
1932	3, 990, 200	1, 022, 485	2, 967, 715	Total	82, 635, 824	76, 163, 727	6, 472, 097
1933	1, 984, 650	[2] 816, 323	2, 800, 973				

[1] Earnings in excess of dividends (deduction).
[2] Loss.

The dividends on the stocks held in the treasury of the company were excluded before arriving at the above amounts.

The following tabulation shows the amount of cash dividends and stock dividends paid, net profit after taxes, and the excess dividend payments of net profit for each year, 1917 to 1926, inclusive.

Year	Cash dividend	Stock dividend	Total dividends	Net profit after taxes	Excess of net profit of dividend payments
1917 [1]	$437, 500		$437, 500	$2, 577, 784	$2, 140, 284
1918	1, 400, 000		1, 400, 000	7, 931, 386	6, 531, 386
1919	1, 168, 000		1, 168, 000	5, 089, 036	3, 921, 036
1920	1, 187, 000		1, 187, 000	7, 007, 471	5, 820, 471
1921	1, 162, 350		1, 162, 350	2, 226, 078	1, 063, 728
1922	1, 136, 100		1, 136, 100	7, 613, 246	6, 477, 146
1923	2, 845, 850	$17, 472, 000	20, 317, 850	9, 280, 032	[2] 11, 037, 818
1924	3, 833, 263		3, 833, 263	9, 280, 541	5, 447, 278
1925	5, 419, 309		5, 419, 309	15, 653, 840	10, 234, 531
1926	11, 060, 908	12, 285, 000	23, 345, 908	18, 551, 324	[2] 4, 794, 584
Total	29, 650, 280	29, 757, 000	59, 407, 280	85, 210, 738	25, 803, 458

[1] For the period from Aug. 16, 1916, to Nov. 30, 1917.
[2] Dividends paid in excess of net profit.

Investment turn-over.—In previous sections of this report the investment and rates of return have been shown for the bases of investment as described. The following table shows for each of the years, 1927 to 1937, inclusive, the annual rates of turn-over of the average investment in the motor-vehicle business as related to the total net sales, together with the percentages of the net income on the motor-vehicle business of net sales and the rate of return on the motor-vehicle business.

TABLE 88.—*Nash Motors Co.—Frequency of the yearly turn-over of capital in relation to profits, 1927 to 1937, inclusive*

Year	Average investment in motor-vehicle business	Net value of sales	Annual rate of investment turn-over	Percent of net income of net sales	Rate of return
			Times	*Percent*	*Percent*
1927	$36, 987, 827	$113, 441, 804	3. 07	24. 66	75. 63
1928	38, 015, 973	120, 745, 705	3. 18	20. 65	65. 57
1929	36, 721, 240	103, 576, 898	2. 82	20. 49	57. 78
1930	30, 537, 597	51, 864, 615	1. 70	15. 81	26. 85
1931	23, 306, 669	35, 688, 304	1. 53	13. 99	21. 42
1932	14, 808, 609	15, 300, 147	1. 03	1. 23	1. 27
1933	9, 123, 347	8, 929, 539	. 98	[1] 19. 46	[1] 19. 05
1934	7, 319, 839	19, 596, 175	2. 68	[1] 12. 32	[1] 33. 00
1935	7, 610, 140	27, 728, 850	3. 64	[1] 4. 29	[1] 15. 65
1936	9, 374, 347	30, 851, 961	3. 29	. 95	3. 12
1937 (10 months)	10, 707, 423	44, 491, 029	[1] 4. 99	. 75	[2] 3. 75
Adjustment for 2 months		8, 898, 206			
Average, 11 years	20, 410, 274	52, 828, 476	2. 59	14. 25	36. 90

[1] Loss.
[2] Adjusted to annual basis.

By reference to the foregoing table, it will be observed that the average net sales during the 11-year period as adjusted was $52,828,476. The average annual sales, related to an average investment of $20,410,274, gives an average turn-over of investment of 2.59 times. This rate of investment turn-over, related to the annual average rate of net profit on sales of 14.25 percent, results in the annual average rate of return of 36.90 percent for the motor-vehicle investment.

The greatest turn-over rate of investment occurred during the year 1937, which was 4.99 times, and the lowest rate of turn-over occurred in the year 1933, when it was 0.98 times. The table shows that as the rate of investment turn-over declined from 3.07 times in 1927, and 3.18 times in 1928, to the low of 0.98 times in 1933, the percentage of net income of net sales and the rates of return declined from their highest points in 1927, of 24.66, and 75.63, respectively, until the percent of net income of net sales and rate of return for 1933 was a loss of 19.46 percent and 19.05 percent, respectively. From 1933 to 1937 the annual rate of investment turn-over increased each year with the percent of net income of net sales following the same trend through 1936, with a slight decline occurring in 1937. The lowest rate of return for the motor-vehicle business occurred in 1934, when it reached a loss of 33 percent compared to a loss of 12.32 percent in the net income of net sales. The latter variation is accounted for by the decline of average investment for 1933–34 of 19.8 percent while for the same period the net sales increased 119.5 percent.

Factory cost system.—The company used what might be termed a specification cost system. The bases of costs were material specifications furnished by the engineering department and operation routing sheets furnished by the time study department. The specifications showed the weight and each kind of material used in each part. Average prices obtained from the foundry or forge shops or from purchases were applied to the specifications to obtain the material cost.

The direct labor (which was on a piece-work basis) on each operation is priced on the operation routing sheets. This unit labor price was checked against the output and pay roll each week.

Complete car costs were compiled every month by the cost department, and are applied to the units sold as a basis for factory cost of sales. However, arbitrary upward adjustments were often made of the costs, purposely resulting in overcosting. Consequently, at the end of the year the book inventory would be less than the physical inventory, resulting in an inventory overage, as shown on the company's income statement.

Costs of parts sales were computed each year for inventory purposes. During the following year, the costs would be estimated on the basis of the total inventory cost to the total list prices of parts in the inventory. Costs of accessories sales were obtained on the same basis.

Inventories were priced on the basis of cost or market, whichever was lower, obsolete stock being written off. The inventory was taken on a conservative basis.

Manufacturing expense was applied each month on the basis of direct labor, separately for each plant.

During the year 1937, the company changed to a strictly standard cost system, all variations and other adjustments being thrown into cost of sales.

Income and expenses.—The income and expenses have been revised and reclassified by the Commission's accountants, consequently the sales, cost of sales, and net profit do not agree with the company reports. The reclassifications represent: transfer of inventory adjustments from "adjustments" to "cost of sales"; transfer of dealers' bonus, rebates and price adjustments from "selling expense" to "sales"; transfer of engineering expense from "selling expense" to "cost of sales" for 1937; adjustment of scrap sales by deduction from "sales" and credited to "cost of sales of motor vehicles" and "other products." The revisions represent the transfer of contingency expense from "cost of sales" to "surplus"; and the transfer of payments received from Timken Roller Bearing Co. from "cost of sales" to "surplus."

A comparative summary of income and expenses is presented in the following table. The summary shows the net profit applicable to the motor-vehicle business, and the net profit applicable to total business, as used in computing the rates of return on the two bases previously discussed. The net income from the motor-vehicle business represents the net profit on sales, plus other income (net). The net income from total operations includes the foregoing, and in addition, the net income from outside investments. The net income on each of the foregoing bases is before deducting provisions for Federal and State income taxes.

TABLE 89.—*Nash Motor Co.–comparative summary of income and expenses, and net profits applicable to various bases of investment, 1927 to 1937, inclusive*

	Nov. 30, 1927	Nov. 30, 1928	Nov. 30, 1929	Nov. 30, 1930	Nov. 30, 1931	Nov. 30, 1932	Nov. 30, 1933	Nov. 30, 1934	Nov. 30, 1935	Nov. 30, 1936	Sept. 30, 1937	Total
Net sales	$113,441,804	$120,745,705	$103,576,893	$51,864,615	$35,688,304	$15,300,147	$8,929,539	$19,596,175	$27,728,850	$30,851,061	$44,491,029	$572,215,027
Factory cost of goods sold	83,293,468	93,570,407	79,913,809	41,851,743	29,242,291	14,142,833	9,565,535	20,285,929	26,941,647	28,891,571	42,711,435	470,410,668
Gross profit on sales	30,148,336	27,175,298	23,663,089	10,012,872	6,446,013	1,157,314	[1] 635,996	[1] 689,754	787,203	1,960,390	1,779,594	101,804,359
Distribution expense:												
Selling expense	835,045	901,974	939,690	986,507	907,925	558,765	528,588	641,778	654,661	616,178	669,950	8,241,061
Advertising expense	2,709,367	2,784,367	3,020,886	1,919,190	1,223,998	670,832	719,382	1,207,652	1,478,591	1,157,540	759,886	17,651,691
Administrative expense	143,496	83,581	84,291	77,831	70,599	78,034	68,655	67,573	52,635	59,460	197,051	983,206
Total distribution expense	3,687,908	3,769,922	4,044,867	2,983,528	2,202,522	1,307,631	1,316,625	1,917,003	2,185,887	1,833,178	1,626,887	26,875,958
Net profit on sales	26,460,428	23,405,376	19,618,222	7,029,344	4,243,491	[1] 150,317	[1] 1,952,621	[1] 2,606,757	[1] 1,398,684	127,212	152,707	74,928,401
Other income (net)	1,512,548	1,523,440	1,601,101	1,171,050	748,466	338,763	214,800	191,538	207,613	165,730	182,076	7,857,125
Net profit applicable to motor-vehicle business	27,972,976	24,928,816	21,219,323	8,200,394	4,991,957	188,446	[1] 1,737,821	[1] 2,415,219	[1] 1,191,071	292,942	334,783	82,785,526
Net income from outside investments	705,693	811,866	1,047,887	967,323	849,233	834,039	921,498	897,072	731,503	615,168	320,625	8,701,907
Net profit applicable to total business	28,678,669	25,740,682	22,267,210	9,167,717	5,841,190	1,022,485	[1] 816,323	[1] 1,518,147	[1] 459,568	908,110	655,408	91,487,433
Provision for Federal and State income taxes	4,589,976	4,398,140	3,632,908	1,549,472	990,211					40,000	123,000	15,323,707
Net income	24,088,693	21,342,542	18,634,302	7,618,245	4,850,979	1,022,485	[1] 816,323	[1] 1,518,147	[1] 459,568	868,110	532,408	76,163,726

[1] Loss.

Net sales, herein referred to, represent gross sales after deduction of bonus and rebates of dealers' price and other adjustments and allowances. As shown by the foregoing table, the total net sales increased from $113,441,804 for 1927, to $120,745,705 for 1928, or 6.44 percent, and decreased each year thereafter until 1933, in which the sales amounted to $8,929,539, with an increase in each subsequent year to a total of $44,491,029, for 1937.

It will be noted from the preceding table that the factory cost of goods sold showed a trend similar to that of net sales for the period under review. From 1927 to 1928 the factory cost of goods sold moved upward, increasing from $83,293,468 in 1927 to $93,570,407 in 1928, an increase of $10,276,939, or 12.34 percent, and decreased each year thereafter proportionately with the decrease of net sales until 1933, in which the cost of goods sold amounted to $9,565,535, or a decrease of $84,004,872 in factory cost of goods sold from 1928 to 1933. From 1933 to 1937 the factory cost of goods sold increased substantially each year. In 1937, the factory cost of goods sold amounted to $42,711,435, an increase of $33,145,900, over the cost of $9,565,535 for 1933.

The following tabulation shows the percentage of annual increase or decrease of net sales and factory cost of goods sold for each year 1927 to 1937 inclusive.

Year	Net sales	Percentage of annual increase (+) or decrease (−) in sales, 1927–37	Factory cost of goods sold	Percentage of annual increase (+) or decrease (−) in factory cost of goods sold, 1927–37
1927	$113, 441, 804		$83, 293, 468	
1928	120, 745, 705	+6. 44	93, 570, 407	+12. 34
1929	103, 576, 898	−14. 22	79, 913, 809	−14. 59
1930	51, 864, 615	−49. 93	41, 851, 743	−47. 63
1931	35, 688, 304	−31. 19	29, 242, 291	−30. 13
1932	15, 300, 147	−57. 13	14, 142, 833	−51 64
1933	8, 929, 539	−41. 64	9, 565, 535	−32. 36
1934	19, 596, 175	+119. 45	20, 285, 929	+112. 07
1935	27, 728, 850	+41. 50	26, 941, 647	+32. 81
1936	30, 851, 961	+11. 26	28, 891, 571	+7. 24
1937	44, 491, 029	+44. 21	42, 711, 435	+47. 83

Distribution expenses.—Certain adjustments have been made by the Commission's examiners to the total distribution expenses as shown by the company records. The adjustments represented certain transfers, such as: Contingency expense to surplus; dealers' bonus to sales; rebates of dealers to sales; capital stock tax from miscellaneous income to selling expense.

It will be noted from table 89 that the total distribution expenses, which included selling, advertising, and administrative, increased from $3,687,908 in 1927, to $4,044,867, in 1929, an increase of $356,959, or 9.68 percent. From 1929 to 1932, the expenses declined to $1,307,631, a decrease of $2,737,236. From 1932 to 1935, the expenses increased to $2,185,887, an increase of $878,256. After 1935, the expenses decreased to $1,626,887 for 1937, a decrease of $559.000.

The following tabulation shows the ratio of the various classes of distribution expense to the total, for each year, 1927 to 1937, inclusive:

Year	Distribution expenses	Ratios of selling, advertising, and administrative expenses to distribution expense, by classes			
		Selling	Advertising	Administrative	Total
		Percent	Percent	Percent	Percent
1927	$3,687,908	22.64	73.47	3.89	100
1928	3,769,922	23.92	73.86	2.22	100
1929	4,044,867	23.23	74.68	2.09	100
1930	2,983,528	33.06	64.33	2.61	100
1931	2,202,522	41.22	55.57	3.21	100
1932	1,307,631	42.73	51.30	5.97	100
1933	1,316,625	40.15	54.64	5.21	100
1934	1,917,003	33.48	63.00	3.52	100
1935	2,185,387	29.95	67.64	2.41	100
1936	1,833,178	33.61	63.15	3.24	100
1937	1,626,887	41.18	46.71	12.11	100
Total	26,875,958	30.66	65.68	3.66	100

It will be noted from the above tabulation that for the 11-year period selling expense represented 30.66 percent of distribution expenses, advertising 65.68 percent, and administrative 3.66 percent of total distribution expense.

As indicated by the preceding tabulation, the total distribution expenses amounted to $26,875,958 for the 11-year period 1927 to 1937, inclusive. This expense was divided into three classes, namely: Selling, $8,241,061; advertising, $17,651,691; and administrative, $983,206.

Advertising expenditures.—Expenditures for advertising constituted an important part of the selling expenses of the Nash Co., ranging from a minimum of $670,832 in 1932 to a maximum of $3,020,886 in 1929; and aggregating $17,651,691 for the 11-year period 1927 to 1937, inclusive. The following statement shows the average annual expenditure and the proportion expended for the different types of advertising for the period 1927 to 1937:

Analysis of annual average advertising expense by advertising media, for the period 1927 to 1937, inclusive

	Annual average	
	Amount	Percent
Advertising expense:		
Magazine advertising	$358,768	16.37
Newspaper advertising	1,111,833	50.73
Farm paper advertising	42,854	1.96
Trade paper advertising	26,181	1.20
Billboard advertising	89,208	4.07
Advertising matter	168,390	7.68
Mechanical advertising expense	288,351	13.16
Radio advertising	52,914	2.41
Miscellaneous advertising expense	4,029	.18
Advertising adjustment account	19,073	.87
Sales-promotion expense	24,970	1.14
Advertising salaries	5,051	.23
Total	2,191,622	100.00
Less distributors' advertising	562,235	25.65
Total average advertising expense	1,629,387	74.35

The detailed advertising expenses shown in the foregoing tabulation include the amount collected from distributors, which represented 25.65 percent of gross advertising, and has been deducted from the total disbursements to arrive at the net average advertising expense to the company. As indicated in this tabulation, newspaper advertising represented over 50 percent of such expense, with magazine advertising representing 16.37 percent, followed closely by mechanical advertising expense of 13.16 percent.

The following tabulation shows the total combined number of vehicles sold in United States and Canada and exported, total advertising expense, total per car, amount contributed by distributors and per car, net amount expended and per car, for each year, 1929 to 1937, inclusive.

Year	Total number of motor vehicles sold	Total		Less amount contributed by distributors		Net balance paid by manufacturer	
		Advertising expense	Average per car	Total	Per car	Total	Per car
1929	117,043	$3,647,669	$31.17	$626,783	$5.36	$3,020,886	$25.81
1930	55,792	3,176,607	56.94	1,257,417	22.54	1,919,190	34.40
1931	39,854	2,161,924	54.25	937,926	23.54	1,223,998	30.71
1932	17,648	1,072,866	60.79	402,034	22.78	670,832	38.01
1933	11,752	948,383	80.70	229,001	19.49	719,382	61.21
1934	29,813	1,589,762	53.32	382,110	12.82	1,207,652	40.50
1935	43,828	2,028,954	46.29	550,363	12.56	1,478,591	33.73
1936	47,376	1,818,052	38.37	660,512	13.94	1,157,540	24.43
1937	72,822	1,804,620	24.78	1,044,734	14.35	759,886	10.43
Total	435,928	18,248,837	41.86	6,090,880	13.97	12,157,957	27.89

As shown by the foregoing tabulation, the average advertising expense per car for the 9-year period 1929 to 1937, inclusive, amounted to $41.86, of which the distributor contributed $13.97 per car, with the manufacturer contributing the balance of $27.89. For the year 1929 the total advertising expense per car was $31.17, with the distributors contributing $5.36 per car and the manufacturer $25.81. The amounts for 1930 increased substantially to $34.40 and $22.54, respectively, for the manufacturer and distributor; this increase occurred principally by the decrease in number of vehicles sold during the latter year and the smaller decrease in expenses to the ratio of units sold. For the year 1933, the average expense per car to the manufacturer increased to $61.21 per car, while the contribution by the distributors decreased to $19.49 per car. This increase was due to the small number of vehicles sold during 1933, which was 11,752, compared to 117,043 for 1929. During the period from 1933 to 1936, the advertising expense per car to the distributor gradually decreased to $13.91 in 1936, with an increase to $14.35 for 1937. The per car average expense to the manufacturer decreased substantially each year from $61.21 for 1933 to $10.43 for 1937.

The following tabulation shows a comparison of the per car advertising expense for 1929, 1930, 1933, 1936, and 1937, segregated between the manufacturer and distributor:

	Units sold	Expense per car manufacturer	Expense per car distributor
Year:			
1929	117,043	$25.81	$5.36
1930	55,792	34.40	22.54
1933	11,752	61.21	19.49
1936	47,376	24.43	13.94
1937	72,822	10.43	14.35

Aggregate profits.—It will be noted from table 89 that the net profit on sales in 1927 was $26,460,428 and decreased each year thereafter to a net loss of $2,606,757 in 1934. The net loss for 1935 was $1,398,684, a reduction in operating loss of $1,208,073 over that of 1934. The operations of 1936 and 1937 resulted in net profits of $127,212 and $152,707, respectively.

Other income (net), amounting to $7,857,125, for the 11-year period 1927 to 1937, inclusive, consisted principally of discount and interest earned, and dividends received from Seaman Body Corporation, a subsidiary. The following summary of the total and annual average amounts for the 11-year period indicates the nature of the various incomes:

	Total	Annual average, 1927 to 1937	
		Amount	Percent
Discount earned (net)	$1,529,061	$139,005	19.46
Interest earned	2,948,263	268,024	37.52
Dividends received, Seaman Body Corporation	3,244,092	294,917	41.29
Subsidiary supervision fees	30,000	2,727	.38
Branch division profits	43,921	3,993	.56
Unclaimed commercial accounts	469	43	.01
Miscellaneous earnings	61,319	5,575	.78
Total	7,857,125	714,284	100.00

As shown by the foregoing tabulation, discount and interest received and dividends received from subsidiary corporation amounted to 98.27 percent of the total "Other income."

Net income from outside investments amounting to $8,701,907, for the 11-year period 1927 to 1937, inclusive, consisted principally of interest on United States securities and Liberty bonds. The following summary of the total and average amounts for the 11-year period indicates the nature of this income:

	Total	Annual average, 1927 to 1937	
		Amount	Percent
Interest:			
United States securities	$7,520,843	$684,531	86.53
Liberty bonds	1,022,594	92,963	11.75
Miscellaneous investments	235,402	21,400	2.71
Rent earned	69,017	6,274	.79
Dividend earned	286,976	26,089	3.30
Depreciation: Nonmanufacturing property	[1] 76,213	[1] 6,928	[1] .88
Milwaukee idle plant expense	[1] 353,382	[1] 32,126	[1] 4.06
Miscellaneous real estate expense	[1] 12,330	[1] 1,121	[1] .14
Total	8,701,907	791,082	100.00

[1] Deduction.

Officers' salaries.—During the 11-year period 1927 to 1937, inclusive, the salaries and bonuses paid officers aggregated $3,442,824. The number of officers of the company, the aggregate amount of salaries and bonuses paid each year of the period 1927 to 1937, inclusive, are shown in the following tabulation:

	Number of officers	Compensation paid		
		Salaries	Bonus	Total
Year:				
1927	6	$157,540	$536,280	$693,820
1928	6	157,250	645,254	802,504
1929	6	157,500	303,592	461,092
1930	7	162,825	221,602	384,427
1931	6	153,800	69,969	223,769
1932	9	180,825		180,825
1933	9	184,739		184,739
1934	9	162,419		162,419
1935	7	142,550		142,550
1936	7	110,133		110,133
1937	6	96,546		96,546
Total		1,686,127	1,776,697	3,442,824

By reference to the foregoing tabulation, it will be noted that the largest total salary and bonus payments occurred during the year 1928, which amounted to $802,504, and declined thereafter to an amount of only $96,546 for the year 1937.

The chairman of the board did not participate in bonus payments and all such payments were discontinued after 1931.

The annual decline in amount of compensation payments was effected by the reduction in bonus payments prior to 1932, and thereafter, through reduction in salaries.

Summary of sales, factory cost of sales and gross and net profit by lines of products.—The table presented following shows a summary of net sales, and cost of sales and profit by lines of goods manufactured and sold in the United States and Canada and for export, for each year, 1929 to 1937, inclusive, and segregated between motor vehicles, parts and accessories and other products.

TABLE 90.—*Nash Motors Co.—Summary of net sales, factory cost of goods sold, gross profit, distribution expenses and net profit on sales by products sold in United States and Canada, and to export trade, for each year 1929 to 1937, inclusive*

	Motor vehicles		Parts and accessories		Other products [1]	Total
	United States and Canada	Export	United States and Canada	Export		
Net sales:						
1929	$91,526,838	$8,163,556	$3,340,358	$433,983	$112,163	$103,576,898
1930	43,092,810	6,000,820	2,447,816	268,055	55,114	51,864,615
1931	29,858,861	3,647,456	1,917,887	216,719	47,381	35,688,304
1932	13,322,992	799,596	1,050,139	88,534	38,886	15,300,147
1933	7,472,963	592,444	752,684	80,857	30,591	8,929,539
1934	15,777,791	2,766,033	888,150	131,695	32,506	19,596,175
1935	23,897,575	2,661,802	983,434	147,865	38,174	27,728,850
1936	26,988,703	2,353,908	1,315,047	151,246	43,057	30,851,961
1937	39,735,551	2,770,788	1,790,369	146,671	47,650	44,491,029
Total	291,674,084	29,756,403	14,485,884	1,665,625	445,522	338,027,518
Factory cost of goods:						
1929	70,940,840	6,193,545	2,416,816	275,477	87,131	79,913,809
1930	35,165,197	4,695,958	1,782,280	163,399	44,909	41,851,743
1931	24,662,961	2,975,734	1,429,394	137,330	36,872	29,242,291
1932	12,680,991	738,700	654,053	47,375	21,714	14,142,833
1933	7,681,435	585,523	1,192,676	70,445	35,456	9,565,535
1934	16,626,173	2,819,956	713,524	74,605	51,671	20,285,929
1935	23,505,614	2,578,562	736,180	79,867	41,424	26,941,647
1936	25,736,511	2,124,411	897,322	81,908	51,419	28,891,571
1937	38,835,856	2,545,346	1,202,201	79,009	49,023	42,711,435
Total	255,835,578	25,257,735	11,024,446	1,009,415	419,619	293,546,793
Gross profit:						
1929	20,585,998	1,970,011	923,542	158,506	25,032	23,663,089
1930	7,927,613	1,304,862	665,536	104,656	10,205	10,012,872
1931	5,195,900	671,722	488,493	79,389	10,509	6,446,013
1932	642,001	60,896	396,086	41,159	17,172	1,157,314
1933	[2] 208,472	6,921	[2] 439,992	10,412	[2] 4,865	[2] 635,996
1934	[2] 848,382	[2] 53,923	174,626	57,090	[2] 19,165	[2] 689,754
1935	391,961	83,240	247,254	67,998	[2] 3,250	787,203
1936	1,252,192	229,497	417,735	69,338	[2] 8,362	1,960,390
1937	899,695	225,442	588,168	67,662	[2] 1,373	1,779,594
Total	35,838,506	4,498,668	3,461,439	656,210	25,903	44,480,725
Distribution expenses:						
1929	3,276,630	624,181	111,628	27,762	4,666	4,044,867
1930	2,396,613	446,619	121,468	15,540	3,288	2,983,528
1931	1,803,204	279,177	104,508	12,884	2,749	2,202,522
1932	1,148,182	92,316	59,220	5,921	1,992	1,307,631
1933	1,074,286	63,026	166,802	7,583	4,928	1,316,625
1934	1,720,314	114,737	73,828	3,035	5,089	1,917,003
1935	2,001,798	114,508	62,695	3,547	3,339	2,185,887
1936	1,637,746	130,056	57,101	5,014	3,261	1,833,178
1937	1,471,672	99,577	50,502	3,091	2,045	1,626,887
Total	16,530,445	1,964,197	807,752	84,377	31,357	19,418,128
Net profit:						
1929	17,309,368	1,345,830	811,914	130,744	20,366	19,618,222
1930	5,531,000	858,243	544,068	89,116	6,917	7,029,344
1931	3,392,696	392,545	383,085	66,505	7,760	4,243,491
1932	[2] 506,181	[2] 31,420	336,866	35,238	15,180	[2] 159,317
1933	[2] 1,282,758	[2] 56,105	[2] 606,794	2,829	[2] 9,793	[2] 1,952,621
1934	[2] 2,568,696	[2] 168,660	100,798	54,055	[2] 24,254	[2] 2,606,757
1935	[2] 1,609,837	[2] 31,268	184,559	64,451	[2] 6,589	[2] 1,398,684
1936	[2] 385,554	99,441	360,624	64,324	[2] 11,623	127,212
1937	[2] 571,977	125,865	537,666	64,571	[2] 3,418	152,707
Total	19,308,061	2,534,471	2,653,686	571,833	[2] 5,454	25,062,597

[1] Sundries and repairs.
[2] Loss.

Motor vehicles.—By reference to the table, it will be observed that the amount of sales of motor vehicles sold in the United States and Canada, declined from $91,526,838 for 1929, to a low of $7,472,963 in 1933, a decrease of $84,053,875, or 91.8 percent, in comparison to motor vehicle sales for export of $8,163,556 for 1929, and $592,444 in 1933, a decrease of $7,571,112, or 92.7 percent. For 1937, the domestic vehicles sold amounted to $39,735,551, an increase of 431.7 percent from 1933. There was an increase of 367.7 percent in export sales for the same period.

The sales of motor vehicles in ratio to the total sales were as follows: United States and Canada, 86.3 percent; and other exports, 8.8 percent.

The cost of motor vehicles sold in the United States and Canadian markets in 1929, amounted to $70,940,840, and decreased to $7,681,435 for 1933, a decrease of $63,259,405, or 89.2 percent, compared to a decrease in sales of 91.8 percent for the same period. The cost of motor vehicles sold in export in 1929 was $6,193,545, and decreased to $585,523 for 1933, a decrease of 90.5 percent, as compared to decrease in sales of 92.7 percent for the corresponding period. For 1937, the cost of motor vehicles sold in the United States and Canada was $38,835,856, an increase of 405.6 percent from 1933, and an increase of 334.7 percent in the cost of sales exported for the same period.

The distribution expenses for 1929, applicable to sales of motor vehicles in the United States and Canada amounted to $3,276,630, and for 1933, had decreased to $1,074,286, a decrease of 67.2 percent compared to a decrease of approximately 90 percent for sales and cost of sales of the same period. For 1937, the distribution expense applicable to domestic sales of vehicles amounted to $1,471,672, or an increase from 1933 of 37 percent compared to approximately 430 percent increase of sales for the like period. General expense applicable to export sales in 1929 was $624,181 with a decrease to $63,026 for 1933, or 89.9 percent decrease which was approximately the same ratio as the sales decline for this period. For 1937, the expense had increased to $99,577, or an increase from 1933 of 58 percent.

For the year 1929, the net profit applicable to sales of motor vehicles in the United States and Canada amounted to $17,309,368, and for 1933, it had decreased to a loss of $1,282,758, or a net decrease in income of $18,592,126 from 1929 to 1933, and further decreased to a loss of $2,568,696 for 1934, with each subsequent year representing a loss from sale of domestic vehicles. As shown by the table, during the period 1929 to 1937, inclusive, the sales of motor vehicles in the the United States and Canada represented a loss for each year, 1932 to 1937, inclusive, and a profit for each year prior to 1932.

The following statement shows the amount of net profit or net loss for each year, 1927 to 1937, inclusive, applicable to sales in the United States and Canada, and export sales:

Year	United States and Canada	Export
1929	$17,309,368	$1,345,830
1930	5,531,000	858,243
1931	3,392,696	392,545
1932	[1] 506,181	[1] 31,420
1933	[1] 1,282,758	[1] 56,105
1934	[1] 2,568,696	[1] 168,660
1935	[1] 1,609,837	[1] 31,268
1936	[1] 385,554	99,441
1937	[1] 571,977	125,865
Total	19,308,061	2,534,471

[1] Loss.

It will be noted from the foregoing statement that the export trade of motor vehicles was more profitable than that of sales in the United States and Canada. The total net profit on sales of motor vehicles to trade in the United States and Canada was approximately 6 percent, while export represented a net profit of approximately 8 percent.

The following comparative statement shows the net sales, cost of sales, general expenses, and net profit, together with the units sold in the United States and Canada and export trade, for the years 1929, 1933, and 1937:

	Motor vehicles			
	United States and Canada		Export	
	Units	Amount	Amount	Units
Sales:				
1929	107,735	$91,526,838	$8,163,556	9,308
1933	10,955	7,472,963	592,444	797
1937	68,402	39,735,551	2,770,788	4,420
Cost of sales:				
1929	107,735	70,940,840	6,193,545	9,308
1933	10,955	7,681,435	585,523	797
1937	68,402	38,835,856	2,545,346	4,420
General expense:				
1929	107,735	3,276,630	624,181	9,308
1933	10,955	1,074,286	63,026	797
1937	68,402	1,471,672	99,577	4,420
Net profit:				
1929	107,735	17,309,368	1,345,830	9,308
1933	10,955	[1] 1,282,758	[1] 56,105	797
1937	68,402	[1] 571,977	125,865	4,420

[1] Loss.

As reflected in the foregoing comparative statements it is apparent that the profitableness of the sales of motor vehicles in both markets is dependent principally upon the volume of units marketed in each, as cost of sales and general expenses do not fluctuate as readily as sales, due to fixed charges appearing therein.

Parts and accessories.—The total parts and accessories sold in the United States and Canadian markets during the 9-year period 1929 to 1937, inclusive, amounted to approximately 4 percent of the total sales during this period, with sales in export trade representing less than 0.05 percent of the total sales for the period. The sales of parts and accessories in the United States and Canada for 1929 amounted to $3,340,358, and declined to $752,684 for 1933, a decrease of 77.5 percent, in comparison to sales of parts and accessories to export trade of $433,983 for 1929, and $80,857 in 1933, a decrease of 81.4 percent. For 1937, sales of parts and accessories in the United States and Canada were $1,790,369, an increase of 137.9 percent from 1933, and an increase of 81.4 percent in export sales for the same period, which represented the same rate as the decrease of 1929–33.

Other products.—The other products include sundries and repairs and is of secondary consideration. The total sales for the 9-year period amounted to only $445,522, with cost of sales of $419,619, operating expense $31,357, and a net loss of $5,454 for the entire period.

Percentages of factory cost of goods sold, expenses, gross and net profit to per dollar of net sales.—The various operating ratios reflecting the trends in income and expenses which have been discussed in the preceding paragraphs, are shown in the table next presented, for each of the years 1929 to 1937, inclusive, segregated between motor vehicles, parts, and accessories and other products sold in United States and Canada, and in export markets.

TABLE 91.—*Nash Motors Co.—Percentage of factory costs of sales, gross profit, distribution expenses, and net profit to per dollar of net sales by products sold in United States and Canada and to export trade for each year, 1929 to 1937, inclusive*

	Motor vehicles		Parts and accessories		Other products [1]	Total
	United States and Canada	Export	United States and Canada	Export		
Net sales:	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*
1929	100.0	100.0	100.0	100.0	100.0	100.0
1930	100.0	100.0	100.0	100.0	100.0	100.0
1931	100.0	100.0	100.0	100.0	100.0	100.0
1932	100.0	100.0	100.0	100.0	100.0	100.0
1933	100.0	100.0	100.0	100.0	100.0	100.0
1934	100.0	100.0	100.0	100.0	100.0	100.0
1935	100.0	100.0	100.0	100.0	100.0	100.0
1936	100.0	100.0	100.0	100.0	100.0	100.0
1937	100.0	100.0	100.0	100.0	100.0	100.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Factory cost of sales:						
1929	77.5	75.9	72.4	63.5	77.7	77.2
1930	81.6	78.3	72.8	61.0	81.5	80.7
1931	82.6	81.6	74.5	63.4	77.8	81.9
1932	95.2	92.4	62.3	53.5	55.8	92.4
1933	102.8	98.8	158.5	87.1	115.9	107.1
1934	105.4	101.9	80.3	56.6	159.0	103.5
1935	98.4	96.9	74.9	54.0	108.5	97.2
1936	95.4	90.2	68.2	54.2	119.4	93.6
1937	97.7	91.9	67.1	53.9	102.9	96.0
Total	87.7	84.9	76.1	60.6	94.2	86.8
Gross profit on sales:						
1929	22.5	24.1	27.6	36.5	22.3	22.8
1930	18.4	21.7	27.2	39.0	18.5	19.3
1931	17.4	18.4	25.5	36.6	22.2	18.1
1932	4.8	7.6	37.7	46.5	44.2	7.6
1933	[2] 2.8	1.2	[2] 58.5	12.9	[2] 15.9	[2] 7.1
1934	[2] 5.4	[2] 1.9	19.7	43.4	[2] 59.0	[2] 3.5
1935	1.6	3.1	25.1	46.0	[2] 8.5	2.8
1936	4.6	9.8	31.8	45.8	[2] 19.4	6.4
1937	2.3	8.1	32.9	46.1	[2] 2.9	4.0
Total	12.3	15.1	23.9	39.4	5.8	13.2
General expenses:						
1929	3.6	7.6	3.3	6.4	4.2	3.9
1930	5.6	7.4	5.0	5.8	6.0	5.8
1931	6.0	7.7	5.4	5.9	5.8	6.2
1932	8.6	11.5	5.6	6.7	5.1	8.5
1933	14.4	10.6	22.2	9.4	16.1	14.7
1934	10.9	4.1	8.3	2.3	15.7	9.8
1935	8.4	4.3	6.4	2.4	8.7	7.9
1936	6.1	5.6	4.4	3.3	7.6	6.0
1937	3.7	3.6	2.8	2.1	4.3	3.7
Total	5.7	6.6	5.6	5.1	7.0	5.8
Net profit on sales:						
1929	18.9	16.5	24.3	30.1	18.1	18.9
1930	12.8	14.3	22.2	33.2	12.5	13.5
1931	11.4	10.7	20.1	30.7	16.4	11.9
1932	[2] 3.8	[2] 3.9	32.1	39.8	39.1	[2] .9
1933	[2] 17.2	[2] 9.4	[2] 80.7	3.5	[2] 32.0	[2] 21.8
1934	[2] 16.3	[2] 6.0	11.4	41.1	[2] 74.7	[2] 13.3
1935	[2] 6.8	[2] 1.2	18.7	43.6	[2] 17.2	[2] 5.1
1936	[2] 1.5	4.2	27.4	42.5	[2] 27.0	.4
1937	[2] 1.4	4.5	30.1	44.0	[2] 7.2	.3
Total	6.6	8.5	18.3	34.3	[2] 1.2	7.4

[1] Sundries and repairs.
[2] Loss.

These ratios are presented to show the trend of the different items of expense in relation to sales and their effect on net profit as well as to indicate the profitableness of the various divisions of products. By reference to the table, it will be observed that the highest rate of profit was earned on parts and accessories exported, which amounted to 34.3 cents per dollar of net sales, while profit on the parts and accessories sold in the United States and Canada amounted to 18.3 cents per dollar. Motor vehicles sold in the United States and Canada produced 6.6 cents per dollar and vehicles exported produced 8.5 cents per dollar of net sales. Other products produced an average loss of 1.2 cents per dollar of net sales. The total operations represented a net profit of 7.4 cents per dollar of net sales for the 9-year period.

Factory cost of total sales represented 77.2 cents for 1929, and gradually increased each year to 1933, when it amounted to 107.1 cents per dollar of net sales. From the high of 1933, there was an annual decline of cost to 93.6 cents for 1936, and an increase for 1937 to 96.0 cents with the total cost of goods sold representing 86.8 cents per dollar of net sales. Cost of motor vehicles sold in the United States and Canada increased each year from 77.5 cents for 1929, to 105.4 cents for 1934, after which it declined to 95.4 cents for 1936, and increased to 97.7 cents for 1937, and total cost of motor vehicles sales in the United States and Canada of 87.7 cents per dollar of net sales. The trend in cost of exported vehicles was upward from 75.9 cents for 1929 to 101.9 cents for 1934, and then declined to 91.9 cents for 1937, and total cost of vehicles exported represented 84.9 cents compared to 87.7 cents for cost of sales in the United States and Canada.

Factory cost of parts and accessories sold in domestic and Canadian trade increased from 72.4 cents for 1929, to 158.5 cents per dollar of net sales in 1933, and decreased annually from 1933 to 67.1 cents in 1937. Total cost of parts and accessories sold in the United States and Canada for the 9-year period represented 76.1 cents per dollar of net sales. Parts and accessories sold to export trade represents a more profitable operation through a lower cost of goods sold. The cost of parts and accessories exported increased from 63.5 cents for 1929, to 87.1 cents for 1933, and gradually declined to 53.9 cents for 1937, with total cost of parts and accessories exported amounting to 60.6 cents compared to total domestic and Canadian of 76.1 cents per dollar of net sales.

The total distribution expense, which consists of selling, advertising, and administrative amounted to 5.8 cents per dollar of net sales for the 9-year period, which represented 5.7 cents and 6.6 cents, respectively, applicable to domestic and Canadian and export motor vehicles; parts and accessories were 5.6 and 5.1 cents respectively, for domestic and export, with 7.0 cents applicable to other products.

Net profit per dollar of net sales for motor vehicles sold in domestic trade for 1929 was 18.9 cents, compared to 16.5 cents for export, and declined each year to a loss in 1933 of 17.2 cents for domestic and Canadian, and 9.4-cent loss for export trade.

From 1933, the trend was reversed, with smaller losses resulting each year to 1937. Net profit per dollar of net sales of parts and accessories for 1929 amounted to 24.3 cents for domestic and Canadian sales, and 30.1 cents for export sales. In 1932, this rate of profit had increased to 32.1 cents for domestic and Canadian, and 39.8 cents for export. For 1933, there was a substantial decline, which shows a loss of 80.7 cents for domestic and a profit of 3.5 cents for export trade. For each year after 1933, there was an increase in the ratio of profits to 1937, which represented a profit of 30.1 cents for domestic and Canadian trade, and 44.0 cents for export. The rate of net profit per dollar of net sales for the 9-year period amounted to 18.3 cents for domestic and Canadian, and 34.3 cents for export operations.

The following table summarizes the motor vehicles sold in the United States and Canada, 1929 to 1937, inclusive, and averages per unit sold, showing net sales, factory cost of goods sold, gross profit on sales, general expenses and net profit on sales in total and per unit.

TABLE 92.—*Nash Motors Co.—Summary of motor vehicles sold in United States and Canada, and averages per unit, 1929 to 1937, inclusive*

Year ending—	Units sold	Net sales	Factory cost of goods sold	Gross profit on sales	Selling, advertising, and administrative expenses	Net profit on sales
Nov. 30, 1929	107,735	$91,526,838	$70,940,840	$20,585,998	$3,276,630	$17,309,368
Nov. 30, 1930	49,307	43,092,810	35,165,197	7,927,613	2,396,613	5,531,000
Nov. 30, 1931	35,716	29,858,861	24,662,961	5,195,900	1,803,204	3,392,696
Nov. 30, 1932	16,701	13,322,992	12,680,991	642,001	1,148,182	[1] 506,181
Nov. 30, 1933	10,955	7,472,963	7,681,435	[1] 208,472	1,074,286	[1] 1,282,758
Nov. 30, 1934	25,854	15,777,791	16,626,173	[1] 848,382	1,720,314	[1] 2,568,696
Nov. 30, 1935	39,675	23,897,575	23,505,614	391,961	2,001,798	[1] 1,609,837
Nov. 30, 1936	43,768	26,988,703	25,736,511	1,252,192	1,637,746	[1] 385,554
Sept. 30, 1937 (10 months)	68,402	39,735,551	38,835,856	899,695	1,471,672	[1] 571,977
Total	398,113	291,674,084	255,836,578	35,838,506	16,530,445	19,308,061
Per unit:						
1929	--------	849.56	658.48	191.08	30.41	160.67
1930	--------	873.97	713.19	160.78	48.61	112.17
1931	--------	836.01	690.53	145.48	50.49	94.99
1932	--------	797.74	759.30	38.44	68.75	[1] 30.31
1933	--------	682.15	701.18	[1] 19.03	98.06	[1] 117.09
1934	--------	610.26	643.08	[1] 32.82	66.54	[1] 99.36
1935	--------	602.33	592.45	9.88	50.45	[1] 40.57
1936	--------	616.63	588.02	28.61	37.42	[1] 8.81
1937	--------	580.91	567.76	13.15	21.51	[1] 8.36
Total	--------	732.64	642.62	90.02	41.52	48.50

[1] Loss.

Nash Motors Co. did not have available data for years 1927 and 1928, segregating sales between those made in the United States and Canada and those made for export to other countries. The total number of cars sold in both markets was 124,037 in 1927, and 137,819 in 1928, making a total for the 11-year period, 1927 to 1937, of 697,784 automobiles.

The above averages are for all models of cars. Part of the annual differences are due to the varying proportions of the higher- and lower-priced models sold. During the depression years, the proportion of lower-priced cars increased.

As shown by the foregoing table, the average sales realization per motor vehicle sold for 1929 was $849.56, with factory cost per unit of $658.48, and a gross profit of $191.08 per unit, with operating expenses amounting to $30.41 per car, and a realized net profit of $160.67 per car. For 1930, the average sales realization increased to $873.97, with an even greater increase in cost to $713.19 per automobile, with a resulting decrease in gross profit to $160.78 compared to $191.08 for 1929, and an increase in operating expenses per unit to $48.61 with a resulting net profit per unit decrease from $160.67 in 1929, to $112.17 for 1930. The units sold declined from 107.735 for 1929, to 49,307 for 1930.

From 1931 to 1933, there was an annual decline in net profit per unit sold from a profit of $94.99 for 1931, to a loss of $117.09 per unit sold for 1933. This difference of $212.08 in the net profit per car during the period 1931 to 1933, is accounted for as follows:

Reduction in average sales price	$153. 86
Increased factory cost	10. 65
Increased operating expenses	47. 57
Total	212. 08

A determining factor in the above result was the decline in units sold from 35,716 for 1931, to 10,955 for 1933, or a reduction of 69.33 percent. This illustrates the importance of volume of sales.

From 1933 to 1937, inclusive, the sales realization per unit decreased from $682.15, to $580.91, a decrease of $101.24 per unit; factory cost decreased $133.42; with general expenses declining from $98.06 for 1933, to $21.51 for 1937, or a net decline of $76.55 per unit sold.

The net profit on sales per unit for 1933, represented a loss of $117.09, and for the year 1937 this loss per unit was reduced to a loss of $8.36 per unit, representing a smaller loss for 1937 of $108.73 per unit sold over that of 1933. This reduction of loss of $108.73 is accounted for by the following items:

Decrease in factory cost of sales, per unit	$133. 42
Decrease in operating expenses, per unit	76. 55
Total	209. 97
Less—Increase in sales value per unit	101. 24
Total	108. 73

During the period from 1933 to 1937, inclusive, the number of motor vehicles sold increased from 10,955 for 1933, to 68,402 for the year 1937, an increase of 77,447, or an increase of 706.96 percent.

The following statement shows the average net profit per car sold, sales realization, cost, gross profit, and general expenses, for the 9-year period, 1929 to 1937, inclusive.

Net sales	$732. 64
Factory cost of goods sold	642. 62
Gross profit on sales	90. 02
General expenses	41. 52
Net profit	48. 50

In the 9-year period, 398,113 motorcars were sold in the United States and Canada, and 37,815 motor vehicles were sold for export to countries other than Canada, which represented less than 9 percent of the total sales. The export business was approximately 10 percent of the total business, therefore, the trend of total operations would not be materially altered by exclusion of the export business from the total business.

The following comparative tabulation shows the average per unit net sales, factory cost of sales, gross profit on sales, general expense and net profit for total sales; for the 9-year period, 1927 to 1937, inclusive:

	All sales
Units sold	435, 928
Net sales (per unit)	$737. 35
Factory cost of sales	644. 82
Gross profit on sales	92. 53
General expenses	42. 43
Net profit	50. 10

Statement for 21-year period of sales, profits, dividends, earnings reinvested, and surplus balance.—The next table represents the net sales, net profit after taxes, cash and stock dividends on common stock, cash dividends on preferred stock, other additions to surplus (net), earnings reinvested in the business, and surplus balance at the end of each year, 1917 to 1937, inclusive.

TABLE 93.—*Nash Motors Co.—Summary of net sales, profits, dividends, earnings, reinvested, and surplus balance, 1916 to 1937, inclusive*

	Net Sales	Net profit after Federal taxes	Cash dividends on common stock	Cash dividends on preferred stock	Stock dividends on common stock	Other additions to surplus (net)	Earnings reinvested in the business	Surplus balance
1917 [1]	$16, 761, 795	$2, 577, 784		$437, 500		[1] $550,000	$1, 590, 284	$1, 590, 284
1918	41, 072, 304	7, 931, 386	$1, 050, 000	350, 000			6, 531, 386	8, 121, 670
1919	41, 754, 094	5, 039, 036	832, 000	336, 000		[2] 4, 262, 753	[2] 341, 717	7, 779, 953
1920	57, 185, 767	7, 007, 471	872, 000	315, 000			5, 820, 471	13, 600, 424
1921	20, 080, 999	2, 226, 078	873, 600	288, 750		[2] 2, 085, 967	[2] 1, 022, 239	12, 578, 185
1922	40, 237, 765	7, 613, 246	873, 600	262, 500		231, 932	6, 709, 078	19, 287, 263
1923	58, 590, 252	9, 280, 032	1, 638, 000	1,207,850	$17,472,000	[2] 295, 667	[2] 11, 333, 485	7, 953, 778
1924	57, 283, 891	9, 280, 541	2, 730, 000	1,103,263			5, 447, 278	13, 401, 056
1925	97, 821, 157	15, 653, 840	4, 368, 000	1,051,309			10, 234, 531	23, 635, 587
1926	131, 174, 855	18, 551, 324	10, 920, 000	140, 908	12, 285, 000	4, 995, 438	200, 854	23, 836, 441
1927	113, 441, 804	24, 088, 693	13, 611, 000			[2] 1, 456, 948	9, 020, 745	32, 857, 186
1928	120, 745, 705	21, 342, 542	16, 356, 000			[2] 546, 457	4, 440, 085	37, 297, 271
1929	103, 576, 898	18, 634, 302	16, 356, 000			[2] 644, 520	1, 633, 782	38, 931, 053
1930	51, 864, 615	7, 618, 245	13, 606, 900			[2] 60, 181	[2] 6, 048, 836	32, 882, 217
1931	35, 688, 304	4, 850, 979	9, 453, 500			3, 303	[2] 4, 599, 218	28, 282, 999
1932	15, 300, 147	1, 022, 485	3, 990, 200			146, 123	[2] 2, 821, 592	25, 461, 407
1933	8, 929, 539	[2] 816, 323	1, 984, 650			293, 130	[2] 2, 407, 843	22, 953, 564
1934	19, 596, 175	[2] 1, 518, 147	1, 984, 650			175, 417	[2] 3, 327, 380	19, 626, 184
1935	27, 728, 850	[2] 459, 568	2, 646, 200			334, 658	[2] 2, 771, 110	16, 855, 074
1936	30, 851, 961	868, 117	2, 646, 724			431, 321	[2] 1, 347, 292	15, 507, 782
1937	44, 491, 029	532, 408				[2] 14,818,141	[2] 14,285,733	1, 222, 049
Total	1, 134, 177, 906	161, 374, 465	106, 793, 024	5, 493, 080	29, 757, 000	[2] 18,109,312	1, 222, 049	

[1] Aug. 16, 1916, balance beginning Aug 16, 1916, to Nov. 30, 1917.
[2] Deduction.

As shown by the table, for the 21-year period, the aggregate amount of sales was $1,134,177,906. During that period a total of 1,160,323 cars were sold. From these sales a net profit was realized, after payment of current income taxes, amounting to $161,374,465.

During the 21 years, $112,286,104 were paid in dividends, $106,793,024 on the common stock and $5,493,080 on preferred, and two stock dividends totaling $29,757,000 were declared. Federal income taxes aggregating $41,080,442 were provided for, and $1,222,049 remained in the surplus account of the Nash Motor Co. division of Nash-Kelvinator Corporation. The earnings retained in the motor business aggregated $30,979,049, and in addition, $15,507,782, representing the surplus balance at the end of 1936, was transferred to Nash-Kelvinator Corporation as part of the "Nash Division investment" in the new corporation.

Federal and State income-tax provisions, by years, are shown in the following table:

TABLE 94.—*Federal and State income taxes, Aug. 16, 1916, to Sept. 30, 1937*

Year:	Amount	Year:	Amount
1917	$132, 580	1929	3, 632, 908
1918	769, 763	1930	1, 549, 472
1919	4, 144, 426	1931	990, 211
1920	4, 409, 246	1932	
1921	673, 981	1933	
1922	1, 885, 195	1934	
1923	2, 308, 008	1935	
1924	1, 920, 296	1936	40, 000
1925	3, 956, 919	1937	123, 000
1926	5, 556, 321		
1927	4, 589, 976	Total	41, 080, 442
1928	4, 398, 140		

The balance of other deductions from surplus, amounting to $2,601,530, includes the following items:

Additional reserve for Federal income tax.
Reserve for bad debts.
Premium on preferred stock retired.
Provision for reserve for contingencies.
Surplus acquired from Ajax Motors Co.
Profit or loss on capital assets and capital stock.
Adjust value of Treasury stock.
Adjust value of investments.
Losses on bank deposits.
Goodwill.
Adjustment of taxes.
Adjustment of rebate reserve.
Adjustment of guaranty reserve.
Provision for royalty reserve.
Write-off plant and property.
Miscellaneous additions and deductions.

Seaman Body Corporation.—Seaman Body Corporation was organized for the purpose of assuring an adequate supply of closed automobile bodies for the requirements of Nash Motors Co. Prior to 1921 the corporation manufactured bodies for Velie, Booth, Sterling, and motorcycle side cars, as well as the manufacture of Nash bodies. Beginning with 1921, the activities of Seaman Body Corporation were devoted exclusively to the manufacture of bodies for the Nash Motor Co.

Organization.—Seaman Body Corporation was organized in 1919, by C. W. Nash, president, Nash Motors Co., and H. H. Seaman, Irving Seaman, Lauretta A. Seaman, and Kate D. Seaman, representing the W. S. Seaman Co., through the acquisition of the assets and assumption of the liabilities of the W. S. Seaman Co., manufacturers of motor-vehicle bodies.

The capitalization of the Seaman Body Corporation was 82,204 shares of capital stock, represented by 32,204 shares of preferred and 50,000 shares of common stock with a par value of $82,204. For and in consideration of the sum of $255,031.44, paid in cash, the Nash Motors Co. received 50 percent of the capital, or 16,102 shares of preferred and 25,000 shares of the common stock, the interests of the W. S. Seaman Co. receiving the remaining 50 percent of capitalization in consideration of the net assets of the W. S. Seaman Co., which were acquired by Seaman Body Corporation.

Balance sheet of July 31, 1919.—There is presented herewith balance sheet of W. S. Seaman Corp., as of July 31, 1919:

Assets:	
Land, buildings, machinery and equipment	$165, 770
Investments	400
Cash	47, 270
Accounts and notes receivable	105, 871
United States securities	40, 355
Inventories	405, 665
Deferred charges	6, 129
Total assets	771, 460
Liabilities:	
Land contracts payable	55, 833
Notes payable	368, 000
Accounts payable	89, 710
Accrued liabilities	50, 817
Reserve for depreciation	20, 562
Capital stock	60, 000
Surplus	126, 538
Total liabilities	771, 460

The principal items among the assets were "Inventories," of $405,665, and "Land, buildings, machinery and equipment," of $165,770. The largest item among the liabilities was "Notes payable," of $368,000.

There is presented below a summary of the capital stock issued and capital surplus arising from acquisition of the net assets of W. S. Seaman Corp., as of August 1, 1919:

Net assets taken over from W. S. Seaman Co.		$186, 538
Cash paid by Nash Motors Co. for a one-half interest		255, 031
Total		441, 569
Deduct:		
Stock issued at par value:		
W. S. Seaman Co. stockholders:		
Preferred stock, 16,102 shares	$16, 102	
Common stock, 25,000 shares	25, 000	
Total	41, 102	
Nash Motors Co.:		
Preferred stock, 16,102 shares	16, 102	
Common stock, 25,000 shares	25, 000	
Total	41, 102	
		82, 204
Paid-in surplus, Aug. 1, 1919		359, 365

The investment in Seaman Body Corporation by Nash Motors Co. and Seaman interests remained practically unchanged from organization in 1919, to July 16, 1936. At the latter date, the Nash Motors Co. purchased the remaining 50-percent equity from the Seaman interests for $1,950,883, which represented:

16,102 shares of preferred stock at $15 per share	$241, 530
25,000 shares of common stock at $68.3741 per share	1, 709, 353
Total (41,102 shares)	1, 950, 883
Original purchase, 1919 (41,102 shares)	255, 031
Total investment, July 16, 1936 (82,204 shares)	2, 205, 914

On July 16, 1936, upon acquisition by Nash Motors Co. of the remaining 50-percent equity, Seaman Body Corporation became a wholly owned subsidiary of Nash Motors Co., capital surplus was created through the acquisitions amounting to $575,094, as follows:

Equity of 50 percent in Seaman Body Corporation, at July 16, 1936

Equity in—	
Preferred stock	$16, 102
Common stock	25, 000
Paid-in surplus	181, 806
Earned surplus	2, 322, 447
Total equity, July 16, 1936	2, 545, 355
Less purchase price, preferred and common stock	1, 950, 883
	594, 472
Less premium payment on equity at Dec. 31, 1919	19, 378
Capital surplus, July 16, 1936	575, 094

In 1938, Nash-Kelvinator Corporation absorbed the Seaman Body Corp. by merger.

As previously stated, Nash Motors Co. was the holder of a 50-percent equity in Seaman Body Corporation prior to July 1936, at which time the remaining 50-percent equity was acquired. This report will, therefore, be devoted principally to the consolidation of Nash Motors Co. and Seaman Body Corporation for the year 1937, which is the only complete year of operation available from the date of the Seaman Body Corporation acquisition in 1936.

Rates of return.—The consolidated rates of return for Nash Motors Division of Nash-Kelvinator Corporation and subsidiary, Seaman Body Corporation, for the year 1937, is indicated by the following tabulation:

	Total investment	Investment—motor-vehicle business
Average investment	$28, 989, 252	$12, 769, 967
Profit	761, 144	419, 584
Rate of return (percent)	[1] 3. 15	[1] 3. 95

[1] The amount of profit shown above represented a 10-month period, Nov. 30, 1936, to Sept. 30, 1937, accounted for by the change of closing date of fiscal year, therefore, the rate of return has been adjusted to an annual basis by the addition of one-fifth to the profits.

The total investment consists of the capital stock, surplus, reserve for contingencies, and reserve for Federal and State income taxes, less appreciation and goodwill of the Nash Division of the present corporation. The investment in the motor-vehicle business represents the total investment, less outside investments, which consisted of United States Government securities, other investments, and idle property.

The profits used in computing the rate of return on the investment in motor-vehicle business represent the net profit on sales plus other income, the profits applicable to total investment includes the foregoing profits on the motor-vehicle business, plus net income on outside investments. The net profits applicable to each basis are before deduction of Federal and State income taxes.

Balance sheets for 1936 and 1937.—There is presented hereafter, a comparative consolidated balance sheet as of November 30, 1936, and September 30, 1937, of Nash Motors Co. and subsidiary, Seaman Body Corporation. As already stated, Kelvinator Corporation was merged with Nash Motors Co. in January 1937, to form a new corporation named Nash-Kelvinator Corporation. Therefore, the capital stock for 1937 is included as a part of Nash Division investment.

TABLE 95.—*Nash Motors Co. and subsidiary, Seaman Body Corporation—Comparative consolidated balance sheet as of Nov. 30, 1936, and Sept. 30, 1937*

	1936	1937
ASSETS		
Current assets:		
Cash	$3,788,170	$1,873,545
Accounts receivable	1,466,590	444,106
Accrued interest receivable	197,363	5,416
Inventories	5,620,239	11,419,578
Total current assets	11,072,362	13,742,645
Prepaid and deferred expenses	650,506	544,209
Investments:		
U. S. Government securities	18,985,734	10,006,725
Investments in affiliated companies	779,398	954,919
Other investments	304,805	278,979
Treasury stock	1,485,787	427,812
Total investments	21,555,724	11,668,435
Real estate, plant, and equipment	13,212,867	12,564,827
Goodwill	1	1
Total assets	46,491,460	38,520,117
LIABILITIES		
Current liabilities:		
Accounts payable	3,481,152	5,245,206
Accrued expense	284,431	133,493
Total current liabilities	3,765,583	5,378,699
Reserves:		
Depreciation	8,446,742	6,318,505
Bad debts	18,010	18,010
Federal and State income taxes	40,000	147,350
Contingencies	1,000,000	1,000,000
Sundry	286,294	352,526
Total reserves	9,791,046	7,836,391
Capital stock: Common stock	13,887,000	
Surplus:		
Earned surplus	17,630,908	3,485,422
Capital surplus	1,416,923	577,014
Total surplus	19,047,831	4,062,436
Nash Division investment		21,242,591
Total liabilities	46,491,460	38,520,117

Income and expenses.—A consolidated income statement of Nash Motors Division of Nash-Kelvinator Corporation and subsidiary, Seaman Body Corporation for 10 months, ended September 30, 1937, is presented herewith:

Net sales	$44,795,122
Factory cost of sales	42,853,193
Gross profit on sales	1,941,929
Selling, advertising, and administrative expenses	1,742,121
Net profit on sales	199,808

Other income (net)	$219,776
Net profit applicable to motor-vehicle business	419,584
Net income from outside investments	341,560
Net profit applicable to total business	761,144
Provision for Federal and State income taxes	147,350
Net income	613,794

The foregoing statement shows the net income from motor-vehicle business, the net income from total operations, as used in computing the rates of return as previously described. The net income from motor-vehicle business represents the net profit on sales, plus other income (net). The net income from total operations represents the foregoing plus net income from outside investments. The net income on each of the foregoing bases is before deducting provisions for Federal and State income taxes.

The amount of other net income of $219,776, as shown by the foregoing statement, consists principally of discount earned. Net income from outside investments consists principally of interest received on United States securities.

The tabulation presented herewith shows a summary of income and expenses of Seaman Body Corporation for the 11-year period, 1927 to 1937, inclusive:

Net sales	$140,598,746
Factory cost of sales	133,186,738
Gross profit from sales	7,412,008
Administrative and general expense	1,503,583
Net profit from sales	5,908,425
Other income (net)	1,278,818
Net profit applicable to motor-vehicle business	7,187,243
Net income from outside investments	697,120
Net profit applicable to total business	7,884,363
Provision for Federal and State income taxes	1,446,306
Net income	6,438,057

By reference to the section of this report relative to "organization," it will be noted that the total capital investment of Seaman Body Corporation in 1919, at organization, was $82,204, which consisted of 32,204 shares of preferred stock and 50,000 shares of common, with $1 par value of each class; of this amount of stock issued, Nash Motors Co. purchased one-half, or 16,102 shares of preferred, and 25,000 shares of common, a par value of $41,104 for $255,031. Interests of W. S. Seaman Corp. (the predecessor company) received a like amount of stock and gave in payment therefor the net assets of the predecessor company, amounting to $186,538. From the investment of $441,569, capital stock issues of $82,204 were deducted, thus creating a paid-in surplus of $359,365.

During the period from 1927 to 1937, inclusive, Seaman Body Corporation paid cash dividends on preferred stock in amount of $349,378, and the amount of payment applicable to common stock for the same period was $6,077,500, or a total of $6,426,878 for the 11-year period.

The tabulation next presented shows the amount of dividends paid to Nash Motors Co. and to the Seaman interests during the period, 1927 to 1935, inclusive, while jointly controlled and preceding total acquisition by Nash Motors Co.

Year	Nash Motors Co.		Seaman Interests		Total	
	Preferred	Common	Preferred	Common	Preferred	Common
1927	$16, 102	$500, 000	$16, 437	$500, 000	$32, 539	$1, 000, 000
1928	16, 102	600, 000	16, 502	600, 000	32, 604	1, 200, 000
1929	16, 102	600, 000	16, 502	600. 000	32, 604	1, 200, 000
1930	16, 102	500, 000	16, 502	500, 000	32, 604	1, 000, 000
1931	16, 102	350, 000	16, 502	350, 000	32, 604	700. 000
1932	16, 102	125. 000	16, 502	125, 000	32, 604	250, 000
1933	16, 102	100, 000	16, 502	100, 000	32, 604	200, 000
1934	16, 102	100, 000	16, 502	100, 000	32, 604	200, 000
1935	16, 102	100, 000	16, 152	100, 000	32, 254	200, 000
Annual average	16, 102	330, 555	16, 456	330, 555	32, 558	661, 110

Average annual capital stock issued to Nash Motors Co., for the period, 1927 to 1935, inclusive, amounted to $16,102 of preferred and $25,000 common, and by reference to the foregoing tabulation it will be shown that for the period referred to, the average dividend payments received by Nash Motors Co. amounted to 100 percent on preferred and 1,322.2 percent on common stock. The ratio of dividend payments to the Seaman interests was the same as that of Nash Motors above referred to.

Dividend payments for 1936, amounting to $124,153 were paid to Nash Motors Co. and Seaman interests proportionately to July 1936, when Nash Co. acquired the remaining equity in the corporation. Dividend payments for 1937 were made to the Nash Motors Division of Nash-Kelvinator Corporation, amounting to $32,204 on preferred stock of $32,204 and $27,500 applicable to common stock of $50,000, or a ratio of 100 percent and 55 percent, respectively.

Section 4. Packard Motor Car Co.

Introduction.—Packard Motor Car Co. has been one of the more important "independent" motor-vehicle manufacturers during the past 35 years. Its production of motor vehicles increased from 250 units in 1904, to a maximum of 106,428 units in 1937. In the latter year, 1937, Packard sold 2.72 percent of the Nation's total output of passenger motor vehicles. During the depression, Packard was forced to curtail its production sharply, and it lost both in number of units and in its percentage of the national total. In 1934, Packard sold only 6,427 motor vehicles, the lowest total since 1920. Two lower-priced models, namely, the 120, and the 115, were put on the market in 1935, and 1936, respectively. During 1938, the registrations of new Packard passenger cars totaled 49,163, or 2.6 percent of the Nation's total. From 1904 to December 31, 1938, Packard produced approximately 720,000 motor vehicles, including 43,484 trucks, produced from 1909 through 1923. Thus Packard Motor Car Co. has produced about 1 percent of the total motor vehicles produced in the United States from 1900 to 1938.

Early interest of Packard brothers in automotive industry.—In the early stages of the automotive industry in the United States, two brothers, J. W. and W. D. Packard were operating a successful electric business at Warren, Ohio, making electric lamps and other electrical equipment. As early as 1893, they conceived the idea of building a horseless carriage and drawings were made for a carriage to be built at the electric shop. The industrial depression of 1893 intervened and the project was dropped for the time.

In 1898, J. W. Packard made a trip to France and saw there what was then one of Europe's best horseless carriages—"a queer contraption on three wheels but with an ability to keep going, sometimes for as much as a half mile without a stop." One of these was purchased and brought back to Warren and there the brothers experimented with it for weeks and finally were able to keep it running for miles without stopping.

Later, J. W. Packard, hearing that Alexander Winton, of Cleveland, had made a "horseless carriage" which operated rather successfully, hurried to Cleveland to buy one. During the trip back he believed he saw many ways by which improvements could be made and further experimenting strengthened his belief that he could build a better one. It took months to build this car. On November 6, 1899, the machine, of one-cylinder type, was finished. It ran, climbed hills, and pulled through sand and mud.

The Packards were aided in the building of their first machine by George L. Weiss of Cleveland, who was one of the organizers of the Winton Co., and by W. A. Hatcher, who had been the Winton shop superintendent. So successful did the first Packard car work that plans were made to manufacture others.

Packard & Weiss Partnership.—A partnership was formed with Weiss on December 30, 1899, and work was started on a second car, the first sale of the new company occurred January 3, 1900, when the first vehicle sold for $1,250.

Ohio Automobile Co.—Operations as a partnership were of short duration. On September 10, 1900, the Ohio Automobile Co. was incorporated in the State of West Virginia for the purpose of continuing the manufacture of automobiles at Warren, Ohio. The company started operations by purchase of some property from the Packard Electric Co. and some machinery from the New York & Ohio Co., and in addition, it took over and assumed all the business credits and obligations of the firm of Packard & Weiss.

Organization.—As stated in the articles of incorporation, the purposes of forming the corporation were those of manufacturing, building, repairing, purchasing, leasing, and renting automobiles; of manufacturing, building, repairing, purchasing, renting, and leasing automobile machinery, supplies, and fixtures and of manufacturing generally all such things as may be requisite and necessary to the convenient carrying on and prosecution of said business for profit. Its place of business was Warren, Ohio.

The original capital stock authorized was $500,000, of which $100,000 was subscribed and $10,000 was paid in at organization. The incorporators and the amount of stock paid in by each were as follows:

James W. Packard, 33 shares	$3, 300
W. D. Packard, 33 shares	3, 300
George L. Weiss, 32 shares	3, 200
James P. Gilbert, 1 share	100
W. A. Hatcher, 1 share	100
Total, 100 shares	10, 000

At the first meeting of incorporators, who were also stockholders of the company, held on October 24, 1900, the following directors were elected: James W. Packard, W. D. Packard, George L. Weiss, James P. Gilbert, W. A. Hatcher.

The first meeting of directors was held on the same day and at this meeting the following officers were elected: James W. Packard, president and general manager; George L. Weiss, vice president; W. D. Packard, secretary and treasurer.

Introduction of Detroit capital.—It was about 1901 that a sales place was opened for Packard horseless carriages by the firm of Adams & McMurtry in New York, which city was, to a large extent, the market place for the new industry. Because of this, it was there that Henry B. Joy of Detroit, accompanied by his brother-in-law, Truman H. Newberry, went to shop for one.

Mr. Joy himself was mechanically inclined. He had for some time owned a motorboat with a gasoline motor and in a very small way had manufactured gasoline motors for boats. Ignition and carburation were the problems of the day and Mr. Joy had met the ignition problem largely by fashioning a spark plug from a bit of mica obtained from the plant of the Michigan Stove Co.

Messrs. Joy and Newberry were looking for a machine that would start without trouble. The performance of two Packard-made machines parked in front of the Adams & McMurtry sales room attracted their attention. As fire apparatus passed up the street, the drivers of the two machines, in their desire to follow, operated the starting cranks at the sides and the engines responded immediately. Henry B. Joy bought one of the Packard "horseless carriages." Later he invested $25,000 in the Packard brothers' company, then known as the Ohio Automobile Co.

J. W. Packard confided to Henry B Joy his belief that it would be possible to build and sell 200 carriages in a single year, but it was agreed that a new plant of much greater size and also additional financing would be required. Messrs. Joy and Newberry proceeded to interest other Packard owners and personal friends in Detroit in the possibilities of manufacturing a high-class type of car with Detroit the center of the new automotive project, with the result that a number of them agreed to become investors in the company and to build an adequate plant at Detroit.

Packard Motor Car Co. (W. Va.).—On October 2, 1902, the directors of the old Ohio Automobile Co. voted to increase the authorized capital stock to $500,000 to provide shares to be issued to the Detroit investors. At the same time the name of the company was changed from Ohio Automobile Co. to Packard Motor Car Co.

The board of directors, at a meeting on October 24, 1902, authorized the sale of 2,500 shares aggregating $250,000 to those Detroit investors who had been interested in the company through the efforts of Mr. Joy and Mr. Newberry. The subscribers for this block of stock were as follows:

	Shares
Henry B. Joy	250
Frederick M. Alger	250
Truman H. Newberry	250
Russell Alger, Jr	250
Joseph Boyer	250
John S. Newberry	250
Philip H. McMillan	500

	Shares
Russell A. Alger, Jr	250
Richard P. Joy	100
C. A. DuCharme	100
D. M. Ferry, Jr	50
Total	2, 500

With the design still in process for the car which was to be built at the new Detroit factory, a reorganization of the old Ohio Automobile Co. was completed. This reorganization contemplated no change in the corporate structure of the company other than the change in name and the issuance of additional stock to provide shares for the Detroit investors. It was, however, a complete reorganization of the management of the company through inclusion of the Detroit investors. The Packard brothers remained at Warren administering the affairs of Packard Electric Co. J. W. Packard assumed the presidency of the new company though he left the active management to the Detroit men after the factory had been moved to Detroit. Henry B. Joy, as general manager, was the directing head of the new company.

The first stockholders' meeting after reorganization was held on January 29, 1903, at which meeting the following directors were elected: J. W. Packard, Russell A. Alger, Jr., Philip H. McMillan, Joseph Boyer, W. D. Packard, Truman H. Newberry, Henry B. Joy, and S. D. Waldon. It may be noted that all of the above, with the exception of the Packard brothers and S. D. Waldon, represented the new Detroit capital.

Stockholders at the date nearest reorganization for which data were available, August 10, 1903, the number of shares held by each and the percent of control exercised, were as follows:

	Shares	Percent control before reorganization	Percent control after reorganization
Incorporators:			
J. W. Packard	609	40.6	15.23
W. D. Packard	264	17.6	6.60
George L. Weiss	300	20.0	7.50
Total	1,173	78.2	29.33
W. A. Hatcher	50	3.3	1.25
James P. Gilbert	40	2.7	1.00
Total held by incorporators	1,263	84.2	31.58
Others:			
J. W. Peale	93		
August Veghte	50		
Rembrandt Peale	41		
R. E. Gorton	25		
J. W. Spangleberg	17		
Mary E. Packard	4		
Olive Packard	4		
Carlotta Packard	2		
S. D. Waldon	1		
Total held by others	237	15.8	5.92
Total before reorganization	1,500	100.0	37.50

	Shares	Percent control before reorganization	Percent control after reorganization
Detroit capital:			
Russell A. Alger, Jr	500		12.50
Philip H. McMillan	500		12.50
Henry B. Joy	250		6.25
Frederick M. Alger	250		6.25
Truman H. Newberry	250		6.25
John S. Newberry	250		6.25
Joseph Boyer	250		6.25
C. A. DuCharme	100		2.50
Richard P. Joy	100		2.50
D. M. Ferry, Jr	50		1.25
Introduced through reorganization	2,500		62.50
Total after reorganization	4,000		100.00

Thus it may be noted from the foregoing tabulation that, with the introduction of Detroit capital, control of the company passed to that group. Prior to this, J. W. and W. D. Packard and George L. Weiss, the three men who had furnished the mechanical ability requisite to the purpose at hand, owned a direct control in the company aggregating 78.2 percent. With the introduction of Detroit capital, the interest of these three was reduced to 29.33 percent while a 62.5 percent interest in the reorganized company passed to the Detroit investors.

Prior to reorganization, J. W. Packard individually held 40.6 percent of the capital stock of the company, but upon reorganization his proportion was reduced to 15.23 percent, though he still remained the largest single stockholder.

As a measurement of the size of the Packard Motor Car Co. (West Virginia) approximately one year after its expansion and commencement of operations in Detroit, there is presented below a balance sheet of the company as of October 1, 1903.

Condensed balance sheet as of Oct. 1, 1903

ASSETS		LIABILITIES	
Cash	$16,501.57	Accounts payable	$110,896.26
Accounts receivable	62,056.82	Bills payable	60,000.00
Advances	2,750.00	Reserves	182.50
Inventories	136,172.85	Capital stock	400,000.00
Plant	254,694.59	Surplus	16,520.56
Investments	53,759.28		
Development	61,664.21		
Total assets	587,599.32	Total liabilities	587,599.32

The above balance sheet shows that the company was still comparatively small and had accumulated very little surplus or working capital and that practically its entire investment resulted from funds paid in for capital stock issued. It was, therefore, at this point that a bond issue of $250,000 was floated to provide funds for completing the Detroit plant and for working capital.

The Packard Motor Car Co. (West Virginia) was largely a family affair. The McMillan, Alger, Newberry, and Joy families were the principal owners and, to a large extent, directed the company. All four families were closely related either by business or blood ties.

These names remained long in the reorganized Packard Motor Car Co. (Michigan) though only the McMillan and Newberry names appear in the directorate of the reorganized company and amongst holders of 1 percent or more of its stock at the end of 1937.

As a first step in expansion of the company, plans were made to construct a factory at Detroit. A farm of 40 acres far from the center of the city of Detroit, a city of 285,000 population at that time, was obtained for considerably less than $1,000 an acre. Five acres were deemed sufficient for the factory and, for a reserve of vacant land that would care for any possible future needs, it was agreed that the 35 acres might be held and sold later and possibly at a profit. It is of interest to note here that in 1937 the factory properties covered approximately 78 acres and 3,900,000 feet of floor space.

Upon completion of the new factory in 1903, all of the works at Warren were transferred to Detroit as were all but one or two of the men who made up the Warren pay roll.

Some time before, J. W. Packard and Mr. Joy had met Charles Schmidt, former superintendent of the Mors factory in France. Mr. Schmidt went to Warren to aid in the design of a new car to replace the single cylinder Packards made up to that time. A four-cylinder car called model "K" was produced. It proved entirely too complicated and too expensive, as it was necessary to price it at $7,500. While model "K" proved impracticable, a number of important innovations were made. The principal one was that of placing the transmission on the rear axle.

The first year of the new company produced a loss of $200,000 on a production of 200 cars. The model "L" car was the first built at the new Detroit factory. When it was finally introduced to the public, it represented a big departure in appearance from the Packards that had been produced up to that time. In the second year of operation, 481 cars were produced and a profit was realized. Thereafter, the number of cars produced increased with each succeeding year. The number of units produced in each of the years of existence of the original Packard Co. was:

Year:	*Units*	Year:	*Units*
1903–4	192	1906–7	1, 188
1904–5	481	1907–8	1, 470
1905–6	768	1908–9	2 699

Capital stock authorized.—At organization of Ohio Automobile Co., 5,000 shares of stock of par value $500,000 were authorized for issuance, of which $100,000 was issued. The successive changes in the shares authorized for the Ohio Automobile Co. and its successor by change of name, the Packard Motor Car Co. (West Virginia), were: On April 15, 1901, the shares were reduced to 2,500; on October 24, 1902, they were increased to 5,000; on November 2, 1903, to 6,500; on November 6, 1906, to 10,000; on July 8, 1907, to 15,000; on June 8, 1908, to 15,500; and on August 12, 1908, to 30,500, all of par value $100.

Capital stock issued.—Each increase in authorization, commencing with the restoration of the authorization to 5,000 shares, was accompanied by issuance of stock sufficient to absorb the entire increase. A summary statement of the issuances of common stock, the one class of stock outstanding, from organization of Ohio Automobile Co. to August 31, 1909, when the company was reorganized and recapitalized follows. This statement classifies the stock issues by their nature and shows the percentage of the final stock outstanding and of the aggregate amount of increase accounted for by each such classification.

Item	Stock issued	Percent of aggregate stock	Percent of aggregate increase
Paid in by Ohio Automobile Co.	$150,000	4.9	
Paid in by Detroit investors	250,000	8.2	8.6
Paid in by executives	125,000	4.1	4.3
Total cash paid in	525,000	17.2	12.9
Bonus stock	250,000	8.2	8.6
Stock dividends	2,275,000	74.6	78.5
Total stock outstanding Aug. 31, 1909	3,050,000	100.0	100.0

From the foregoing statement it may be noted that of the aggregate stock issued but 17.2 percent was paid in in cash, while 8.2 percent is represented by bonus stock and 74.6 percent results from stock dividends. Of the aggregate increase over that paid in to Ohio Automobile Co., only 12.9 percent was paid in in cash while 8.6 percent is represented by bonus stock and 78.5 percent by stock dividends.

Stock allotted to executives.—Options to purchase stock were granted to selected executives on three occasions, namely, December 15, 1906, $25,000; July 8, 1907, $50,000; and August 12, 1908, $50,000. The executives to whom such allotments were made had the right to purchase the stock allotted to them at par at the expiration of 5 years from date of allotment if still with the company. The stock was to be held in trust for the 5 years during which period the allottee was to receive all dividends, but, on leaving the service, his rights to the stock ceased.

Bonus stock.—At a meeting on October 8, 1903, approximately 1 year after the introduction of Detroit capital, the stockholders recommended execution of a mortgage to secure an issue of 5-year 5-percent bonds in amount of $250,000, the proceeds from which were to be used in completing the Detroit factory and for working capital.

A proposition to purchase the entire $250,000 issue of bonds on condition that the company pay to them $250,000 in treasury stock of the company was made by a syndicate of stockholders. Over the objection of one of the larger stockholders that the amount of stock asked for was excessive, the bonds were authorized and were issued, together with the $250,000 stock. The bonds were fully paid when due on October 12, 1908. It should be noted that at the time of issuance of this additional stock there was only $400,000 stock outstanding so that the issuance of $250,000 represented a bonus amounting to 62.5 percent of the aggregate stock outstanding before payment of the bonus, and represented an amount equal to 38.5 percent of the aggregate stock outstanding after issuance of the bonus stock.

The following groups of stockholders formed the underwriting syndicate and received the stock bonus:

Truman H. Newberry.
John S. Newberry.
Henry B. Joy.
James W. Packard.
Richard P. Joy.
Joseph Boyer.
Russell A. Alger, Jr.
Frederick M. Alger.
Philip H. McMillan.
C. A. DuCharme.
D. M. Ferry, Jr.

Stock dividends.—Stock dividends were paid on three occasions, as follows:

1906, Dec. 15, 50 percent on $650,000	$325, 000
1907, July 8, 45 percent on $1,000,000	450, 000
1908, Aug. 12, 100 percent on $1,500,000	1, 500, 000
Total stock dividends	2, 275, 000

Thus, 74.6 percent of the stock outstanding at reorganization of the company on August 31, 1909, is accounted for through issuance of stock dividends.

Packard Motor Car Co. (Michigan).—On August 31, 1909, Packard Motor Car Co. (West Virginia) sold its business to Packard Motor Car Co. (Michigan), a corporation organized in the State of Michigan for the purpose of succeeding the West Virginia company.

The action of the stockholders in this matter is set forth in the following excerpt from the minutes of their meeting on August 16, 1909:

Resolved, That this company do sell and transfer, subject to all its debts and liabilities (except a liability to option holders of this company's stock to the amount of $30,000) to the Packard Motor Car Co., a Michigan corporation, all the assets of every name and nature which may be owned by it on the 31st day of August 1909, including cash and goodwill, for the sum of $10,000,000 payable in the total capital stock of said Michigan corporation of the par value of $10,000,000; $5,000,000 thereof being 7 percent cumulative preferred and $5,000,000 thereof being common stock.

The original plan provided for absorption of the entire new issue in exchange for the old stock and by its operation the ratio of exchange would have been 1.639 new shares for each 1 old share. This was later changed and 1.6 shares of preferred and 1.6 shares of common stock of the new company were given for each 1 share of stock of the old company. Through this revised plan, 97.6 percent, or 48,806 shares (including 6 additional shares to convert fractions), was issued in exchange for the old stock. The remaining 2.4 percent, or 1,194 shares, was issued to Philip H. McMillan as trustee, for use in stock allotments to employees.

As of August 31, 1909, the Packard Motor Car Co. (West Virginia) discontinued business as a corporation and surrendered to the State of West Virginia its charter and corporate franchises.

Organization.—Packard Motor Car Co. (Michigan) was incorporated in the State of Michigan on September 1, 1909, for a period of 30 years. The new company was incorporated with a capitalization, as indicated above, of $10,000,000 divided into $5,000,000 cumulative preferred and $5,000,000 common stocks each represented by 50,000 shares of par value of $100 a share.

The purposes of the new corporation, as stated in the articles of association, were—

to manufacture, repair, own, sell, and otherwise deal in engines, motors, automobiles, motor carriages and trucks, and any other machines or equipment to be used either for land, water, or aerial transportation, and all parts and accessories used in connection therewith or pertaining thereto.

The incorporators were:

Philip H. McMillan.
Henry B. Joy.
James W. Packard.
Frederick M. Alger.
Russell A. Alger.
Richard P. Joy.
Truman H. Newberry.
John S. Newberry.
C. A. Du Charme.
D. M. Ferry, Jr.
Sidney D. Waldon.

At the first stockholders' meeting on September 2, 1909, the following directors were elected:

Philip H. McMillan.
Henry B. Joy.
James W. Packard.
Frederick M. Alger.
Russell A. Alger.
Richard P. Joy.
Truman H. Newberry.

The first meeting of the new board of directors was held on September 3, 1909, at which the following officers were elected:

Henry B. Joy, president.
Russell A. Alger, vice president and vice chairman of board.
Philip H. McMillan, secretary-treasurer.
James W. Packard, chairman of board.

Exchange of stocks.—On the basis of receiving 1.6 shares of preferred and 1.6 shares of common stocks for each 1 share of stock formerly held, each holder of $100 par value of stock of the old company received an aggregate of $320 par value of stock of the new company in exchange. In the aggregate, $9,761,200 par value of new stock was issued in place of the $3,050,000 formerly outstanding. The details of this exchange are shown in the comparative list of stockholders of the West Virginia company immediately prior to, and of the Michigan company immediately after exchange of stocks presented following:

	West Virginia corporation	Michigan corporation	
		Preferred	Common
	Shares	*Shares*	*Shares*
Packard, James W	2,470	3,952	3,952
Packard, W. D	1,542	2,468	2,468
Alger, Russell A	4,620	7,392	7,392
Alger, Frederick M	4,619	7,391	7,391
Alger, Arnette H	664	1,063	1,063
Shelden, Caroline Alger	262	420	420
Pike, Frances Alger	262	420	420
Joy, Henry B	3,920	6,272	6,272
Joy, Richard P	782	1,252	1,252
Newberry, John S	1,960	3,136	3,136
Newberry, Truman H	1,960	3,136	3,136
Du Charme, C. A	736	1,178	1,178
Ferry, D. M., Jr	390	624	624
Walden, S. D	25	40	40
Security Trust Co., trustee	262	420	420
McMillan, Philip H	3,806	6,090	6,090
Total	28,280	45,254	45,254
McMillan, Philip H., trustee	[1] 2,220	3,552	3,552
Total stock exchanged	30,500	48,806	48,806
Other provisions:			
McMillan, P. H., trustee		[2] 480	480
Do		714	714
Total new stock issued		50,000	50,000

[1] Held as trustee until fulfillment of conditions set forth in contracts entered into with certain employees agreeing to sell them stock of company at expiration of specified time.

[2] In addition to above contracts, contracts with certain other employees made prior to Aug. 31, 1909, to sell them 300 shares. At the time none was available in the treasury so provision is made from new Michigan company stock at 160 percent of the 300 shares due to be paid in new preferred and a like amount in new common, or 480 shares of each.

There are presented below balance sheets of the West Virginia corporation immediately prior to, and of the Michigan corporation immediately following, reorganization. These show in comparative form the changes in accounts resulting from the reorganization and, in the form of increases and decreases, account for the increase in stock issued by the new company:

Closing balance sheet of Packard Motor Car Co. (West Virginia) and opening balance sheet of Packard Motor Car Co. (Michigan) at Aug. 31, 1909

	West Virginia corporation	Michigan corporation	Increase
Assets:			
Cash	$72, 727. 62	$72, 727. 62	
Accounts receivable	544, 945. 96	544, 945. 96	
Advance insurance	22, 517. 66	22, 517. 66	
Inventories	3, 630, 869. 32	3, 630, 869. 32	
Plant	2, 402, 682. 52	2, 402, 682. 52	
Construction work in progress	174, 430. 08	174, 430. 08	
Development—models	29, 794. 24	29, 794. 24	
Reserve for taxes	2, 797. 65	2, 797. 65	
Packard Motor Car Co. (New York):			
Stock	10, 000. 00	10, 000. 00	
Surplus	766. 847. 65	1, 500, 000. 00	$733, 152. 35
Trustee stock	82, 200. 00	112, 200. 00	30, 000. 00
Rights, privileges, and franchises		3, 274, 958. 89	3, 274, 958. 89
Total assets	7, 739, 812. 70	11, 777, 923. 94	4, 038, 111. 24
Liabilities:			
Reserve royalty	16, 306. 50	16, 306. 50	
Uncalled for wages	289. 37	289. 37	
Accounts payable	992, 130. 54	992, 130. 54	
Bills payable	525, 000. 00	525, 000. 00	
Deposit account	346, 588. 00	346, 588. 00	
Dealers' accounts payable	41, 609. 53	41, 609. 53	
Authorized trustee stock	30, 000. 00		[1] 30, 000. 00
Capital stock:			
Common	3, 050, 000. 00	5, 000, 000. 00	1, 950, 000. 00
Preferred		5, 000, 000. 00	5, 000, 000. 00
Surplus	2, 737, 888. 76	[2] 144, 000. 00	[1] 2, 881, 888. 76
Total liabilities	7, 739, 812. 70	11, 777, 923. 94	4, 038, 111. 24

[1] Decrease.
[2] Deficit.

Appreciation at reorganization.—In the foregoing statement, it may be noted that capital stock was increased from $3,050,000 to $10,000,000 without any increase in tangible assets. Not all of this increase of $6,950,000, however, represents appreciation since surplus of the West Virginia corporation in amount of $2,737,888.76 was capitalized in the reorganization to the point of leaving a deficit of $144,000 and accounted for $2,881,888.76 of the increase in capital stock.

There follows a statement of changes in ledger values resulting from reorganization:

	West Virginia corporation	Michigan corporation	Increase
Authorized trustees' stock	$30, 000. 00		[1] $30, 000. 00
Preferred stock		$5, 000, 000	5, 000, 000. 00
Common stock	3, 050, 000. 00	5, 000, 000	1, 950, 000. 00
Surplus	2, 737, 888. 76	[2] 144, 000	[1] 2, 881, 888. 76
Total	5, 817, 888. 76	9, 856, 000	4, 038, 111. 24
Less treasury stock	82, 200. 00	112, 200	30, 000. 00
Total stockholders' equity	5, 735, 688. 76	9, 743, 800	4, 008, 111. 24

[1] Decrease.
[2] Deficit.

Thus, in the reorganization and refinancing of Packard Motor Car Co. (West Virginia), the ledger values in Packard Motor Car Co. (Michigan) increased $4,008,111.24. This amount represents appreciation in values and, as disclosed in the preceding balance sheet, is accounted for as follows:

Setting up of an item of rights, privileges, and franchises	$3, 274, 958. 89
Writing up the surplus of Packard Motor Car Co. of New York	733, 152. 35
Total appreciation	4, 008, 111. 24

Attention is called to the fact that to a large extent the effect of this appreciation was eliminated in 1912 when the asset rights, privileges, and franchises was written down to $1 by charge to surplus in amount of $3,274,957.89. The effect of this is as though the appreciation had not been set up and the stock originally issued therefor had been issued from surplus in like manner as a stock dividend. The final disposition of the $733,152.35, affecting the records of the subsidiary company directly, was not traced as examination was not made of subsidiary company records.

Comparative summary of sales, profits, dividends, earnings reinvested and surplus balances.—Table 96 following shows the sales and net profits after Federal income taxes for the consolidated operations of Packard Motor Car Co. for the period from organization of the present company at August 31, 1909, to December 31, 1937. It further accounts for the disposition of these net profits through payment of cash dividends and other appropriations of surplus to arrive at the portion of profits reinvested in the business. For the purpose of reconciling surplus balances, the statement is further projected to show stock dividends which affect surplus balances though they do not affect the profits reinvested.

Reference to this statement discloses that, during the 28 full years and 4 months interim period of the company's existence to December 31, 1937, the consolidated sales amounted to $1,299,451,382 and that on these sales an aggregate net profit of $156,498,728 was realized after provision for Federal income taxes. Of this total net profit, $10,115,763, or 6.5 percent, was distributed as dividends on preferred stock and $96,131,788, or 61.4 percent was distributed as cash dividends on common stock. Thus $106,247,551, or 67.9 percent, was distributed as cash dividends. Other miscellaneous net deductions from surplus amounted to $10,959,795, or 7 percent. After these enumerated appropriations there remained $39,291,382, or 25.1 percent of the aggregate profits for the entire period reinvested in the business.

This $39,291,382 does not measure the amount of surplus at the end of 1937 for the reason that dividends were paid on common stock in common stock in the aggregate amount of $24,750,130 or 15.8 percent of the aggregate increment to surplus through profits. The balance of surplus at December 31, 1937, was, therefore, $14,541,252 and this constituted 9.3 percent of the aggregate income.

Attention is directed to the very large amounts of net other deductions from (or additions to) surplus in the years 1929, 1932, and 1935. It may be repeated here that these result from the transfer of $20,000,000 from surplus to capital stock in 1929 and the reversal of $10,000,000 of that amount in 1932 and the remaining $10,000,000 in 1935 with no effect on the period as a whole. Net other deductions from surplus other than the items mentioned next above result from numerous adjustments, the larger of which consist of provisions for surplus reserves, for bonus payments, and the writing down in 1912 of appreciation set up at reorganization and referred to on page 741.

TABLE 96.—*Packard Motor Car Co.—History of sales, profits, dividends, earnings reinvested in the business and surplus, balances, 1910 to 1937, inclusive*

	Net sales	Net profit after Federal and State income taxes	Cash dividends	
			Preferred stock	Common stock
Surplus at beginning of period				
Fiscal year ended Aug. 31—				
1910	$14,967,852	$2,312,787	$261,250	
1911	11,516,588	1,581,057	350,000	$298,572
1912	14,460,220	1,839,720	350,000	
1913	15,076,807	2,157,472	350,000	
1914	12,639,954	1,141,564	350,000	
1915	15,547,166	3,169,478	350,000	
1916	35,495,087	6,206,420	455,000	395,602
1917	40,498,454	5,400,691	560,000	910,636
1918	50,492,363	5,616,702	560,000	710,382
1919	55,180,656	5,433,634	560,000	1,539,245
1920	58,894,525	6,395,468	1,028,297	1,483,144
1921	30,822,812	[3] 987,366	1,049,283	297,127
1922	37,988,499	2,115,828	1,035,286	
1923	55,670,465	7,081,879	1,029,322	2,495,871
1924	46,003,679	4,805,175	1,140,332	2,852,424
1925	60,475,989	12,191,081	686,993	4,746,046
1926	77,363,954	15,843,587		8,302,221
1927	72,326,526	11,978,797		7,195,363
1928	95,581,802	22,603,109		12,442,912
1929	108,961,411	25,938,253		17,234,244
Period September to December 1929	28,261,436	4,955,172		8,247,102
Calendar year ended Dec. 31—				
1930	58,420,129	10,151,308		9,741,306
1931	30,481,962	[3] 1,699,117		6,745,653
1932	15,788,087	[3] 5,679,269		
1933	19,465,147	355,714		
1934	14,781,494	[3] 6,685,743		
1935	50,835,261	1,957,281		
1936	74,665,170	7,113,725		6,746,103
1937	96,787,887	3,204,321		3,747,835
Total	1,299,451,382	156,498,728	10,115,763	96,131,788
Percent of total net profit		100.0	6.5	61.4

	Net other deductions from surplus [1]	Earnings reinvested in business	Stock dividends	Surplus balance
Surplus at beginning of period				0
Fiscal year ended Aug. 31—				
1910		$2,051,537		$2,051,537
1911		932,485		2,984,022
1912	$3,274,958	[2] 1,785,238		1,198,784
1913		1,807,472		3,006,256
1914		791,564	2,000,000	1,797,820
1915		2,819,478		4,617,298
1916		5,355,818	4,591,630	5,381,486
1917		3,930,055		9,311,541
1918		4,346,320		13,657,861
1919		3,334,389		16,992,250
1920	118,605	3,765,422		20,757,672
1921	2,500,000	[2] 4,833,776		15,923,896
1922		[3] 1,080,542		17,004,438
1923		3,556,686	11,885,000	8,676,024
1924		812,419		9,488,443
1925	1,076,147	5,681,895		15,170,338
1926		7,541,366	6,273,400	16,438,304
1927	235,299	4,548,135		20,986,439
1928	717,693	9,442,504		30,428,943
1929	20,038,322	[2] 11,334,313		19,094,630
Period September to December 1929	208,281	[2] 3,500,211		15,594,419

[1] Other than stock dividends.
[2] Denotes withdrawals in excess of earnings.
[3] Denotes loss.

TABLE 96.—*Packard Motor Car Co.—History of sales, profits, dividends, earnings reinvested in the business, and surplus balances, 1910 to 1937, inclusive*—Con.

	Net other deductions from surplus	Earnings reinvested in business	Stock dividends	Surplus balance
Calendar year ended Dec. 31—				
1930	$1,127,088	[2] $717,086		$14,877,333
1931	1,210,000	[2] 9,654,770		5,222,563
1932	[4] 8,854,957	3,175,688		8,398,251
1933	[4] 224,936	580,650		8,978,901
1934	679,022	[2] 7,364,765		1,614,136
1935	[4] 11,358,341	13,315,622		14,929,758
1936	60,505	307,117		15,236,875
1937	152,109	[2] 695,623		14,541,252
Total	10,959,795	39,291,382	24,750,130	14,541,252
Percent of total net profit	7.0	25.1	15.8	9.3

[2] Denotes withdrawals in excess of earnings.
[4] Denotes additions to surplus.

From the foregoing statement it may be seen that Packard Motor Car Co. has largely maintained a policy of generous distributions of profits to the stockholders. The average yearly net profits after Federal income taxes for the entire period have been $5,523,485, and of this amount an annual average of $3,749,914 has been distributed to stockholders in the form of cash dividends. Surplus was reduced through stock dividends which averaged $873,534 for each year of the period. These were all issued in the earlier years, and no stock dividend has been declared since 1926.

As an example of the effect of this policy of distribution of profits and the capitalization of surplus through declarations of stock dividends, it is of interest to note the cumulative interest of a holder of 1 share of $100 par value of common stock at organization of the present company had he retained that share to December 31, 1937. It is shown that the holder of 1 such share of par value of $100 at organization would have held 292.215 shares of no-par value with a stated value of $2 per share, or with an aggregate stated value of $584.43 at December 31, 1937, and would have received cash dividends amounting to $1,856.58. In addition, these 292 shares of no-par-value stock at December 31, 1937, would have held an equity of $283.27 in the undistributed surplus of the company and thus would have represented $867.70 of the net worth of the company at that date.

In 1920, when the par value of common stock was reduced from $100 to $10, 10 new shares were issued for each old share. Again in 1929, when the common stock was converted from par $10 to no-par value, with stated value of $2, 5 new shares were issued for each old share. Thus in contemplating the number of shares to which the original 1 share had grown, consideration must be given to this factor of 50 shares resulting from change in number without change in aggregate ledger value of the stock. For comparative purposes it should, therefore, be stated that the 1 share of par value $100 had grown to 5.8443 shares of ledger value of $584.43.

Subsidiary companies.—From organization in 1909 to December 31, 1937, Packard Motor Car Co. (Michigan) has carried on the business of retail selling, real-estate ownership and leasing, exporting, and Canadian manufacture through subsidiary companies incorporated for the respective purposes. The greater number of these have been formed to engage in retail selling, but also the greater number of those so formed have been intended to meet a temporary situation or to continue until a satisfactory independent distributorship could be established in the territory.

Of the 14 subsidiaries or subsubsidiaries functioning at one time or another from organization to December 31, 1937, 10 were formed to retail Packard products. Of this number, only 5 retained their corporate identity at December 31, 1937, and 2 of these 5, though not actually dissolved, were no longer active. Thus only 3 of the total of 10 selling companies were active at December 31, 1937.

Two subsidiaries were formed to acquire real estate and to hold such properties or to lease them to other subsidiaries or to independent distributors engaged in the distribution of Packard cars. Both of these companies were operating at the end of 1937.

In addition, one subsidiary company has handled all export business, while another was formed to manufacture in the Dominion of Canada. Both companies were in operation at the end of 1937.

There follows, as table 97, a statement of all companies which have been subsidiary to Packard Motor Car Co. (Michigan) during the period 1927 to 1937, inclusive. This statement shows the place and date of incorporation and the capitalization of each. This latter also represents the stock investment of the parent company, since all are, or were, owned 100 percent. With the inclusion of Packard Motor Car Co. of Missouri, which was incorporated in 1920 but dissolved prior to 1927, this same statement records all subsidiary companies owned since organization of the company.

At December 31, 1937, there were in operation seven companies subsidiary to Packard Motor Car Co. (Michigan). These were:

Sales companies.—Packard Motor Car Co. of New York, Packard Motor Car Co. of Chicago, Atlanta Packard, Inc. (subsidiary to Packard Motor Sales Co.).

Real-estate companies.—Packard Motor Sales Co., Packard, Ltd., London.

Export company.—Packard Motor Export Corporation.

Canadian manufacture.—Packard Motor Car Co. of Canada, Ltd.

TABLE 97.—*Packard Motor Car Co. (Michigan)—Stock of subsidiary companies outstanding and owned by parent company, 1927 to 1937, inclusive* [1]

	Year	Incorporation State	Par value	Aug. 31—			Dec. 31—		
				1927	1928	1929	1929	1930	1931
Packard Motor Car Co., New York	1903	New York	$100	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Packard Motor Car Co., Chicago	1911	Illinois	100	50,000	50,000	50,000	50,000	50,000	50,000
Packard Motor Car Co., Philadelphia	1909	Pennsylvania	100	10,000	10,000	10,000	10,000	10,000	10,000
Packard Motor Car Co., Texas	1920	Texas	100	20,000	20,000	20,000	20,000	20,000	20,000
Packard Motor Sales Co		Michigan	100	10,000	10,000	10,000	10,000	10,000	25,000
Packard Ltd., London	1929	London	[2] 1			2,425	2,425	2,433	2,433
Packard Motor Export Corporation	1920	New York	100	25,000	25,000	25,000	25,000	25,000	25,000
Packard Motor Car Co. of Canada, Ltd	1931	Ontario	100						200,000
Total				125,000	125,000	127,425	127,425	127,433	342,433

	Year	Incorporation State	Par value	Dec. 31—					
				1932	1933	1934	1935	1936	1937
Packard Motor Car Co., New York			$100	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Packard Motor Car Co., Chicago			100	50,000	50,000	50,000	50,000	50,000	50,000
Packard Motor Car Co., Philadelphia			100	10,000	10,000	10,000	10,000	10,000	10,000
Packard Motor Car Co., Texas			100	20,000	20,000	20,000	20,000	20,000	20,000
Packard, Buffalo, Inc	1932	New York	100	44,000	44,000	44,000	44,000		
Packard, Minneapolis, Inc	1932	Minnesota	100	25,000					
Packard, Rochester, Inc	1933	New York	100			50,000	50,000		
Packard Motor Sales Co.[3]			100	25,000	25,000	25,000	25,000	25,000	25,000
Packard Ltd., London			[2] 1	2,433	2,433	2,433	2,433	2,433	2,433
Packard Motor Export Corporation			100	25,000	25,000	25,000	25,000	25,000	25,000
Packard Motor Car Co. of Canada, Ltd			100	200,000	200,000	200,000	200,000	200,000	200,000
Total				411,433	386,433	436,433	436,433	342,433	342,433

[1] Recorded on parent company books at net worth of subsidiaries.
[2] Pound sterling.
[3] Packard Motor Sales Co. had as subsidiaries Atlanta Packard Motors, Inc., with capital of $30,000 at end of years 1932 to 1937, inclusive, and Wetherell-McIninch, Inc., with capital of $17,500 at end of years 1932 to 1934, inclusive. This company dissolved January 15, 1935.

Selling subsidiaries and branches.—Supplementing sales through distributors and dealers, the company has promoted the retailing of its motor vehicles through sales companies and through selling branches owned and operated by it. It has operated such companies and branches in a number of localities throughout the United States and one in Canada. These have, with the exception of the branches at Detroit, Mich., and Montreal, Canada, been operated through subsidiary companies formed for the purpose.

The first of these selling subsidiaries was Packard Motor Car Co. of New York. The same Adams-McMurtry Co. of New York, in front of whose place of business it was stated Mr. Joy and Mr. Newberry saw the Packard made cars which interested them in the product of the Packard brothers and culminated in their investing in Packard Motor Car Co., became the first selling subsidiary. It was incorporated in 1903 prior to incorporation of the present Packard Motor Car Co. (Michigan), it was the sole subsidiary of the predecessor Packard Motor Car Co. (West Virginia), and was continued as a subsidiary after organization of the present company.

Through a bill of sale dated December 12, 1902, the goodwill, plant, stock of machinery and supplies, and leasehold on the premises at Nos. 317–319 West Fifty-ninth Street in New York City were acquired for $20,000, and Packard Motor Car Co. of New York, was incorporated with a capital of $10,000 to take over and operate the properties. The entire stock of the newly incorporated company was acquired by Packard Motor Car Co.

Subsequent to organization of the present company, a number of other selling subsidiaries have been formed. Some of these have been formed to take over going concerns, while others marked the beginning of a new enterprise. The location, name of organization, and period during which operations were carried on for each of the selling companies which have been subsidiary to Packard Motor Car Co. (Michigan) since its organization are as follows:

Packard Motor Car Co. of New York, New York, N. Y., 1903–37.
Packard Motor Car Co. of Philadelphia,[1] Philadelphia, Pa., 1909–23.
Packard Motor Car Co. of Chicago, Chicago, Ill., 1911–37.
Packard Motor Car Co. of Missouri, Kansas City, Mo., 1919–22.
Packard Motor Car Co. of Texas,[1] Dallas, Tex., 1920.
Atlanta Packard Motors, Inc.,[2] Atlanta, Ga., 1931–37.
Packard Buffalo, Inc., Buffalo, N. Y., 1932–36.
Packard Minneapolis, Inc., Minneapolis, Minn., 1932–33.
Wetherell-McIninch, Inc.,[2] Des Moines, Iowa, 1932–33.
Packard Rochester, Inc., Rochester, N. Y., 1934–36.

In addition to the above separately incorporated selling companies, retail selling branches are maintained at Detroit, Mich., and Montreal, Ontario. These are not separately incorporated. The former is part of the corporate structure of Packard Motor Car Co. (Michigan) and has been in operation since 1915. The latter is part of Packard Motor Car Co. of Canada, Ltd., and has been in operation since 1934. However, for all accounting purposes, the investments and operations of these two departments of the manufacturing companies have been segregated.

Officials of the company state that, excepting the sales branches at New York, Chicago, Detroit, and Montreal, entering into retail

[1] Corporate structure maintained through 1937, though company not operating.
[2] Subsidiary of Packard Motor Sales Co., which is, in turn, subsidiary to Packard Motor Car Co. (Michigan).

operations and forming companies to carry on these operations have largely been matters of expediency. Independent distributors are desired, and usually it is when such representation cannot be had that the company has entered the retail field. Furthermore, it is stated that such ventures are intended to continue only until such time as an independent representative satisfactory to the company can be found.

The three selling companies which were operating at December 31, 1937, were the New York, Chicago, and Atlanta, Ga., companies. Two others, the Philadelphia and Texas companies, retained their corporate existence at that date but were no longer operative. Sales of these selling companies are made to users and to dealers. No sales are made to distributors.

The territories in which these companies operate are not confined to the place indicated in the name of the company. The territory of the New York company embraces a list of counties in the States of New York and New Jersey, certain counties in Massachusetts, one in Vermont, and all of the State of Connecticut. That of the Chicago company includes numerous counties in Illinois, Indiana, Iowa, and Wisconsin, and certain counties in Michigan. The Atlanta company is authorized to operate in certain counties in Alabama and South Carolina and in the entire State of Georgia, excepting certain defined counties.

Other subsidiary companies.—In addition to the selling companies subsidiary to Packard Motor Car Co. (Michigan) that company controls, through 100-percent stock ownership, certain other companies not engaged in selling. These are Packard Motor Car Co. of Canada, Ltd., Packard Motor Sales Co., Packard Motor Export Corporation, Packard, Ltd., London.

Packard Motor Car Co. of Canada, Ltd.—During the year 1931, a company was organized in the province of Ontario, in Canada, for the purpose of manufacturing and distributing Packard cars in Canada and of distributing throughout the British Empire if conditions permitted. The plant is located at Windsor, Ontario, across the Detroit River from the city of Detroit. It largely supplies the Canadian territory for all but super 8's and 12's, none of which has been made in Canada.

The original purpose in forming the Canadian company was to effect a saving in import duty through fabrication within the Dominion and through the lesser duty applicable to parts as compared with completed cars imported.

This company operates a retail selling branch at Montreal for distribution of Packard cars. The branch is not separately incorporated, but in accounting records its operations are kept separate from those of the company of which it is a part.

Packard Motor Sales Co.—The name of this company, subsidiary to Packard Motor Car Co. (Michigan), is somewhat misleading. It is not a selling company. Its sole function is to acquire and hold or lease to other subsidiary selling companies or to independent distributors properties for use in carrying on the business of distributing Packard cars. In explanation of the use of the name implying a selling company, it was stated that the name and articles of incorporation were made comprehensive enough to permit of its operating as a central sales company if and when desired.

Packard Motor Sales Co. does not sell any cars at retail. During the winter season it carries an inventory of about 20 high-priced Packard cars in Florida for display at Miami Beach and a few other points. A retail purchaser wishing to buy one of these cars places an order with the local dealer or distributor, who then buys the car from Packard Motor Sales Co. All cars remaining in stock at the end of the season are sold to distributors (subsidiary and independent) in other parts of the country.

Indirectly, the company engaged in retail selling through its subsidiaries, Wetherell-McIninch, Inc., during the years 1932 and 1933, while that company was in existence, and Atlanta Packard Motors, Inc., from its acquisition in 1931 through 1937.

The reason these two companies were operated as subsidiaries of Packard Motor Sales Co. instead of as direct subsidiaries of the manufacturing company, it was stated by the officials of the company, was that when they were taken over it was intended that their operation by the Packard Co. would not continue long but that they would soon be turned over to independent distributors, and they were therefore handled through the sales company for convenience. The Wetherell-McIninch Co. was dissolved in 1935 and though ownership of the Atlanta company has continued, the arrangement has not been disturbed.

In conformity with the function for which it was incorporated, Packard Motor Sales Co. owns properties in Atlanta, Ga., Cleveland, Ohio, New Orleans, La., Boston, Mass., and Kansas City, Mo. It also controls properties in Pittsburgh, Pa., through a trust agreement, and holds a 99-year lease on land in Jacksonville, Fla., on which it owns a sales and service building. All of these properties, with the exception of those at Atlanta, are leased to independent distributors of Packard cars in those territories.

Packard Motor Export Corporation.—In the early period of the company's existence, export business was carried on as a department of the parent company. In 1920, Packard Motor Export Corporation was incorporated and all of its stock was subscribed by Packard Motor Car Co. (Michigan).

Headquarters of the new company were at New York, and its purpose was to handle all export business of the parent company other than that to Canada.

Packard, Ltd., London.—This company was formed for the sole purpose of holding a piece of real estate in the city of London, England, which it leases to an independent London distributor. The company sells no cars and engages in no functions other than that noted above.

Products.—The Packard Motor Car Co. and its subsidiaries are principally engaged in the manufacture and sale of motor vehicles and parts. It has also engaged, to a limited extent, in the development and production of the Diesel type of marine and airplane engines.

The company has at all times produced cars under the one trade name, "Packard." However, though produced under this one name, the cars produced have varied greatly in types and engine forms and sizes throughout the years and fall within several price classes. An indication of the variances in the four types of cars produced under the name "Packard" is given in the tabular statement below which shows the type designations, wheel-base measurements, engine power, and 1936 price ranges of each type manufactured during the years 1936 and 1937.

	Packard Six	Packard One-twenty	Packard Super Eight	Packard Twelve
Wheel base, in inches	115	120–138	127–134–139	132–139–144
Engine horsepower	100	120	135	175
Delivered price [1]	\$895–\$1,010	\$1,065–\$1,985	\$2,480–\$3,515	\$3,670–\$4,975

[1] At Detroit, before Michigan sales tax.

Ignoring consideration of the slight overlapping production in the passing of a model, the general movement of production from 1909 to 1937 has been from fours only (1909–11), to sixes only (1912–14), to twin sixes only (1915–19), to twin sixes and sixes (1920–22), to sixes and single eights (1923–28), to single eights and super eights (1929–31), to single eights, super eights, and twin sixes (later known as twelves) (1932–35), to single eights, super eights, twelves, and sixes (1936–37).

In 1928 a new single eight known as the Standard Eight was introduced to succeed the six, and the latter was soon thereafter discontinued. The new eight, which was slightly larger than the six, considerably more powerful, and which had many added features of luxury and comfort, was to sell at prices only slightly higher than formerly asked for the six. In 1929 a larger eight-cylinder car was introduced to succeed the former single eight. Thereafter and until 1931 only Standard Eights and Super Eights were manufactured. These were augmented in 1932 by reintroduction of a twin-six car later designated as a twelve, and production of these three types continued to 1935. In 1935 a new single-eight car was produced under the designation of "One-twenty," but interchangeably known also as the Standard Eight. In 1936 the line was further augmented by reintroduction of a six-cylinder car. At the end of 1937 the complete line of cars consisted of Sixes, One-twenties (or Standard Eights), Super Eights, and Twelves.

Following is presented a tabular statement of the number of units of each type of car sold in each of the years 1909 to 1937, inclusive, and showing graphically the dates of changes in types of cars and the types produced concurrently in each year:

	Fours	Sixes	Twin Sixes	Single Eights	Super Eights	Total
1903–9*	6,768					6,768
1909	3,106					3,106
1910	3,084					3,084
1911	1,788	733				2,521
1912	282	2,320				2,602
1913		2,984				2,984
1914		2,623				2,623
1915		1,191	1,454			2,645
1916			10,645			10,645
1917			7,902			7,902
1918			2,741			2,741
1919			3,589			3,589
1920		1,042	5,194			6,236
1921		6,374	1,310			7,684
1922		13,433	1,944			15,377
1923		15,900	303	2,695		18,898
1924		9,507	20	5,572		15,099
1925		26,557		5,470		32,027
1926		29,262		5,129		34,391
1927		27,882		4,558		32,440
1928		8,318		[1] 38,393		46,711
1929		1,359		41,333	10,845	53,537

*Manufactured by predecessor Packard Co.
[1] Introduction of Standard Eight.

	Fours	Sixes	Twin Sixes	Single Eights	Super Eights	Total
1929 [2]				10,279	3,063	13,342
1930				22,178	6,312	28,490
1931				11,614	2,573	14,187
1932			521	8,359	559	9,439
1933			[3] 1,225	6,355	1,899	9,479
1934			751	4,224	1,452	6,427
1935			740	[4] 46,822	1,382	48,944
1936		22,082	896	53,303	3,131	79,412
1937		54,669	1,084	45,956	4,719	106,428
Total	15,028	226,236	40,319	312,240	35,935	629,758

[2] Interim period, September-December 1929.
[3] Known as the Twelve, 1933 and thereafter.
[4] Introduction of One-twenty, also known as Standard Eight.

In addition to its passenger cars, Packard produced and sold 43,424 trucks. In 1938 registrations of new Packards totaled 49,163 units.

The policy of Packard Co. of not making radical annual model changes is evidenced in statements contained in annual reports to stockholders. The annual report for 1914 states that "we believe that the Packard car as it has crystalized will be made in substantially its present type indefinitely." In the annual report for 1936, reference is again made to this early prediction and its fulfillment, when it states that "the basic character lines of Packard radiator and bonnet design, originally conceived more than 30 years ago, and refined to harmonize with modern tendencies in motorcar design, continues to identify every Packard as a Packard." It adds that this far-sighted policy has protected owners of Packard cars against depreciation resulting from style obsolescence. Probably other important considerations were savings in cost of production, and in establishing consumer goodwill. Annual model changes involve heavy expenditures that are particularly burdensome for cars selling in moderate volume.

In 1935 Packard introduced an eight-cylinder car known as the One-twenty which was to first bring the Packard car into the lower price classes and, in 1936, it introduced a six-cylinder car to sell at prices competitive with others manufacturing in still lower-price brackets.

The reason for this action is explained in the following excerpt from the annual report to stockholders for the year 1934, wherein is stated:

> It is well known that the demand for automobiles has been increasingly for those in the lower price brackets. This is a movement that has continued unchecked through the depression years. It has been a serious handicap to manufacturers of high-priced fine-quality cars. This classification is usually considered to include all cars having a list price of $2,000 and over. It is the price class in which we have been operating with our three lines of cars—the Eight, the Super Eight, and the Twelve. In this fine-car class during the year 1934 Packard continued not only to hold its high prestige but sold a greater percentage of all the high-priced business available than in any previous year. In 1933 we secured 38.4 percent of all high-price business available. In 1934 this rose to 42.7 percent.
>
> But the sales available to all manufacturers in this field continued to decline through the year with the result that the volume available to us was less than in the preceding year. The popularity of fine cars is probably as great as ever * * * but fewer people feel they can afford to buy them in these times.
>
> In view of existing conditions your directors decided more than a year ago to add a completely new line of Packard cars to sell in the $1,000 price class. * * * It was decided to call this new line of cars the Packard One-twenty.

In 1935 the price of the One-twenty ranged from $980 to $1,095, but with the further addition of a cheaper six-cylinder car in 1935 with prices ranging from $895 to $1,010, the prices of the One-twenty were increased from $1,065 to $1,985, all f. o. b. factory.

Plants.—The sole manufacturing plant in the United States is located at Detroit, Mich., at the intersection of Belt Line Railroad and East Grand Boulevard. It is modernly equipped with facilities for casting, drop forging, heat treating, body building, and parts machining and assembling. The company operates its own foundry and forge shops, as well as a complete stamping division. All bodies, except a limited number of custom types, are produced in the Packard factory. The company also manufactures and assembles most of the chassis parts, including such important items as motor, clutch, transmission, and rear axle. The more important articles purchased outside include such items as the frames, upholstery materials, wheels, tires, batteries, generators, starter motors, sheet metal, iron, and steel.

In addition, the company operates one leased manufacturing plant in Canada. This plant, which is operated through its subsidiary, Packard Motor Car Co. of Canada, Ltd., is located at East Windsor, Ontario, in close proximity to Detroit.

Only Packard Six and One-twenty cars are fabricated in the Canadian plant. It assembles the chassis and certain parts thereof, such as motor, transmission, and rear axle and also builds its own bodies. The Canadian plant receives from Detroit such items as stampings and chassis parts which are produced in the Detroit plant, and other items such as frames, etc., which are shipped directly from United States suppliers. The Canadian plant also purchases a considerable amount of material in Canada, such as upholstery material, tires, wheels, batteries, etc.

Investments, profits, and rates of return—domestic manufacture.—The investments, profits, and rates of return herein referred to reflect operations only of Packard Motor Car Co. (Michigan) as a parent company after excluding therefrom the investments in and income from all subsidiary companies. They further exclude from the operations of the parent company the investments in and income derived from the Detroit selling branch which, though a part of the corporate structure of the parent company, is segregated and treated with other separately incorporated selling subsidiaries. More specifically, it might be said that these data cover operations only of the Detroit manufacturing plant as that plant, together with the Detroit selling branch, constitutes the parent company.

A summary of the investments, profits, and rates of return is presented in table 98. In this statement the investments are presented on two bases; namely, total average investment employed and total average investment in the motor-vehicle business, the latter after exclusion of outside investments. The investments and profits shown in this table are as revised by the Commission's accountants.

The total average investment employed consists of the par and the stated value, successively, of common stock (there was no preferred stock outstanding during the period covered), the unappropriated earned surplus, surplus reserves, reserve for Federal and State income-tax payments, and borrowed money. There were no bonds outstanding during the period under review nor has the company had any obligations for moneys actually borrowed. However, in determining the total investment, deposits received from distributors and held by the company have been treated as borrowed money.

The returns on stockholders' investment were consistently slightly higher than those on total investment, both in income and deficit years. They have differed only to the extent of a fraction of 1 percent in any year of the period. These slight differences in the return are accounted for by the fact that borrowed money, which measures the difference in the two bases, was small in relation to the total investment and, therefore, its elimination had little effect on the resulting return after exclusion. Borrowed money consists of distributors' deposits held by the company and on which an interest rate of 5 percent to 1933 and 4 percent thereafter was paid. Because of the slight differences in return computed on these two bases, data on stockholders' investment has not been included in table 98.

Investment in the motor-vehicle business represents the average investment employed less investments in securities of other companies. Outside operations and properties not used in the business were not deducted for the reasons that their segregation was impracticable and they constituted a minor portion of the total investment.

The outside operations consist of the development and manufacture of Diesel type marine and airplane motors. A mesaurement of the relative importance of outside operations may be had from the statement that the aggregate sales of outside products over the period 1929 to 1937, inclusive, amounted to less than three-tenths of 1 percent of the total sales.

Properties not used in the business consist of a boathouse, a farm at Milford, Mich., and land and the residences thereon. No segregation was ever made by the company of the land and improvements or of the values of the portions later used and the portion unused and because of the negligible amount involved, these investments have been permitted to remain in the investment as used and the income derived therefrom has not been eliminated from total income.

The average of the investment as it appears in the revised balance sheet at the beginning and end of each year was used in determining the yearly average investment in all items except outside investments. Average outside investments were arrived at on the basis of the balances outstanding at the end of each month of the year.

The reserves for Federal and State income taxes are included as a part of investment in order to relate the investment to the income used—that accruing before provision for income taxes. The unused portion of the provisions are therefore, in effect, still a part of surplus and the reserve for Federal and State income taxes has been treated as a surplus reserve.

TABLE 98.—*Packard Motor Car Co.—Investments, profits, and rates of return on the investment applying to domestic manufacture, 1927 to 1937, inclusive*

	Total average investment	Average investment in motor-vehicle business
Fiscal years, ended Aug. 31—		
1927	$42, 843, 772	$31, 211, 954
1928	47, 518, 191	32, 984, 207
1929	54, 337, 994	37, 852, 094
September-December 1929, inclusive	54, 300, 208	38, 716, 542
Calendar years ended Dec. 31—		
1930	50, 977, 709	38, 435, 249
1931	45, 530, 567	32, 903, 772
1932	38, 565, 996	29, 580, 880
1933	36, 256, 682	25, 354, 500
1934	33, 279, 841	22, 409, 784
1935	30, 988, 310	25, 420, 930
1936	32, 138, 901	24, 713, 540
1937	31, 889, 718	25, 883, 049
11-year average	[1] 40, 393, 426	[1] 29, 704, 633

	Net income before interest and income taxes	Net income from motor-vehicle business before interest and income taxes
Fiscal years ended Aug. 31—		
1927	$11, 607, 952	$11, 117, 772
1928	22, 123, 375	21, 642, 373
1929	25, 238, 669	24, 537, 304
September-December 1929, inclusive	5, 119, 562	4, 888, 922
Calendar years ended Dec. 31—		
1930	10, 605, 539	10, 198, 998
1931	[2] 1, 155, 253	[2] 1, 690, 868
1932	[2] 4, 835, 070	[2] 5, 116, 781
1933	552, 617	275, 846
1934	[2] 6, 242, 158	[2] 6, 530, 910
1935	2, 051, 773	1, 915, 582
1936	7, 502, 226	7, 327, 329
1937	3, 112, 257	2, 983, 530
Average per year	6, 677, 779	6, 313, 156

	Percent	Percent
Fiscal years ended Aug. 31—		
1927	27. 09	35. 62
1928	46. 56	65. 61
1929	46. 45	64. 82
September-December 1929, inclusive	9. 43	12. 63
Calendar year ended Dec. 31—		
1930	20. 80	26. 53
1931	[2] 2. 54	[2] 5. 14
1932	[2] 12. 54	[2] 17. 30
1933	1. 52	1. 09
1934	[2] 18. 76	[2] 29. 14
1935	6. 62	7. 54
1936	23. 34	29. 65
1937	9. 76	11. 53
Average per year	16. 53	21. 25

[1] Excluding interim period September-December, inclusive, 1929.
[2] Indicates loss.

Trends of rates of return.—Again referring to table 98, the rates of return on the two bases of investment are shown to have varied greatly from year to year. These variations result naturally from fluctuations in the amount of income which has varied from the maximum profit of approximately $25,000,000 in 1929 to the maximum loss of approximately $6,000,000 in 1934.

The results during the period may be generally classified in three groups, namely, the profit years 1927 to 1930, inclusive, the loss or negligible profit years 1931 to 1934, inclusive, and the profit years

1935 to 1937, inclusive. The average rate of return on the total investment for the entire 11-year period is shown to have been 16.53 percent. This rate, however, is the composite of rates of return in each of the years varying from a maximum profit of 46.56 percent in 1929 to a maximum loss of 18.76 percent in 1934.

The profit of 27.09 percent in 1927 was increased to 46.56 percent in 1928. Thereafter the profit showed successive decreases to 46.45 percent in 1929 and to 20.80 percent in 1930. The year 1931 recorded the first loss in the period under review, when operations resulted in a loss of 2.54 percent.

The loss was increased to 12.54 percent in 1932. The period of adverse results continued through the years 1933 and 1934. Though a profit was realized in 1933 it amounted to but 1.52 percent. The year 1934 records the greatest loss during the period, when it amounted to 18.76 percent.

The operations again showed a profit in 1935, when the rate of return was 6.62 percent of the total investment. The profit was materially increased in 1936, when the rate of return reached 23.34 percent. The profit in 1935 and its material increase in 1936 were coincidental with the introduction of the Packard One-twenty and Packard Six cars in the lower price groups and this no doubt was a factor in the increased profits. Sales increased from $14,000,000 in 1934 to $50,000,000 in 1935, and to $74,000,000 in 1936; and in 1935 and 1936 the total number of the lower-priced cars sold represented 96 and 95 percents, respectively, of the total number sold. In 1937 the rate of return dropped to 9.76 percent, even though the sales increased to approximately $96,000,000 from the approximately $74,000,000 in 1936.

Comparison of rates of return on the two bases of investment.—As shown in the preceding table, the rate of return on the total average investment in all domestic manufacturing operations for the 11-year period was 16.53 percent. The return on investment in the motor-vehicle business for the period was 21.25 percent, or 4.72 points in excess of that on the total investment.

The average investment in the motor-vehicle business, which includes borrowed money but excludes outside investments and the income derived therefrom, shows a uniformly greater percentage of profit or loss in comparison with the return on total investment in each year throughout the period, with the single exception of the low profit year 1933. This greater return is caused largely from the lesser investment in the motor-vehicle business resulting from its reduction by the large amount of outside investments and the corresponding disproportionate reduction in income due to the low rates of interest on the outside investments.

Outside investments include a comparatively small amount of stocks and bonds of other companies upon which the income was negligible, and the large amounts of marketable securities consisting of United States Government, State, county, and city securities upon which, in part, interest has been defaulted and upon which, in the larger amounts of United States Government securities, the interest rates ranged from 1½ to 2¾ percent.

A more detailed statement of investments on the three bases for the years 1927 to 1937, inclusive, and showing the amounts of each of the items forming a part of the aggregate investments used in table 98 on page 753, is presented as table 99 following:

TABLE 99.—*Packard Motor Car Co.—Summary of investments applying to domestic manufacture, 1927 to 1937, inclusive*

	Aug. 31, 1927	Aug. 31, 1928	Aug. 31, 1929	Dec. 31, 1929	Dec. 31, 1930	Dec. 31, 1931	Dec. 31, 1932	Dec. 31, 1933	Dec. 31, 1934	Dec. 31, 1935	Dec. 31, 1936	Dec. 31, 1937
Common stock	$30, 042, 640	$30, 042, 640	$40, 021, 320	$50, 000, 000	$50, 000, 000	$50, 000, 000	$45, 000, 000	$40, 000, 000	$40, 000, 000	$35, 000, 000	$30, 000, 000	$30, 000, 000
Earned surplus	18, 712, 372	25, 707, 691	24, 761, 787	17, 344, 525	15, 235, 876	10, 049, 948	6, 810, 407	8, 688, 576	5, 296, 519	8, 271, 947	15, 083, 317	14, 889, 064
Surplus reserves:												
Reserve for tool commitments model 120									599, 367	599, 367		
Reserve for contingencies	877, 006	289, 283	200, 240	110, 160	375, 000	1, 000, 000	1, 750, 000	1, 750, 000	1, 250, 000	1, 250, 000	1, 250, 000	1, 250, 000
Reserve for adjustment of securities to market						325, 000	555, 609	558, 338	382, 457	93, 225	60, 868	128, 760
Reserve for special compensation	520, 698	619, 132	765, 245	510, 641	197, 415	82, 500						
Reserve for Federal and State income taxes	1, 587, 008	2, 056, 744	2, 795, 000	2, 843, 063	2, 103, 141	715, 079					576, 779	841, 746
	51, 739, 724	58, 715, 490	68, 543, 592	70, 808, 389	67, 911, 432	62, 172, 527	54, 116, 016	50, 996, 914	47, 528, 343	45, 214, 539	46, 970, 964	47, 109, 570
Less: Investments in subsidiary companies	9, 129, 202	11, 443, 820	14, 455, 626	16, 756, 963	17, 177, 498	16, 869, 210	15, 751, 120	14, 893, 422	14, 367, 457	14, 343, 559	14, 953, 978	15, 342, 752
Stockholders' average total investment	42, 610, 522	47, 271, 670	54, 087, 966	54, 051, 426	50, 733, 934	45, 303, 317	38, 364, 896	36, 103, 492	33, 160, 886	30, 870, 980	32, 016, 986	31, 766, 818
Add: Borrowed money (distributors deposits)	233, 250	246, 521	250. 028	249, 282	243, 775	227, 250	201, 100	153, 190	118, 955	117, 330	121, 915	122, 900
Average total investment	42. 843, 772	47, 518, 191	54, 337, 994	54, 300, 708	50, 977, 709	45, 530, 567	38, 565, 996	36, 256, 682	33, 279, 841	30, 988, 310	32, 138, 901	31, 889, 718
Deduct: Average outside investments:												
Marketable securities (monthly average)	10, 310, 052	13, 220, 987	15, 292, 542	14, 420, 248	11, 827, 476	12, 534, 070	8, 916, 904	10, 793, 767	10, 757, 544	5, 507, 511	7, 369, 218	5, 959, 192
Investments in other companies (yearly average)	178, 454	162, 730	125, 508	109, 758	89, 758	73, 633	60, 333	108, 415	112, 513	59, 869	56, 143	47, 477
Mortgages and land contracts receivable (monthly average)	1, 143, 312	1, 150, 267	1, 067, 850	1, 054, 160	624, 226	19, 092	7, 879					
Average total outside investments	11, 631, 818	14. 533, 984	16, 485, 900	15, 584, 166	12, 541, 460	12, 626, 795	8, 985, 116	10, 902, 182	10, 870, 057	5, 567, 380	7, 425, 361	6, 006, 669
Average investment in motor-vehicle business	31, 211, 954	32, 984, 207	37, 852, 094	38, 716, 542	38, 436, 249	32, 903, 772	29, 580, 880	25, 354, 500	22, 409, 784	25, 420, 930	24, 713, 540	25, 883, 049

It should be noted that the figures in this statement are the result of averaging the amounts of each item at the beginning and end of each year and, in the case of outside investments, the average of monthly balances. Therefore the explanations of causes of changes to be presented following will not reconcile to the figures in the statement but will explain the changes in the basic figures which result in these averages.

The common stock is shown to have increased from $30,000,000 to $50,000,000 and then to have decreased to $40,000,000 and to $30,000,000. These constitute changes in capital stock but have no effect on the total investment for the reason that all changes in capital stock result from capitalization of $20,000,000 of surplus in 1929 and from reversing this action in the amount of $10,000,000 in 1932 and the remaining $10,000,000 in 1935. Thus over the entire period these changes are ineffective and for the individual years they account for material changes in capital stock and surplus accounts but have no effect on the total investment for the year.

The material changes in average investment result mainly from fluctuations of balances of earned surplus. These fluctuations result mainly from the effect on surplus of yearly profit or loss and of distribution of surplus as dividends. To a lesser degree the average investment from year to year is affected by variations in surplus reserves and in investments in subsidiary companies.

The preceding table shows that the average total investment has increased from $42,843,000 in 1927 to $54,337,000 at the end of the fiscal year 1929. Thereafter it has progressively decreased to 1935 when a low of $30,988,000 for the period is recorded. In 1936 an increase to $32,138,000 is noted. The year 1937 records a slight decrease and the average investment at December 31, 1937, amounted to $31,889,000.

This increase to 54 millions in 1929 is largely accounted for by increase in earned surplus resulting from profits in the intervening years sufficiently large to leave sizable amounts of income to be reinvested in the business after payment of large dividends. In the interim period from September to December 1929, payments of dividends in excess of the income for the period tended to reduce the surplus and therefore the investment by approximately $3,800,000 for the period and had its effect on the average yet the plan of averaging tends to equalize the average investment at August 31 and December 31, 1929.

The generally declining average investment from 1930 to 1935, inclusive, results largely from diminishing earned surplus due to losses incurred during 1931, 1932, and 1934 and the small profit realized in 1933 coupled with the further reduction by payment of a dividend of approximately $7,000,000 in 1931 though a loss was incurred in that year. The years 1936 and 1937 show increases in average investment and this coincides with a return of profit years.

The net profits from domestic manufacture have varied in greater proportion than have the average investments, the second factor in arriving at rate of return. The net profits before interest and provision for Federal and State income taxes amounted to $11,607,000 in 1927, $22,123,000 in 1928, and $25,238,000 in the fiscal year 1929. Diminishing yet high returns were maintained during the interim period of 1929 when $5,119,000 profit was realized for the 4-month period and during 1930 when $10,605,000 was realized for the year. Thereafter, the company sustained losses of $1,155,000 in 1931, $4,835,000 in 1932, and $6,246,000 in 1934 and realized a profit of but $552,000 in 1933. Profits of $2,051,000 were realized in 1935, $7,497,000 in 1936, and $3,112,000 in 1937. Thus the spread in income has varied from a high of $25,238,000 profit in 1929 to a low of $6,242,000 loss in 1934 in widely fluctuating amounts from year to year. During the same period the average total investment has varied from a high of $54,337,000 in 1929 to a low of $30,988,000 in 1935, in somewhat of a general trend up and down. The variations in the rates of return may therefore be more attributable to fluctuations in income than to changes in investment.

Volume of sales in relation to capital employed.—Earlier in this report the rates of return on each of two bases of investment have been shown together with the yearly income and investment forming the basis of each of these rates of return. There follows as table 100, a statement showing for each of the years 1927 to 1937, inclusive, and for the combined period, the relation of average investment employed in the motor-vehicle business to the volume of net sales.

TABLE 100.—*Packard Motor Car Co.—Volume of sales in relation to capital employed applying to domestic manufacture of motor vehicles—1927 to 1937, inclusive*

Year	Average investment	Net sales	Times turnover of capital per year	Ratio of net profit to sales	Percent rate of return on investment
Aug. 31, 1927	$31, 211, 954	$72, 326, 526	2. 3173	15. 37	35. 62
Aug. 31, 1928	32, 984, 207	95, 581, 802	2. 8978	22. 64	65. 61
Aug. 31, 1929	37, 852, 094	108, 961, 411	2. 8786	22. 52	64. 82
Dec. 31, 1929 (4 months)	38, 716, 542	28, 261, 436	. 7300	17. 30	12. 63
Dec. 31, 1930	38, 436, 249	58, 420, 128	1. 5199	17. 46	26. 53
Dec. 31, 1931	32, 903, 772	30, 481, 962	. 9264	[1] 5. 55	[1] 5. 14
Dec. 31, 1932	29, 580, 880	15, 788, 087	. 5337	[1] 32. 41	[1] 17. 30
Dec. 31, 1933	25, 354, 500	19, 465, 147	. 7677	1. 42	1. 09
Dec. 31, 1934	22, 409, 784	14, 781, 494	. 6596	[1] 44. 18	[1] 29. 14
Dec. 31, 1935	25, 420, 930	50, 835, 261	1. 9997	3. 77	7. 54
Dec. 31, 1936	24, 713, 540	74, 665, 170	3. 0212	9. 81	29. 65
Dec. 31, 1937	25, 883, 049	96, 787, 887	3. 7394	3. 08	11. 53
Average	[2] 29, 704, 633	58, 796, 145	1. 9794	10. 74	21. 25

[1] Denotes a loss.
[2] *Excluding interim period September–December 1929.*

This statement shows further the percent relation of net profit to sales and the rate of return on average investment in the motor-vehicle business.

In the earlier discussion of rates of return it was pointed out that the average investment in the motor-vehicle business for the 11-year period embracing the years 1927 to 1937, inclusive, amounted to $29,704,633. The preceding table shows that for this same period, the average net sales amounted to $58,796,145. Thus, in relation one to the other, the volume of sales averaged 1.9794 times the average capital employed. The net profit for the period amounted to 10.74 percent, on the average volume of sales.

The rate of sales volume in relation to capital employed, when further related to the percentage of net profit on sales, produces an average rate of return of 21.25 on investment. The year 1937 showed the greatest sales volume in relation to capital employed, namely, 3.7394 times while the year 1932 was lowest with a sales volume .5337 times the capital employed.

Balance sheet.—The balance-sheet statement presented following is that of Packard Motor Car Co. (Michigan) as a parent or holding company as distinguished from a consolidated statement after exclusion of Detroit selling branch and includes the parent company's interest in all underlying companies, together with the Detroit selling branch, in the form of investment in subsidiary companies.

TABLE 101. *Packard Motor Car Co. (Michigan)—Balance sheet of company as a holding company as at Aug. 31, 1926 to 1929, inclusive, and as at Dec. 31, 1929 to 1937, inclusive, excluding Detroit selling branch* [1]

ASSETS

	At Aug. 31—				At Dec. 31—		
	1926	1927	1928	1929	1929	1930	1931
Current assets:							
Cash in banks and on hand	$4,230,531	$3,078,048	$5,099,733	$5,573,336	$3,321,248	$3,158,309	$2,376,583
Less reserve for foreign exchange							[2] 21,596
Total							2,354,988
U. S. Government securities	6,300,000	7,200,000	8,420,782	7,598,703	7,309,672	8,349,088	7,995,750
Municipal, State, and Canadian bonds	6,453,750	4,726,747	6,226,250	6,286,727	6,150,649	6,096,928	3,235,904
Total	12,753,750	11,926,747	14,647,032	13,885,430	13,460,321	14,446,016	11,231,654
Less reserve to adjust to market							[2] 650,000
Net marketable securities	12,753,750	11,926,747	14,647,032	13,885,430	13,460,321	14,446,016	10,581,654
Accounts receivable	2,139,093	2,534,772	2,401,523	2,175,677	1,346,583	692,429	445,289
Accrued interest receivable							
Total							
Less reserve for doubtful accounts	[2] 82,615	[2] 63,512	[2] 74,963	[2] 63,904	[2] 68,079	[2] 75,908	[2] 64,115
Net accounts receivable	2,056,478	2,471,260	2,326,560	2,111,773	1,278,504	616,521	381,174
Notes receivable	593,540	246,405	535,919	547,869	935,807	553,959	486,160
Less reserve for doubtful notes							[2] 162,752
Net notes receivable	593,540	246,405	535,919	547,869	935,807	553,959	323,408
Inventories	8,470,747	7,030,855	8,473,944	8,608,020	6,614,634	4,426,720	4,158,609
Total current assets	28,105,046	25,353,315	31,083,188	30,726,428	25,610,514	23,201,525	17,799,833
Mortgages and land contracts receivable	1,005,086	1,187,574	1,078,451	1,058,429	1,049,890	22,166	13,055
Stocks and bonds of other companies	162,704	194,203	131,257	119,758	99,758	79,758	67,508
Less reserve to adjust to market							
Net outside investments	1,167,790	1,381,777	1,209,708	1,178,187	1,149,648	101,924	80,563
Cash in closed banks							
Less reserve for cash in closed banks							
Net cash in closed banks							

See footnotes at end of table.

TABLE 101. *Packard Motor Car Co. (Michigan)—Balance sheet of company as a holding company as at Aug. 31, 1926 to 1929, inclusive, and as at Dec. 31, 1929 to 1937, inclusive, excluding Detroit selling branch*—Continued

ASSETS—Continued

	At Aug. 31—				At Dec. 31—		
	1926	1927	1928	1929	1929	1930	1931
Property account	([2] [3])	([2] [3])	([2] [3])	$35,793,772	$37,422,114	$34,584,477	$32,999,104
Less reserve for depreciation				[2] 11,187,412	[2] 12,165,645	[2] 11,597,864	[2] 12,218,355
Net property account	$16,255,707	$18,597,465	$21,514,965	24,606,360	25,256,469	22,986,613	20,780,749
Deferred charges to future operations	124,144	115,692	169,736	222,395	225,848	443,677	485,129
Intercompany items:							
Investments in subsidiary companies:							
Stock (at par)	175,000	125,000	125,000	127,425	127,425	127,433	342,433
Surplus of subsidiary companies	5,648,677	8,463,487	11,631,119	15,227,722	15,659,304	11,422,771	10,890,366
Special advances	1,873,858	1,972,381	570,652	1,229,333	1,142,716	5,875,346	5,080,071
Total	7,697,535	10,560,868	12,326,771	16,584,480	16,929,445	17,425,550	16,312,870
Accounts receivable, branches	3,935,702	3,854,327	7,015,563	5,574,864	8,080,823	6,506,145	3,467,968
Total intercompany items	11,633,237	14,415,195	19,342,334	22,159,344	25,010,268	23,931,695	19,780,838
Total assets	57,285,924	59,863,444	73,319,931	78,892,714	77,252,747	70,665,434	58,927,112

	At Dec. 31—						Average
	1932	1933	1934	1935	1936	1937	
Current assets:							
Cash in banks and on hand	$2,361,941	$2,714,512	$1,887,999	$2,954,965	$3,507,374	$2,441,575	$3,331,242
Less reserve for foreign exchange	[2] 21,596						[2] 3,322
Total	2,340,345						
U. S. Government securities	9,107,264	10,895,773	8,890,774	7,351,764	7,499,451	1,000,000	7,532,232
Municipal, State, and Canadian bonds	1,326,626	1,188,076	787,138	839,777	785,165	787,992	3,453,210
Total	10,433,890	12,083,849	9,677,912	8,191,541	8,284,616	1,787,992	10,985,442
Less reserve to adjust to market	[2] 461,217	[2] 585,200	[2] 78,783	[2] 47,805	[2] 21,979	[2] 202,518	[2] 157,500
Net marketable securities	9,972,673	11,498,649	9,599,129	8,143,736	8,262,637	1,585,474	10,827,942

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Accounts receivable	287,313	386,787	326,165	1,182,919	1,457,782	754,470	1,241,600
Accrued interest receivable		92,468	71,878	42,044	33,998	4,957	18,873
Total		479,255	398,043	1,224,963	1,491,780	759,427	
Less reserve for doubtful accounts	[2] 114,604	[2] 119,607	[2] 119,524	[2] 140,576	[2] 135,170	[2] 122,578	[2] 95,788
Net accounts receivable	182,709	359,558	278,519	1,084,387	1,356,610	636,849	1,164,685
Notes receivable	88,457	91,462	68,183	65,205	71,169	226,561	346,976
Less reserve for doubtful notes	[2] 85,000	[2] 91,462	[2] 68,183	[2] 65,205	[2] 71,169	[2] 54,729	[2] 46,038
Net notes receivable	3,457	0	0	0		171,832	300,938
Inventories	3,819,656	2,709,655	2,993,305	3,789,806	6,954,310	8,037,917	5,852,937
Total current assets	16,318,840	17,282,374	14,758,952	15,972,894	20,080,931	12,873,647	21,474,422
Mortgages and land contracts receivable							416,512
Stocks and bonds of other companies	53,157	163,674	61,352	58,386	53,901	41,053	98,959
Less reserve to adjust to market		[2] 70,259	[2] 30,673	[2] 29,189	[2] 22,763	[2] 10,260	[2] 12,550
Net outside investments	53,157	93,415	30,679	29,197	31,138	30,793	502,921
Cash in closed banks		581,580	578,647	540,431	495,906	447,143	203,362
Less reserve for cash in closed banks		[2] 581,580	[2] 578,647	[2] 540,431	[2] 495,906	[2] 447,143	[2] 203,362
Net cash in closed banks							
Property account	31,449,335	30,940,267	31,016,690	31,313,475	30,982,097	30,572,809	
Less reserve for depreciation	[2] 12,496,966	[2] 13,808,691	[2] 14,883,303	[2] 15,743,484	[2] 14,818,436	[2] 13,185,257	
Net property account	18,952,369	17,131,576	16,133,387	15,569,991	16,163,661	17,387,552	19,333,605
Deferred charges to future operations	247,960	266,814	355,740	262,931	277,269	279,005	267,411
Intercompany items:							
Investments in subsidiary companies:							
Stock (at par)	411,433	386,433	436,433	436,433	342,433	342,433	269,639
Surplus of subsidiary companies	8,470,930	8,203,964	7,765,136	8,155,306	8,391,697	8,737,731	9,897,555
Special advances	6,307,007	6,007,078	5,935,869	5,957,941	6,624,147	6,247,063	4,217,189
Total	15,189,370	14,597,475	14,137,438	14,549,680	15,358,277	15,327,227	14,384,383
Accounts receivable, branches	1,735,852	2,716,052	1,671,221	5,495,209	4,616,781	5,847,508	4,655,232
Total intercompany items	16,925,222	17,313,527	15,808,659	20,044,889	19,975,058	21,174,735	19,039,615
Total assets	52,497,548	52,087,706	47,087,417	51,879,902	56,528,057	51,745,732	60,617,974

For footnotes, see end of table.

TABLE 101. *Packard Motor Car Co. (Michigan)—Balance sheet of company as a holding company as at Aug. 31, 1926 to 1929, inclusive, and as at Dec. 31, 1929 to 1937, inclusive, excluding Detroit selling branch*—Continued

LIABILITIES

	At Aug. 31—				At Dec. 31—		
	1926	1927	1928	1929	1929	1930	1931
Current liabilities:							
Current accounts payable	$3,532,828	$3,027,511	$4,630,024	$4,023,528	$2,884,924	$1,105,967	$929,069
Accrued pay rolls	873,879	888,437	1,106,274	1,132,267	683,162	309,968	437,480
Deposits by distributors	224,500	242,000	251,042	249,013	249,551	238,000	216,500
Dividends payable	1,802,558	1,802,558	2,253,198		3,750,000		
Total	6,433,765	5,960,506	8,240,538	5,404,808	7,567,637	1,653,935	1,583,049
Reserves for—							
Special compensation	542,166	499,230	739,035	791,454	229,829	165,000	
Workmen's compensation	58,847	64,934	82,384	81,718	80,268	74,817	70,653
Wholesale discount	470,370	250,612	359,134	375,382	397,629	356,599	138,086
Vehicle price revision					600,000	1,350,000	662,761
Unclaimed wages, dividends, etc	15,909	20,100	19,842	14,402	6,840	7,592	
Miscellaneous taxes	187,788	207,090	547,255				
Federal income tax	1,740,528	1,433,487	2,680,000	2,910,000	2,776,125	1,430,158	
Total reserves	3,015,608	2,475,453	4,427,650	4,172,956	4,090,691	3,384,166	871,500
Total current liabilities	9,449,373	8,435,959	12,668,188	9,577,764	11,658,328	5,038,101	2,454,549
Reserve for contingencies	1,355,607	398,406	180,160	220,320		750,000	1,250,000
Capital stock:							
Preferred $100 par	19,700	12,600	1,000	1,000	1,000		
Less reserve for retirement	[2] 19,700	[2] 12,600	[2] 1,000	[2] 1,000	[2] 1,000		
Net outstanding	0	0	0	0	0		
Common stock (authorized 5,000,000 shares par $10; outstanding 3,004,264 shares)	30,042,640	30,042,640	30,042,640				
Common stock (authorized 25,000,000 shares no par; outstanding 15,000,000 shares)				50,000,000	50,000,000	50,000,000	50,000,000
Surplus	16,438,304	20,986,439	30,428,943	19,094,630	15,594,419	14,877,333	5,222,563
Total liabilities	57,285,924	59,863,444	73,319,931	78,892,714	77,252,747	70,665,434	58,927,112

	At Dec. 31—						Average
	1932	1933	1934	1935	1936	1937	
Current liabilities:							
Current accounts payable	$951,375	$1,120,687	$2,462,325	$3,202,312	$6,211,150	$3,129,572	$2,862,406
Accrued pay rolls	319,576	259,071	154,385	505,807	734,425	253,761	589,115
Deposits by distributors	185,700	120,680	117,230	117,430	126,400	119,400	189,034
Dividends payable							739,101
Social Security taxes—unemployment					175,005	127,314	23,255
Miscellaneous			1,029				79
Total	1,456,651	1,500,438	2,734,969	3,825,549	7,246,980	3,630,047	4,402,990
Reserves for—							
Special compensation							228,209
Workmen's compensation	69,328	67,765	68,508	50,000	50,000	50,000	66,863
Wholesale discount				269,599	540,265	564,906	286,353
Vehicle price revision	323,318	250,600	157,968	949,065	901,886	1,000,000	476,584
Unclaimed wages, dividends, etc							6,514
Miscellaneous taxes		40,002					75,549
Federal income tax					1,153,558	529,935	1,127,215
Capital stock tax			63,102	125,930	81,500	80,816	27,027
Tool commitments on model "120"			1,198,734				92,210
U. S. Federal and Canadian income taxes of subsidiaries				480,000			36,923
Miscellaneous					66,993	98,776	12,751
Total reserves	392,646	358,367	1,488,312	1,874,594	2,794,202	2,324,433	2,436,198
Total current liabilities	1,849,297	1,858,805	4,223,281	5,700,143	10,041,182	5,954,480	6,839,188
Reserve for contingencies	2,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	973,423
Capital stock:							
Preferred $100 par							2,715
Less reserve for retirement							[2] 2,715
Net outstanding							0
Common stock (authorized 25,000,000 shares no par; outstanding 15,000,000 shares)	40,000,000	40,000,000	40,000,000	30,000,000	30,000,000	30,000,000	38,471,378
Surplus	8,398,251	8,978,901	1,614,136	14,929,759	15,236,875	14,541,252	14,333,985
Total liabilities	52,497,548	52,087,706	47,087,417	51,879,902	56,528,057	51,745,732	60,617,974

[1] The Detroit selling branch is not subsidiary to, but is a part of Packard Motor Car Co., the parent company. For the purpose of this statement, however, the selling branch is eliminated. This being a parent-company statement and not a consolidated statement, investment in subsidiary companies and in Detroit selling branch are here shown as investment items.

[2] Red figures.

[3] In 1926, 1927, and 1928, plant account was carried net in the company records.

During the period 1927 to 1937, inclusive, the operating year of the company was changed from a fiscal to a calendar year. The balance sheet as presented, therefore, records the position of the company at August 31, 1926 to 1929, inclusive; at December 31, 1929, the ending of an interim 4-month period of adjustment; and at December 31, 1930 to 1937, inclusive.

The corporate structure of Packard Motor Car Co. at December 31, 1937, is pictured by the following tabulation.

Packard Motor Car Co. (Michigan):
- Packard Motor Car Co. of New York
- Packard Motor Car Co. of Chicago
- Packard Motor Car Co. of Philadelphia
- Packard Motor Car Co. of Texas
- Packard Motor Sales Co.
  - Atlanta Packard Motors, Inc.
- Packard Motor Export Corporation
- Packard, Ltd., London
- Packard Motor Car Co. of Canada, Ltd.

In addition to the selling companies noted above, Packard Motor Car Co. (Michigan) operates a selling branch in the city of Detroit, which branch is an integral part of the parent company. Though not separately incorporated, separate accounting is maintained for this branch.

Cash in closed banks.—At the time of closing of the banks, the company had $1,292,202.04 deposited in banks which did not reopen, a part of which was recovered early in the receivership. In 1933 there remained unrecovered $581,580 applicable to the parent company.

In anticipation of additional recoveries, this amount was set aside in a special cash account, and a reserve in equal amount was set up by transfer from reserve for contingencies, which latter had been created by charge to income. Subsequent recoveries were credited to income and charged to the reserve, and the cash in closed banks was reduced by transfer of the recovered amount to free cash. However, in the Commission's use of these figures, the contra to the setting up and reduction of this reserve has been given effect to as a direct entry to surplus rather than to income.

Property account.—During the fiscal years 1926, 1927, and 1928 (and for years preceding), property account was carried at net, i. e., credits were made directly to the property account for all depreciation. During 1929 the entire depreciation on these property values to December 31, 1929, at rates accepted by the Internal Revenue Bureau, was established; and thereafter the properties were stated at cost of all plant items which had not been fully depreciated, and against this the established depreciation reserve was offset.

Investments in subsidiary companies.—As previously stated, the balance sheet here presented is that of Packard Motor Car Co. (Michigan) as a holding company. The company's investment in Detroit selling branch is included in investments in subsidiary companies.

It has been the policy of the company to take up undistributed earnings of subsidiary companies on the books of the parent company, or to record investments in subsidiary companies at the net worth of the companies owned, and therefore the balance sheet records as investment in subsidiary companies the capital stock (par) and surplus of, and special advances to, subsidiary companies.

Deposits by distributors.—It has been a general practice in the motor-vehicle industry to require distributors to place a cash deposit with the manufacturer to cover open-account parts shipments, freight, or other advances made by the manufacturer for the distributor. In accordance with the Commission's practice, these deposits have been treated as borrowed funds for the purpose of arriving at stockholders' investment.

Capital stocks issued and outstanding—General.—The Packard Motor Car Co. (Michigan) commenced operations with a capital-stock authorization consisting of 50,000 shares of preferred and 50,000 shares of common stocks, each of par value of $100 per share, and all of which was issued at reorganization of the former Packard Motor Car Co. (West Virginia) on August 31, 1909. These authorizations have been increased from time to time for both classes of stock; and in the case of common stock, the measure of value per share has been changed successively from par $100 to par $10 and from the latter to no par, so that at its retirement in 1925 there were 200,000 shares of par value of $100 per share of preferred stock and at December 31, 1937, there were 25,000,000 shares of common stock of no-par value authorized. Details of the successive changes in authorizations and of the extent to which they were absorbed in the issuance of stocks are presented in discussions of each class of stock which follows.

Preferred stock issued.—During the period from organization in 1909 to and including the year 1925, the company had outstanding preferred stock which, at its maximum at August 31, 1919, amounted to 155,000 shares of aggregate par value of $15,500,000. None additional has been issued since that date. Commencing in 1920 and continuing through 1925, 44,425 shares of an aggregate par value of $4,442,500 of this stock were acquired through purchase on the open market and retired, and on and as of August 31, 1925, the entire 110,575 shares of aggregate par value of $11,057,500 were called for redemption at $110 and accrued dividends. This was in accordance with the right of redemption reserved in the articles of association.

No voting rights attached to the preferred stock except in the event that the common stock might become impaired in an amount equal to 10 percent thereof or in the event that any dividend on preferred stock remained unpaid for 60 days. These situations never existed, and therefore the preferred-stock holders have not exercised voting rights.

The preferred stock was subject to redemption at par on August 31, 1939, the date of termination of the period for which the company was incorporated.

A statement showing the issuances of preferred stock, in tabular form and by years, together with the consideration received, is as follows:

Stock issued	Shares	Par value	Discount	Amount realized
1909: Issued at organization	50,000	$5,000,000	0	0
1916: Sold for cash at par	30,000	3,000,000	0	$3,000,000
1919: Sold for cash at 95½	75,000	7,500,000	$337,500	7,162,500
Total issued	155,000	15,500,000	337,500	10,162,500

Referring to the above statement, it may be noted that preferred stock was issued on three occasions, namely, in 1909, 1916, and 1919. The $5,000,000 issued in 1909 was issued in connection with the exchange of stock at incorporation of the present company. Through this exchange, 1.6 shares of common and 1.6 shares of preferred stocks of the present company were issued in exchange for each one share of common stock of the old company. The inequality of the exchange is accounted for in part by capitalization of surplus of the predecessor company and in part by appreciation in the form of creation of an item of rights, privileges, franchises, patents, and inventions. The bases and effect of these exchanges are discussed on page 740, in connection with the formation of the new company.

During the year 1916, $3,000,000 par value of preferred stock was issued and sold to William A. Read & Co. at par, and the proceeds thereof were used to provide working capital.

In 1919, $7,500,000 par value additional was issued and sold at 95½; and with the proceeds $7,000,000 principal amount of United States certificates of indebtedness were purchased and held by Chase National Bank for retirement of the 3-year 5-percent gold notes maturing on October 16, 1919. The discount of 4½ percent, amounting to $337,500, measured the commission on selling, and the amount realized was $7,162,500.

Preferred stock retired.—Between 1920 and 1924, inclusive, 37,957 shares of preferred stock were acquired at market price and were retired. The prices paid varied from below par to slightly above par, but since these acquisitions were the result of small and numerous purchases and time did not permit of an exhaustive analysis of this account, the exact cost of acquisition is not available.

During 1925, 6,468 additional shares were purchased, and for these, an average price of $95.42 was paid.

The entire remaining outstanding 110,575 shares, of aggregate par value of $11,057,500, were called for redemption as of August 31, 1925, at the call price of $110 a share. The net of the premium of $1,105,750 paid on call and the discount of $29,603 on purchase in 1925 was charged to surplus in the current year.

A tabular statement of the retirements of preferred stock, by years, follows:

	Shares	Par value
1920: Purchased and retired	2,765	$276,500
1921: Purchased and retired	4,337	433,700
1923: Purchased and retired	1,136	113,600
1924: Purchased and retired	29,719	2,971,900
1925: Purchased and retired	6,468	646,800
1925: Called at $110	110,575	11,057,500
Total retired	155,000	15,500,000

Common stock authorized.—At organization in 1909, 50,000 shares of common stock, of par value of $100 for each share, were authorized and issued. On October 16, 1913, the authorized common shares were increased to 80,000, though no additional stock was immediately issued. This was further increased to 130,000 shares on August 1, 1916, at which time stock dividends of 10 and 50 percent were declared. At October 28, 1919, the par value of common stock was reduced from $100 to $10 a share, and 3,000,000 shares of the new $10 par stock were authorized. This was further increased to 5,000,000 shares on November 11, 1925. Effective September 3, 1929, the common stock was changed from par $10 to no par, and 25,000,000 shares of the new no-par stock were authorized for issuance. This authorization remained unchanged at December 31, 1937.

Common stock issued.—During the period from organization in 1909 to December 31, 1937, the common stock outstanding has increased from $5,000,000 to $30,000,000. The maximum ledger value reached an aggregate of $50,000,000 in 1929, when the ledger value of the stock was increased $20,000,000 by capitalization of that amount of surplus without issuance of additional shares. However, through reversal of this transaction in amount of $10,000,000 in 1932 and the remaining $10,000,000 in 1935, the stock account was returned to its original value of $30,000,000, and the effect over the entire period is as though such capitalization was never effective.

A statement of the changes in common-stock account from organization to December 31, 1937, follows:

	Issued		Balance
	Shares	Amount	
Par $100 stock:			
1909: Issued in exchange at organization	50,000	$5,000,000	$5,000,000
1914:			
Stock dividend, 40 percent	20,000	2,000,000	
Issued and sold	653	65,300	7,065,300
1916:			
Stock dividend, 10 percent	7,065.3	706,530	7,771,830
Stock dividend, 50 percent	38,851	3,885,100	
Allotted to executives	1,840	184,000	11,840,930
Total	118,409.3	11,840,930	
Par $10 stock:			
1919: Issued 10 par $10 for 1 par $100	1,184,093		
1920: Allotted to executives	4,417	44,170	11,885,100
1923: Stock dividend, 100 percent	1,188,510	11,885,100	23,770,200
1926:			
Stock dividend, 10 percent	237,702	2,377,020	26,147,220
Stock dividend, 15 percent	389,542	3,895,420	30,042,640
Total	3,004,264	30,042,640	
1929: Canceling portion of allotted stock	[1] 4,264	[1] 42,640	30,000,000
Balance	3,000,000	30,000,000	
No-par stock:			
1929:			
Issued 5 no par for 1 par $10	15,000,000		
Capitalization of surplus		20,000,000	50,000,000
1932: Returning to surplus		[1] 10,000,000	40,000,000
1935: Returning to surplus		[1] 10,000,000	30,000,000
1937: Balance at Dec. 31	15,000,000	30,000,000	30,000,000

[1] Red figures.

Of the total ledger value of common stock outstanding December 31, 1937, namely, $30,000,000, 16.67 percent was issued at the organization of the present corporation, 0.83 of 1 percent was subsequently issued for cash, and 82.5 percent was issued as stock dividends.

The 1840 shares of stock allotted to executives was issued in conformity with the plan used in the old company whereby options were granted to certain selected executives permitting purchase of an assigned block of common stock at par at the expiration of 5 years from date of allotment. The stock was issued to a trustee and held in trust for the 5 years during which period dividends accrued to the allottee so long as he remained in the employ of the company. Upon leaving the service before expiration of the 5-year period all rights to the stock terminated.

Stockholders owning 1 percent or more.—At December 31, 1937, there were eight stockholders owning 1 percent or more of the 15,000,000 shares of stock then outstanding. These holders, together with the number of shares owned by each and the percent each such holding was of the total shares, were:

	Shares	Percent		Shares	Percent
Estate of James McMillan	1,100,000	7.33	Sidney D. Waldon	203,115	1.35
John S. Newberry	522,003	3.48			
Truman H. Newberry	360,130	2.40	Total	3,219,763	21.46
Alvan Macauley	282,245	1.88	Other holders	11,780,237	78.54
James T. McMillan	270,000	1.80			
Alvan T. Fuller	245,270	1.64	Total outstanding	15,000,000	100.00
Ira L. Berk	237,000	1.58			

A comparison of this list with that of stockholders at organization of the present company on page 739 discloses that, considering the holdings of the estate of James McMillan to be successor to the holdings of Philip H. McMillan at organization, four of the eight largest holders at the end of 1937 were stockholders at organization of the company. These were Philip H. McMillan, who held 6,090 shares or 12.18 percent of the total of 50,000 shares outstanding; Truman H. and John S. Newberry, each holding 3,136 shares or 6.27 percent; and Sidney D. Waldon, who, at organization, held but 40 shares.

Throughout the early years of the company's existence, its stock was more or less closely held. With the reduction in par value from $100 to $10 per share in 1919, the number of shares was increased from 300,000 to 3,000,000 by the issuance of 10 shares for each 1 share previously held. During the post-war depression of 1920–21, the number of holders increased to 5,600 by the end of 1921.

The further increase to 15,000,000 shares in 1929 by issuance of 5 shares of no-par value for each 1 share of $10 par value resulted in a marked increase in the number of stockholders. During the depression beginning in 1929, the number of stockholders increased rapidly. On August 31, 1929, the end of the fiscal year 1929, when the 15,000,000 shares of stock were issued, the stockholders numbered 11,087, and on December 31, 1929, only 4 months later, the number of stockholders had increased to 59,230. There has been a general, though not consistent, increase since and on December 31, 1937, there were 117,466 stockholders.

Funded debt.—Throughout the period of the company's existence from organization in 1909 to December 31, 1937, secured notes and bonds have been issued as a means of providing capital on but three occasions. The existence of the funded debt so created has, in fact, been confined to the more limited period from 1912 to 1923 and the notes and bonds have been issued or outstanding for short terms. A description of the three issues follows:

(*a*) $3,000,000, 5-year 5-percent debenture notes, dated December 1, 1911, maturing December 1, 1916, and paid at maturity.

(*b*) $5,000,000, 3-year 5-percent gold notes, dated October 16, 1916, maturing October 16, 1919, and paid at maturity.

(*c*) $10,000,000, 10-year 8-percent gold bonds dated, April 15, 1921, maturing April 15, 1931, but redeemed before the end of 1923.

A tabular statement of the balances of each issue of funded debt outstanding at August 31 of each of the years is presented below for the purpose of showing the continuity or succession of each issue.

	5-year gold debenture notes	3-year gold notes	10-year gold bonds
At Aug. 31—			
1912	$2,000,000		
1913–16	3,000,000		
1917–19	0	$5,000,000	
1920		0	
1921			$9,853,500
1922			7,400,500
1923			0

A more detailed discussion of the creation and redemption of each of these issues follows:

Five-year, 5-percent debenture notes.—At a directors' meeting on November 29, 1911, an issue of $3,000,000, 5-year, 5-percent gold debenture notes, dated December 1, 1911, and maturing 5 years from date, was authorized. Of this amount $2,000,000 were issued immediately and were sold to William A. Read & Co. at $95.23 per $100 unit, or at a realization of $1,904,600. In January 1913 the remaining unissued $1,000,000 of the $3,000,000 authorization was issued and sold to the same brokers at $95.50 per $100 unit and $955,000 was realized.

These notes were redeemed in full at par on maturity date, December 1, 1916 (fiscal year 1917), with funds realized from sale of $5,000,000, 3-year, 5-percent gold notes described next below.

Three-year, 5-percent gold notes.—At a directors' meeting on October 13, 1916, an issue of $7,500,000, 3-year, 5-percent gold notes, dated October 16, 1916, and maturing 3 years from date, was authorized. These were secured by indenture to Central Trust Co. of New York.

Only $5,000,000 of these notes were issued immediately and these were sold to William A. Read & Co. at $96.75 per $100 unit, or at a total realization of $4,837,500. Of this amount realized, $3,000,000 was paid by certified check direct to Central Trust Co. to retire at par the issue of 5-year, 5-percent debenture notes maturing December 1, 1916, and the balance reverted to the company.

An additional $2,500,000 was issued in January 1918 and pledged as security for a loan of $2,500,000 by the United States War Credit Board as an advance on contract for Liberty motors. The loan was repaid within the year and the released notes were held unissued.

The outstanding notes were redeemed in full on maturity date, October 16, 1919, with funds realized from sale of $7,500,000 additional preferred stock.

Ten-year, 8-percent gold bonds.—At a directors' meeting on April 9, 1921, an aggregate issue of $10,000,000, 10-year, 8-percent gold bonds, dated April 15, 1921, and maturing 10 years from date, was authorized. These bonds were secured by a trust agreement with Guaranty Trust Co. of New York. The entire amount was issued immediately and sold to a group of bankers.

For $5,000,000 of the bonds, a price of $94 was received, while for the remaining $5,000,000 the price received was $95. The average price received therefor was $94.50 per $100 unit. The proceeds from this sale were to be used to retire the company's then outstanding bank loans.

In accordance with a sinking-fund agreement, provision was made for setting aside $250,000 quarterly for retirement of these bonds thus insuring complete retirement by maturity date 10 years later. However, the rate of retirement far exceeded the sinking-fund provisions. There remained but 4 months in the fiscal year 1921 dating from issuance of the bonds. During this quarter, $250,000 was provided and $146,500 of the bonds were purchased and retired. During the fiscal year 1922, $2,453,000 of the bonds were purchased and retired, thus exceeding the terms of the sinking fund by $1,453,000. On April 14, 1923, just 2 years after issuance, all bonds remaining outstanding in amount of $7,400,500 were called and canceled.

Summary of earned-surplus account.—Table next following is a summary of changes in surplus account of Packard Motor Car Co. (Michigan) as a holding company during the period September 1, 1926, to December 31, 1937:

TABLE 102.—*Packard Motor Car Co. (Michigan)—Summary of changes in earned surplus account of the company as a holding company during the years 1927 to 1937, inclusive, excluding the Detroit selling branch* [1]

	Aug. 31, 1927	1928	1929	Dec. 31, 1929	1930	1931	1932	1933	1934	1935	1936	1937	Composite
Balance at beginning of year	$16,438,304	$20,986,439	$30,428,943	$19,094,630	$15,594,419	$14,877,333	$5,222,563	$8,398,251	$8,978,901	$1,614,136	$14,929,759	$15,236,875	$16,438,304
Net factory profit or loss for the year	10,066,525	19,434,970	22,341,650	4,536,353	9,377,842	[2] 1,166,712	[2] 4,845,082	545,633	[2] 6,246,915	1,567,112	6,347,315	2,632,290	64,590,981
Net profit of subsidiary companies and Detroit branch for the year	1,912,272	3,168,139	3,596,603	418,819	773,466	[2] 532,405	[2] 834,107	[2] 189,919	[2] 438,828	390,170	766,410	572,031	9,602,571
Total profit for year	11,978,797	22,603,109	25,938,253	4,955,172	10,151,308	[2] 1,699,117	[2] 5,679,269	355,714	[2] 6,685,743	1,957,282	7,113,725	3,204,321	74,193,552
OTHER ADDITIONS													
Transfer to property account in connection with adjustment of income tax, of items charged to operations in previous years			716,674										716,674
Adjusting capital stock of Packard Motor Sales Co.				10,000									10,000
To adjust previous year's overhead				11,719									11,719
Refund of Federal income tax for year 1930								137,383					137,383
Returned to surplus from reserve for general purposes								336,186					336,186
Previous year's profit-and-loss adjustment		51,762											51,762
Sale of capital assets	263,250	1,664	[3] 9,556						35,190	[3] 9,327	39,762		320,983
Cancelation of trustee stock			42,640										42,640
Recoveries of claims for deposits in closed banks									2,933	26,981	44,525	48,763	123,202
Profit or loss on disposal of securities		[3] 10,998	[3] 149				[3] 83,826	[3] 54,391	15,302	170,991	[3] 2,179	49,442	84,192
Total other additions	263,250	42,428	749,609	21,719			[3] 83,826	419,178	53,425	188,645	82,108	98,205	1,834,741
Dividends declared and paid	7,195,363	12,442,912	17,234,244	8,247,102	9,741,306	6,745,653					6,746,103	3,747,835	72,100,518

[1] Company operated on a fiscal year ending Aug. 31 to and including 1929 and on a calendar year ending Dec. 31 thereafter.
[2] Denotes a loss.
[3] Denotes a deduction.

TABLE 102.—*Packard Motor Car Co. (Michigan)—Summary of changes in earned surplus account of the company as a holding company during the years 1927 to 1937, inclusive, excluding the Detroit selling branch*—Continued

	Aug. 31, 1927	1928	1929	Dec. 31, 1929	1930	1931	1932	1933	1934	1935	1936	1937	Composite
OTHER DEDUCTIONS													
Transfer to capital stock in accordance with resolution of board of directors and later returned to surplus			$20,000,000				[4]$10,000,000			$[4]10,000,000			0
Write off goodwill of sales company					$10,000								$10,000
Adjusting cash in closed banks—subcompanies									$74,216				74,216
Adjusting valuation of securities to market value						$650,000	[4] 188,783	$194,242	[4] 546,003	[4] 32,462	[4] $32,252	$168,037	212,779
Provision for reserve for tool commitments, model "120"									1,198,734	[4] 1,198,734			0
Special payments to employees	$498,549	$737,755	787,931	$230,000	367,088				5,500	61,500	152,800	80,550	2,921,673
Provision for reserve for general purposes					750,000	560,000	1,250,000						2,560,000
Loss on machinery sales		22,366											22,366
Premium on investments											22,066	1,727	23,793
Total other deductions	498,549	760,121	20,787,931	230,000	1,127,088	1,210,000	[4] 8,938,783	194,242	732,447	[4]11,169,696	142,614	250,314	5,824,827
Balance at end of year	20,986,439	30,428,943	19,094,630	15,594,419	14,877,333	5,222,563	8,398,251	8,978,901	1,614,136	14,929,759	15,236,875	14,541,252	14,541,252

[4] Denotes an addition.

This statement excludes the Detroit selling branch from operations of Packard Motor Car Co. (Michigan) (of which it is a part) and includes the net income from the operations of the Detroit branch with net profits of subsidiary companies.

In this statement, the profits and other additions and deductions from surplus vary to some degree from those appearing in the statement submitted by the company. These differences result from revisions and reclassifications of certain items to reflect such items as directly in surplus account rather than indirectly through charges or credits to current income. This procedure results in no changes in surplus balances.

The company, in its statements, has followed the accounting practice of including in the current income many items which, by their nature, pertain more to financing and capital than to manufacturing and distributing. Such items have, for the purpose of this inquiry, been segregated from the business of manufacturing and selling motor vehicles and other products and shown as direct charges or credits to surplus. The principal items to which such treatment has been accorded are provisions for reserve for general purposes; adjustment of valuation of securities to market; profit or loss on sale of capital assets, of securities, of machinery; premium on investment; cancelation of trustees' stock; recoveries on claims for deposits in closed banks; previous year's profit and loss adjustments and provisions for reserve for special payments to employees. This latter was transferred to a direct charge to surplus because its purpose has been largely to provide for bonus payments to officers and executives based on earnings of the company.

The earned surplus of the company at September 1, 1926, amounted to $16,438,304 and at December 31, 1937, the balance was $14,541,252, thus measuring a net decrease in surplus over the entire period of $1,897,052. The surplus balance reached its maximum for the period on August 31, 1928, when it was $30,428,943. Its minimum was $1,614,136, December 31, 1934.

On June 19, 1929, the stockholders of the company authorized conversion of the 300,000 shares of par value of $100 a share into 15,000,000 shares of no par with a stated value of $50,000,000. Twenty million dollars of this amount was transferred from surplus, reducing the surplus balance to $19,094,630 on August 31, 1929.

Profits were smaller in the last quarter of 1929 and in the year 1930, and losses were sustained in 1931 and 1932. A profit of $4,955,172 was realized in the last 4 months of 1929, but dividends amounting to $8,247,102 were paid. With a profit of $10,151,308 in 1930, dividends of $9,741,306 were paid; and in 1931 dividends amounting to $6,745,653 were paid, although the company lost $1,699,117. These payments reduced the surplus of the company so that on December 31, 1931, the balance was reduced to $5,222,563. Though no dividends were paid in 1932, the year's operations resulted in a loss of $5,679,269 which would have produced a deficit at the end of the year in the amount of $1,601,749 had not the company transferred $10,000,000 from the capital stock account to surplus. Thus a surplus of $8,398,251 was recorded on December 31, 1932.

A negligible profit in 1933 and a loss of $6,685,743 in 1934 reduced the surplus to $1,614,136 on December 31, 1934, its lowest balance during the period. A comparatively small profit was made in 1935, but before the end of the year $10,000,000 was transferred to surplus from the capital stock account, thereby creating a surplus of $14,929,759 on December 31, 1935.

Surplus remained practically unchanged through December 31, 1937. Profits of slightly over $7,000,000 and $3,000,000 were realized in 1936 and 1937, respectively, but dividends aggregating approximately 102 percent of the profits for those years were distributed in those years.

Income and expenses—domestic manufacturing operations.—There follows table 103 which is a comparative statement of income of Packard Motor Car Co. (Michigan) for the years 1927 to 1937, inclusive.

TABLE 103.—*Packard Motor Car Co.—Statement of income and expenses applying to domestic manufacture, 1927 to 1937, inclusive*

	Year ended Aug. 31—			Period September to December 1929	Year ended Dec. 31—	
	1927	1928	1929		1930	1931
Gross sales	$76,370,668	$100,269,621	$115,328,178	$29,818,381	$63,381,876	$32,790,063
Less: Deductions	4,044,142	4,687,819	6,366,767	1,556,945	4,961,748	2,308,101
Net sales	72,326,526	95,581,802	108,961,411	28,261,436	58,420,128	30,481,962
Factory cost of sales	58,082,837	70,505,033	80,353,307	21,736,846	45,231,554	29,572,253
Gross profit on sales	14,243,689	25,076,769	28,608,104	6,524,590	13,188,574	909,709
Selling, general, and administrative expense:						
General	74,461	73,562	79,787	27,893	69,472	106,125
Administration	470,070	597,416	838,979	329,631	706,685	609,197
Advertising	2,476,167	2,681,625	3,218,887	1,182,847	1,947,135	1,565,970
Accounting	175,567	189,176	204,476	60,666	158,308	129,239
Vehicle sales expense	310,634	456,624	475,827	214,269	482,206	420,475
Service expense	154,984	162,207	197,419	103,036	222,994	167,728
Total	3,661,883	4,160,610	5,015,375	1,918,342	3,586,800	2,998,734
Less: Recharged to Packard Motor Export Co	5,000	43,772	43,256	13,209	19,002	8,606
Total selling, general, and administrative expense	3,656,883	4,116,838	4,972,119	1,905,133	3,567,798	2,990,128
Net profit on sales	10,586,806	20,959,931	23,635,985	4,619,457	9,620,776	[1] 2,080,419
Other income:						
Discount on purchases	333,512	374,604	423,797	127,986	200,582	111,156
Interest on bank balances	84,152	155,800	250,688	62,744	144,531	77,885
Rent from Packard houses (net)	9,900	18,486	21,180	9,448	23,254	19,307
Insurance and interest from distributors	50,395	60,265	77,646	18,914	52,290	27,558
Investment charges and rentals, Packard Motor Sales Co	49,512	71,451	113,900	47,175	156,590	152,957
Miscellaneous	3,495	1,836	14,108	3,198	975	688
Total other income	530,966	682,442	901,319	269,465	578,222	389,551
Net profit from motor-vehicle business	11,117,772	21,642,373	24,537,304	4,888,922	10,198,998	[1] 1,690,868
Income from investments	490,180	481,002	701,365	230,640	406,541	535,615
Net profit before interest and income taxes	11,607,952	22,123,375	25,238,669	5,119,562	10,605,539	[1] 1,155,253
Other deductions: Interest on distributors' deposits	11,485	12,240	12,414	4,104	12,087	11,459
Net profit before provision for income taxes	11,596,467	22,111,135	25,226,255	5,115,458	10,593,452	[1] 1,166,712
Provision for income taxes	1,529,942	2,676,165	2,884,605	579,105	1,215,610	----------
Net profit from factory operations	10,066,525	19,434,970	22,341,650	4,536,353	9,377,842	[1] 1,166,712

[1] Loss.

TABLE 103.—*Packard Motor Car Co.—Statement of income and expenses applying to domestic manufacture, 1927 to 1937, inclusive*—Continued

	Year ended Dec. 31—						Total, years 1927–37
	1932	1933	1934	1935	1936	1937	
Gross sales	$16,405,479	$19,719,187	$15,006,473	$53,267,589	$78,450,096	$100,417,397	$701,225,008
Less: Deductions	617,392	254,040	224,979	2,432,328	3,784,926	3,629,510	34,868,697
Net sales	15,788,087	19,465,147	14,781,494	50,835,261	74,665,170	96,787,887	666,356,311
Factory cost of sales	18,855,135	17,541,532	19,184,751	45,874,108	62,934,738	88,064,703	557,936,797
Gross profit on sales	[1] 3,067,048	1,923,615	[1] 4,403,257	4,961,153	11,730,432	8,723,184	108,419,514
Selling, general, and administrative expense:							
General	77,216	154,446	175,093	227,813	95,933	141,648	1,303,449
Administration	457,457	352,339	420,185	503,779	594,586	656,240	6,536,564
Advertising	1,143,803	758,280	1,005,771	1,906,132	3,006,157	3,923,666	24,816,440
Accounting	100,396	93,287	106,258	143,747	174,536	259,678	1,795,334
Vehicle sales expense	276,004	296,236	380,896	400,911	550,784	824,366	5,089,232
Service expense	152,491	125,531	139,289	181,491	266,271	334,449	2,207,890
Total	2,207,367	1,780,119	2,227,492	3,363,873	4,688,267	6,140,047	41,748,909
Less: Recharged to Packard Motor Export Co	4,702	7,029	9,137	22,072	31,309	42,503	249,597
Total selling, general and administrative expense	2,202,665	1,773,090	2,218,355	3,341,801	4,656,958	6,097,544	41,499,312
Net profit on sales	[1] 5,269,713	150,525	[1] 6,621,612	1,619,352	7,073,474	2,625,640	66,920,202
Other income:							
Discount on purchases	66,331	71,032	64,037	169,177	223,177	336,260	2,501,651
Interest on bank balances	58,443	32,212	11,624	5,245	2,405	4,613	890,342
Rent from Packard houses (net)	10,778	13,048	5,857	5,138	4,222	6,005	146,623
Insurance and interest from distributors	15,028	1,644	1,935	3,998	2,574	1,312	313,559
Investment charges and rentals, Packard Motor Sales Co	1,833			110,000	18,334		721,752
Miscellaneous	519	7,385	7,249	2,672	3,143	9,700	54,968
Total other income	152,932	125,321	90,702	296,230	253,855	357,890	4,628,895
Net profit from motor vehicle business	[1] 5,116,781	275,846	[1] 6,530,910	1,915,582	7,327,329	2,983,530	71,549,097
Income from investments	281,711	276,771	288,752	136,191	174,897	128,727	4,132,392
Net profit before interest and income taxes	[1] 4,835,070	552,617	[1] 6,242,158	2,051,773	7,502,226	3,112,257	75,681,489
Other deductions: Interest on distributors deposits	10,012	6,984	4,757	4,661	4,911	4,967	100,081
Net profit before provision for income taxes	[1] 4,845,082	545,633	[1] 6,246,915	2,047,112	7,497,315	3,107,290	75,581,408
Provision for income taxes				480,000	1,150,000	475,000	10,990,427
Net profit from factory operations	[1] 4,845,082	545,633	[1] 6,246,915	1,567,112	6,347,315	2,632,290	64,590,981

[1] Loss.

The preceding statement embraces only manufacturing operations of the Detroit manufacturing plant. All operations of the Detroit selling branch, for which separate records are maintained though a part of the corporate structure of the parent company, have been eliminated, as have all income from operation of subsidiary companies.

The income statement is presented in a form which identifies the profit applying to each of the two bases of investment on which rates of return have been computed. The income and expenses as shown are after revisions made by the Commission's accountants, as referred to in the discussion of earned surplus account. These revisions consisted in part of change of placement within the income statement, with no effect on the final income. Adjustments which have affected income consist of the transfer from a current income item to a direct entry in surplus of items of a capital nature and certain provisions for reserves.

The operating portion of the following statement, consisting of sales, cost of sales, gross profit, selling and administrative expense, and net sales, and which in this statement represents the total operations of the company, will be analyzed later in this section to show similar data separately for motor vehicles, service and accessory parts, and other products manufactured. Also will be presented in like form the ratio of each of these elements of manufacturing cost for each class of product manufactured, to $1 of sales. There will also be presented the operating results per motor vehicle of all types sold.

Referring to the preceding table, it may be noted that large profits were realized in the fiscal years 1927 to 1929, inclusive, and in the interim 4-month period to December 31, 1929. The profit in 1930, though not as large, was larger than that realized in any year since. During 1931, 1932, and 1934 losses were incurred and only a small profit was realized in 1933. Profits were again realized in 1935, 1936, and 1937, the year 1936 recording a profit of approximately $7,500,000, the largest since 1930 and the only one comparing favorably with profits of 1930 and preceding years. The loss of $6,246,915 sustained in 1934 is stated in the company's annual report to stockholders for that year to be a constructive one deliberately and carefully undertaken to improve the company's position. The loss as originally reported by the company for 1934, exclusive of loss of subsidiary companies, amounted to $6,851,722. It is explained as follows:

Expenses incidental to model 120 (tooling, etc., for the new lower-price class car introduced in 1935)	$3, 541, 500
Twelfth series tools (new year's models of senior cars)	1, 559, 975
Factory loss due to low volume	1, 750, 247
Total loss	6, 851, 722

Deductions from gross sales.—The deductions from gross sales appearing in the preceding statement of income and expenses consisted of wholesale and quantity discounts and provisions for price adjustments. The amounts of each included in the total deductions from sales appearing in the income statement are as follows:

	Wholesale discount	Provision for price revision	Quantity discount	Total
1927	$2,224,984	$1,819,158		$4,044,142
1928	2,667,525	2,020,294		4,687,819
1929	2,778,685	3,588,082		6,366,767
1929 [1]	768,800	788,145		1,556,945
1930	1,484,539	3,477,209		4,961,748
1931	568,179	1,739,922		2,308,101
1932	3,319	614,073		617,392
1933		254,040		254,040
1934		223,272	$1,707	224,979
1935	1,202,068	1,225,890	4,370	2,432,328
1936	2,248,617	1,528,644	7,665	3,784,926
1937	2,930,259	692,905	6,346	3,629,510
Total	16,876,975	17,971,634	20,088	34,868,697

[1] Interim period September to December 1929, linking fiscal years preceding with calendar years following.

Provision for wholesale discount reserve.—As a means of providing for wholesale discounts to be allowed, the company set up a yearly reserve. This reserve has been created by diverting a portion of the sales realization appearing on the invoice to the reserve.

The general plan of provision for this reserve for the years 1929 to 1936, inclusive, was to set aside monthly an established percentage of the aggregate of the list price of each type of car shipped, after eliminating shipments for export. In 1937 the basis of provision was changed from a percentage of the aggregate list price to a fixed amount per unit shipped.

The yearly provisions for this reserve were as follows for the years 1927 to 1937, inclusive:

Year ended Aug. 31—	
1927	$2,224,984
1928	2,667,525
1929	2,778,685
Period September to December 1929	768,800
Year ended Dec. 31—	
1930	1,484,539
1931	568,179
1932	3,319
1933	None
1934	None
1935	1,202,068
1936	2,248,617
1937	2,930,259
Total	16,876,975

By operation of the company's method of providing this reserve by directing from sales account a portion of the total invoice amount, an understatement of gross sales results, in that sales as stated are after reduction by the amounts assigned to the reserves provided in this manner. In the income statement presented in this report the amounts provided for this reserve, together with provisions for price revisions and for quantity discount reserves which were created in like manner, were added back to sales, and each has then been shown as a deduction from sales to arrive at net sales. The effect of this treatment is to show sales before such deductions and to record separately the amounts which were set aside from sales for each of the purposes.

Provision for price-revision reserve.—The company also maintained a reserve to provide for motor vehicles in possession of dealers upon reduction in the price of the current model during the model year or upon the introduction of a new model. It was the policy of the company in such cases to make some allowance to the dealer or distributor for unsold motor vehicles. The reserve was provided, and allowances made for price revisions were deducted from the reserve.

The yearly provisions for this reserve in accordance with the foregoing plan have been as follows for the years 1927 to 1937, inclusive:

Year ended Aug. 31—	
1927	$1, 819, 158
1928	2, 020, 294
1929	3, 588, 082
Period September to December 1929	788, 145
Year ended Dec. 31—	
1930	3, 477, 209
1931	1, 739, 922
1932	614, 073
1933	254, 040
1934	223, 272
1935	1, 225, 890
1936	1, 528, 644
1937	692, 905
Total	17, 971, 634

In presenting the income statement for the company, these amounts which were deducted from sales in creating the reserve were added back to sales and then recorded in the statement as a deduction from sales to arrive at net sales.

Provision for quantity discount reserve.—During the years 1934 to 1937, inclusive, a reserve for quantity discounts was set up by reduction of sales. This provision was negligible in amount.

Cost of sales.—It is the company's practice to credit finished inventory and charge cost of sales with the value of all units shipped and sold during each month. The charge to cost of sales is originally based on an estimated labor plus standard overhead computed at 160 percent of productive labor, plus material. Pricing sheets are made up on the first of each month and are used for the entire month.

A cost trend for each type of car is prepared every 2 weeks showing actual labor and material cost for cars produced during the period covered, using a standard overhead of 160 percent. Adjustment is then made in cost of sales each month to reflect the difference between the costs used on the price sheets and the actual cost of cars shipped.

A charge is also made to cost of sales each month to cover a modest safety factor to protect against failure to clear inventory due to cost errors, unrecorded shrinkage, thefts, etc.

Cost of sales is also adjusted each month for the difference between the actual overhead for the month and the overhead computed at 160 percent of productive labor.

At the close of each year, after audit, cost of sales is adjusted to take care of any difference between book inventory and the physical inventory.

Advertising.—Referring to the statement of income and expenses on page 775, it may be noted that the item of advertising expense constitutes by far the greater portion of the total selling and general and administrative expenses. The amounts shown to have been expended for advertising, including sales promotion, have varied from year to year, with a maximum of $3,923,666 in 1937 to a minimum of $758,280 in 1933.

The costs of general advertising was borne by Packard Motor Car Co., and no part of the cost of this general advertising was billed to the distributor or dealer.

In addition to this general advertising, it was also the policy of the company to extend certain sales-promotion aids to dealers and to foster localized advertising for the benefit of dealers in certain geographic sections. In such cases the advertising and sales-promotion costs were recovered by the manufacturer by the expedient of adding to the invoice a charge for advertising and sales promotion based on a fixed amount per car, the amount varying with the type of car. However, the amounts recovered by this direct charge do not even approximate the aggregate expenditures by the manufacturer. The tabular statement following compares the advertising and sales-promotion charges added directly to invoices, with the aggregate expenditures for these purposes for each of the years 1927 to 1937, inclusive.

	Charges added directly to invoices			Total advertising and sales promotion per expense statement
	Advertising	Sales promotion	Total	
1927	$173,669	$286,280	$460,049	$2,476,167
1928	259,585	316,458	576,043	2,681,625
1929	599,244	542,390	1,141,634	3,218,887
1929 [1]	231,808	223,554	455,362	1,182,847
1930	344,083	291,926	636,009	1,947,135
1931	264,295	203,076	467,371	1,565,970
1932	156,662	95,014	251,676	1,143,803
1933	156,496	59,095	215,591	758,280
1934	100,465	33,272	133,737	1,005,771
1935	537,742	109,993	647,735	1,906,132
1936	922,428	359,655	1,282,083	3,006,157
1937	1,423,493	496,850	1,920,343	3,923,666
Total	5,169,970	3,017,663	8,187,633	24,816,440

[1] September to December 1929.

The company's advertising was handled through the agency of Austin & Bement through the year 1927 and continuing until June 1932. Thereafter it was handled through the firm of Young & Rubicam.

The Packard Motor Car Co. was charged 15 percent over the cost to the agencies for all art-work engraving and composition done by them. No charge was made for copy other than radio script for which a charge was made. In addition, the agencies bill the company for the gross publication costs on which they receive a discount approximating 15 percent from the publisher. Thus the agencies' commission on the placement of advertising matter amounts to slightly over 15 percent.

Officers' salaries and bonuses.—The salaries paid to officers of the company during each of the years 1927 to 1937, inclusive, are included in selling and general and administrative expenses appearing in the income and expense statement under the subclassification to which the services of the recipient pertain.

In addition to the salaries, bonuses were paid in certain of the years within the period in accordance with a plan of bonus payments outlined at page 789 of this report. In the company statements, provisions for bonus payments were made by a charge to income and credit to a reserve for special payments to employees and this reserve was reduced as bonus payments were made. The Commission's accountants have adjusted the income statement by these amounts and transferred the provision from income to a direct charge to surplus on the theory that such bonus payments are not operating expenses but are rather in the nature of dividends.

For the purpose of showing the total amount received by officers, whether in the form of salary or of bonus, the amounts of bonus payments are shown here in comparison with all statements of salary payments. In all such comparisons, the statements of salaries and of bonuses include the same individuals.

The aggregate salaries paid to officers and the aggregate amounts of bonuses received by those same officers for each of the years 1927 to 1937, inclusive, and for the interim 4-month period in 1929 were:

	Salaries	Bonuses	Total
Year ended Aug. 31—			
1927	$263, 667	$237, 300	$500, 967
1928	320, 000	396, 959	716, 959
1929	314, 284	433, 795	748, 079
September–December 1929	99, 000	85, 298	184, 298
Year ended Dec. 31—			
1930	304, 084	142, 508	446, 592
1931	262, 347		262, 347
1932	192, 478		192, 478
1933	151, 241		151, 241
1934	188, 964		188, 964
1935	201, 175	31, 000	232, 175
1936	209, 121	67, 500	276, 621
1937	218, 282	28, 200	246, 482
Total	2, 724, 643	1, 422, 560	4, 147, 203

In the tabular statement which follows, the three officers receiving the largest salaries are grouped together and their combined salaries and the aggregate bonuses received by them are shown for the same period. From 1927 to 1934, inclusive, the same persons and the same officers received the three largest salaries. Thereafter the persons and the officers receiving the three largest salaries are not identical with those in the earlier years. The statement follows.

	Salaries	Bonuses	Total
Year ended Aug. 31—			
1927	$170, 000	$143, 000	$313, 000
1928	220, 000	251, 959	471, 959
1929	222, 333	286, 674	509, 007
September–December 1929	75, 000	60, 098	135, 098
Year ended Dec. 31—			
1930	212, 217	101, 762	313, 979
1931	179, 455		179, 455
1932	128, 894		128, 894
1933	84, 926		84, 926
1934	96, 913		96, 913
1935	109, 328	22, 500	131, 828
1936	122, 723	65, 000	187, 723
1937	137, 000	20, 000	157, 000
Total	1, 758, 789	950, 993	2, 709, 782

An examination of the list of individual salaries received throughout the period discloses the fact that the trend of payments followed the trend of operating results. They were highest in 1928 and continued at approximately the same levels through 1929. Comparatively small reductions are noted in 1930. During 1931, 1932, and 1933, when operations resulted in losses or small profits, successive material reductions were made in each year so that for the year 1933 the payments to the three officers receiving the highest salaries amounted to 28, 45, and 62 percent of the amount received by each in 1928. For the years 1935 to 1937, inclusive, the salaries have increased slightly or about to the 1932 level. An indication of the trend of salaries of the higher-paid officers may be had from the following tabular statement which shows in index form the salary received by the highest-paid officer throughout the period. An index of 100 is given to the salary for 1928, the year of highest salaries and the amount received before and after that year are shown in their relation to the 100 received in 1928.

Year 1927	60	Year 1931	75	Year 1935	40
1928	100	1932	50	1936	40
1929	100	1933	26	1937	40
1930	94	1934	32		

Analysis of sales, factory cost of sales, selling and administrative expense, and gross and net profit by lines of products.—The sales, factory cost of sales, and selling and administrative expenses, and the resulting gross and net profits for the business as a whole are shown in the next table.

TABLE 104.—*Packard Motor Car Co.—Summary of net sales, factory cost of sales, gross profit on sales, expenses, and net profits by lines of products applying to domestic manufacture, 1929 to 1937, inclusive*

	Motor vehicles	Service parts and accessories	Other	Total business
Net sales:				
1929	$102,518,832	$6,095,553	$347,026	$108,961,411
1930	53,196,999	4,632,329	590,800	58,420,128
1931	27,015,661	3,390,956	75,345	30,481,962
1932	13,690,802	2,073,101	24,184	15,788,087
1933	17,366,305	2,078,543	20,299	19,465,147
1934	12,786,512	1,799,140	195,842	14,781,494
1935	47,908,062	2,882,786	44,413	50,835,261
1936	70,281,962	4,373,275	9,933	74,665,170
1937	91,137,387	5,632,087	18,413	96,787,887
Total	435,902,522	32,957,770	1,326,255	470,186,547
Factory cost of sales:				
1929	75,356,751	4,650,871	345,685	80,353,307
1930	40,674,702	3,528,495	1,028,357	45,231,554
1931	26,825,706	2,672,012	74,535	29,572,253
1932	16,909,366	1,921,499	24,270	18,855,135
1933	15,357,869	2,163,764	19,899	17,541,532
1934	17,046,677	1,958,570	179,504	19,184,751
1935	43,105,595	2,724,170	44,343	45,874,108
1936	59,174,435	3,754,134	6,169	62,934,738
1937	82,859,489	5,189,883	15,331	88,064,703
Total	377,310,590	28,563,398	1,738,093	407,612,081

TABLE 104.—*Packard Motor Car Co.—Summary of net sales, factory cost of sales, gross profit on sales, expenses, and net profits by lines of products applying to domestic manufacture, 1929 to 1937, inclusive*—Continued

	Motor vehicles	Service parts and accessories	Other	Total business
Gross profit on sales:				
1929	$27,162,081	$1,444,682	$1,341	$28,608,104
1930	12,522,297	1,103,834	[1] 437,557	13,188,574
1931	189,955	718,944	810	909,709
1932	[1] 3,218,564	151,602	[1] 86	[1] 3,067,048
1933	2,008,436	[1] 85,221	400	1,923,615
1934	[1] 4,260,165	[1] 159,430	16,338	[1] 4,403,257
1935	4,802,467	158,616	70	4,961,153
1936	11,107,527	619,141	3,764	11,730,432
1937	8,277,898	442,204	3,082	8,723,184
Total	58,591,932	4,394,372	[1] 411,838	62,574,466
Distribution and administrative expense:				
1929	4,678,131	278,152	15,836	4,972,119
1930	3,248,814	282,903	36,081	3,567,798
1931	2,650,101	332,636	7,391	2,990,128
1932	1,910,064	289,227	3,374	2,202,665
1933	1,581,905	189,336	1,849	1,773,090
1934	1,918,955	270,009	29,391	2,218,355
1935	3,149,373	189,508	2,920	3,341,801
1936	4,383,572	272,766	620	4,656,958
1937	5,741,568	354,816	1,160	6,097,544
Total	29,262,483	2,459,353	98,622	31,820,458
Net margin of profit:				
1929	22,483,950	1,166,530	[1] 14,495	23,635,985
1930	9,273,483	820,931	[1] 473,638	9,620,776
1931	[1] 2,460,146	386,308	[1] 6,581	[1] 2,080,419
1932	[1] 5,128,628	[1] 137,625	[1] 3,460	[1] 5,269,713
1933	426,531	[1] 274,557	[1] 1,449	150,525
1934	[1] 6,179,120	[1] 429,439	[1] 13,053	[1] 6,621,612
1935	1,653,094	[1] 30,892	[1] 2,850	1,619,352
1936	6,723,955	346,375	3,144	7,073,474
1937	2,536,330	87,388	1,922	2,625,640
Total	29,329,449	1,935,019	[1] 510,460	30,754,008

[1] Loss.

The statement shows, for each of the full years 1929 to 1937, inclusive, the amounts of net sales, factory cost of sales, and selling and administrative expenses and the resulting gross and net profits applicable to the manufacture of motor vehicles, of service parts and accessories and of other products. This last classification consists of marine and airplane engines and is negligible in amount.

The data presented cover the combined domestic and export operations of Packard Motor Car Co. (Michigan) after exclusion of operations of the Detroit selling branch which means that it covers only operations of the Detroit factory.

The allocations of sales, cost of sales and gross profit to motor vehicles, service parts and accessories, and other products are based on actual segregations maintained by the company. No such segregation of selling and administrative expenses has ever been made by the company. For the purpose of the statement following, an allocation of these expenses has been made on the basis of the relation of dollar sales in each line of manufacture to the total sales.

Percentage of expenses and gross and net profits to sales.—In the following table 105, the data presented in the preceding table are shown on the basis of $1 of net sales.

TABLE 105.—*Packard Motor Car Co.—Ratio of factory cost of sales, gross profit on sales, expenses and net profits per dollar of sales applying to domestic manufacture, 1929 to 1937, inclusive*

	Motor vehicles	Service parts and accessories	Other	Total business
Per dollar of sales:	*Cents*	*Cents*	*Cents*	*Cents*
1929	100.0	100.0	100.0	100.0
1930	100.0	100.0	100.0	100.0
1931	100.0	100.0	100.0	100.0
1932	100.0	100.0	100.0	100.0
1933	100.0	100.0	100.0	100.0
1934	100.0	100.0	100.0	100.0
1935	100.0	100.0	100.0	100.0
1936	100.0	100.0	100.0	100.0
1937	100.0	100.0	100.0	100.0
Total	100.0	100.0	100.0	100.0
Factory cost of sales:				
1929	73.5	76.3	99.6	73.7
1930	76.5	76.2	174.1	77.4
1931	99.3	78.8	98.9	97.0
1932	123.5	92.7	100.3	119.4
1933	88.4	104.1	98.0	90.1
1934	133.3	108.9	91.7	129.8
1935	90.0	94.5	99.8	90.2
1936	84.2	85.9	62.1	84.3
1937	90.9	92.1	83.3	91.0
Total	86.6	86.7	131.1	86.7
Gross profit on sales:				
1929	26.5	23.7	.4	26.3
1930	23.5	23.8	[1] 74.1	22.6
1931	.7	21.2	1.1	3.0
1932	[1] 23.5	7.3	1.3	[1] 19.4
1933	11.6	[1] 4.1	2.0	9.9
1934	[1] 33.3	[1] 8.9	8.3	[1] 29.8
1935	10.0	5.5	.2	9.8
1936	15.8	14.1	37.9	15.7
1937	9.1	7.9	16.7	9.0
Total	13.4	13.3	[1] 31.1	13.3
Distribution and administrative expense:				
1929	4.6	4.6	4.6	4.6
1930	6.1	6.1	6.1	6.1
1931	9.8	9.8	9.8	9.8
1932	14.0	14.0	14.0	14.0
1933	9.1	9.1	9.1	9.1
1934	15.0	15.0	15.0	15.0
1935	6.6	6.6	6.6	6.6
1936	6.2	6.2	6.2	6.2
1937	6.3	6.3	6.3	6.3
Total	6.7	7.4	7.4	6.8
Net margin of profit:				
1929	21.9	19.1	[1] 4.2	21.7
1930	17.4	17.7	[1] 80.2	16.5
1931	[1] 9.1	11.4	[1] 8.7	[1] 6.8
1932	[1] 37.5	[1] 6.7	[1] 14.3	[1] 33.4
1933	2.5	[1] 13.2	[1] 7.1	.8
1934	[1] 48.3	[1] 23.9	[1] 6.7	[1] 44.8
1935	3.4	[1] 1.1	[1] 6.4	3.2
1936	9.6	7.9	31.7	9.5
1937	2.8	1.6	10.4	2.7
Total	6.7	5.9	[1] 38.5	6.5

[1] Loss.

This statement shows, for motor vehicles, service parts and accessories, and other products manufactured, the comparative proportion of each dollar of net sales for factory cost of sales, selling and administrative expenses, and the portions representing gross and net profits.

The statement makes no segregation of export shipments but makes allocation of selling and administrative expense on the basis of dollar sales and includes only operations of the Detroit factory, each for the reason stated in connection with discussions of table 104 upon which it is based.

Referring to table 105, it may be observed that in relation to sales, the gross profit for motor vehicles for the period was 13.4 cents out of each dollar in comparison with 13.3 cents for parts and accessories and 13.3 cents for the entire business. The relations of net income to sales for the period were 6.7 cents for motor vehicles, 5.9 cents for parts and accessories, and 6.5 cents for the entire business. Factory cost of goods sold for the period were, for motor vehicles, 86.6 cents; for parts and accessories, 86.7 cents; and for total business, 86.7 cents. Thus the relations of gross and net income and factory cost of goods sold to total net sales varied only slightly for the period as between motor vehicles, parts and accessories, and total business even though the annual results did vary considerably. The same was true of expenses and profits.

Attention is called to the fact that the profits from motor vehicles and from parts and accessories do not follow a consistent trend from year to year in relation one to the other. That is, in certain years the profit per dollar of sales of motor-vehicle manufactures is greater than that on parts and accessories while in other years the latter shows a greater profit.

Factory cost of sales absorbed 86.7 cents of each net sales dollar for the entire period. This average results from varying proportions throughout the period. In 1929 it was 73.7 cents after which there was a steady increase through to 1932 when the company lost money and the cost of sales exceeded the total net sales by 19.4 cents for each dollar. A decrease to 90.1 cents occurred in 1933 and in 1934 factory cost alone exceeded net sales by 29.8 cents, the highest for the period. Factory cost of sales dropped to 90.2 cents in 1935 and to 84.3 cents in 1936. For the year 1937, the cost of sales consumed 91 cents of each dollar of sales realization.

Summary of sales, factory cost of sales, expenses and profits per car sold from domestic manufacture.—Following as table 106 is a statement of the number of units of Packard cars of all types sold, the average net sales, factory cost of sales, and selling and administrative expenses per unit sold together with the average resulting gross and net profits for the years 1929 to 1937, inclusive.

TABLE 106.—*Packard Motor Car Co.—Summary of sales factory cost of sales, expenses and profit per car sold from domestic manufacture during the years 1929 to 1937, inclusive*

Year	Units sold	Net sales per car	Factory cost of sales per car	Gross profit of sales per car	Selling and administrative expense per car	Net profit per car
1929	[1] 53,537	$1,914.91	$1,407.56	$507.35	$87.38	$419.97
1930	[2] 28,490	1,867.21	1,427.68	439.53	114.03	325.50
1931	[2] 14,187	1,904.25	1,890.86	13.39	186.80	[3] 173.41
1932	[4] 9,439	1,450.45	1,791.43	[3] 340.98	202.36	[3] 543.34
1933	[4] 9,479	1,832.08	1,620.20	211.88	166.88	45.00
1934	[4] 6,427	1,989.50	2,652.35	[3] 662.85	298.58	[3] 961.43
1935	[5] 48,944	978.83	880.71	98.12	64.35	33.77
1936	[6] 79,412	885.03	745.16	139.87	55.20	84.67
1937	[5] 106,428	856.33	778.55	77.78	53.95	23.83
Total	356,343	1,223.27	1,058.84	164.43	82.12	82.31

[1] Sixes, Eights, and Super Eights.
[2] Eights and Super Eights.
[3] Denotes a loss.
[4] Eights, Super Eights, and Twin Sixes.
[5] Standard Eights, Super Eights, and Twelves.
[6] Standard Eights (or One-twenties), Super Eights, Twelves, and Sixes.

All motor vehicles manufactured by the Packard Co. bear the name "Packard." Different types have been produced and have been identified variously as Twin-sixes, Twelves, Super Eights, Standard Eights, One-Twenties, and Sixes.

The statement shows that, for the entire period 1929 to 1937, inclusive, 356,343 units of all types of motor vehicles were sold. On each car sold, the sales realization averaged $1,223.27, the factory cost of sales was $1,058.84, the gross profit was $164.43, selling and administrative expenses amounted to $82.12 and the net profit was $82.31.

Comparing individual years within the period, the statement further shows that from unit sales of 53,537 in 1927, the trend was materially downward through 1934 when 6,427 units were sold. Thereafter and through 1937, the movement was upward. The 48,944 units sold in 1935 were only slightly less than the sales in 1929 and the 79,412 units sold in 1936 and the 106,428 sold in 1937 far exceeded the sales of any other year throughout the period and, in fact, throughout the company's existence. These increases in units sold in 1935, 1936, and 1937 and the concurrent decreases in average realization are accounted for by the introduction, in 1935, of the new One-Twenty, an eight-cylinder car to sell in the lower-price brackets and of the Six, a still lower-priced car in 1936. The number of these lower-priced cars sold in 1936 and 1937 constituted 94.9 percent and 94.5 percent, respectively, of the total sold in those years. During the years of production of these lower-priced cars, designated as "Junior" cars by the company, the numbers of senior cars sold in 1935, 1936, and 1937 were 2,122, 4,027, and 5,803, respectively.

The net sales per car which, from 1929 to 1934, inclusive, had shown an average close to $2,000 in each year except 1932, dropped to $978 in 1935 and further dropped to $885 in 1936 and $856 in 1937. These lower net sales per car in 1935 to 1937 reflect but do not record the sales realization on the newly introduced lower-priced cars. They are the average for all cars though, as previously stated, the units sold in these years were predominantly the lower-priced cars.

Comparison of yearly average net sales with average factory cost of sales per car shows that the increase in cost was greater than the increase in the sales realization or that the decrease in cost was less than the decrease in sales realization, both of which tends toward lower profits.

As would be the natural tendency, selling and general and administrative expenses are greatest in the low-unit sales and low profit or actual loss years 1931 to 1934, inclusive. In the year 1929 the average of these expenses per unit sold was $87.38. This increased to $186.80 per unit in the loss year 1931 and to $202.36 in 1932. In 1933, when only a small profit was realized, the average selling and administrative expense per unit dropped to $166.88. In 1934, when the business as a whole suffered a loss of somewhat over $6,000,000, the average selling and administrative expenses per unit sold increased to $298.58. Thereafter as greater numbers of motor vehicles were sold in 1935, 1936, and 1937, the average of these expenses per unit sold dropped to $64.35, $55.20, and $53.95, respectively.

The net profits vary greatly from year to year from a maximum profit of $419.97 per unit sold in 1929 to a maximum loss of $961.43 per unit sold in 1934. This extreme loss in 1934 is explained later.

The largest net profits were realized in 1929 and 1930 when an average of $419.97 and $325.50, respectively, were realized. It should be borne in mind that only motor vehicles in the higher-price brackets were produced in those years. The year 1931 shows an average loss of $173.41 on each unit sold. In 1932, the loss increased to $543.34. In 1933 an average profit of $45 was realized and in 1934 the maximum yearly loss during the period was sustained when it reached an average of $961.43 on each unit sold. Production to and including 1934 had consisted entirely of motor vehicles in the higher-price brackets and the demand for such cars seemed to be diminishing.

With the introduction of the two cars in the lower-price ranges in 1935 and 1936 and their continuance through 1937, the net profit per unit sold is naturally smaller than would obtain on the larger cars in profit years. It is shown that the average net profit on all cars since entrance into the lower-price field have been $33.77 in 1935, $84.67 in 1936, and $23.83 in 1937.

The extreme loss per unit sold in 1934 results in part from the fact that the minimum number of units for the period were sold in 1934 but to greater extent it results, as explained in connection with discussions of the income and expense statement, from charging off in 1934, $1,559,975 costs of retooling for the new series of types of cars previously in production and in addition the charging off of $3,541,500 representing the expenditures in 1934 for tooling for the new low price car to be introduced in 1935.

Arrangements with finance companies.—In the latter part of 1936, Packard Motor Car Co. of Chicago, a subsidiary of Packard Motor Car Co. (Michigan), made arrangements with Commercial Credit Co. whereby it would no longer be necessary for the Chicago company to prepare trust receipt papers and draw draft on them for the dealers' cost price of cars released to the dealer and which were to be floor planned by the finance company. The arrangement made was that upon receipt of an order from a dealer who financed through Commercial Credit Co., the Chicago company would get in touch with the regional office of the finance company in Chicago, and if the order came within the particular dealer's credit line, the cars were released for shipment. A copy of the car invoice was mailed to Commercial Credit Co. and a check from the credit company covering the shipment was expected by Packard Motor Car Co. of Chicago by return mail.

After this plan was in effect with certain dealers related to the Chicago branch it was decided to extend the plan to cover all dealers operating through the Chicago company. In a letter dated September 16, 1937, from the Chicago company to all of its dealers the plan was made effective with all dealers. However, objections were raised by some dealers and on September 23, 1937, the compulsory features of the plan were discontinued and the plan was made optional with the dealers.

Several other large independent finance companies were approached with a plan of clearance which is stated to have been accepted by all contacted and which became effective insofar as dealers wished to use the plan.

The plan and its purposes are outlined in the following excerpts from a letter of September 16, 1937, from the Packard Motor Car Co. of Chicago to all of its dealers, announcing its application to all dealers related to the Chicago company.

Direct factory shipments or release from our warehouse will from that time on (September 20, 1937) be invoiced to and paid for by Commercial Credit Co. When you are advised by Commercial Credit that our invoice has been paid you will either sign the customary trust receipt papers and issue your check for whatever down payment is required so as to establish the item in their records as a floor plan or demonstrator transaction, or if you prefer not to finance the shipment, your check for the invoice price will be accepted without additional cost to you: *Provided*, You regularly discount your retail paper through Commercial Credit Co. If your retail paper is not offered to Commercial Credit Co., but instead to a local bank or finance company, the standard charge for handling will be $1 flat per unit.

You will appreciate that the above procedure reduces to a single account the clearance of car payments instead of necessitating an individual account for each dealer. For you the advantages are many. Commercial Credit Co. will act as your banker insofar as car purchases are concerned. There will be less confusion since you will not be required to determine in advance the exact cost of a shipment of cars and arrange so that we are in possession of your check before the shipment leaves our factory or warehouse, but instead will pay Commercial Credit Co. after you have received the cars.

As a means of reciprocating for this very liberal arrangement which permits convenient handling for everyone concerned, we ask that you qualify with Commercial Credit Co. by submitting a copy of your last financial statement and a signed repurchase agreement signifying your intention to discount through that company acceptable retail paper. While this is not compulsory, we strongly urge you to deal with the factory-approved finance company which is national in scope so that you obtain full benefit of their facilities at low cost. To tie in with the factory approved finance company carries with it many advantages which cannot be measured in dollars and cents.

The attached agreement when signed and returned to this office * * * will indicate your acceptance of the clearance plan as outlined * * *. The new arrangement applicable to all dealers of the Packard Chicago company takes effect next Monday.

Profit sharing and bonus plans.—Two plans of bonus awards have been in effect during the period 1927 to 1937, inclusive, though neither has functioned during the entire period. Neither of these plans in themselves provided for continuing payment of bonuses nor did they bestow any vested rights to those to whom payments were made. Each simply outlined a basis and a procedure to be followed upon succeeding independent decisions to make payments.

The first of these was a service bonus and provided for fixed amounts, varying with the number of years of service, to be paid to all employees having served 5 years or more with the company.

Payments under the second plan were limited to the more important and selected executives of the company. The plan permitted of its operation only when profits of the company bore a certain relation to capital stock outstanding, and the amount of profits over and above this relation governed the amount to be paid. Each of these plans is discussed in more detail following.

Service-bonus plan.—This plan was established in 1924 and was repeated from year to year until, and including 1930. At its inception, it was stated to be applicable to more than one-third of all employees of the company.

The plan first became effective through a letter dated October 15, 1924, from the president of the company to eligible employees which, after asking for continued cooperation and reduced costs through increased efficiency, recites that:

In recognition of your length of service with the Packard Co., please find a check which is made out under the following schedule: 5 years of service, $50; 6 years of service, $60; 7 years of service, $70; 8 years of service, $80; 9 years of service, $90; 10 years of service and over, $100.

The same schedule of payments was effective during the years 1924 to 1930, inclusive, with the single exception that, beginning with the payment in 1926, special consideration was given to employees with 25 or more years service and the schedule was modified to read:

Ten to twenty-four years of service, $100; 25 years of service and over, $250.

No vested rights attached to this plan and decision to make payment was made from year to year.

Service bonuses were discontinued with payment for the year 1930 and have not been resumed since. The following excerpt from a letter from the president of the company to members of the Packard Senior League, the company organization composed of employees with 5 or more years of service, records the termination of the plan.

You are well aware of our high regard for loyal, efficient employees and our desire to reward faithful service. Of course our organization is constantly getting older and for that reason the service bonus this year is substantially larger than at any previous time. And with uncertain business conditions facing us it seems best to discontinue it and not to plan on payment of the service bonus in the future.

Management and bonus plan.—This plan contemplated reward only to the more important executives of the company upon whom, in large degree, the success of the company depended. It was inaugurated by the board of directors in 1925. Its purposes are set forth in the following excerpts from a letter from the president to each of the initial beneficiaries under the plan:

* * * This management bonus is established for the purpose of enabling a dozen of the chief executives of the company who constitute the backbone of its organization, to participate in the prosperity of the company, according to the success of their efforts in its behalf. Hereafter, if the bonus does not suit you, you have only yourself and your associates to blame, because the amount of the bonus is self-determining.

* * * the opportunity for increased earnings for the managing executives not only will not be a burden to the company's earnings but on the contrary, * * * the stimulating effect of this self-determining participation will inevitably produce results much more than offsetting its cost to the company. * * * The directors will not care how large your earnings are, under the plan, because the plan is such that you cannot make more for yourselves without making much more for the stockholders.

In brief, the plan prohibited payment of a bonus when net earnings of the company for the year current were not equal to 12 percent of the capital stock outstanding. It permitted payment of an amount equal to 10 percent of the salaries of each executive designated by the president for each million dollars or fraction thereof of net earnings in excess of 12 percent of the capital stock. The following excerpts from the plan describe its operation:

(*a*) The management bonus shall be self-determining and none shall be paid unless and until the net earnings of the company in any fiscal year exceed 12 percent of the now outstanding common stock of the company.

(*b*) For each additional million dollars or fraction thereof of net earnings in excess of the amount specified in the previous paragraph, these chief executives to be entitled to a bonus of 10 percent of their salaries; the calculation of the bonus to be made on the net profits as certified by the company's auditors to the directors of the company.

(*c*) The net earnings upon which the bonus is to be based shall be the consolidated net profit as computed in the company's usual manner, and after taxes and the creation of all reserves and the setting aside of all depreciations, as determined by the board of directors, but before the payment of dividends.

(*d*) The executives benefitting hereby shall have no vested rights from year to year—the board of directors reserving, of course, the full right to terminate at the end of any year, or to change the beneficiaries, or to make any other alterations or modifications.

Bonuses to officers and executives were awarded under this plan in each of the years 1925 to 1930, inclusive. Thereafter none was paid until 1935. Payments were resumed in 1935 and were continued yearly to 1937, inclusive. During the period 1927 to 1937, inclusive, the following aggregate payments were made:

Year	Management	Executive	Total	Year	Management	Executive	Total
1927	$237,300	$80,800	$318,100	1935	$31,000	$30,500	$61,500
1928	396,959	133,663	530,622	1936	67,500	85,300	152,800
1929	433,795	131,350	565,145	1937	28,200	54,050	82,250
1929 [1]	85,298		85,298				
1930	142,508	51,100	193,608	Total	1,422,560	566,763	1,989,323

[1] September to December.

Consolidated balance sheet.—The discussions and statements heretofore presented covering the years 1927 to 1937, inclusive, have been confined to operations of Packard Motor Car Co. (Michigan) as a parent company and from its operations as a parent company the effect of investments in and returns from subsidiary companies as well as operations of the Detroit selling branch have been eliminated. In effect, then these preceding data have covered only operations of the Detroit manufacturing plant.

In addition to the main plant at Detroit, the company owns a manufacturing plant at Windsor, Ontario, and operates sales, export and real estate holding companies, all of which are operated through subsidiary companies. More detailed discussion of the operation of these subsidiary companies is presented earlier in this report.

For the purpose of showing the assets and liabilities of the company after inclusion of those of the subsidiary companies, domestic and foreign, the consolidated and condensed balance sheet of the company at the end of each of the fiscal or calendar years 1927 to 1937, inclusive, is presented following as table 107.

TABLE 107.—*Packard Motor Car Co.—Consolidated balance sheet at Aug. 31, 1927 to 1929, inclusive, and at Dec. 31, 1929 to 1937, inclusive*

ASSETS

	At Aug. 31				At Dec. 31		
	1926	*1927*	*1928*	*1929*	*1929*	*1930*	*1931*
Current assets:							
Cash in banks and on hand	$5,421,845.19	$5,356,672.93	$7,035,050.04	$7,324,610.73	$4,450,240.70	$4,166,195.76	$3,412,831.60
U. S. Government securities	6,300,000.00	7,200,000.00	8,420,782.20	7,598,703.13	7,309,671.88	8,349,087.50	7,875,750.00
Municipal and State bonds	6,619,166.00	4,729,046.88	6,228,550.00	6,289,026.60	6,150,648.91	6,096,928.03	2,705,904.48
Accounts receivable	2,796,050.80	3,361,735.86	3,448,875.85	3,300,277.04	1,866,140.75	1,046,686.44	790,558.77
Deferred installment notes	1,898,619.53	1,666,612.75	3,480,988.82	3,952,456.13	4,679,250.43	3,218,181.48	1,860,206.67
Inventories at or below cost:							
Raw materials, work in process, etc	8,212,268.76	6,898,841.33	7,649,106.51	8,733,420.57	5,191,229.31	4,260,279.84	2,844,627.00
Finished motor vehicles	3,221,467.56	2,582,790.94	5,416,976.44	4,504,487.69	8,432,997.72	6,831,860.22	5,029,439.54
Total	11,433,736.32	9,481,641.27	13,036,082.95	13,237,908.26	13,624,227.03	11,092,140.06	7,874,066.54
Total, current assets	34,469,417.84	31,795,709.69	41,680,329.86	41,702,981.89	38,080,179.70	33,969,219.27	24,519,318.06
Mortgages and land contracts receivable, etc	1,005,085.67	1,556,779.82	2,409,711.49	2,578,190.43	2,526,951.17	1,079,226.86	1,038,607.11
Property account:							
Land, buildings, machinery and equipment (depreciated values beginning of year)	19,358,930.81	22,942,611.36	27,471,539.69	30,813,669.61			
Add: Expenditures during year	7,748,579.23	9,327,823.76	9,053,946.67	8,932,096.08			
Total	27,107,510.04	32,270,435.12	36,525,486.36	39,745,765.69			
Deduct: Depreciation for year	4,164,898.68	4,798,895.43	5,711,816.75	3,355,350.98			
Land, buildings, plant equipment, etc., at cost					51,542,643.17	49,247,228.57	47,641,027.16
Less: Reserve for depreciation					13,672,389.38	13,335,804.76	14,199,075.89
Total, net property investment	22,942,611.36	27,471,539.69	30,813,669.61	36,390,414.71	37,870,253.79	35,911,423.81	33,441,951.27
Rights, privileges, franchises, and inventions	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Deferred charges to future operations: Prepaid insurance and other expenses	214,814.56	220,601.87	273,612.83	355,403.76	311,396.47	660,846.14	595,839.65
Total assets	58,631,930.43	61,044,632.07	75,177,324.79	81,026,991.79	78,788,782.13	71,620,717.08	59,595,717.09

TABLE 107.—*Packard Motor Car Co.—Consolidated balance sheet at Aug. 31, 1927 to 1929, inclusive, and at Dec. 31, 1929 to 1937, inclusive*—Continued

ASSETS

	At Dec. 31					
	1932	1933	1934	1935	1936	1937
Currents assets:						
Cash in banks and on hand	$3, 340, 139. 31	$3, 587, 911. 98	$2, 747, 101. 61	$4, 842, 500. 90	$6, 095, 026. 47	$3, 967, 490. 16
U. S. Government securities	9, 171, 875. 26	10, 867, 588. 24	9, 139, 118. 75	7, 477, 056. 99	7, 564, 222. 21	999, 926. 67
Municipal and State bonds	875, 597. 65	705, 861. 25	503, 460. 00	666, 678. 60	698, 414. 88	934, 954. 05
Accounts receivable	403, 892. 70	605, 761. 50	506, 643. 57	1, 702, 331. 17	2, 168, 507. 30	1, 277, 860. 77
Deferred installment notes	895, 284. 49	1, 023, 999. 76	976, 719. 40	2, 053, 945. 78	3, 300, 438. 00	3, 726, 048. 69
Inventories at or below cost:						
Raw materials, work in process, etc	3, 481, 764. 42	2, 661, 394. 53	2, 072, 267. 57	4, 120, 355. 27	7, 272, 095. 82	8, 104, 688. 77
Finished motor vehicles	2, 280, 969. 74	2, 789, 405. 90	1, 805, 121. 17	3, 988, 282. 48	2, 692, 914. 89	4, 882, 600. 12
Total	5, 762, 734. 16	5, 450, 800. 43	4, 777, 388. 74	8, 108, 637. 75	9, 965, 010. 71	12, 987, 288. 89
Total, current assets	20, 449, 523. 57	22, 251, 923. 16	18, 656, 432. 07	24, 851, 151. 19	29, 791, 619. 57	23, 893, 569. 23
Mortgages and land contracts receivable, etc	857, 000. 37					
Mortgages and miscellaneous investments, etc		775, 918. 00	656, 732. 00	587, 751. 00	507, 976. 40	500, 131. 38
Cash in closed banks		656, 295. 27	641, 544. 63	603, 754. 66	557, 826. 79	506, 904. 23
Property account:						
Land, buildings, plant equipment, etc., at cost	45, 813, 157. 85	45, 095, 879. 28	45, 062, 445. 94	45, 149, 631. 15	44, 820, 485. 22	44, 439, 872. 46
Less: Reserve for depreciation	14, 494, 446. 89	15, 978, 967. 07	17, 220, 154. 80	18, 141, 343. 06	17, 445, 577. 93	15, 986, 424. 60
Total, net property investment	31, 318, 710. 96	29, 116, 912. 21	27, 842, 291. 14	27, 008, 288. 09	27, 374, 907. 29	28, 453, 447. 86
Rights, privileges, franchises, and inventions	1. 00	1. 00	1. 00	1. 00	1. 00	1. 00
Deferred charges to future operations: Prepaid insurance and other expenses	347, 605. 70	339, 554. 43	403, 949. 05	286, 981. 79	355, 208. 81	373, 615. 68
Total assets	52, 972, 841. 60	53, 140, 604. 07	48, 200, 949. 89	53, 337, 927. 73	58, 587, 539. 86	53, 727, 669. 38

LIABILITIES

	At Aug. 31				At Dec. 31		
	1926	1927	1928	1929	1929	1930	1931
Current liabilities:							
Current accounts payable and pay rolls	$4,828,757.21	$1,427,043.77	$7,432,006.87	$7,117,528.65	$4,251,542.60	$1,776,660.28	$1,648,465.52
Miscellaneous liabilities not yet due	1,872,157.77	1,607,761.92	1,870,536.74	1,368,043.94	1,073,682.34	1,124,252.99	807,827.77
Provision for Federal income tax	2,209,868.40	1,779,783.15	3,150,000.00	3,435,069.75	3,236,078.73	1,577,470.93	
Dividends payable	1,802,558.40	1,802,558.40	2,253,198.00		3,750,000.00		
Reserve for miscellaneous items					893,059.11	1,515,000.00	666,860.76
Total current liabilities	10,713,341.78	9,617,147.24	14,705,741.61	11,920,642.34	13,201,362.78	5,993,384.20	3,123,154.05
Reserves:							
For contingencies	1,437,644.92	398,406.13					
For general purposes						750,000.00	1,250,000.00
Capital stock:							
Common (authorized 5,000,000 shares; outstanding, 3,004,264 shares, $10 par)	30,042,640.00	30,042,640.00	30,042,640.00				
Common (authorized 25,000,000 shares; outstanding, 15,000,000 shares no par) [1]				50,000,000.00	50,000,000.00	50,000,000.00	50,000,000.00
Surplus	16,438,303.73	20,986,438.70	30,428,943.18	19,106,349.45	15,581,419.35	14,877,332.88	5,222,563.04
Total liabilities	58,631,930.43	61,044,632.07	75,177,324.79	81,026,991.79	78,788,782.13	71,620,717.08	59,595,717.09

	At Dec. 31					
	1932	1933	1934	1935	1936	1937
Current liabilities:						
Current accounts payable and pay rolls	$1,477,724.62	$1,533,883.81	$2,787,122.86	$4,078,775.34	$7,795,869.62	$3,980,201.73
Miscellaneous liabilities not yet due	547,988.05	537,039.73	533,349.23	625,015.38	844,802.49	1,035,682.16
Provision for Federal income tax				570,732.76	1,280,484.34	627,990.18
Reserve for miscellaneous items	298,877.61	258,700.00	162,218.35	1,279,891.24	1,621,681.46	1,785,638.87
Reserve for tool commitments of model 120			1,198,734.00			
Reserve for Federal and Canadian income taxes of subsidiary companies			13,844.85			
Total current liabilities	2,324,590.28	2,329,623.57	4,695,269.29	6,554,414.72	11,512,837.91	7,429,512.94
Reserves:						
For general purposes	2,250,000.00	1,250,000.00	1,250,000.00	1,250,000.00	1,250,000.00	1,250,000.00
For cash in closed banks		656,295.27	641,544.63	603,754.66	557,826.79	506,901.23
Capital stock:						
Common (authorized 25,000,000 shares; outstanding, 15,000,000 shares no par) [1]	40,000,000.00	40,000,000.00	40,000,000.00	30,000,000.00	30,000,000.00	30,000,000.00
Surplus	8,398,251.32	8,904,685.23	1,614,135.97	14,929,758.35	15,236,875.16	11,541,252.21
Total liabilities	52,972,841.60	53,140,604.07	48,200,949.89	53,337,927.73	58,587,539.86	53,727,669.38

[1] No change in shares outstanding—reduction in ledger values accomplished by credits to surplus.

Income and expenses—consolidated operations.—The company does not prepare a consolidated income statement in the sense of combining and consolidating all of the items of income and expense and presenting them in the form of a single statement. Instead, the income and expense statements were drawn up separately for the factory operations and for operations of each subsidiary company. Only the net profit of the subsidiary companies was added to the statement of factory operations to show the combined position of the parent company and subsidiaries. Time did not permit of examination of records of subsidiary companies and therefore such a statement was not constructed.

The combined net profit of the consolidated company is presented as table 108 following. This statement shows the final net profit or loss for factory operations, for which detail is presented in the statement of factory operations on page 775, the final net profit or loss from operations of subsidiary companies and the consolidated net profit for the entire company both before and after provision for Federal and State income taxes, for each of the fiscal years 1927 to 1929, inclusive, for the 4 months interim period in 1929 and for the calendar years 1930 to 1937, inclusive.

The profits shown for Detroit factory operations are after adjustments made by the Commission's accountants which are referred to on page 773. No adjustments have been made in the profits of subsidiary companies since no detailed examination of their records was made.

TABLE 108.—*Packard Motor Car Co.—Statement of consolidated net income from operations, 1927 to 1937, inclusive*

	Net profit before provision for income taxes			Provision for income taxes	
	Detroit factory [1]	Subsidiary companies [2]	Total	Detroit factory [1]	Subsidiary companies [2]
Fiscal year ended Aug. 31—					
1927	$11, 596, 467	$2, 200, 215	$13, 796, 682	$1, 529, 942	$287, 943
1928	22, 111, 135	3, 599, 427	25, 710, 562	2, 676, 165	431, 288
1929	25, 226, 255	4, 126, 923	29, 353, 178	2, 884, 605	530, 320
September to December, inclusive: 1929	5, 115, 458	481, 997	5, 597, 455	579, 105	63, 178
Calendar year ended Dec. 31—					
1930	10, 503, 452	890, 038	11, 483, 490	1, 215, 610	116, 572
1931	[3] 1, 166, 712	[3] 532, 405	[3] 1, 699, 117		
1932	[3] 4, 845, 082	[3] 834, 187	[3] 5, 679, 269		
1933	545, 633	[3] 189, 919	355, 714		
1934	[3] 6, 246, 915	[3] 438, 828	[3] 6, 685, 743		
1935	2, 047, 112	481, 685	2, 528, 797	480, 000	91, 515
1936	7, 497, 315	931, 272	8, 428, 587	1, 150, 000	161, 862
1937	3, 107, 290	699, 314	3, 806, 604	475, 000	127, 283
Total	75, 581, 408	11, 415, 532	86, 996, 940	10, 990, 427	1, 812, 961
Yearly average	6, 668, 948	1, 007, 253	7, 676, 201	969, 744	159, 967

See footnotes at end of table.

TABLE 108.—*Packard Motor Car Co.—Statement of consolidated net income from operations, 1927 to 1937, inclusive*—Continued

	Provision for income taxes, total	Net profit after provision for income taxes		
		Detroit factory [1]	Subsidiary companies [2]	Total
Fiscal year ended Aug. 31—				
1927	$1,817,885	$10,066,525	$1,912,272	$11,978,797
1928	3,107,453	19,434,970	3,168,139	22,603,109
1929	3,414,925	22,341,650	3,596,603	25,938,253
September to December, inclusive: 1929	642,283	4,536,353	418,819	4,955,172
Calendar year ended Dec. 31—				
1930	1,332,182	9,377,842	773,466	10,151,308
1931		[3] 1,166,712	[3] 532,405	[3] 1,699,117
1932		[3] 4,845,082	[3] 834,187	[3] 5,679,269
1933		545,633	[3] 189,919	355,714
1934		[3] 6,246,915	[3] 438,828	[3] 6,685,743
1935	571,515	1,567,112	390,170	1,957,282
1936	1,314,862	6,347,315	766,410	7,113,725
1937	602,283	2,632,290	572,031	3,204,321
Total	12,803,388	64,590,981	9,602,571	74,193,552
Yearly average	1,129,711	5,699,204	847,286	6,546,490

[1] Parent company, exclusive of Detroit selling branch.
[2] Including Detroit selling branch.
[3] Loss.

SECTION 5. THE STUDEBAKER CORPORATION

Introduction.—The Studebaker Corporation and its predecessors first began experimenting with "horseless carriages" in 1897, when an electric automobile was built. In 1902, production of gasoline automobiles was begun. Studebaker is now one of the more important independent manufacturers of motor vehicles. Its sale of motor vehicles, from January 1, 1902, through December 31, 1938 (including Pierce-Arrow while it was owned by Studebaker), was nearly 2,017,000, of which about 1,908,000 were passenger cars and nearly 69,000 were commercial cars. The aggregate sales were approximately 3 percent of the total number of passenger cars sold from 1900 to 1938, inclusive.

Studebaker's sales of motor vehicles increased from 15,300 cars in 1910, to a maximum of 145,167 passenger cars in 1923, which was slightly more than 4 percent of the national sales. Its annual sales remained large through 1929, after which they decreased during the depression to a minimum of 47,022 motor vehicles in 1932. For each of the years 1936 and 1937, there was a steady increase to nearly 92,000. In 1938, approximately 2.19 percent of new passenger-car registrations were Studebakers.

History of the Studebaker Corporation.—The formation of The Studebaker Corporation (New Jersey) on February 14, 1911, resulted from a merger of Studebaker Bros. Manufacturing Co. and Everitt-Metzger-Flanders Co. The Studebaker Corporation (New Jersey) went into receivership on March 18, 1933, and went into trusteeship on November 11, 1934. Thus, the operations were carried on by receivers or trustees from March 19, 1933, to March 8, 1935, inclusive, at which time the new company, under the name The Studebaker Corporation, took over the assets of the old company.

As of January 1, 1911, the date of the formation of The Studebaker Corporation (New Jersey), there was a write-up in the amount of $19,807,277, recorded on the books of the company as trade name, goodwill, and patent rights, which is shown in a comparison of the closing balance sheets of the predecessor companies and the opening balance sheet of The Studebaker Corporation, set forth below:

Opening balance sheet of the Studebaker Corporation as of Jan. 1, 1911, and closing balance sheets of Everitt-Metzger-Flanders Co. and Studebaker Bros. Manufacturing Co. as of Dec. 31, 1910

	Everitt-Metzger-Flanders Co., Dec. 31, 1910	Studebaker Bros. Manufacturing Co., Dec. 31, 1910	Increase through reorganization	The Studebaker Corporation, as of Jan. 1, 1911
Assets:				
Cash	$70,492	$444,525	$5,628,602	$6,143,619
Receivables	919,305	4,772,673		5,691,978
Investments	142,494	600,019		742,513
Inventories	2,338,135	12,305,285	[1] 2,068,400	12,575,020
Plant and property	3,827,293	5,984,697		9,811,990
Deferred items	40,234	211,125		251,359
Trade name, goodwill, and patents			19,807,277	19,807,277
Total assets	7,337,953	24,318,324	23,367,479	55,333,756
Liabilities:				
Notes payable	1,765,263	8,491,974		10,257,237
Accounts payable	1,923,432	1,382,387		3,305,819
Minority stock of subsidiaries		29,100		29,100
First-mortgage 5-percent bonds		2,700,000	[1] 2,700,000	
6-percent preferred stock		1,500,000	[1] 1,500,000	
7-percent preferred stock			13,500,000	13,500,000
Common stock	1,000,000	3,600,000	23,331,600	27,931,600
Surplus	2,649,258	6,614,863	[1] 9,264,121	
Total liabilities	7,337,953	24,318,324	23,367,479	55,023,756

[1] Decrease.

Brief descriptions of the operations prior to 1911 of each of the predecessor companies, namely, Everitt-Metzger-Flanders Co. and Studebaker Bros. Manufacturing Co., are given under a separate heading in this section.

As was stated before, The Studebaker Corporation (Delaware), formed January 26, 1935, acquired pursuant to a plan of reorganization dated December 10, 1934, all of the assets (except those distributed to creditors) of the Studebaker Corporation (New Jersey). In the reorganization and formation of The Studebaker Corporation (Delaware), a part of its securities, together with a small amount of cash and the common stock of White Motor Co., which had been held in investments, were given in settlement of the claims of the creditors, bondholders and preferred-stock holders of The Studebaker Corporation (New Jersey). The common-stock holders of The Studebaker Corporation (New Jersey) did not receive any equity in the new company but did receive certain subscription rights. The balance of the securities of The Studebaker Corporation (Delaware) were issued to subscribers and underwriters for cash.

The plan of reorganization provided for the distribution of securities and the settlement of claims by the issuance of securities or cash payments as follows:

To the creditors and bondholders of the old company for each $100 principal amount of claims there were issued approximately 4 shares of common stock of the new company and 2.64 shares of common stock of White Motor Co., plus subscription rights to debentures and common stock.

To creditors of Rockne Motors Corporation for each $100 principal amount of claims, payments were made of $25 in cash, $50 principal amount of debentures of the new company, one share of common stock in the new company, and approximately seven-tenths of a share of common stock of White Motor Co., plus certain subscription rights.

To the holders of preferred stock of the old company were issued one and one-fourth shares of common stock of the new company, plus certain subscription rights.

To the holders of the common stock of the old company were granted certain subscription rights.

In settlement of the claims against the receivership estate, the holders of $14,861,050 principal amount of gold notes of The Studebaker Corporation (New Jersey) received 669,983 shares of common stock of the new company and 442,187 shares of common stock of White Motor Co. which had been held as an investment by The Studebaker Corporation (New Jersey). The bank debt in the amount of $3,628,449 was settled for $299,197 in cash, 148,949 shares of common stock of the new company and 98,306 shares of the common stock of White Motor Co. The merchandise and miscellaneous creditors, with claims of $1,620,229 against The Studebaker Corporation estate and $769,357 against Rockne Motors Corporation estate, were given $212,985 in cash, $425,969 principal amount of debentures, 80,285 shares of common stock of the new company, and 53,319 shares of common stock of White Motor Co. The holders of $5,808,200 par value of preferred stock of the old company received 72,602 shares of common stock of the new company. As a result of the reorganization as of March 9, 1935, there were considerable changes in the balance-sheet accounts which are summarized in the following tabulation:

Comparison of closing balance sheet of The Studebaker Corporation (New Jersey) and opening balance sheet of The Studebaker Corporation (Delaware), Mar. 9, 1935

	Studebaker Corporation—old company, Mar. 8, 1935	Decrease in balance-sheet accounts	Studebaker Corporation—new company, Mar. 9, 1935
Assets:			
Cash	$1, 136, 737	[1] $5, 870, 943	$7, 007, 680
Receivables and other current assets	1, 464, 037		1, 464, 037
Inventories	6, 202, 371		6, 202, 371
Deferred charges and prepaid items	311, 177		311, 177
Unamortized discount		[1] 1, 164, 173	1, 164, 173
Miscellaneous investments	451, 875	185, 761	266, 114
Investments in White Motor Co	26, 853, 821	26, 853, 821	
Plant and property	49, 672, 322	34, 896, 895	14, 775, 427
Trade name, goodwill, and patents	1		1
Total assets	86, 092, 341	54, 901, 361	31, 190, 980
Liabilities:			
Notes payable	502, 924		502, 924
Bank debt	3, 628, 449	3, 628, 449	
Creditors claims	2, 424, 129	2, 424, 129	
Deposit on sales contracts	201, 578		201, 578
Accrued interest at Mar. 18, 1933	268, 657	268, 657	
Accounts payable	3, 085, 558	[1] 6	3, 085, 564
Sundry creditors and accruals	1, 610, 295	9, 942	1, 600, 353
Reserve for reorganization		[1] 717, 479	717, 479
6-percent gold notes	14, 681. 050	14, 861, 050	
10-year convertible debenture		[1] 6, 843, 804	6, 843, 804
7-percent cumulative preferred stock	5, 808, 200	5, 808, 200	
Common stock no-par value	49, 285, 740	49, 285, 740	
Common stock $1 par value		[1] 2, 136, 735	2, 136, 735
Capital surplus	1, 708, 375	[1] 14, 394, 168	16, 102, 543
Earned surplus	2, 707, 386	2, 707, 386	
Total liabilities	86, 092, 341	54, 901, 361	31, 190, 980

[1] Increase.

The increase in the amount of cash of the new company over that of the old company resulted from the sale of units of debentures and common stock of the new company.

History of the predecessor companies.—The predecessor companies of The Studebaker Corporation (New Jersey) were important factors in the motor-vehicle industry at the time of their merger in 1911. Brief descriptions of the predecessor companies, namely, Studebaker Bros. Manufacturing Co. and Everitt-Metzger-Flanders Co., are presented here.

H. & C. Studebaker established, in 1852, a wagon-making business with a capital of $65 and two forges, which business expanded to become one of the largest in the world for the manufacture of horse-drawn equipment and harness. Studebaker Bros. Manufacturing Co. was organized March 26, 1868, under the laws of the State of Indiana, with a capital of $75,000, by Clem, John M., and Peter E. Studebaker, each of whom owned one-third interest. This company took over the business of H. & C. Studebaker. Thereafter the firm expanded rapidly. The horse-drawn vehicles and harness business of the Studebaker Bros. Manufacturing Co. and also its motor-vehicle business were acquired in 1911 by the Studebaker Corporation. In 1919 and 1920 the horse-drawn vehicle business was liquidated and only the motor-vehicle business was continued.

With the advent of the motor vehicle in the late nineties, Studebaker Bros. Manufacturing Co. began to experiment with motor vehicles. In the spring of 1897 the company built an "electric horseless vehicle," and in 1899 began building bodies for electric runabouts made by another company. In 1902 the company began building electric runabouts and trucks, of which 20 were sold during that year. It continued to manufacture electric vehicles until 1912. In 1904 the company began building gasoline-propelled motor vehicles. The increases in net sales in the twentieth century, shown in the foregoing tabulation, are largely accounted for by the sales of motor vehicles.

Everitt-Metzger-Flanders Co.—Everitt-Metzger-Flanders Co., incorporated under the laws of the State of Michigan, August 4, 1908, was formed to manufacture and distribute medium-priced motor vehicles. Soon thereafter Studebaker Bros. Manufacturing Co. obtained exclusive rights to sell the motor vehicles known as Studebaker-E-M-F cars, which were manufactured by Everitt-Metzger-Flanders Co. The capital stock of Everitt-Metzger-Flanders Co. was acquired shortly after its formation by Studebaker Bros. Manufacturing Co., and, as previously stated, these two companies were merged as of January 1, 1911, to form The Studebaker Corporation.

During the 2½ years operations of Everitt-Metzger-Flanders Co., it had a remarkable growth in sales of motor vehicles, as shown in the following tabulation:

Period covered	Number of cars produced	Net sales	Net profits
Aug. 4, 1908, to Dec. 31, 1909	8,132	$7,366,428	$1,607,776
Year ended Dec. 31, 1910	15,300	13,869,987	1,606,306
Total	23,432	21,236,615	3,214,082

Acquisition and disposal of the Pierce-Arrow Motor Car Co.—Control of the Pierce-Arrow Motor Car Co. was obtained in August 1928, through acquisition of the class B stock of that company. Additional acquisitions were made of this company's stock and obligations from time to time, so that practically all of the outstanding securities were owned by The Studebaker Corporation at a cost of $9,573,998, as follows:

Class B stock (230,125 shares)	$2, 000, 000
Class A stock (152,211 shares)	4, 190, 044
Preferred stock (23,800 shares)	1, 237, 100
6-percent gold note receivable	2, 000, 000
Account receivable	108, 188
Accrued interest receivable	38, 666
Total	9, 573, 998

The entire equity in the Pierce-Arrow Motor Car Co. was disposed of in August 1933, to a syndicate of investment bankers and others for $1,000,000 in cash. In order to complete the transaction in disposing of this equity, it was necessary for The Studebaker Corporation to pay the White Motor Co. the sum of $150,000 to cover losses on purchases by that company from the Pierce-Arrow Motor Car Co., and also to pay for Federal stock transfer stamps amounting to $16,246. Thus, as a result of the acquisition and disposal of the equity in the Pierce-Arrow Motor Car Co., The Studebaker Corporation sustained a loss of $8,740,244.

In 1929, the first year that the Pierce-Arrow Motor Car Co. was operated under the direction of The Studebaker Corporation, its output increased materially, but thereafter, as the depression increased in severity, its production declined and its operations became so unprofitable that they were discontinued in 1933. The annual number of motor vehicles sold by the Pierce-Arrow Motor Car Co. from 1917 through 1932 is presented below:

Year	Number of cars	Number of trucks	Total motor vehicles	Year	Number of cars	Number of trucks	Total motor vehicles
1917	2, 548	5, 176	7, 724	1926	5, 824	1, 422	7, 246
1918	1, 164	7, 474	8, 638	1927	6, 037	749	6, 786
1919	2, 210	3, 655	5, 865	1928	5, 492	999	6, 491
1920	2, 172	2, 070	4, 242	1929	9, 840	507	10, 347
1921	1, 453	719	2, 172	1930	6, 916	6	6, 922
1922	1, 523	1, 170	2, 693	1931	4, 210	114	4, 324
1923	2, 003	1, 747	3, 750	1932	2, 241	70	2, 311
1924	3, 054	1, 570	4, 624				
1925	5, 654	1, 868	7, 522	Total	62, 341	29, 316	91, 657

The cars and trucks sold after August 1928 were after Studebaker acquired control of Pierce-Arrow. From January 1, 1929, the company sold 23,207 passenger cars and 697 commercial vehicles.

Acquisition and disposal of control of White Motor Co.—In the latter part of 1932 and the first part of 1933, The Studebaker Corporation acquired 594,442 shares of common stock of White Motor Co. of a total outstanding of 625,000 shares. This acquisition of 95.1 percent of the outstanding common stock of White Motor Co. was made in accordance with offers by The Studebaker Corporation on September 19 and October 19, 1932. These offers provided that the holders of each share of common stock of White Motor Co. were to receive the following consideration in exchange for their stock:

(1) One share of common stock of the Studebaker Corporation.
(2) Five dollars in cash.
(3) Twenty-five dollars principal amount of 6-percent gold notes of the Studebaker Corporation, plus accrued interest on the gold notes.

The recorded cost to The Studebaker Corporation of the 594,442 shares of White Motor Co. common stock was $26,853,822. It was planned that The Studebaker Corporation and White Motor Co. should be merged, but as a result of a suit instigated by minority interest, the anticipated consolidation was not consummated. Had this merger been effected, the funds of White Motor Co. probably would have been sufficient to enable the consolidated company to continue to operate. However, when the proposed consolidation could not be consummated, the lack of cash caused The Studebaker Corporation to go into receivership on March 18, 1933, because the banking situation throughout the country was such that the necessary financing could not be done.

In the reorganization of The Studebaker Corporation as of March 9, 1935, the common stock of White Motor Co., held as an investment by the Studebaker Corporation, was distributed to the creditors of the old company. Thus control of White Motor Co. was transferred from The Studebaker Corporation (New Jersey) to its creditors in 1935.

Control of the Studebaker Corporation.—At the time of the formation of Studebaker Bros. Manufacturing Co. in 1868 it was entirely owned by The Studebaker brothers. In 1912, shortly after the formation of the Studebaker Corporation, members of the Studebaker family controlled over 50 percent of the common stock; but in 1927, the beginning of the period under review, they controlled only a small percentage of the stock. During that very prosperous period for the company the common stock of the company was being sold to the public. In 1927 there were over 19,000 common-stock holders; the holder of the largest number of shares was the Farmers Loan & Trust Co. with approximately 4½ percent of the outstanding stock.

The holders of the common stock of the Studebaker Corporation (New Jersey) did not receive any equity in the new company formed in 1935 with the name The Studebaker Corporation (Delaware). Thus the common-stock holders of the new company were not the same individuals or organizations having control of the old company. The common stock of the new company or the Studebaker Corporation (Delaware), formed in 1935, was issued to creditors and sub scribers. In 1938 there were six stockholdings of more than 1 percent each, as shown by the following statement:

Stockholders holding more than 1 percent of the common stock of The Studebaker Corporation, as of Mar. 17, 1938

	Shares	Percent
J. S. Bache & Co.	27, 621	1. 3
Fenner & Beane	35, 844	1. 6
Harris Upham & Co.	38, 236	1. 7
Hollandsch Administratienkantoor N. V. Heerengracht	50, 120	2. 3
E. A. Pierce & Co.	73, 771	3. 4
Walter C. Teagle	32, 075	1. 5
Thomson & McKinnon	45, 122	2. 0
Total	302, 789	13. 8

The total number of shares outstanding was 2,199,395. Walter C. Teagle, chairman of the Standard Oil Co. (New Jersey) was the only individual holding in excess of 1 percent of the outstanding voting stock.

Officers and directors.—The principal officers of The Studebaker Corporation generally were on the board of directors; and, in addition, there usually were bankers and others serving as directors of the company. There have been only normal changes in the personnel holding executive positions throughout the history of the company. For instance, the chairman of the board of directors was J. M. Studebaker from 1911 to 1914, inclusive, Frederick S. Fish from 1915 to the time of receivership in 1933, and H. S. Vance after the reorganization in 1935; while the position of president was held by Frederick S. Fish from 1911 to 1914, inclusive, by A. R. Erskine from 1915 to the time of receivership in 1933, and by Paul G. Hoffman after the reorganization in 1935. Both H. S. Vance and Paul G. Hoffman had been vice presidents of the old company for many years before the reorganization in 1935. They were also receivers of the company, together with A. G. Bean, from March 19, 1933, to March 8, 1935. The officers and directors of the company in 1911, shortly after the company began the manufacture of motor vehicles in important quantities, in 1931 before the receivership; and in 1937 are presented below:

1911: J. M. Studebaker, chairman of the board; Frederick S. Fish, president and director; Clement Studebaker, Jr., vice president and director; George M. Studebaker, vice president and director; Walter E. Flanders, vice president and director; A. R. Erskine, treasurer; Scott Brown, secretary; Frederick P. Delafield, director; Henry Goldman, director (of Goldman, Sachs & Co.); James Newton Gunn, director; A. Barton Hepburn, director; William R. Inniss, director; Philip Lehman, director (of Lehman Bros.); J. R. Turner, director.

1931: Frederick S. Fish, chairman of the board; A. R. Erskine, president and director; H. S. Vance, vice president and director; Paul G. Hoffman, vice president and director; A. G. Rumpf, secretary, treasurer, and director; H. E. Dalton, comptroller; F. Studebaker Fish, director; J. M. Studebaker, Jr., director; Arthur Lehman, director; Frederick W. Longfellow, director; Edward N. Hurley, director; Henry R. Levy, director; George F. Rand, director; A. J. Chanter, director; C. L. Bockus, director; Elmer T. Stevens, director.

1937: H. S. Vance, chairman of the board; Paul G. Hoffman, president and director; G. D. Keller, vice president; R. A. Vail, vice president; C. K. Whittaker, vice president; Roy E. Cole, vice president; K. B. Elliott, vice president; A. G. Rumpf, secretary and treasurer; H. E. Dalton, comptroller; James G. Blaine, director; John F. Cotter, director; Charles F. Glore, director; John Hertz, director; Harold Hirsch, director; Frank E. Joseph, director; M. T. Moore, director; E. J. Quintal, director; John H. Watson, Jr., director; L. Z. Morris Strauss, director.

Expansion of manufacturing activities.—During early March 1939, Studebaker Corporation announced the production of a new low-priced model to sell in the Chevrolet-Ford-Plymouth price class. Prices announced by the company at the factory in South Bend, Ind., range from $660.

Joseph Geschelin, in an article in Automotive Industries for April 1, 1939, entitled "Advanced Tooling Produces Newest Studebaker," states that this low-priced model was "launched at a cost of $3,500,000 for new equipment and tooling alone." Mr. Geschelin, in a detailed description of the new factory equipment to manufacture this new car, states:

Visualization of the machine shop lay-out and equipment from the factory routings must indicate to the seasoned factory executive that the manufacturing scheme ranks with that of the most advanced plants of the industry. In fact, Studebaker shopmen are inclined to believe that not a few of the operations mark a definite contribution to machine-shop practice.

Nor is the machinery the only feature of the lay-out. Efficient mechanization has been carried through to encompass materials handling—gravity roller conveyor lines for machine lines, fitted with turntables, with roll-over fixtures at various points, and the first use we have noted recently of large hinged sections of the conveyor at strategic points to provide free movement of men and materials through the lines.

Growth of capital assets and liabilities.—Some of the changes, during the 11-year period for which the statistical data are presented, in the capital assets and liabilities of both companies operating under the name The Studebaker Corporation are significant. The principal assets consist of plant and property, inventories, cash, and investments in the Pierce-Arrow Motor Car Co. and White Motor Co. The balance sheets of The Studebaker Corporation (New Jersey) from 1926 to 1934, inclusive, and of the Studebaker Corporation (Delaware) from 1935 to 1937, inclusive, are presented in the following table:

TABLE 109.—*The Studebaker Corporation comparative balance sheets at Dec. 31 each year, 1926 to 1937, inclusive*

	1926	1927	1928	1929	1930	1931
ASSETS						
Cash	$14,649,466	$12,337,788	$10,684,904	$4,286,627	$6,555,931	$9,257,361
Sight drafts	3,837,633	3,782,374	2,316,632	1,219,589	989,972	1,285,792
Receivables and other items, less reserves	5,762,025	3,251,956	3,092,943	2,449,971	1,896,452	1,807,046
Inventories	21,581,409	29,769,544	24,222,637	20,675,382	13,048,096	11,770,372
Deferred and prepaid items	510,665	637,825	660,631	419,848	330,787	579,407
Investment in the Pierce-Arrow Motor Car Co			2,000,000	6,312,430	6,155,952	5,162,789
Investment in other securities	2,467,677	1,375,303	4,050,277	925,783	956,750	1,287,845
Plant and property, less depreciation	61,827,734	63,631,418	65,541,273	65,856,779	60,350,520	58,662,663
Trade name, goodwill, and patent rights	19,807,277	19,807,277	19,807,277	19,807,277	19,807,277	19,807,277
Total assets	130,443,886	134,593,485	132,376,574	121,953,686	110,091,737	109,620,552
LIABILITIES						
Accounts payable	5,412,501	9,749,363	8,668,179	3,568,570	2,044,569	4,637,914
Sundry creditors and accruals	2,569,879	2,414,879	2,662,522	1,720,484	1,432,406	1,690,811
Notes payable					5,000,000	5,000,000
Deposits on sales contracts	476,493	525,876	580,747	527,367	408,018	327,231
7 percent preferred stock, less treasury stock	7,489,264	7,276,065	7,131,670	6,697,818	6,385,547	6,292,082
Common stock, less treasury stock	74,913,444	73,864,473	73,250,910	75,527,890	76,201,800	76,201,800
Reserve for Federal income tax	1,826,982	1,765,939	1,431,506	906,395	78,232	2,804
Miscellaneous other reserves	1,221,490	422,571	1,970,000			
Earned surplus	36,533,833	38,574,319	36,681,040	33,005,162	18,541,165	15,467,910
Total liabilities	130,443,886	134,593,485	132,376,574	121,953,686	110,091,737	109,620,552

	1932	1933	1934	1935	1936	1937
ASSETS						
Cash	$2,009,814	$2,560,155	$2,038,508	$5,160,352	$7,129,837	$4,031,340
Sight drafts	462,545	1,206,695	1,273,620	1,180,664	809,218	773,500
Receivables and other items, less reserves	1,409,855	702,751	561,736	789,788	697,536	842,151
Inventories	7,068,690	5,069,059	6,009,805	6,405,233	7,756,238	8,832,369
Deferred and prepaid items	411,833	283,795	422,180	1,635,109	1,149,649	1,034,242
Investment in the Pierce-Arrow Motor Car Co	4,243,143					
Investment in White Motor Co	31,645,129	26,853,822	26,853,822			
Investment in other securities	1,969,697	1,037,293	733,826	226,084	242,933	202,461
Plant and property, less depreciation	50,080,009	49,801,113	49,828,873	14,862,361	13,515,601	14,892,080
Trade name, goodwill, and patent rights	1	1	1	1	1	1
Total assets	99,300,716	87,514,684	87,722,371	30,259,592	31,301,013	30,608,144

TABLE 109.—*The Studebaker Corporation comparative balance sheets at Dec. 31 each year, 1926 to 1937, inclusive*—Continued

	1932	1933	1934	1935	1936	1937
LIABILITIES						
Accounts payable	$1,822,555	$4,634,282	$6,782,552	$4,856,271	$3,042,451	$1,416,035
Sundry creditors and accruals	1,223,626	1,517,389	1,336,533	1,498,691	1,734,430	1,958,983
Notes payable	5,591,000	----------	----------	----------	----------	----------
Bank loans	----------	3,628,448	3,628,448	185,842	----------	----------
Deposits on sales contracts	281,407	221,391	205,025	198,944	197,205	193,282
Gold notes, 6 percent	14,829,200	14,861,050	14,861,050	----------	----------	----------
10-year convertible debentures	----------	----------	----------	6,841,046	6,814,546	6,762,746
7 percent preferred stock, less treasury stock	5,823,200	5,808,200	5,808,200	----------	----------	----------
Common stock, less treasury stock	49,260,260	49,285,740	49,285,740	2,151,729	2,171,643	2,199,371
Reserve for Federal income tax	----------	----------	----------	----------	575,000	235,000
Miscellaneous other reserves	----------	280,039	199,368	205,054	93,225	37,890
Capital surplus	10,034,410	1,708,375	1,708,375	16,297,637	16,460,353	16,780,802
Earned surplus	10,435,058	5,569,770	3,907,080	[1] 1,975,622	212,160	1,024,035
Total liabilities	99,300,716	87,514,684	87,722,371	30,259,592	31,301,013	30,608,144

[1] Deficit.

It will be noted in the foregoing table that the capital of the company, prior to the reorganization of 1935, was obtained primarily through the issuance of common stock and from reinvested earnings. However, from 1930 to 1937, the company also had notes payable or funded debt outstanding.

A large portion of the capital of the company was obtained through reinvestment of earnings, especially during the earlier years of the company's existence. For the 27 years from 1911 to 1937, inclusive, the aggregate net profit after Federal income tax amounted to $173,967,380, while the cash dividends paid on the preferred stock amounted to $14,466,750 and the cash dividends on the common stock amounted to $96,241,024. The company also transferred earnings to the capital stock account during 1920, 1922, and 1929, through the issuance of stock dividends amounting to $33,051,520. However, in 1932, the company transferred capital from the capital-stock account to the surplus account in the amount of $38,100,900. In the reorganization on March 9, 1935, there was an excess of $11,818,212 in the surplus of the new company over the surplus of the old company. Other additions to and deductions from surplus during the period from 1911 to 1937, inclusive, amounted to a net deduction of $62,331,361, which consisted of the following items:

Net loss on investment in Pierce-Arrow	$8,740,243
Adjustment of plant and property	39,179,289
Net loss and expense of issuance and reacquisition of common stock	1,158,802
Net loss on retirement of preferred stock	483,775
Net loss on issuance and reacquisition of funded debt	2,120,628
Loss on liquidation of horse-drawn vehicle business	1,821,202
Engineering expense and development work on new models	4,093,893
Adjustment of inventory	2,919,718
Reorganization expense, 1911	119,874
Deferred charges written off	161,398
Receivables written off	1,387,929
Miscellaneous deductions	1,179,204
Total deductions above	63,365,955
Net profit on sale of miscellaneous investments	1,034,594
Net deductions, 1911–37	62,331,361

The loss on the investment in the Pierce-Arrow Motor Car Co. in the amount of $8,740,243 is discussed separately in connection with the acquisition and disposal of that company. It will be noted that there were deductions from surplus in the net amount of $39,179,289, as a result of adjustments of the net plant and property account. Of this amount an adjustment of $29,807,276 was made in 1932 when the company wrote off $19,807,276, which had been recorded as trade name, goodwill and patent rights in 1911. There was also the amount of $34,896,895 deducted from the plant and property account in the reorganization of the company as of March 9, 1935. This adjustment of the plant and property account and the changes in other accounts as a result of the reorganization are reflected in the surplus account in the net increase in the surplus of $11,818,212 from the old to the new company. A summary of the growth and decrease in the plant and property account from 1911 to the end of 1937, is presented in the following tabulation:

Summary of the plant and property account of The Studebaker Corporation consolidated, excluding the Pierce-Arrow Motor Car Co. and White Motor Co., from 1911 to 1937, inclusive

Year	Balance in plant and property account, less depreciation at Jan. 1	Gross expenditures for additions, acquisitions, and betterments of plant and property including body fixtures, jigs, and dies	Withdrawals, adjustments, and depreciation of plant and property including body fixtures, jigs, and dies	Balance in plant and property account, less depreciation at Dec. 31
1911	$9, 811, 990	$752, 986	$262, 603	$10, 302, 373
1912	10, 302, 373	880, 089	587, 655	10, 594, 807
1913	10, 594, 807	1, 535, 609	257, 119	11, 873, 297
1914	11, 873, 297	600, 188	415, 445	12, 058, 040
1915	12, 058, 040	821, 325	478, 872	12, 400, 493
1916	12, 400, 493	1, 699, 680	662, 190	13, 437, 983
1917	13, 437, 983	2, 562, 242	523, 039	15, 477, 186
1918	15, 477, 186	2, 907, 953	463, 063	17, 922, 076
1919	17, 922, 076	8, 377, 244	592, 466	25, 706, 854
1920	25, 706, 854	11, 212, 116	756, 365	36, 162, 605
1921	36, 162, 605	1, 894, 144	766, 335	37, 290, 414
1922	37, 290, 414	7, 460, 495	1, 324, 727	43, 426, 182
1923	43, 426, 182	10, 764, 826	1, 718, 372	52, 472, 636
1924	52, 472, 636	9, 498, 918	3, 398, 053	58, 573, 501
1925	58, 573, 501	3, 323, 585	4, 131, 144	57, 765, 942
1926	57, 765, 942	6, 506, 321	2, 444, 529	61, 827, 734
1927	61, 827, 734	4, 620, 789	2, 817, 105	63, 631, 418
1928	63, 631, 418	6, 797, 986	4, 888, 131	65, 541, 273
1929	65, 541, 273	4, 326, 223	4, 010, 717	65, 856, 779
1930	65, 856, 779	1, 087, 735	6, 593, 994	60, 350, 520
1931	60, 350, 520	1, 586, 723	3, 274, 580	58, 662, 663
1932	58, 662, 663	2, 867, 049	11, 449, 703	50, 080, 009
1933	50, 080, 009	773, 259	1, 052, 155	49, 801, 113
1934	49, 801, 113	844, 255	816, 495	49, 828, 873
Jan. 1 to Mar. 18, 1935	49, 828, 873	36, 711	193, 262	49, 672, 322
Total	9, 811, 990	93, 738, 451	53, 878, 119	49, 672, 322
Mar. 9, 1935	49, 672, 322	----------------	34, 896, 895	14, 775, 427
Mar. 9 to Dec. 31, 1935	14, 775, 427	1, 760, 151	1, 673, 217	14, 862, 361
1936	14, 862, 361	1, 770, 580	3, 117, 340	13, 515, 601
1937	13, 515, 601	4, 007, 161	2, 630, 682	14, 892, 080
Total	----------------	101, 276, 343	96, 196, 253	----------------

The average annual depreciated plant and property with the sales of motor vehicles, for 5 specific years, are shown below:

Year	Depreciated plant and property averaged at beginning and end of year	Number of motor vehicles sold (approximately the same as the number produced)	Average recorded investment in plant and property per motor vehicle sold
1915	$12,229,266	46,845	$261
1920	30,934,729	51,474	601
1925	58,169,721	134,664	432
1930	63,103,649	60,559	1,042
1937	14,203,840	91,475	155

When The Studebaker Corporation was organized in 1911, its plants consisted of extensive factories in South Bend for the manufacture of horse-drawn vehicles, harness, and motor vehicles, together with plants formerly owned by Everett-Metzger-Flanders Co. located in Detroit, Port Huron, and Pontiac, Mich. The plants in Detroit and South Bend were expanded with the growth of business, and in 1920 the horse-drawn vehicle plants were entirely converted to motor-vehicle manufacturing operations. In 1929, the company began moving its manufacturing operations from Detroit to South Bend. After 1933, when the company discontinued its manufacturing of Rockne motor vehicles, all manufacturing operations in the Detroit plants were discontinued.

Statement for 27-year period of net sales, profits, dividends, reinvested earnings and surplus.—The growth of the operations of The Studebaker Corp. is shown by the amount of capital reinvested in the business, the annual net sales, net profit, dividends paid, and other surplus items, presented in the next table.

TABLE 110.—*The Studebaker Corporation, summary of net sales, net profit, dividends paid, reinvested earnings, and surplus, 1911 to 1937, inclusive*

Year	Net sales of motor vehicles and repair parts	Net sales of horse-drawn vehicles and harness	Total net sales	Net profit after deducting Federal income tax	Cash dividends on 7-percent preferred stock	Cash dividends on common stock	Other deductions from surplus net	Reinvested earnings transferred to capital-stock account as stock dividends	Transfer from capital-stock account to surplus	Earned and capital surplus at end of year
1911	$22,485,475	$6,002,372	$28,487,847	$1,653,582	$708,750					$944,832
1912	27,164,907	8,275,4[illegible]0	35,440,327	2,286,969	930,825		[1] $26,276			2,327,252
1913	32,952,896	8,512,054	41,464,950	1,772,474	901,075		275,000			2,923,651
1914	33,652,870	9,791,353	43,444,223	4,481,896	869,050		39,930			6,496,567
1915	39,538,810	17,000,196	56,539,006	9,067,425	830,445	$1,396,580	2,317,361			11,019,606
1916	54,388,287	7,600,307	61,988,594	8,611,246	767,550	3,000,000				15,863,302
1917	42,573,505	7,574,011	50,147,516	3,500,741	767,550	2,100,000				16,495,493
1918	31,237,840	[2] 20,850,157	52,087,997	3,887,058	767,550	1,200,000	2,864			18,413,137
1919	60,021,377	6,361,930	66,383,307	9,314,039	748,475	2,100,000	713,118			24,165,583
1920	85,356,840	5,295,523	90,652,363	9,817,206	710,150	3,937,500	868,091	$15,000,000		13,467,048
1921	96,690,644		96,690,644	10,409,691	686,000	4,200,000	710,995			18,279,744
1922	133,178,881		133,178,881	18,108,351	673,750	6,000,000	22,155	15,000,000		14,692,190
1923	166,153,683		166,153,683	18,472,583	638,750	7,500,000	492,289			24,533,734
1924	135,406,055		135,406,055	13,800,341	595,000	7,500,000	26,472			30,212,603
1925	161,362,945		161,362,945	16,688,457	579,338	9,843,750	68,934			36,409,038
1926	141,536,652		141,536,652	13,149,580	542,325	9,375,000	3,107,460			36,533,833
1927	129,950,189		129,950,189	12,520,152	518,784	9,367,[illegible]01	593,581			38,574,319
1928	155,858,732		155,858,732	14,351,051	510,542	9,374,023	6,359,766			36,681,039
1929	119,090,434		119,090,434	7,903,450	486,339	9,470,225	[1] 1,428,757	3,051,520		33,005,162
1930	67,311,983		67,311,983	382,281	424,394	7,127,587	7,294,297			18,541,165
1931	52,262,434		52,262,434	1,186,869	389,156	2,177,544	1,693,425			15,467,909
1932	38,172,827		38,172,827	[3] 5,102,627	420,952	571,514	27,004,248		$38,100,900	20,469,468
1933	35,030,620		35,030,620	[3] 1,436,622			11,754,702			7,278,144
1934	39,726,254		30,726,254	[3] 1,441,558			221,132			5,615,454
1935	42,032,180		42,032,180	[3] 2,543,285			568,366		[4] 11,818,212	14,322,015
1936	70,280,891		70,230,891	2,318,371			[1] 32,128			16,672,514
1937	72,003,313		72,003,313	816,659			[1] 315,664			17,804,837
Total	2,085,421,524	[2] 97,263,323	2,182,684,847	173,976,380	14,466,750	96,241,024	62,331,361	33,051,520	49,919,112	17,804,837

[1] Additions to surplus.
[2] Includes sales of war materials in the amount of $15,009,038.
[3] Loss.
[4] Transfer to surplus at reorganization Mar. 9, 1935.

Records of The Studebaker Corporation show that from 1868, the year Studebaker Bros. Manufacturing Co. was organized, through 1910, a period of 43 years, net sales of the company aggregated $119,249,403, its earnings aggregated $16,000,000, and cash dividends of $6,758,088.16 were paid. Some unknown part of these totals were from sales of automobiles, but, they were largely from the wagon, carriage, and harness business.

In the single year 1923, the sales of Studebaker motorcars in dollar volume were approximately equal to the amounts paid for Studebaker horse-drawn vehicles and harness in the 68 years during which the corporation and its predecessor companies were engaged in that business.

In marked contrast to those totals, during the 27 years from 1911 to 1937, net sales of motor vehicles and repair parts aggregated $2,085,421,524, with an additional $97,263,323 net sales of horse-drawn vehicles and harness, making a total net sales of $2,182,684,847.

The net profits during the 27 years, after payment of Federal income taxes of $23,925,565, aggregated $173,976,380, of which $110,707,744 were paid on preferred and common stock. Reinvested earnings transferred to the capital stock account as stock dividends aggregated $33,051,520.

Capital stock.—The net balance in the capital stock accounts at the end of each year from 1926 to 1937, inclusive, is shown in table 109. A brief summary of the common stock issued and reacquired from January 1, 1911, to March 8, 1935, inclusive, of The Studebaker Corporation (New Jersey) is given below:

	Shares	Consideration
Issued at organization, 1911	698, 290	$27, 931, 600
Issued for cash, 1915 and 1919	426, 710	18, 074, 468
Issued as stock dividends	826, 288	33, 051, 520
Issued for stock of the Pierce-Arrow Motor Car Co	10, 125	405, 000
Issued for stock of White Motor Co	594, 442	11, 888, 840
Total issued above	2, 555, 855	91, 351, 428
Net total shares reacquired	91, 568	5, 004, 055
Net shares issued and net consideration received	2, 464, 287	86, 347, 373

As of March 8, 1935, The Studebaker Corporation (New Jersey) had outstanding 2,464,287 shares of common stock with a recorded value of $49,285,740. The difference of $37,061,633 between the capital stock account and the consideration of $86,347,373 is accounted for by the following adjustments made by the company in capital stock account.

Consideration received on cash sales in excess of recorded value	$1, 006, 068
Transfer from capital to surplus on revaluation of stock from $40 to $20 per share	38, 100, 900
Total above	39, 106, 968
Less loss on reacquisition and sale of treasury stock	2, 045, 335
Net deduction from capital stock account	37, 061, 633

The net number of shares of common stock reacquired for cash, less treasury stock sold, resulted in an excess of 91,568 shares acquired over shares sold for cash. These 91,568 shares of treasury stock together with other original shares of common stock were later issued for stock of White Motor Co. The net cost of the 91,568 net shares acquired included the following items:

91,568 shares at $20 per share, the value at which these shares were later reissued for White stock	$1, 831, 360. 00
Amount deducted from surplus upon revaluation of treasury common stock from $40 to $20 when all common stock was revalued in 1932	1, 127, 360. 00
Less profit added to surplus in 1929 from sale of treasury stock	[1] 79, 402. 39
Amount deducted from surplus in 1930 on revaluation of treasury stock from cost to stated value	2, 124, 737. 78
Total net cost of 91,568 shares common stock reacquired	5, 004, 055. 39

[1] Deduction.

Most of the common stock of the new The Studebaker Corporation (Delaware) was issued at the time it began operations on March 9, 1935. A brief summary of the issuance of the common stock of The Studebaker Corporation (Delaware) is given below:

	Shares at $1 per share par value	Consideration received	Amount credited to surplus
Issued in reorganization as of Mar. 9, 1935	2, 135, 906	$18, 238, 449. 21	$16, 102, 543. 21
Issued during 1935, 1936, and 1937 on conversion of $79,100 of debentures	6, 328	72, 014. 02	65, 686. 02
Issued during 1935, 1936, and 1937 under stock compensation plans	34, 670	391, 290. 30	356, 620. 30
Issued during 1935, 1936, and 1937 for cash or as compensation in accordance with management contracts	22, 467	112, 335. 00	89, 868. 00
Total at Dec. 31, 1937	2, 199, 371	18, 814, 088. 53	16, 614, 717. 53

The common stock issued in the reorganization amounting to $2,135,906 was distributed as follows:

To creditors on claims as follows:		
General creditors		$71, 766
Bank creditors		148, 949
Gold Note creditors		669. 983
General creditors of Rockne		8, 519
Total to creditors		899, 217
To holders of preferred stock		72, 602
To subscribers to units [1] as follows:		
General creditors	$7, 600	
Gold note creditors	15, 606	
Preferred stockholders	35, 017	
Holders of old common stock	377, 484	
Underwriters	514, 788	
Total		950, 495
To underwriters as compensation		213. 592
Total issued in reorganization		2, 135, 906

[1] The subscribers to units received $2.25 principal amount of 10-year convertible debentures and ⅓ share of common stock for $2.25 in cash.

Rates of return.—The rates of return on the investment of The Studebaker Corporation are presented in the following table on three bases—total investment excluding appreciation, stockholders' investment, and investment in the motor-vehicle business. The motor-vehicle business consisted of domestic manufacturing and the wholesale distribution to domestic and foreign distributors and dealers. Minor adjustments were made in the profits as recorded by the company for the purpose of eliminating retail operations and other business operations outside of the motor-vehicle business. Also the investment in the Pierce-Arrow Motor Car Co. and White Motor Co., and the profits applicable thereto, were eliminated for the purpose of showing the motor-vehicle operations of The Studebaker Corporation only on a comparable basis throughout the 11-year period.

A summary is given in the following table of the investments, net profits, and rates of return:

TABLE 111.—*The Studebaker Corporation—Summary of investments, profits, and rates of return*

	Total investment	Stockholders' investment	Investment in motor-vehicle business
Average investment:[1]			
1927	$102,638,097	$102,136,913	$101,249,313
1928	101,930,281	101,376,969	98,248,969
1929	99,047,976	98,493,919	88,015,338
1930	90,582,420	88,864,727	76,157,538
1931	80,979,351	79,778,393	68,423,191
1932	83,690,708	76,855,123	57,140,655
1933	88,808,774	69,102,526	52,610,761
1934	80,483,150	61,780,443	48,060,172
1935	48,086,151	38,793,781	31,248,552
1936	24,208,012	18,095,589	23,828,883
1937	25,995,626	19,894,740	25,684,398
Annual average	75,131,868	68,652,102	60,969,797
Profits:[2]			
1927	14,111,493	14,105,165	14,218,340
1928	15,750,467	15,740,668	15,926,778
1929	8,725,106	8,711,821	9,885,710
1930	457,996	392,259	1,328,221
1931	1,246,523	1,194,068	1,793,658
1932	[3] 4,764,175	[3] 5,099,145	[3] 3,767,237
1933	[3] 1,197,055	[3] 1,436,622	[3] 580,510
1934	[3] 1,433,080	[3] 1,441,558	[3] 749,494
1935	[3] 2,098,097	[3] 2,543,285	[3] 1,775,310
1936	3,431,309	2,893,371	3,430,924
1937	1,430,637	903,648	1,430,280
Annual average	3,241,920	3,038,217	3,740,124
Rates of return:	*Percent*	*Percent*	*Percent*
1927	13.75	13.81	14.04
1928	15.45	15.53	16.21
1929	8.81	8.85	11.23
1930	.51	.44	1.74
1931	1.54	1.50	2.62
1932	[3] 5.69	[3] 6.63	[3] 6.59
1933	[3] 1.35	[3] 2.08	[3] 1.10
1934	[3] 1.78	[3] 2.33	[3] 1.56
1935	[3] 4.36	[3] 6.56	[3] 5.68
1936	14.17	15.99	14.40
1937	5.53	4.54	5.57
Annual average	4.31	4.43	6.13

[1] Average investment at beginning and end of year after elimination of appreciation.
[2] After Commission adjustments of income and expenses and before deducting Federal income tax
[3] Loss.

It will be noted from the foregoing table that the rates of return on the total investment and the stockholders' investment were practically the same but there were some variations between those rates and the rates of return on the investment in the motor-vehicle business. This difference is accounted for largely by the fact that the company operated retail branches from 1927 to 1935, inclusive, on which losses were sustained during each year. These losses tended to decrease the profit applicable to the total investment as compared with the investment in the wholesale motor-vehicle business. The exact investment in the retail branches could not be ascertained, but had this investment also been eliminated the rate of return on the wholesale motor-vehicle business would have been slightly higher than that shown in the preceding table. The fluctuations in the yearly rates of return were rather erratic and did not follow trends entirely comparable to the general economic trends of the industry for certain years. For instance, in 1935 the company had losses which were larger than for prior years, which circumstances may be attributed to the company's reorganization in that year. It should be remembered, of course, that there are many elements influencing the net profits of motor-vehicle companies. The rates of return on the motor-vehicle business were 14.04 percent in 1927 and increased to 16.21 percent in 1928. During 1929 and 1930 the rates of return decreased to 11.23 and 1.74 percent, respectively, while in 1931 the rate increased to 2.62 percent. During 1932 to 1935, inclusive, the company had losses which were greater in 1932 and 1935 than for 1933 and 1934. The company had profits in 1936 and 1937 of 14.40 and 5.57 percent, respectively.

Income and expenses.—A summary of the income and expenses annually from 1927 to 1937, inclusive, is presented in the following table. It will be noted that the net profits applicable to the various bases of investments used in computing the rates of return are shown in this table. The terms used herein, such as "net sales," "factory cost of sales," and "commercial expenses" were defined in another part of this chapter. The net profits used in computing the rates of return in all instances were before deducting provisions for Federal income taxes.

TABLE 112.—*The Studebaker Corporation—Summary of income and expenses and net profit applicable to various bases of investment, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	Total, 1927–37
Net sales	$129, 950, 189	$155, 858, 732	$119, 090, 434	$67, 311, 983	$52, 262, 434	$38, 172, 827	$35, 030, 620	$39, 726, 254	$42, 032, 180	$70, 280, 891	$72, 003, 313	$821, 719, 857
Factory cost of sales	102, 966, 926	124, 815, 565	96, 250, 775	56, 280, 419	43, 345, 044	34, 591, 576	30, 835, 355	35, 680, 268	39, 187, 367	60, 602, 469	63, 518, 358	688, 074, 122
Gross profit on sales	26, 983, 263	31, 043, 167	22, 839, 659	11, 031, 564	8, 917, 390	3, 581, 251	4, 195, 265	4, 045, 986	2, 844, 813	9, 678, 422	8, 484, 955	133, 645, 735
Commercial expense	13, 153, 465	14, 678, 685	13, 817, 389	9, 695, 558	6, 859, 896	7, 281, 305	4, 968, 493	5, 032, 842	4, 878, 491	6, 342, 279	7, 026, 470	93, 734, 873
Net profit on sales	13, 829, 798	16, 364, 482	9, 022, 270	1, 336, 006	2, 057, 491	[1] 3, 700, 054	[1] 773, 228	[1] 986, 856	[1] 2, 033, 678	3, 336, 143	1, 458, 485	39, 910, 862
Other income, net	388, 542	[1] 437, 704	863, 440	[1] 7, 785	[1] 263, 836	[1] 67, 183	192, 717	237, 362	258, 368	94, 781	[1] 28, 205	1, 230, 497
Net profit on wholesale motor vehicle business	14, 218, 340	15, 926, 778	9, 885, 710	1, 328, 221	1, 793, 658	[1] 3, 767, 237	[1] 580, 511	[1] 749, 494	[1] 1, 775, 310	3, 430, 924	1, 430, 280	41, 141, 359
Net loss on retail branches	124, 883	288, 938	757, 058	706, 551	489, 096	869, 089	474, 106	571, 163	285, 181	----------	----------	4, 566, 065
Net profit on wholesale and retail operations	14, 093, 457	15, 637, 840	9, 128, 652	621, 670	1, 304, 562	[1] 4, 636, 326	[1] 1, 054, 617	[1] 1, 320, 657	2, 060, 491	3, 430, 924	1, 430, 280	36, 575, 294
Net profit on outside and idle investments	18, 036	112, 627	[1] 403, 546	[1] 163, 674	[1] 58, 039	[1] 127, 849	[1] 142, 438	[1] 112, 423	[1] 37, 606	385	357	[1] 914, 170
Net profit before interest	14, 111, 493	15, 750, 467	8, 725, 106	457, 996	1, 246, 523	[1] 4, 764, 175	[1] 1, 197, 055	[1] 1, 433, 080	[1] 2, 098, 097	3, 431, 309	1, 430, 637	35, 661, 124
Interest expense on borrowed funds	6, 328	9, 799	13, 285	65, 737	52, 455	334, 970	239, 567	8, 478	445, 188	537, 938	526, 989	2, 240, 734
Net profit before Federal income tax	14, 105, 165	15, 740, 668	8, 711, 821	392, 259	1, 194, 068	[1] 5, 099, 145	[1] 1, 436, 622	[1] 1, 441, 558	[1] 2, 543, 285	2, 893, 371	903, 648	33, 420, 390
Provision for Federal income tax	1, 585, 013	1, 389, 617	808, 371	9, 978	7, 199	3, 482	----------	----------	----------	575, 000	86, 989	4, 465, 649
Net profit after Federal income tax	12, 520, 152	14, 351, 051	7, 903, 450	382, 281	1, 186, 869	[1] 5, 102, 627	[1] 1, 436, 622	[1] 1, 441, 558	[1] 2, 543, 285	2, 318, 371	816, 659	28, 954, 741

[1] Loss.

Details of sales.—Practically all of Studebaker's sales, since 1911, consisted of sales of motor vehicles, although there were included the sales of accessories, repair parts, and assembly parts. The number of motor vehicles sold was 22,555 in 1911, and increased each year to 1916, when 65,885 were sold. The number sold decreased during the next 2 years to 23,864 in 1918, and thereafter increased to a total of 145,167 in 1923, which was the largest number of cars sold during any one year of the company's existence. During the years from 1922 to 1928, inclusive, the annual number of motor vehicles sold ranged from 110,240 to 145,167. After 1928 the number of motor vehicles sold decreased each year to 47,733 in 1932, and thereafter increased each year to 91,999 in 1936. In 1937 the company sold 91,475 motor vehicles. A summary of the number of motor vehicles sold by lines of motor vehicles from 1911 to 1937, is presented in the following table:

TABLE 113.—*The Studebaker Corporation—Summary of the number of motor vehicles sold, 1911 to 1937, inclusive*

Year	Early models, "Four" and "Light Four"	"Light Six," "Standard" and "Dictator"	"Special Six" and "Commander"	"Big Six" and "President"	"Erskine Six" and "Studebaker Six"	"Rockne"	Miscellaneous models	Total number of passenger motor vehicles sold	Commercial motor vehicles sold	Total number of motor vehicles sold
1911	22,555							22,555		22,555
1912	27,662						207	27,869	654	28,523
1913	31,489	3,150					160	34,799	611	35,410
1914	24,598	9,989					209	34,796	664	35,460
1915	29,848	13,898					689	44,435	2,410	46,845
1916	34,483	26,989					608	62,080	3,805	65,885
1917	17,294	21,715					463	39,472	2,885	42,357
1918	6,545	12,693		3,096			346	22,680	1,184	23,864
1919	7,244	21,224		9,894			836	39,198	158	39,356
1920	394	6,494	33,820	10,481			284	51,473	1	51,474
1921	6	28,422	28,633	9,071			511	66,643		66,643
1922		48,535	42,423	18,269			1,042	110,269		110,269
1923		77,289	47,386	20,492				145,167		145,167
1924		61,285	35,428	13,527				110,240		110,240
1925		83,457	34,755	16,452				134,664		134,664
1926		70,854	6,447	32,044				109,345	1,970	111,315
1927		39,723	51,303	532	23,137			114,695	2,045	116,740
1928		39,187	29,255	26,675	37,496			132,613	3,592	136,205
1929		30,737	32,297	19,435	11,500		193	94,162	3,367	97,529
1930		12,237	11,953	10,630	21,855		228	56,903	3,656	60,559
1931		10,669	5,840	5,000	26,777	747	7	49,040	4,845	53,885
1932		5,279	2,940	2,024	11,761	22,223	484	44,711	3,022	47,733
1933		18,425	8,400	3,707		13,972	108	44,612	3,675	48,287
1934		38,783	6,734	2,160		1	86	47,764	3,918	51,682
1935		40,960	4,838	4,044			47	49,889	4,760	54,649
1936		75,310		9,076			1,140	85,526	6,473	91,999
1937		51,848	20,109	7,248			54	79,259	12,216	91,475
Total	202,118	849,152	402,561	223,857	132,526	36,943	7,702	1,854,859	65,911	1,920,770

The above does not include sales of Pierce-Arrow Motor Car Co. during the period it was a 100-percent subsidiary of Studebaker, the sales of Studebaker Bros. Manufacturing Co., from 1902 to 1910, inclusive, nor the sales of Everitt-Metzger-Flanders Co., from 1908 to 1910. The sales of these three were as follows:

	Cars
Studebaker Bros. Manufacturing Co., 1902–10	4,322
Everitt-Metzger-Flanders Co., 1908–10	23,432
Pierce-Arrow Motor Car Co., 1929–32	23,904
Total	51,658

The majority of the motor vehicles were sold to domestic distributors, although a substantial number were exported to Canada and other foreign countries. Many of the exported cars were shipped unassembled. Annual comparisons of the number of motor vehicles sold in this country and exported are given in the following tabulation:

Number of motor vehicles sold annually in the United States, Canada, and all other countries, 1927 to 1937, inclusive

Year	Number of motor vehicles sold in United States	Number of motor vehicles sold in Canada	Number of motor vehicles sold in other foreign countries	Total number of motor vehicles sold
1927	98, 281	3, 120	15, 339	116, 740
1928	110, 688	3, 842	21, 675	136, 205
1929	82, 692	2, 725	12, 112	97, 529
1930	53, 332	1, 863	5, 364	60, 559
1931	48, 978	1, 620	3, 227	53, 885
1932	42, 718	1, 848	3, 167	47, 733
1933	42, 655	1, 059	4, 573	48, 287
1934	41, 403	1, 161	9, 118	51, 682
1935	44, 198	1, 283	9, 168	54, 649
1936	78, 006	1, 935	12, 058	91, 999
1937	74, 201	2, 289	14, 985	91, 475
Total	717, 152	22, 805	110, 786	850, 743

During the 11-year period under review the total net sales amounted to $821,719,857, of which $778,399,560 represented sales of motor vehicles, $37,949,282 consisted of sales of repair parts, and $5,371,015 represented sales of assembly parts. Thus, it will be seen that only a relatively small proportion of the sales represented sales of repair parts. Included in the sales of motor vehicles are the sales of accessories, many of which were installed on the cars at the time the cars were assembled. The following table contains a summary of the various items included in net sales. It will be noted that an amount is shown for accessory sales, which amount does not represent the total accessories or options for the reason that sometimes these items were included with the car sales and were recorded as sales of motor vehicles. Also included in the sales of motor vehicles were the revenues from advertising and loading which were based on charges to distributors and dealers on a per-car basis.

TABLE 114.—*The Studebaker Corporation—Details of net sales, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932
Number of motor vehicles sold:						
Dictator	30, 723	39, 187	30, 737	12, 237	10, 669	5, 279
Commander	51, 303	29, 255	32, 297	11, 953	5, 840	2, 940
President	532	26, 675	19, 435	10, 630	5, 000	2, 024
Erskine Six and Studebaker Six	23, 137	37, 496	11, 500	21, 855	26, 777	11, 761
Rockne					747	22, 223
Pierce-Arrow			193	228	7	27
Miscellaneous passenger cars						457
Total passenger cars	114, 695	132, 613	94, 162	56, 903	49, 040	44, 711
Commercial motor vehicles	2, 045	3, 592	3, 367	3, 656	4, 845	3, 022
Total motor vehicles sold	116, 740	136, 205	97, 529	60, 559	53, 885	47, 733

TABLE 114.—*The Studebaker Corporation—Details of net sales, 1927 to 1937, inclusive*—Continued

	1927	1928	1929	1930	1931	1932
Net sales:						
Dictator	$38, 343, 544	$37, 855, 857	$27, 205, 750	$10, 440, 638	$8, 997, 684	$4, 248, 299
Commander	61, 603, 870	33, 651, 754	36, 703, 485	13, 768, 180	6, 667, 121	3, 081, 525
President	836, 728	38, 752, 702	28, 971, 376	15, 571, 473	7, 067, 777	2, 642, 195
Erskine Six and Studebaker Six	17, 488, 243	28, 035, 246	8, 882, 655	15, 686, 095	18, 315, 349	8, 386, 396
Rockne					437, 996	11, 814, 135
Pierce-Arrow			620, 297	715, 026	18, 112	78, 428
Miscellaneous passenger cars						455, 816
Total passenger cars	118, 272, 385	138, 295, 559	102, 383, 563	56, 181, 412	41, 504, 039	30, 706, 794
Commercial motor vehicles	4, 201, 386	4, 853, 475	4, 716, 026	3, 551, 277	3, 864, 363	2, 646, 202
Total net sales of motor vehicles	122, 473, 771	143, 149, 034	107, 099, 589	59, 732, 689	45, 368, 402	33, 352, 996
Net sales, accessories, supplies, etc	512, 432	670, 403	457, 228	275, 714	341, 117	595, 159
Revenue from—						
Advertising	1, 127, 126	2, 313, 744	1, 835, 337	1, 084, 364	836, 089	546, 130
Loading and miscellaneous		3, 332, 265	2, 433, 492	1, 695, 855	1, 380, 488	1, 131, 312
Total net sales of motor vehicles and accessories	124, 113, 329	149, 465, 446	111, 825, 646	62, 788, 622	47, 926, 096	35, 625, 597
Net sales of—						
Repair parts	5, 836, 860	6, 181, 004	5, 276, 855	3, 605, 765	3, 112, 074	2, 312, 711
Assembly parts		212, 282	1, 987, 933	917, 596	1, 224, 264	234, 519
Total net sales	129, 950, 189	155, 858, 732	119, 090, 434	67, 311, 983	52, 262, 434	38, 172, 827

	1933	1934	1935	1936	1937	Total, 1927–37
Number of motor vehicles sold:						
Dictator	18, 425	38, 783	40, 960	75, 310	51, 848	363, 158
Commander	8, 400	6, 734	4, 838		20, 109	173, 669
President	3, 707	2, 160	4, 044	9, 076	7, 248	90, 531
Erskine Six and Studebaker Six						132, 526
Rockne	13, 972	1				36, 943
Pierce-Arrow	51	83	46	31	3	669
Miscellaneous passenger cars	57	3	1	1, 109	51	1, 678
Total passenger cars	44, 612	47, 764	49, 889	85, 526	79, 259	799, 174
Commercial motor vehicles	3, 675	3, 918	4, 760	6, 473	12, 216	51, 569
Total motor vehicles sold	48, 287	51, 682	54, 649	91, 999	91, 475	850, 743
Net sales:						
Dictator	$10, 886, 280	$23, 388, 124	$25, 628, 150	$48, 742, 957	$33, 986, 819	$269, 724, 102
Commander	6, 058, 290	4, 893, 776	3, 684, 428		14, 729, 372	184, 841, 801
President	3, 539, 128	2, 040, 764	3, 668, 298	7, 664, 928	6, 193, 409	116, 948, 778
Erskine Six and Studebaker Six						96, 793, 984
Rockne	6, 301, 211	161				18, 553, 503
Pierce-Arrow	126, 701	216, 012	123, 328	81, 684	12, 026	1, 991, 614
Miscellaneous passenger cars	73, 550	2, 911	910	606, 126	18, 412	1, 157, 725
Total passenger cars	26, 985, 160	30, 541, 748	33, 105, 114	57, 095, 695	54, 940, 038	690, 011, 507
Commercial motor vehicles	2, 648, 023	3, 016, 761	3, 600, 237	5, 265, 773	8, 843, 120	47, 206, 643
Total net sales of motor vehicles	29, 633, 183	33, 558, 509	36, 705, 351	62, 361, 468	63, 783, 158	737, 218. 150
Net sales, accessories, supplies, etc	1, 054, 777	1, 401, 701	1, 446, 195	1, 546, 787	1, 926, 576	10, 228, 089
Revenue from—						
Advertising	602, 587	586, 078	541, 660	1, 352, 167	1, 320, 052	12, 145, 334
Loading and miscellaneous	1, 260, 371	1, 666, 195	1, 184, 099	2, 449, 568	2, 274, 342	18, 807, 987
Total net sales of motor vehicles and accessories	32, 550, 918	37, 212, 483	39, 877, 305	67, 709, 990	69, 304, 128	778, 399, 560
Net sales of—						
Repair parts	2, 063, 902	2, 135, 150	2, 154, 875	2, 570, 901	2, 699, 185	37, 949, 282
Assembly parts	415, 800	378, 621				5, 371, 015
Total net sales	35, 030, 620	39, 726, 254	42, 032, 180	70, 280, 891	72, 003. 313	821, 719, 857

The sales of motor vehicles shown in the foregoing table are net after deducting all discounts and allowances. Certain accessories were included by the company with the sales of motor vehicles, thus the amounts shown as sales of accessories are not the totals of such sales, but represent a substantial portion thereof. It has always been the practice of the company to sell motor vehicles f. o. b. South Bend, Ind., except since 1935, when an assembly plant was opened in Los Angeles, from which motor vehicles were sold in the Pacific Coast States f. o. b. distributors' or dealers' places of business at prices which include a delivery charge. The Studebaker Corporation appoints distributors, who in turn appoint dealers. In reality all motor vehicles are sold to distributors who sell part of them at retail to customers and part at wholesale to dealers. From 1934 to 1938, inclusive, the distributors received an overriding discount or wholesale commission on cars sold to dealers, of 2 percent in 1934, and 3 percent from 1935 to 1938, inclusive. Prior to 1934 the dealers purchased cars from distributors at lesser discounts than those allowed by the factory to the distributors. Usually the Studebaker distributors' discounts varied with the number of motor vehicles purchased. These discounts were usually changed slightly from year to year and ranged from 22 to 30 percent of list prices. During some years special discounts of from 1 to 2 percent were allowed to certain metropolitan distributors for special territorial development work. This company manufactured motor vehicles for stock and therefore when new models were released the factory often had some of the prior models in stock and then old models were offered to distributors and dealers at special reduced prices.

The sales of assembly parts shown in the preceding table represented sales of material and parts manufactured for the Pierce-Arrow Motor Car Co. and White Motor Co. during the years when those companies were subsidiaries of The Studebaker Corporation.

Revenue from advertising and expense of advertising.—It was the practice of The Studebaker Corporation to do all the advertising of new cars and to make special charges for advertising with each car sold. The amounts charged to distributors and dealers per motor vehicle are summarized below:

Year	Erskine	Studebaker Six	Dictator	Commander	President	Year	Erskine	Studebaker Six	Dictator	Commander	President
1927	$10		$10	$10	$10	1933		$15	$15	$20	$20
1928	10		15	20	25	1934			15	20	20
1929	10		15	20	25	1935			10	20	20
1930	15		15	20	25	1936			15		25
1931		$15	15	20	20	1937			15	15	25
1932		15	15	20	20	1938				15	25

Occasionally special advertising campaigns were sponsored in the territory of a particular distributor, with the approval of the distributor, for which special charges were made per motor vehicle in addition to the regular advertising charges.

The advertising expense for the 11-year period was approximately three times the amount collected from distributors and dealers as illustrated below:

Year	Revenue from advertising	Advertising expenses	Year	Revenue from advertising	Advertising expenses
1927	$1,127,126	$5,375,376	1934	$586,078	$1,842,655
1928	2,313,744	6,366,012	1935	541,660	1,869,103
1929	1,835,337	5,821,432	1936	1,352,167	2,721,198
1930	1,084,364	3,782,284	1937	1,320,052	2,749,263
1931	836,089	2,374,970			
1932	546,130	2,205,707	Total	12,145,334	36,720,769
1933	602,587	1,612,769			

The advertising is handled for The Studebaker Corporation by an advertising agency for the reason that those agencies receive a discount from newspapers and magazines, which discount is not available to the advertisers. The discount received by the agency represents its compensation for handling the advertising.

The advertising expense during the 11-year period on the average was equal to 4.46 percent of the total net sales. About three-fourths of the advertising expense consisted of costs of advertising space in newspapers, magazines, outdoor billboards, and radio programs.

Distribution and administrative expenses.—All administrative, selling, advertising, and general expenses of operations, except factory cost of sales, were included in commercial expenses. A segregation of commercial expenses between advertising expenses and all other expenses is given below:

Year	Advertising expense	Other distribution and administrative expense	Total distribution and administrative expense	Year	Advertising expense	Other distribution and administrative expense	Total distribution and administrative expense
1927	$5,375,376	$7,778,089	$13,153,465	1934	$1,842,655	$3,190,187	$5,032,842
1928	6,366,012	8,312,673	14,678,685	1935	1,869,103	3,009,388	4,878,491
1929	5,821,432	7,995,957	13,817,389	1936	2,721,198	3,621,082	6,342,279
1930	3,782,284	5,913,274	9,695,558	1937	2,749,263	4,277,207	7,026,470
1931	2,374,970	4,484,926	6,859,896				
1932	2,205,707	5,075,598	7,281,305	Total	36,720,769	57,014,104	93,734,873
1933	1,612,769	3,355,725	4,968,493	Average	3,338,251	5,183,100	8,521,351

Other income, net.—It will be noted in the next statement that during the 11-year period The Studebaker Corporation had other income less other-income deductions, amounting to a net of $1,230.497. The nature of the items included under this classification is shown in the following tabulation:

Summary of other income and other income deductions in total for the 11-year period, 1927 to 1937, inclusive

Other income:	
Cash discount earned on purchases	$2,594,383
Interest and dividend income	1,491,504
Rent income	1,479,958
Royalties received	487,446
Special purchase rebates	404,796
Advertising service	890,227
Commissions on White trucks and parts	335,426
Miscellaneous other income	682,123
Total other income	8,365,863

Summary of other income and other income deductions in total for the 11-year period, 1927 to 1937, inclusive—Continued

Other income deductions:	
Cash discount allowed	$846, 467
Employees' profit-sharing expense	689, 866
Employees' compensation plan	1, 543, 958
Losses of subsidiaries not consolidated	643, 140
Subsidy paid to finance companies	2, 557, 261
Royalties paid	42, 120
Adjustment of freight on material	167, 333
Miscellaneous other income deductions	645, 221
Total, other income deductions	7, 135, 366
Other income, net, total 11-year period	1, 230, 497

Subsidies paid to finance companies.—It will be noted in the foregoing tabulation that for the 11-year period, 1927 to 1937, inclusive, the amount of $2,557,261 was paid to finance companies as a subsidy for financing the sales of motor vehicles. The aggregate amount paid to finance companies from 1923 to 1932, inclusive, the period during which such payments were made, amounted to $5,728,427, which was paid to the following finance companies:

Industrial Finance Corporation and Industrial Acceptance Corporation	$4, 845, 088
Motor Dealers Credit Corporation	218, 151
Commercial Investment Trust, Inc.	665, 188
Total	5, 728, 427

The Studebaker Corporation was one of the first motor-vehicle manufacturers to use wholesale and retail financing to stimulate sales. As early as 1915 the company deposited money in local banks with the provision that the banks would loan an equal amount to dealers. The first time a finance company was employed to provide national wholesale financing was in 1916, when arrangements were made with Commercial Investment Trust, Inc., providing for the extension of credit to dealers. This was a temporary arrangement under which The Studebaker Corporation assumed all losses from uncollectible accounts. During the period 1917–18 the sales of motor vehicles were ahead of production and it was not then necessary to stimulate business through credit sales of motor vehicles. However, from 1919 to the end of the period covered in this report, formal agreements have been in existence providing for wholesale and retail financing of sales. During this period three finance companies have been employed, namely, (*a*) Industrial Finance Corporation or its subsidiary, Industrial Acceptance Corporation, from May 21, 1919, to May 1, 1928; (*b*) Motor Dealers Credit Corporation, from May 1, 1928, to April 1, 1929; and (*c*) Commercial Investment Trust, Inc., from April 1, 1929, to the end of the period covered in this report.

During the period from 1919 to 1922, inclusive, there were no subsidies paid to the finance company, as the retail financing rates had not been fixed by agreement between the finance company and The Studebaker Corporation. Uniform rates were established in 1923 and subsidies were paid to the finance company until 1932. Although no subsidy was paid after 1932, the finance service contracts continued in effect. The finance companies, of course, received compensation in the form of finance charges from the dealers and customers independently of the subsidy payments. The annual amounts of these subsidy payments are as shown below.

1923	$743, 171	1929	$363, 987
1924	918, 672	1930	262, 500
1925	925, 368	1931	212, 500
1926	583, 955	1932	44, 353
1927	787, 584		
1928	886, 337	Total	5, 728, 427

Loss on retail operations.—The Studebaker Corporation operated retail branches for many years until late in 1935, when the last retail branch was closed. The retail branches were located in the United States, Canada, and other foreign countries. All foreign retail branches were discontinued prior to the end of 1929. During each year from 1927 to 1935, inclusive, the operations of these retail branches resulted in a loss, in the following amounts:

1927	$124, 883	1933	$474, 106
1928	288, 938	1934	571, 163
1929	757, 058	1935	285, 181
1930	706, 551		
1931	489, 096	Total	4, 566, 065
1932	869, 089		

The number of domestic and foreign retail branches in operation during the period under review is summarized below.

Year	Domestic retail branches	Foreign retail branches	Total retail branches	Year	Domestic retail branches	Foreign retail branches	Total retail branches
1927	5	6	11	1932	3		3
1928	2	6	8	1933	2		2
1929	2	2	4	1934	2		2
1930	3		3	1935	2		2
1931	4		4				

These retail branches are distinguished from the wholesale branches, which are a functional part of the wholesale distribution system. The annual number of wholesale branches during the period under review is given here.

Year	Domestic wholesale branches	Foreign wholesale branches	Total wholesale branches	Year	Domestic wholesale branches	Foreign wholesale branches	Total wholesale branches
1927	23	8	31	1933	18	3	21
1928	22	9	31	1934	15	2	17
1929	20	8	28	1935	15	2	17
1930	19	7	26	1936	14	1	15
1931	18	5	23	1937	15	1	16
1932	18	3	21				

Operating ratios.—Comparisons of annual operating ratios are presented to reflect the trends of profits and expenses. These ratios are expressed in cents per dollar of net sales and in dollars per motor vehicle sold to indicate the comparative costs, expenses, and profits. The following table contains statistical data on the total business consisting of motor vehicles, accessories, and parts.

TABLE 115.—*The Studebaker Corporation—Costs, expenses, and profits expressed in cents per dollar of net sales of motor vehicles, accessories, and parts, 1927 to 1937, inclusive*

Year	Total net sales	Factory cost of sales	Gross profit on sales	Commercial expense	Net profit on sales	Other income—net	Net profit on entire motor-vehicle business
	Cents	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*
1927	100.00	79.24	20.76	10.12	10.64	0.30	10.94
1928	100.00	80.08	19.92	9.42	10.50	[1] .28	10.22
1929	100.00	80.82	19.18	11.60	7.58	.72	8.30
1930	100.00	83.61	16.39	14.41	1.98	[1] .01	1.97
1931	100.00	82.94	17.06	13.13	3.93	[1] .50	3.43
1932	100.00	90.62	9.38	19.07	[1] 9.69	[1] .18	[1] 9.87
1933	100.00	88.02	11.98	14.18	[1] 2.20	.55	[1] 1.65
1934	100.00	89.82	10.18	12.66	[1] 2.48	.60	[1] 1.88
1935	100.00	93.23	6.77	11.60	[1] 4.83	.61	[1] 4.22
1936	100.00	86.23	13.77	9.02	4.75	.13	4.88
1937	100.00	88.22	11.78	9.76	2.02	[1] .04	1.98
Average	100.00	83.74	16.26	11.40	4.86	.15	5.01

[1] Loss.

As shown in the foregoing table the factory cost of sales expressed in cents per dollar of net sales increased each year from 79.24 cents in 1927 to 90.62 cents in 1932 and thereafter fluctuated irregularly as follows: 88.02 cents in 1933, 89.82 cents in 1934, 93.23 cents in 1935, 86.23 cents in 1936, and 88.22 cents in 1937. The total cost of sales included the factory cost of sales and commercial expenses. After deducting these the net profit on sales ranged from a profit of 10.64 cents in 1927 to a loss of 9.69 cents in 1932. The net amount of other income was in reality a part of the operating revenue and when added to the net profit on sales represented the net profit from the motor-vehicle business. Thus the range of net profit or loss from this business was from a profit of 10.94 cents to a loss of 9.87 cents per dollar of net sales.

Considering only the motor-vehicle and accessory business, excluding the parts business, it was found that the ratios to net sales varied slightly from those based on the total business. The ratios of profit were less as the parts business was more profitable each year than the other business. Therefore, the profit or loss on the motor vehicle and accessory business only, ranged from a profit of 9.42 cents to a loss of 12.86 cents per dollar of net sales of motor vehicles and accessories. In the following table are presented ratios to net sales of motor vehicles and accessories, excluding the parts business.

TABLE 116.—*The Studebaker Corporation—Costs, expenses and profits per dollar of net sales of motor vehicles and accessories, excluding repair-parts business, 1927 to 1937, inclusive.*

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	Average 1927–37
	Cents	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*
Net sales of motor vehicles and accessories	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Factory cost of sales	81.00	81.28	81.86	84.30	83.84	93.21	90.33	92.01	95.00	86.97	89.29	85.07
Gross profit on sales	19.00	18.72	18.14	15.70	16.16	6.79	9.67	7.99	5.00	13.03	10.71	14.93
Advertising expense	4.33	4.26	5.21	6.02	4.96	6.19	4.95	4.95	4.68	4.02	3.96	4.72
Other commercial expense	5.56	4.94	6.44	8.56	8.38	13.27	9.36	7.71	6.74	4.78	5.59	6.59
Total commercial expense	9.89	9.20	11.65	14.58	13.34	19.46	14.31	12.66	11.42	8.80	9.55	11.31
Net profit on sales	9.11	9.52	6.49	1.12	2.82	[1]12.67	[1]4.64	[1]4.67	[1]6.42	4.23	1.16	3.62
Other income—net	.31	[1].29	.78	[1].01	[1].55	[1].19	.59	.63	.65	.15	[1].04	.16
Net profit on motor vehicles and accessory business, excluding repair-parts business	9.42	9.23	7.27	1.11	2.27	[1]12.86	[1]4.05	[1]4.04	[1]5.77	4.38	1.12	3.78

[1] Loss.

The repair-parts business was profitable for the reason that factory cost of sales averaged only 55.27 cents per dollar of net sales of repair parts. The amount of commercial expenses applicable to the repair-parts business was determined by the company on an estimated basis and were equal to 15 cents per dollar of net sales. The average net profit from the repair-parts business was 29.73 cents per dollar of net sales. These ratios for each year from 1927 to 1937, inclusive, are presented in the following table:

TABLE 117.—*The Studebaker Corporation—Costs, expenses, and profits per dollar of net sales for the repair-parts business, 1927 to 1937, inclusive*

Year	Net sales of repair parts	Factory cost of sales	Gross profit on sales	Commercial expense	Net profit on sales of repair parts
	Cents	*Cents*	*Cents*	*Cents*	*Cents*
1927	100.00	41.80	58.20	15.00	43.20
1928	100.00	50.93	49.07	15.00	34.07
1929	100.00	55.97	44.03	15.00	29.03
1930	100.00	69.30	30.70	15.00	15.70
1931	100.00	62.35	37.65	15.00	22.65
1932	100.00	49.86	50.14	15.00	35.14
1933	100.00	50.37	49.63	15.00	34.63
1934	100.00	53.42	46.58	15.00	31.58
1935	100.00	60.54	39.46	15.00	24.46
1936	100.00	66.79	33.21	15.00	18.21
1937	100.00	60.75	39.25	15.00	24.25
Average	100.00	55.27	44.73	15.00	29.73

The trends of sales, costs, expenses, and profits expressed in dollars per motor vehicle sold are significant indexes of the operating results. It should be considered, however, that with the changes in models of motor vehicles and changes in the proportionate numbers sold of different sizes, the unit amounts are not entirely comparable. The definite trend of sales after the depression period was toward smaller cars for the reason that there was less demand for the large automobiles. It will be noted that the sales of automobiles with the same trade name averaged less per motor vehicle from 1933 to 1937, inclusive, than for periods prior thereto. The net profit or loss per motor vehicle sold fluctuated widely. During the profitable years the average profits per motor vehicle, excluding the repair-parts business, were $100.20 for 1927, $101.23 for 1928, $83.32 for 1929, $11.47 for 1930, $20.19 for 1931, $32.20 for 1936, and $8.48 for 1937. During the period from 1932 to 1935, inclusive, the annual losses per motor vehicle were $96.02, $27.33, $29.07, and $42.13, respectively. The average profit per motor vehicle for the 11-year period of $34.59 has less significance when it is considered that greater numbers of the motor vehicles were sold each year during 1927, 1928, and 1929 and then profits were higher than for the later years. Further data on costs, expenses, and profits per motor vehicle sold, excluding the repair-parts business, are presented in the following table:

TABLE 118.—*The Studebaker Corporation—Costs, expenses, and profits per motor vehicle sold, excluding repair-parts business, 1927 to 1937, inclusive*

	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	Average 1927-1937
Net sales:												
Dictator	$965.27	$966.03	$885.11	$853.20	$843.34	$804.75	$590.84	$603.05	$625.69	$647.23	$655.51	$742.73
Commander	1,200.78	1,150.29	1,136.43	1,151.86	1,141.63	1,048.14	721.23	726.73	761.56		732.48	1,064.33
President	1,572.80	1,452.77	1,490.68	1,464.86	1,413.56	1,305.43	954.71	944.80	907.10	844.53	854.50	1,291.81
Other automobiles	755.86	747.69	812.70	742.70	681.83	601.57	461.75	251.82	264.34	603.34	563.66	689.67
Total, passenger cars	1,031.19	1,042.85	1,087.31	987.32	846.33	686.78	604.89	639.43	663.58	667.58	693.17	863.41
Commercial vehicles	2,054.47	1,351.19	1,400.66	971.36	797.60	875.65	720.55	769.97	756.35	813.50	723.90	915.41
Total, motor vehicles	1,049.12	1,050.98	1,098.13	986.36	841.95	698.74	613.69	649.33	671.66	677.85	697.27	866.56
Accessories	4.39	4.92	4.69	4.55	6.33	12.47	21.84	27.12	26.46	16.81	21.06	12.02
Revenue from advertising	9.65	16.99	18.82	17.91	15.51	11.44	12.48	11.34	9.91	14.70	14.43	14.28
Revenue from loading and miscellaneous charges		24.47	24.95	28.00	25.62	23.70	26.10	32.24	21.67	26.63	24.86	22.10
Total, net sales, excluding parts	1,063.16	1,097.36	1,146.59	1,036.82	889.41	746.35	674.11	720.03	729.70	735.99	757.62	914.96
Factory cost of sales:												
Total motor vehicles	856.45	863.68	910.45	844.13	716.71	663.77	569.29	612.25	656.79	609.92	645.88	750.00
Accessories	4.67	5.19	4.71	3.99	5.81	9.18	16.75	19.67	18.33	11.49	14.39	9.29
Loading and miscellaneous		23.08	23.40	25.93	23.16	22.73	22.90	30.59	18.08	18.66	16.18	19.04
Total, factory cost, excluding parts	861.12	891.95	938.56	874.05	745.68	695.68	608.94	662.51	693.20	640.07	676.45	778.33
Gross profits	202.04	205.41	208.03	162.77	143.73	50.67	65.17	57.52	36.50	95.92	81.17	136.63
Commercial expense, except advertising	59.12	54.22	73.87	88.71	74.58	99.07	63.08	55.53	49.15	35.17	42.33	60.33
Advertising expense	46.05	46.74	59.69	62.46	44.07	46.21	33.41	35.65	34.20	29.58	30.05	43.16
Total, commercial and advertising expense	105.17	100.96	133.56	151.17	118.65	145.28	96.49	91.18	83.35	64.75	72.38	103.49
Net profit on sales of motor vehicles	96.87	104.45	74.47	11.60	25.08	[1] 94.61	[1] 31.32	[1] 33.66	[1] 46.85	31.17	8.79	33.14
Other income—net	3.33	[1] 3.22	8.85	[1] .13	[1] 4.89	[1] 1.41	3.99	4.59	4.72	1.03	[1] .31	1.45
Net profit or loss per motor vehicle from the motor-vehicle business, excluding parts business	100.20	101.23	83.32	11.47	20.19	[1] 96.02	[1] 27.33	[1] 29.07	[1] 42.13	32.20	8.48	34.59

[1] Loss

It will be noted in the foregoing table that the average sales per motor vehicle for the 11-year period was $914.96. This amount included $866.56 as sales of motor vehicles after deducting all discounts allowed and before any freight was paid as sales were generally made f. o. b. the factory. Also included in sales was $12.02 per motor vehicle for accessory sales, a part of which were installed on motor vehicles sold and the balance were sold to distributors and dealers. The revenue from advertising averaged $14.28 per motor vehicle and the revenue from loading and miscellaneous charges averaged $22.10 per motor vehicle. These two items were included in sales as they represent a part of the cost of motor vehicles to distributors and dealers. It is of interest to note that the advertising expense per motor vehicle ranged from $29.58 to $62.46 and averaged $43.16 while other commercial expenses, excluding advertising, ranged from $35.17 to $88.71 and averaged $60.33.

The annual changes in the volume of sales and the ratio of net profit to net sales were primarily responsible for the variations in the rates of return. However, the changes in the amount of invested capital of The Studebaker Corporation were very marked and consequently had considerable effect on rates of return. It is significant to observe the ratio of sales to investment, or capital turn-over, during the period under review. It will be noted that the capital decreased each year to 1936 and that sales decreased each year from 1928 to 1933, inclusive, and then increased each year to 1937, inclusive. However, the volume of sales in 1937 was less than one-half the volume for 1928, whereas the capital during 1936 and 1937 was equal to only about one-fourth the amount for the first years under review. Consequently, the number of times that the capital was turned was subject to these marked changes in capital and net sales. Thus the turn-over of capital ranged from 1.59 times in 1928 to 0.67 times in 1932 and 1933. Thereafter it increased to 2.95 times in 1936, and was 2.80 times in 1937. In the following tabulation are presented the capital, the net sales, the turn-over of capital, and ratio of net profit to net sales, together with the rates of return:

Turn-over of capital and rates of return for The Studebaker Corporation, 1927 to 1937, inclusive

Year	Average annual investment in motor-vehicle manufacturing and wholesale distribution	Net sales	Turn-over of capital	Ratio of net profit to net sales	Rate of return on the motor-vehicle business
			Times	*Percent*	*Percent*
1927	$101,249,313	$129,950,189	1.28	10.94	14.04
1928	98,248,969	155,858,732	1.59	10.22	16.21
1929	88,015,338	119,090,434	1.35	8.30	11.23
1930	76,157,538	67,311,983	.88	1.97	1.74
1931	68,423,191	52,262,434	.76	3.43	2.62
1932	57,140,655	38,172,827	.67	[1] 9.87	[1] 6.59
1933	52,610,761	35,030,620	.67	[1] 1.65	[1] 1.10
1934	48,060,172	39,726,254	.83	[1] 1.88	[1] 1.56
1935	31,248,552	42,032,180	1.34	[1] 4.22	[1] 5.68
1936	25,828,883	70,280,891	2.95	4.88	14.40
1937	25,684,398	72,003,313	2.80	1.98	5.57
Average	60,969,797	74,701,805	1.23	5.01	6.13

[1] Loss.

CHAPTER XVI. INVESTMENTS AND PROFITS OF MOTOR VEHICLE DEALERS AND DISTRIBUTORS

Source and extent of information.—The information received comprises the operations of 527 dealers and distributors in 1937, 479 in 1936, and 425 in 1935, located in 45 States and the District of Columbia.

Statements from about 200 dealers and distributors were sent to the Commission in response to requests by the Commission's examiners in the field. The statements were copies of the dealers' and distributors' annual statements submitted to the manufacturers, with an additional statement of their outstanding notes and loans payable, by months. These annual statements included balance sheets for 1934–37 and sales, costs, and income statements for 1935–37.

Information from other dealers and distributors was received in response to report forms sent out by the Commission, a copy of which appears in the appendix. The report forms stated that copies of the annual statements to the manufacturers could be sent if preferred, and many dealers and distributors did this instead of filling in the report forms. Only a few sent in the information on their own forms instead of on the regular forms required by manufacturers.

The number of schedules sent out was 5,655. Of this number 552 were returned unopened to the Commission, 205 reported out of business, and 13 in receivers' hands. Of the remaining 4,885, only 660 were returned to the Commission. These, with the 200 received through the examiners, make the total reports received 860. Of these, 130 could not be used owing to insufficient information and 203 were received too late to tabulate, leaving the 527 used in this report.

None of the dealers' and distributors' figures has been verified by the Commission's agents.

Method of computing investments and profits.—The investments and profits are shown for—

1. Total investment and profit in the entire business.
2. Total investment and profit in the motor-vehicle business.
3. Dealers' and distributors' investment and profit in the motor-vehicle business.
4. Dealers' and distributors' investment and profit in the entire business.

Investment.—The investments used are the mean investments for the year. That is one-half of the sum of the investments at the beginning and at the end of each year. This applies to all except the notes and loans payable for which the average of the amounts outstanding at the end of each month have been used, when so reported. In some instances when the monthly amounts of the notes and loans payable were not reported, the mean investment has been used for these also. The very small amounts of appreciation and goodwill reported have been deducted from the investments.

Total investment in entire business.—This is the sum of the average capital stock, proprietors' or partners' investment, surplus, surplus reserves, and bonds, mortgages, and borrowed money.

Total investment in the motor-vehicle business.—This is the investment as above, less the average outside investments.

Dealers' and distributors' investment in the motor-vehicle business.—This is the sum of the average capital stock, proprietors' or partners' investment, surplus, and surplus reserves, less the average outside investments.

Dealers' and distributors' investment in the entire business.—This is the sum of the average capital stock, proprietors' or partners' investment, surplus and surplus reserves.

Net profit from total investment in entire business.—This is the total net profit before deducting interest on bonds, mortgages, and borrowed money.

Net profit from total investment in motor-vehicle business.—This is the total net profit before deducting interest on bonds, mortgages, and borrowed money and before adding profits or deducting losses on outside investments.

Net profit from dealers' and distributors' investment in the motor-vehicle business.—This is the total net profit before adding profits or deducting losses on outside investments.

Net profit from dealers' and distributors' investment in entire business.—This is the total net profit shown.

Net profits shown are after deducting salaries, but before deducting Federal and State income and excess profits taxes. The total amount of these taxes was not accurately reported because the individuals and partnerships sometimes included in their individual returns income taxes in connection with their motor-vehicle business. The amounts shown by others did not always apply to the year in which they were charged off.

The gains or losses from sale of capital assets have been transferred to surplus when included in other income or deduction, as have the bonuses paid officers and others. Some of the dealers and distributors included these bonuses in their operations, some in other deductions, and others charged them direct to surplus.

Included in the general and administrative expenses reported are the salaries paid executives and owners of unincorporated companies. This method is current in the industry and affords a more comparable basis with incorporated companies. Its general effects in respect to net income are recognized and computations are given indicating these effects. (See pp. 826, 859, 885.)

The net profits used were as reported by the dealers and distributors, with the exception of the above deductions. No verification has been made by the Commission of the figures reported.

Some difficulty was experienced in obtaining the details necessary to reconcile the net worth shown at the close of the year by the dealer, with the net worth shown by the dealer at the beginning of the following year. It seemed difficult for many of the dealers and distributors to furnish these details and they were obtained only after considerable correspondence.

Dealers and distributors.—In the tables following, the operations of the dealers and distributors are shown separately. The dealers are retailers only; the distributors wholesalers and retailers. The results for these two groups differ somewhat, as shown by the tables.

171233—39——54

Regional grouping.—All tables, except the summary or combined tables, show the results by geographical groups. This grouping is in accordance with the United States Government classification, and is shown below.

ACCEPTED GROUPING OF STATES

Group No. 1, New England.—Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut.

Group No. 2, Middle Atlantic.—New York, New Jersey, and Pennsylvania.

Group No. 3, East North Central.—Ohio, Indiana, Illinois, Michigan, and Wisconsin.

Group No. 4, West North Central.—Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, and Kansas.

Group No. 5, South Atlantic.—Delaware, Maryland, District of Columbia, West Virginia, Virginia, North Carolina, South Carolina, Georgia, and Florida.

Group No. 6, East South Central.—Kentucky, Tennessee, Alabama, and Mississippi.

Group No. 7, West South Central.—Arkansas, Louisiana, Oklahoma, and Texas.

Group No. 8, Mountain.—Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, and Nevada.

Group No. 9, Pacific.—Washington, Oregon, and California.

Summary of investments, profits, and rates of return for all regions.—Rates of return have been computed on the total investment in the entire business, and in the motor-vehicle business; also on the dealers' and distributors' investment in the entire business and in the motor-vehicle business.

Almost all dealers and distributors employed large amounts of borrowed money, thereby reducing the amounts of their own money necessary to be invested.

There were great variations in the proportion of the individual dealer's and distributor's own investments used, on account of the varying proportion of borrowed money employed. This greatly affected the dealers' and distributors' rates of return.

When the dealer or distributor employs, for example, no borrowed money, the rates are not so apt to be unusual, but when he operates with little capital of his own the rates may be exceedingly high, though his risk of heavy losses, or even of being wiped out, is much greater. If he is operating at a loss and has only a small proportion of his own capital remaining in the business (on account of previous losses) his rate of loss may run likewise into very or extraordinary high percentages.

The rates of return on the investment in the total motor-vehicle business show much more uniformity than those on the dealers' or distributors' own investment.

Included in the general and administrative expenses reported are the salaries paid executives and owners of unincorporated companies.

The reported salaries paid owners amount to about 6½ percent of the total investment in the motor-vehicle business, for the dealers, and about 3⅓ percent for the distributors, for each of the years 1935, 1936, and 1937. The exclusion of these reported owners' salaries would increase the rates of return shown on the total investments accordingly.

The table following is a summary for all regions of the investments, profits, and rates of return for motor-vehicle dealers and for distributors, located in 45 States and the District of Columbia, for the years 1935–37.

TABLE 119.—*Summary of investments, profits, and rates of return for motor-vehicle dealers and distributors, located in 45 States and the District of Columbia, years 1935–37*

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
Number of dealers and distributors	285	325	361	140	154	166
INVESTMENTS						
Total investment in entire business	$17,123,125	$20,016,394	$22,659,814	$19,422,745	$22,576,678	$25,233,927
Deduct outside investments	772,904	757,713	775,388	1,572,616	1,507,662	1,537,458
Total investment in motor-vehicle business	16,350,221	19,258,681	21,884,426	17,850,129	21,069,016	23,696,469
Deduct borrowed money	5,737,877	7,216,587	8,372,976	6,558,430	8,256,575	9,490,556
Dealers' and distributors' investment in motor-vehicle business	10,612,344	12,042,094	13,511,450	11,291,699	12,812,441	14,205,913
Add outside investments	772,904	757,713	775,388	1,572,616	1,507,662	1,537,458
Dealers' and distributors' investment in entire business	11,385,248	12,799,807	14,286,838	12,864,315	14,320,103	15,743,371
PROFITS						
Profits applicable to total investment in entire business	1,588,367	2,863,199	2,790,122	1,961,140	2,881,879	2,764,221
Deduct profits on outside investments	36,410	24,260	23,861	73,569	79,051	64,394
Profits applicable to total investment in motor-vehicle business	1,551,957	2,838,939	2,766,261	1,887,571	2,802,828	2,699,827
Deduct interest on borrowed money	410,676	518,878	545,396	426,800	508,093	556,245
Profits applicable to dealers and distributors on motor-vehicle business	1,141,281	2,320,061	2,220,865	1,460,771	2,294,735	2,143,582
Add profits on outside investments	36,410	24,260	23,861	73,569	79,051	64,394
Profits applicable to dealers and distributors on entire business (all profits are before deducting income taxes)	1,177,691	2,344,321	2,244,726	1,534,340	2,373,786	2,207,976
RATES OF RETURN ON INVESTMENT						
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
On total investment in entire business	9.28	14.30	12.31	10.10	12.76	10.95
On total investment in motor-vehicle business	9.49	14.74	12.64	10.57	13.30	11.39
On dealers' and distributors' investment in motor-vehicle business	10.75	19.27	16.44	12.94	17.91	15.09
On dealers' and distributors' investment in entire business	10.34	18.32	15.71	11.93	16.58	14.02

The table preceding shows the summary of investments, profits, and rates of return for motor vehicle dealers and distributors located in 45 States and the District of Columbia, years 1935-37.

Of the number of dealers whose reports were used, namely, 285, 325, and 361 for the respective years 1935, 1936, and 1937, 26.32 percent showed losses in 1935, 19.08 percent in 1936 and 25.48 percent in 1937. The total number showing losses for the 3 years combined was 23.59 percent of the total 971 reports used.

Of the number of distributors whose reports were used, namely, 140, 154, and 166, for the respective years 1935, 1936, and 1937, 21.43 percent showed losses in 1935, 13.64 percent in 1936, and 19.28 percent in 1937. The total number showing losses for the 3 years combined was 18.04 percent of the total 460 reports used.

Only about 10 percent of the total reports requested (after deducting those returned unopened) were included in this report. This represents a little more than 1 percent of the total 42,000 dealers and distributors estimated in the country, so that this sample obtained is a very small percentage of the total.

It is probable that the reports received were mainly from the larger dealers and distributors whose accounting methods were better than the average, enabling them to furnish the information required readily and with little difficulty.

A number of the smaller dealers had great difficulty in giving the desired information, their accounting methods being apparently inadequate for furnishing the required data. Had more reports been received from the smaller dealers and distributors and from those that failed and others that went out of business during the 3-year period, the percentage of dealers and distributors showing losses might have been greater.

According to the "Census of Business, United States Retail Distribution Summaries," as shown on page 94, chapter I of this report, there were 17,030 dealer's establishments with net sales of more than $50,000 and 17,521 with net sales of less than $50,000 for the year 1935, as follows:

Establishments with sales of—	*Number*
From $30,000 to $49,999	5, 404
From $20,000 to $29,999	3, 364
From $10,000 to $19,999	4, 438
Less than $10,000	4, 315
Total	17, 521

Of the 285 retail dealers whose reports are included here for the year 1935, and whose sales averaged $380,440 for the year, only 9 had annual sales of less than $50,000. Of these 9 smaller dealers, whose annual sales (except one of $27,000) ranged from $33,000 to $48,000 for the year 1935, 4 showed losses and 5 gains.

From these figures it is obvious that the reports used by the Commission are preponderously those of the larger dealers.

Dealers' results.—The results for 1935 comprise the operations of 285 dealers, 75 of these showing losses and 210 profits. Of the 325 dealers operating in 1936, 62 show losses and 263 show profits. The operations of 361 dealers were included in 1937, 92 showing losses and 269 showing profits.

The table shows the average returns on the total investment in the motor-vehicle business as 9.49 percent in 1935, 14.74 percent in 1936, and 12.64 percent in 1937.

The average returns on the total investment in the entire business were slightly lower, being 9.28 percent in 1935, 14.30 percent in 1936, and 12.31 percent in 1937.

The average returns for the dealers' investment in the motor-vehicle business were 10.75 percent in 1935, 19.27 percent in 1936 and 16.44 percent in 1937; and the average returns for the dealers' investment in the entire business were 10.34 percent in 1935, 18.32 percent in 1936, and 15.71 percent in 1937.

The rates of return for the individual dealers varied greatly.

In 1935 the rates of return on the dealers' investment in the motor-vehicle business ranged from a loss of 192.57 percent to a profit of

134.61 percent for the 285 dealers. In 1936 the range for the 325 dealers was from a loss of 95.19 percent to a profit of 121.32 percent. In 1937 the range for the 361 dealers was from a loss of 184.93 percent to a profit of 167.03 percent.

The loss of 192.57 percent in 1935 was shown by a dealer in the New England States whose total amount of loss was greater than any other dealer in the group, and whose own investment was small, partly accounted for by a large deficit.

The gain of 134.61 percent in 1935 was shown by a dealer in the Middle Atlantic States whose total amount of profit was greater than any other in the group except four, and whose own investment was below the average.

The loss of 95.19 percent in 1936 was shown by a dealer in the East North Central States whose total amount of loss was the largest but one in the group, and whose own investment was only about 38 percent of the average for the group, caused partly by a rather large deficit.

The gain of 121.32 percent in 1936 was shown by a dealer in the East North Central States having total profits greatly exceeding those of any other dealer in the group and whose investment was less than the average.

The loss of 184.93 percent in 1937 was shown by a dealer in the Middle Atlantic States whose total loss was greater than any of the others in the group except three, and whose investment was only about 12 percent of the average for the group.

The gain of 167.03 percent in 1937 was shown by a dealer in the Middle Atlantic States whose own investment was very small, his borrowings being about 80 percent of the total investment used in his business.

The dealers' yearly average investment in the motor-vehicle business was $37,236 in 1935, $37,053 in 1936, and $37,428 in 1937; and the average profits for these investments were $4,004 in 1935, $7,139 in 1936, and $6,152 in 1937.

The yearly averages of the total investments in the motor-vehicle business were $57,369 in 1935, $59,257 in 1936 and $60,622 in 1937; and the average profits were $5,445 in 1935, $8,735 in 1936, and $7,663 in 1937.

The dividends and withdrawals reported amounted to $731,876 in 1935, $1,650,231 in 1936, and $1,617,926 in 1937, and the additional money paid in was $229,483 in 1935, $527,066 in 1936, and $511,431 in 1937.

The manufacturers expressly stated in their instructions to the dealers and distributors that the salaries of partners or proprietors must not be charged to the drawing account.

The ratios of borrowed money to the total investments in the entire business were 33.51 percent, 36.05 percent, and 36.95 percent for the respective years.

The average annual interest rates paid on borrowed money, computed on the interest reported, were 7.16 percent in 1935, 7.19 percent in 1936 and 6.51 percent in 1937.

The amounts deducted from the investments of this group of dealers for appreciation and goodwill were $26,534 in 1935, $28,497 in 1936, and $51,986 in 1937.

Distributors' results.—The results for 1935 comprise the operations of 140 distributors, 30 showing losses and 110 showing profits in the motor-vehicle business. In 1936 the results for 154 distributors are given, 21 showing losses and 133 profits, and in 1937 of 166 distributors, 32 showing losses and 134 showing profits.

The table shows the average returns on the total investment in the motor-vehicle business as 10.57 percent in 1935, 13.30 percent in 1936, and 11.39 percent in 1937.

The average returns on the total investment in the entire business were 10.10 percent, 12.76 percent and 10.95 percent for the respective years.

The average returns for the distributors' investment in the motor-vehicle business were 12.94 percent in 1935, 17.91 percent in 1936, and 15.09 percent in 1937, and the average returns for the distributors' investment in the entire business were 11.93 percent, 16.58 percent, and 14.02 percent for the respective years.

The rates of return for the individual distributors varied greatly.

In 1935, the rates of return on the distributors' investment in the motor-vehicle business ranged from a loss of 33.25 percent to a profit of 114.36 percent for the 140 distributors. In 1936, the range for the 154 distributors was from a loss of 189.75 percent to a profit of 144.68 percent. In 1937, the range for the 166 distributors was from a loss of 95.22 percent to a profit of 167.36 percent.

In 1935, the profit of 114.36 percent was shown by a distributor in the West South Central States whose total profits were much higher than any other distributor in the group and whose investment was about the average for the group.

In 1936, the loss of 189.75 percent was shown by a distributor in the New England States whose total loss was much greater than any of the other distributors in this group except one and whose own investment was comparatively small, owing to his large deficit from operations. The profit of 144.68 percent was shown by a distributor in the West South Central States whose total profits were about 48 percent above the average for the group and his own investment was about 63 percent less than the average.

In 1937, the gain of 167.36 percent was shown by a distributor in the South Atlantic States whose total profits exceeded all other distributors in the group except one, and whose investment was the smallest but two in the group.

The distributors' average yearly investments in the motor-vehicle business were $80,655 in 1935, $83,198 in 1936, and $85,578 in 1937, and the average yearly profits for these investments were $10,434, $14,901, and $12,913 for these respective years.

The total average yearly investments in the motor-vehicle business were $127,501 in 1935, $136,812 in 1936, and $142,750 in 1937, and the yearly profits for these investments were $13,483, $18,200, and $16,264 for these respective years.

The dividends and withdrawals reported amounted to $419,028 in 1935, $1,321,721 in 1936, and $1,224,311 in 1937; and the additional money paid in was $64,200 in 1935, $291,185 in 1936, and $365,126 in 1937.

The average borrowed money was 33.77 percent of the total investment in the entire business in 1935, 36.57 percent in 1936, and 37.61 percent in 1937.

The average annual interest rates paid for borrowed money, computed on the interest reported, were 6.51 percent in 1935, 6.15 percent in 1936, and 5.86 percent in 1937.

The amounts deducted from the investments of this group of distributors for appreciation and goodwill were $73,785 in 1935, $72,243 in 1936, and $68,613 in 1937.

Rates of return on investments, by regions.—The following table shows the rates of return on dealers' and on distributors' own investments and on total investments in the motor-vehicle business, by regions, for the years 1935–37.

TABLE 120.—*Rates of return on dealers, and on distributors, own investments and on total investments in the motor-vehicle business, by regions*

DEALERS

Region	1935				1936				1937			
	On dealers investment	On total investment	Dealers		On dealers investment	On total investment	Dealers		On dealers investment	On total investment	Dealers	
			High	Low			High	Low			High	Low
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
New England States	4.25	4.54	34.01	[1] 192.57	7.81	7.40	29.38	[1] 70.55	11.66	10.12	54.37	[1] 40.47
Middle Atlantic	7.99	7.31	134.61	[1] 33.60	16.67	12.19	113.90	[1] 36.12	17.70	12.61	167.03	[1] 184.93
East North Central	9.56	8.67	62.14	[1] 87.59	13.27	10.97	121.32	[1] 95.19	14.31	11.41	144.46	[1] 36.07
West North Central	13.55	11.89	84.09	[1] 18.66	16.29	13.41	73.90	[1] 42.85	12.28	10.27	69.08	[1] 86.78
South Atlantic	18.55	14.29	49.80	[1] 39.47	32.03	21.92	94.52	[1] 34.70	27.77	18.91	102.06	[1] 40.92
East South Central	11.81	10.56	54.56	[1] 22.05	22.90	18.25	103.42	[1] 54.61	12.22	10.60	65.46	[1] 37.72
West South Central	12.98	11.13	80.75	[1] 11.75	31.65	23.06	117.07	[1] 35.17	20.79	15.87	118.67	[1] 124.94
Mountain States	10.21	9.59	48.93	[1] 7.83	20.36	16.73	47.85	[1] 6.40	15.50	12.65	43.80	[1] 29.48
Pacific States	13.80	11.93	57.09	[1] 15.34	20.49	15.53	109.93	[1] 20.54	12.41	10.03	89.03	[1] 93.28
Average	10.75	9.49			19.27	14.74			16.44	12.64		

DISTRIBUTORS

Region	1935				1936				1937			
	On distributors investment	On total investment	Distributors		On distributors investment	On total investment	Distributors		On distributors investment	On total investment	Distributors	
			High	Low			High	Low			High	Low
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
New England States	2.09	3.43	24.41	[1] 33.25	6.10	5.70	52.47	[1] 189.75	12.39	9.53	33.88	[1] 4.79
Middle Atlantic	14.68	12.07	37.01	[1] 31.23	19.17	14.90	131.41	[1] 19.47	19.12	14.82	67.99	[1] 19.10
East North Central	16.39	14.81	41.09	2.30	21.89	18.43	65.22	5.40	16.42	12.32	54.28	[1] 46.36
West North Central	10.75	9.28	85.86	[1] 22.94	15.07	11.39	82.90	[1] 102.48	11.77	9.24	60.22	[1] 31.41
South Atlantic	8.29	7.79	47.25	[1] 3.36	10.83	9.27	83.46	[1] 5.41	7.18	6.93	167.36	[1] 10.69
East South Central	15.99	12.29	57.70	[1] 12.55	26.74	18.43	96.98	[1] 15.22	32.57	21.95	51.98	[1] .64
West South Central	21.54	14.70	114.36	[1] 6.50	36.12	21.02	144.68	[1] 2.36	20.50	12.60	98.76	[1] 67.05
Mountain States	14.41	12.03	38.71	4.29	19.20	14.83	121.40	[1] 13.34	6.97	6.68	97.57	[1] 51.79
Pacific States	26.58	19.47	56.86	3.55	27.93	19.15	83.37	[1] 97.51	20.09	14.25	85.44	[1] 95.22
Average	12.94	10.57			17.91	13.30			15.09	11.39		

[1] Red figures.

The preceding table shows the rates of return on dealers' and on distributors' investments in the motor-vehicle business by regions.

Dealers' returns.—The New England States showed the lowest rates of return on the dealers' investment for all years—4.25 percent in 1935, 7.81 percent in 1936, and 11.66 percent in 1937, the rates showing large increases each year.

On the total investment the New England States showed the lowest rates of return for 1935, 4.54 percent; and for 1936, 7.40 percent, but the Pacific States showed the lowest rate for 1937, 10.03 percent, the New England States showing 10.12 percent for 1937.

The highest rates of return on the dealers' investments were shown by the South Atlantic States for all years. They were 18.55 percent in 1935, 32.03 percent in 1936, and 27.77 percent in 1937, the year 1937 showing considerably less than 1936, but greater than 1935.

On the total investment the highest rates were shown by the South Atlantic States in 1935 and 1937 and by the West South Central States in 1936. The rates for the respective years were 14.29, 23.06, and 18.91 percent.

On the dealers' investment for all groups, the rates were 10.75 percent in 1935, 19.27 percent in 1936, and 16.44 percent in 1937, the year 1937 showing a decrease of about 15 percent compared with 1936, but an increase of about 50 percent over 1935.

On the total investment for all groups, the rates were 9.49 percent in 1935, 14.74 percent in 1936, and 12.64 percent in 1937, the rate for 1937 showing a decrease of 15 percent compared with 1936, and an increase of about 33 percent compared with 1935.

Distributors' returns.—The lowest rates of return on the distributors' investment were shown by the New England States in 1935, 3.43 percent, and in 1936, 5.70 percent; but in 1937, the lowest rate, 6.97 percent, was shown by the Mountain States.

On the total investment, the New England States also showed the lowest rates for 1935 and 1936, and the Mountain States showed the lowest for 1937. The respective rates were 3.43, 5.70, and 6.68 percent.

The highest rate of return on the distributors' own investment was shown in 1935 by the Pacific States, 26.58 percent; in 1936, by the West South Central States, 36.12 percent; and in 1937 by the East South Central States, 32.57 percent.

The highest rate on the total investment was shown by the Pacific States in 1935, 19.47 percent; by the West South Central States in 1936, 21.02 percent; and by the East South Central States in 1937, 21.95 percent.

On the distributors' investment for all groups the rates were 12.94 percent in 1935, 17.91 percent in 1936, and 15.09 percent in 1937, the rate for 1937 showing about 16 percent decrease compared with 1936 and about 17 percent increase over the year 1935.

On the total investment for all groups, the rates of return were 10.57 percent in 1935, 13.30 percent in 1936, and 11.39 percent in 1937; the rate for 1937 compared with the 1936 rate shows a decrease of about 15 percent and an increase of about 8 percent compared with 1935.

Individual dealers' rates of return.—The range in rates of return on the individual dealers' investments was very great. In 1935 the range was from a loss of 192.57 percent shown by a dealer in the New England States to a profit of 134.61 percent shown by a dealer in the Middle Atlantic States. The average rate of profit for all dealers was 10.75 percent in 1935.

In 1936 the range was from a loss of 95.19 percent shown by a dealer in the East North Central States to a profit of 121.32 percent made by a dealer located in the same group of States. The average rate of profit for all dealers was 19.27 percent in 1936.

In 1937 the range was from a loss of 184.93 percent shown by a dealer in the Middle Atlantic States to a profit of 167.03 percent also shown by a dealer in the same group of States. The average rate of profit for all dealers was 16.44 percent in 1937.

Distributors' rates of return.—The rates of return on the distributors' investment varied greatly, and the ranges were almost as wide as those of the dealers.

In 1935 the rates ranged from a loss of 33.25 percent shown by a New England States distributor to a gain of 114.36 percent shown by a distributor in the West South Central States. The average rate of profit for all distributors was 12.94 percent in 1935.

In 1936 the range was from a loss of 189.75 percent shown by a New England States distributor to a profit of 144.68 percent shown by a distributor in the West South Central States. The average rate of profit for all distributors was 17.91 percent in 1936.

In 1937 the range was from a loss of 95.22 percent shown by a distributor in the Pacific States to a profit of 167.36 percent made by a distributor in the South Atlantic States. The average rate of profit for all distributors was 15.09 percent in 1937.

Under the sections showing the rates of return by groups of States, the wide ranges of the rates for the individual dealers and distributors are discussed in more detail.

Percentages of total investments represented by average borrowed money, by regions.—The following table shows the percentages of dealers' and of distributors' total investments, represented by average borrowed money, by regions.

TABLE 121.—*Percentages of dealers' and of distributors' total investments, represented by average borrowed money, by regions*

Region	1935		1936		1937	
	Dealers' average percentages	Distributors' average percentages	Dealers' average percentages	Distributors' average percentages	Dealers' average percentages	Distributors' average percentages
New England States	19.41	38.24	22.33	40.05	23.09	37.26
Middle Atlantic States	40.05	26.18	43.02	27.70	40.97	27.35
East North Central States	34.75	17.50	37.51	20.29	38.88	32.55
West North Central States	28.02	35.39	34.13	39.86	34.93	41.90
South Atlantic States	39.40	31.29	40.68	35.13	41.67	37.19
East South Central States	31.40	37.53	30.81	40.[illegible]9	33.15	37.93
West South Central States	30.40	45.16	31.05	47.39	31.90	52.73
Mountain States	28.87	30.83	30.12	33.14	35.90	28.83
Pacific States	31.13	35.78	35.49	39.37	39.99	30.64
Average	33.51	33.77	36.05	36.57	36.95	37.61

The preceding table shows the percentages of dealers' and of distributors' total investments that are represented by borrowed money.

The dealers' average percentages of borrowed money for all regions show an increase for each year, from 33.51 percent in 1935, to 36.05

percent in 1936, and to 36.93 percent in 1937. The averages of the separate regions all show greater percentages of borrowed money in 1937 than in 1935, and all but two groups show increased percentages of borrowed money each year.

The distributors' average percentages of borrowed money for all regions also show increases for each, from 33.77 percent in 1935, to 36.57 percent in 1936, and to 37.61 percent in 1937.

All but two of the distributors' group averages showed higher percentages of borrowed money in 1937 than in 1935.

Investments, profits, and rates of return—New England States.—The following table shows the results for dealers and for distributors located in the New England States for years 1935–37:

TABLE 122.—*Investments, profits, and rates of return for motor-vehicle dealers and distributors located in the New England States, years 1935–37*

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
Number of dealers and distributors	20	24	25	18	19	19
INVESTMENTS						
Total investment in entire business	$1,563,753	$1,681,686	$1,757,767	$5,065,715	$5,302,136	$5,275,344
Deduct outside investments	137,034	76,998	45,070	460,217	337,499	283,382
Total investment in motor-vehicle business	1,426,719	1,604,688	1,712,697	4,605,498	4,964,637	4,991,962
Deduct borrowed money	303,528	375,460	405,812	1,936,932	2,123,460	1,965,462
Dealers' and distributors' investment in motor-vehicle business	1,123,191	1,229,228	1,306,885	2,668,566	2,841,177	3,026,500
Add outside investments	137,034	76,998	45,070	460,217	337,499	283,382
Dealers' and distributors' investment in entire business	1,260,225	1,306,226	1,351,955	3,128,783	3,178,676	3,309,882
PROFITS [1]						
Profits applicable to total investment in entire business	68,507	123,742	175,138	175,021	307,924	499,626
Deduct profits on outside investments	3,750	5,015	1,760	16,887	24,893	23,732
Profits applicable to total investment in motor-vehicle business	64,757	118,727	173,378	158,134	283,031	475,894
Deduct interest on borrowed money	17,028	22,685	21,056	102,249	109,763	100,848
Profits applicable to dealers and distributors on motor-vehicle business	47,729	96,042	152,322	55,885	173,268	375,046
Add profits on outside investments	3,750	5,015	1,760	16,887	24,893	23,732
Profits applicable to dealers and distributors on entire business	51,479	101,057	154,082	72,772	198,161	398,778
RATES OF RETURN ON INVESTMENT	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
On total investment in entire business	4.38	7.36	9.96	3.46	5.81	9.47
On total investment in motor-vehicle business	4.54	7.40	10.12	3.43	5.70	9.53
On dealers' and distributors' investment in motor-vehicle business	4.25	7.81	11.66	2.09	6.10	12.39
On dealers' and distributors' investment in entire business	4.08	7.74	11.40	2.33	6.23	12.05

[1] All profits are before deducting income taxes.

The table preceding shows the results for the dealers and for the distributors operating in the New England States.

Dealers' results.—The results for 1935 comprise the operations of 20 dealers, 7 of these showing losses and 13 profits. Of the 24 dealers operating in 1936, 5 show losses and 19 show profits. The operations of 25 dealers were included in 1937, 6 showing losses and 19 showing profits.

The table shows the average returns on the total investment in the motor-vehicle business as 4.54 percent in 1935, 7.40 percent in 1936, and 10.12 percent in 1937.

The average returns on the total investment in the entire business were slightly lower each year than the above rates.

The average returns for the dealers' investment in the motor-vehicle business were 4.25 percent in 1935, 7.81 percent in 1936, and 11.66 percent in 1937; and the average returns for the dealers' investment in the entire business were 4.08 percent for 1935, 7.74 percent for 1936, and 11.40 percent for 1937.

The rates of return for the individual dealers varied greatly.

In 1935 the rates of return on the dealers' investment in the motor-vehicle business ranged from a loss of 192.57 percent to a profit of 34.01 percent for the 20 dealers. In 1936, the range for the 24 dealers was from a loss of 70.55 percent to a profit of 29.38 percent. In 1937 the range for the 25 dealers was from a loss of 40.47 percent to a profit of 54.37 percent. The highest rates of loss shown in 1935, 192.57 percent and 70.55 percent in 1936, were due in each instance to the dealer's total amount of loss being much greater than the others in this group and to the dealer's small investment caused by the deduction of a large deficit. The returns on the total investment including borrowed money were losses of 8.41 percent and 49.29 percent, respectively.

The dealers' yearly average investment in the motor-vehicle business was $56,160 in 1935, $51,218 in 1936, and $52,275 in 1937; and the average profits for these investments were $2,386 in 1935, $4,002 in 1936, and $6,093 in 1937.

The yearly averages of the total investments in the motor-vehicle business were $71,336 in 1935, $66,862 in 1936, and $68,508 in 1937; and the average profits were $3,238 in 1935, $4,947 in 1936, and $6,935 in 1937.

The dividends and withdrawals reported amounted to $61,908 in 1935, $97,498 in 1936, and $80,490 in 1937; and the additional money paid in was $1,000 in 1935, $25,300 in 1936, and $17,509 in 1937.

The ratios of borrowed money to the total investments in the entire business were 19.41 percent, 22.33 percent. and 23.09 percent for the respective years.

The average annual interest rates paid on borrowed money, computed on the interest reported, were 5.61 percent in 1935, 6.04 percent in 1936, and 5.19 percent in 1937.

The amounts deducted from the investments of this group of dealers for appreciation and goodwill were $1,066 in 1935, $1,066 in 1936, and $1,066 in 1937.

Distributors' results.—The results for 1935 comprise the operations of 18 distributors, 8 showing losses and 10 showing profits in the motor-vehicle business. In 1936 the results for 19 distributors are given, 4 showing losses and 15 profits, and in 1937 only 1 distributor shows a loss and 18 show profits.

The table shows the average returns on the total investment in the motor-vehicle business as 3.43 percent in 1935, 5.70 percent for 1936, and 9.53 percent for 1937.

The average returns on the total investment in the entire business were 3.46 percent, 5.81 percent, and 9.47 percent for the respective years.

The average returns for the distributors' investment in the motor-vehicle business were 2.09 percent in 1935, 6.10 percent in 1936, and 12.39 percent in 1937, and the average returns for the distributors' investment in the entire business were 2.33, 6.23, and 12.05 percent for the respective years.

The rates of return for the individual distributors varied greatly.

In 1935 the rates of return on the distributors' investment in the motor-vehicle business ranged from a loss of 33.25 percent to a profit of 24.41 percent for the 18 distributors. In 1936 the range for the 19 distributors was from a loss of 189.75 percent to a profit of 52.47 percent. In 1937 the range for the 19 distributors was from a loss of 4.79 percent to a profit of 33.88 percent. The highest rate of loss in 1936, 189.75 percent, was due to the dealer's total amount of loss being much greater than all others in this group except one, and his investment was comparatively small owing to his large deficit from operations.

The return on the total investment, including borrowed money, was a loss of 40.23 percent.

The distributors' average yearly investments in the motor-vehicle business were $148,254 in 1935, $149,536 in 1936, and $159,289 in 1937, and the average yearly profits for these investments were $3,105, $9,119, and $19,739 for the respective years.

The total average yearly investments in the motor-vehicle business were $255,861 in 1935, $261,297 in 1936, and $262,735 in 1937, and the yearly average profits for these investments were $8,785, $14,896, and $25,047, for these respective years.

The dividends and withdrawals reported amounted to $99,798 in 1935, $177,946 in 1936, and $149,056 in 1937; and the additional money paid in was $16,940 in 1936, $32,310 in 1937, and nothing in 1935.

The average borrowed money was 38.24 percent of the total investment in the entire business in 1935, 40.05 percent in 1936, and 37.26 percent in 1937.

The average annual interest rates paid for borrowed money computed on the interest reported were 5.28 percent in 1935, 5.17 percent in 1936, and 5.13 percent in 1937.

The amounts deducted from the investments of this group of distributors for appreciation and goodwill were $18,575 in 1935, $18,575 in 1936, and $18,575 in 1937.

Investments, profits, and rates of return—Middle Atlantic States.—The following table shows the results for dealers and for distributors operating in the Middle Atlantic States, years 1935–37.

TABLE 123.—*Investments, profits, and rates of return for motor-vehicle dealers and distributors, located in the Middle Atlantic States, years 1935–37*

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
Number of dealers and distributors	68	73	86	17	18	18
INVESTMENTS						
Total investment in entire business	$4,507,130	$5,154,276	$5,815,464	$2,277,533	$2,707,482	$2,865,951
Deduct outside investments	139,190	121,338	149,461	432,792	444,616	443,710
Total investment in motor-vehicle business	4,367,940	5,032,938	5,666,003	1,844,741	2,262,866	2,422,241
Deduct borrowed money	1,805,103	2,217,338	2,382,587	596,356	749,998	783,936
Dealers' and distributors' investment in motor-vehicle business	2,562,837	2,815,600	3,283,416	1,248,385	1,512,868	1,638,305
Add outside investments	139,190	121,338	149,461	432,792	444,616	443,710
Dealers' and distributors' investment in entire business	2,702,027	2,936,938	3,432,877	1,681,177	1,957,484	2,082,015
PROFITS						
Profits applicable to total investment in entire business	331,322	614,786	719,105	236,749	353,898	368,660
Deduct profits on outside investments	12,012	1,259	4,556	14,039	16,725	9,798
Profits applicable to total investment in motor-vehicle business	319,310	613,527	714,549	222,710	337,173	358,862
Deduct interest on borrowed money	114,529	144,035	133,546	39,473	47,214	45,675
Profits applicable to dealers and distributors on motor-vehicle business	204,781	469,492	581,003	183,237	289,959	313,187
Add profits on outside investments	12,012	1,259	4,556	14,039	16,725	9,798
Profits applicable to dealers and distributors on entire business (all profits are before deducting income taxes)	216,793	470,751	585,559	197,276	306,684	322,985
RATES OF RETURN ON INVESTMENTS	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
On total investment in entire business	7.35	11.93	12.37	10.39	13.07	12.86
On total investment in motor-vehicle business	7.31	12.19	12.61	12.07	14.90	14.82
On dealers' and distributors' investment in motor-vehicle business	7.99	16.67	17.70	14.68	19.17	19.12
On dealers' and distributors' investment in entire business	8.02	16.03	17.06	11.73	15.67	15.51

The table preceding shows the results for dealers and for distributors operating in the Middle Atlantic States, years 1935–37.

Dealers' results.—The results for 1935 comprise the operations of 68 dealers, 22 of these showing losses and 46 showing profits. For 1936 the operations of 73 dealers were included, 18 showing losses and 55 showing profits. For 1937 there were 86 dealers included, 20 showing losses and 66 showing profits.

The table shows the average returns on the total investment in the motor-vehicle business as 7.31 percent in 1935, 12.19 percent in 1936, and 12.61 percent in 1937.

The average returns on the total investment in the entire business were 7.35 percent in 1935, 11.93 percent in 1936, and 12.37 percent in 1937.

The average returns for the dealers' investments in the motor-vehicle business were 7.99 percent in 1935, 16.67 percent in 1936, and 17.70 percent in 1937, and the average returns for the dealers' investments in the entire business were 8.02 percent in 1935, 16.03 percent in 1936, and 17.06 percent in 1937.

The rates of return for the individual dealers varied greatly.

In 1935 the rates of return on the dealers' investment in the motor-vehicle business ranged from a loss of 33.60 percent to a profit of 134.61 percent for the 68 dealers. In 1936 the range for the 73 dealers was from a loss of 36.12 percent to a profit of 113.90 percent. In 1937 the range for the 86 dealers was from a loss of 184.93 percent to a profit of 167.03 percent.

The highest rate of profits in 1935, 134.61 percent, was for a dealer whose total amount of profits was greater than any other in the group except four, and whose investment was greatly below the average. On the total investment, including borrowed money, the return was 43.55 percent.

In 1936 the highest profit of 113.90 percent was for a dealer whose total profits were greater than any other in the group except two, and whose investment was only slightly above the average. Return on the total investment was 96.33 percent.

In 1937 the highest profit rate was 167.03 percent. This dealer's own investment was very small but his borrowings were about 80 percent of the total investment, the return on which was 36.74 percent.

The largest rate of loss shown in 1937, 184.93 percent, was shown by a dealer whose total loss was greater than any of the others of the group except 3, and whose investment was only about 12 percent of the average for the group.

The dealers' yearly average investments in the motor-vehicle business were $37,689 in 1935, $38,570 in 1936, and $38,179 in 1937, and the average profits for these investments were $3,011, $6,431, and $6,756 for the respective years.

The yearly averages of the total investments in the motor-vehicle business were $64,234 in 1935, $68,944 in 1936, and $65,884 in 1937, and the average profits were $4,696 for 1935, $8,404 for 1936, and $8,309 for 1937.

The dividends and withdrawals reported amounted to $137,005 in 1935, $268,657 in 1936, and $396,686 in 1937. The additional money paid in was $68,159 in 1935, $90,717 in 1936, and $156,352 in 1937.

The borrowed money was 40.05 percent of the total investment in the entire business in 1935, 43.02 percent in 1936, and 40.97 percent in 1937.

The average annual interest rates paid on borrowed money computed on the interest reported were 6.34 percent in 1935, 6.50 percent in 1936, and 5.61 percent in 1937.

The amount deducted from the investments of this group of dealers for appreciation and goodwill was $16,308 in 1937, none showing for 1935 and 1936.

Distributors' results.—The results for 1935 comprise the operations of 17 distributors, 6 showing losses and 11 showing profits in the motor-vehicle business. In 1936, the results for 18 distributors are given, 5 showing losses and 13 showing profits, and in 1937, the results are for 18 distributors, 4 showing losses and 14 showing profits.

The table shows the average returns on the total investment in the motor-vehicle business as 12.07 percent in 1935, 14.90 percent in 1936, and 14.82 percent in 1937.

The average returns on the total investment in the entire business were 10.39 percent in 1935, 13.07 percent in 1936, and 12.86 percent in 1937.

The average returns for the distributors' investment in the motor-vehicle business were 14.68 percent in 1935, 19.17 percent in 1936, and 14.82 percent in 1937, and the average returns for the distributors' investment in the entire business were 11.73, 15.67, and 15.51 percent for the respective years.

The rates of return for the individual distributors' investments varied greatly.

In 1935 the rates of return on the individual distributors' investments in the motor-vehicle business ranged from a loss of 31.23 percent to a profit of 37.01 percent for the 17 distributors. In 1936, the range was from a loss of 19.47 percent to a profit of 131.41 percent and in 1937 from a loss of 19.10 percent to a profit of 67.99 percent.

The highest rate of profit in 1936 was 131.41 percent. The total profits of this distributor greatly exceeded the profits of any others in the group. His investment was above the average. The returns for the total investment was 68.59 percent.

The distributors' average yearly investments in the motor-vehicle business were $73,434 in 1935, $84,048 in 1936, and $91,017 in 1937, and the average yearly profits for these investments were $10,779, $16,109, and $17,399 for the respective years.

The total average yearly investments in the motor-vehicle business were $108,514 in 1935, $125,715 in 1936, and $134,569 in 1937, and the yearly average profits for these investments were $13,101, $18,732, and $19,937 for the respective years.

The dividends and withdrawals reported amounted to $44,868 in 1935, $111,072 in 1936, and $99,322 in 1937. The additional money paid in was $1,680 in 1935, $7,920 in 1936, and nothing in 1937.

The average borrowed money was 26.18 percent of the total investment in the entire business in 1935, 27.70 percent in 1936, and 27.35 percent in 1937.

The average annual interest rates paid for borrowed money computed on the interest reported were 6.62 percent in 1935, 6.30 percent in 1936, and 5.83 percent in 1937.

The amounts deducted from the investments of this group of distributors for appreciation and goodwill were $37,735 for each of the 3 years.

Investments, profits, and rates of return—East North Central States.—The following table shows the results for dealers and for distributors located in the East North Central States for the years 1935–37:

TABLE 124.—*Investments, profits, and rates of return for motor-vehicle dealers and distributors, located in the East North Central States, years 1935–37*

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
Number of dealers and distributors	53	58	63	12	14	17
INVESTMENTS						
Total investment in entire business	$2,743,517	$3,209,402	$3,567,114	$1,546,915	$1,816,004	$2,363,932
Deduct outside investments	74,404	85,441	111,635	203,008	218,315	240,514
Total investment in motor-vehicle business	2,669,113	3,123,961	3,455,479	1,343,907	1,597,689	2,123,418
Deduct borrowed money	953,414	1,203,956	1,386,770	270,725	368,382	769,476
Dealers' and distributors' investment in motor-vehicle business	1,715,699	1,920,005	2,068,709	1,073,182	1,229,307	1,353,942
Add outside investments	74,404	85,441	111,635	203,008	218,315	240,514
Dealers' and distributors' investment in entire business	1,790,103	2,005,446	2,180,344	1,276,190	1,447,622	1,594,456

TABLE 124.—*Investments, profits, and rates of return for motor-vechicle dealers and distributors, located in the East North Central States, years 1935–37*—Con.

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
PROFITS						
Profits applicable to total investment in entire business	240,663	352,202	400,102	208,387	304,157	272,205
Deduct profits on outside investments	9,300	9,602	5,886	9,390	9,648	10,675
Profits applicable to total investment in motor-vehicle business	231,363	342,600	394,216	198,997	294,509	261,530
Deduct interest on borrowed money	67,291	87,891	98,116	23,093	25,443	39,252
Profits applicable to dealers and distributors on motor-vehicle business	164,072	254,709	296,100	175,904	269,066	222,278
Add profits on outside investments	9,300	9,602	5,886	9,390	9,648	10,675
Profits applicable to dealers and distributors on entire business (all profits are before deducting income taxes)	173,372	264,311	301,986	185,294	278,714	232,953
RATES OF RETURN ON INVESTMENTS	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
On total investment in entire business	8.77	10.97	11.22	13.47	16.75	11.51
On total investment in motor-vehicle business	8.67	10.97	11.41	14.81	18.43	12.32
On dealers' and distributors' investment in motor-vehicle business	9.56	13.27	14.31	16.39	21.89	16.42
On dealers' and distributors' investment in entire business	9.69	13.18	13.85	14.52	19.26	14.61

The table preceding shows the results for dealers and for distributors operating in the East North Central States for the years 1935–37.

Dealers' results.—The results for 1935 comprise the operations of 53 dealers, 16 of these showing losses and 37 profits for the year. In 1936 there were 58 dealers reporting, 8 showing losses and 50 showing profits; and in 1937, of the total 63 dealers operating, 18 show losses and 45 show profits.

The table shows the average returns on the total investment in the motor-vehicle business as 8.67 percent in 1935, 10.97 percent in 1936, and 11.41 percent in 1937. The average returns on the total investment in the entire business were 8.77, 10.97, and 11.22 percent for the respective years.

The average returns for the dealers' investment in the motor-vehicle business were 9.56 percent for 1935, 13.27 percent for 1936, and 14.31 percent in 1937, and for the dealers' investment in the entire business 9.69, 13.18, and 13.85 percent for the respective years.

The rates of return for the individual dealers varied greatly.

In 1935 the rates of return on the dealers' investment in the motor-vehicle business ranged from a loss of 87.59 percent to a profit of 62.14 percent for the 53 dealers. In 1936 the range was from a loss of 95.19 percent to a gain of 121.32 percent for the 58 dealers, and in 1937 the range was from a loss of 36.07 percent to a profit of 144.46 percent for the 63 dealers.

In 1935 the dealer showing the loss of 87.59 percent showed the largest total amount of loss, and his investment was about 32 percent of the average. In 1936 the dealer showing the loss of 95.19 percent

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showed the largest total amount of loss, except one, and his investment was about 38 percent of the average for the group, caused partly by a rather large deficit; the loss on the total investment including borrowed money was 43.31 percent. The dealer showing the profit of 121.32 percent had profits greatly exceeding those of any other in the group and his investment was less than the average.

In 1937 the profit of 144.46 percent was shown by a dealer who was doing business almost entirely on borrowed money, over 93 percent of the total average investment being borrowed. The return on the total investment including borrowed money was 16.50 percent.

The dealers' yearly average investment in the motor-vehicle business was $32,372 in 1935, $33,104 in 1936, and $32,837 in 1937. The yearly average profits for these investments were $3,096, $4,392, and $4,700, for the respective years.

The yearly average of the total investment in the motor-vehicle business was $50,361 in 1935, $53,861 in 1936, and $54,849 in 1937, and the yearly average profits for these investments were $4,365, $5,907, and $6,257 for the respective years.

The dividends and withdrawals reported amounted to $59,406 in 1935, $241,633 in 1936, and $265,481 in 1937, and the additional money paid in was $38,027 in 1935, $132,227 in 1936, and $77,263 in 1937.

The ratios of borrowed money to the total investment in the entire business were 34.75 percent in 1935, 37.51 percent in 1936, and 38.88 percent in 1937.

The average annual interest rates paid for borrowed money computed on the interest reported were 7.06 percent in 1935, 7.30 percent in 1936, and 7.08 percent in 1937.

The amounts deducted from the investments of this group for appreciation and goodwill were $26,534 in 1935, $26,919 in 1936, and $26,243 in 1937.

Distributors' results.—The operations of 12 distributors were included in 1935, all of whom show profits. In 1936 there were 14 distributors and they all show profits. In 1937 of the total 17 distributors, 5 show profits and 12 show losses.

The table shows the average returns on the total investment in the motor-vehicle business as 14.81 percent in 1935, 18.43 percent in 1936, and 12.32 percent in 1937. The average returns on the total investment in the entire business were 13.47 percent in 1935, 16.75 percent in 1936, and 11.51 percent in 1937.

The average returns for the distributors' investment in the motor-vehicle business were 16.39 percent in 1935, 21.89 percent in 1936, and 16.42 percent in 1937, and for the distributors' investment in the entire business 14.52 percent in 1935, 19.25 percent in 1936, and 14.61 percent in 1937.

The rates of return for the individual distributors varied greatly. In 1935 the rates of return for the 12 distributors ranged from a profit of 2.30 percent to a profit of 41.09 percent. In 1936 the range was from a profit of 5.40 percent to a profit of 65.22 percent for the 14 distributors and in 1937 the range was from a loss of 46.36 percent to a profit of 54.28 percent for the 17 distributors.

The distributors' yearly average investment in the motor-vehicle business was $89,432 in 1935, $87,808 in 1936, and $79,644 in 1937. The yearly average profits for these investments were $14,659 in 1935, $19,219 in 1936, and $13,075 in 1937.

The total average yearly investment in the motor-vehicle business was $111,992 in 1935, $114,121 in 1936, and $124,907 in 1937. The yearly average profits for these investments were $16,583 for 1935, $21,036 for 1936, and $15,384 for 1937.

The dividends and withdrawals reported amounted to $10,300 in 1935, $255,917 in 1936, and $206,690 in 1937, and the additional money paid in was $1,275 in 1935, $116,940 in 1936, and $7,500 in 1937.

The ratio of borrowed money to the total investment in the entire business was 17.50 percent in 1935, 20.29 percent in 1936, and 32.55 percent in 1937.

The average annual interest rates paid for borrowed money, computed on the interest reported, were 8.53 percent in 1935, 6.91 percent in 1936, and 5.10 percent in 1937.

The amounts deducted from the investment of this group of distributors for appreciation and goodwill were $7,761 in 1935, $6,219 in 1936, and $2,589 in 1937.

Investments, profits, and rates of return, West North Central States.—The following table shows the results for dealers and for distributors operating in the West North Central States, years 1935–37:

TABLE 125.—*Investments, profits, and rates of return for motor-vehicle dealers and distributors, located in the West North Central States, years 1935–37*

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
Number of dealers and distributors	29	35	39	28	28	29
INVESTMENTS						
Total investment in entire business	$1,087,742	$1,506,266	$1,800,792	$2,475,593	$2,803,237	$3,226,485
Deduct outside investments	13,066	16,513	23,502	34,912	33,340	32,437
Total investment in motor-vehicle business	1,074,676	1,489,753	1,777,290	2,440,681	2,769,897	3,194,048
Deduct borrowed money	304,804	514,147	628,979	876,014	1,117,404	1,351,954
Dealers' and distributors' investment in motor-vehicle business	769,872	975,606	1,148,311	1,564,667	1,652,493	1,842,094
Add outside investments	13,066	16,513	23,502	34,912	33,340	32,437
Dealers' and distributors' investment in entire business	782,938	992,119	1,171,813	1,599,579	1,685,833	1,874,531
PROFITS						
Profits applicable to total investment in entire business	127,768	199,719	182,480	230,028	317,987	298,605
Deduct profits on outside investments				3,441	2,483	3,416
Profits applicable to total investment in motor-vehicle business	127,768	199,719	182,480	226,587	315,504	295,189
Deduct interest on borrowed money	23,401	40,818	41,493	58,349	66,439	78,348
Profits applicable to dealers and distributors on motor-vehicle business	104,364	158,901	140,987	168,238	249,065	216,841
Add profits on outside investments				3,441	2,483	3,416
Profits applicable to dealers and distributors on entire business (all profits are before deducting income taxes)	104,364	158,901	140,987	171,679	251,548	220,257
RATES OF RETURN ON INVESTMENTS	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
On total investment in entire business	11.75	13.26	10.13	9.29	11.34	9.25
On total investment in motor-vehicle business	11.89	13.41	10.27	9.28	11.39	9.24
On dealers' and distributors' investment in motor-vehicle business	13.56	16.29	12.28	10.75	15.07	11.77
On dealers' and distributors' investment in entire business	13.33	16.02	12.03	10.73	14.92	11.75

The table preceding shows the results for the dealers and for the distributors operating in the West North Central States for the years 1935–37.

Dealers' results.—The results for 1935 comprise the operations of 29 dealers, 6 of these showing losses and 23 profits. Of the 35 dealers operating in 1936, 11 show losses and 24 show profits. The operations of 39 dealers were included in 1937, 10 showing losses and 29 showing profits.

The table shows the average returns on the total investments in the motor-vehicle business as 11.89 percent in 1935, 13.41 percent in 1936, and 10.27 percent in 1937.

The average returns on the total investment in the entire business were 11.75 percent, 13.26 percent, and 10.13 percent for the respective years.

The average returns for the dealers' investment in the motor-vehicle business were 13.56 percent in 1935, 16.29 percent in 1936, and 12.28 percent in 1937; and the average returns for the dealers' investment in the entire business were 13.33 percent for 1935, 16.02 percent for 1936, and 12.03 percent for 1937.

The rates of return for the individual dealers varied greatly.

In 1935 the rates of return on the dealers' investment in the motor-vehicle business ranged from a loss of 18.66 percent to a profit of 84.09 percent for the 29 dealers. In 1936 the range for the 35 dealers was from a loss of 42.85 percent to a profit of 73.90 percent. In 1937 the range for the 39 dealers was from a loss of 86.78 percent to a profit of 69.08 percent.

In 1935 the dealer showing the profit of 84.09 percent showed a total profit exceeding any of the dealers but three. This profit was more than three times the average and his investment was nearly 40 percent less than the average. On the total investment, which included the borrowed money, his return was 45.36 percent.

In 1936 the profit of 73.90 percent was shown by a dealer whose total amount of profit was the largest of all dealers in the group, being more than six times the average for the group. His investment was about 30 percent more than the average. The return on the total investment was 50.54 percent.

In 1937 this same dealer showed the highest rate of return, 69.08 percent, for practically the same reasons. The highest rate of loss, 86.78 percent, was shown by a dealer whose total amount of loss was third from the highest and whose investment was only about one-sixth of the average investment, caused partly by a large deficit. The return on the total investment showed a loss of only 0.96 percent, the borrowed money being about 91 percent of the total investment.

The dealers' yearly average investment in the motor-vehicle business was $26,547 in 1935, $27,874 in 1936, and $29,444 in 1937, and the average profits for these investments were $3,599 in 1935, $4,540 in 1936, and $3,615 in 1937.

The yearly averages of the total investments in the motor-vehicle business were $37,058 in 1935, $42,564 in 1936, and $45,572 in 1937, and the average profits were $4,406 in 1935, $5,706 in 1936, and $4,679 in 1937.

The dividends and withdrawals reported amounted to $70,727 in 1935, $102,073 in 1936, and $105,860 in 1937, and the additional money paid in was $20,607 in 1935, $71,920 in 1936, and $54,085 in 1937.

The ratios of borrowed money to the total investments in the entire business were 28.02 percent, 34.13 percent, and 34.93 percent for the respective years.

The average annual interest rates paid on borrowed money, computed on the interest reported, were 7.68 percent in 1935, 7.94 percent in 1936, and 6.60 percent in 1937.

There were no deductions from the investments of this group of dealers for appreciation and goodwill for the respective years.

Distributors' results.—The results for 1935 comprise the operations of 28 distributors, 7 showing losses and 21 showing profits in the motor-vehicle business. In 1936 the results for 28 distributors are given, 3 showing losses and 25 profits; and in 1937, 29 distributors are given, 8 showing losses and 21 profits.

The table shows the average returns on the total investment in the motor-vehicle business as 9.28 percent in 1935, 11.39 percent for 1936, and 9.24 percent for 1937.

The average returns on the total investment in the entire business were 9.29 percent, 11.34 percent, and 9.25 percent for the respective years.

The average returns for the distributors' investment in the motor-vehicle business were 10.75 percent in 1935, 15.07 percent in 1936, and 11.77 percent in 1937, and the average returns for the distributors' investment in the entire business were 10.73 percent, 14.92 percent, and 11.75 percent for the respective years.

The rates of return for the individual distributors varied greatly. In 1935 the rates of return on the distributors' investment in the motor-vehicle business ranged from a loss of 22.94 percent to a profit of 85.86 percent for the 28 distributors. In 1936 the range for the 28 distributors was from a loss of 102.48 percent to a profit of 82.90 percent. In 1937 the range for the 29 distributors was from a loss of 31.41 percent to a profit of 60.22 percent.

In 1935, 1936, and 1937 the highest rates of profit, 85.86 percent, 82.90 percent, and 60.22 percent, respectively, all are shown by the same distributor. This distributor's total amount of profits were much greater than the average amounts and his investments below the average. On the total investment the rates were 38.85 percent, 56.28 percent, and 36.80 percent. The distributor showing the 102.48 percent of loss in 1936 showed a total amount of loss much greater than the others and his investment was considerably reduced on account of a large deficit. The return on the total investment shows a loss of 22.05 percent.

The distributors' average yearly investments in the motor-vehicle business were $55,881 in 1935, $59,018 in 1936, and $63,520 in 1937, and the average yearly profits for these investments were $6,009, $8,895, and $7,477 for the respective years.

The total average yearly investments in the motor-vehicle business were $87,167 in 1935, $98,925 in 1936, and $110,140 in 1937, and the yearly average profits for these investments were $8,092, $11,268, and $10,179 for these respective years.

The dividends and withdrawals reported amounted to $31,801 in 1935, $162,180 in 1936, and $137,699 in 1937; and the additional money paid in was $14,375 in 1935, $18,019 in 1936, and $65,199 in 1937.

The average borrowed money was 35.39 percent of the total investment in the entire business in 1935, 39.86 percent in 1936, and 41.90 percent in 1937.

The average annual interest rates paid for borrowed money, computed on the interest reported, were 6.66 percent in 1935, 5.95 percent in 1936, and 5.80 percent in 1937.

The amounts deducted from the investments of this group of distributors for appreciation and goodwill were $9,714 in each of the years 1935, 1936, and 1937.

Investments, profits, and rates of return—South Atlantic States.—The following table shows the results for dealers and for distributors operating in the South Atlantic States for the years 1935–37.

TABLE 126.—*Investments, profits, and rates of return for motor-vehicle dealers and distributors, located in the South Atlantic States, years 1935–37*

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
Number of dealers and distributors	36	40	45	20	22	25
INVESTMENTS						
Total investment in entire business	$1,810,654	$2,077,082	$2,352,751	$1,933,518	$2,236,396	$2,510,862
Deduct outside investments	54,994	48,567	42,784	152,339	127,867	120,937
Total investment in motor-vehicle business	1,755,640	2,028,515	2,309,967	1,781,179	2,108,529	2,389,925
Deduct borrowed money	713,356	844,888	980,330	604,955	785,661	933,674
Dealers' and distributors' investment in motor-vehicle business	1,042,284	1,183,627	1,329,637	1,176,224	1,322,868	1,456,251
Add outside investments	54,994	48,567	42,784	152,339	127,867	120,937
Dealers' and distributors' investment in entire business	1,097,278	1,232,194	1,372,421	1,328,563	1,450,735	1,577,188
PROFITS						
Profits applicable to total investment in entire business	251,811	446,441	438,421	161,854	211,175	177,583
Deduct profits on outside investments	919	1,775	1,579	23,019	15,638	12,006
Profits applicable to total investment in motor vehicle business	250,892	444,666	436,842	138,835	195,537	165,577
Deduct interest on borrowed money	57,506	65,585	67,538	41,353	52,212	61,047
Profits applicable to dealers and distributors on motor-vehicle business	193,386	379,081	369,304	97,482	143,325	104,530
Add profits on outside investments	919	1,775	1,579	23,019	15,638	12,006
Profits applicable to dealers and distributors on entire business (all profits are before deducting income taxes)	194,305	380,856	370,883	120,501	158,963	116,536
RATES OF RETURN ON INVESTMENTS	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
On total investment in entire business	13.91	21.49	18.63	8.37	9.44	7.07
On total investment in motor-vehicle business	14.29	21.92	18.91	7.79	9.27	6.93
On dealers' and distributors' investment in motor vehicle business	18.55	32.03	27.77	8.29	10.83	7.18
On dealers' and distributors' investment in entire business	17.71	30.91	27.02	9.07	10.96	7.39

The table preceding shows the results for the dealers and for the distributors operating in the South Atlantic States for the years 1935–37.

Dealers' results.—The results for 1935 comprise the operations of 36 dealers, 9 of these showing losses and 27 profits. Of the 40 dealers operating in 1936, 5 show losses and 35 show profits. The operations of 45 dealers were included in 1937, 12 showing losses and 33 showing profits.

The table shows the average returns on the total investment in the motor-vehicle business as 14.29 percent in 1935, 21.92 percent in 1936, and 18.91 percent in 1937.

The average returns on the total investment in the entire business were 13.91 percent in 1935, 21.49 percent in 1936, and 18.63 percent in 1937.

The average returns for the dealers' investment in the motor-vehicle business were 18.55 percent in 1935, 32.03 percent in 1936, and 27.77 percent in 1937; and the average returns for the dealers' investment in the entire business were 17.71 percent in 1935, 30.91 percent in 1936, and 27.02 percent in 1937.

The rates of return for the individual dealers varied greatly.

In 1935 the rates of return on the dealers' investment in the motor-vehicle business ranged from a loss of 39.47 percent to a profit of 49.80 percent for the 36 dealers. In 1936 the range for the 40 dealers was from a loss of 34.70 percent to a profit of 94.52 percent. In 1937 the range for the 45 dealers was from a loss of 40.92 percent to a profit of 102.06 percent.

In 1936, the dealer showing 94.52 percent profit showed the total amount of profits somewhat less than the average for the group, but his investment was less than one-third of the average investment. In 1937 the dealer showing the profit of 102.06 percent had an investment about 2.81 times the average investment for the group, his total profits were more than 10 times the average for the group and nearly twice as large as those of any other dealer in the group. The return on his total investment was 70.16 percent. The dealer showing the loss of 40.92 percent showed the largest total amount of loss except 3 and his investment was less than one-third of the average investment for the group. The return on his total investment was a loss of 14.95 percent.

The dealers' yearly average investment in the motor-vehicle business was $28,952 in 1935, $29,591 in 1936, and $29,547 in 1937, and the average profits for these investments were $5,372 in 1935, $9,477 in 1936, and $8,207 in 1937.

The yearly averages of the total investments in the motor-vehicle business were $48,768 in 1935, $50,713 in 1936, and $51,333 in 1937; and the average profits were $6,969 in 1935, $11,117 in 1936, and $9,708 in 1937.

The dividends and withdrawals reported amounted to $132,418 in 1935, $280,689 in 1936, and $262,813 in 1937, and the additional money paid in was $29,669 in 1935, $68,612 in 1936, and $81,163 in 1937.

The ratios of borrowed money to the total investments in the entire business were 39.40 percent, 40.68 percent, and 41.67 percent for the respective years.

The average annual interest rates paid on borrowed money, computed on the interest reported, were 8.06 percent in 1935, 7.76 percent in 1936, and 6.89 percent in 1937.

The amounts deducted from the investments of this group of dealers for appreciation and goodwill were $893 in 1936, $7,393 in 1937, and nothing in 1935.

Distributors' results.—The results for 1935 comprise the operations of 20 distributors, 2 showing losses and 18 showing profits in the motor-vehicle business. In 1936 the results for 22 distributors are given, 3 showing losses and 19 profits and in 1937 of 25 distributors, 5 showed losses and 20 profits.

The table shows the average returns on the total investment in the motor-vehicle business as 7.79 percent in 1935, 9.27 percent for 1936, and 6.93 percent for 1937.

The average returns on the total investment in the entire business were 8.37 percent, 9.44 percent, and 7.07 percent for the respective years.

The average returns for the distributors' investment in the motor-vehicle business were 8.29 percent in 1935, 10.83 percent in 1936, and 7.18 percent in 1937, and the average returns for the distributors' investment in the entire business were 9.07 percent, 10.96 percent, and 7.39 percent for the respective years.

The rates of return for the individual distributors varied greatly. In 1935 the rates of return on the distributors' investment in the motor-vehicle business ranged from a loss of 3.36 percent to a profit of 47.25 percent for the 20 distributors. In 1936 the range for the 22 distributors was from a loss of 5.41 percent to a profit of 83.46 percent. In 1937 the range for the 25 distributors was from a loss of 10.69 percent to a profit of 167.36 percent.

In 1936 the distributor showing a profit of 83.46 percent showed a profit about 70 percent higher than the average profit for the group and an investment very much smaller than the average. The return on the total investment was 34.82 percent. In 1937 the distributor showing the profit of 167.36 percent showed a total profit exceeding all others of the group, except one, and the distributor's investment was the smallest of the group, except two. The return on the total investment was 19.51 percent.

The distributors' average yearly investments in the motor-vehicle business were $58,811 in 1935, $60,130 in 1936 and $58,250 in 1937, and the average yearly profits for these investments were $4,874, $6,515, and $4,181 for the respective years.

The total average yearly investments in the motor-vehicle business were $89,059 in 1935, $95,842 in 1936, and $95,597 in 1937, and the yearly average profits for these investments were $6,942, $8,888, and $6,623, for these respective years.

The dividends and withdrawals reported amounted to $33,531 in 1935, $99,921 in 1936, and $82,199 in 1937; and the additional money paid in was $14,500 in 1935, $54,430 in 1936, and $37,125 in 1937.

The average borrowed money was 31.29 percent of the total investment in the entire business in 1935, 35.13 percent in 1936, and 37.19 percent in 1937.

The average annual interest rates paid for borrowed money, computed on the interest reported, were 6.84 percent in 1935, 6.65 percent in 1936, and 6.54 percent in 1937.

No amounts were deducted from investments of this group of distributors for appreciation and goodwill.

Investments, profits, and rates of return—East South Central States.—The following table shows the results for dealers and for distributors located in the East South Central States for years 1935–37.

TABLE 127.—*Investments, profits, and rates of return for motor vehicle dealers and distributors, located in the East South Central States, years 1935–37*

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
Number of dealers and distributors	12	17	18	10	12	12
INVESTMENTS						
Total investment in entire business	$1, 189, 844	$1, 435, 158	$1, 602, 036	$773, 650	$1, 066, 864	$1, 117, 275
Deduct outside investments	7, 719	8, 222	10, 400	134, 756	124, 977	118, 465
Total investment in motor-vehicle business	1, 182, 125	1, 426, 936	1, 591, 636	638, 894	941, 887	998, 810
Deduct borrowed money	373, 614	442, 186	531, 006	290, 369	436, 255	423, 796
Dealers' and distributors' investment in motor-vehicle business	808, 511	984, 750	1, 060, 630	348, 525	505, 632	575, 014
Add outside investments	7, 719	8, 222	10, 400	134, 756	124, 977	118, 465
Dealers and distributors investment in entire business	816, 230	992, 972	1, 071, 030	483, 281	630, 609	693, 479
PROFITS						
Profits applicable to total investment in entire business	124, 814	260, 387	168, 718	83, 489	175, 744	217, 246
Deduct profits on outside investments				4, 999	2, 164	[1] 2, 004
Profits applicable to total investment in motor-vehicle business	124, 814	260, 387	168, 718	78, 490	173, 580	219, 250
Deduct interest on borrowed money	29, 326	34, 924	39, 074	22, 769	38, 394	31, 980
Profits applicable to dealers and distributors on motor-vehicle business	95, 488	225, 463	129, 644	55, 721	135, 186	187, 270
Add profits on outside investments				4, 999	2, 164	[1] 2, 004
Profits applicable to dealers and distributors on entire business (all profits are before deducting income taxes)	95, 488	225, 463	129, 644	60, 720	137, 350	185, 266
RATES OF RETURN ON INVESTMENT	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
On total investment in entire business	10. 49	18. 14	10. 53	10. 79	16. 47	19. 44
On total investment in motor-vehicle business	10. 56	18. 25	10. 60	12. 29	18. 43	21. 95
On dealers' and distributors' investment in motor-vehicle business	11. 81	22. 90	12. 22	15. 99	26. 74	32. 57
On dealers' and distributors' investment in entire business	11. 70	22. 71	12. 10	12. 56	21. 78	26. 72

[1] Red figures.

The table preceding shows the results for the dealers and for the distributors operating in the East South Central States, years 1935–37.

Dealers' results.—The results for 1935 comprise the operations of 12 dealers, 2 of these showing losses and 10 profits. Of the 17 dealers operating in 1936, 3 show losses and 14 show profits. The operations of 18 dealers were included in 1937, 3 showing losses and 15 showing profits.

The table shows the average returns on the total investment in the motor-vehicle business as 10.56 percent in 1935, 18.25 percent in 1936, and 10.60 percent in 1937.

The average returns on total investment in the entire business were slightly lower each year than the above rates.

The average returns for the dealers' investment in the motor-vehicle business were 11.81 percent in 1935, 22.90 percent in 1936, and 12.22 percent in 1937; and the average returns for the dealers' investment in the entire business were 11.70 percent for 1935, 22.71 percent for 1936, and 12.10 percent for 1937.

The rates of return for the individual dealers varied greatly.

In 1935 the rates of return on the dealers' investment in the motor vehicle business ranged from a loss of 22.05 percent to a profit of 54.56 percent for the 12 dealers. In 1936 the range for 17 dealers was from a loss of 54.61 percent to a profit of 103.42 percent. In 1937 the range for 18 dealers was from a loss of 37.72 percent to a profit of 65.46 percent.

In 1936 the dealer showing the profit of 103.42 percent showed a total amount of profit more than 5 times the average for the group, and his investment was about 20 percent greater than the average.

The dealers' yearly average investment in the motor-vehicle business was $67,376 in 1935, $57,926 in 1936, and $58,924 in 1937, and the average profits for these investments were $7,957 in 1935, $13,263 in 1936, and $7,202 in 1937.

The yearly averages of the total investments in the motor-vehicle business were $98,510 in 1935, $83,937 in 1936, and $88,424 in 1937; and the average profits were $10,401 in 1935, $15,317 in 1936, and $9,373 in 1937.

The dividends and withdrawals amounted to $63,722 in 1935, $149,573 in 1936, and $99,360 in 1937, and the additional money paid in was $14,316 in 1935, $26,025 in 1936, and $17,465 in 1937.

The ratios of borrowed money to the total investments in the entire business were 31.40 percent in 1935, 30.81 percent in 1936, and 33.15 percent in 1937.

The average annual interest rates paid on borrowed money, computed on the interest reported, were 7.85 percent in 1935, 7.90 percent in 1936, and 7.36 percent in 1937.

Nothing was deducted from investments by this group of dealers for appreciation and goodwill during this 3-year period.

Distributors' results.—The results for 1935 comprise the operations of 10 distributors, 3 showing losses and 7 showing profits in the motor-vehicle business. In 1936 the results for 12 distributors are given, 2 showing losses and 10 showing profits, and in 1937 the results for 12 distributors are given, only 1 of which shows a loss while 11 show profits.

The table shows the average returns on the total investment in the motor-vehicle business as 12.29 percent in 1935, 18.43 percent in 1936, and 21.95 percent in 1937.

The average returns on the total investment in the entire business were 10.79 percent in 1935, 16.47 percent in 1936, and 19.44 percent in 1937.

The average returns for the distributors' investment in the motor-vehicle business were 15.99 percent in 1935, 26.74 percent in 1936, and 32.57 percent in 1937, and the average returns for the distributors' investment in the entire business were 12.56 percent in 1935, 21.78 percent in 1936, and 26.72 percent in 1937.

The rates of return for individual distributors varied greatly.

In 1935 the rates of return on the distributors' investment in the motor-vehicle business ranged from a loss of 12.55 percent to a profit of 57.70 percent for the 10 distributors. In 1936 the range was from a loss of 15.22 percent to a profit of 96.98 percent for 12 distributors. In 1937, for 12 distributors, the range was from a loss of 0.64 percent to a profit of 51.98 percent.

The distributors average yearly investments in the motor-vehicle business were $34,853 in 1935, $42,136 in 1936, and $47,918 in 1937, and the average yearly profits for these investments were $5,572 in 1935, $11,266 in 1936, and $15,606 in 1937.

In 1936 the distributor showing a profit of 96.98 percent had the largest amount of profit, of any of the distributors in the group, more than 4½ times the average for the group. His investment was about 25 percent more than the average. The return on the total investment was 45.32 percent.

The total average yearly investments in the motor-vehicle business were $63,889 in 1935, $78,491 in 1936, and $83,234 in 1937, and the yearly average profits for these investments were $7,849, $14,465, and $18,271 for these respective years.

The dividends and withdrawals reported amounted to $12,684 in 1935, $63,656 in 1936, and $96,174 in 1937, and the additional money paid in was $10,870 in 1935, $17,642 in 1936, and $15,201 in 1937.

The average borrowed money was 37.53 percent of the total investment in the entire business in 1935, 40.89 percent in 1936, and 37.93 percent in 1937.

The average annual interest rates paid for borrowed money, computed on the interest reported, were 7.84 percent in 1935, 8.80 percent in 1936, and 7.55 percent in 1937.

Nothing was deducted by this group of distributors from investments for appreciation and goodwill during this 3-year period.

Investments, profits, and rates of return—West South Central States.—The following table shows the results for dealers and for distributors located in the West South Central States for years 1935–37.

TABLE 128.—*Investments, profits, and rates of return for motor-vehicle dealers and distributors, located in the West South Central States, years 1935–37*

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
Number of dealers and distributors	28	32	35	14	18	20
INVESTMENTS						
Total investment in entire business	$1,914,527	$2,211,321	$2,623,549	$1,370,811	$1,800,499	$2,417,727
Deduct outside investments	264,677	306,721	312,643	87,612	160,093	224,874
Total investment in motor-vehicle business	1,649,850	1,904,600	2,310,906	1,283,199	1,640,406	2,192,853
Deduct borrowed money	581,940	686,593	837,014	619,112	853,327	1,274,796
Dealers' and distributors' investment in motor-vehicle business	1,067,910	1,218,007	1,473,892	664,087	787,079	918,057
Add outside investments	264,677	306,721	312,643	87,612	160,093	224,874
Dealers' and distributors' investment in entire business	1,332,587	1,524,728	1,786,535	751,699	947,172	1,142,931

TABLE 128.—*Investments, profits, and rates of return for motor-vehicle dealers and distributors, located in the West South Central States, years 1935–37*—Continued

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
PROFITS						
Profits applicable to total investment in entire business	194,120	445,777	376,852	189,983	351,944	282,868
Deduct profits on outside investments	10,429	6,609	10,080	1,402	7,128	6,646
Profits applicable to total investment in motor-vehicle business	183,691	439,168	366,772	188,581	344,816	276,222
Deduct interest on borrowed money	45,051	53,613	60,380	45,532	60,549	88,033
Profits applicable to dealers and distributors on motor-vehicle business	138,640	385,555	306,392	143,049	284,267	188,189
Add profits on outside investments	10,429	6,609	10,080	1,402	7,128	6,646
Profits applicable to dealers and distributors on entire business (all profits are before deducting income taxes)	149,069	392,164	316,472	144,451	291,395	194,835
RATES OF RETURN ON INVESTMENT	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
On total investment in entire business	10.14	20.16	14.36	13.86	19.55	11.70
On total investment in motor-vehicle business	11.13	23.06	15.87	14.70	21.02	12.60
On dealers' and distributors' investment in motor-vehicle business	12.98	31.65	20.79	21.54	36.12	20.50
On dealers' and distributors' investment in entire business	11.19	25.72	17.71	19.22	30.76	17.05

The table preceding shows the results for dealers and for distributors operating in the West South Central States for the years 1935–37.

Dealers' results.—The results for 1935 comprise the operations of 28 dealers, 5 showing losses and 23 showing gains for the year. Of the 32 dealers operating in 1936, 2 show losses and 30 show gains. In 1937, when 35 dealers operated, 6 show losses and 29 show gains.

The table shows the average returns on the total investment in the motor-vehicle business as 11.13 percent in 1935, 23.06 percent in 1936, and 15.87 percent in 1937, and the average returns on the total investment in the entire business 10.14, 20.16, and 14.36 percent for the respective years.

The average returns on the dealers' investment in the motor-vehicle business were 12.98 percent in 1935, 31.65 percent in 1936, and 20.79 percent in 1937, and the average returns on the dealers' investment in the entire business were 11.19, 25.72, and 17.71 percent for the respective years.

The total average investments in the motor-vehicle business were $58,923 in 1935, $59,519 in 1936, and $66,026 in 1937, and the total average profits $6,560, $13,724, and $10,479 for the respective years.

The rates of return for the individual dealers varied greatly. In 1935 the rates of return on the dealers' investment in the motor-vehicle business ranged from a loss of 11.75 percent to a profit of 80.75 percent for the 28 dealers. In 1936 the range was from a loss of 35.17 percent to a profit of 117.07 percent for the 32 dealers, and in 1937 the range was from a loss of 124.94 percent to a profit of 118.67 percent for the 35 dealers. In 1935 the dealer showing the highest rate of profit also had the largest amount of profit with one exception and his investment was considerably below the average. The return on the total investment was 54.50 percent. In 1936 the dealer showing the 117.07 percent profit showed his total amount of profits as about 25 percent greater than the average for the group and the investment only a trifle over one-third of the average. In 1937 the dealer showing the loss of 124.94 percent had next to the largest amount of loss and his investment was only 43 percent of the average due partly to a large deficit. The return on the total investment was a loss of 50.41 percent.

The dealers' yearly average investment in the motor-vehicle business was $38,140 in 1935, $38,063 in 1936, and $42,111 in 1937, and the dealers' average profits, $4,951, $12,049, and $8,754, for the respective years.

The yearly averages of the total investments in the motor-vehicle business were $58,923 in 1935, $59,519 in 1936, and $66,026 in 1937; and the average profits were $6,360 in 1935, $13,724 in 1936, and $10,479 in 1937.

The dividends and withdrawals reported amounted to $63,787 in 1935, $254,466 in 1936, and $178,457 in 1937. The additional money paid in was $11,305 in 1935, $93,565 in 1936, and $71,634 in 1937.

The borrowed money, including bonds and mortgages, was 30.40 percent of the total investment in the entire business in 1935, 31.05 percent in 1936, and 31.90 percent in 1937.

The average annual interest rates paid on borrowed money, computed on the interest reported, were 7.74 percent in 1935, 7.81 percent in 1936, and 7.21 percent in 1937.

Appreciation and goodwill amounting to $685 and $2,042 were deducted from the investments for 1936 and 1937, respectively.

Distributors' results.—The results for 1935 comprise the operations of 14 distributors, 3 showing losses and 11 showing profits in the motor-vehicle business. In 1936 the results for 18 distributors are shown, only 1 showing a loss and 17 showing profits, and in 1937, of the 20 distributors operating, 2 show losses and 18 show profits.

The table shows the average returns on the total investment in the motor-vehicle business as 14.70 percent in 1935, 21.02 percent in 1936, and 12.60 percent in 1937, and the average returns on the entire business as 13.86, 19.55, and 11.70 percent for the respective years.

The average returns for the distributors' investment in the motor-vehicle business were 21.54 percent in 1935, 36.12 percent in 1936 and 20.50 percent in 1937, and the average returns on the distributors' investment in the entire business were 19.22, 30.76, and 17.05 percent for the respective years.

The rates of return for the individual distributors varied greatly. In 1935 the range was from a loss of 6.50 percent to a profit of 114.36 percent for the 14 distributors. In 1936, from a loss of 2.36 percent to a gain of 144.68 percent for the 18 distributors; and in 1937, from a loss of 67.05 percent to a profit of 98.76 percent for the 20 distributors. The profits of 114.36 percent in 1935 and 98.76 percent in 1937, were made by the same distributor; his total amount of profits being much higher for these 2 years than any other, and much higher than the average for the group. The investment was about the average in 1935 and about 50 percent higher in 1937. The returns on the total investment were 60.11 percent in 1935 and 59.12 percent in 1937.

In the year 1936 the distributor showing 144.68 percent profits showed profits about 48 percent above the average for the group and his investment was about 63 percent less than the average.

The distributors' average yearly investments in the motor-vehicle business were $47,435 in 1935, $43,727 in 1936, and $45,903 in 1937, and the average yearly profits for these investments were $10,218, $15,793, and $9,409 for the respective years.

The total average yearly investments in the motor-vehicle business were $91,657 in 1935, $91,134 in 1936 and $109,643 in 1937 and the average profits $13,470, $19,156, and $13,811 for the respective years.

The dividends and withdrawals reported were $54,825 in 1935, $150,597 in 1936 and $155,250 in 1937 and the additional money paid in was $15,000, $28,294 and $53,327, for the respective years.

The average borrowed money was 45.16 percent of the total investment in the entire business in 1935, 47.39 percent in 1936 and 52.73 percent in 1937.

The average annual interest rates paid for borrowed money, computed on the interest reported, were 7.35 percent in 1935, 7.10 percent in 1936, and 6.91 percent in 1937.

This group showed no appreciation or goodwill included for any of the 3 years.

Investments, profits, and rates of return—Mountain States.—The following table shows the results for dealers and for distributors located in the Mountain States for years 1935–37.

TABLE 129.—*Investments, profits, and rates of return for motor-vehicle dealers and distributors, located in the Mountain States, years 1935–37*

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
Number of dealers and distributors	13	14	15	12	14	15
INVESTMENTS						
Total investment in entire business	$695,987	$759,165	$865,101	$1,202,960	$1,367,868	$1,623,905
Deduct outside investments	14,525	12,427	11,346	42,945	39,762	42,921
Total investment in motor-vehicle business	681,462	746,738	853,755	1,160,015	1,328,106	1,580,984
Deduct borrowed money	200,930	228,640	310,596	370,831	453,375	468,145
Dealers' and distributors' investment in motor vehicle business	480,532	518,098	543,159	789,184	874,731	1,112,839
Add outside investments	14,525	12,427	11,346	42,945	39,762	42,921
Dealers' and distributors' investment in entire business	495,057	530,525	554,505	832,129	914,493	1,155,760
PROFITS						
Profits applicable to total investment in entire business	65,386	124,964	107,996	139,895	197,327	105,758
Deduct profits on outside investments				379	347	100
Profits applicable to total investment in motor-vehicle business	65,386	124,964	107,996	139,516	196,980	105,658
Deduct interest on borrowed money	16,300	19,482	23,811	25,820	29,007	28,056
Profits applicable to dealers and distributors on motor-vehicle business	49,086	105,482	84,185	113,696	167,973	77,602
Add profits on outside investments				379	347	100
Profits applicable to dealers and distributors on entire business (all profits are before deducting income taxes)	49,086	105,482	84,185	114,075	168,320	77,702

TABLE 129.—*Investments, profits, and rates of return for motor-vehicle dealers and distributors, located in the Mountain States, years 1935–37*—Continued.

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
RATES OF RETURN ON INVESTMENT	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
On total investment in entire business	9.39	16.46	12.48	11.63	14.43	6.51
On total investment in motor-vehicle business	9.59	16.73	12.65	12.03	14.83	6.68
On dealers' and distributors' investment in motor vehicle business	10.21	20.36	15.50	14.41	19.20	6.97
On dealers' and distributors' investment in entire business	9.92	19.88	15.18	13.71	18.41	6.72

The table preceding shows the results for the dealers and for the distributors operating in the Mountain States for the years 1935–37.

Dealers' results.—The results for 1935 comprise the operations of 13 dealers, 2 of these showing losses and 11 profits. Of the 14 dealers operating in 1936, 2 show losses and 12 show profits. The operations of 15 dealers were included in 1937, 4 showing losses and 11 showing profits.

The table shows the average returns on the total investment in the motor-vehicle business as 9.59 percent in 1935, 16.73 percent in 1936, and 12.65 percent in 1937.

The average returns on the total investment in the entire business were slightly lower each year, being 9.39 percent in 1935, 16.46 percent in 1936, and 12.48 percent in 1937.

The average returns for the dealers' investment in the motor-vehicle business were 10.21 percent in 1935, 20.36 percent in 1936, and 15.50 percent in 1937; and the average returns for the dealers' investment in the entire business were 9.92 percent for 1935, 19.88 percent for 1936, and 15.18 percent for 1937.

The rates of return for the individual dealers varied greatly.

In 1935 the rates of return on the dealers' investment in the motor-vehicle business ranged from a loss of 7.83 percent to a profit of 48.93 percent for the 13 dealers. In 1936 the range for the 14 dealers was from a loss of 6.40 percent to a profit of 47.85 percent. In 1937 the range for the 15 dealers was from a loss of 29.48 percent to a profit of 43.80 percent.

The dealers' yearly average investment in the motor-vehicle business was $36,964 in 1935, $37,007 in 1936, and $36,211 in 1937; and the average profits for these investments were $3,776 in 1935, $7,534 in 1936, and $5,612 in 1937.

The yearly averages of the total investments in the motor-vehicle business were $52,420 in 1935, $53,338 in 1936, and $56,917 in 1937; and the average profits were $5,030 in 1935, $8,926 in 1936, and $7,200 in 1937.

The dividends and withdrawals reported amounted to $60,953 in 1935, $55,013 in 1936, and $97,759 in 1937; and the additional money paid in was $18,425 in 1937, nothing in 1935 or 1936.

The ratios of borrowed money to the total investment in the entire business were 28.87, 30.12, and 35.90 percent for the respective years.

The average annual interest rates paid on borrowed money, computed on the interest reported, were 8.11 percent in 1935, 8.52 percent in 1936, and 7.67 percent in 1937.

This group showed no appreciation or goodwill included for any of the 3 years.

Distributors' results.—The results for 1935 comprise the operations of 12 distributors, 1 showing a loss and 11 showing profits in the motor-vehicle business. In 1936 the results for 14 distributors are given, 2 showing losses and 12 profits; and in 1937 the results for 15 distributors are given, 4 showing losses and 11 profits.

The table shows the average returns on the total investment in the motor-vehicle business as 12.03 percent in 1935, 14.83 percent for 1936, and 6.68 percent for 1937.

The average returns on the total investment in the entire business were 11.63, 14.43, and 6.51 percent for the respective years.

The average returns for the distributors' investment in the motor-vehicle business were 14.41 percent in 1935, 19.20 percent in 1936, and 6.97 percent in 1937; and the average returns for the distributors' investment in the entire business were 13.71, 18.41, and 6.72 percent for the respective years.

The rates of return for the individual distributors varied greatly.

In 1935 the rates of return on the distributors' investment in the motor-vehicle business ranged from a low of 4.29 up to 38.71 percent in profits for the 12 distributors. In 1936 the range for the 14 distributors was from a loss of 13.34 percent to a profit of 121.40 percent. In 1937 the range for the 15 distributors was from a loss of 51.79 percent to a profit of 97.57 percent.

In 1936 the distributor showing the profit of 121.40 percent had an investment of about 8 percent of the average for the group, and his profits were about 47 percent of the average profits for the group. The return on the total investment was 36.86 percent. In 1937 the same distributor's profit was 97.57 percent. His investment was about 11 percent of the average for the group and his total profits about twice the average. The return on the total investment was 45.70 percent.

The distributors' average yearly investments in the motor-vehicle business were $65,765 in 1935, $62,481 in 1936, and $74,189 in 1937; and the average yearly profits for these investments were $9,475, $11,998, and $5,173 for the respective years.

The total average yearly investments in the motor-vehicle business were $96,668 in 1935, $94,865 in 1936, and $105,399 in 1937; and the yearly average profits for these investments were $11,626, $14,070, and $7,044 for these respective years.

The dividends and withdrawals reported amounted to $32,493 in 1935, $97,821 in 1936, and $96,264 in 1937; and the additional money paid in was $6,500 in 1935, $4,000 in 1936, and nothing in 1937.

The average borrowed money was 30.83 percent of the total investment in the entire business in 1935, 33.14 percent in 1936, and 28.83 percent in 1937.

The average annual interest rates paid for borrowed money, computed on the interest reported, were 6.96 percent in 1935, 6.40 percent in 1936, and 5.99 percent in 1937.

This group showed no appreciation or goodwill included for any of the 3 years.

Investments, profits, and rates of return—Pacific States.—The following table shows the results for dealers and for distributors located in the Pacific States for years 1935–37:

TABLE 130.—*Investments, profits, and rates of return for motor-vehicle dealers and distributors, located in the Pacific States, years 1935–37*

	Dealers			Distributors		
	1935	1936	1937	1935	1936	1937
Number of dealers and distributors	26	32	35	9	10	11
INVESTMENTS						
Total investment in entire business	$1,609,991	$1,982,038	$2,275,240	$2,776,050	$3,476,192	$3,832,446
Deduct outside investments	67,295	81,486	68,547	24,035	21,193	30,218
Total investment in motor-vehicle business	1,542,696	1,900,552	2,206,693	2,752,015	3,454,999	3,802,228
Deduct borrowed money	501,188	703,379	909,882	993,136	1,368,713	1,519,317
Dealers' and distributors' investment in motor-vehicle business	1,041,508	1,197,173	1,296,811	1,758,879	2,086,286	2,282,911
Add outside investments	67,295	81,486	68,547	24,035	21,193	30,218
Dealers' and distributors' investment in entire business	1,108,803	1,278,659	1,365,358	1,782,914	2,107,479	2,313,129
PROFITS						
Profits applicable to total investment in entire business	183,976	295,181	221,310	535,734	661,723	541,670
Deduct profits on outside investments				13	25	25
Profits applicable to total investment in motor-vehicle business	183,976	295,181	221,310	535,721	661,698	541,645
Deduct interest on borrowed money	40,241	49,845	60,382	68,162	79,072	83,006
Profits applicable to dealers and distributors on motor-vehicle business	143,735	245,336	160,928	467,559	582,626	458,639
Add profits on outside investments				13	25	25
Profits applicable to dealers and distributors on entire business (all profits are before deducting income taxes)	143,735	245,336	160,928	467,572	582,651	458,664
RATES OF RETURN ON INVESTMENTS	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
On total investment in entire business	11.43	14.89	9.73	19.30	19.04	14.13
On total investment in motor-vehicle business	11.93	15.53	10.03	19.47	19.15	14.25
On dealers' and distributors' investment in motor vehicle business	13.80	20.49	12.41	26.58	27.93	20.09
On dealers' and distributors' investment in entire business	12.96	19.19	11.79	26.23	27.65	19.83

The table preceding shows the results for the dealers and for the distributors located in the Pacific States for the years 1935–37.

Dealers' results.—The results for 1935 comprise the operations of 26 dealers, 6 of these showing losses and 20 profits. Of 32 dealers operating in 1936, 8 show losses and 24 show profits. The operations of 35 dealers were included in 1937, 14 showing losses and 21 showing profits.

The table shows the average returns on the total investment in the motor-vehicle business as 11.93 percent in 1935, 15.53 percent in 1936, and 10.03 percent in 1937.

The average returns on the total investment in the entire business were slightly lower each year than the above rates.

The average returns for the dealers' investment in the motor-vehicle business were 13.80 percent in 1935, 20.49 percent in 1936, and

12.41 percent in 1937; and the average returns for the dealers' investment in the entire business were 12.96 percent in 1935, 19.19 percent in 1936, and 11.79 percent in 1937. The rates of return for individual dealers varied greatly.

In 1935 the rates of return on the dealers' investment in the motor-vehicle business ranged from a loss of 15.34 percent to a profit of 57.09 percent for 26 dealers. In 1936 the range for 32 dealers was from a loss of 20.54 percent to a profit of 109.93 percent. In 1937 the range for 35 dealers was from a loss of 93.28 percent to a profit of 89.03 percent.

In 1936 the profit of 109.93 percent was shown by a dealer whose investment was only about 30 percent of the average for the group and whose profits were about 69 percent above the average. The return on the total investment was 48.53 percent.

In 1937 the profit of 89.03 was shown by a dealer whose investment was about 46 percent of the average for the group and whose profits were over three times the average.

The dealer showing the loss of 93.28 in 1937 shows an investment amounting to about 28 percent of the average for the group owing to a large deficit and shows losses greater than any other dealer in the group.

The dealers' yearly average investment in the motor-vehicle business was $40,058 in 1935, $37,412 in 1936, and $37,052 in 1937; and the average profits for these investments were $5,528 in 1935, $7,667 in 1936, and $4,598 in 1937.

The yearly averages of the total investments in the motor-vehicle business were $59,334 in 1935, $59,392 in 1936, and $63,048 in 1937; and the average profits were $7,076 in 1935, $9,224 in 1936, and $6,323 in 1937.

The dividends and withdrawals reported amounted to $81,950 in 1935, $200,629 in 1936, and $131,020 in 1937 and the additional money paid in was $46,400 in 1935, $18,700 in 1936, and $17,535 in 1937.

The ratios of borrowed money to the total investments in the entire business were 31.13 percent, 35.49 percent, and 39.99 percent for the respective years.

The average annual interest rates paid on borrowed money, computed on the interest reported, were 8.03 percent in 1935, 7.09 percent in 1936, and 6.64 percent in 1937.

Nothing was deducted from the investments of this group of dealers for appreciation and goodwill during these 3 years.

Distributors' results.—The results for 1935 comprise the operations of 9 distributors, all showing profits in the motor-vehicle business. In 1936 the results for 10 distributors are given, 1 showing a loss and 9 showing profits, and in 1937 the results of 11 distributors are given, 2 showing losses and 9 showing profits.

The table shows the average returns on the total investment in the motor-vehicle business as 19.47 percent in 1935, 19.15 percent in 1936, and 14.25 percent in 1937.

The average returns for the total investment in the entire business were 19.30 percent in 1935, 19.04 percent in 1936, and 14.13 percent in 1937.

The average returns for the distributors' investment in the motor-vehicle business were 26.58 percent in 1935, 27.93 percent in 1936, and

20.09 percent in 1937 and the average returns for the distributors' investment in the entire business were 26.23 percent, 27.65 percent, and 19.83 percent for the respective years.

The rates of return for the individual distributors varied greatly.

In 1935 the rates of return on the distributors' investment in the motor-vehicle business ranged from a profit of 3.55 percent to a profit of 56.86 percent for the 9 distributors. In 1936 the range for 10 distributors was from a loss of 97.51 percent to a profit of 83.37 percent. In 1937 the range for 11 distributors was from a loss of 95.22 percent to a profit of 85.44 percent.

In 1936 the distributor showing the profit of 83.37 percent had an investment of only about 43 percent of the average for the group and his profits were about 23 percent greater than the average.

The return on the total investment was 64.13 percent. The distributor showing the loss of 97.51 percent in 1936 showed a large deficit. His investment was only about 17 percent of the average for the group and his losses were very large. The total investment showed a loss of 19.94 percent.

In 1937 the distributor showing the gain of 85.44 percent showed the smallest investment for the group, except one, only about 4 percent of the average for the group. The total amount of his profits were only about 16 percent of the average for the group. The return on the total investment was 71.35 percent for this distributor.

The distributor showing the loss of 95.22 percent in 1937 showed a small deficit. His investment was less than 22 percent of the average for the group and his total losses were the greatest of the group. The return on the total investment was 23.75 percent loss for this distributor.

The distributors' average yearly investments in the motor-vehicle business were $195,431 in 1935, $208,629 in 1936, and $207,537 in 1937 and the average yearly profits for these investments were $51,951, $58,263, and $41,694 for the respective years.

The total average yearly investments in the motor-vehicle business were $305,779 in 1935, $345,500 in 1936, and $345,657 in 1937 and the yearly average profits for these investments were $59,525, $66,170, and $49,240 for these respective years.

The dividends and withdrawals reported amounted to $98,728 in 1935, $202,611 in 1936, and $201,657 in 1937, and the additional money paid in was $27,000 in 1936 and $154,464 in 1937, there being no additional money paid in in 1935.

The average borrowed money was 35.78 percent of the total investment in the entire business in 1935, 39.37 percent in 1936, and 39.64 percent in 1937.

The average annual interest rates paid for borrowed money, computed on the interest reported, were 6.86 percent in 1935, 5.78 percent in 1936, and 5.46 percent in 1937.

Nothing was deducted from the investments of this group of distributors for appreciation and goodwill.

Investments, profits, and rates of return, all regions.—The following table shows the summary of the income, expenses, and profits per dollar of net sales for dealers and for distributors located in 45 States and the District of Columbia, years 1935–37.

Included in the general and administrative expenses reported are the salaries paid executives and owners of unincorporated companies.

The reported salaries paid owners amount to about 0.87 cent per dollar of total net sales by dealers, and to about 0.43 cent per dollar of total net sales by distributors, for each of the years 1935, 1936, and 1937. The exclusion of the salaries paid owners would accordingly increase the net profits per dollar of net sales by the above amounts.

TABLE 131.—*Summary of income, expenses, and profits per dollar of net sales for motor-vehicle dealers and distributors in 45 States and the District of Columbia, years 1935–37*

DEALERS

Years	1935		1936		1937	
Number of dealers	285		325		361	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$108,425,521	100.00	$151,359,433	100.00	$172,683,832	100.00
Cost of sales	90,131,782	83.13	126,474,315	83.56	143,822,215	83.29
Gross profit on sales	18,293,739	16.87	24,885,118	16.44	28,861,617	16.71
Total selling, general, and administrative expenses	16,900,701	15.59	22,197,938	14.66	26,431,101	15.30
Net profit on sales	1,393,038	1.28	2,687,180	1.78	2,430,516	1.41
Deduct bad debts	243,097	.22	310,816	.21	297,138	.17
	1,149,941	1.06	2,376,364	1.57	2,133,378	1.24
Add other income net	402,016	.37	462,575	.31	632,882	.36
	1,551,957	1.43	2,838,939	1.88	2,766,260	1.60
Add income on outside investments	36,410	.03	24,260	.01	23,862	.02
	1,588,367	1.46	2,863,199	1.89	2,790,122	1.62
Deduct interest on borrowed money	410,676	.37	518,878	.34	545,396	.32
Dealers' net profits from entire business before deducting Federal and State income taxes	1,177,691	1.09	2,344,321	1.55	2,244,726	1.30

DISTRIBUTORS

Years	1935		1936		1937	
Number of distributors	140		154		166	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$126,565,259	100.00	$170,831,108	100.00	$189,480,276	100.00
Cost of sales	110,346,778	87.19	149,101,036	87.28	165,021,820	87.09
Gross profit on sales	16,218,481	12.81	21,730,072	12.72	24,458,456	12.91
Total selling, general, and administrative expenses	14,471,964	11.43	19,075,612	11.17	21,953,927	11.59
Net profit on sales	1,746,517	1.38	2,654,460	1.55	2,504,529	1.32
Deduct bad debts	165,618	.13	209,511	.12	248,650	.13
	1,580,899	1.25	2,444,949	1.43	2,255,879	1.19
Add other income net	306,672	.24	357,879	21	443,948	.23
	1,887,571	1.49	2,802,828	1.64	2,699,827	1.42
Add income on outside investments	73,569	.06	79,051	.05	64,394	.04
	1,961,140	1.55	2,881,879	1.69	2,764,221	1.46
Deduct interest on borrowed money	426,800	.34	508,093	.30	556,245	.29
Distributors' net profits from entire business before deducting Federal and State income taxes	1,534,340	1.21	2,373,786	1.39	2,207,976	1.17

The preceding table shows the summary of income, expenses, and profits per dollar of net sales, for dealers and for distributors located in 45 States and the District of Columbia, for the years 1935, 1936, and 1937.

Dealers' results.—The results comprise the operations of 285 dealers in 1935, 325 dealers in 1936, and 361 dealers in 1937. The table shows that the total net sales were $108,425,521 in 1935, $151,359,433 in 1936, and $172,683,832 in 1937.

The average gross profits per dollar of net sales were 16.87 cents in 1935, 16.44 cents in 1936, and 16.71 cents in 1937.

The average selling, general, and administrative expenses varied from 15.59 cents in 1935 to 14.66 cents in 1936, and to 15.30 cents in 1937, although the total amounts of these expenses increased from $16,900,701 in 1935 to $22,197,938 in 1936 and $26,431,101 in 1937.

The average deductions for bad debts, per dollar of net sales, decreased from 0.22 cent in 1935 to 0.21 cent in 1936 and 0.17 cent in 1937, the amounts charged off being $243,097 in 1935, $310,816 in 1936, and $297,138 in 1937.

The additions for other income, net, averaged, per dollar of net sales, 0.37 cent in 1935, 0.31 cent in 1936 and 0.36 cent in 1937, and the total amounts were $402,016 in 1935, $462,575 in 1936, and $632,882 in 1937.

The additions for income on outside investments averaged, per dollar of net sales, 0.03 cent in 1935, 0.01 cent in 1936 and 0.02 cent in 1937, and the total amounts were $36,410 in 1935, $24,260 in 1936, and $23,862 in 1937.

The deductions for interest reported on borrowed money, per dollar of net sales, decreased from 0.37 cent in 1935 to 0.34 cent in 1936 and to 0.32 cent in 1937. The total interest charges amounted to $410,676 in 1935, $518,878 in 1936 and $545,396 in 1937.

This left the average net profit for the dealers, in the entire business, 1.09 cents for 1935, 1.55 cents for 1936, and 1.30 cents in 1937, per dollar of net sales.

The average annual net sales, per dealer, were $380,440 in 1935, $465,721 in 1936, and $478,349 in 1937, and the average turn-over of the total investment in the motor vehicle business was 6.63 times in 1935, 7.86 times in 1936, and 7.89 times in 1937. The average turn-over of the dealers investment in the motor-vehicle business was 10.22 times in 1935, 12.57 times in 1936 and 12.78 times in 1937.

Distributors' results.—These results comprise the operations of 140 distributors in 1935, 154 distributors in 1936 and 166 distributors in 1937. The total net sales were $126,565,259 in 1935, $170,831,108 in 1936, and $189,480,276 in 1937.

The average gross profits per dollar of net sales were 12.81 cents in 1935, 12.72 cents in 1936, and 12.91 cents in 1937.

The average total selling, general, and administrative expenses, per dollar of net sales, varied from 11.43 cents in 1935, to 11.17 cents in 1936, and to 11.59 cents in 1937. The total amounts of these expenses increased from $14,471,964 in 1935 to $19,075,612 in 1936, and to $21,953,927 in 1937.

The average deductions for bad debts, per dollar of net sales, were 0.13 cent in 1935, 0.12 cent in 1936, and 0.13 cent in 1937. The total bad debts charged off amounted to $165,618 in 1935, $209,511 in 1936 and $248,650 in 1937.

The additions for other income, net, averaged, per dollar of net sales, 0.24 cent in 1935, 0.21 cent in 1936, and 0.23 cent in 1937, and the total amounts were $306,672 in 1935, $357,879 in 1936, and $443,948 in 1937.

The additions for income from outside investments averaged, per dollar of net sales, 0.06 cent in 1935, 0.05 cent in 1936, 0.04 cent in 1937; and the total amounts were $73,569 in 1935, $79,051 in 1936, and $64,394 in 1937.

The deductions for interest reported on borrowed money were 0.34 cent in 1935, 0.30 cent in 1936, and 0.29 cent in 1937. The total interest charges amounted to $426,800 in 1935, $508,093 in 1936, and $556,245 in 1937.

This left the average net profit for the distributors, in the entire business, 1.21 cents in 1935, 1.39 cents in 1936, and 1.17 cents in 1937, per dollar of net sales.

The average annual net sales per distributor were $904,038 in 1935, $1,109,293 in 1936, and $1,141,447 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 7.09 times in 1935, 8.11 times in 1936, and 8 times in 1937. The average turn-over of distributors' investment in the motor-vehicle business was 11.21 times in 1935, 13.33 times in 1936, and 13.34 times in 1937.

Average annual turn-overs of investments in the motor-vehicle business, by regions.—The table following shows the average annual turn-overs of investments in the motor-vehicle business, by regions:

TABLE 132.—*Average annual turn-overs of investments in motor-vehicle business, by regions*

DEALERS

Regions	1935		1936		1937	
	Times dealers' or distributors' investment turned over	Times total investment turned over	Times dealers' or distributors' investment turned over	Times total investment turned over	Times dealers' or distributors' investment turned over	Times total investment turned over
New England States	4.65	3.66	6.73	5.16	7.41	5.65
Middle Atlantic	12.06	7.08	14.96	8.37	15.31	8.87
East North Central	9.45	6.07	12.04	7.40	13.03	7.80
West North Central	11.14	7.98	12.59	8.24	12.20	7.88
South Atlantic	16.10	9.56	19.04	11.11	19.16	11.03
East South Central	7.25	4.96	8.98	6.20	9.07	6.05
West South Central	10.05	6.51	12.40	7.93	11.31	7.22
Mountain States	8.14	5.74	10.69	7.42	10.47	6.66
Pacific States	9.80	6.62	11.32	7.13	11.04	6.49
Average	10.22	6.63	12.57	7.86	12.78	7.89

DISTRIBUTORS

Regions	1935		1936		1937	
New England States	7.70	4.46	9.64	5.52	10.11	6.13
Middle Atlantic	9.21	6.23	11.46	7.66	12.11	8.19
East North Central	14.17	11.32	15.61	12.01	16.24	10.35
West North Central	13.58	8.71	15.15	9.04	14.52	8.38
South Atlantic	10.37	6.85	12.85	8.06	13.46	8.20
East South Central	18.07	9.86	18.98	10.19	19.26	11.09
West South Central	15.71	8.13	21.40	10.27	21.88	9.16
Mountain States	8.05	5.48	10.07	6.63	7.62	5.36
Pacific States	12.95	8.28	14.20	8.58	13.60	8.17
Average	11.21	7.09	13.33	8.11	13.34	8.00

The preceding table shows the average annual investment turn-overs of the dealers and of the distributors in the motor-vehicle business and in the total business, by regions, for the years 1935–37.

The New England States showed the smallest annual turn-over for the dealers' investment for all years; 4.65 times in 1935, 6.73 times in 1936, and 7.41 times in 1937. Increases were shown for each year. The South Atlantic States showed the largest annual turn-over for the dealers' investment for all years, 16.10 times in 1935, 19.04 times in 1936, and 19.16 times in 1937.

The smallest annual turn-over for the distributor's investment was in the New England States in 1935 and 1936; 7.70 times in 1935 and 9.64 times in 1936; but in 1937 the Mountain States showed the smallest turn-over, 7.62 times.

The largest annual turn-over for the distributors' investment was in the East South Central States in 1935, and in the West South Central States in 1936 and 1937. The turn-overs were 18.07 times, 21.40 times, and 21.88 times for the respective years.

The smallest annual turno-ver by the dealers of the total investment was in the New England States for all years, and the turn-overs were 3.66 times, 5.16 times, and 5.65 times for the respective years. The South Atlantic States showed the dealers' largest annual turn-over of their total investment for all years; 9.56 times in 1935, 11.11 times in 1936, and 11.03 times in 1937.

The smallest annual turn-over of the total investment by the distributors was in the New England States for all years, and the turn-overs were 4.46 times, 5.52 times, and 6.13 times for the respective years. The largest annual turn-over of the total investment by the distributors was in the East North Central States in 1935 and 1936; 11.32 times in 1935 and 12.01 times in 1936; and in the East South Central States in 1937, being 11.09 times.

The dealers' investment for all groups was turned over 10.22, 12.57, and 12.78 times in the respective years 1935, 1936, and 1937, showing an increase each year in the turn-over.

The total investment for all groups was turned over by the dealers 6.63 times in 1935, 7.86 times in 1936, and 7.89 times in 1937, also showing an increase each year.

The distributors' investment for all groups was turned over 11.21 times in 1935, 13.33 times in 1936, and 13.34 times in 1937, showing an increase each year.

The total investment for all groups was turned over by the distributors 7.09 times in 1935, 8.11 times in 1936, and 8 times in 1937; the turn-over for 1937 showing a trifle below the 1936 turn-over.

Summary of total selling, general, and administrative expenses per dollar of net sales.—The following table is a summary of total selling, general, and administrative expenses per dollar of net sales for motor vehicle dealers and distributors, years 1935–37.

TABLE 133.—*Summary of total selling, general, and administrative expenses, per dollar of net sales, for motor-vehicle dealers and distributors, years 1935–37*

DEALERS

Items	1935	1936	1937
	Cents	*Cents*	*Cents*
Salesmen's salaries, commissions, and bonuses	3.27	3.23	3.16
Owners' salaries	.92	.86	.85
Executives' salaries	.71	.64	.69
All other salaries and wages	3.46	3.12	3.38
Rent	1.09	.92	.98
Taxes (except income taxes)	.26	.31	.50
Insurance	.42	.40	.42
Light, heat, and power	.39	.34	.34
Supplies	.57	.54	.56
Depreciation	.32	.25	.25
Maintenance	.23	.21	.22
Advertising	.97	.97	.96
All other expenses	2.98	2.87	2.99
Total selling, general, and administrative expenses	15.59	14.66	15.30

TABLE 133.—*Summary of total selling, general, and administrative expenses, per dollar of net sales, for motor-vehicle dealers and distributors, years 1935–37*—Con.

DISTRIBUTORS

Items	1935	1936	1937
	Cents	*Cents*	*Cents*
Salesmen's salaries, commissions, and bonuses	2.25	2.31	2.25
Owners' salaries	.46	.43	.42
Executives' salaries	.73	.69	.68
All other salaries and wages	2.67	2.55	2.72
Rent	.83	.75	.75
Taxes (except income taxes)	.20	.23	.37
Insurance	.33	.31	.34
Light, heat, and power	.26	.23	.24
Supplies	.60	.60	.59
Depreciation	.23	.19	.20
Maintenance	.17	.15	.18
Advertising	.64	.65	.67
All other expenses	2.06	2.08	2.18
Total selling, general, and administrative expenses	11.43	11.17	11.59

The preceding table is a summary of the total selling, general, and administrative expenses, per dollar of net sales for motor-vehicle dealers and for distributors for the years 1935–37.

Dealers' expenses.—The table shows that the salesmen's salaries, commissions, and bonuses were, per dollar of net sales, 3.27 cents in 1935, 3.23 cents in 1936, and 3.16 cents in 1937, decreasing slightly each year.

The executive and owners' salaries were, per dollar of net sales, 1.63 cents in 1935, 1.50 cents in 1936, and 1.54 cents in 1937, the year 1937 showing an increase over 1936 but a decrease compared with 1935.

All other salaries and wages, per dollar of net sales, were 3.46 cents in 1935, 3.12 cents in 1936, and 3.38 cents in 1937, the year 1937 showing an increase over 1936 but a decrease compared with 1935.

The total salaries, wages, commissions, and bonuses were, per dollar of net sales, 8.36 cents in 1935, 7.85 cents in 1936, and 8.08 cents in the year 1937, the year 1937 showing an increase over 1936, but a decrease when compared with the year 1935.

The totals of all expenses for dealers, per dollar of net sales, were 15.59 cents in 1935, 14.66 cents in 1936, and 15.30 cents in 1937, the 1937 figures being higher than the 1936 figures but not so high as the 1935 figures.

Distributors' expenses.—The table shows that the salesmen's salaries, commissions, and bonuses, per dollar of net sales, were 2.25 cents in 1935, 2.31 cents in 1936, and 2.25 cents in 1937, being the same for 1935 and 1937 and somewhat higher for 1936.

The executive and owners' salaries, per dollar of net sales, were 1.19 cents in 1935, 1.12 cents in 1936, and 110 cents in 1937, showing decreases each year.

All other salaries and wages, per dollar of net sales, were 2.67 cents in 1935, 2.55 cents in 1936, and 2.72 cents in 1937, the year 1937 showing an increase over 1935 as well as over 1936.

The total salaries, wages, commissions, and bonuses, per dollar of net sales, were 6.11 cents in 1935, 5.98 cents in 1936, and 6.07 cents in 1937, the year 1937 showing an increase over 1936 but a decrease compared with 1935.

The total of all expenses for distributors, per dollar of net sales, were 11.43 cents in 1935, 11.17 cents in 1936, and 11.59 cents in 1937, the year 1937 showing an increase over both 1936 and 1935.

Income, expenses, and profits per dollar of net sales—New England States.—The following table shows the income, expenses, and profits per dollar of net sales for motor-vehicle dealers and distributors located in the New England States, years 1935–37.

TABLE 134.—*Income, expenses, and profits, per dollar of net sales, for motor-vehicle dealers and distributors located in the New England States, 1935–37*

DEALERS

Years Number of dealers	1935 20		1936 24		1937 25	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$5,222,982	100.00	$8,272,252	100.00	$9,680,063	100.00
Cost of sales	4,182,415	80.08	6,839,696	82.68	7,980,758	82.45
Gross profit on sales	1,040,567	19.92	1,432,556	17.32	1,699,305	17.55
Total selling, general, and administrative expenses	1,002,540	19.19	1,324,299	16.01	1,531,429	15.82
Net profit on sales	38,027	.73	108,257	1.31	167,876	1.73
Deduct bad debts	17,463	.34	18,637	.23	15,766	.16
	20,564	.39	89,620	1.08	152,110	1.57
Add other income net	44,193	.85	29,107	.35	21,268	.22
	64,757	1.24	118,727	1.43	173,378	1.79
Add income on outside investments	3,750	.07	5,015	.06	1,760	.02
	68,507	1.31	123,742	1.49	175,138	1.81
Deduct interest on borrowed money	17,028	.32	22,685	.27	21,056	.22
Dealers' net profits from entire business before deducting Federal and State income taxes	51,479	.99	101,057	1.22	154,082	1.59

DISTRIBUTORS

Years Number of distributors	1935 18		1936 19		1937 19	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$20,551,249	100.00	$27,398,648	100.00	$30,604,451	100.00
Cost of sales	17,561,935	85.45	23,655,177	86.34	26,370,881	86.17
Gross profit on sales	2,989,314	14.55	3,743,471	13.66	4,233,570	13.83
Total selling, general, and administrative expenses	2,854,918	13.89	3,485,515	12.72	3,808,882	12.44
Net profit on sales	134,396	.66	257,956	.94	424,688	1.39
Deduct bad debts	13,419	.07	35,088	.13	18,225	.06
	120,977	.59	222,868	.81	406,463	1.33
Add other income net	37,157	.18	60,163	.22	69,431	.22
	158,134	.77	283,031	1.03	475,894	1.55
Add income on outside investments	16,887	.08	24,893	.09	23,732	.08
	175,021	.85	307,924	1.12	499,626	1.63
Deduct interest on borrowed money	102,249	.50	109,763	.40	100,848	.33
Distributors' net profits from entire business before deducting Federal and State income taxes	72,772	.35	198,161	.72	398,778	1.30

The preceding table shows the income, expenses, and profits per dollar of net sales for dealers and for distributors, located in the New England States, for the years 1935, 1936, and 1937.

Dealers' results.—These results comprise the operations of 20 dealers in 1935, 24 dealers in 1936, and 25 dealers in 1937. Referring to the operations of the dealers, the table shows the total net sales were $5,222,982 in 1935, $8,272,252 in 1936, and $9,680,063 in 1937.

The average gross profits per dollar of net sales were 19.92 cents in 1935, 17.32 cents in 1936, and 17.55 cents in 1937.

The average total selling, general, and administrative expenses decreased per dollar of net sales from 19.19 cents in 1935 to 16.01 cents in 1936 and to 15.82 cents in 1937, although the total amounts of these expenses increased from $1,002,540 in 1935 to $1,324,299 in 1936 and to $1,531,429 in 1937.

The average deductions for bad debts decreased, per dollar of net sales, from 0.34 cent in 1935 to 0.23 cent in 1936 and to 0.16 cent in 1937 and the total amounts charged off for bad debts were $17,463 in 1935, $18,637 in 1936, and $15,766 in 1937.

The additions for other income, net, averaged, per dollar of net sales, 0.85 cent in 1935, 0.35 cent in 1936, and 0.22 cent in 1937, and the total amounts were $44,193 in 1935, $29,107 in 1936, and $21,268 in 1937.

The additions for income from outside investments averaged, per dollar of net sales, 0.07 cent in 1935, 0.06 cent in 1936, and 0.02 cent in 1937, and the total amounts were $3,750 in 1935, $5,015 in 1936, and $1,760 in 1937.

The deductions for interest on reported borrowed money, per dollar of net sales, decreased on the average from 0.32 cent in 1935 to 0.27 cent in 1936 and to 0.22 cent in 1937. The total interest charges amounted to $17,028 in 1935, $22,685 in 1936, and $21,056 in 1937.

This left the average net profit for the dealers in the entire business 0.99 cent for 1935, 1.22 cents in 1936, and 1.59 cents in 1937 per dollar of net sales.

The average annual net sales per dealer were $261,149 in 1935, $344,677 in 1936, and $387,202 in 1937 and the average turn-over of the total investment in the motor vehicle business was 3.66 times in 1935, 5.16 times in 1936, and 5.65 times in 1937. The average turnover of the dealers' investment in the motor vehicle business was 4.65 times in 1935, 6.73 times in 1936, and 7.41 times in 1937.

Distributors' results.—These results comprise the operations of 18 distributors in 1935, 19 distributors in 1936, and 19 distributors in 1937. The total net sales were $20,551,249 in 1935, $27,398,648 in 1936, and $30,604,451 in 1937.

The average gross profits per dollar of net sales were 14.55 cents in 1935, 13.66 cents in 1936, and 13.83 cents in 1937.

The average total selling, general and administrative expenses decreased, per dollar of net sales, from 13.89 cents in 1935, to 12.72 cents in 1936, and to 12.44 cents in 1937. The total amounts of these expenses were $2,854,918 in 1935, $3,485,515 in 1936, and $3,808,882 in 1937.

The average deductions for bad debts increased per dollar of net sales from 0.07 cent in 1935 to 0.13 cent in 1936, and decreased to 0.06 cent in 1937. The total bad debts charged off were $13,419 in 1935, $35,088 in 1936, and $18,225 in 1937.

The additions for other income, net, averaged, per dollar of net sales, 0.18 cent in 1935, 0.22 cent in 1936, and 0.22 cent in 1937, and the total amounts were $37,157 in 1935, $60,163 in 1936, and $69,431 in 1937.

The additions for income from outside investments averaged, per dollar of net sales, 0.08 cent for 1935, 0.09 cent for 1936, and 0.08 cent for 1937; and the total amounts were $16,887 in 1935, $24,893 in 1936, and $23,732 in 1937.

The deductions for interest reported on borrowed money were 0.50 cent per dollar of net sales for 1935, 0.40 cent for 1936, and 0.33 cent for 1937. The total interest charges amounted to $102,249 in 1935, $109,763 in 1936, and $100,848 in 1937.

This left the average net profit for the distributors in the entire business 0.35 cent in 1935, 0.72 cent in 1936, and 1.30 cents in 1937 per dollar of net sales.

The average annual net sales per distributor were $1,141,736 in 1935, $1,442,034 in 1936, and $1,610,761 in 1937 and the average turn-over of the total investment in the motor-vehicle business was 4.46 times in 1935, 5.52 times in 1936, and 6.13 times in 1937. The average turn-over of the distributors' investment in the motor-vehicle business was 7.70 times in 1935, 9.64 times in 1936, and 10.11 times in 1937.

Income, expenses, and profits per dollar of net sales—Middle Atlantic States.—The following table shows the results for the dealers and for the distributors operating in the Middle Atlantic States.

TABLE 135.—*Income, expenses and profits per dollar of net sales for motor vehicle dealers and distributors located in the Middle Atlantic States, 1935–37*

DEALERS

Year	1935		1936		1937	
Number of dealers	68		73		86	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$30,917,974	100.00	$42,122,311	100.00	$50,260,747	100.00
Cost of sales	25,424,535	82.23	35,063,354	83.24	41,809,834	83.19
Gross profit on sales	5,493,439	17.77	7,058,957	16.76	8,450,913	16.81
Total selling, general and administrative expenses	5,191,386	16.79	6,474,247	15.37	7,804,318	15.52
Net profit on sales	302,053	.98	584,710	1.39	646,595	1.29
Deduct bad debts	61,797	.20	59,286	.14	68,248	.14
	240,256	.78	525,424	1.25	578,347	1.15
Add other income, net	79,054	.25	88,103	.21	136,202	.27
	319,310	1.03	613,527	1.46	714,549	1.42
Add income on outside investments	12,012	.04	1,259	0	4,556	.01
	331,322	1.07	614,786	1.46	719,105	1.43
Deduct interest on borrowed money	114,529	.37	144,035	.34	133,546	.26
Dealers' net profits from entire business before deducting income taxes	216,793	.70	470,751	1.12	585,559	1.17

TABLE 135.—*Income, expenses and profits per dollar of net sales for motor vehicle dealers and distributors located in the Middle Atlantic States, 1935-37*—Con.

DISTRIBUTORS

Year	1935		1936		1937	
Number of distributors	17		18		18	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$11,491,605	100.00	$17,337,108	100.00	$19,845,769	100.00
Cost of sales	9,917,348	86.30	14,903,538	85.97	17,149,036	86.42
Gross profit on sales	1,574,257	13.70	2,433,570	14.03	2,696,733	13.58
Total selling, general and administrative expenses	1,353,493	11.78	2,096,583	12.09	2,348,357	11.83
Net profit on sales	220,764	1.92	336,987	1.94	348,376	1.75
Deduct bad debts	13,569	.12	20,038	.11	16,798	.08
	207,195	1.80	316,949	1.83	331,578	1.67
Add other income, net	15,515	.14	20,224	.11	27,284	.14
	222,710	1.94	337,173	1.94	358,862	1.81
Add income on outside investments	14,039	.12	16,725	.10	9,798	.05
	236,749	2.06	353,898	2.04	368,660	1.86
Deduct interest on borrowed money	39,473	.34	47,214	.27	45,675	.23
Distributors' net profits from entire business before deducting income taxes	197,276	1.72	306,684	1.77	322,985	1.63

The preceding table shows the income, expenses, and profits, per dollar of net sales, for dealers and for distributors, located in the Middle Atlantic States, for the years 1935–37.

Dealers' results.—These results comprise the operations of 68 dealers in 1935, 73 dealers in 1936, and 86 dealers in 1937.

The table shows the total net sales were $30,917,974 in 1935, $42,122,311 in 1936, and $50,260,747 in 1937.

The average gross profits, per dollar of net sales, were 17.77 cents in 1935, 16.76 cents in 1936, and 16.81 cents in 1937.

The average total selling, general, and administrative expenses decreased, per dollar of net sales, from 16.79 cents in 1935 to 15.37 cents in 1936 and increased to 15.52 cents in 1937. The total amounts of these expenses were $5,191,386 in 1935, $6,474,247 in 1936, and $7,804,318 in 1937.

The average deductions for bad debts, per dollar of net sales, decreased from 0.20 cent in 1935 to 0.14 cent in 1936 and remained 0.14 cent in 1937. The total amounts were $61,797, $59,286, and $68,248 for the respective years.

The additions for other income, net, averaged, per dollar of net sales, were 0.25 cent in 1935, 0.21 cent in 1936, and 0.27 cent in 1937 and the total amounts were $79,054 in 1935, $88,103 in 1936, and $136,202 in 1937.

The additions for income from outside investments averaged, per dollar of net sales, 0.04 cent in 1935, less than 0.01 cent in 1936, and 0.01 cent in 1937 and the total amounts were $12,012 in 1935, $1,259 in 1936, and $4,556 in 1937.

The deductions from profits for reported interest on borrowed money averaged, per dollar of sales, 0.37 cent in 1935, 0.34 cent in 1936, and 0.26 cent in 1937. The total interest charges reported were $114,529, $144,035, and $133,546 in the respective years.

This left the average net profits for the dealers in the entire business 0.70 cent in 1935, 1.12 cents in 1936, and 1.17 cents in 1937, per dollar of net sales.

The average annual net sales per dealer were $454,676 for 1935, $577,018 for 1936, and $584,427 for 1937.

The average turn-over of the total investment in the motor-vehicle business was 7.08 times in 1935, 8.37 times in 1936, and 8.87 times in 1937. The average turn-over of the dealers' investment in the motor-vehicle business was 12.06 times in 1935, 14.96 times in 1936, and 15.31 times in 1937.

Distributors' results.—These results comprise the operations of 17 distributors in 1935 and of 18 in each of the years 1936 and 1937.

The total net sales for these distributors were $11,491,605 in 1935, $17,337,108 in 1936, and $19,845,769 in 1937.

The average gross profits, per dollar of net sales, were 13.70 cents in 1935, 14.03 cents in 1936, and 13.58 cents in 1937.

The average total selling, general, and administrative expenses, per dollar of net sales, increased from 11.78 cents in 1935 to 12.09 cents in 1936 and decreased to 11.83 cents in 1937. The total amounts of these expenses were $1,353,493 in 1935, $2,096,583 in 1936, and $2,-348,357 in 1937.

The average deductions for bad debts, per dollar of net sales, decreased from 0.12 cent in 1935 to 0.11 cent in 1936 and to 0.08 cent in 1937. The total bad debts charged off were $13,569 in 1935, $20,-038 in 1936, and $16,798 in 1937.

The additions for other income, net, averaged, per dollar of net sales, 0.14 cent in 1935, 0.11 cent in 1936, and 0.14 cent in 1937, and the total amounts were $15,515, $20,224, and $27,284 for the respective years.

The additions for income from outside investments averaged, per dollar of net sales, 0.12 cent, 0.10 cent, and 0.05 cent for the respective years, and the amounts were $14,039 in 1935, $16,725 in 1936, and $9,798 in 1937.

The deductions for reported interest on borrowed money were, per dollar of net sales, 0.34 cent in 1935, 0.27 cent in 1936, and 0.23 cent in 1937, and the total interest reported was $39,473 in 1935, $47,214 in 1936, and $45,675 in 1937.

This left the average net profit for the distributors in the entire business 1.72 cents in 1935, 1.77 cents in 1936, and 1.63 cents in 1937 per dollar of net sales.

The average annual net sales per distributor were $675,977 in 1935, $963,173 in 1936, and $1,102,543 in 1937. The average turn-over of the total investment in the motor-vehicle business was 6.23 times in 1935, 7.66 times in 1936, and 8.19 times in 1937. The average turn-over of the distributors' investment in the motor-vehicle business was 9.21 times in 1935, 11.46 times in 1936, and 12.11 times in 1937.

Income, expenses, and profits per dollar of net sales—East North Central States.—The following table shows the results for the dealers and for the distributors located in the East North Central States for the years 1935–37:

TABLE 136.—*Income, expenses, and profits per dollar of net sales for motor-vehicle dealers and distributors located in the East North Central States, years 1935–37*

DEALERS

Years	1935		1936		1937	
Number of dealers	53		58		63	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$16,205,082	100.00	$23,107,958	100.00	$26,953,614	100.00
Cost of sales	13,668,542	84.35	19,540,924	84.56	22,660,002	84.07
Gross profit on sales	2,536,540	15.65	3,567,034	15.44	4,293,612	15.93
Total selling, general, and administrative expenses	2,345,511	14.47	3,261,981	14.12	3,963,712	14.71
Net profit on sales	191,029	1.18	305,053	1.32	329,900	1.22
Deduct bad debts	24,784	.15	60,387	.26	46,183	.17
	166,245	1.03	244,666	1.06	283,717	1.05
Add other income net	65,118	.40	97,934	.42	110,499	.41
	231,363	1.43	342,600	1.48	394,216	1.46
Add income on outside investments	9,300	.06	9,602	.04	5,886	.02
	240,663	1.49	352,202	1.52	400,102	1.48
Deduct interest on borrowed money	67,291	.42	87,891	.38	98,116	.36
Dealers' net profits from entire business before deducting income taxes	173,372	1.07	264,311	1.14	301,986	1.12

DISTRIBUTORS

Years	1935		1936		1937	
Number of distributors	12		14		17	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$15,206,761	100.00	$19,189,156	100.00	$21,986,187	100.00
Cost of sales	13,655,403	89.80	17,219,303	89.74	19,615,513	89.22
Gross profit on sales	1,551,358	10.20	1,969,853	10.26	2,370,674	10.78
Total selling, general, and administrative expenses	1,388,269	9.13	1,694,754	8.83	2,128,965	9.68
Net profit on sales	163,089	1.07	275,099	1.43	241,709	1.10
Deduct bad debts	9,951	.06	31,262	.16	36,773	.17
	153,138	1.01	243,837	1.27	204,936	.93
Add other income net	45,859	.30	50,672	.26	56,594	.26
	198,997	1.31	294,509	1.53	261,530	1.19
Add income on outside investments	9,390	.06	9,648	.05	10,675	.05
	208,387	1.37	304,157	1.58	272,205	1.24
Deduct interest on borrowed money	23,093	.15	25,443	.13	39,252	.18
Distributors' net profits from entire business before deducting income taxes	185,294	1.22	278,714	1.45	232,953	1.06

The preceding table shows the income, expenses, and profits per dollar of net sales for dealers and for distributors operating in the East North Central States, for the years 1935–37.

Dealers' results.—These results comprise the operations of 53 dealers in 1935, 58 dealers in 1936, and 63 dealers in 1937.

The total net sales were $16,205,082 in 1935, $23,107,958 in 1936, and $26,953,614 in 1937.

The average gross profits, per dollar of net sales, were 15.65 cents in 1935, 15.44 cents in 1936, and 15.93 cents in 1937.

The average total selling, general, and administrative expenses decreased from 14.47 cents, per dollar of net sales, in 1935 to 14.12 cents in 1936 and increased in 1937 to 14.71 cents. The total amounts of the expenses were $2,345,511, $3,261,981, and $3,963,712 in the respective years, showing increases for both 1936 and 1937.

The average deductions for bad debts, per dollar of net sales, were 0.15 cent in 1935, 0.26 cent in 1936, and 0.17 cent in 1937. The amounts for the respective years were $24,784, $60,387, and $46,183.

The additions from other income, net, per dollar of net sales, averaged 0.40 cent in 1935, 0.42 cent in 1936, and 0.41 cent in 1937. The amounts for the respective years were $65,118, $97,934, and $110,499.

The additions to profits from outside investments, per dollar of sales, averaged 0.06 cent in 1935, 0.04 cent in 1936, and 0.02 cent in 1937. The total amounts were $9,300 in 1935, $9,602 in 1936, and $5,886 in 1937.

The deduction from profits for interest reported on borrowed money, per dollar of net sales, averaged 0.42 cent in 1935, 0.38 cent in 1936, and 0.36 cent in 1937. The total interest charges amounted to $67,291, $87,891, and $98,116 for the respective years.

The total net profits for the dealers in the entire business, per dollar of net sales, averaged 1.07 cents in 1935, 1.14 cents in 1936, and 1.12 cents in 1937.

The average annual net sales per dealer were $305,756 in 1935, $398,413 in 1936, and $427,835 in 1937.

The average turn-over of the total investment in the motor-vehicle business was 6.07 times in 1935, 7.40 times in 1936, and 7.80 times in 1937. The average turn-over of the dealers' investment in the motor-vehicle business was 9.45 times in 1935, 12.04 times in 1936, and 13.03 times in 1937.

Distributors' results.—These results comprise the operations of 12 distributors in 1935, 14 distributors in 1936, and 17 distributors in 1937.

The total net sales amounted to $15,206,761 in 1935, $19,189,156 in 1936, and $21,986,187 in 1937.

The average gross profits, per dollar of net sales, were 10.20 cents in 1935, 10.26 cents in 1936, and 10.78 cents in 1937, showing increases for 1936 and 1937.

The average total selling, general, and administrative expenses, per dollar of net sales, were 9.13 cents in 1935, decreasing to 8.83 cents in 1936 and increasing to 9.68 cents in 1937. The total amounts were $1,388,269 in 1935, $1,694,754 in 1936, and $2,128,965 in 1935, showing a continuous increase.

The average deductions for bad debts, per dollar of net sales, were 0.06 cent in 1935, 0.16 cent in 1936, and 0.17 cent in 1937. The amounts increased from $9,951 in 1935 to $31,262 in 1936 and to $36,773 in 1937.

The additions for other income averaged, per dollar of net sales, 0.30 cent in 1935, 0.26 cent in 1936, and 0.26 cent in 1937. The amounts for the respective years were $45,859, $50,672, and $56,594.

The additions to profits from outside investments, per dollar of net sales, averaged 0.06 cent in 1935, 0.05 cent in 1936, and 0.05 cent in 1937. The total amounts were $9,390, $9,648, and $10,675 for the respective years.

The deductions from profits for interest reported on borrowed money were 0.15 cent in 1935, 0.13 cent in 1936, and 0.18 cent in 1937. The total reported interest charges were $23,093 in 1935, $25,443 in 1936, and $39,232 in 1937.

The total net profits for the distributors, in the entire business, per dollar of net sales, averaged 1.22 cents in 1935, 1.45 cents in 1936, and 1.06 cents in 1937.

The average annual net sales per distributor were $1,267,230 in 1935, $1,370,654 in 1936, and $1,293,305 in 1937.

The average turn-over of the total investment in the motor-vehicle business was 11.32 times in 1935, 12.01 times in 1936, and 10.35 times in 1937. The average turn-over of the distributors' investment in the motor-vehicle business was 14.17 times in 1935, 15.61 times in 1936, and 16.24 times in 1937.

Income, expenses, and profits per dollar of net sales—West North Central States.—The following table shows the results for the dealers and for the distributors operating in the West North Central States for the years 1935–37.

TABLE 137.—*Income, expenses, and profits per dollar of net sales for motor-vehicle dealers and distributors located in the West North Central States, years 1935–37*

DEALER

Years	1935		1936		1937	
Number of dealers	29		35		39	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$8,574,959	100.00	$12,281,743	100.00	$14,007,880	100.00
Cost of sales	7,078,985	82.55	10,246,319	83.43	11,654,607	83.20
Gross profit on sales	1,495,974	17.45	2,035,424	16.57	2,353,273	16.80
Total selling, general, and administrative expenses	1,380,510	16.10	1,841,646	14.99	2,198,725	15.70
Net profit on sales	115,464	1.35	193,778	1.58	154,548	1.10
Deduct bad debts	20,998	.25	23,146	.19	20,018	.14
	94,466	1.10	170,632	1.39	134,530	.96
Add other income, net	33,302	.39	29,087	.24	47,950	.34
	127,768	1.49	199,719	1.63	182,480	1.30
Add income on outside investments						
	127,768	1.49	199,719	1.63	182,480	1.30
Deduct interest on borrowed money	23,404	.27	40,818	.34	41,493	.29
Dealers' net profits from entire business before deducting income taxes	104,364	1.22	158,901	1.29	140,987	1.01

DISTRIBUTORS

Years	1935		1936		1937	
Number of distributors	28		28		29	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$21,254,032	100.00	$25,034,278	100.00	$26,754,547	100.00
Cost of sales	18,888,285	88.87	22,225,229	88.78	23,687,531	88.54
Gross profit on sales	2,365,747	11.13	2,809,049	11.22	3,067,016	11.46
Total selling, general, and administrative expenses	2,153,027	10.13	2,515,771	10.05	2,805,413	10.48
Net profit on sales	212,720	1.00	293,278	1.17	261,603	.98
Deduct bad debts	27,586	.13	23,443	.09	25,088	.10
	185,134	.87	269,835	1.08	236,515	.88
Add other income, net	41,453	.20	45,669	.18	58,674	.22
	226,587	1.07	315,504	1.26	295,189	1.10
Add income on outside investments	3,441	.02	2,483	.01	3,416	.01
	230,028	1.09	317,987	1.27	298,605	1.11
Deduct interest on borrowed money	58,349	.28	66,439	.27	78,348	.29
Distributors' net profits from entire business before deducting income taxes	171,679	.81	251,548	1.00	220,257	.82

The preceding table shows the income, expenses, and profits per dollar of net sales for dealers and for distributors located in the West North Central States for the years 1935, 1936, and 1937.

Dealers' results.—These results comprise the operations of 29 dealers in 1935, 35 dealers in 1936, and 39 dealers in 1937. Referring to the operations of the dealers, the table shows the total net sales were $8,574,959 in 1935, $12,281,743 in 1936, and $14,007,880 in 1937.

The average gross profits per dollar of net sales were 17.45 cents in 1935, 16.57 cents in 1936, and 16.80 cents in 1937.

The average total selling, general, and administrative expenses decreased, per dollar of net sales, from 16.10 cents in 1935 to 14.99 cents in 1936 and increased to 15.70 cents in 1937, although the total amounts of these expenses increased from $1,380,510 in 1935 to $1,841,646 in 1936 and to $2,198,725 in 1937.

The average deductions for bad debts decreased, per dollar of net sales, from 0.25 cents in 1935 to 0.19 in 1936 and to 0.14 in 1937, and the total amounts charged off for bad debts were $20,998 in 1935, $23,146 in 1936, and $20,018 in 1937.

The additions for other income, net, averaged per dollar of net sales, 0.39 cent in 1935, 0.24 cent in 1936, and 0.34 cent in 1937, and the total amounts were $33,302 in 1935, $29,087 in 1936, and $47,950 in 1937.

There were no additions to income from outside investments for the respective years.

The deductions for interest reported on borrowed money averaged per dollar of net sales, from 0.27 cent in 1935, to 0.34 cent in 1936, and to 0.29 cent in 1937. The total interest charges amounted to $23,404 in 1935, $40,818 in 1936, and $41,493 in 1937.

This left the average net profit for the dealers' investment in the entire business 1.22 cents for 1935, 1.29 cents in 1936, and 1.01 cents in 1937 per dollar of net sales.

The average annual net sales per dealer were $295,688 in 1935, $350,907 in 1936, and $359,176 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 7.98 times in 1935, 8.24 times in 1936, and 7.88 times in 1937. The average turn-over of the dealers' investment in the motor-vehicle business was 11.14 times in 1935, 12.59 times in 1936, and 12.20 times in 1937.

Distributors' results.—These results comprise the operations of 28 distributors in 1935, 28 distributors in 1936, and 29 distributors in 1937. The total net sales were $21,254,032 in 1935, $25,034,278 in 1936, and $26,754,547 in 1937.

The average gross profits per dollar of net sales were 11.13 cents in 1935, 11.22 cents in 1936, and 11.46 cents in 1937.

The average total selling, general, and administrative expenses decreased, per dollar of net sales, from 10.13 cents in 1935, to 10.05 cents in 1936, and increased to 10.48 cents in 1937. The total amounts of these expenses were $2,153,027 in 1935, $2,515,771 in 1936, and $2,805,413 in 1937.

The average deductions for bad debts decreased, per dollar of net sales, from 0.13 cent in 1935 to 0.09 cent in 1936 and increased to 0.10 cent in 1937. The total bad debts charged off were $27,586 in 1935, $23,443 in 1936, and $25,088 in 1937.

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The additions for other income, net, averaged, per dollar of net sales, 0.20 cent in 1935, 0.18 cent in 1936, and 0.22 cent in 1937, and the total amounts were $41,453 in 1935, $45,669 in 1936, and $58,674 in 1937.

The additions for income from outside investments averaged, per dollar of net sales, 0.02 cent for 1935, 0.01 cent for 1936, and 0.01 cent for 1937; and the total amounts were $3,441 in 1935, $2,483 in 1936, and $3,416 in 1937.

The deductions for interest reported on borrowed money were 0.28 cent per dollar of net sales for 1935, 0.27 cent for 1936, and 0.29 cent for 1937. The total interest charges amounted to $58,349 in 1935, $66,439 in 1936, and $78,348 in 1937.

This left the average net profit for the distributors in the entire business 0.81 cent in 1935, 1 cent in 1936, and 0.82 cent in 1937 per dollar of net sales.

The average annual net sales per distributor were $759,073 in 1935, $894,081 in 1936, and $922,571 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 8.71 times in 1935, 9.04 times in 1936, and 8.38 times in 1937. The average turn-over of the distributors' investment in the motor-vehicle business was 13.58 times in 1935, 15.15 times in 1936, and 14.52 times in 1937.

Income, expenses, and profits per dollar of net sales—South Atlantic States.—The following table shows the result for the dealers and for the distributors operating in the South Atlantic States for the years 1935–37:

TABLE 138.—*Income, expenses, and profits per dollar of net sales for motor-vehicle dealers and distributors located in the South Atlantic States, years 1935–37*

DEALERS

Years	1935		1936		1937	
Number of dealers	36		40		45	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$16,781,128	100.00	$22,539,891	100.00	$25,479,984	100.00
Cost of sales	13,996,539	83.41	18,778,501	83.31	21,183,489	83.14
Gross profit on sales	2,784,589	16.59	3,761,390	16.69	4,296,495	16.86
Total selling, general, and administrative expenses	2,542,557	15.15	3,323,644	14.75	3,890,709	15.28
Net profit on sales	242,032	1.44	437,746	1.94	405,786	1.58
Deduct bad debts	46,347	.28	48,844	.22	52.021	.21
Balance	195,685	1.16	388,902	1.72	353,765	1.37
Add other income, net	55,207	.23	55,764	.25	83,077	.33
Total	250,892	1.49	444,666	1.97	436,842	1.70
Add income on outside investments	919	.01	1,775	.01	1,579	.01
Total	251,811	1.50	446,441	1.98	438,421	1.71
Deduct interest on borrowed money	57,506	.34	65,585	.29	67,538	.26
Dealers' net profits from entire business before deducting income taxes	194,305	1.16	380,856	1.69	370,883	1.45

TABLE 138.—*Income, expenses, and profits per dollar of net sales for motor-vehicle dealers and distributors located in the South Atlantic States, years 1935–37*—Con.

DISTRIBUTORS

Years	1935		1936		1937	
Number of distributors	20		22		25	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$12,196,418	100.00	$16,992,700	100.00	$19,594,774	100.00
Cost of sales	10,604,043	86.94	14,886,218	87.61	17,147,309	87.51
Gross profit on sales	1,592,375	13.06	2,106,482	12.39	2,447,465	12.49
Total selling, general, and administrative expenses	1,454,889	11.93	1,887,368	11.10	2,267,057	11.57
Net profit on sales	137,486	1.13	219,114	1.29	180,408	.92
Deduct bad debts	29,167	.24	21,650	.13	59,027	.30
Balance	108,319	.89	197,464	1.16	121,381	.62
Add other income, net	30,516	.25	[1] 1,927	[1].01	44,196	.23
Total	138,835	1.14	195,537	1.15	165,577	.85
Add income on outside investments	23,019	.19	15,638	.09	12,006	.06
Total	161,854	1.33	211,175	1.24	177,583	.91
Deduct interest on borrowed money	41,353	.34	52,212	.31	61,047	.32
Distributors' net profits from entire business before deducting income taxes	120,501	.99	158,963	.93	116,536	.59

[1] Denotes loss.

The preceding table shows the income, expenses, and profits per dollar of net sales for dealers and for distributors, located in the South Atlantic States, for the years 1935–37.

Dealers' results.—These results comprise the operations of 36 dealers in 1935, 40 dealers in 1936, and 45 dealers in 1937. Referring to the operations of the dealers, the table shows the total net sales were $16,781,128 in 1935, $22,539,891 in 1936, and $25,479,984 in 1937.

The average gross profits per dollar of net sales were 16.59 cents in 1935, 16.69 cents in 1936, and 16.86 cents in 1937.

The average total selling, general, and administrative expenses decreased per dollar of net sales from 15.15 cents in 1935 to 14.75 cents in 1936 and increased to 15.28 cents in 1937, although the total amounts of these expenses increased from $2,542,557 in 1935 to $3,323,644 in 1936 and to $3,890,709 in 1937.

The average deductions for bad debts decreased per dollar of net sales from 0.28 cent in 1935 to 0.22 cent in 1936 and to 0.21 cent in 1937, and the total amounts charged off for bad debts were $46,347 in 1935, $48,844 in 1936, and $52,021 in 1937.

The additions for other income, net, averaged per dollar of net sales, 0.23 cent in 1935, 0.25 cent in 1936, and 0.33 cent in 1937, and the total amounts were $55,207 in 1935, $55,764 in 1936, and $83,077 in 1937.

The additions for income from outside investments, averaged per dollar of net sales, 0.01 cent in 1935, 0.01 cent in 1936, and 0.01 cent in 1937, and the total amounts were $919 in 1935, $1,775 in 1936, and $1,579 in 1937.

The deductions for interest reported on borrowed money, per dollar of net sales, decreased on the average from 0.34 cent in 1935 to 0.29 cent in 1936 and to 0.26 cent in 1937. The total interest charges amounted to $57,506 in 1935, $65,585 in 1936, and $67,538 in 1937.

This left the average net profits for the dealers' investment in the entire business 1.16 cents for 1935, 1.69 cents in 1936, and 1.45 cents in 1937 per dollar of net sales.

The average annual net sales per dealer were $466,142 in 1935, $563,497 in 1936, and $566,222 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 9.56 times in 1935, 11.11 times in 1936, and 11.03 times in 1937. The average turn-over of the dealers' investment in the motor-vehicle business was 16.10 times in 1935, 19.04 times in 1936, and 19.16 times in 1937.

Distributors' results.—These results comprise the operations of 20 distributors in 1935, 22 distributors in 1936, and 25 distributors in 1937. The total net sales were $12,196,418 in 1935, $16,992,700 in 1936, and $19,594,774 in 1937.

The average gross profits per dollar of net sales were 13.06 cents in 1935, 12.39 cents in 1936, and 12.49 cents in 1937.

The average total selling, general, and administrative expenses decreased, per dollar of net sales, from 11.93 cents in 1935 to 11.10 cents in 1936, and increased to 11.57 cents in 1937. The total amounts of these expenses were $1,454,889 in 1935 to $1,887,368 in 1936, and $2,267,057 in 1937.

The average deductions for bad debts decreased per dollar of net sales from 0.24 cent in 1935 to 0.13 cent in 1936 and increased to 0.30 cent in 1937. The total bad debts charged off were $29,167 in 1935, $21,650 in 1936, and $59,027 in 1937.

The additions for other income, net, averaged per dollar of net sales, 0.25 cent in 1935, 0.23 cent in 1937, and a deduction of 0.01 cent in 1936; and the total amounts of the additions were $30,316 in 1935, $44,196 in 1937, and a deduction of $1,927 in 1936.

The additions for income from outside investments averaged, per dollar of net sales, 0.19 cent for 1935, 0.09 cent for 1936, and 0.06 cent for 1937; and the total amounts were $23,019 in 1935, $15,638 in 1936, and $12,006 in 1937.

The deductions for interest reported on borrowed money were 0.34 cent per dollar of net sales for 1935, 0.31 cent for 1936, and 0.32 cent for 1937. The total interest charges amounted to $41,353 in 1935, $52,212 in 1936, and $61,047 in 1937.

This left the average net profit for the distributors in the entire business 0.99 cent in 1935, 0.93 cent in 1936, and 0.59 cent in 1937 per dollar of net sales.

The average annual net sales per distributor were $609,821 in 1935, $772,395 in 1936, and $783,791 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 6.85 times in 1935, 8.06 times in 1936, and 8.20 times in 1937. The average turn-over of the distributors' investment in the motor-vehicle business was 10.37 times in 1935, 12.85 times in 1936, and 13.46 times in 1937.

Income, expenses, and profits per dollar of net sales—East South Central States.—The following table shows the results for the dealers and for the distributors operating in the East South Central States:

TABLE 139.—*Income, expenses, and profits, per dollar of net sales, for motor-vehicle dealers and distributors located in the East South Central States, years 1935–37*

DEALERS

Years	1935		1936		1937	
Number of dealers	12		17		18	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$5,865,378	100.00	$8,841,373	100.00	$9,625,179	100.00
Cost of sales	4,995,519	85.17	7,450,760	84.27	8,039,530	83.53
Gross profit on sales	869,859	14.83	1,390,613	15.73	1,585,649	16.47
Total selling, general, and administrative expenses	754,471	12.86	1,127,837	12.76	1,426,870	14.82
Net profit on sales	115,388	1.97	262,776	2.97	158,779	1.65
Deduct bad debts	7,270	.13	21,474	.24	19,957	.21
	108,118	1.84	241,302	2.73	138,822	1.44
Add other income, net	16,696	.29	19,085	.22	29,896	.31
	124,814	2.13	260,387	2.95	168,718	1.75
Add income on outside investments						
	124,814	2.13	260,387	2.95	168,718	1.75
Deduct interest on borrowed money	29,326	.50	34,924	.40	39,074	.40
Dealers' net profits from entire business before deducting income taxes	95,488	1.63	225,463	2.55	129,644	1.35

DISTRIBUTORS

Years	1935		1936		1937	
Number of distributors	10		12		12	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$6,296,493	100.00	$9,596,108	100.00	$11,075,342	100.00
Cost of sales	5,525,685	87.76	8,371,658	87.24	9,607,774	86.75
Gross profit on sales	770,808	12.24	1,224,450	12.76	1,467,568	13.25
Total selling, general, and administrative expenses	697,621	11.08	1,047,032	10.91	1,241,445	11.21
Net profit on sales	73,187	1.16	177,418	1.85	226,123	2.04
Deduct bad debts	15,260	.24	17,642	.18	11,812	.11
	57,927	.92	159,776	1.67	214,311	1.93
Add other income, net	20,563	.32	13,804	.14	4,939	.05
	78,490	1.24	173,580	1.81	219,250	1.98
Add income on outside investments	4,999	.08	2,164	.02	[1] 2,004	[1] .02
	83,489	1.32	175,744	1.83	217,246	1.96
Deduct interest on borrowed money	22,769	.36	38,394	.40	31,980	.29
Distributors' net profits from entire business before deducting income taxes	60,720	.96	137,350	1.43	185,266	1.67

[1] Denotes loss.

The preceding table shows the income, expenses, and profits per dollar of net sales for dealers and for distributors located in the East South Central States for the years 1935, 1936, and 1937.

Dealers' results.—These results comprise the operations of 12 dealers in 1935, 17 dealers in 1936, and 18 dealers in 1937. Referring to the operations of the dealers, the table shows the total net sales were $5,865,378 in 1935, $8,841,373 in 1936, and $9,625,179 in 1937.

The average gross profits per dollar of net sales were 14.83 cents in 1935, 15.73 cents in 1936, and 16.47 cents in 1937.

The average total selling, general, and administrative expenses per dollar of net sales were 12.86 cents in 1935, 12.76 cents in 1936, and

14.82 cents in 1937, although the total amounts of these expenses increased from $754,471 in 1935, to $1,127,837 in 1936, and $1,426,870 in 1937.

The average deductions for bad debts per dollar of net sales were 0.13 cent in 1935, 0.24 cent in 1936, and 0.21 cent in 1937, and the total amounts charged off for bad debts were $7,270 in 1935, $21,474 in 1936, and $19,957 in 1937.

The additions for other income, net, averaged per dollar of net sales, 0.29 cent in 1935, 0.22 cent in 1936, and 0.31 cent in 1937, the total amounts being $16,696 in 1935, $19,085 in 1936, and $29,896 in 1937.

There were no additions for income from outside investments during any of the 3 years.

The deductions for reported interest on borrowed money, per dollar of net sales, decreased on the average from 0.50 cent in 1935 to 0.40 cent during the years 1936 and 1937, and the total interest charges amounted to $29,326 in 1935, $34,924 in 1936, and $39,074 in 1937.

This left the average net profit for the dealers in the entire business 1.63 cents for 1935, 2.55 cents in 1936, and 1.35 cents in 1937 per dollar of net sales.

The average annual net sales per dealer were $488,782 in 1935, $520,081 in 1936, and $534,732 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 4.96 times in 1935, 6.20 times in 1936, and 6.05 times in 1937. The average turn-over of the dealers' investment in the motor-vehicle business was 7.25 times in 1935, 8.98 times in 1936, and 9.07 times in 1937.

Distributors' results.—These results comprise the operations of 10 distributors in 1935 and 12 distributors in 1936 and 1937. The total net sales were $6,296,493 in 1935, $9,596,108 in 1936, and $11,075,342 in 1937.

The average gross profits per dollar of net sales were 12.24 cents in 1935, 12.76 cents in 1936 and 13.25 cents in 1937.

The average total selling, general, and administrative expenses were 11.08 cents in 1935, 10.91 cents in 1936, and 11.21 cents in 1937. The total amounts of these expenses increased from $697,621 in 1935, to $1,047,032 in 1936, and $1,241,445 in 1937.

The average deductions for bad debts decreased per dollar of net sales from 0.24 cent in 1935 to 0.18 cent in 1936 and 0.11 cent in 1937. The total bad debts charged off were $15,260 in 1935, $17,642 in 1936, and $11,812 in 1937.

The additions for other income, net, averaged per dollar of net sales, 0.32 cent in 1935, 0.14 cent in 1936, and 0.05 cent in 1937, and the total amounts were $20,563 in 1935, $13,804 in 1936, and $4,939 in 1937.

The additions for income from outside investments averaged, per dollar of net sales, 0.08 cent for 1935, 0.02 cent for 1936, and a deduction of 0.02 cent in 1937, and the total amounts were $4,999 in 1935, $2,164 in 1936, and a deduction of $2,004 in 1937.

The deductions for interest reported on borrowed money were 0.36 cent per dollar of net sales for 1935, 0.40 cent for 1936, and 0.29 cent for 1937. The total interest charges amounted to $22,769 in 1935, $38,394 in 1936, and $31,980 in 1937.

This left the average net profit for the distributors in the entire business 0.96 cent in 1935, 1.43 cents in 1936, and 1.67 cents in 1937 per dollar of net sales.

The average annual net sales per distributor were $629,649 in 1935, $799,676 in 1936, and $922,945 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 9.86 times in 1935, 10.19 times in 1936, and 11.09 times in 1937. The average turn-over of distributors' investment in the motor-vehicle business was 18.07 times in 1935, 18.98 times in 1936, and 19.26 times in 1937.

Income, expenses, and profits per dollar of net sales—West South Central States.—The following table shows the results for the dealers and for the distributors operating in the West South Central States.

TABLE 140.—*Income, expenses, and profits per dollar of net sales for motor vehicle dealers and distributors, located in the West South Central States, 1935–37*

DEALERS

Years	1935		1936		1937	
Number of dealers	28		32		35	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$10,735,721	100.00	$15,104,665	100.00	$16,674,552	100.00
Cost of sales	9,036,805	84.18	12,623,896	83.58	13,976,059	83.82
Gross profit on sales	1,698,916	15.82	2,480,769	16.42	2,698,493	16.18
Total selling, general, and administrative expenses	1,528,124	14.23	2,049,215	13.56	2,387,705	14.32
Net profit on sales	170,792	1.59	431,554	2.86	310,788	1.86
Deduct bad debts	28,762	.27	40,511	.27	35,690	.21
	142,030	1.32	391,043	2.59	275,098	1.65
Add other income net	41,661	.39	48,125	.32	91,673	.55
	183,691	1.71	439,168	2.91	366,771	2.20
Add income on outside investments	10,429	.10	6,609	.05	10,080	.06
	194,120	1.81	445,777	2.96	376,851	2.26
Deduct interest on borrowed money	45,051	.42	53,613	.36	60,380	.36
Dealers' net profits from entire business before deducting Federal and State income taxes	149,069	1.39	392,164	2.60	316,471	1.90

DISTRIBUTORS

Years	1935		1936		1937	
Number of distributors	14		18		20	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$10,434,830	100.00	$16,846,488	100.00	$20,088,883	100.00
Cost of sales	9,174,921	87.93	14,750,600	87.56	17,558,229	87.40
Gross profit on sales	1,259,909	12.07	2,095,888	12.44	2,530,654	12.60
Total selling, general, and administrative expenses	1,100,615	10.54	1,808,566	10.73	2,288,644	11.40
Net profit on sales	159,294	1.53	287,322	1.71	242,010	1.20
Deduct bad debts	18,129	.18	28,143	.17	50,539	.25
	141,165	1.35	259,179	1.54	191,471	.95
Add other income net	47,416	.46	85,637	.51	84,751	.42
	188,581	1.81	344,816	2.05	276,222	1.37
Add income on outside investments	1,402	.01	7,128	.04	6,646	.03
	189,983	1.82	351,944	2.09	282,868	1.40
Deduct interest on borrowed money	45,532	.44	60,549	.36	88,033	.43
Distributors' net profits from entire business before deducting Federal and State income taxes	144,451	1.38	291,395	1.73	194,835	.97

The preceding table shows the income, expenses, and profits, per dollar of net sales, for dealers and for distributors located in the West South Central States for years 1935–37.

Dealers' results.—These results comprise the operations of 28 dealers in 1935, 32 dealers in 1936, and 35 dealers in 1937.

The total net sales were $10,735,721 in 1935, $15,104,665 in 1936, and $16,674,552 in 1937.

The average gross profits, per dollar of net sales, were 15.82 cents in 1935, 16.42 cents in 1936, and 16.18 cents in 1937.

The average total selling, general, and administrative expenses decreased from 14.23 cents per dollar of net sales in 1935 to 13.56 cents in 1936 and increased to 14.32 cents in 1937. The total amounts of these expenses were, for the respective years, $1,528,124, $2,049,215, and $2,387,705.

The average deductions for bad debts were 0.27 cent in 1935, 0.27 cent in 1936, and 0.21 cent in 1937, the total deductions amounting to $28,762, $40,511, and $35,690 for the respective years.

The addition to profits for other income, net, averaged per dollar of net sales, 0.39 cent for 1935, 0.32 cent for 1936, and 0.55 cent for 1937, and the total amounts were $41,661, $48,125, and $91,673 for the respective years.

The additions to profits from outside investments averaged, per dollar of net sales, 0.10 cent, 0.05 cent, and 0.06 cent for the respective years. The total amounts were $10,429 in 1935, $6,609 in 1936, and $10,080 in 1937.

The deductions from profits for reported interest on borrowed money averaged, per dollar of net sales, 0.42 cent in 1935, 0.36 cent in 1936, and 0.36 cent in 1937. The total interest charges were $45,051, $53,613, and $60,380 for the respective years.

This left the average net profits for the dealers' investment in the entire business 1.39 cents in 1935, 2.60 cents in 1936, and 1.90 cents in 1937, per dollar of net sales.

The average annual net sales per dealer were $383,419 in 1935, $472,021 in 1936, and $476,416 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 6.51 times in 1935, 7.93 times in 1936, and 7.22 times in 1937. The average turn-over of the dealers' investment in the motor-vehicle business was 10.05 times in 1935, 12.40 times in 1936, and 11.31 times in 1937.

Distributors' results.—These results comprise the operations of 14 distributors in 1935, 18 distributors in 1936, and 20 distributors in 1937.

The total net sales were $10,434,830 in 1935, $16,846,488 in 1936, and $20,088,883 in 1937.

The average gross profits, per dollar of net sales, were 12.07 cents in 1935, 12.44 cents in 1936, and 12.60 cents in 1937.

The average total selling, general, and administrative expenses were 10.54 cents per dollar of net sales in 1935, 10.73 cents in 1936, and 11.40 cents in 1937, showing an increase for each year. The total amounts of these expenses were $1,100,615, $1,808,566, and $2,288,644 for the respective years.

The average deductions for bad debts were 0.18 cent in 1935, 0.17 cent in 1936, and 0.25 cent in 1937. The total amounts for the respective years were $18,129, $28,143, and $50,539.

The additions to profits from other income, net, averaged 0.46 cent per dollar of net sales in 1935, 0.51 cent in 1936, and 0.42 cent in 1937, and the total amounts were $47,416 in 1935, $85,637 in 1936, and $84,751 in 1937.

The addition to profits from outside investments averaged 0.01 cent in 1935, 0.04 cent in 1936, and 0.03 cent in 1937. The total amounts of these profits were $1,402 in 1935, $7,128 in 1936, and $6,646 in 1937.

The deductions from profits for interest reported on borrowed money were 0.44 cent in 1935, 0.36 cent in 1936, and 0.43 cent in 1937. The total interest charges were $45,532 in 1935, $60,549 in 1936, and $88,033 in 1937.

The total net profits for the distributors in the entire business, per dollar of net sales, averaged 1.38 cents in 1935, 1.73 cents in 1936, and 0.97 cent in 1937. The total amounts of the net profits were $144,451 in 1935, $291,395 in 1936, and $194,835 in 1937.

The average annual net sales per distributor were $745,345 in 1935, $935,916 in 1936, and $1,004,444 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 8.13 times in 1935, 10.27 times in 1936, and 9.16 times in 1937. The average turn-over of the distributors' investment in the motor-vehicle business was 15.71 times in 1935, 21.40 times in 1936, and 21.88 times in 1937.

Income, expenses, and profits per dollar of net sales—Mountain States.—The following table shows the results for the dealers and for the distributors operating in the Mountain States for the years 1935–37.

TABLE 141.—*Income, expenses, and profits, per dollar of net sales, for motor-vehicle dealers and distributors located in the Mountain States, 1935–37*

DEALERS

Years	1935		1936		1937	
Number of dealers	13		14		15	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$3,913,862	100.00	$5,539,304	100.00	$5,685,185	100.00
Cost of sales	3,179,437	81.23	4,569,729	82.50	4,648,403	81.76
Gross profit on sales	734,425	18.77	969,575	17.50	1,036,782	18.24
Total selling, general, and administrative expenses	671,508	17.16	853,740	15.41	939,628	16.53
Net profit on sales	62,917	1.61	115,835	2.09	97,154	1.71
Deduct bad debts	12,534	.32	10,967	.20	10,989	.19
	50,383	1.29	104,868	1.89	86,165	1.52
Add other income, net	15,003	.38	20,096	.36	21,831	.38
	65,386	1.67	124,964	2.25	107,996	1.90
Deduct interest on borrowed money	16,300	.42	19,482	.35	23,811	.42
Dealers' net profit from entire business before deducting income taxes	49,086	1.25	105,482	1.90	84,185	1.48

DISTRIBUTORS

Years	1935		1936		1937	
Number of distributors	12		14		15	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$6,356,555	100.00	$8,804,922	100.00	$8,479,535	100.00
Cost of sales	5,413,251	85.16	7,551,130	85.76	7,270,203	85.74
Gross profit on sales	943,304	14.84	1,253,792	14.24	1,209,332	14.26
Total selling, general, and administrative expenses	809,530	12.73	1,074,970	12.21	1,134,478	13.38
Net profit on sales	133,774	2.11	178,822	2.03	74,854	.88
Deduct bad debts	28,749	.46	25,736	.29	20,877	.24
	105,025	1.65	153,086	1.74	53,977	.64
Add other income, net	34,491	.54	43,894	.50	51,681	.61
	139,516	2.19	196,980	2.24	105,658	1.25
Add income on outside investments	379		347		100	
	139,895	2.19	197,327	2.24	105,758	1.25
Deduct interest on borrowed money	25,820	.40	29,007	.33	28,056	.33
Distributors' net profits from entire business before deducting income taxes	114,075	1.79	168,320	1.91	77,702	.92

The preceding table shows the income, expenses, and profits, per dollar of net sales, for dealers and for distributors located in the Mountain States, for the years 1935–37.

Dealers' results.—These results comprise the operations of 13 dealers in 1935, 14 dealers in 1936, and 15 dealers in 1937. Referring to the operations of the dealers the table shows the total net sales were $3,913,862 in 1935, $5,539,304 in 1936, and $5,685,185 in 1937.

The average gross profits, per dollar of net sales, were 18.77 cents in 1935, 17.50 cents in 1936, and 18.24 cents in 1937.

The average total selling, general, and administrative expenses decreased, per dollar of net sales, from 17.16 cents in 1935 to 15.41 cents in 1936 and increased to 16.53 cents in 1937, although the total amounts of these expenses increased from $671,508 in 1935 to $853,740 in 1936 and to $939,628 in 1937.

The average deductions for bad debts decreased, per dollar of net sales, from 0.32 cent in 1935 to 0.20 cent in 1936 and to 0.19 cent in 1937, and the total amounts charged off for bad debts were $12,534 in 1935, $10,967 in 1936, and $10,989 in 1937.

The additions for other income, net, averaged, per dollar of net sales, 0.38 cent in 1935, 0.36 cent in 1936, and 0.38 cent in 1937, and the total amounts were $15,003 in 1935, $20,096 in 1936, and $21,831 in 1937.

There were no additions for income from outside investments reported for the respective years.

The deductions for reported interest on borrowed money, per dollar of net sales, decreased on the average from 0.42 cent in 1935 to 0.35 cent in 1936 and increased to 0.42 cent in 1937. The total interest charges amounted to $16,300 in 1935, $19,482 in 1936, and $23,811 in 1937.

This left the average net profits for the dealer's investment in the entire business 1.25 cents for 1935, 1.90 cents for 1936, and 1.48 cents in 1937 per dollar of net sales.

The average annual net sales per dealer were $301,066 in 1935, $395,665 in 1936, and $379,012 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 5.74 times in 1935, 7.42 times in 1936, and 6.66 times in 1937. The average turn-over of the dealer's investment in the motor-vehicle business was 8.14 times in 1935, 10.69 times in 1936, and 10.47 times in 1937.

Distributors' results.—These results comprise the operations of 12 distributors in 1935, 14 distributors in 1936, and 15 distributors in 1937. The total net sales were $6,356,555 in 1935, $8,804,922 in 1936, and $8,479,535 in 1937.

The average gross profits, per dollar of net sales, were 14.84 cents in 1935, 14.24 cents in 1936, and 14.26 cents in 1937.

The average total selling, general, and administrative expenses decreased, per dollar of net sales, from 12.73 cents in 1935 to 12.21 cents in 1936, and increased to 13.38 cents in 1937. The total amounts of these expenses were $809,530 in 1935, $1,074,970 in 1936, and $1,134,478 in 1937.

The average deductions for bad debts decreased, per dollar of net sales, from 0.46 cent in 1935 to 0.29 cent in 1936 and to 0.24 cent in 1937. The total bad debts charged off were $28,749 in 1935, $25,736 in 1936, and $20,877 in 1937.

The additions for other income, net, averaged, per dollar of net sales, 0.54 cent in 1935, 0.50 cent in 1936, and 0.61 cent in 1937, and the total amounts were $34,491 in 1935, $43,894 in 1936, and $51,681 in 1937.

The additions for income from outside investments were, per dollar of net sales, less than 0.01 cent for each of the years 1935, 1936, and 1937, and the total reported amounts were $379 for 1935, $347 for 1936, and $100 for 1937.

The deductions for reported interest on borrowed money were 0.40 cent per dollar of net sales for 1935, 0.33 cent for 1936, and 0.33 cent for 1937. The total reported interest charges amounted to $25,820 in 1935, $29,007 in 1936, and $28,056 in 1937.

This left the average net profit for the distributors in the entire business 1.79 cents in 1935, 1.91 cents in 1936, and 0.92 cent in 1937 per dollar of net sales.

The average annual net sales per distributor were $529,713 in 1935, $628,923 in 1936, and $565,302 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 5.48 times in 1935, 6.63 times in 1936, and 5.36 times in 1937. The average turn-over of the distributors' investment in the motor-vehicle business was 8.05 times in 1935, 10.07 times in 1936, and 7.62 times in 1937.

Income, expenses, and profits per dollar of net sales—Pacific States.—The following table shows the results for the dealers and for the distributors located in the Pacific States for the years 1935–37:

TABLE 142.—*Income, expenses, and profits, per dollar of net sales, for motor-vehicle dealers and distributors located in the Pacific States, 1935–37*

DEALERS

Years / Number of dealers	1935 / 26		1936 / 32		1937 / 35	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$10,208,435	100.00	$13,549,936	100.00	$14,316,688	100.00
Cost of sales	8,569,005	83.94	11,361,136	83.85	11,869,593	82.91
Gross profit on sales	1,639,430	16.06	2,188,800	16.15	2,447,095	17.09
Total selling, general, and administrative expenses	1,484,094	14.54	1,941,329	14.32	2,288,005	15.98
Net profit on sales	155,336	1.52	247,471	1.83	159,090	1.11
Deduct bad debts	23,142	.22	27,564	.21	28,266	.20
	132,194	1.30	219,907	1.62	130,824	.91
Add other income, net	51,782	.50	75,274	.56	90,486	.63
	183,976	1.80	295,181	2.18	221,310	1.54
Deduct interest on borrowed money	40,241	.39	49,845	.37	60,382	.42
Dealers' net profit from entire business before deducting Federal and State income taxes	143,735	1.41	245,336	1.81	160,928	1.12

TABLE 142.—*Income, expenses, and profits, per dollar of net sales, for motor-vehicle dealers and distributors located in the Pacific States, 1935–37*—Continued

DISTRIBUTORS

Years	1935		1936		1937	
Number of distributors	9		10		11	
SALES COSTS AND PROFITS		*Cents*		*Cents*		*Cents*
Net sales	$22,777,326	100.00	$29,631,700	100.00	$31,050,788	100.00
Cost of sales	19,605,917	86.08	25,538,183	86.19	26,615,344	85.72
Gross profit on sales	3,171,409	13.92	4,093,517	13.81	4,435,444	14.28
Total selling, general, and administrative expenses	2,659,602	11.67	3,465,053	11.69	3,930,686	12.66
Net profit on sales	511,807	2.25	628,464	2.12	504,758	1.62
Deduct bad debts	9,788	.04	6,509	.02	9,511	.03
	502,019	2.21	621,955	2.10	495,247	1.59
Add other income, net	33,702	.14	39,743	.13	46,398	.15
	535,721	2.35	661,698	2.23	541,645	1.74
Add income on outside investments	13		25		25	
	535,734	2.35	661,723	2.23	541,670	1.74
Deduct interest on borrowed money	68,162	.30	79,072	.26	83,006	.26
Distributors' net profit from entire business before deducting Federal and State income taxes	467,572	2.05	582,651	1.97	458,664	1.48

The preceding table shows the income, expenses, and profits per dollar of net sales for dealers and for distributors, located in the Pacific States, for the years 1935, 1936, and 1937.

Dealers' results.—These results comprise the operations of 26 dealers in 1935, 32 dealers in 1936, and 35 dealers in 1937. Referring to the operations of the dealers the table shows the total net sales were $10,208,435 in 1935, $13,549,936 in 1936, and $14,316,688 in 1937.

The average gross profits per dollar of net sales were 16.06 cents in 1935, 16.15 cents in 1936, and 17.09 cents in 1937.

The average total selling, general, and administrative expenses decreased per dollar of net sales from 14.54 cents in 1935 to 14.32 cents in 1936 and increased to 15.98 cents in 1937, although the total amounts of these expenses increased from $1,484,094 in 1935 to $1,-941,329 in 1936 and $2,288,005 in 1937.

The average deductions for bad debts decreased per dollar of net sales from 0.22 cent in 1935 to 0.21 cent in 1936 and to 0.20 cent in 1937. The total amounts charged off for bad debts were $23,142 in 1935, $27,564 in 1936, and $28,266 in 1937.

The additions for other income, net, averaged, per dollar of net sales, 0.50 cent in 1935, 0.56 cent in 1936, and 0.63 cent in 1937, and the total amounts of these additions were $51,782 in 1935, $75,274 in 1936, and $90,486 in 1937.

There were no additions for income from outside investments for this group of dealers for these 3 years.

The deductions for interest reported on borrowed money, per dollar of net sales, were 0.39 cent in 1935, 0.37 cent in 1936, and 0.42 cent in 1937. The total interest charges amounted to $40,241 in 1935, $49.845 in 1936, and $60,382 in 1937.

This left the average net profit for the dealers from the entire business 1.41 cents in 1935, 1.81 cents in 1936, and 1.12 cents in 1937, per dollar of net sales.

The average annual net sales per dealer were $392,632 in 1935, $423,436 in 1936, and $409,048 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 6.62 times in 1935, 7.13 times in 1936, and 6.49 times in 1937. The average turn-over of the dealers' investment in the motor-vehicle business was 9.80 times in 1935, 11.32 times in 1936, and 11.04 times in 1937.

Distributors' results.—These results comprise the operations of 9 distributors in 1935, 10 distributors in 1936, and 11 distributors in 1937. The total net sales were $22,777,326 in 1935, $29,631,700 in 1936, and $31,050,788 in 1937.

The average gross profits per dollar of net sales were 13.92 cents in 1935, 13.81 cents in 1936, and 14.28 cents in 1937.

The average total selling, general, and administrative expenses increased, per dollar of net sales, from 11.67 cents in 1935 to 11.69 cents in 1936, and to 12.66 cents in 1937. The total amounts of these expenses were $2,659,602 in 1935, $3,465,053 in 1936, and $3,930,686 in 1937.

The average deductions for bad debts were 0.04 cent in 1935, 0.02 cent in 1936, and 0.03 cent in 1937. The total bad debts charged off were $9,788 in 1935, $6,509 in 1936, and $9,511 in 1937.

The additions for other income, net, averaged, per dollar of net sales, 0.14 cent in 1935, 0.13 cent in 1936, and 0.15 cent in 1937, and the total amounts were $33,702 in 1935, $39,743 in 1936, and $46,398 in 1937.

The additions for income from outside investments amounted to $13 in 1935 and $25 per year in 1936 and in 1937.

The deductions for interest reported on borrowed money were 0.30 cent in 1935, 0.26 cent in 1936, and 0.26 cent in 1937. The total interest charges amounted to $68,162 in 1935, $79,072 in 1936, and $83,006 in 1937.

This left the average net profit for the distributors from the entire business 2.05 cents in 1935, 1.97 cents in 1936, and 1.48 cents in 1937 per dollar of net sales.

The average annual net sales per distributor were $2,530,814 in 1935, $2,963,170 in 1936, and $2,822,799 in 1937, and the average turn-over of the total investment in the motor-vehicle business was 8.28 times in 1935, 8.58 times in 1936, and 8.17 times in 1937.

The average turn-over of the distributors' investment in the motor-vehicle business was 12.95 times in 1935, 14.20 times in 1936, and 13.60 times in 1937.

Summary of net sales, costs, and gross profits—all regions.—The table on page 886 shows the summary of net sales, costs, and gross profits, by departments, for motor-vehicle dealers and for motor-vehicle distributors in 45 States and the District of Columbia, years 1935–37.

Included in the general and administrative expenses reported are the salaries paid executives and owners of unincorporated companies.

The reported salaries paid owners amount to about 0.87 cent per dollar of total net sales by dealers and to about 0.43 cent per dollar of total net sales by distributors, for each of the years 1935, 1936, and 1937. The exclusion of the salaries paid owners would, accordingly, increase the net profits per dollar of net sales by the above amounts.

TABLE 143.—*Summary of net sales, costs, and gross profits, by departments, for motor-vehicle dealers and for motor-vehicle distributors in 45 States and the Distric of Columbia, years 1935–37*

DEALERS

	Number of cars	Net sales		Cost of sales		Gross profits		Selling, general and administrative expenses		Net profit on sales before interest, other income, and other deductions	
		Amount	Percent of total	Amount	Percent of sales	Amount	Percent of sales	Amount	Percent of sales	Amount	Percent of sales
1935											
New cars and trucks—retail	79,841	$65,084,795	60.03	$51,427,763	79.02	$13,657,032	20.98				
Used cars	121,961	26,819,725	24.73	28,406,792	105.92	[1] 1,587,067	[1] 5.92				
Service, parts, and accessories		16,521,001	15.24	10,297,227	62.33	6,223,774	37.67				
Total	201,802	108,425,521	100.00	90,131,782	83.13	18,293,739	16.87	$16,900,701	15.59	$1,393,038	1.28
1936											
New cars and trucks—retail	105,928	90,130,815	59.55	70,044,393	77.71	20,086,422	22.29				
Used cars	173,740	39,473,984	26.08	42,799,710	108.43	[1] 3,325,726	[1] 8.43				
Service, parts, and accessories		21,754,634	14.37	13,630,212	62.65	8,124,422	37.35				
Total	279,668	151,359,433	100.00	126,474,315	83.56	24,885,118	16.44	22,197,938	14.67	2,687,180	1.77
1937											
New cars and trucks—retail	116,349	98,918,308	57.28	75,948,360	76.78	22,969,948	23.22				
Used cars	189,397	47,256,137	27.37	51,292,013	108.54	[1] 4,035,876	[1] 8.54				
Service, parts, and accessories		26,509,387	15.35	16,581,842	62.55	9,927,545	37.45				
Total	305,746	172,683,832	100.00	143,822,215	83.29	28,861,617	16.71	26,431,101	15.30	2,430,516	1.41

DISTRIBUTORS

1935											
New cars and trucks:											
Wholesale	70, 157	$48, 942, 774	38. 67	$46, 108, 967	94. 21	$2, 833, 807	5. 79				
Retail	46, 355	44, 392, 176	35. 08	34, 852, 899	78. 51	9, 539, 277	21. 49				
Used cars	74, 881	19, 292, 628	15. 24	20, 482, 109	106. 17	[1] 1, 189, 481	[1] 6. 17				
Service, parts, and accessories		13, 937, 681	11. 01	8, 902, 803	63. 88	5, 034, 878	36. 12				
Total	191, 393	126, 565, 259	100. 00	110, 346, 778	87. 19	16, 218, 481	12. 81	$14, 471, 964	11. 43	$1, 746, 517	1. 38
1936											
New cars and trucks:											
Wholesale	85, 753	61, 564, 613	36. 04	57, 939, 651	94. 11	3, 624, 962	5. 89				
Retail	65, 471	63, 729, 278	37. 31	49, 315, 953	77. 38	14, 413, 325	22. 62				
Used cars	109, 587	27, 370, 391	16. 02	30, 033, 141	109. 73	[1] 2, 662, 750	[1] 9. 73				
Service, parts, and accessories		18, 166, 826	10. 63	11, 812, 291	65. 02	6, 354, 535	34. 98				
Total	260, 811	170, 831, 108	100. 00	149, 101, 036	87. 28	21, 730, 072	12. 72	19, 075, 612	11. 17	2, 654, 460	1. 55
1937											
New cars and trucks:											
Wholesale	100, 006	72, 672, 955	38. 35	68, 458, 028	94. 20	4, 214, 927	5. 80				
Retail	63, 572	63, 994, 226	33. 77	48, 872, 254	76. 37	15, 121, 972	23. 63				
Used cars	114, 509	30, 901, 642	16. 31	33, 553, 366	108. 58	[1] 2, 651, 724	[1] 8. 58				
Service, parts, and accessories		21, 911, 453	11. 57	14, 138, 172	64. 52	7, 773, 281	35. 48				
Total	278, 087	189, 480, 276	100. 00	165, 021, 820	87. 09	24, 458, 456	12. 91	21, 953, 927	11. 59	2, 504, 529	1. 32

[1] Red figures.

The preceding table shows the combined net sales, costs, and gross profits, by certain departments, for the dealers and distributors in 45 States and the District of Columbia, years 1935–37.

Some dealers and distributors showed figures for the new cars and for the trucks separately, but many did not, so all have been combined in this table.

In order to show the cost of sales on a uniform basis with that shown by the majority of the dealers and distributors reporting, who deducted from cost of sales the amounts received from the finance companies for refunds on the repossession reserve, the amounts so received, when otherwise shown, were transferred and deducted from the cost of sales of used and repossessed cars. The overallowances and writing down of used-car inventories for obsolescense were added to the cost of sales when otherwise shown.

This method of treatment, however, is for the purpose of uniformity only and is without prejudice with respect to the employment of a different principle.

The amounts deducted from, or added to, profits by some dealers for adjustments of expenses for used and repossessed cars were included in used-car expenses.

The majority of dealers and distributors showed the charges for bad debts, interest paid for borrowed money (except on mortgages), and Federal and State income taxes as deductions from profits, but others included these charges in their expenses. When shown as expenses, they have been transferred to deductions from profits. None of the transfers made change the net profits reported, except that for income taxes which has not been shown as a deduction from profits.

Dealers' results.—The proportion of new cars and trucks sales to total sales gradually declined during the 3 years covered from 60.03 percent in 1935 to 59.55 percent in 1936 and to 57.28 percent in 1937.

The sales of the used cars compared with the total sales gradually increased during the period from 24.73 percent in 1935 to 26.08 percent in 1936 and to 27.37 percent in 1937.

The sales of service, parts, and accessories were 15.24 percent of the total sales in 1935, 14.37 percent in 1936, and 15.35 percent in 1937.

The cost of sales of new cars and trucks (before deducting selling, general, and administrative expense) was 79.02 percent of the sales of new cars and trucks in 1935, 77.71 percent in 1936, and 76.78 percent in 1937, showing a gradual decrease each year.

The cost of sales of used cars increased, however, from 105.92 percent in 1935 to 108.43 percent in 1936 and to 108.54 percent in 1937.

The cost of sales of service, parts, and accessories per net sales remained about the same for the 3 years—62.33 percent in 1935, 62.65 percent in 1936, and 62.55 percent in 1937. The total cost of all sales, based upon the total net sales, was 83.13 percent in 1935, 83.56 percent in 1936, and 83.29 percent in 1937.

The gross profit (before deducting selling and general and administrative expenses) on new cars and trucks gradually increased from 20.98 percent of new car and truck net sales in 1935 to 22.29 percent in 1936 and to 23.22 percent in 1937.

The gross loss on used cars increased, however, from 5.92 percent in 1935 to 8.43 percent in 1936, and to 8.54 percent in 1937.

The gross profit on service, parts, and accessories per net sales remained about the same for the 3 years—37.67 percent in 1935, 37.35 percent in 1936, and 37.45 percent in 1937.

The percentage of the total gross profits on the total net sales was 16.87 percent in 1935, 16.44 percent in 1936, and 16.71 percent in 1937.

Selling, general, and administrative expenses were not apportioned to the several departments by many of the dealers and distributors, so that only the percentage of the total of these expenses on the total net sales could be shown.

In 1935 these were 15.59 percent of total net sales, leaving a total net profit of 1.28 percent on net sales. In 1936 the expenses were 14.67 percent of net sales and the net profit on sales 1.77 percent. In 1937 these were 15.30 percent of net sales, leaving the net profit on sales 1.41 percent. These net profits on sales are before deducting interest and miscellaneous deductions and adding other income.

The year 1936 showed the largest percentage of profit on net sales, 1.77 percent. In 1937 the total net sales were about 14 percent greater than in 1936, but the expenses per net sales were only 0.63 percent greater. The cost of sales, however, was 0.27 percent less in 1937, making the net reduction in net profit per net sales 0.36 percent less for 1937 compared with 1936.

Distributors' results.—The distributors' sales are both wholesale and retail sales. In 1935 the new cars and trucks wholesaled were 38.67 percent of the total net sales of all wholesale and retail sales, declining to 36.04 percent in 1936 and increasing to 38.35 percent in 1937.

In 1935 the new cars and trucks retailed were 35.08 percent of all net sales, 37.31 percent in 1936, and 33.77 percent in 1937.

The net sales of used cars were 15.24 percent of all net sales in 1935, increasing to 16.02 percent in 1936 and to 16.31 percent in 1937.

The net sales of service, parts, and accessories were 11.01 percent of total net sales in 1935, 10.63 percent in 1936, and 11.57 percent in 1937.

The cost of sales (before deducting selling, general, and administrative expenses) for new cars and trucks wholesaled was 94.21 percent of the net sales of the new cars and trucks wholesaled in 1935, 94.11 percent in 1936, and 94.20 percent in 1937, varying but little.

The cost of sales for new cars and trucks retailed was 78.51 percent of the net sales of new cars and trucks retailed for 1935, 77.38 percent in 1936, and 76.37 percent in 1937, showing a gradual decrease.

The cost of sales of the used cars increased from a cost of 106.17 percent in 1935 to 109.73 percent in 1936 and decreased to 108.58 percent in 1937.

The cost of sales of the service, parts, and accessories was 63.88 percent in 1935, 65.02 percent in 1936, and 64.52 percent in 1937 of the net sales.

The percentage of total cost of sales on total net sales was 87.19 percent in 1935, 87.28 percent in 1936, and 87.09 percent in 1937.

The gross profit (before deducting selling, general, and administrative expenses) on the new cars and trucks wholesaled was 5.79 percent on the net sales of the new cars and trucks wholesaled in 1935, 5.89 percent in 1936, and 5.80 percent in 1937.

The gross profit on the new cars and trucks retailed was 21.49 percent in 1935, 22.62 percent in 1936, and 23.63 percent in 1937, increasing each year.

The gross loss on used cars was 6.17 percent in 1935, 9.73 percent in 1936, and 8.58 percent in 1937 on the net sales of all used cars.

The gross profit on service, parts, and accessories was 36.12 percent in 1935, 34.98 percent in 1936, and 35.48 percent in 1937 on the net sales of these items.

The percentage of the total gross profits on total net sales was 12.81 percent in 1935, 12.72 percent in 1936, and 12.91 percent in 1937.

The greatest percentage of gross profit on net sales was 12.91 percent in the year 1937.

Selling, general, and administrative expenses were not apportioned to the several departments by many of the distributors, so that only the percentage of these total expenses on the total net sales could be shown.

In 1935 these expenses amounted to 11.43 percent of the total net sales, leaving the net profit on net sales 1.38 percent.

In 1936 they amounted to 11.17 percent of total net sales, leaving the net profit on net sales 1.55 percent for the year.

In 1937 they amounted to 11.59 percent of total net sales, leaving the net profit on net sales 1.32 percent.

The year 1936 shows the greatest rate of profit on net sales, 1.53 percent.

The total net sales for 1937 were about 11 percent greater than the 1936 sales, but the expenses per net sale were 0.42 percent greater; however, the cost of sales was 0.19 percent less, so that the net profit on net sales was 0.23 percent less than that shown in 1936.

Amount and source of retail profits per new car sold as reported by dealers.—The Commission's report form on which dealers were requested to furnish financial information requested data respecting sales, expenses, and profits segregated for the dealers' car sales, used-car sales, parts, accessories, supplies, and service departments in essentially the same form required by manufacturers' dealer report forms. The total number of new cars handled and the average net profit per new car sold, as computed by the Commission's examiners, for retailers and distributor-retailers, for the 3 years 1935, 1936, and 1937, were as follows:

Type of dealer and year	Total new cars and trucks sold	Total net operating profit [1]	Total net operating profit per new car sold
Retail dealers:			
1935	79,841	$1,141,281	$14.29
1936	105,928	2,320,061	21.90
1937	116,349	2,220,864	19.09
Distributor-dealers:			
1935	116,512	1,460,777	12.54
1936	151,224	2,294,735	15.17
1937	163,578	2,143,582	13.10

[1] Exclusive of income from outside investments.
Interest, bad debts, and other income net have been distributed by the Commission on the basis of sales.
Dealers selling about 83 percent and distributors selling about 87 percent of the total net sales distributed their selling, general, and administrative expenses to departments, i. e., to new cars and trucks, used cars and trucks, servicing, parts, accessories, etc. The remaining 17 and 13 percent have been distributed by the Commission on like bases.

These average net profits per new car sold include the operating profits from all departments of the dealers' business. They are obviously quite small in comparison with the total volume of business done in new cars, used cars, parts, accessories, supplies, and services that must be done in order to realize them.

Further analysis of the reports of these two groups of dealers for the year 1937 brings out the interesting fact that the profit of $19.09

per new car sold for retailers was all derived from the sale of parts, accessories, supplies, and services, while most of the $13.10 profit per new car for distributor-dealers reporting came from the same source. The data bearing on this point, as reported by the two groups of dealers for 1937, were as follows:

Department of dealer's business	Retail dealers		Distributor-dealers	
	Average total sales per new car sold	Average net profit per new car sold	Average total sales per new car sold	Average net profit per new car sold
New cars	$850.19	$97.85	$835.49	$51.74
Used cars	406.16	[1] 102.11	188.91	[1] 50.47
Parts, accessories, and service	227.84	23.35	133.95	11.83
Total	1,484.19	19.09	1,158.35	13.10

[1] Net operating loss.

Various facts bearing on the showing made above are to be noted. For instance, all other things being comparable, it would follow that distributor-dealers whose business consists in part of sales of new cars, parts, and accessories at wholesale to other dealers would show a lower average net sales price per new car than retailers. That such a showing is not made appears to be due to the fact that a larger proportion of the distributor-dealers handled high-priced cars than was true of the retailers.

Another point to be noted is that, whereas retail dealers reporting sold 1.63 used cars per new car, distributor-dealers reporting sold only 0.70 used car per new car. This accounts, in part at least, for the fact that among dealers reporting, distributor-dealers showed a lower used-car loss per new car than retail dealers.

Likewise, the smaller sales of parts, accessories, supplies, and service shown by distributors is accounted for by the differing type of business done, especially by the fact that distributors sold a part of the parts and accessories reported at lower wholesale prices than were obtained by strictly retail dealers.

The most striking fact brought out by this analysis is that the retail dealers reporting sold new and used cars, that together constituted nearly 85 percent of their total business, at a loss, and that the average total net profit of $19.09 per new car sold was made possible only by the profit made on sales of parts, accessories, supplies, and service representing only about 15 percent of their total business. Similarly, for distributor-dealers reporting, $11.83 of the average total net profit of $13.10 per new car sold was derived from sales of parts, accessories, and service that constituted a little less than 12 percent of their total business, and that only $1.27 of the total profit per new car sold was derived from combined new and used-car sales representing the remaining 88 percent of their business in 1937.

These showings strikingly bear out the claim of retailers that competition in the sale of new cars forces them to give away their new-car profit in the form of overallowances that they are forced to give on used cars taken in trade. Many dealers ascribe a large part of this competitive situation among dealers to pressure from manufacturers to sell new cars. Such pressure is undoubtedly a factor greatly aggravating dealer competition that results in excessive allowances on used cars.

CHAPTER XVII. FACTORY PRICES AND QUALITY OF CARS

SECTION 1. INTRODUCTION

There are presented in this chapter certain data respecting trends of factory prices, and important improvements in passenger automobiles, particularly during the past 15 years. During the period beginning with January 1, 1915, the large majority of automobile manufacturers joined in a patent-pooling agreement whereby they were relieved of the necessity of spending time and much money in defending patent litigation.[1] This enabled these manufacturers to devote their energies and resources to manufacturing the most saleable car possible. A notable exception was the case of the Ford Motor Co. which was denied membership in the association, and was forced to defend highly expensive patent litigation which it finally won in the United States Supreme Court.[2]

The tremendous growth in consumer demand enabled automobile manufacturers to greatly reduce costs through improved methods of mass production. Reduced costs are, of course, the natural basis for price reductions in a competitive industry. Part of this reduction in cost was passed on to the consumer through improved products and reduced prices, and part of it was retained by the manufacturer. The preceding chapters, devoted to the seven leading automobile manufacturers, show that some of them in particular made very large profits, which indicates that for them, at least, price reductions and added improvements were not commensurate with reduction in manufacturing costs.

Improvements in motor vehicles have come from many sources. Developments in Europe have been utilized by American manufacturers; improvements in parts and accessories, many developed by parts and accessory manufacturers, have contributed to the modern car; factory machinery and tool manufacturers have made possible economies in production; advancements in other industries, such as in electric refrigeration, have also contributed to today's product.

The ease of driving, and greater safety, of today's automobile are among the most important recent improvements. Modern four-wheel hydraulic brakes, safety glass, lower center of gravity, all-steel bodies, easier and more dependable steering, quieter and more efficient transmission, easier shifting of gears, greater safety, increased power and durability, and increased riding comfort, are among the more recent contributions which have been made standard on today's cars. Some of these and other improvements have been developed by present manufacturers; others by companies no longer producing passenger cars; and still others by parts manufacturers. In the latter case, however, the parts manufacturer had to "sell" his improvement to a car manufacturer.

[1] See page 58 et seq.
[2] See page 45.

SECTION 2. SCOPE OF CHAPTER

Method of treatment.—In order to develop more in detail the subject of what the motor-vehicle purchaser of today receives for his automobile dollar as compared with what he received approximately 15 years ago, price and specifications data on reasonably comparable four-door sedans were obtained from leading manufacturers. Information submitted by the following companies will be considered, although data from the remaining companies would probably show similar results: Chrysler Corporation, Ford Motor Co., General Motors Corporation, Hudson Motor Car Co., Nash-Kelvinator Corporation, Packard Motor Car Co., and Studebaker Corporation.

Due to the many unmeasurable elements involved, no mathematical exactness can be attained. However, by reviewing some of the pertinent factors available it is possible to form a reasonably definite opinion even though not in the form of a mathematical quantity. Of importance in this study will be an examination of the price trend of specified four-door sedan models f. o. b. factory, relative to weight, length of wheelbase, number of cylinders, and maximum brake horsepower; also a comparison will be made between various periods of certain features such as type of transmission, type of shock absorbers, type of brakes, and the equipment and accessories included in the factory f. o. b. price.

As a further aid to the reader in evaluating the trend of purchasing power of the automotive dollar during the last 15 or 16 years, there is also presented, usually in chronological order, the automotive engineering and other product improvement contributions of each of the companies included in this discussion as submitted by them to the Commission. This information will indicate the scope and variety of motor-vehicle improvements which, it is claimed, have added so much to the motor vehicle of today in terms of safety, power, comfort, efficiency, and beauty.

Price trends and motor-vehicle types.—In considering the price trends on four-door sedans in this section it should be remembered that in 1923 or 1924 closed motor vehicles were priced relatively high as compared to open models because the major proportion of cars sold were of the latter type and quantity production of closed bodies had as yet not been perfected. Thus the amount of price reduction in the early years of the period under consideration is somewhat accentuated as compared with that for open cars. As closed-model production methods were rapidly improved and unit volume increased, operating economies realized were, due to the competitive situation, at least in part passed on to the motor-vehicle purchaser. A similar price trend resulted when touring cars were first placed on the market. Prices were relatively high on touring cars to begin with but as production economies were realized, due to technological improvements and increased volume, prices to the consumer were reduced. Compared with the trend of prices on four-door sedans since 1923, however, a similar analysis for touring cars would show a somewhat less precipitous decrease, although both open and closed models have shown a significant net decrease in price.

Significant changes have taken place in consumer car preferences since 1923. Thirty-four percent of passenger-car sales in the United States and Canada in 1923 were closed models, whereas in 1926 the proportion was 72 percent and in 1937 almost 100 percent. While the proportions of total United States and Canadian passenger-car sales in 1930 for coupes and two-door sedans were 24 percent and 27 percent, respectively, by 1937 they had changed to 14 percent and 39 percent, respectively. In 1937 almost 44 percent of all passenger cars sold in the United States and Canada were four-door sedans. As would be expected, due to the small volume produced, the relatively few touring cars now sold are priced higher than closed models.

Factory prices.—That the price analysis in this chapter is based on f. o. b. factory prices was necessary for purposes of uniformity. What the ultimate purchaser paid for a four-door sedan of any particular make at destination varies with the amount of freight, charges for additional accessories and equipment not included in the list price, loading and unloading charges, conditioning and advertising charges, etc., and in some cases arbitrary charges added by the local dealer. Another factor tending to distort the real price paid by the ultimate new-car purchaser is the used car taken in as part payment on a new car. As this practice has become progressively more prevalent in more recent years the alleged overallowances on used cars taken on new-car sales act to obscure what the ultimate purchaser of a new car actually paid for it.

Section 3. Chrysler Corporation

Price trend of Chrysler Corporation four-door sedans, 1925–38.—Table 144 shows the trend of factory list prices (including Federal tax), weight, price per pound, wheel base, number of cylinders, maximum brake horsepower, and price per brake horsepower for a Chrysler "4" four-door sedan for the period 1925–28 and for a Plymouth four-door sedan for the period 1928–38.

TABLE 144.—*F. o. b. factory price, including Federal tax, price index, weight, price per pound, wheel base, number of cylinders, maximum brake horsepower, and price per maximum brake horsepower for Chrysler Corporation Chrysler "4" and Plymouth four-door sedans, for the period 1925–38*

Date	Model	Federal tax	F. o. b. factory price including Federal tax	Price index (1933=100)	Weight (pounds)	Price per pound (cents)	Wheel base (inches)	Number of cylinders	Maximum brake horsepower	Price per maximum brake horsepower
	Chrysler "4":									
June 1925	58	$39.97	$1,134.97	217	2,570	44.2	108¾	4	38.5	$29.48
January 1926	58	36.32	1,031.32	197	2,570	40.1	108¾	4	38.5	26.79
August 1926	50	31.50	861.50	164	2,410	35.7	106	4	38	22.67
July 1927	52	29.81	824.81	157	2,375	34.7	106	4	38	21.71
January 1928	52	27.36	747.36	143	2,375	31.5	106	4	38	19.67
May 1928	52	None	720.00	137	2,375	30.3	106	4	38	18.95
	Plymouth:									
June 1928	Q	None	725.00	138	2,460	29.5	109	4	45	16.11
August 1928	U	None	735.00	140	2,460	29.9	109	4	45	16.33
December 1928	U	None	695.00	133	2,555	27.2	109	4	45	15.44
March 1930	U-30	None	625.00	119	2,555	24.5	109	4	48	13.02
July 1930	U-30	None	625.00	119	2,595	24.1	109	4	48	13.02
February 1931	U-30	None	625.00	119	2,595	24.1	109	4	48	13.02
May 1931	PA	None	635.00	121	2,730	23.3	109	4	56	11.34
February 1932	PB	None	635.00	121	2,875	22.1	112	4	65	9.77
June 1932	PB	16.74	651.74	124	2,875	22.7	112	4	65	10.03
October 1932	PC	14.54	589.54	113	2,553	23.1	107	6	70	8.42
December 1932	PC	13.83	558.83	107	2,553	21.9	113	6	70	7.98
February 1933	PC	13.83	558.83	107	2,553	21.9	113	6	70	7.98

TABLE 144.—*F. o. b. factory price, including Federal tax, price index, weight, price per pound, wheel base, number of cylinders, maximum brake horsepower, and price per maximum brake horsepower for Chrysler Corporation Chrysler "4" and Plymouth four-door sedans, for the period 1925–38*—Continued

Date	Model	Federal tax	F. o. b. factory price including Federal tax	Price index (1933=100)	Weight (pounds)	Price per pound (cents)	Wheel base (inches)	Number of cylinders	Maximum brake horsepower	Price per maximum brake horsepower
	Plymouth—Continued.									
April 1933	PCXX (standard).	$13.75	$523.75	100	2,523	20.8	107	6	70	$7.48
January 1934	PF "6"	16.23	601.23	115	2,678	22.5	108	6	77	7.81
April 1934	PF "6"	16.82	626.82	120	2,678	23.4	108	6	77	8.14
June 1934	PF "6"	16.58	616.58	118	2,678	23.0	108	6	77	8.01
February 1935	PJ Business.	15.99	585.99	112	2,720	21.5	113	6	82	7.15
October 1935	PI Business.	16.51	606.51	116	2,750	22.1	113	6	82	7.40
November 1936	P3 Business.	16.12	611.12	117	2,770	22.1	112	6	82	7.45
December 1936	P3 Business.	17.04	665.00	127	2,770	24.0	112	6	82	8.11
October 1937	P5 Business.	18.72	730.00	139	2,809	26.0	112	6	82	8.90
April 1938	P5 Roadking.	18.36	730.00	139	2,809	26.0	112	6	82	8.90
September 1938	P7 Roadking.	18.13	726.00	139	2,845	25.5	114	6	82	8.85

Source: Chrysler Corporation.

The trend in the price of the four-door sedans, from 1925 to 1935 in itself is relatively meaningless unless consideration is given to the quality of the car which the purchaser received in each case. The f. o. b. factory price, including Federal tax, of a Chrysler 4 as of June 1925 was $1,134.97. This car had a weight of 2,570 pounds, a wheelbase of 108¾ inches, four cylinders, and a maximum brake horsepower of 38.5. As of September 1938 a Plymouth Roadking sold f. o. b. factory, including Federal tax, for $726. The purchaser of this car received a vehicle weighing 2,845 pounds, having six cylinders, a wheelbase of 114 inches, and a maximum brake horsepower of 82. Using the lowest-priced car in the series, that of April 1933, of $523.75, as 100, the price index number of the 1925 car in the series stood at 217 while the 1939 model stood at 139, representing a decrease in price of $408.97. That this decrease in price was not the result of a decrease in material or power is shown by an increase in weight from 2,570 pounds to 2,845 pounds, an increase in wheel base from 108¾ inches to 114 inches, an increase in maximum brake horsepower from 38.5 to 82 and an increase from four cylinders to six cylinders.

The June 1928 Plymouth Q was priced at $725, when there was no Federal tax while the Plymouth Roadking of September 1938 was priced at $726, which included a Federal tax of $18.13. The purchaser of the 1928 Plymouth drove a car weighing 2,460 pounds, with a wheel base of 109 inches and a four-cylinder motor having a brake horsepower of 45, while the purchaser of the September 1938 Plymouth drove a car weighing 385 pounds more, with a wheel base 5 inches longer, a motor with six instead of four cylinders and having a maximum brake horsepower over 82 percent greater.

Even with the greater weight and power the 1938 purchaser was paying 4 cents per pound less for his car and $7.26 less per brake horsepower than did the purchaser in 1928. Furthermore, the June 1928 Plymouth Q only had a spur gear three-speed standard transmission, a four-wheel exterior hydraulic braking system, no shock absorbers, four Fiske 29 by 4.75 four-ply tires, and special equipment of spare wheel and rim, while the 1938 Plymouth Roadking had a complete helical three-speed standard-type transmission, four-wheel internal hydraulic brakes, hydraulic double-acting shock absorbers, five 5.50 by 16 four-ply Goodyear tires and special equipment of radiator ornament, bumper group, and spare steel wheel.

When the price trend of the four-door sedan as shown by the price index is compared with the trend of price per pound of car and the price per brake horsepower it will be seen that while the price index dropped from 217 as of June 1925 to 100 as of April 1933, or 54 percent, the price per pound of car decreased from 44.2 cents, to 20.8 cents, or 53 percent, and the price per brake horsepower decreased from $29.48 to $7.48, or 75 percent. From April 1933 to September 1938 the price index increased from 100 to 139, or 39 percent, while the price per pound increased from 20.8 cents to 25.5 cents, or 23 percent, and the price per brake horsepower increased from $7.48 to $8.85, or 18.3 percent.

SECTION 4. FORD MOTOR CO.

Price trend of Ford Motor Co. four-door sedans, 1923–38.—The following table summarizes price and selected specifications information for the Ford standard Fordor sedan for the period 1923–38:

TABLE 145.—*F. o. b. factory price, including Federal tax, price index, weight, price per pound, wheel base, number of cylinders, maximum brake horsepower, and price per maximum brake horsepower for Ford Motor Co. Standard Fordor Sedans, for the period 1923–38.*

Date	Model	Federal tax	F. o. b. factory price including Federal tax	Price index (1933 =100)	Weight pounds	Price per pound	Wheel base (inches)	Number of cylinders	Maximum brake horsepower	Price per maximum brake horsepower
						Cents				
Oct. 2, 1923	T	$27.40	$712.40	136	1,950	36.5	100	4	20	$35.62
Dec. 2, 1924	T	26.40	686.40	131	1,927	35.6	100	4	20	34.32
Feb. 11, 1926	T	22.60	587.60	112	1,933	30.4	100	4	20	29.38
June 19, 1926	I	13.08	558.08	107	1,933	28.9	100	4	20	27.90
Apr. 27, 1928	A-2W	15.00	640.00	122	2,306	27.8	103	4	40	16.00
Apr. 24, 1929	A-3W	None	650.00	124	2,417	26.9	103	4	40	16.25
Nov. 1, 1929	A-3W	None	625.00	119	2,382	26.2	103	4	40	15.63
June 2, 1930	A-3W	None	600.00	115	2,382	25.2	103	4	40	15.00
Jan. 19, 1931	A-3W	None	590.00	113	2,382	24.8	103	4	40	14.75
Mar 31, 1932	V-8	None	590.00	113	2,447	24.1	106	8	70	8.43
Do	B	None	540.00	103	2,318	23.3	106	4	52	10.38
Feb. 11, 1933	V-8	15.00	575.00	110	2,513	22.9	112	8	90	6.39
Do	B	13.83	523.83	100	2,377	22.0	112	4	52	10.07
Dec. 8, 1933	V-8	17.22	602.22	115	2,634	22.9	112	8	90	6.69
June 15, 1934	V-8	16.98	591.98	113	2,818	21.0	112	8	90	6.58
Oct. 17, 1935	V-8	17.09	597.09	114	2,818	21.2	112	8	90	6.63
Nov. 11, 1936	V-8-60	14.47	569.47	109	2,477	23.0	112	8	66	8.63
Do	V-8-85	15.73	610.73	117	2,691	22.7	112	8	88	6.94
Jan. 2, 1937	V-8-60	15.40	619.40	118	2,543	24.4	112	8	66	9.38
Do	V-8-85	16.68	662.18	126	2,761	24.0	112	8	89	7.44
Aug. 2, 1937	V-8-60	16.25	655.25	125	2,543	25.8	112	8	66	9.93
Do	V-8-85	17.21	687.71	131	2,761	24.9	112	8	89	7.73
Oct. 27, 1937	V-8-60	17.30	702.30	134	2,579	27.2	112	8	66	10.64
Do	V-8-85	18.11	728.11	139	2,800	26.0	112	8	89	8.18
Nov. 4, 1938	V-8-60	16.91	681.91	130	2,623	26.0	112	8	66	10.33
Do	V-8-85	18.08	723.08	138	2,850	25.4	112	8	89	8.12

A purchaser of a model T Fordor sedan as of October 2, 1923, paid an f. o. b. factory list price of $712.40 which included $27.40 Federal tax. Such a car weighed 1,950 pounds; had a wheel base of 100 inches; had four cylinders and delivered a maximum brake horsepower of 20. Some 15 years later this model T owner could purchase a Ford V-8-85 standard Fordor sedan for $723.08 f. o. b. factory which included $18.08 Federal tax. Compared with the model T purchased in 1923 it weighed 2,850 pounds, or 900 pounds more; the wheelbase was 112 inches, or 12 inches longer; it was eight-cylindered instead of four and maximum brake horsepower was 89, or almost 70 more than in 1923.

Just as striking is the comparison between the 1923 model T and the Fordor V-8-60, a somewhat less powerful car. The V-8-60 f. o. b. factory list price as of November 4, 1938, was $681.91, which included $16.91 Federal tax. The list price of the car was approximately $30 less. In addition, the 1938 model weighed almost 700 pounds more; had 12 inches more wheelbase; had four more cylinders and a maximum brake horsepower that exceeded the 20 of 1923 by 46. In 1923 the model T owner paid 36.5 cents per pound for his car and $35.62 per maximum brake horsepower, while in 1938 for a Ford V-8-85 he would have paid 25.4 cents per pound, or approximately 30 percent less, and $8.12 per brake horsepower, or about 77 percent less than in 1923. For the Ford V-8-60 the price per pound was 26 cents or about 29 percent less per pound than the model T of 1923 and the cost per brake horsepower of $10.33 was approximately 70 percent less.

The price index covering the period 1923–38 for the Fordor Ford sedan gives no indication of the increased safety, greater comfort, beauty, dependability, and other added improvements. To throw some light on this phase of the subject it is revealing to compare what kind of a car the 1923 Ford purchaser got as compared with the 1938 Ford in addition to certain features already enumerated. The model T as of October 2, 1923, had a planetary type of transmission, two nonenergizing mechanical brakes, no shock absorbers, four 4-ply 30 by 3½ tires and special equipment consisting of a spare rim, whereas the Fordor sedan V-8-60 and 85 as of November 4, 1938, had a three-speed selective synchro-mesh gear, four-wheel nonenergizing hydraulic brakes, double acting hydraulic shock absorbers, five four-ply 5.50 by 16 (V-8-60) or 6 by 16 (V-8-85) tires, bumpers front and rear, bumper guards, spare wheel, spare tire lock and band assembly, pressure chassis lubricating system, twin horns, cigar lighter, headlight beam indicator, mirror, sun visor, and color option from a variety of colors.

Almost as striking as the comparison of the 1923 model T with the V-8 of 1938 is that of the 1923 model T and the model B of 1933, which was the last four cylinder Fordor standard sedan regularly manufactured by the Ford Motor Co. Briefly stated, the 1933 model cost f. o. b. factory, including Federal tax, about $189 less, it weighed 427 pounds more, cost 14.5 cents less per pound of automobile, the wheelbase was 12 inches longer, the maximum brake horsepower was greater by 32 which was reflected in a lower cost per brake horsepower of approximately $25. Just as the November 4, 1938 model V-8 was in many respects far superior to the model B of 1933, the latter model in turn was far superior to the model T in terms of power, safety, and comfort.

Using the model B Ford Fordor sedan f. o. b. list price of February 11, 1933, as 100, the price index on October 2, 1923, was 136, while on

November 4, 1938, it was 130 for the Ford V-8-60 and 138 for the V-8-85. During this same period the price per pound decreased from 36.5 cents in 1923 to 22.0 cents in 1933 and increased in 1938 to 26.0 cents for the V-8-60 and to 25.4 cents for the V-8-85. While there was an increase in price, from 1933 to 1938, Federal tax included, of 30 percent for the V-8-60 and 38 percent for the V-8-85, the increase in price per pound from the base period, 1933, was 18 percent and 15 percent, respectively, while the price per brake horsepower for the V-8-60 increased about 3 percent and for the V-8-85 it decreased approximately 19 percent.

As the base period model B Ford was not of the V-8 type, a more comparable car with the 1938 V-8 was the Ford V-8 of February 11, 1933. This car had a factory list price of $575, which included $15 Federal tax, as compared with the Ford V-8-85 of November 4, 1938, priced approximately $148 higher, or 20 percent. As far as weight for the two models was concerned, the price per pound increased 2.5 cents per pound or about 11 percent and the price per brake horsepower increased $1.73, or 27 percent. The 1938 car was heavier by 337 pounds but the wheelbase length was the same as the 1933 V-8; the number of cylinders was the same and the maximum brake horsepower approximately the same. As compared with the equipment included in the 1938 V-8 factory price as listed on page 897, the 1933 V-8 included a 3-speed selective sliding gear type of transmission, four wheel nonenergizing mechanical brakes, double acting hydraulic shock absorbers, four four-ply 5.50 by 17 tires, a spare steel wheel and a safety glass windshield.

General Motors Corporation

Price trend, four-door sedans.—The following table summarizes price and specifications data for General Motors Corporation Oldsmobile four-door sedans, for the period 1924–39:

TABLE 146.—*F. o. b. factory price, including Federal tax, price index, weight, price per pound, wheel base, number of cylinders, maximum brake horsepower, and price per maximum brake horsepower for General Motors Corporation Oldsmobile four-door sedans, for the period 1924–39*

Date	Model	Federal tax	Factory price including Federal tax	Price index (1933=100)	Weight	Price per pound	Wheel base	Number of cylinders	Maximum brake horsepower	Price per maximum brake horsepower
					Pounds	Cents	Inches			
1924	1924	$40.86	$1,175.86	139	2,612	45.0	110	6	33	$35.63
July 23, 1924	1925	43.75	1,293.75	153	2,717	47.6	$110\frac{1}{2}$	6	33	39.20
Sept. 12, 1924	1925	44.63	1,319.63	156	2,717	48.6	$110\frac{1}{2}$	6	33	39.99
Jan. 2, 1925	1925	44.98	1,329.98	157	2,717	49.0	$110\frac{1}{2}$	6	33	40.30
Aug. 1, 1925	1926	21.53	1,046.53	124	2,612	40.1	$110\frac{13}{16}$	6		
Aug. 1, 1926	1927	21.53	1,046.53	124	2,791	37.5	$110\frac{13}{16}$	6		
June 1, 1927	1927	20.48	995.48	118	2,791	35.7	$110\frac{13}{16}$	6		
1928	F-28	21.53	1,046.53	124	2,987	35.0	113	6	55	19.03
1929	F-29	None	975.00	115	3,075	31.7	$113\frac{1}{2}$	6	62	15.73
1930	F-30	None	995.00	118	3,056	32.6	$113\frac{1}{2}$	6	62	16.05
1931	F-31	None	925.00	109	3,070	30.1	$113\frac{1}{2}$	6	65	14.23
1932	F-32	None	955.00	113	3,225	29.6	117	6	74	12.91
July 21, 1932	F-32	18.62	973.62	115	3,225	30.2	117	6	74	13.16
1933	F-33	20.40	845.40	100	3,325	25.4	115	6	80	10.57
Jan. 1, 1934	F-34	20.15	750.15	89	3,230	23.2	114	6	84	8.93
Apr. 4, 1934	F-34	19.95	784.95	93	3,230	24.3	114	6	84	9.34
June 4, 1934	F-34	19.75	774.75	92	3,230	24.0	114	6	84	9.22
1935	F-35	22.00	812.00	96	3,406	23.8	115	6	90	9.02
1936	F-36	22.00	817.00	97	3,407	24.0	115	6	90	9.08
1937	F-37	22.25	812.25	96	3,478	23.4	117	6	95	8.55
1938	F-38	24.50	944.50	112	3,433	27.5	117	6	95	9.94
1939	F-39	25.00	930.00	110	3,310	28.1	120	6	95	9.79

The 1924 model Oldsmobile four-door sedan, including $40.86 Federal tax, sold at the factory for $1,175.86. This car weighed 2,612 pounds, had a wheel-base length of 110 inches, was six-cylindered, and delivered a maximum brake horsepower of 33. Some 15 years later, the 1939 model (F–39), including $25 Federal tax, cost $930 at the factory, or almost 21 percent less than in 1924. The 1939 purchaser of an Oldsmobile for $245.86 less received almost 700 pounds more car, with a wheel base 10 inches longer and maximum brake horsepower greater by 62 than in 1924. The net downward trend in price of the Oldsmobile four-door sedan is further emphasized by the price per pound of car, which in 1924 was 45 cents, but in 1939 had decreased to 28.1 cents, or a decrease of about 38 percent. A marked decrease in price in terms of comparative cost per maximum brake horsepower also took place, for while the cost per maximum brake horsepower was $35.63 in 1924, in 1939 it had dropped to $9.79, or a decrease of about 73 percent.

Despite reductions in the price of the 1939 model as compared with the 1924 model, significant improvements were included in the latter model not found in the former. The 1924 Oldsmobile had a three-speed sliding spur gear type of transmission, two-wheel mechanical brakes, shock absorbers in the form of snubbers on all four springs, and four 23 by 4 tires. In 1939 the type of transmission was synchromesh with silent second-speed gear, brakes consisted of four-wheel hydraulics, there were double-action hydraulic shock absorbers on all four springs, and five 16 by 6 tires were included.

Special equipment, features, and improvements included in car price at no extra cost as described by General Motors consisted in 1924 of cowl lights on all models, heater, unit grouping of instruments, transmission lock, and Duco finish, while in 1939 the list consisted of a longer wheel base, quadricoil springing, four-way stabilization, lateral stabilizer bar at rear, wider range vision in bodies, handishift gear control, dual center control steering, roomier bodies, granosealed cam shafts (phosphate coated for faster break-in and better bearing surfaces), individually locked front ventipanes, saftisealed bodies (protection against fumes), larger sun visor, leather-faced arm rests (front), improved shock absorbers (rear), trunk, bumpers, and bumper guards (front and rear), and safety glass throughout.

The price index for a four-door Oldsmobile for the approximately 15-year period was lowest January 1, 1934, when it stood at 89 (1933=100). Previous to that, the price index stood at 139 in 1924, at 156 late in 1924 (1925 model), at 124 in 1926, at 115 in 1929, again at 115 in 1932, and an abrupt drop to 100 in 1933. From the low point in 1934, the price index rose to 112 in 1938 and dropped back slightly to 110 in 1939.

It is interesting to note that the model which early in 1934 was priced lowest for the period under consideration, compared with the 1924 model, was priced almost $426 lower, or 36 percent less, was 618 pounds heavier, was 4 inches longer in wheel base, and had 51 more maximum brake horsepower, in addition to having a synchromesh type of transmission with silent second-speed gear, four-wheel mechanical brakes, double acting hydraulic shock absorbers on all four springs, as well as other improved features not found on the earlier model.

The 1939 model, as compared with the 1934 model just described, was 80 pounds heavier, had 6 inches more wheel base, had 11 more maximum brake horsepower, and in addition certain improvements as noted above. However, the price per pound of car in 1939 was almost 5 cents greater, the price per maximum brake horsepower was 86 cents greater, and the factory price of the car increased almost 24 percent over the January 1, 1934, price.

Chevrolet.—Due to its importance in the low-priced motor-vehicle group, price and specifications data for Chevrolet four-door sedans was to have been included in this discussion in addition to the Oldsmobile data. However, because of the fact that the information originally requested from General Motors Corporation about Chevrolet when received was not complete, and after repeated requests the missing information was not furnished, it was necessary to omit any discussion about Chevrolet prices and specifications.

Section 6. Hudson Motor Car Co.

Price trend of Hudson Motor Car Co. four-door sedans, 1923–38.—Price and specifications data for the Hudson four-door standard sedan is summarized in the following table for the period 1923–38:

Table 147.—*F. o. b. factory price, including Federal tax, price index, weight, price per pound, wheel base, number of cylinders, maximum brake horsepower, and price per maximum brake horsepower for Hudson Motor Car Co. Standard 4-door sedans, for the period 1923–38*

Date	Model	Estimated Federal tax	F. o. b. factory list price, including Federal tax	Price index (1933=100)	Weight	Price per pound	Wheel base	Number of cylinders	Maximum brake horsepower	Price per maximum brake (horsepower)
					Pounds	*Cents*	*Inches*			
Nov. 21, 1923	O	$66.33	$1,961.33	184	3,590	54.6	127	6	(1)	(1)
Mar. 31, 1924	O	75.08	2,220.08	208	3,590	61.8	127	6		
June 2, 1924	O	75.25	2,225.25	209	3,590	62.0	127	6		
Nov. 26, 1924	O	62.83	1,857.83	174	3,590	51.8	127	6		
Apr. 25, 1925	O	59.33	1,754.33	164	3,585	48.9	127	6		
May 20, 1925	O	55.83	1,650.83	155	3,425	48.2	127	6		
Aug. 19, 1925	O	52.33	1,547.33	145	3,425	45.2	127	6		
Oct. 20, 1925	O	50.75	1,500.75	141	3,425	43.8	127	6		
Feb. 15, 1926	O	51.63	1,526.63	143	3,560	42.9	127	6		
Mar. 10, 1926	O	49.88	1,474.88	138	3,560	41.4	127	6		
June 9, 1926	O	28.46	1,423.46	133	3,560	40.0	127	6		
July 10, 1926	O	30.50	1,525.50	143	3,560	42.9	127	6		
Oct. 15, 1926	O	28.46	1,423.46	133	3,560	40.0	127	6		
Jan. 3, 1927	O	29.09	1,414.09	133	3,755	37.7	127	6		
Dec. 9, 1927	O	30.45	1,480.45	139	3,720	39.8	127	6		
Dec. 1, 1928	R	None	1,175.00	110	3,785	31.0	122	6		
Dec. 30, 1929	T	None	1,150.00	108	3,200	35.9	119	8	80	$14.38
Aug. 14, 1930	T	None	1,025.00	96	3,200	32.0	119	8	80	12.81
Nov. 10, 1930	T	None	995.00	93	3,115	31.9	119	8	80	12.44
Dec. 12, 1931	T	23.00	1,118.00	105	3,285	34.0	119	8	101	11.07
Dec. 23, 1932	T	24.05	1,169.05	110	3,345	34.9	119	8	101	11.57
Feb. 25, 1933	T	21.95	1,066.95	100	3,345	31.9	119	8	101	10.56
Jan. 8, 1934	LTS	17.90	802.90	75	2,905	27.6	116	8	108	7.43
Apr. 5, 1934	LTS	18.58	833.58	78	2,905	28.7	116	8	108	7.72
June 11, 1934	LTS	18.35	823.35	77	2,905	28.3	116	8	108	7.62
Dec. 5, 1934	HT	18.90	858.90	81	2,890	29.7	117	8	113	7.60
Nov. 26, 1935	64	18.68	848.68	80	3,045	27.9	120	8	113	7.51
Oct. 5, 1936	74	18.90	858.90	81	3,135	27.4	122	8	122	7.04
Apr. 29, 1937	74	19.46	884.46	83	3,135	28.2	122	8	122	7.25
Aug. 23, 1937	74	20.48	930.48	87	3,135	29.7	122	8	122	7.63
Sept. 29, 1937	84	22.12	1,005.12	94	3,155	31.9	122	8	122	8.24
Sept. 22, 1938	Touring sedan HCC (95).	22.17	1,034.77	97	3,193	32.4	122	8	122	8.48

[1] Information not available for years 1923 to 1928, inclusive.

The model O Hudson 4-door sedan was priced at $1,961.33, f. o. b. factory, including Federal tax of $66.33, on November 21, 1923, but on June 2, 1924, for the same model the price had been increased to $2,225.25, which included Federal tax of $75.25. For purposes of comparison with the Hudson 4-door sedan announced September 22, 1938, however, the 1923 price will be used. It should be noted that the maximum brake horsepower rating was not available until 1929, although information was furnished to the effect that the 1915 Super 6 Hudson developed approximately 80 horsepower. Compared with the 1923 Hudson 4-door sedan, the September 22, 1938, model Hudson cost $926.56 less, or a decrease of 47 percent; the weight decreased from 3,590 to 3,193 pounds; the price per pound decreased about 41 percent, or 22.2 cents; the wheel base decreased from 127 to 122 inches; the number of cylinders was increased by 2; and as the 1929 Hudson had a maximum brake horsepower of 80, it is probably safe to assume that the brake horsepower was increased by at least 40. Other significant points of difference between the 1923 model and the 1938 model concern mechanical equipment, accessories, etc. For example, the 1923 Hudson had a 3-speed and reverse spur gear type of transmission, 2-wheel mechanical brakes, no shock absorbers, four 4-ply 33 by 6 balloon tires, demountable rims, and no spare wheel, tire, or bumpers. In contrast, the 1938 Hudson had a 3-speed and reverse spiral and spur gear type of transmission, 4-wheel hydraulic brakes, hydraulic shock absorbers, five 4-ply 16 by 6.50 air wheel tires, spare wheel, and bumpers.

Of interest is a comparison of the first 8-cylinder Hudson announced as of December 30, 1929, with the 8-cylinder Hudson announced September 22, 1938. Compared with the 1929 Hudson, the 1938 model was priced at $115.23 less, or a decrease of approximately 10 percent; its weight was approximately the same, the price per pound was 3.5 cents less, or a decrease of almost 10 percent; the wheel base was 3 inches longer; the maximum brake horsepower was 42 greater, and the price per maximum brake horsepower was $5.90 less, or a decrease of almost 41 percent. Differences in specifications were mainly as follows: The 1929 Hudson had 4-wheel mechanical brakes, four 4-ply 29 by 5.50 balloon tires, demountable rims, no bumpers, and no spare tire, as compared with other equipment and accessories as listed above for the 1938 Hudson 8 sedan.

Again, in the case of the price trend of the four-door Hudson sedan, is illustrated the futility of attempting to evaluate the significance of changes in price or the purchasing power of the automotive dollar without at the same time considering the factors, more difficult to measure, which have just been discussed and which are summarized in table 147. Price reductions within the model year usually for the purpose of liquidating stocks of cars prior to the introduction of new models were made in 1924, 1925, 1926, 1930, and 1934.

SECTION 7. NASH-KELVINATOR CORPORATION

Price trend of Nash-Kelvinator Corporation four-door sedans, 1923–37.—The trend of prices and specifications for Nash four-door sedans from 1923 to 1937 is summarized for more important details in the following table:

TABLE 148.—*F. o. b. factory price, including Federal tax, price index, weight, price per pound, wheel base, number of cylinders, maximum brake horsepower, and price per maximum brake horsepower for Nash-Kelvinator Corporation for the period 1923–37*

Date	Model	Federal tax	F. o. b. factory price including Federal tax	Price index (1933=100)	Weight (pounds)	Price per pound	Wheel base (inches)	Number of cylinders	Maximum brake horsepower	Price per maximum brake (horsepower)
						Cents				
July 20, 1923	47	$52.02	$1,497.02	186	3,090	48.4	112	4	38	$39.40
Mar. 15, 1924	134	54.08	1,599.08	199	3,270	48.9	112¾	6	47	34.02
July 1, 1925	234	54.08	1,599.08	199	3,300	48.5	112¾	6	47	34.02
Nov. 1, 1925	234	50.58	1,495.58	186	3,300	45.3	112¾	6	47	31.82
July 6, 1926	224	20.90	1,015.90	126	2,475	41.0	109	6	30	33.86
June 29, 1927	328	22.79	1,107.79	138	2,610	42.4	109	6	42.5	26.07
Feb. 1, 1928	328	20.90	1,015.90	126	2,610	38.9	109	6	42.5	23.90
June 1, 1928	428	None	995.00	124	2,725	36.5	112	6	50	19.90
Oct. 1, 1929	450	None	985.00	122	2,850	34.6	114	6	60	16.42
Jan. 1, 1930	450	None	1,005.00	125	2,850	35.3	114	6	60	16.75
Oct. 1, 1930	660	None	845.00	105	2,800	30.2	114	6	65	13.00
June 1, 1931	960	None	845.00	105	2,800	30.2	114¼	6	65	13.00
Dec. 1, 1932	1120	19.41	764.41	95	3,125	24.5	116	6	75	10.19
Oct. 1, 1933	1220	19.90	804.90	100	3,370	23.9	116	6	88	9.15
Jan. 1, 1934	1220	20.44	835.44	104	3,370	24.8	116	6	88	9.49
Sept. 6, 1934	1220	19.20	774.20	96	3,370	23.0	116	6	88	8.80
Jan. 1, 1935	3520	23.43	968.43	120	3,630	26.7	121	6	90	10.76
Mar. 10, 1935	3520	22.24	897.24	111	3,630	24.7	121	6	90	9.97
Nov. 15, 1935	3620	22.83	907.83	113	3,710	24.5	125	6	90	10.09
Oct. 1, 1936	3728	22.07	867.07	108	3,400	25.5	121	6	95	9.13
Aug. 16, 1937	3728	22.41	932.41	116	3,400	27.4	121	6	95	9.81
Oct. 15, 1937	3828	23.46	1,050.00	130	3,460	30.3	121	6	105	10.00

On July 20, 1923, a four-cylinder Nash four-door sedan, weighing 3,090 pounds, with a wheel base of 112 inches and maximum brake horsepower of 38, sold f. o. b. factory, including Federal tax of $52.02, for $1,497.02. Approximately 8 months later a six-cylinder Nash four-door, weighing 3,270 pounds, with a wheel base of 112¾ inches and a brake horsepower of 47, sold f. o. b. factory for $100 more than the four-cylinder four-door sedan of 1923. When the Nash four-door sedan (model 3828) of October 15, 1937, is compared with the latter model, 134, it is evident that the purchaser of today's Nash, as was also found true of other motor-vehicle makes is getting considerably more for his automotive dollar than he was approximately 14 years ago. The f. o. b. factory price had decreased almost $450, or about 35 percent; weight increased about 200 pounds; price per pound of car had decreased from 48.9 cents to 30.3 cents, or almost 38 percent; wheel base increased from 112¾ to 121 inches; brake horsepower showed an increase from 47 to 105; and the cost per brake horsepower decreased from $34.02 to $10, or about 71 percent. The difference in the two models is further emphasized by a comparison of the equipment. The 1924 four-door sedan had a selective three speeds forward and one reverse type of transmission, 4-wheel mechanical brakes—front internal expanding, rear external contracting, parking brake on transmission drive shaft, no shock absorbers, and 5.25 by 21 four-ply standard tires, while the 1937 model 3828 had a selective synchromesh type of transmission, four-wheel hydraulic brakes, direct acting two-way hydraulic shock absorbers, and 6.25 by 16 four-ply standard tires.[3]

The price of the Nash four-door sedan, model 1220, as of October 1, 1933, used as the base for the price index, shows an even greater difference in automotive value over the 1924 model than did the 1937 model. There was a decrease in the f. o. b. price of almost $800, or approximately 50 percent; the weight had increased 100 pounds; the price per pound of car had decreased 25 cents, or approximately 51 percent; the wheel base was almost 4 inches longer; the brake horsepower had increased from 47 to 88; and the price per brake horsepower had decreased from $34.02 to $9.15, or approximately 73 percent. As compared with the 1924 model 134 Nash four-door sedan, the model 1220 of 1933 had a selective type synchromesh transmission, four-wheel mechanical brakes, two-way hydraulic shock absorbers, and 5.50 by 17 four-ply standard tires.

Section 8. Packard Motor Car Co.

Price trend of Packard Motor Car Co. four-door sedans, 1923–38.—Price and specifications information as supplied by the Packard Motor Car Co. relative to its Super 8 model, four-door sedan, is summarized in the following table for the period 1923–38:

Table 149.—*F. o. b. factory price, including Federal tax, price index, weight, price per pound, wheel base, number of cylinders, maximum brake horsepower, and price per maximum brake horsepower for Packard Motor Car Co. Super 8 4-door sedans, for the period 1923–38.*

Date	Model	Federal tax	F. o. b. factory price including Federal tax	Price index (1933=100)	Weight (pounds)	Price per pound (cents)	Wheel base (inches)	Number of cylinders	Maximum brake horsepower	Price per maximum brake horsepower
Dec. 27, 1923	136–143 Single 8	$174.38	$4,824.38	172	4,260	113.2	136	8	84	$57.43
Feb. 2, 1925	236–243 Single 8	106.88	4,856.88	173	4,528	107.3	136	8	84	57.82
Aug. 2, 1926	336–343 Single 8	104.03	4,854.03	173	4,430	109.6	136	8	106	45.79
July 1, 1927	443 Single 8	None	4,950.00	176	4,550	108.8	143	8	106	46.70
Jan. 3, 1928	do	None	3,750.00	134	4,550	82.4	143	8	106	35.38
July 9, 1928	do	None	3,100.00	111	4,550	68.1	143	8	106	29.25
Aug. 1, 1928	640–645 Custom and DeLuxe 8.	None	3,750.00	134	4,835	77.6	140	8	106	35.38
Aug. 1, 1929	do	None	3,350.00	119	4,835	69.3	140	8	106	31.60
Aug. 20, 1929	740–745 Custom and DeLuxe 8.	None	3,585.00	128	4,560	78.6	140½	8	106	33.82
Aug. 15, 1930	do	None	3,085.00	110	4,560	67.7	140½	8	106	29.10
Aug. 14, 1930	840–845 Custom and DeLuxe 8.	None	3,795.00	135	4,955	76.6	140½	8	120	31.63
June 23, 1931	do	None	3,200.00	114	4,955	64.6	140½	8	120	26.67
Do	903–904 8 DeLuxe	80.75	3,925.75	140	5,045	77.8	142⅛	8	135	29.08
Jan. 9, 1932	do	None	3,245.00	116	5,045	64.3	142⅛	8	135	24.04
June 1, 1932	do	None	3,445.00	123	5,045	68.3	142⅛	8	135	25.52
Jan. 5, 1933	1003–1004 Super 8	55.35	2,805.35	100	4,815	58.3	135	8	145	19.35
Aug. 21, 1933	1103–1104–1105 Super 8	61.05	3,011.05	107	4,815	62.5	135	8	145	20.77
June 21, 1934	do	None	2,350.00	84	4,815	48.8	135	8	145	16.21
Aug. 30, 1934	1203–1204–1205 Super 8	62.85	3,052.85	109	4,985	61.2	132	8	145	21.05
Aug. 10, 1935	1403–1404–1405 Super 8	62.85	3,052.85	109	5,080	60.1	132	8	150	20.35
Sept. 3, 1936	1500–1501–1502 Super 8	49.05	2,384.05	85	4,530	52.6	127	8	130	18.34
Aug. 17, 1937	do	None	2,485.00	89	4,530	54.9	127	8	130	19.12
Sept. 10, 1937	1603–1604–1605 Super 8	55.35	2,690.35	96	4,530	59.4	127	8	130	20.70
September 1938	1703–1705 Super 8	42.84	1,977.84	71	3,930	50.3	127	8	130	15.21

[3] Special equipment included in f. o. b. price was not submitted by the Nash-Kelvinator Corporation.

A Packard Super 8 four-door sedan as of December 27, 1923, cost f. o. b. factory, including $174.38 Federal tax, $4,824.38, while the Super 8 four-door sedan as of January 5, 1933, including $55.35 Federal tax, cost f. o. b. factory, $2,805.35. As of September 1938, the Super 8, including $42.84 Federal tax, was priced f. o. b. factory at $1,977.84. With respect to these three models the weight changed from 4,260 pounds in 1923, to 4,815 pounds in 1933, to 3,930 pounds in 1938; price per pound changed from 113.2 cents, in 1923, to 58.3 cents, in 1933, to 50.3 cents, in 1938; the length of wheel base changed from 136 inches, in 1923, to 135 inches, in 1933, to 127 inches in 1938; maximum brake horsepower changed from 84 in 1923, to 145 in 1933, to 130 in 1938; and the price per maximum brake horsepower decreased from $57.43 in 1923, to $19.35 in 1933, to $15.21 in 1938.

The 1933 purchaser of a Super 8 four-door sedan paid, including Federal tax, $2,019.03 less than for the 1923 Packard 8, or a decrease of almost 42 percent, for which he received a car 555 pounds heavier, 1 inch shorter in wheel base, and 61 maximum brake horsepower more than in 1923. The cost per pound in the 1933 model as compared with the 1923 model was 54.9 cents less, or a decrease of about 49 percent, and the cost per brake horsepower was $38.08 less, or a decrease of 66 percent. In comparison with the 1923 model, the 1938 model Packard Super 8, although weighing 330 pounds less and having a wheel base 9 inches shorter, was, including Federal tax, almost 59 percent less in factory f. o. b. price, almost 56 percent less in price per pound, delivered almost 55 percent greater maximum brake horsepower, which cost per brake horsepower almost 74 percent less.

The Packard 8 of December 27, 1923, was what might be classed a "luxury" car as compared with other passenger cars of that period. This car which sold f. o. b. factory for almost $5,000 had three-speed selective type transmission, mechanical brakes, Watson shock absorbers, five 33 by 5 high-pressure tires, and included were the following standard accessories and equipment:

Electric starter, generator, and storage battery.
Speedometer and clock.
Electric head, auxiliary, parking, instrument board, tonneau, and combined tail and signal lights.
Head, auxiliary, and parking lights combined in one reflector.
Nonglare lenses.
Tail lamp combined with electric license-tag illuminator.
Motor-driven horn.
Complete tool equipment, including 1-ton jack.
Rear carrier for one extra wheel, with self-contained lock.
One extra wheel with spare tire and tire cover.
Wheel-changing equipment.
Stabilators, front and rear.
Motometer, gasoline gage on dash, front and rear bumpers, and automatic radiator air-flow regulator.
Rear-view mirror, automatic windshield cleaner, and cigar lighter on instrument board.
Enclosed cars have smoking and vanity cases, except four-passenger coupe, which has vanity case only.

Approximately 15 years later a Packard Super 8 four-door sedan sold f. o. b. factory, including Federal tax, for almost $2,000, and was equipped with selective silent synchronized type of transmission, hydraulic brakes, Delco shock absorbers, five four-ply 16 by 7 tires, and standard accessories and equipment as follows:

Two matched-tone electric horns.
Two windshield wipers.
Two adjustable sun visors.
Rear-view mirror.
Robe cord support.
Footrest in rear compartment.
Carpets, front and rear.
Adjustable driver's seat.
Two tail and stoplights.
Front- and rear-compartment ash trays and cigar lighters.
Dome rear compartment reading lights.
Headlight-beam control by foot switch.
Toggle grip straps.
Built-in aerial for radio.
Oil bath air cleaner.
Front and rear bumpers and bumper guards.
Tools and jack.
Front- and rear-jack pads.
One spare wheel and wheel-compartment lock.
Large capacity built-in trunks on all closed models.
Independent front-wheel suspension.
Electric clock, front.
Glove compartment door lock.
Arm rests, front doors.
Arm rest, rear center.
Remote-control gear shift.
Radiator ornament.
Vacuum booster pump.
Stabilizer.
Chrome wheel rings, five- and six- wheel.
Spare tire and tube.

Although the price-trend index of the Packard 8 four-door sedan does not fully indicate the marked difference in what the purchaser of one received for his automotive dollar in 1923 as compared with 1938, it does show that from 1923, using the January 5, 1933, model price as a base, the price decreased from 172 to 71 in 1938. The Packard price series also give evidence of substantial reductions in price after the model season was under way as evidenced by such reductions in 1928, 1929, 1930, 1931, 1932, and 1934. A net price increase within a model season was reported only in 1937.

171233—39——59

SECTION 9. STUDEBAKER CORPORATION

Price trend of Studebaker Corporation four-door sedans, 1924–38.—The following table presents price and specifications data for Studebaker four-door sedans for the period 1924–38:

TABLE 150.—*F. o. b. factory price, including Federal tax, price index, weight, price per pound, wheelbase, number of cylinders, maximum brake horsepower, and price per maximum brake horsepower for Studebaker Corporation four-door sedans, for the period 1924–38*

Date	Model	Federal tax	F. o. b. factory list price, including Federal tax	Price index (1933=100)	Weight (pounds)	Price per pound (cents)	Wheelbase (inches)	Number of cylinders	Maximum brake horsepower	Price per maximum brake horsepower
Aug. 26, 1924	ER	$60.61	$1,655.61	199	3,260	50.8	113	6	50	$33.11
Jan. 8, 1925	ER	58.71	1,603.71	193	3,260	49.2	113	6	50	32.07
Apr. 13, 1925	ER	60.61	1,655.61	199	3,260	50.8	113	6	50	33.11
Aug. 1, 1925	ER	56.81	1,551.81	187	3,260	47.6	113	6	50	31.04
Jan. 14, 1926	ER	53.01	1,448.01	174	3,260	44.4	113	6	50	29.00
June —, 1926	EU	29.14	1,324.14	159	3,235	40.9	113	6	50	26.48
Sept. 27, 1926	EU	29.93	1,359.93	164	3,235	42.0	113	6	50	27.20
Sept. —, 1927	GE	27.45	1,247.45	150	3,280	38.0	113	6	65	19.19
May 1, 1928	GE	28.58	1,298.58	156	3,280	39.6	113	6	65	19.98
June 15, 1928	GE	None	1,290.00	155	3,280	39.3	113	6	65	19.85
May 27, 1929	GL	None	1,120.00	135	3,080	36.4	115	6	68	16.47
Nov. 1, 1929	GL	None	1,190.00	143	3,080	38.6	115	6	68	17.50
Feb. 1, 1930	GL	None	1,220.00	147	3,080	39.6	115	6	68	17.94
Dec. 10, 1929	53	None	990.00	119	2,900	34.1	114	6	70	14.14
Feb. 1, 1930	53	None	1,010.00	121	2,900	34.8	114	6	70	14.43
July 10, 1930	53	None	920.00	111	2,900	31.7	114	6	70	13.14
Dec. —, 1930	54	None	920.00	111	2,930	31.4	114	6	70	13.14
Nov. 23, 1931	55	None	934.55	112	3,170	29.5	117	6	80	11.68
Dec. 10, 1931	55	None	929.55	112	3,170	29.3	117	6	80	11.62
Mar. 1, 1932	55	None	954.55	115	3,170	30.1	117	6	80	11.93
Nov. 28, 1932	56	23.88	984.88	118	3,310	29.8	117	6	85	11.59
Oct. 19, 1933	A	21.01	831.51	100	2,910	28.6	113	6	88	9.45
Dec. 12, 1933	A	22.36	882.86	106	2,910	30.3	113	6	88	10.03
Jan. 1, 1934	A	22.59	893.09	107	2,910	30.7	113	6	88	10.15
Mar. 20, 1934	A	23.08	918.58	110	2,910	31.6	113	6	88	10.44
Apr. 10, 1934	A	23.53	939.03	113	2,910	32.3	113	6	88	10.67
June 15, 1934	A	23.40	933.90	112	2,915	32.0	114	6	88	10.61
Nov. 26, 1934	2A	23.44	907.94	109	3,030	30.0	114	6	88	10.32
Jan. 1, 1935	2A	23.05	912.55	110	3,030	30.1	114	6	88	10.37
Mar. 1, 1935	2A	22.62	897.12	108	3,030	29.6	114	6	88	10.19
Oct. 28, 1935	4A	23.52	883.02	106	3,110	28.4	116	6	90	9.81
Aug. 18, 1936	6A	23.10	902.60	109	3,130	28.8	116	6	90	10.03
Sept. 11, 1937	7A	24.54	967.29	116	3,190	30.3	116½	6	90	10.75
Nov. 6, 1937	7A	24.08	946.83	114	3,190	29.7	116½	6	90	10.52
Sept. 12, 1938	9A	24.08	946.83	114	3,200	29.6	116½	6	90	10.52

A model ER Studebaker four-door sedan on August 26, 1924, sold, f. o. b. factory, including $60.61 Federal tax, for $1,655.61, while the Studebaker model 9A four-door sedan, announced September 12, 1938, sold, f. o. b. factory list price, including $24.08 Federal tax, for $946.83. This represented a decrease in the price of the four-door sedan of about 43 percent, or $708.78 less than in 1924. In terms of price per pound of car there was a reduction from 50.8 cents in 1924 to 29.6 cents in 1938, or a decrease of about 42 percent. The length of the wheelbase increased from 113 inches in 1924 to 116½ inches in 1938, while maximum brake horsepower increased from 50 to 90, or in terms of price per horsepower there was a decrease from $33.11 in 1924 to $10.52 in 1938, or about 68 percent.

These significant differences in the purchasing value of the automotive dollar are further emphasized by a comparison of the accessories and equipment included in the price of the 1924 and the 1938 four-door sedans. The earlier model had a standard S. A. E. gear shift; 2-wheel mechanical brakes; no shock absorbers; four 4-ply 31 by 5.25 balloon, nonskid tires; mohair trim; and wood wheels, whereas the model announced September 12, 1938, had a model T88 Warner gear type of transmission with gear-shift lever located on steering column operated mechanically; 4-wheel Lockheed hydraulic brakes, including automatic hill holder; Houdaille two-way shock absorbers; five 4-ply 16 by 6 Firestone tires; bumpers; Planar suspension; safety glass all around; two tail lights; two sun visors; two windshield wipers; five painted disk wheels; cloth upholstery; robe cord; rear ash receivers; rear arm rests; and metal spring covers.

Section 10. Evolution of the Automobile

Sources of information.—The history of the evolution of the automobile, as presented in this chapter, is based upon information obtained by the Commission from various sources. The story of developments prior to 1900, particularly, is based largely upon information on "Milestones of the Automobile Industry," compiled from various published sources by members of the staff of the Automobile Manufacturers Association, and upon information contained in Arthur Pound's story of General Motors, entitled "The Turning Wheel." The story of improvements of the automobile in the United States, particularly those pioneered by the now-existing American automobile manufacturers, is based largely upon information furnished by the respective manufacturers. Other sources of information are referred to in the text.

Steam-propelled motor vehicles.—Available historical records indicate that the possibility of operating a road vehicle by steam was visualized as far back as the seventeenth century. While considerable experimentation was in progress and efforts made to use steam for the propulsion of road vehicles during the eighteenth century, both in the United States and abroad, it was not until 1801 that what has been termed the first real successful steam-driven carriage, which "opened men's minds to the commercial and pleasure possibilities of these vehicles" was built. In performance contests held in the 1890's, in which both steam-driven and gasoline-driven cars competed, the steam-driven car first was the winner, and later gasoline-driven cars were the winners. The continued success of the gasoline-driven cars led ultimately to complete abandonment of the steam-driven type of automobile.

American self-propelled vehicles first put on the road were powered by steam. In the 1890's the several steam-driven automobiles that were among the leaders of the day included the White and Stanley's Locomobile, in America. Locomobile was such a success that it found a market in England in 1900, but in 1903 it was dropped in England in favor of the internal-combustion-engined Oldsmobile. Manufacture of the famous de Dion-Bouton steam car was given up in France before the turn of the century, and not long after 1900 the production of Whites and Locomobiles was discontinued. While the trend in favor of the internal-combustion engine appears to have become definitely established about 1900, for some few years thereafter it remained a question whether the gas or steam engine would be generally adopted for automobile use.

Development of electrically operated road vehicles.—In the 1890's, electrically operated vehicles had reached such a stage of development in America as to qualify that type of vehicle to take part with the steam-operated and gasoline-operated cars in the competitive performance contests of the day.

According to the Bureau of the Census, of the 21,692 automobiles produced in America in 1904, 1,425 were operated electrically, 1,568 by steam, and the others by internal-combustion motor; and of the total of 126,593 produced in 1909, 3,826 were operated electrically, and 2,374 by steam. A total of 4,669 electrically operated automobiles was reported as produced in 1914, and while some steam-operated vehicles were still being produced, their manufacture was soon discontinued altogether. At the present time, the manufacture of electrically operated road vehicles can be procured on order, and there are some being used, but the number now in use is comparatively small and, in nearly all cases, are commercial vehicles.

The use of electric batteries for power, with the comparatively limited radius of operation before recharging of the batteries became necessary, together with the long waits for recharging and the extreme weight of the batteries, were the chief causes of the unpopularity of this type of vehicle.

Development of internal-combustion-engined automobiles—Europe.—It was not until the latter part of the nineteenth century that real practical success with an internal-combustion engine was attained. The first successful engines of this type had but one cylinder, were operated on the two-stroke cycle, and used illuminating gas for fuel which was not compressed before firing.

The invention of the four-stroke cycle in 1862 and the introduction of engines incorporating this feature some years later were notable developments in the development of the internal-combustion-engined automobile. A car using the four-stroke cycle built in 1875 was described [4] as having—

> a four-stroke motor with a rope drive from the engine to the rear axle. This rope drive was provided with an idler-type belt tightener in lieu of a clutch. The engine had a slide intake valve, while the exhaust port had a piston valve of surprisingly modern design. The gasoline was vaporized—or carburized—by a patented carburetor using rotary sprayer brushes which dipped into a reservoir of gasoline. Steering was by worm and wheel, as in modern cars. The operator could start the motor without leaving the car, by means of a lever and train of gears. The speed of the engine was controlled by a hand wheel conveniently located near the driver's seat.

The first commercially successful internal-combustion automobile is said to have been made in Germany in 1885; and it was in 1885 that quantity production of the gasoline-type engine was first begun.

In 1892 Panhard & Levassor, in France, was offering for sale what has been described as "the first really modern automobile." Of this early French design, the Encyclopaedia Brittanica states:

> The drive was taken through a clutch to a set of reduction gears and thence to a differential gear on a countershaft from which the road wheels were driven by chains. With all the modifications of details, the combination of clutch, gear box and transmission remains unaltered. * * *.

[4] Automobile Ancestry, by L. L. Thwing, in Technology Review, February 1939.

In the earlier automobiles the engines were placed in the horizontal position under the seats or in the rear of the car. It was not until about 1905 that the upright position at the front end of the car was generally recognized as the superior position.

A summary of the important events relating to the development of the automobile prepared by members of the staff of the Automobile Manufacturers Association states that—

> although many thousands of improvements have been made since, and although there is no comparison between the cars of those days—the Panhard, the deDion-Bouton and others—and the cars of today, the fundamental principles established by those early pioneers have firmly withstood the test of time.

The fundamental principles referred to include numerous developments, in addition to those already mentioned in the foregoing text. The developments in Europe included the first differential designed by a French watchmaker about 1828; the principle of the pneumatic tire, first patented in England in 1845; the first spark plug, appearing on an engine built in France in 1860; arrangement of front wheels swinging on stub axles swiveling on the outer ends of a fixed axle, first patented in 1818 and perfected in 1875; independent springing of front wheels, introduced in 1876; enclosing of the driving axles and differential in a single housing in the 1890's; arrangement to effect a direct drive between the engine and the differential on the rear axles, devised in 1898; patenting of H-gate gear shift in 1899.

Developments of internal-combustion-engined automobiles—United States.—In the early development of self-propelled vehicles, Europe played the leading role. This was the situation as regards developments of the internal-combustion-engined vehicle that were taking place during the important 10-year period from 1885 to 1895. Arthur Pound, in his story of General Motors, The Turning Wheel, refers to the period from Selden's application for patent in 1879 to the foundation of Olds Motor Works in 1899 as measuring the birth pangs of the gas automobile in America. Bad roads, indifference of financiers, certain public antagonism, particularly in interruban districts, and the hard times of the 1890's, are said to have been contributing causes for the slower progress in America.

Effort to use the Daimler engine was made by William Steinway on Long Island in 1888, but he had little success. Later, however, it is claimed, the early success of Pierce-Arrow and Peerless in America resulted from the use of the French deDion internal-combustion engine.

In 1892 the first successfully operated gasoline automobile in America—a car weighing 700 pounds, propelled by a 4-horsepower single-cylinder motor weighing 120 pounds—was built and run at Springfield, Mass., by Charles E. Duryea and his brother. In 1893 Henry Ford completed his first car, and a car designed by Elwood G. Haynes was built by Apperson Bros. R. E. Olds also built his first gasoline car a year or two later, but it was not until 1899 that real production of internal-combustion-engine cars in the United States got under way, when the Olds Motor Works, organized by Mr. Olds, began operations.

According to figures issued by the former National Automobile Chamber of Commerce, there were produced in the United States 4 self-propelled cars in 1895, 25 in 1896, 100 in 1897, 1,000 in 1898, 2,500 in 1899, and 5,000 in 1900.[5] In 1900, the Olds Motor Works

[5] Encyclopaedia Britannica, fourteenth edition.

was offering a practical working small car for $650; and the company is credited with having built 425 cars in 1901, 2,500 in 1902, 4,000 in 1903, and 5,000 in 1904. It was the first of the quantity-production companies.

The Detroit Automobile Co., in which Henry Ford first became interested, was formed in 1899 by a group of Detroit men, but in 1901 after the company had made some cars—less than 50—Henry Ford withdrew from the company and it was succeeded by the Cadillac Automobile Co., which in 1904 was consolidated with the Leland & Faulconer Manufacturing Co. to form the Cadillac Motor Car Co. The Henry Ford Co., formed in 1902, was given up before the expiration of that year, after having made a few racing cars; and in 1903 the Ford Motor Co. was organized and started manufacturing a 2-cylinder, 2-speed gear car selling for around $1,200. Then came Henry Ford's opportunity. In accordance with the ideas of R. E. Olds, the Olds Motor Works had been marketing with great success a small cheap car. However, in 1904 the associates of Olds wanted to build a more expensive car, with the result that Olds retired from the company and thereupon organized the Reo Co. The new Reo Co., however, was slow in getting started, and Henry Ford, who like R. E. Olds had come to believe in the commercial superiority of the smaller and cheaper car, was not long in substituting, for the comparatively expensive model his company had started building, a cheaper car with a 4-cylinder engine and new type bodies carrying either two or four passengers. This was the car that won world-wide acclaim and that gave the Ford Co. its great start and world leadership among motorcar manufacturers for so many years.

The increase in the top speed of gas automobiles from 15 miles to nearly 50 miles per hour during the period 1895 to 1900, gives some idea of the progress made in automobile manufacturing just before the turn of the century.

Prior to 1900, self-propelled road vehicles produced in America appear to have been all of the "buggy" type. This type of vehicle, fittingly described as the "horseless buggy," called for the reproduction of buggies as closely as possible, with the power plants located in narrow spaces under the seats. The Columbia automobile of 1900 is said to have been the first American car with engine located at the front end of the chassis. A Buick car with the engine so located appeared in 1903, and in 1904 Henry Ford was building a car with the engine so placed.

The first American car to be produced in quantity—the famous curved-dash runabout put out by Olds Motor Works in 1901—was a 1-cylinder buggy-style type. The first Packard, built in 1899, and later Packard models up to 1903 had 1-cylinder engines; also the Cadillac and Buick cars introduced in 1902 were powered by the 1-cylinder type engine. The Packard 4-cylinder model was introduced in 1903. Olds brought out a 2-cylinder model in 1905 and a 4-cylinder model in 1906; and its 6-cylinder car was brought out in 1907. Buick was not long in bringing out a 2-cylinder model that proved a success; and in 1907, it added 4-cylinder models to its line. Oakland Motor Car Co., formed in 1907, first tried a 2-cylinder model, but it was not a great success, and it brought out a 4-cylinder model the following year. The 6-cylinder car appears not to have made much headway for several years after it was first brought out in 1905.

According to reliable authority, 85 percent of all cars produced up to 1905 had engines of either one or two cylinders, and the remainder had 4-cylinder engines; in 1912, 92 percent of the cars sold were equipped with 4-cylinder engines, and the others had 6-cylinder engines; while the 8-cylinder cars came out about 1915, and the 12-cylinder about 1916.

As late as 1920 all but about 15 percent of the passenger automobiles sold in the United States were open cars, due largely to the fact that the wood-frame bodies of the closed models up to that time did not stand up well on the rough country roads. By 1926, however, the number of good roads had been greatly increased, wooden frames for closed bodies had been greatly improved, and the additional cost of the closed car over the open car had been reduced from the 50 percent or more additional in 1920 to about 5 percent additional, due to increased-quantity production of the closed models which had come to represent about 75 percent of the total. By 1930 nearly all of the closed bodies produced were made of steel except the top; and in 1934 the steel top was introduced and the all-steel body became a reality. Less than 2 percent of the American automobile output of 1937 could be classed as open-car models. The evolution of the automobile body has been fittingly described as follows:

> The transition from the wooden coach work to the all-steel body was gradual and depended on the progress in the art of drawing large sheets, upon the development of the steel alloys, capable of being drawn into the required shapes, and also upon the development of the art of welding the parts together electrically to make smooth, invisible, tight joints.

Cadillac's one-cylinder car of 1904, and its four-cylinder car of 1905, were precision-built with interchangeable parts, a feature which won for the company the Sir Thomas Dewar trophy awarded by the Royal Automobile Club of London, England. Cadillac was the first car equipped with electrical starting, lighting, and ignition, and as a result of its pioneering with respect to these innovations, it was awarded the Dewar trophy a second time, in 1913. American contributions to improvements in automobile construction included, also, the use of "jigs" for the economical manufacture of large quantities of precision interchangeable parts; the art of pressing heavy cold-rolled steel for side rails of automobiles and other purposes; the use of highly specialized machine tools designed to perform one or more operations at the same time.

To numerous other later contributions in the United States many of the more important of which are discussed on following pages, the automobile owes its present state of development—its reliability, speed, safety, comfort, pleasing appearance, and all-round high efficiency. Rare are the instances today, in comparison with the period 1900 to 1910, that the automobile fails on account of breaking of crankshafts, springs, and other parts; rapid wear; crystallization of shafts; stripping of gears; and tire troubles. These later-day developments have been the result of widespread effort. An official of the Studebaker Corporation, which was one of the early companies to turn from the manufacture of wagons and carriages to the manufacture of automobiles and has pioneered in many of these later-day developments, states:

> Any review of the technical development of the automobile must take cognizance of the important and significant fact that much of the development is a composite

result of the ideas and efforts of many organizations and individuals. The interchange of information among members of the industry; the patent policies followed (including the cross-licensing agreements); the activities of engineering societies and other organizations; the research of related industries, such as those in the tire and petroleum fields; the work done by steel companies and other suppliers of materials, parts, and equipment generally have combined to accelerate and amplify the development of practically every idea connected with the improvement of the automobile.

In many cases the most important contribution to a given development has been not the invention on which it was based but the adaptation of the idea and the improvement in its utilization. Particular mention should be made of the role played by the parts manufacturers whose contributions have been numerous and substantial. Not only do they frequently act as clearing houses of ideas for all manufacturers working on a given problem but, also, they supply out of their own research activities, or other sources, original ideas for the development of specific new parts and devices, or for the improvement of old ones. The collaboration of parts suppliers with the automobile manufacturers has resulted in major contributions to automobile development. * * *

Regarding the importance of the role played by parts manufacturers in automobile improvement, an official of the Nash Co. stated:

While it has long been the policy of Nash Motors to produce essentially all of the major parts of its cars, nevertheless it has recognized that certain highly specialized parts could best be developed and produced in volume at low costs by the makers of parts such as starting, lighting, and ignition systems, carburetors, valves, pistons, antifriction bearings, tie rods, drag links, tires, and wheels. The highly competitive nature of the parts business has required that those who were to survive in it had to be constantly on the alert to develop by research and engineering products which would be economical in cost, efficient in use, and nationally serviced.

Nash has always welcomed the opportunity to select for the public from among the products of the parts makers those parts which would in all respects give the best results in use and with respect to which an adequate service was rendered throughout the country. Considering the relatively complicated nature of an automobile with the thousands of parts entering into it, it would certainly seem that in the American economy the continued development of the parts making phases of the industry will be essential to the production of the best cars for the least money to insure that American cars will always find an increasingly substantial demand in the world market.

A patent attorney of Washington, D. C., with considerable knowledge of automobile developments in America, through acting as attorney for manufacturers and parts makers, stated that—

Throughout the development of the automobile industry the motorcar makers have passed through various phases of reliance on the parts makers. Particularly is this true of the three largest existing manufacturers. Automobile manufacturers today are still essentially selectors of all of the component parts from tires to tops which go to make up the complex, composite structure of a modern motor vehicle. They do such selecting for the public in a most intelligent and efficient manner, enabling them to produce cars at almost unbelievingly low cost per pound weight, which will give outstandingly satisfactory results in the hands of the user, and they have learned how to back up the use of such cars with a Nation-wide efficient and economical service.

The machine tool makers are constantly alert to produce new equipment which will enable the automobile makers and parts makers to get their costs down with either equal quality or improved quality of production. Theirs also has been an outstandingly well-done job.

To a great extent, the public must still rely on the parts maker to do the essential research and development work in the evolution of the necessary component parts of an automobile to insure that our country's motor vehicles will be kept strictly up to date and acceptable at all times in the world's market on the basis of sound economy and efficiency.

Commenting upon the great improvement in the quality of the American automobile, particularly since 1915, an official of the Hudson Co. stated:

The amount of research and elbow grease that has gone into this tremendous improvement is difficult to explain. There is also the tremendous amount of collaboration which has made possible the solution of many problems. We could have never solved lubrication problems if it had not been for the work of the oil companies. Chemical and metallurgical industries have contributed a great deal to the development of the automobile.

At the request of the Commission most of the large automobile manufacturers in the United States furnished statements briefly describing contributions by them to the improvement of the automobile. Many of these contributions are referred to in the discussion that follows of the later-day improvements of the automobile in America.

Engine design and operation.—Of the many improvements in engine design that have been brought about in recent years, the development of the high-compression, high-speed engine is of outstanding importance. Cadillac, in 1914, introduced the first V-type eight-cylinder high-speed engine to be produced in quantity in the United States, which resulted in the availability to the car-purchasing public of an improved quality of engine performance. Hudson also was among the first contributors to high-speed engine improvement, through the introduction, in 1916, of the Fekete crankshaft, high-compression with nondetonating cylinder head, and automatic and positive engine lubrication. The company claims to have introduced the first high-compression L-head engine with a nondetonating cylinder head in the medium-price field in 1916 and in the low-price field in 1924; also to have introduced aluminum-alloy pistons in the medium-price field in 1918 and in the low-price field in 1924. Chrysler, as a result of experimentation and development, so improved high-compression cylinder heads and aluminum pistons, after formation of the Chrysler Corporation in 1925, as to produce higher power per cubic foot of piston displacement, combined with smooth and flexible performance.

Credit is claimed by Nash for having introduced twin ignition to valve-in-head motors in the popular-price class; also to have introduced on valve-in-head engines down-draft carburetors and enclosed mechanism.

In 1908 the Ford Motor Co. began the use of cylinder blocks and crankcases cast integrally, and the use of stamped crankcase pans, practices which now are followed by most of the other manufacturers. According to Hudson Motor Car Co., the first successful automobile equipped with a six-cylinder engine to be offered at a popular price was introduced by that company in 1912. In 1913 Studebaker Corporation introduced and used for the first time six cylinders cast in a single block—a manufacturing practice that later became general.

The so-called knockless gasoline, obtained by mixing with ordinary gasoline tetra ethyl lead, was first developed by General Motors Laboratories in 1921 and introduced in 1923. An advantage of this development, it is claimed, was that it made possible increased power and market economy through use of higher compression ratios in engine design.

The development in 1927 of a mechanical fuel pump operating from the engine camshaft was a distinct improvement, being free from the faults of the old vacuum-tank system of fuel feed, which utilized engine vacuum to draw gasoline and which proved not entirely reliable when traveling at high speeds or while climbing hills.

Transmissions, gears, etc.—The model T Ford car used a planetary transmission which was first patented by Henry Ford in 1911. In another patent on the planetary transmission granted Henry Ford in 1913, the particular feature claimed was the mounting of the transmission directly on the engine crankshaft. In the later model Ford cars the use of planetary-type transmissions has been abandoned, and the more universally used internal gear transmissions have been installed.

The Chrysler Corporation claims to have been the pioneer, at least in the United States, in the development and commercial exploitation of the helicon transmission now in use and to have solved the problem of adaption of this improvement to Chrylser cars at little increased cost over the earlier spur gear. The first patents on helicon, or curved-tooth bevel gears, were obtained by Packard in 1914, this improved type gear and the necessary machine for cutting the gears having been developed in the Packard shops. Packard also claims to have pioneered the hypoid geared rear axle. This device, which makes possible the lowering of the automobile body without the necessity of employing a tunnel above the floor of the car for the housing of the drive shaft, has been incorporated in many cars in the last few years.

Henry Ford is generally given credit for having originated the torque-tube drive, patented by him in 1903 and used in practically all cars of his manufacture and by many other companies also.

Synchromesh transmission, introduced by Cadillac in 1926, after 6 years of development work, has been generally adopted by the industry. This improved type of transmission prevents clashing when changing gears, thereby adding to the ease and quietness of car operation, even for inexperienced drivers.

The Chrysler Corporation states that the four-speed internal gear transmission, making possible the automatic overdrive, was the outgrowth of research and experimental work in various directions and by various people and was offered to Chrysler and adopted by it in 1929. This type of transmission functions to automatically slow down engine speed without decreasing car speed when the car has exceeded a predetermined speed movement. The development of the free-wheeling transmission, introduced by Studebaker in about 1930, according to the Studebaker Corporation, made possible the use of overdrive, with its accompanying economies in gasoline and oil consumption and was a result of the collaboration of Studebaker and the Warner Gear Division of the Borg-Warner Corporation which produced the transmission.

An entirely new method of transmitting power from the engine to the rear wheels, called the fluid drive, was introduced as standard equipment on the Chrysler Custom Imperial line for 1939. The fluid drive, which takes the place of the conventional flywheel, is interposed between the engine and the driving train to the rear wheels. As explained by the Chrysler Corporation, the principle upon which this device operates may be explained by comparison with two electric fans placed so that the blades face each other a few inches apart. When the blades of one of the fans are caused to rotate by electric energy the action of the air turns the blades of the other fan. In the case of the fluid drive, the shape of the fan blades is changed, the air is replaced by oil, and, to hold the oil in, both fans are enclosed in a steel housing which is nearly full of liquid. One of the fans, called the driver, is attached to the crankshaft of the engine; the other, called the runner, is connected to the rear wheels through a suitable drive train of conventional type. It is claimed that the practicability of this device, developed by Chrysler Corporation engineers, has been proven in exhaustive laboratory and road tests, and that the device gives to the gasoline-driven automobile the flexibility, without the disadvantages, characteristic of the automobile formerly propelled by steam and electricity.

Gear shifts.—The H-gate gear shift is stated to have first been patented by Daimler in 1899. Packard Motor Car Co. claims to have introduced the H-segment shift in the United States and to have patented their device in 1902 and 1904.

As far back as 1915 the Haynes car had an electric shift developed by Cutler-Hammer, and several other automatic transmissions have been designed and built, but this type transmission has not come into general use. On the theory that drivers do not want the car to shift the gears entirely automatically, the Hudson Co. in collaboration with the Bendix Co. developed a semiautomatic transmission, which it calls the "electric hand" and which, the company claims, reduces to an absolute minimum the work done by the driver yet leaves the car entirely at his command. Hudson claims to have introduced vacuum power shifting of gears at the steering wheel in 1935 and the selective automatic shift in 1937.

Many of the latest model cars are equipped with manual gear shifting devices attached to the steering column in place of the gear-changing lever coming up from near the middle of the floor. This shift, developed by Pontiac in 1937 and 1938, is said to provide easier control of gear shifting with reduced likelihood of shifting accidentally, and leaves more room in the front seat compartment for passenger comfort.

Springing, cushioning, etc.—Until the early 1930's American cars were equipped with springs of the leaf type, which, in the case of many of the cars were set parallel, or nearly parallel, with the side members of the frame. On the Ford car, however, the springs were mounted transversely, or at right angles with the side members of the frame. In 1911 and 1912 Henry Ford acquired patents covering this transverse spring suspension, which was used on the model T Ford and was used continuously on the later model A.

The earlier leaf springs, according to one of the car manufacturers, were made extremely stiff to withstand without breaking the jolts occasioned by rough roads, but later longer alloy steel springs were developed, the leaves of which were rolled in thinner sections, which provided softer springing. To limit the movement of the body on these more resilient springs, rubber bumpers and shock absorbers were introduced, all of which greatly improved the ride and revolutionized the automobile from the standpoint of comfort.

Modern independent front-wheel suspension as developed by General Motors' laboratories and individual car divisions in 1933 and 1934 resulted in still greater comfort, easier handling, and better car control under all road conditions. The so-called "planar suspension" type of independent front-wheel suspension, employing the use of a transverse spring rather than the coil springs used by some of the other manufacturers that adopted independent front-wheel suspension, was introduced by Studebaker in 1935.

Rear coil-spring suspension, developed by Buick, was first used in 1937–38 Buicks. Three-point support of the power unit on the frame was begun by Packard in 1903 and is still used by Packard and other companies. Hudson claims to have introduced full-balloon tires to the low-price field in 1924.

Nash claims to have introduced rubber for mounting the engine in the chassis in 1922; also to have been the first to introduce complete body insulation. In 1927, as one of the first steps toward noise reduction, Chrysler adopted and made available to other companies rubber engine mountings of a type superior to types in use prior to that time, in that the rubber was bonded directly to the iron parts so that the engine could be suspended by the rubber in tension or shear. Later, in 1931, when most of the other manufacturers had adopted rubber mountings, a new method of eliminating vibration and noise, called "floating power," was first used by Chrysler on the Plymouth car, and the new mounting soon was quite widely followed by other manufacturers in the United States and abroad.

An improved method of mounting the radiator and fenders, which became widely accepted by the automobile industry, was introduced by Studebaker in 1928. Prior to this time radiators and fenders were so mounted on the chassis that they tended to move with the frame, instead of with the body, and therefore appeared to the automobile passenger to vibrate excessively. The Studebaker development provided for a single-stud type of mounting on the frame, in such manner as to permit movement of the radiator and fenders relative to the frame but under constraint to move with the body.

Brakes.—In America, four-wheel hydraulic brakes, first introduced by Chrysler on Chalmers cars in the fall of 1923, were the forerunners of improved four-wheel hydraulic brakes offered with the first Chrysler car in January 1924. Four-wheel mechanical brakes were introduced by Buick in 1924. Faster and more positive stopping was claimed for this newly developed braking system. Hydraulic four-wheel brakes have been constantly improved and have almost displaced entirely other types of foot-pedal brakes.

In 1935 Studebaker, while not the developer, pioneered the use of the automatic hill holder, a device which prevents rolling backward when a car on an up-grade has been stopped and the foot lifted from the brake pedal.

Bodies and frames.—Hudson claims to have introduced the first sedan-type body and the first cabriolet-type body in 1913; also the first coach with the first low-priced closed body in 1920 and the first bodies of all steel in 1935. According to an official of that company, in 1915 there were practically no closed cars with the exception of a few high-priced custom-built jobs. At about that time the so-called California top, a rather flimsy structure of wood and imitation leather made to set on the top of a touring car, was introduced. Hudson decided that this was a poor solution of the closed-car problem, and set out to design a real closed car that could be sold at a popular price, with the result that in the fall of 1921 it was able to offer to the public the first coach body on an Essex chassis for about $1,345. While this body was square in general shape, severely plain, and readily recognizable as not made by dies, the success of the company in producing a closed model at a low price may be judged by comparison with the prices of four-door sedans, the bodies for which alone were costing the Hudson Co., at that time about $1,100 each.

The framework of the first closed-car bodies were made largely of wood, and this practice was not entirely discontinued until very recently. Dodge, while still operated by Dodge Bros., had been building open cars of all-steel construction when Hudson decided to manufacture closed cars with the structural parts all steel. The production of the all-steel body, however, was a gradual evolution—certain parts first were made all steel, then other all-steel parts were added, the last to be the all-steel top.

Regarding the all-steel body, it is claimed that a great deal of the development work has been done over a period of a good many years by many engineers and that it would be presumptuous for any one manufacturer to accept entire credit for the present-day body-manufacture practice. When the development of the all-steel body began in about 1926 serious attention was given to the problem of strengthening the steel shell enclosing the wood frame that up to that time constituted the car body. Studebaker's approach to this problem was to so reinforce the shell by steel pillar and steel box-section construction, without relying upon heavy and independent reinforcements, that the body would be lighter without sacrificing strength or with an actual increase in strength and ability to withstand impact of possible collision; and it is claimed that the practice of making the reinforcing members integral with the outer steel shell is a well-recognized contribution of Studebaker.

In the early 1930's the use of steel tops, replacing the old fabric or imitation leather tops, began. At first the steel top consisted of a sheet-steel insert, with a plastic compound around its edges to make the top watertight. The one-piece all-steel top of today was first developed by Fisher Body Division of General Motors and introduced in the latter part of 1934.

Not only with respect to car bodies but with respect to the steel frames as well, according to the Chrysler Corporation, the developments have been the results of efforts of many engineers over a period of a good many years. That company claims that Chrysler engineers, seeking from the beginning to obtain more rigidity of motorcar structure, put into production the so-called X-frame member, designed to add to the torsional strength of the car and minimize vibration from uneven roads; that welded box sections likewise were constructed to add to frame rigidity; and that the double-drop frame, making possible the building of cars in the lower-price field with a low center of gravity, was adopted early in Chrysler history.

In 1929 or about that time restyling of the automobile began. LaSalle came out about 1928 with a body painted in two or three different colors and with molding effects and ornamentation on the outside; and the following year Chevrolet brought out a small four-door sedan trimmed in red imitation leather, which was the first styled car in the low-priced field. The so-called "Silver Arrow" models built for Pierce-Arrow in the Studebaker body shops, and the Studebaker "Land Cruiser" of 1934, were among the forerunners of the streamlined cars of today. Some of the designs introduced changes that apparently were too radical, as in more recent years the trend has changed to more practical streamlining.

Safety glass, which reduced the chances of injury from broken glass in the event of accident, was first used by Cadillac, in 1926.

Notable improvements in finishes and in the methods of applying finishes to automobiles also have been made. Up to about 1923, according to M. J. Callahan, chemical superintendent for E. I. du Pont de Nemours & Co., the finish of automobile bodies consisted, as it does today, of surfacing or under coats and the color or top coats; but while the under coats were in general satisfactory, the color coats were not satisfactory either to the car owner or the manufacturer. In 1923 the so-called Duco lacquer finish, based on cellulose nitrate, developed by General Motors Laboratories and du Pont, was first used on the Oakland car. This finish was described by General Motors as possessing advantages as follows:

> Quick-drying superior coverage effected with fewer coats—reduced cost of manufacture because of time saved. More durable and easy and inexpensive to refinish in case of damage. Permitted extensive use of color in a quickly applied and suitable finish and has been used extensively not only in the automobile business but in countless other industries. Better results at a lower cost.

Mr. Callahan submitted diagrams that showed the total time for applying and drying the surfacing and color coats of a medium-priced automobile just prior to the introduction of lacquer color coats as 40 operating hours, as compared with 9½ operating hours after introduction of the lacquer finish. He also stated that, due to the fact that lacquers are applied by spray methods and to their rapid setting and drying qualities, it became possible to finish economically practically any type of body design, and that the use of closed-car bodies and their almost universal adoption would have been practically impossible without the availability of lacquer.

A process of reducing the time of drying paint from several hours to approximately 5 minutes, by the use of radiation, is covered by patent issued to F. J. Groven in 1935 and assigned to the Ford Motor Co. The Ford company is now using this process. At the present time other companies, also, have in their assembly lines facilities for applying and drying the color coats in a few minutes' time.

Electrical equipment.—As already stated, Cadillac was the first car equipped with electrical starting, lighting, and ignition, an improvement which won for the company the Sir Thomas Dewar trophy, in England, in 1913.

The early generators used in cars for the production of electric current were large, delivered a maximum of about 12 amperes over a narrow range of car speeds, and supplied current only for ignition and lights. The generators of today, only one-half as large, develop from 22 to 30 amperes, maintain a satisfactory charging rate at practically any car speed, and, in addition to current for lights and ignition, they take care of the radio, car heater, windshield wipers, and other accessories.

The electric starting motor removed the dangers of cranking by hand, which was the practice prior to its adoption and thereby made the driving of an automobile practical for women and safer for everyone.

A method of automatic spark control operated by vacuum from the intake manifold, devised by Studebaker about 1930, was used first on Studebaker cars and eventually was adopted by almost all the other manufacturers. It was a substitute for the former manual spark adjustment, which was not altogether satisfactory, because of failure of the car operator to use the control properly for most efficient engine operation.

Steels.—In 1907 Henry Ford introduced vanadium steel to the automobile industry in the United States. Development of vanadium alloy steel was undertaken by one of the steel companies with the cooperation of Ford Motor Co., and the success of the undertaking made possible the production of lightweight, but sufficiently strong, automobiles that could be sold at a cheap price.

About 1922 Studebaker engineers devised a formula for manufacturing molybdenum alloy steel—a product superior to that available up to that time for the manufacture of certain automobile parts requiring a tough elastic core and a hard outer surface, such as axle shafts and gears. The new formula made it possible to produce, by use of molybdenum in the alloying of metals, a steel not only cheaper but with fabricating qualities far excelling steels produced with other alloys.

CHAPTER XVIII. FINANCING THE DISTRIBUTION OF AUTOMOBILES

SECTION 1. INTRODUCTION

Importance of financing in the manufacture and distribution of motor vehicles.—The distribution of new motor vehicles is probably unique in one very important respect. The amount of money represented in a single unit, even the lowest priced vehicle, is relatively large; and a large proportion of the sales at retail is effected on credit. Nevertheless, the manufacturer receives cash for his motor vehicles before they leave the factory on their way to the distributors. According to certain statistical data,[1] 62.6 percent of all new passenger cars sold in the United States in 1929 were sold on installments. The corresponding proportion in 1936 was 61.2 percent, and in 1937, 59.4 percent. For commercial cars the proportions sold on installments were 57.7 percent in 1936 and 60.4 percent in 1937. In Canada the proportions were slightly smaller: for passenger cars, the proportions were 47.2 percent in 1936 and 52.3 percent in 1937, and for commercial cars the proportions for the same 2 years were 58.9 percent and 54 percent, respectively. Used cars, also, are largely sold on the installment plan. The proportions of used passenger cars so sold in the United States were 65.1 percent in 1929, 58.2 percent in 1936, and 60.4 percent in 1937. The like proportions of used passenger cars sold in Canada in 1936 and 1937 were 60.6 and 63 percent, respectively.

It goes almost without saying that if this installment credit had not been extended to the retail purchasers of these motor vehicles the volume of sales of new and used cars in these years would not have been nearly so large as they were. It is conceivable that if the purchasers of these cars on credit had waited until they had accumulated enough cash to pay for these vehicles in full in cash at the time of purchase the same number of cars could have been sold eventually. However, such a course of procedure would have deferred these sales 6, 12, 18, even 24 months, and would have resulted in smaller volumes of sales during the period of waiting. Furthermore, it is probable that many of the car purchasers would not have made the accumulations of cash and would not have made the purchases at all if the business had been conducted on a strictly cash basis. So that the system of selling motor vehicles on credit was probably essential in order to attain the realized volume of retail sales of both new and used cars, and in order to attain the achieved volume of production of new cars.

The sale of new and used cars on relatively long-time credit has the effect of tying up a large amount of working capital in installment accounts for many months. This fact requires a much larger amount of capital than if the same volume of business were transacted on a strictly cash basis. If a retail distributor starting in the business

[1] Automobile Facts and Figures, 1938 ed., p. 67.

attains a certain volume of sales during the period in which his working capital is being absorbed in installment accounts and stock of used cars taken in trade, he cannot continue that volume of business after his working capital has become so absorbed, if he is dependent upon his own capital resources. His volume of business would have to be greatly reduced unless his investment in installment contracts and in a stock of used cars can be freed through financing by other parties.

Furthermore, if the wholesale and retail distributors were dependent wholly upon their own capital resources in order to pay for stocks of new cars, their purchases from the manufacturers would necessarily be made in much smaller volume than they could be made if these distributors' capital resources were supplemented by credit obtained from outside sources. The manufacturers, however, do not sell motor vehicles on credit directly, but sell for cash in hand before the motor vehicles are shipped. In practice, finance companies provide from 90 to 100 percent of the cash required to finance the distributors' requirements of motor vehicles, or "floor plans." It is said that the distributor who wishes to buy a carload or more of new motor vehicles from the manufacturer ordinarily provides a finance company with about 10 percent of the amount of funds necessary for paying the manufacturer for these motor vehicles, and that the finance company furnishes the other 90 percent, pays the manufacturer, takes title to the motor vehicles directly from the manufacturer, and delivers physical possession of them to the distributor in exchange for trust receipts signed by, or for, the distributor. Also, many distributors find it necessary to obtain advances from finance companies on their used-car stocks until such time as their investment in these used cars can be freed through resale.

Thus the financing of distributors' installment sales of both new and used cars and of their "floor plan" purchases of new motor vehicles is an important and indispensable, integral part of the whole process of the manufacture and distribution of motor vehicles. Without such financing, either the volume of sales, and therefore of manufacture of new motor vehicles, would have to be much smaller or there would have to be several times the number of distributors in the business than actually carry on the distribution of motor vehicles under the credit system. Furthermore, the influence of the manufacturers upon their distributors with reference to the choice of companies with which to finance is an important part of the manufacturer-distributor relationship.

How distributors' retail installment sales of automobiles are financed.—There are several classes of financial institutions that are engaged in financing the distribution of motor vehicles. One of these classes consists of commercial and of small-loan banks. It is said that, at the present time, about 4 percent of the retail installment sales are financed by banks, and that the proportion is growing. A large proportion of the installment sales of automobiles on the Pacific coast is financed by such institutions, particularly the Bank of America.

The other 96 percent is financed by so-called finance companies. There is a relatively large number of these institutions, around 500, in this business in the United States. For purpose of this discussion, they may be divided into three subgroups; namely: (1) Factory-con-

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trolled finance companies; (2) factory-preferred finance companies; and (3) non-factory-related finance companies, or the so-called independent finance companies. At the present time, there is only one factory-controlled finance company engaged in financing retail and wholesale sales of motor vehicles, namely, General Motors Acceptance Corporation, the capital stock of which is owned by General Motors Corporation. From the date of its organization until sometime in 1933, Universal Credit Corporation was a factory-controlled finance company, being controlled by the Ford interests. In 1933, the majority of its voting stock was sold to Commercial Investment Trust Corporation, since which time Universal Credit Corporation has been in the factory-preferred class.

The factory-preferred finance companies include, at the present time, Universal Credit Corporation and its controlling Commercial Investment Trust Corporation, Commercial Credit Co. and their subsidiaries. The term "factory-preferred" is applied to them because of the arrangements between them and certain manufacturers of motor vehicles. After the sale of its stock to Commercial Investment Trust Corporation, Universal Credit Corporation continued to concentrate on the financing of the wholesale and retail sales of the products of Ford Motor Co. and of its subsidiary, Lincoln Motor Co.; and this investigation was informed that so long as the financing rates submitted to Ford Motor Co. were satisfactory, that company recommended to its distributors that they finance with Universal Credit Corporation. Commercial Investment Trust Corporation had similar understandings with certain other automobile manufacturers, such as Studebaker, Hupmobile, and Packard. For a number of years, Chrysler interests owned 55,000 shares of the capital stock of Commercial Credit Co. and influenced distributors of Chrysler makes of car to finance with that company. It has even been claimed, and there is considerable amount of evidence to support the claim, that General Motors Corporation, Ford Motor Co., and the Chrysler Corporation even exerted various kinds of pressure upon their distributors in order to induce them to finance with the recommended finance companies.

General Motors Acceptance Corporation, Commercial Credit Co. and Commercial Investment Trust Corporation, with its subsidiary, Universal Credit Corporation, may be spoken of collectively as factory-related finance companies. In the industry, they are frequently referred to as national companies and as the Big Boys.

Outside of these companies and their subsidiaries there is a large group of finance companies that are not related to motor-vehicle manufacturers either through control or through preference arrangements. These are commonly referred to in the industry as independent finance companies. Several of these companies, notably Associates Investment Co. and National Bond & Investment Co., are themselves relatively large companies in the sense of having a relatively large business and of having numerous branch offices which are distributed over the northeastern quarter of the United States. However, they are not nearly so large as General Motors Acceptance Corporation, Commercial Credit Co., and Commercial Investment Trust Corporation. Most of the so-called independent finance companies are small in the amount of capital employed and in the areas of their respective operations.

The great mass of these finance companies, particularly the independent finance companies, carry on their activities with their own capital only in small part. They buy installment contracts from automobile distributors and pledge these contracts as collateral security for loans that they obtain from the large commercial banks. In other words, the wholesale financing of distributors' retail sales of motor vehicles, particularly the retail sales financed directly by the independent finance companies, is done by large commercial banks; the finance companies make the dealer contacts, conduct the credit investigations of the car purchasers, carry on the work and incur the expense of collecting the monthly installments and of accounting therefor, and assemble the multitude of small credit units into large, or wholesale, units and turn these over to the large commercial banks, the capital of the finance companies constituting the buffer that absorbs the major portion of the risk of loss that would be incurred by the commercial banks if they financed the retail sales of motor vehicles directly.

Typical illustrations.—Chart VI, which follows, presents the information with reference to a typical installment sale of a motor vehicle.

CHART VI

Passenger car—New.

City: Omaha, Nebr.
Date of sale: 5/27/1937.

Make: Chrysler.
Model No.: C 16–37.
Body: Coupe.
Trade name: Royal.

Style:
No. of cyl.:
Brake H. P.:

Name of vending retailer: Smith & Jones Auto Sales Co.
Retailer's address: Red Cloud, Nebr.
Name of finance company: Factory-Preferred Finance Co.

USED VEHICLE TAKEN AS TRADE-IN

(Make) (Model No.) (Body) (No. of Cyl.) (Year)

Passenger car or truck?

Blue Book valuation, $

Cash sale price of vehicle as delivered (retail price f. o. b. factory, $715)		$951. 50
Additions to cash sale price for:		
Insurance: Fire $----; Theft $----; Collision $----; Liability $----; All	$28. 40	
Sales tax	------	
Finance company's finance charge differential (amount)	17. 98	
Notary and recording fees and other documentary charges	------	
Dealers' loss reserve	5. 42	
Company's loss reserve	------	
Other service or finance charges	------	
Total additions		51. 80
Total deferred payment price to purchaser		1, 003. 30
Payments and allowances at time of delivery to purchaser:		
Amount allowed as trade-in for used vehicle		--------
Amount paid in cash by purchaser		589. 90
Total face amount of purchaser's note or notes		413. 40
Amount paid or allowed by Finance Co. for note or notes	361. 60	
12 deferred payments—Finance charge percentage		6. 00

	Due date	Face	Int.	Total		Due date	Face	Int.	Total
1st	6/27/1937			$34.45	14th				
2nd	7/27/1937			34.45	15th				
3rd	8/27/1937			34.45	16th				
4th	9/27/1937			34.45	17th				
5th	10/27/1937			34.45	18th				
6th	11/27/1937			34.45	19th				
7th	12/27/1937			34.45	20th				
8th	1/27/1938			34.45	21st				
9th	2/27/1938			34.45	22nd				
10th	3/27/1938			34.45	23rd				
11th	4/27/1938			34.45	24th				
12th	5/27/1938			34.45	25th				
13th					26th				
	Total			413.40		Total			

Amount of finance charge rebated to retailer, if any

Amount of finance charge paid to manufacturer, if any

Character of security for deferred payments: Conditional Sale Contract.

Did the Finance Co. have right of recourse to the retailer in case of default on purchaser's note or notes? Yes, repurchase agreement.

In the transaction represented in chart VI, all of the data are actual with the exception of the name of the finance company and the name and address of the vending retail distributor. The transaction represents the sale of a Chrysler Royal coupe in the Omaha region on May 27, 1937. The retail price of this car f.o.b. factory was $715; and the cash sale price at the place of sale was $951.50. The sale was not effected for cash, however, but on 12 months' time. The purchaser made a payment at the date of the transaction ("down payment") of $589.90. It is probable that a considerable portion of this represented the allowance to the purchaser for a used car taken in trade; but the source of data did not show the division of this amount between such allowance and cash. This down payment left $361.60 of the cash sale price unpaid at the date of the transaction. To this amount, the dealer added charges aggregating $51.80, consisting of $28.40 for the retail premium for fire, theft, and other insurance placed on the car for the duration of the installment contract, and of $23.40 for "finance charges." Addition of this $51.80 to the unpaid cash purchase price of $361.60 made a total of $413.40; and this was the amount stated as the purchaser's indebtedness in a conditional sale contract signed by him at the date of the transaction. This total indebtedness was made payable, according to the contract, in 12 equal monthly installments of $34.45 each, the first installment being payable 1 month after the date of the transaction and the other installments following at monthly intervals.

Immediately after effecting this sale, the vending dealer sold this installment contract to the finance company and received the latter's check immediately for the unpaid cash purchase price of $361.60. Thus this vending dealer received immediately the entire cash sale price of this automobile, $961.50, partly from the car purchaser, partly from the finance company. As before intimated, it is probable that a considerable portion of the amount received from the car purchaser consisted of the amount allowed him as the trade-in value of the used car received from him; and the dealer did not realize the $951.50 in cash until such time, if ever, as he resold the used car at the allowed valuation plus at least the reconditioning and selling expenses (and resold another used car taken in the sale of this used car, etc.). As this installment contract was received by the finance company from the vending dealer, it was endorsed by the dealer "without recourse." However, the finance company purchased this installment contract from the vending dealer under a general agreement with the latter pursuant to the terms of which the dealer was obligated, if the car purchaser defaulted in payment of his obligation and the finance company repossessed the car and redelivered it in running condition to the dealer within 90 days after the date of such default, to accept redelivery of the car and to pay the finance company the unpaid balance of the purchaser's obligation. In consequence, the finance charge of $23.40 was divided into two parts, namely, (1) a so-called dealer's loss reserve amounting to $5.42; and (2) the finance company's finance charge differential amounting to $17.98. The $5.42 was set up on the finance company's record as a credit to the loss reserve account of this particular dealer. About three times a year, the finance company reviewed the record of this and similar amounts set up as loss reserves to the credit of the same dealer, drew off a statement of the unpaid balances of installment contracts purchased from this dealer, computed an amount equal to 3 percent thereof and deducted this from the accumulated loss reserve credit to the account of this dealer, and paid the remainder to the dealer. Thus this dealer received eventually not only the $951.50 that was the cash sale price of this Chrysler coupe but also an additional $5.42, which was his participation in the finance charge. This dealer's loss reserve was placed to the credit of this dealer, and paid to him eventually, on the theory that out of the total number of installment contracts purchased by the finance company from the dealer under the general repurchase agreement a certain number of the cars would be repossessed and redelivered to this dealer, who would have to recondition and resell these repossessed cars, and that the dealer might sustain a loss in the resale—this loss reserve compensating him for the risk of such loss.

It is probable that this finance company also financed this dealer's purchase of this car along with others from the manufacturer. If so, this finance company received the title to this car directly from the manufacturer, physical possession of the car being delivered to the dealer in exchange for a trust receipt signed by, or for, the dealer in favor of the finance company. When the dealer sold this car under a conditional sale contract, the finance company still retained the title to the car; and it continued to retain the title until the purchaser completed the payment of the installments.

It will be observed, in passing, that the arrangement of greatest convenience is that in which the same finance company finances both the distributor's motor-vehicle "floor plan" purchases and his installment sales. Opportunities to becloud titles are eliminated; and proceeds of installment contracts can be applied to liquidation of the distributor's indebtedness on wholesale account.

The remaining $17.98 was that portion of the finance charge that was left to the finance company with which to cover its operating expenses and to provide it with profit.

It will be noted that the retail premium for the insurance placed on this car was $28.40 and that this was included in the time price of the car and in the total face amount of the purchaser's installment obligation. The insurance on this car was placed with the insurance company by the finance company; and the latter received, as an insurance agent, a commission equal to 35 percent or more of this retail insurance premium. In this respect, the finance company may have acted directly or it may have acted through a subsidiary insurance brokerage company. In either event, the finance company received, directly or indirectly, a gross margin consisting of the commission on this insurance premium as well as the $17.98 out of the finance charge with which to meet its operating expenses and to provide itself with profit.

The insurance phase of financing the distribution of motor vehicles is very important. An officer of one independent finance company assured an examiner for this Commission that the profit in the financing of automobile sales lay, not in the finance company's portion of the finance charge, but in its profit from the insurance business. Most of the finance companies probably place the insurance with insurance companies that are independent of them. General Motors Acceptance Corporation places the insurance with General Exchange Insurance Corporation, which was formerly its subsidiary, but is now a direct subsidiary of General Motors Corporation. Certain of the independent finance companies also have subsidiary insurance companies. Where the finance company directly owns the stock of the insurance company with which it places the insurance, the former benefits to the extent of the profits of the latter. In those cases in which the insurance company is wholly independent of the finance company, there is usually an arrangement whereby the finance company's rate of commission on the insurance premium depends upon the insurance company's loss ratio on the business accepted from the particular finance company; and by following measures that have the effect of keeping the loss ratio low, the finance company's commission may be 40, 45, or 50 percent of the premium, or even more. At least one finance company's commission was as high as 52 percent of the retail insurance premium. On the other hand, there was found one finance company whose commission was only 30 percent.

It is evident that the manner of the finance company's participation in the retail insurance premiums may have important consequences to the car purchasers. Inasmuch as, in adjustments with the insurance company for the future, the finance company's commission percentage is made to depend upon the insurance company's loss experience on business furnished by the particular finance company, there may be an incentive to the finance company to contrive decisions unfavorable to the car purchasers in the event of loss or damage to the cars.

The amount of the dealer's loss reserve, shown in chart VI, $5.42, is 1½ percent of the unpaid cash purchase price of $361.60. In 1937, the standard dealer's loss reserve allowed by the finance company in question on an installment contract of 12 months' duration or less was 1½ percent of the first $500 of the unpaid cash purchase price and one-half of one percent of the excess of the unpaid cash purchase price over $500. While the theory on which the allowance of such loss reserves was based appears plausible, the independent finance companies, which usually purchase installment contracts wholly without recourse to the vending dealers, claimed that the amounts allowed as dealers' loss reserves under the repurchase agreements were grossly excessive as a matter of fact, and, therefore, that the offer of loss reserves in such amounts to vending dealers constituted a very powerful competitive weapon in the hands of the factory-controlled and factory-preferred finance companies whereby to divert financing business to themselves. This subject is discussed more fully in the next section.

Plan of discussion.—The next section is devoted to a discussion of the organization of the financing industry and to the controversy that has waged between the independent finance companies on the one side and the factory-related finance companies on the other side. Chapter XIX is devoted to the presentation in tabular form and in text discussion of a great mass of data obtained in samples of deferred payment sales of new and used motor vehicles financed in 1935, 1936, 1937, and 1938 by the factory-controlled, factory-preferred, and independent finance companies respectively, showing the average and the highest and lowest finance charge percentages in numerous samples of such transactions and also showing the rates of interest per month and per annum that were implied in the finance charges pertaining to these transactions. Inasmuch as not all of the finance charges collected by a finance company are retained by the company, a portion being paid to the vending dealers, and inasmuch as a considerable portion of the charges retained by the finance company is consumed in the finance company's operating expenses and credit losses, it is deemed desirable to show the rates of net profit to the finance companies on the total capital employed in their business. This is done in section 3 of this chapter, which deals with the income, costs, and profits of automobile finance companies.

Section 2. Bases of Financing Automobile Distribution, and the Controversy in the Industry

Recourse, partial recourse, and nonrecourse financing.—The illustrative installment contract presented in chart VI in the preceding section was purchased by the finance company under what is known as a general repurchase agreement with the vending dealer. There are three general bases on which finance companies purchase installment contracts from the dealers; namely: (1) Specific nonrecourse but subject to a general repurchase agreement, (2) wholly nonrecourse to the vending dealers, and (3) full recourse to the vending dealers. In addition to these, or as substitutes for them, certain finance companies use certain modifications of these bases of purchase. For example, one finance company furnishes its dealers with conditional sale contract forms to which are attached perforated coupons from which choice is to be made in the case of each specific installment contract. One of these coupons constitutes, when filled out, the specific repurchase agreement; another coupon is used when the finance company is to purchase the contract wholly without recourse to the dealer; a third coupon is used when the purchase is to be made with full recourse; two or three other coupons are provided for use in case the contract is to be sold to the finance company with some other limitation upon the latter's right of recourse to the dealer in case of default by the car purchaser.

In the case in which the finance company purchases installment contracts from the vending dealers under a general repurchase agreement, there is usually no specific contract between the finance company and the particular dealer that is signed by these parties. The general repurchase agreement is embodied in the terms of a general financing plan provided by the finance company, copies of which are furnished to the dealer; and it is tacitly understood, when a dealer offers the finance company an installment contract, that the offer is made subject to the terms set forth in the general plan. The dealer endorses the specific installment contract to the finance company wholly without recourse to the former; but it is provided, under the terms of the general plan, that if the finance company should have occasion to repossess the car and should do so and should return it to the vending dealer in running condition within 90 days after default by the purchaser, the vending dealer is obligated to accept the car and to pay the finance company the unpaid portion of the car purchaser's obligation. Ordinarily the vending dealer receives from the finance company at the date of sale of the installment contract to the latter a check for the amount of the unpaid cash purchase price of the vehicle, or for that amount plus any recording fee, notarial fee, or documentary stamp tax paid by the dealer and included in the time price of the vehicle and in the total amount of the installment contract. In addition to this, the finance company purchasing under a repurchase agreement sets up in its accounts for the benefit of the vending distributor a so-called "dealer's loss reserve." The manner in which this is used was described in the preceding section.

Chart VII, which follows, presents data for an installment sale of an automobile in connection with which the conditional sales contract was sold to the finance company wholly without recourse to the vending dealer.

CHART VII

Passenger car—New.

City: Milwaukee, Wis.
Date of sale: 3/23/1937.

Make: Oldsmobile.
Model No.: 1937.
Trade name: Tudor.
Body: Sedan.

Style: Touring.
No. of cyl.: 6.
Brake H. P.:

Name of vending retailer: Griscom & Harlan.
Retailers address: Waukesha, Wis.
Name of finance company: Independent Finance Co.

USED VEHICLE TAKEN AS TRADE-IN — Passenger car or truck?

(Make) (Model No.) (Body) (No. of cyl.) (Year)

Bluebook valuation, $

Cash sale price of vehicle as delivered		$933.00
Additions to cash sale price for:		
Insurance: Fire $____; theft $____; collision $____; Liability $____; all	$18.71	
Sales tax		
Finance company's finance charge differential (amount)	22.99	
Notary and recording fees and other documentary charges		
Dealers' bonus	4.50	
Company's loss reserve		
Other "service" or "finance" charges		
Total additions		46.20
Total deferred payment price to purchaser		979.20

Payments and allowances at time of delivery to purchaser:
Amount allowed as "trade-in" for used vehicle
Amount paid in cash by purchaser $483.00

Total face amount of purchaser's note or notes 496.20
Amount paid or allowed by Finance Co. for note or notes 450.00
12 deferred payments, finance charge percentage 5.87

	Due date	Face	Int.	Total		Due date	Face	Int.	Total
1st	4-24-1937			$41.35	14th				
2nd	5-23-1937			41.35	15th				
3rd	6-23-1937			41.35	16th				
4th	7-23-1937			41.35	17th				
5th	8-23-1937			41.35	18th				
6th	9-23-1937			41.35	19th				
7th	10-23-1937			41.35	20th				
8th	11-23-1937			41.35	21st				
9th	12-23-1937			41.35	22nd				
10th	1-23-1938			41.35	23rd				
11th	2-23-1938			41.35	24th				
12th	3-23-1938			41.35	25th				
13th					26th				
	Total			496.20		Total			

Amount of finance charge rebated to retailer, if any
Amount of finance charge paid to manufacturer, if any
Character of security for deferred payments: Conditional Sales Contract.
Did the finance company have right of recourse to the retailer in case of default on purchaser's note or notes? No.

The data presented in chart VII are quite similar to those presented in the preceding chart (see sec. 1), but differ in two important respects; namely: (1) This installment contract was purchased by the finance company without any kind of recourse to the vending dealer in case of default by the purchaser, with the exception of fraud perpetrated by the dealer; while the vending dealer is allowed a participation in the finance charge, it is called a "bonus" instead of a "dealer's loss reserve." In this case, the unpaid cash purchase price of this Oldsmobile Sedan was $450. The insurance on the car was placed through the finance company; and in the time price of the car and the total face amount of the purchaser's installment contract, the purchaser was charged with the full amount of the retail insurance premium, $18.71. This brought the unpaid cash purchase price of the vehicle up to $468.71. To this base was added a finance charge aggregating $27.49. Of this amount, $4.50, or 1 percent of the unpaid cash purchase price was allowed the vending dealer as a participation or "bonus." The remaining $22.99 was left to the finance company as the provision to cover its operating expenses and to provide it with profit. In this case, as in the preceding illustration, the finance company also received as a commission a part of the retail insurance premium. The amount of the car purchaser's installment obligation, $496.20, was made payable in 12 equal monthly installments of $41.35 each. Thus the vending dealer received eventually $4.50 more than the cash sale price of the car. The finance company's check for the unpaid cash purchase price, $450, was issued immediately upon receipt of the installment contract. The dealer's bonus of $4.50 was paid by the finance company to the dealer, along with an aggregation of similar bonuses, on or before the 10th of the following calendar month.

The bonus of $4.50 paid to the vending dealer in the transaction represented in chart VII, was a participation by the dealer in the regular finance charge as provided by application of a finance rate chart supplied by the finance company to the dealer.

Chart VIII, which follows, presents data for another installment sale in which the vending dealer not only participated in the regular finance charge but also made a substantial addition to the regular finance charge and received from the finance company a check that included this addition as well as the regular dealer's bonus.

CHART VIII

Passenger car—New

City: Chicago, Ill.
Date of sale: 6/19/1937.

Make: Ford.
Model No.: 1937–78.
Trade name:
Body: Coupe.

Style:
No. of cyl.:
Brake H. P.:

Name of vending retailer: Illinois Ford Sales Co.
Retailer's address:
Name of finance company: Independent Auto Finance Corp.

USED VEHICLE TAKEN AS TRADE-IN

Passenger car or truck?

(Make) (Model No.) (Body) (No. of Cyl.) (Year)

Blue Book valuation, $______.

Cash sale price of vehicle as delivered		$634.00
Additions to cash sale price for—		
Insurance: Fire and theft, $16.12; collision, $12.00; liability, $____; all	$28.12	
Sales tax	______	
Finance company's net finance charge differential (amount)	14.48	
Notary and recording fees and other documentary charges	______	
Dealers' bonus (participation in the regular finance charge)	4.52	
Company's loss reserve	3.79	
Other "service" or "finance" charges (dealer's addition to regular finance charge)	26.37	
Total additions		77.28
Total deferred-payment price to purchaser		711.28
Payments and allowances at time of delivery to purchaser:		
Amount allowed as trade-in for used vehicle	125.00	
Amount paid in cash by purchaser	207.56	
		332.56
Total face amount of purchaser's note or notes		378.72
Amount paid or allowed by finance company for note or notes	327.81	
12 deferred payments, finance charge percentage		14.92

	Due date	Face	Int.	Total		Due date	Face	Int.	Total
1st	7-19-1937			$31.56	14th				
2nd	8-19-1937			31.56	15th				
3rd	9-19-1937			31.56	16th				
4th	10-19-1937			31.56	17th				
5th	11-19-1937			31.56	18th				
6th	12-19-1937			31.56	19th				
7th	1-19-1938			31.56	20th				
8th	2-19-1938			31.56	21st				
9th	3-19-1938			31.56	22nd				
10th	4-19-1938			31.56	23rd				
11th	5-19-1938			31.56	24th				
12th	6-19-1938			31.56	25th				
13th					26th				
	Total			378.72		Total			

Amount of finance charge rebated to retailer, if any $26.37
Amount of finance charge paid to manufacturer, if any ....
Character of security for deferred payments: Conditional sale contract.
Did the finance company have right of recourse to the retailer in case of default on purchaser's note or notes? No.

The transaction portrayed in chart VIII represents the sale of a 1937 Ford coupe in the Chicago area on June 19, 1937. The cash sale price of this vehicle as delivered, according to the vending dealer's report of facts, was $634. As part payment of this price, the dealer accepted a used car from the purchaser and allowed him $125 therefor. The purchaser's check brought the total of the down payment up to $332.56, and left an unpaid cash purchase price of $301.44. To this base the vending dealer added charges aggregating $77.28, which brought the purchaser's time obligation up to $378.72, payable in 12 equal monthly installments of $31.56 each. Of the total charges added to the unpaid cash purchase price, $28.12 was the retail premium for the fire, theft, $50 deductible collision insurance, and comprehensive damage insurance placed on this car for 12 months. The finance charges as provided by the finance company's rate chart amounted to $22.79; but the vending dealer added $26.37 thereto. The dealer was allowed a participation in the regular finance charges, or a bonus of $4.52, which was paid to him on or before the 10th of the next calendar month. At the date of selling this installment contract to the finance company, the dealer received the finance company's check for $327.81, which included not only the unpaid cash purchase price of $301.44 but also the dealer's addition of $26.37 to the regular finance charges.

Purchase of installment contracts by finance companies with full recourse to the vending dealers is the exceptional practice. Usually the installment contracts so purchased represent what, in the language of the industry, is called "subnormal paper." That is, the finance company's investigation of the prospective purchaser's credit resulted in an unfavorable judgment—a judgment that purchase of such installment contracts under the usual terms would be unusually risky. In consequence the vending dealer was required to endorse such contracts with full recourse to himself in case of default by the car purchaser. In such cases, should default occur and should the car be repossessed by the finance company, the car would be returned to the vending dealer and the latter would be responsible to the finance company for the unpaid balance of the installment contract plus expenses of repossession. If default should occur but the finance company should be unable to repossess the car and redeliver it to the dealer, the latter would still be fully liable to the finance company for the unpaid balance on the installment contract.

What finance companies use respective plans.—General Motors Acceptance Corporation, Commercial Credit Co., and Universal Credit Corporation follow the practice of purchasing these installment contracts under general repurchase agreements with the vending dealers. Commercial Investment Trust Corporation and its subsidiaries other than Universal Credit Corporation purchase under general repurchase agreements from certain dealers but purchase wholly without recourse from other dealers. Certain independent finance companies also follow the general practice of buying these installment contracts under repurchase agreements. All of these companies make provision for the so-called dealers' loss reserves in connection with installment contracts so purchased. Commercial Investment Trust Corporation allows the vending dealers to participate in the regular finance charges by way of dealers' bonuses in those transactions in which the installment contracts are purchased wholly without recourse to the dealers. There is probably no finance company that follows exclusively the practice of purchasing these installment contracts wholly without recourse to the dealers. However, most of the independent finance companies make their purchases under this plan to the extent of probably 80 percent or more of the total volume of installment contracts purchased.

Dealers' loss reserves, dealers' bonsuses, and dealers' "packs."—Certain terms have been used in the foregoing discussion; and definitions of them may be in order.

By a "dealer's loss reserve" is meant a participation by the vending dealer in the regular finance charges provided by application of the rate chart furnished by the finance company if the installment contract is purchased by the finance company under a repurchase agreement with the dealer.

By a "dealer's bonus" is meant a participation by the vending dealer in the regular finance charges provided by application of the rate chart furnished by the finance company in a transaction in which the installment contract is purchased by the finance company wholly without recourse to the dealer.

By a dealer's "pack" or "special reserve" is meant an addition made by the vending dealer to the regular finance charges provided by application of the rate chart furnished by the finance company, this amount being paid by the finance company to the dealer. Thus the dealers' loss reserves and the dealers' bonuses are participations by the dealers in the regular finance charges, while a dealer's "pack" is an arbitrary addition made by the vending dealer to the regular finance charges for his own benefit and without justification in the way of extra service.

Controversy as to the real character of the so-called dealers' loss reserves.—The explanation made by the factory-controlled, the factory-preferred finance companies, and made by the other finance companies that follow the practice of buying installment contracts under repurchase agreements with the vending dealers and of allowing these dealers participations in the regular finance charges under the name of "dealers' loss reserves," is that these vending dealers incur, at the time of the sale of such contracts to the finance company, the risk of loss in that if cars are repossessed and redelivered to these dealers the latter may not be able to recover in the resale of such cars the full amount of the unpaid balances of the installment accounts, their reconditioning costs, and the costs of selling the repossessed cars as used cars. Therefore, these finance companies aver the vending dealers are entitled to include in the total time prices of their automobiles and in the total amount of the installment contracts a provision to compensate them for this risk of loss. So stated, the claim is plausible.

However, the nonrecourse finance companies, which include the great bulk of the independent finance companies, claim that the amounts so provided in the finance charges and allowed the vending dealers as loss reserves are greatly in excess of the amount necessary to compensate the dealers for the risk of loss that they incur. In consequence, they claim, the excess of the amounts allowed as loss reserves over the amounts necessary to cover the risk of loss constitutes a powerful competitive weapon in the hands of the factory-preferred and factory-controlled finance companies wherewith to buy business from the vending dealers away from the nonrecourse finance companies. They claim that, to the extent of such excess, these dealers' loss reserves constitute "commercial bribery;" and they claim that, in order to meet this competitive situation, they also are justified in allowing the vending dealers participations in the regular finance charges to the extent of such excess. The latter participations are usually referred to as "bonsuses" or "dealer's participations."

These nonrecourse finance companies, and even independent finance companies that purchase under repurchase agreements, also claim that it is practically necessary that they permit their customer dealers to make additions to the regular finance charges when they see fit to do so and to pay them the amounts of these "packs" in addition to the unpaid cash purchase prices of the automobiles to which the installment contracts pertain, this practice being necessary in order to overcome the effect of the manufacturers' discrimination in favor of the factory-controlled and factory-preferred finance companies. This brings the discussion to the general controversy between the independent finance companies on the one side and the factory-related finance companies on the other side.

General controversy between independent and factory-related finance companies.—The independent finance companies, which include companies that purchase under repurchase agreements as well as companies that purchase wholly without recourse to the vending dealers, claimed that certain automobile manufacturers have followed and continue to follow a practice of discriminating against them in favor of certain chosen finance companies. They claimed that General Motors Corporation discriminates in favor of its wholly owned General Motors Acceptance Corporation. They claimed that the Chrysler Corporation followed the practice for a period of years of discriminating in favor of Commercial Credit Co. They claimed that the Ford Motor Co. discriminated in favor of Universal Credit Corporation when the latter was controlled by Ford interests, and that it continued the discrimination after control of Universal Credit Corporation was purchased by Commercial Investment Trust Corporation.

These discriminations, they claimed, took various forms. The manufacturers' representatives, when calling upon the dealers, recommended that these dealers finance with the chosen finance companies and urged them to do so, thereby relieving these finance companies of much of the expense involved in soliciting business The manufacturers, they claimed, would accept the checks of the favored finance companies in making payment for shipments of cars for account of the dealers, but would not accept the checks of other finance companies. They claim that General Motors Corporation, for example, followed the practice of delivering titles and the specific motor-vehicle descriptions to General Motors Acceptance Corporation, and refused to accept even certified checks from other finance companies and to deliver titles and descriptions to such independent finance companies even when instructed to do so by the distributor to whom sale was being made. The Chrysler Corporation, they claimed, did permit independent finance companies to make payment for account of the purchasing distributors and did deliver titles and descriptions to such companies; however, the regular routine established in the offices of the Chrysler Corporation was to deliver descriptions and titles to Commercial Credit Co., and often such titles and descriptions were delivered to Commercial Credit Co. through clerical error even when an independent finance company made the payment for the account of the dealer. They claimed that the manufacturers provided to representatives of the favored finance companies office space on the factory premises, which facilitated the process of obtaining information as to shipments of motor vehicles to the various dealers and of obtaining information as to the descriptions and titles to these vehicles; but that they would not allow this advantage to other finance companies. They also claimed that these manufacturers went further in their discriminations in favor of the chosen finance companies by applying to the dealers measures that had the effect of coercing them into financing with the favored finance companies.

These independent finance companies claimed that the effect of such discriminatory practices has been that of causing the business of the favored finance companies to grow much more rapidly than the business of the other finance companies—indeed to the extent of concentrating a very large portion of the business of financing the distribution of motor vehicles in three large organizations—General Motors Acceptance Corporation, Commercial Credit Co., and Commercial Investment Trust Corporation (including Universal Credit Corporation). It is claimed that, at the present time, about 78 percent of all of the financing of automobile distribution is done by these three organizations, about 18 percent is done by several hundred other finance companies, and about 4 percent is done by commercial and small-loan banks.

These independent finance companies claimed that, in order to keep the business they already have or to regain business that has been diverted to the favored finance companies, it is necessary that they offer the automobile distributors financial inducements that will counteract the effect of these discriminations. To that end, not only do they allow the dealers a participation in the regular finance charges, or bonus, even though they purchase the installment contracts wholly without recourse to such dealers, but, they claimed, they have found it necessary to allow these dealers to make additions to the regular finance charges and to pay them the amounts of these "packs" in addition to the unpaid cash-purchase prices of the cars.

Other events have helped the independent finance companies to meet this competitive situation. When General Motors Corporation and General Motors Acceptance Corporation announced the so-called 6-percent plan in the autumn of 1935, and set out to instruct the automobile-purchasing public how to compute the finance charges for itself, and was followed by similar announcements and advertising by the Chrysler Corporation and Commercial Credit Co. and others, complaints were made by various parties against these organizations accusing them of false and misleading advertising by leading the public into the belief that, under this plan, the car purchasers on time were being charged simple interest at the rate of 6 percent per annum on the diminishing balances of the unpaid purchase prices whereas, in fact, the rate was applied to the original unpaid balance throughout. Also, these finance companies were behind the movement that resulted in the indictments by the Federal grand jury at South Bend, Ind., of General Motors Corporation, General Motors Acceptance Corporation, the Ford Motor Co., the Chrysler Corporation, Commercial Credit Co., Commercial Investment Trust Corporation, and their subsidiaries and certain officials thereof, for conspiracy in restraint of interstate commerce, the alleged conspiracy being a conspiracy to favor the named finance companies to the detriment of their competitors.

In connection with these claims, table 151 shows the growth of the volume of obligations purchased in the United States and Canada by General Motors Acceptance Corporation and the growth of its assets during the period from its organization, April 1, 1919, to December 31, 1937.

TABLE 151.—*Growth of volume of obligations purchased in United States and Canada by, and of assets of, General Motors Acceptance Corporation, Apr. 1, 1919, to Dec. 31, 1937*

	Volume of obligations purchased			Consolidated total assets, Dec. 31
	Retail	Wholesale	Total	
1919	$9, 989, 000	$7, 636, 000	$17, 625, 000	$16, 550. 000
1920	46, 693, 000	37, 577, 000	84, 270, 000	35, 561, 000
1921	39, 653, 000	34, 261, 000	73, 914, 000	31, 934, 000
1922	73, 388, 000	53, 407, 000	126, 795, 000	54, 646, 000
1923	101, 665, 000	93, 857, 000	195, 522, 000	86, 113, 000
1924	101, 897, 000	117, 617, 000	219, 514, 000	79, 234, 000
1925	151, 762, 000	87, 778, 000	239, 540, 000	140, 458, 000
1926	364, 578, 000	219, 573, 000	584, 151, 000	274, 779, 000
1927	436, 799, 000	330, 8[illegible]0, 000	767, 619. 000	333, 031, 000
1928	503, 149, 000	336, 558, 000	839, 707, 000	393, 840, 000
1929	586, 428, 000	360, 184, 000	946. 612, 000	473, 812, 000
1930	475, 210, 000	317, 688, 000	792, 898, 000	384, 672, 000
1931	409, 169, 000	278, 057, 000	687, 226, 000	312, 268, 000
1932	231, 547, 000	156, 093, 000	387, 645, 000	184, 502, 000
1933	259, 618, 000	227, 181, 000	486, 799, 000	206, 637, 000
1934	346, 352, 000	387, 870, 000	734, 222, 000	292, 843, 000
1935	427, 010, 000	527, 725, 000	954, 735, 000	400, 641, 000
1936	641, 641, 000	658, 303, 000	1, 299, 944, 000	518, 364, 000
1937	628, 256, 000	667, 750, 000	1, 296, 006, 000	582, 192, 000

It will be seen from the foregoing table that in 1920, the first full year of operation, General Motors Acceptance Corporation purchased installment contracts with an aggregate face value of $46,693,000. There was a reduction in volume during the depression year 1921, but thereafter the volume of retail installment contracts purchased by this finance company increased rapidly year by year and amounted to $586,428,000 by 1929. The volume fell off during the depression years, but it began to increase rapidly after 1933 and attained a peak in 1936 of $641,641,000. The wholesale volume followed a similar trend, as also did the total volume. The latter increased from $84,270,000 in 1920 to $1,299,944,000 in the peak year 1936. During the same period the consolidated total assets of General Motors Acceptance Corporation and its subsidiaries increased from $35,561,000 in 1920 to $518,364,000 in 1936, or $582,192,000 in 1937. The growth both of the volume of obligations purchased and of the assets of this company was enormous.

Table 152, shows the growth in the volume of obligations purchased by Commercial Credit Co. and its consolidated total assets from 1915 to 1937.

TABLE 152.—*Growth of volume of obligations purchased by, and of assets of, Commercial Credit Co., 1915 to 1937, inclusive*

	Total	Consolidated total assets, Dec. 31		Total	Consolidated total assets, Dec. 31
1915	$17,582,000	$4,062,000	1927	$204,518,000	$53,842,000
1916	35,002,000	6,819,000	1928	265,884,000	78,944,000
1917	51,078,000	9,874,000	1929	442,807,000	106,317,000
1918	55,421,000	9,382,000	1930	330,824,000	116,019,000
1919	78,986,000	15,916,000	1931	274,358,000	124,140,000
1920	87,292,000	15,483,000	1932	141,641,000	70,158,000
1921	79,347,000	16,203,000	1933	199,683,000	79,106,000
1922	111,826,000	32,316,000	1934	377,959,000	107,494,000
1923	170,385,000	36,695,000	1935	525,999,000	156,924,000
1924	162,790,000	36,087,000	1936	789,508,000	263,954,000
1925	262,838,000	78,095,000	1937	933,854,000	343,679,000
1926	254,075,000	64,373,000			

The sources of information did not show separately the volumes of retail and wholesale obligations purchased by Commercial Credit Co. The total volume of these obligations increased in amount from $17,582,000 in 1915, or $87,292,000 in 1920 to $442,807,000 in 1929. The volume of business purchased by this finance company also declined rapidly during the early depression years, but began to increase rapidly again after 1933, and it amounted to $933,854,000 by 1937. In the earlier years of the period under review, the capital employed by Commercial Credit Co., as evidenced by the amount of the consolidated total assets, was relatively moderate in amount. The consolidated total assets amounted to $4,062,000 in 1915 and to $15,483,000 at the end of 1920. The consolidated total assets practically doubled from $16,203,000 in 1921 to $32,316,000 in 1922; and there was a further increase in 1923. The consolidated assets more than doubled from 1924 to 1925, but there was a decline during the next 2 years. After 1927 the total assets increased at a much more rapid rate and attained the amount of $124,140,000 by the end of 1931. There was a large drop in the amount of these assets during the severe depression years of 1932 and 1933. Commencing after 1933, however, there was again a very rapid increase, and the consolidated total assets of this finance company attained its maximum amount by the end of 1937, $343,679,000.

Table 153 shows the growth in the volume of obligations purchased by Commercial Investment Trust Corporation and its subsidiaries, and also the growth in the amount of its consolidated total assets from 1923 to 1937. Data for earlier years were not available.

TABLE 153.—*Growth of the volume of obligations purchased by, and of the assets of, Commercial Investment Trust Corporation and its subsidiaries from 1923 to 1937, inclusive*

	Total	Consolidated total assets, Dec. 31		Total	Consolidated total assets, Dec. 31
1923	$91,519,000	$34,730,000	1931	$374,094,000	$159,462,000
1924	95,509,000	44,260,000	1932	317,398,000	119,160,000
1925	148,015,000	81,967,000	1933	475,884,000	174,406,000
1926	206,114,000	101,137,000	1934	779,749,000	231,555,000
1927	188,271,000	94,721,000	1935	965,724,000	297,184,000
1928	282,164,000	142,592,000	1936	1,169,697,000	462,540,000
1929	489,544,000	209,131,000	1937	1,291,704,000	544,613,000
1930	392,044,000	166,877,000			

The total wholesale and retail volume of obligations purchased by Commercial Investment Trust Corporation and its subsidiaries increased from $91,519,000 in 1923 to $589,544,000 in 1929. Similarly to the experience of the other two finance companies, data for which are presented in the preceding two tables, the volume of business done by Commercial Investment Trust Corporation and its subsidiaries declined considerably during the early years of the depression period. In 1933 this company purchased the controlling interest in Universal Credit Corporation, and the volume of business done by this group of companies was much larger in 1933 than in 1922. The volume increased by leaps and bounds during the remainder of the period under review and amounted to nearly $1,292,000,000 in 1937. The consolidated total assets of Commercial Investment Trust Corporation and its subsidiaries increased from $34,730,000 in 1923 to $209,131,000 in 1929, but declined during the first 3 years of the depression period. The amount of these assets increased rapidly after 1932 and amounted to $544,613,000 by the end of 1937.

Similar data with reference to the volume of business and the total assets of the large group of independent finance companies are not available. However, this investigation obtained information from 26 independent finance companies for some or all of the years 1927, 1932, 1935, 1936, and 1937. From only 12 of these companies were obtained data for all of these years, and these data did not show separately the volumes of retail and wholesale obligations purchased. Table 154 compares the growth of the total capital employed in the businesses of these 12 independent companies with the growth of capital employed in businesses of General Motors Acceptance Corporation, Commercial Credit Co., and Commercial Investment Trust Corporation, inclusive of Universal Credit Corporation except in 1932, from 1927 to 1937.

TABLE 154.—*Growth of total capital employed in the businesses of 12 independent and of 4 factory-related finance companies, 1927–37, inclusive*

Year	Factory-related companies		Independent companies	
	Total capital employed	Index numbers	Total capital employed	Index numbers
1927	$446,379,000	100	$38,616,000	100
1932	[1] 393,212,000	[1] 88	42,185,000	109
1935	611,306,000	137	82,999,000	215
1936	859,796,000	193	123,473,000	320
1937	1,111,930,000	249	174,042,000	451

[1] Exclusive of the data for Universal Credit Corporation and its subsidiaries, which data were not available for 1932. This company was not in operation in 1927, so that the index number for 1932 shows the decline since 1927 in the capital employed by the other 3 factory-related companies, but the index numbers for 1935, 1936, and 1937 show the growth of the capital employed by all factory-related finance companies between 1927 and those respective years.

It will be observed from table 154 above that from 1927 to 1937 the total capital employed in the business of the factory-related finance companies increased from $446,379,000 to $1,111,930,000, an increase of 149 percent. During the same period, the total capital employed in the business of these 12 independent finance companies increased from $38,616,000 to $174,042,000, an increase of 351 percent. Thus the proportion of increase of the total capital employed in the businesses of these 12 independent finance companies from 1927 to 1937 was much more rapid than the proportion of increase in the total capital employed by the factory-related finance companies.[2]

In this comparison, however, it should be borne in mind that these 12 independent finance companies, although including the largest, constituted only a few of all the independent finance companies that operated throughout the period; furthermore, many additional independent finance companies were established within the period, and many such companies disappeared within the period through dissolution, bankruptcy, and absorption of their assets and business by other finance companies. Some of the finance companies that disappeared were absorbed by other independent finance companies; and many of them were absorbed by the factory-related finance companies, particularly by Commercial Credit Co. and Commercial Investment Trust Corporation. So that the two sets of index numbers shown in table 154 above constitute only a very rough indication of the relative growth of the two groups of finance companies.

Furthermore, it will be observed that as early as 1927 the three factory-related finance companies already employed capital amounting to $446,379,000 as compared with only $38,616,000 employed by the 12 independent finance companies. Inasmuch as the system of factory preference was inaugurated several years prior to 1927, it may be claimed that such preference produced a large part of its effect by 1927.

It has been stated by people in the industry that at the present time about 78 percent of all of the business of financing the distribution of motor vehicles is done by the factory-controlled and the factory-preferred finance companies, that about 18 percent is done by all of the independent finance companies together, and that about 4 percent is done by the commercial and small-loan banks.

The question of whether dealers' loss reserves are excessive.—In view of the fact that the independent finance companies claimed that the amounts allowed by the factory-controlled and the factory-preferred finance companies as loss reserves to the dealers under repurchase agreements were excessive, attempt was made to obtain information bearing on that subject. It was manifestly impracticable to obtain such information from retail dealers because the repossessed cars become a portion of the total stock of used cars and the costs of reconditioning and of reselling the repossessed cars could not be disentangled from the total costs of operation. Data were obtained from General Motors Acceptance Corporation showing the proportions of that company's equities that were recovered on repossessed cars that were not redelivered to the vending dealers under repurchase agreements but that were sold by dealers for account of the finance company. However, inasmuch as the great bulk of cars repossessed by the finance company is redelivered to the vending dealers under the terms of the repurchase agreements, and the cars sold for account of the finance company probably represent an adverse selection out of the total number of cars repossessed, it was not practicable to obtain from this source any idea as to the average relationship between the losses on repossessed cars and the total unpaid cash purchase prices

[2] Data for Universal Credit Corporation were not obtained for the year 1932: so that the index number for that year, 88, merely shows a decline in the amount of capital employed by the other three factory-related finance companies. However, inasmuch as Universal Credit Corporation was organized within the period under review, the index numbers shown for 1935, 1936, and 1937 do show the growth of the capital employed by this whole group of factory-related finance companies from 1927 to those years, respectively.

of all cars represented in the total volume of installment contracts purchased under repurchase agreements.

Certain independent finance companies operate used-car departments, which take, recondition, and sell the cars that these finance companies have repossessed. Most if not all of these repossessions occurred in connection with installment contracts that were purchased wholly without recourse to the vending dealers. The retail stores organized by the independent finance companies also purchase other used cars in order to provide suitable stocks of used cars with which to attract prospective purchasers; but the great bulk of their sales consists of repossessed cars. Inasmuch as these retail stores have complete organizations, with managers, salesmen, mechanics, repairmen, etc., thereby providing a working pay roll and an overhead similar to those of other retail dealers in motor vehicles, it is thought that the results of their operation furnish at least an approximate indication as to the average relationship between the losses on repossessed cars and the total volume of installment paper purchased by these finance companies. Unfortunately, such data could be obtained from only two independent finance companies, and the data from one of these could be obtained only for the years 1935, 1936, and 1937. Table 155 shows the percentages of losses on repossessed cars sold to the cost of all contracts purchased by these two finance companies.

TABLE 155.—*Percentages that installment contracts involving repossessions were of installment contracts purchased, and percentages that losses on repossessed cars were of the cost of all contracts purchased, in the experience of two finance companies with retail repossessed-car departments, by designated years, 1927 to 1937, inclusive*

Year	Percentage of quantity repossessed to quantity purchased		Percentage of losses on repossessed cars sold to cost of all contracts purchased	
	Company A	Company B	Company A	Company B
1927	9.44	(1)	1.91	(1)
1932	17.52	(1)	2.50	(1)
1935	7.03	3.36	.51	0.42
1936	7.27	4.97	.69	.72
1937	11.27	4.76	1.33	.82
Weighted average [2]			1.21	.67

[1] Data not available.
[2] Weighted by increasing amounts in 1927 and 1932 by one-half and combining with amounts in the other years.

It will be observed from the above table that the losses on repossessed cars sold by finance company B in 1935, 1936, and 1937 averaged about two-thirds of 1 percent of the total cost of all installment contracts purchased by that company during those 3 years. This proportion and the average proportion shown for the other company have certain defects, however. The percentages stated are percentages of repossessed car losses to the total cost of all installment contracts purchased, whereas, the dealer's loss reserve under a repurchase agreement is normally based, not on the face amount of the installment contract but on the unpaid cash-purchase price. Related to the latter, these percentages would be somewhat larger. Furthermore, the installment contracts used as the bases of these percentages are the contracts purchased within the years in which these repossession losses were incurred, whereas many of the repossessions in a given year are of cars that pertained to installment contracts purchased in a prior year and many of the installment contracts in a given year result in repossessions, not in that year but in the following year. Finally, the data presented with reference to finance company B pertain only to the last 3 years of a business cycle, so that the average proportion of loss based on these data is naturally much smaller than the average proportion of loss over an entire business cycle.

The data presented for finance company A included losses in 1927 and 1932 as well as losses in the last 3 years of the cycle. The average loss experienced by this finance company was 1.21 percent of the total cost of all installment contracts purchased in the designated years.[3]

In forming a judgment based on this percentage, however, it should be remembered that this represents the experience of only one finance company and, therefore, that it may not be truly representative of the experience in the entire industry. It is difficult to interpret the percentage for the reason that the losses were related to installment contracts of all durations, and the installment contracts included in the base included installment contracts pertaining to used-car sales as well as contracts pertaining to new-car sales. It will be recalled that, under the 6-percent plan (which did not go into effect for this finance company until 1936) the normal dealer's loss reserve on an installment contract of 12 months' duration or less was 1½ percent of the first $500 of the unpaid cash purchase price plus one-half of 1 percent of the excess of the unpaid cash purchase price over $500.

With an unpaid cash purchase price of $500 or less, the dealer's loss reserve would be exactly 1½ percent thereof. With an unpaid cash purchase price of $700, the loss reserve under a repurchase agreement would be $8.50 or a little less than 1.22 percent. It is probable, however, that the unpaid cash purchase prices in the great bulk of new-car sales is less than $700; so that if these cars were sold on installment contracts of 12 months' duration or less, the loss reserves would average higher than 1.22 percent. Furthermore, a large proportion of new-car sales and a considerable portion of used-car sales is effected on installment contracts of 16 and 18 months' duration, even 24 months; the loss reserves on these contracts are based on higher percentages of the unpaid cash purchase prices. Thus, it is probable that the average dealer's loss reserve under a repurchase agreement exceeds considerably 1.21 percent; so that there is a certain amount of evidence that the amounts allowed as dealer's loss reserves do exceed somewhat the average loss ratio.

Relation of this controversy to dealer's "packs."—The independent finance companies claim that they have had to devise competitive measures with which to meet and overcome the great disadvantages at which they have been placed by the manufacturer's alleged preference given to the chosen finance companies and by the excessiveness of the loss reserves allowed dealers by the latter finance companies. In order to overcome the effect of the latter disadvantage, they purchase installment contracts wholly without recourse to the vending dealers, yet allow these dealers a participation in the regular finance charges or "bonus." They also permit the vending dealers to make

[3] In forming this average, the same weight was given to the data for the 2 years 1927 and 1932 as for the 3 years 1935, 1936, and 1937.

additions to the regular finance charges and they pay the amounts of such additions to the vending dealers, thereby furnishing them with a financial inducement to give their business to the independent finance companies rather than to the factory-controlled and factory-related finance companies.

These dealers' additions to the regular finance charges result in time prices for the cars that are higher than they would be if these additions were not made. If the time prices have any effect upon the ability and willingness of the general public to purchase motor vehicles, these additions tend to the effect of reducing the total demand for motor vehicles below what it would be if these additions were not made and the time prices were correspondingly lower. The effect of this, in turn, is that the manufacturers of motor vehicles can sell fewer cars than if the practice did not exist; and if they sell fewer cars, the natural consequence is that they produce fewer cars, do not realize the full potential economies of the larger volume of production, have higher unit costs and smaller profits, and may even find it necessary to require higher cash prices than would be required if the practice did not exist. Therefore, certain manufacturers, in order to obtain the benefit of the maximum attainable volume of sale and production, naturally pursue a course calculated to minimize the time prices of their motor vehicles, and put pressure upon their dealers to finance with the chosen finance companies.

The so-called 6-percent plan.—One of these measures was the so-called 6-percent plan that was announced and advertised by General Motors Corporation and General Motors Acceptance Corporation in the autumn of 1935. Table 156 shows the average finance-charge percentages in installment contracts in which new passenger cars were sold on 12 months' installments in 1935 prior to the announcement of the 6-percent plan, these averages being shown separately for transactions financed by General Motors Acceptance Corporation, the factory-preferred finance companies, and the independent finance companies. It also shows the average finance charge percentages in the transactions financed by General Motors Acceptance Corporation in that part of the year following the announcement of the 6-percent plan.

TABLE 156.—*Average finance charge percentages in transactions in which automobile distributors sold new passenger cars on 12 months installments, and interest rates implied therein, by regions and classes of finance companies, 1935*

	North Atlantic	South Atlantic	North Central	South Central
Average finance charges:	*Percent*	*Percent*	*Percent*	*Percent*
Independent	9.27	8.89	10.67	------------
Factory-preferred	9.49	9.64	9.25	9.31
Factory-controlled:				
Pre-6-percent basis [1]	7.87	8.18	7.97	8.00
6-percent basis	5.98	6.04	6.00	7.71
Implied interest rates—				
Per month:				
Independent	1.39	1.33	1.59	------------
Factory-preferred	1.42	1.45	1.39	1.40
Factory-controlled:				
Pre-6-percent basis [1]	1.19	1.23	1.20	1.20
6-percent basis	.91	.91	.91	1.16
Per annum:				
Independent	18.02	17.34	20.91	------------
Factory-preferred	18.47	18.79	17.99	18.11
Factory-controlled:				
Pre-6-percent basis [1]	15.19	15.81	15.39	15.45
6-percent basis	11.42	11.53	11.47	14.86

[1] Based on samples of transactions that occurred in that part of the year that included the period in which occurred the transactions on which the rates for the independent and factory-preferred finance companies are based.

Review of the finance charge percentages shown in the above table discloses that the average percentages in the transactions financed by the factory-preferred and the independent finance companies were considerably higher than the averages in the transactions financed by General Motors Acceptance Corporation prior to the announcement of the 6-percent plan. For example, in the North Atlantic regions, which included the areas around and centering in Philadelphia, Pittsburgh, Buffalo, New York City, Providence, and Boston, the average finance charge in new-car 12-month installment contracts financed by the independent finance companies was 9.27 percent of the total deferred cash purchase prices of these cars, including the insurance premiums. The average in the transactions financed by the factory-preferred finance companies was 9.49 percent; and the average in the transactions financed by General Motors Acceptance Corporation was 7.87 percent. Similar comparisons apply in the transactions that occurred in the South Atlantic, the North Central, and the South Central regions. As shown in chapter XIX following, an important explanation of why the finance-charge percentages in the transactions financed by the independent and by the factory-preferred finance companies averaged higher than the percentages in the transactions financed by the factory-controlled finance company was that the finance charges in many of the transactions financed by the first two mentioned groups contained additions made by the vending dealers to the regular finance charges as provided by application of the minimum finance rate charts furnished by the finance companies. The factory-controlled finance company followed rather consistently the practice of disallowing any such additions made by dealers financing with it and of crediting car purchasers' installment contracts with such amounts in those cases in which the dealers sought to make such additions.

How could General Motors Corporation obtain an advantage over its competitors and increase its proportion of all new automobiles to be purchased by the general public in 1936? Among all possible measures of accomplishing this, two may be mentioned in this connection. One was to reduce the time prices of automobiles made by General Motors Corporation by reducing the rates of finance charge. The second measure was to teach the automobile-purchasing public how to compute the finance charges so as to prevent the vending dealers from inserting additions to the regular finance charges provided in the finance-charge rate charts.

It will be observed, by reference to table 156 above, that during the first three quarters of 1935 the finance charges in the transactions financed by General Motors Acceptance Corporation averaged about 8 percent of the total deferred cash purchase prices of the motor vehicles, including the insurance premiums. In the transactions financed by this company after announcing the 6-percent plan, the finance charges in the 12-month installment contracts averaged about 6 percent. In other words, the effect of the 6-percent plan was to reduce the finance charges in 12-month transactions about 25 percent. It is said that the announcement of the 6-percent plan by General Motors Corporation and General Motors Acceptance Corporation was a surprise to the competitors of General Motors Corporation and gave it an advantage in the sale of its products until its competitors could complete their preparations for announcing similar plans.

In advertising the 6-percent plan, General Motors Corporation and General Motors Acceptance Corporation also sought to teach automobile purchasers how to compute the finance charges themselves. The instructions directed the prospective purchaser to ascertain the unpaid cash purchase price of the vehicle by deducting the amount of the down payment, including the allowance, if any, for the used vehicle traded in, from the cash sale price of the vehicle. To this unpaid cash purchase price he was to add the amount of the retail insurance premium. In order to ascertain the amount of the finance charges, he was then to compute an amount equal to 6 percent, for an installment contract of 12 months' duration, of the total so obtained. For an installment contract of any other duration, the percentage, or multiplier, to be used was to be one-half of 1 percent taken as many times as there were months in the duration of the contract. Thus for a contract of 6 months' duration, the percentage to be applied to the total deferred cash purchase price of the automobile and insurance premium was 3 percent; for a contract of 18 months' duration, the percentage was 9 percent.

Application of this formula by the car purchaser in the case of any motor vehicle of General Motors make would enable the prospective car purchaser to compute for himself not only the finance charges but the total face amount of his installment contract and the total time price of the vehicle; and if the General Motors dealer attempted to make a higher charge, the car purchaser would be able to detect the fact immediately. The effect of this education, if absorbed and applied by the car purchasers, would be to prevent additions to the regular finance charges, or "packs," from being made by General Motors dealers, not only those financing with General Motors Acceptance Corporation but also those financing with other finance companies. The accomplishment of this would remove from General Motors dealers much of the financial incentive to finance with independent finance companies. Furthermore, such education, if assimilated and applied by prospective purchasers of automobiles, would have the natural effect of making them finance-charge conscious when considering the purchase of other makes of motor vehicles, causing them to inquire about the amount of the retail insurance premium and to ascertain the amount of the finance charges included in the quoted time prices, to compute the percentages thereof of the total deferred cash purchase prices of such vehicles, to compare these percentages with the like percentages for installment contracts of the same duration under the General Motors 6-percent plan, and, if they found the finance-charge percentages on the other cars higher, to divert their demand to cars of General Motors make.

Thus the announcement of the so-called 6-percent plan was a cleverly conceived competitive move by General Motors Corporation to the end of increasing that company's total share of the new-car business and of increasing the share of its subsidiary, General Motors Acceptance Corporation, in the business of financing installment sales of General Motors products. It may be said to have constituted one step in what is possibly a vicious circle. Each manufacturer of motor vehicles has the problem of increasing the total volume of sales of its products, or at least, in a market approaching saturation of demand, of maintaining its own volume of sales and production. Inasmuch as 60 percent or more of new passenger automobiles sold are sold on the installment plan, and inasmuch as the time price probably has an effect upon the number of automobiles that the public has the ability and the willingness to buy, a part of the problem becomes that of minimizing the time prices. For this purpose, in part, General Motors Corporation organized General Motors Acceptance Corporation; and certain other manufacturers entered into preferential arrangements with certain chosen finance companies. An element in this situation was that dealers were charging what they thought the traffic would bear when selling motor vehicles on time; and the effect to which injection of the factory-controlled finance company tended was to minimize the differentials between the cash prices and the time prices. Also, in order to keep the prices of motor vehicles to the ultimate purchasers as low as practicable, the automobile manufacturers allowed the distributors of these motor vehicles discounts off the retail prices at the factory door that many distributors considered inadequate; so that many of these distributors were tempted to supplement the margins allowed them on the cash prices by inflating the differentials between the cash and the time prices of the automobiles sold on time.

When the factory-controlled and the factory-preferred finance companies sought to eliminate dealers' additions to the regular finance charges as provided in the rate charts furnished to the dealers, some of these dealers found it advantageous to finance with other finance companies who would permit them to make these additions to the regular finance charges and would pay these amounts to them. And, in their struggle to survive in the face of the manufacturers' discriminations in favor of their chosen finance companies, the allowance of these "packs" was a potent countercompetitive device. In order to prevent this diversion of business to the other finance companies, a counterstep taken by General Motors Corporation and General Motors Acceptance Corporation sought, as one feature of the 6-percent plan, to teach automobile purchasers how to compute the finance charges for themselves; and they were followed in this by other automobile manufacturers and their preferred finance companies as soon as it was practicable for the latter to prepare new rate charts and announcements of a similar plan. This move had the natural effect of making it even more difficult for the independent finance companies to obtain additional business or to hold the business they already had. And, in the direction toward counteracting the effect of this move, the complaints made against these automobile manufacturers and these factory-controlled and factory-preferred finance companies charging them with false and misleading advertising promoted the interests of the independent finance companies. Also, in order to break down the system of preferences by certain manufacturers to the chosen finance companies, the independent finance companies were largely influential in procuring the Federal indictments, at South Bend, of these manufacturers and favored finance companies and certain of their officers, charging them with conspiracy in restraint of interstate commerce under certain provisions of the Sherman Antitrust Act.

The independent finance companies claim that if the automobile manufacturers had not given these great competitive advantages to the factory-controlled and factory-preferred finance companies but had permitted the free play of competition among all finance companies, so that the so-called independent finance companies would have had the same opportunity to grow, free competition would have lowered finance charge rates at least as much as they have been reduced under the preferential system.

SECTION 3. INCOME, COSTS, AND PROFITS OF AUTOMOBILE FINANCE COMPANIES

Introduction.—In chapter XIX following is presented a large mass of data obtained by taking from the records of finance companies samples of deferred-payment sales of new and used passenger cars and of new and used trucks financed by those finance companies in 1935, 1936, 1937, and 1938. These data show, among other things, the average percentages that the finance charges in these transactions were of the total deferred cash purchase prices of the vehicles and the finance charges in the transactions with the minimum and maximum finance charge percentages in the various samples. They also show the rates of interest per month and per annum that were implied in these finance charges.

In a large proportion of the cases, the implied interest rates were more than nine-tenths of 1 percent per month, and a few instances were found in which the rate exceeded 5 percent per month. If these results were presented without proper qualification and explanation, an exaggerated impression might be created of the rates of interest that the finance companies were exacting from the time purchasers of automobiles. In order to present the whole truth, therefore, it is necessary to point out that by no means all of the finance charges imposed upon the time purchasers of automobiles constitute net profit to the finance companies, and to show what were the rates of net profit to these companies.

There are two classes of deductions that must be made from the total finance charges that are included in the face amounts of the installment contracts of the automobile purchasers and are collected by the finance companies before the amount of net profit to these companies can be ascertained. In the first place, a considerable portion of the finance charges is not retained by the finance companies but is paid to the vending dealers as participations in the finance charges. In the case of installment contracts purchased from the dealers under repurchase agreements, there are the so-called dealers' loss reserves. In the case of installment contracts purchased by the finance companies wholly without recourse to the vending dealers, there are the participations in the finance charges that are paid to these dealers as "bonuses." In addition to these participations in the regular finance charges, dealers have in many cases, as pointed out in the preceding chapters and as pointed out frequently in chapter IV following, made additions to the regular finance charges and have been paid by the finance companies the amounts so added—the so-called "packs." Finally, a considerable portion of the finance charges collected and retained by the finance companies is consumed in operating expenses of those companies.

Rates of net profit on total employed capital.—Many individuals in speaking of the capital of a finance company, or other corporation, think only of the stockholders' capital, i. e., the capital stock and surplus. However, a large part of the capital employed in the business of a finance company comes from other sources. Some of the large finance companies have raised capital by issuing and selling bonds or debentures. Many finance companies regularly followed the practice of pledging the masses of installment contracts purchased by them with commercial banks and obtaining loans from those sources. Although funds so obtained in any one loan may be employed in the finance company's business only temporarily, while they are used they are a part of the total capital funds used in the business; and while specific loans may be liquidated, they are more or less replaced with other loans secured by the pledge of other installment contracts. The total capital employed in a finance company's business is fluctuating in amount and consists of funds obtained from all sources. The repayment of loans and the redemption of debentures at maturity constitute withdrawals of capital funds as of the dates at which such payments are made. Likewise, the payment of interest on borrowed capital constitutes a withdrawal of capital as of the moment of such payment, the same as does the payment of dividends to the stockholders. Also, the interest that accrues on borrowed capital during an accounting period is just as much a part of the total profit of the business as is the net income that is left available for distribution to the stockholders.

For the purpose of comparison with the rates of interest implied in the finance charges in installment transactions, the rate of profit that is used should be the rate of net profit on the total capital employed in the business of the finance companies. Accordingly, when obtaining samples of deferred-payment transactions financed by these finance companies, data were also obtained on the basis of which to arrive at the rates of net profit on the total capital employed in the businesses of these companies. However, it must be pointed out that much of the capital employed by these finance companies is employed in financing installment sales of articles other than automobiles—electric refrigerators, electric and gas ranges, washing machines, and other articles. It was not practicable to segregate the capital employed in financing the distribution of automobiles together with the income thereon from the total capital and income of these finance companies, except to the extent that the automobile finance company has one or more subsidiary companies for the purpose of carrying on other specific kinds of business. With this qualification, the rates of net profit shown in this report are the percentages of the total net profits on all business of these finance companies to the total capital employed by them.

Sources of gross income to finance companies.—With reference to the financing of the distribution of automobiles, there are three main sources of gross income to the finance companies. These consist first of the flat charges and the interest collected by the finance companies from automobile distributors and dealers on the loans made them for the purpose of making payment for the new motor vehicles purchased by them from the manufacturer. Secondly, they consist of those portions of the finance charges in retail installment contracts that are retained by the finance companies, i. e., that are not paid to vending dealers as participations in the finance charges. And, thirdly, in the cases of many finance companies, they consist of commissions on the retail-insurance premiums that are retained by the finance companies for insurance placed with insurance companies. Endeavor was made to segregate the income from commissions on insurance premiums; but this was found impracticable in the case of most of the finance companies.

Rates of net profit on total employed capital.—Table 157 shows the rates of net profit to 26 independent finance companies, to the factory-preferred, and the factory-controlled, finance companies for the years 1927, 1932, 1935, 1936, and 1937, or for those years in which the respective finance companies were in business or for which the data could be obtained. In order not to reveal identity, the independent finance companies have been represented by numbers.

TABLE 157.—*Rates of net profit on the total capital employed in the businesses of reporting finance companies, by classes of finance company, for 5 designated years, 1927 to 1937, inclusive*

Class of finance company	1927	1932	1935	1936	1937
Independent:					
No. 1	(1)	(1)	(1)	(1)	2.06
No. 2	(1)	(1)	6.63	9.95	7.31
No. 3	(1)	7.06	10.43	6.91	4.32
No. 4	(1)	(1)	8.86	8.44	6.81
No. 5	0.65	0.63	4.80	2.83	4.93
No. 6	(1)	1.63	8.91	9.24	9.70
No. 7	(1)	4.68	7.03	7.64	7.46
No. 8	(1)	4.64	7.81	6.41	6.19
No. 9	(1)	7.16	8.96	7.46	6.34
No. 10	8.87	4.88	5.60	6.16	4.69
No. 11	(1)	6.67	6.86	7.42	8.30
No. 12	(1)	(1)	(1)	13.89	10.39
No. 13	10.56	10.32	9.14	7.25	6.36
No. 14	(1)	(1)	10.93	11.54	9.57
No. 15	14.65	9.96	9.09	8.70	7.68
No. 16	10.26	6.09	10.19	8.65	7.50
No. 17	(1)	(1)	9.28	5.67	5.58
No. 18	0.52	2.44	4.63	4.71	4.89
No. 19	8.60	6.31	9.87	9.23	8.50
No. 20	9.53	4.47	8.67	7.68	7.20
No. 21	(1)	(1)	5.25	5.76	5.40
No. 22	9.89	6.03	10.27	10.18	10.62
No. 23	(1)	(1)	5.64	5.74	6.16
No. 24	9.77	7.21	8.98	8.61	7.54
No. 25	1.67	4.57	9.27	11.05	8.45
No. 26	10.08	9.16	11.26	10.98	8.05
Average	7.04	6.48	9.16	9.44	7.86
Factory-preferred [2]	6.79	4.95	8.92	7.92	6.47
Factory-controlled	7.68	5.93	6.95	5.65	5.56

[1] Data not available or company not in business.
[2] Includes Commercial Credit Co. and Commercial Investment Trust Corporation exclusive of Universal Credit Corporation in all years and Universal Credit Corporation in 1935, 1936, and 1937.

The foregoing table shows that the rate of net profit to the finance companies from whom data for 1927 were obtained averaged 7.04 percent. The corresponding rates of net profit to the factory-preferred finance companies averaged 6.79 percent, and to the factory-controlled finance company averaged 7.68 percent. For 1932, the similarly weighted average rates were 6.48 percent, 4.95 percent, and 5.93 percent, respectively. The average rate of net profit in 1935 to the independent finance companies was 9.16 percent, to the factory-preferred companies was 8.92 percent, and to the factory-controlled company was 6.95 percent. The corresponding rates in 1936 were 9.44 percent, 7.92 percent, and 5.65 percent, respectively; and for 1937 were 7.86 percent, 6.47 percent, and 5.56 percent, respectively.

Reminders of these average rates in 1935, 1936, and 1937 are given frequently in connection with discussions in chapter XIX following.

CHAPTER XIX.—COST OF INSTALLMENT PURCHASING OF MOTOR VEHICLES TO THE PURCHASERS

SECTION 1. INTRODUCTION

Important purpose of investigation to ascertain cost to purchaser of buying on time.—One important purpose held in mind in planning and executing the investigation of the financing of motor vehicle distribution was that of obtaining data on the basis of which to show the cost to automobile purchasers of buying their vehicles on time instead of paying the entire cash sales price in cash at the time of the purchase. Necessarily, because of the vast volume of retail sales of motor vehicles, data for this purpose could be obtained only in the form of samples of installment sales of such vehicles that had been financed by finance companies.

Samples of deferred paying sales of motor vehicles.—The original plan of sampling contemplated the collection of data on deferred payment sales of motor vehicles distributed through every month of the years 1935, 1936, and 1937 and through each of the first 6 months of 1938. The time and expense involved in this process, however, necessitated the curtailment of the original plan. In consequence, the samples actually taken included transactions as follows: for 1935, the months of April, May, and June, except in the case of General Motors Acceptance Corporation, from which company samples were obtained for all months in 1935; for 1936, April, May, June, and December; for 1937, March, April, May, and June; for 1938, March, April, and May, except in the case of Commercial Credit Co., from which were also obtained samples of transactions in January and February 1938.

The months selected constituted the periods in the respective years in which occurred the greatest volumes of retail sales of motor vehicles. Prior to 1936, the period of greatest volume of sales consisted of April, May, and June of each year. In 1936, the motor-vehicle industry commenced the practice of holding the automobile shows of new models in the autumn; and December of that year was a month of large volume of retail sales. In the middle of 1937, there set in the so-called business recession of 1937, which resulted in a relatively small volume of sales in December of that year; and the period of large volume consisted of March, April, May, and June. The reason for including all months of 1935 in the sample obtained from General Motors Acceptance Corporation was that these samples had been completed before decision was made to curtail the plan; and the reason for including January and February of 1938 in the samples obtained from Commercial Credit Co. was that the examiners working in the offices of that company began the sampling process with 1938 and had completed that portion of the sample before the decision to curtail.

In obtaining these samples, it was sought to obtain as fair a geographical representation as was practical with the time and funds available for the investigation. In consequence, samples were obtained in regions around and centering in Boston, Providence, New York City, Buffalo, Pittsburgh, and Philadelphia among the North Atlantic States; Baltimore, Washington, Richmond, Atlanta, and Jacksonville among the South Atlantic States; Birmingham, Memphis, New Orleans, and Dallas among the South Central States; and Detroit, Cleveland, Indianapolis, Chicago, Milwaukee, the Twin Cities, Omaha, Kansas City, and St. Louis among the North Central States. Samples of transactions in regions around and centering in Los Angeles and Seattle were also obtained from General Motors Acceptance Corporation, Commercial Credit Co., and Universal Credit Corporation, from whom such samples could be obtained at their central offices, with a view to completing these samples by obtaining data from local finance companies operating in those regions if available time and funds should permit; however, available time and funds did not permit the sending of examiners to the Pacific coast for the purpose of obtaining data on samples of transactions from local finance companies operating in those regions.

Data on samples of deferred payment sales in these regions were obtained from General Motors Acceptance Corporation, which is classed as a factory-controlled finance company, from Commercial Credit Co., Universal Credit Corporation, and Commercial Investment Trust Corporation, which are classed as factory-preferred finance companies, and from a representative sample of so-called independent finance companies in each of the 24 regions excluding Los Angeles and Seattle.

The samples obtained from the factory-preferred and the factory-controlled finance companies included data on three new cars per month on each make of the popular-priced cars and fewer cars of the more expensive makes such as the Cadillac, the Lincoln, and the highest-priced Chrysler makes; also, one truck per month and one used car per month without reference to make. The new car sales financed by General Motors Acceptance Corporation are confined for the most part to sales of the various types of car manufactured and sold by General Motors Corporation—Chevrolet, Pontiac, Oldsmobile, Buick, LaSalle, and Cadillac and Chevrolet trucks. The financing of new car sales by Commercial Credit Co. is confined for the most part to the Chrysler group of cars—Plymouth, DeSoto, and Chrysler makes. The new car sales financed by Universal Credit Corporation are confined for the most part to Fords, Lincolns, and Lincoln-Zephyrs, including Ford trucks. The new car sales financed by the remainder of the organization of Commercial Investment Trust Corporation included practically every make of car on the market except those made by Ford Motor Co., the financing of the sales of which was done by Universal Credit Corporation, a subsidiary of Commercial Investment Trust Corporation. Because of the limitation of the number of makes of cars financed by the factory-controlled and two of the factory-preferred finance companies, the sampling method described above resulted in relatively moderate volumes of transactions. The independent finance companies, however, financed deferred payment sales of practically every make of car; and the collection of data on three new cars per month of each make of car financed by them would have resulted in unduly large samples and the expenditure of an undue amount of time and money in collecting and handling them. Therefore, the samples obtained from these independent finance companies were reduced to data on two new car sales per month of the respective makes financed by them and of one new truck and one used car sale financed by them.

The transactions composing these samples were chosen systematically according to a plan devised so as to avoid bias in selection.

The installment contracts on which motor vehicles are sold are of all durations from 1 month up to 30 months' time and even more. It was not practical to handle samples of all of these various durations. In consequence, the examiners were instructed to concentrate their samples on durations of 6 months, 12 months, 18 months, and 24 months; but data were obtained on a few transactions of other durations. For purpose of preparation of these data for presentation in this report, the transactions were necessarily sorted by duration of contract. As it turned out, transactions of 6 months duration were relatively infrequent; so that the principal classes of transactions for which data are presented in this report consist of the following: New cars, 12 months; new cars, 18 months; new cars, 24 months; new trucks, 12 months; new trucks, 18 months; used cars, 12 months; and used cars, 18 months.

For purpose of the computations contemplated in the treatment of the data obtained in these samples, it was particularly necessary that the transactions included in the samples be transactions in which the installments, paid by the purchasers of the cars, came at regular monthly intervals, commencing 1 month after the date of the contract, and in which the various installments, paid by any purchaser, were as nearly equal in amount as the division of the total deferred time price by the number of months duration would permit. However, included in the samples obtained were a few transactions with installments, that were either irregular in amount or came at irregular intervals. For example, certain of the finance companies provide a so-called "teacher's plan" of sales, avoiding provision for payment of installments during those summer or vacation months during which teachers are not receiving monthly salaries. By way of illustration, a 1935 Oldsmobile was sold by a dealer in Baltimore on September 4, 1935, to a teacher. The cash price of the vehicle as delivered was $879, the insurance premium was $43.50, the down payment made by the purchaser was $293, the unpaid balance of the purchase price, inclusive of the insurance premium, was $629.50, the finance charges for 16 months amounted to $67.78, and the face of the purchaser's note was fixed at $697.28, payable in 13 (not 16) installments, 12 of which were of $53.64 each, the thirteenth being $53.60—omitting the months of June, July, August, and September 1936, and completing the payment in January 1937. Thus provision was made whereby this teacher-purchaser was to make payments of installments only during those months in which the purchaser would be in receipt of salary income.

In the region around Omaha and Kansas City, a farmer's plan is provided that contains provisions somewhat similar to those under the terms of which farm tractors and other expensive farm machinery are sold to farmers under terms whereby the various installments are made due and payable at the various times at which the farmer expects to have received cash for his various products and varying the amounts of these installments according to the varying amounts of cash the farmer-purchaser expects to have received by those various dates.

Another type of installment contract occurring with considerable frequency in the deferred payment sales of automobiles is a contract with a few relatively small monthly payments terminated by a large or so-called "balloon" payment. For example, a 1935 La Salle passenger car was sold by a dealer in Birmingham, Ala., on July 27, 1935, to one of his salesmen to be used as a demonstrator car. The cash price was $1,208.35, there was no insurance, there was a finance charge of $38.05 consisting solely of the finance company's provision for operating expense and profit, there was a down payment of $400, and the face of the purchaser's note was $846.40 payable as follows: five monthly payments of $24 each and a final or "balloon" payment of $726.40 coming at the end of the sixth month.

The idea of this plan was that the salesman would use the car as a demonstrator to prospective purchasers of La Salles for a period of 4 or 5 months, but that during the 6 months' period he would sell this car to a purchaser as a new car and thereby be in position to pay the remainder of the purchase price by the expiration of the contract period. If the car is not sold before the expiration of the contract period, the "balloon" payment is refinanced—involving a new finance charge. Samples of transactions with "balloon" payments were obtained for various regions in the United States. There is at least one automobile dealer in the United States who makes all deferred payment sales of passenger automobiles on the "balloon" payment plan, one purpose of the practice being to obtain the benefits of refinancing these sales at the expiration of the initial deferred-payment contracts.

Grouping of data for purpose of presentation.—Due to insufficient time and funds for presenting the results for all kinds of plans and all durations of contracts, it was not practical to present these results for more than the few main classes with regular payments—durations of 12 months, 18 months, and 24 months. Nor was it practical to present the results for these groups for each of the 24 regions separately: To have done so would have required the presentation of approximately 1,800 tables and the performance of a number of intricate and time-consuming computations in connection with each table. In the original draft of this chapter, therefore, these sample transactions were grouped by divisions and the results were presented for four separate divisions, which were designated as follows: North Atlantic, including Boston, Providence, New York City, Buffalo, Pittsburgh and Philadelphia; South Atlantic, including Baltimore, Washington, Richmond, Atlanta, and Jacksonville; South Central, including Birmingham, Memphis, New Orleans, and Dallas; and North Central, including Detroit, Cleveland, Indianapolis, Chicago, Milwaukee, Minneapolis, Omaha, Kansas City, and St. Louis. Even this grouping, however, resulted in a text that was entirely too voluminous; and, in revision, it was found advisable to consolidate the samples for all divisions in the eastern half of the United States, and also to consolidate the samples of transactions financed in 1936, 1937, and 1938.

The tables and discussion that were displaced by these consolidations, however, contain, in specific illustrations, much illuminating information about the practices of vending dealers and of finance companies in the financing of installment sales contracts in various regions of the United States. Consequently, this displaced text is presented in appendix 4 to this report.

In the sorting and tabulation of these transactions for presentation, they were also subgrouped by classes of finance company financing the transactions: the factory-controlled finance company; factory-preferred finance companies; and independent finance companies.

The tables of data presented in the main text of this chapter present only aggregate data for groups of transactions and the average finance charge rates and the average rates of interest that are implied in the finance charges. The tables in sections 5 and 7, however, present not only aggregate data for groups of transactions but also the data with reference to the two transactions in the group that had the maximum and the minimum finance charge percentages. All of the tables contained in that portion of the original text that was transferred to the appendix also present the data pertaining to the transaction with the minimum finance charge percentage in the group and pertaining to the transaction with the maximum finance charge percentage.

The data presented in each of these tables show not only the amounts of cash purchase price of the vehicle as delivered, of retail insurance premium, of total cash purchase price of the vehicle and the insurance, of the down payment, of the total finance charge and its constituents, of the face of the purchaser's time obligation payable in equal installments, and the total time price of the vehicle and insurance, but also the finance charge percentage and its division among the constituents of the total finance charge. They also show the rate of interest per month implied in the total finance charge, the equivalent annual rate of interest (compounded monthly), and the conventional annual rate, which is merely the monthly rate multiplied by 12.

Meaning of implied interest rate per month and per annum.—The monthly rate of interest is that rate which, applied to the original unpaid cash purchase price and to the successive reduced balances of the cash purchase price, each monthly installment being applied first to the extinction of the interest accrued during the month and the remainder of the installment to reducing the unpaid balance of the cash purchase price, will just extinguish the unpaid balance with the application of the last installment.

The application of this definition is illustrated in table 158, and by the amortization schedule in table 159.

Table 158 below presents the data for a group of transactions involving the sale of new passenger cars that were sold on 12-month installments by dealers in North Atlantic regions in 1938 and that were financed by the factory-controlled finance company. The data include those for the transaction with the minimum finance charge percentage, the transaction with the maximum finance charge percentage, a subgroup of 85 transactions, the finance charge percentages in which varied with practical continuity over a relative narrow range and evidenced a marked tendency to concentrate around a central, or modal, value, and for the entire sample of 133 transactions. In this group of transactions, the minimum finance charge was 5.01 percent of the total deferred cash purchase price of the vehicle, including the insurance premium; the maximum finance charge was 6.96 percent; the average finance charge in the modal subgroup was

6.07 percent; and the average finance charge for the entire sample was 6.03 percent. These finance charge percentages are to be compared with a normal 6 percent for 12-month transactions under the 6-percent plan, which was in effect during 1938 and the preceding 2 years and, for the factory-controlled finance company, during the autumn of 1935.

TABLE 158.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in North Atlantic regions and financed by factory-controlled finance companies in 1938*

	Transaction with—		Modal group	Total sample
	Minimum finance-charge percentage	Maximum finance-charge percentage		
Number of transactions	1	1	85	133
Cash purchase price of vehicle as delivered	$2,467.00	$1,238.20	$100,021.80	$105,643.00
Retail insurance premium	41.80	17.10	2,611.85	2,715.70
Total cash purchase price of vehicle and insurance	2,508.80	1,255.30	102,633.65	108,358.70
Down payment, including allowance for used car traded in	867.00	1,073.55	58,884.22	62,260.77
Total deferred cash purchase price of vehicle and insurance	1,641.80	181.75	43,749.43	46,097.93
Finance charges:				
Finance company's provision for expenses and profit	65.80	10.37	2,130.96	2,233.36
Dealer's loss reserve	16.44	2.28	523.66	548.67
Dealer's bonus				
Dealer's addition to regular finance charge				
Total finance charge	82.24	12.65	2,654.62	2,782.03
Face amount of purchaser's obligation, payable in equal monthly installments	1,724.04	194.40	46,404.05	48,879.96
Total time price of vehicle and insurance	2,591.04	1,267.95	105,288.27	111,140.73
	Percent	*Percent*	*Percent*	*Percent*
Percentage to total deferred cash purchase price of—				
Finance company's provision for expense and profit	4.01	5.71	4.87	4.84
Dealer's loss reserve	1.00	1.25	1.20	1.19
Dealer's bonus				
Dealer's addition to regular finance charge				
Total finance charge	5.01	6.96	6.07	6.03
Rate of interest implied in total finance charge:				
Per month	.76	1.05	.92	.91
Equivalent annual rate (compounded monthly)	9.51	13.32	11.59	11.53
Conventional annual rate (12 times monthly rate)	9.12	12.60	11.04	10.92

As shown in the table, the finance charge percentage in the transaction with the minimum, 5.01 percent, implied interest at the rate of 0.76 percent per month on the unpaid balances of the cash purchase price of this automobile, including the insurance premium; and the annual rate of interest that was the equivalent of this monthly rate was 9.51 percent; the conventional annual rate was 9.12 percent, and this may properly be read "9.12 percent per annum payable monthly." The finance charges in the transaction with the highest finance charge percentage, 6.96 percent, implied interest on the unpaid balances of the cash purchase price of this automobile, including the insurance

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premium, at the rate of 1.05 percent per month; and the annual rate, that is the equivalent of this monthly rate, is 13.32 percent; the conventional annual rate is 12.60 percent per annum payable monthly. The finance charges in the modal subgroup, 6.07 percent, implied interest at the rate of 0.92 percent on the unpaid balances of the cash purchase prices of these automobiles, including the insurance premiums; the annual rate of interest that is the equivalent of this monthly rate is 11.59 percent; and the conventional annual rate is 11.04 percent. In like manner, the average finance charge percentage for the entire sample, 6.03 percent, implies interest at the rate of 0.91 percent per month on the unpaid balances of the cash purchase prices of all automobiles in the sample, including insurance premiums; the annual rate that is the equivalent of this monthly rate is 11.53 percent; and the conventional annual rate is 10.92 percent per annum, payable monthly. The meaning of the monthly rates of interest shown in the foregoing table is illustrated in the amortization schedule that is presented in the following table for the entire sample of 133 transactions:

TABLE 159.—*Amortization schedule, showing, for a group of 133 time sales of new passenger cars sold on 12-month installments by dealers in the North Atlantic regions and financed by a factory-controlled finance company, how application of the monthly installments first to extinction of the interest accrued during the month and the remainder to reduction of the unpaid cash balance, the last installment will just extinguish the unpaid cash balance*

Number of months	Unpaid cash balance at end of month	Interest accrued during month, at 0.9132 percent per month	Installment payment at end of month	Balance of installments after extinction of accrued interest applied to reduction of balance	Unpaid cash balance remaining at end of month
1	$46,097.93	$420.98	$4,073.33	$3,652.35	$42,445.58
2	42,445.58	387.62	4,073.33	3,685.71	38,759.87
3	38,759.87	353.97	4,073.33	3,719.36	35,040.51
4	35,040.51	320.00	4,073.33	3,753.33	31,287.18
5	31,287.18	285.73	4,073.33	3,787.60	27,499.58
6	27,499.58	251.14	4,073.33	3,822.19	23,677.39
7	23,677.39	216.24	4,073.33	3,857.09	19,820.30
8	19,820.30	181.01	4,073.33	3,892.32	15,927.98
9	15,927.98	145.47	4,073.33	3,927.86	12,000.12
10	12,000.12	109.61	4,073.33	3,963.72	8,036.40
11	8,036.40	73.40	4,073.33	3,999.93	4,036.47
12	4,036.47	36.86	4,073.33	4,036.47	
Total		2,782.03	48,879.96	46,097.93	

As shown in the previous table the total deferred cash purchase price of vehicle and insurance for these 133 transactions was $46,097.93, the total finance charges amounted to $2,782.03, the aggregate face amount of the purchaser's notes was $48,879.96, and this was payable in 12 installments of $4,073.33 each. The monthly rate of interest shown in the previous table was 0.91 percent; more accurately stated it was 0.9132 percent. The original deferred cash purchase price of $46,097.93 is shown in the amortization schedule as the first amount appearing in column 2, and constitutes the unpaid cash balance at the beginning of the first month. The amount of each monthly installment is shown in column 4.

Taking line 1 of the amortization schedule, 1 month's interest on the original deferred cash purchase price of $46,097.93 at 0.9132 percent is $420.98, as shown on the first line in column 3. After application of the first installment of $4,073.33, as shown on the first line in column 4, to the extinction of the accrued interest, the remainder of this installment is $3,652.35, as shown on the first line in column 5. This remainder is applied to the reduction of the unpaid cash purchase price at the beginning of the first month, $46,097.93, and reduces the unpaid cash purchase price to $42,445.58, as shown on the first line in column 6 and on the second line in column 2.

Taking this second line, the interest on $42,445.58, the balance of the deferred cash purchase price at the beginning of the second month, at the rate of 0.9132 percent per month, is $387.62, as shown on the second line in column 3. The application of the second installment of $4,073.33, payable at the end of the second month, to the extinction of this accrued interest leaves a remainder of that installment amounting to $3,685.71, as shown on line 2 in the fifth column: This amount is applied to the further reduction of the deferred cash purchase price and reduces the balance of that deferred cash purchase price to $38,759.87, as shown on line 2 in column 6 and on line 3 in column 2.

This process is repeated month by month. By the end of the eleventh month, the balance of the deferred cash purchase price is reduced to $4,036.47, which is the balance shown on line 12 in column 2 as the balance at the beginning of the twelfth month. Interest on this balance at the same rate during the twelfth month amounts to $38.86, as shown on line 12 in column 3. The application of the last installment of $4,073.33 to the extinction of this accrued interest leaves a balance of that installment of $4,036.47, as shown on line 12 in column 5; and this balance just equals the balance of the unpaid cash purchase price at the beginning of that month as shown in column 2, so that the application of the one to the other reduces the unpaid cash purchase price to nil at the end of the twelfth month as shown in column 6 on line 12. The sum of the 12 installments of $4,073.33 each is $48,879.96, which was the original amount of the purchasers' installment notes. The sum of the amounts of interest shown in column 3 is $2,782.03, which was the amount of the finance charges on these transactions. Finally the sum of the amounts in column 5 is $46,097.93, which was the amount of the original deferred cash purchase price of the vehicles and insurance.

The processes gone through month by month, the results of which are embodied in the above-presented amortization schedule, illustrate the meaning of a monthly rate of interest as a rate applied to diminishing balances of unpaid cash purchase prices.

The annual rate of interest implied in the finance charges represents the interest on $1 compounded monthly at the monthly rate for 12 months. At 0.9132 percent per month the amount of $1 for 1 month is $1.009132, and the amount of $1 for 12 months at the same rate compounded monthly is $1.1153. The compound interest on $1 for 12 months is thus 11.53 cents, and, expressed as a rate of interest per annum, payable all at the end of the year, is 11.53 percent.

The reason for compounding the interest at the monthly rate in order to obtain the annual rate is that the payment of interest in amounts of $0.91 at the end of each month on a debt, the principal amount of which is $100, represents a higher rate of interest per annum than the payment of $10.92 of interest (12 times the monthly amount of $0.91) all at the expiration of the year. Most of the burden of paying the interest falls upon the debtor much earlier than the expiration of the year, and most of the benefit derived from receipt of the interest money is obtained by the creditor much earlier than the expiration of the year. Also, the processes embodied in the amortization schedule presented above imply the compounding of interest monthly at the monthly rate.[1]

However, for the benefit of many who may object to this compounding process, the annual rates are also stated in the conventional form. The conventional annual rate corresponding to a monthly rate of 0.91 percent is 10.92 percent, which is 12 times the monthly rate. It is to be borne in mind, however, that this conventional annual rate is merely a conventional way of stating that the actual time unit is the month and that the actual rate is 0.91 percent per month.

Rounding off interest rates for presentation.—The monthly rate of interest applied in the amortization schedule presented above was 0.9132 percent, a rate carried out to four decimals in the percentage or six decimals as a multiplier. The interest rate, carried out to this degree of accuracy, was used in the illustrative amortization schedule for the purpose of making sure that the balance of the deferred cash purchase price would be reduced to exactly nil by the expiration of the installment contract; a rate rounded off to the nearest hundredth of 1 percent, such as the rate of 0.91 percent shown in the preceding table, would not have reduced this balance exactly to nil. In presenting these rates, however, it is not practical to state them with such a degree of accuracy: Rates stated accurately to one ten-thousandth of 1 percent, such as the rate, 0.9132 percent, are less readily comprehended than the less accurately stated rates, rounded off at the nearest hundredth of 1 percent, such as the rate, 0.91 percent. Nor is it practical, on account of the time and expense involved, to compute all monthly rates so accurately as to bring the balance of the deferred cash purchase price exactly to nil by the end of the period. The rates were computed so that the error would be less than one-tenth of 1 percent of the finance charges; and the rates computed to that degree of accuracy have been rounded off at the nearest hundredth of 1 percent for the purpose of presentation.

Thus the finance charges, aggregating $2,782.03, paid by the purchasers of these 133 new passenger cars represented the equivalent of interest at the rate of 0.91 percent per month or 11.53 percent per annum on the deferred cash purchase price of the vehicles and insurance amounting to $46,097.93. That is, if the purchasers of these new passenger cars had paid for the cars and the insurance in full in cash at the time of their purchase, the total amount they would have had to pay was $108,358.70;[2] and the additional $2,782.03 actually paid by them was paid for the privilege of buying these cars on 12 months' time, and this was equivalent to paying interest at the rates named. This is not to be interpreted, however, as meaning that the finance companies netted profits at these rates. Of the total finance charge of $2,782.03, $548.67 was paid eventually to the dealers from whom the finance company purchased the contracts as "dealers' loss reserves." Of the total, only $2,233.36 was retained by the finance company to cover its operating expenses and to provide it with profit; and of this amount, a considerable portion was consumed in operating expenses—in the process of making the credit investigation,

[1] For discussion of this subject, see appendix 3.
[2] Instead of $111,140.73.

of preparing booklets of installment coupons sent to the purchasers of the cars to show them the dates on which the installments were payable and the amounts of the installments, in providing second and third notices to be mailed to the purchasers of these cars in case they became delinquent in the payment of any installment, and in the bookkeeping processes of setting up the accounts originally and of making credits to the accounts as payment of installments was received. The net profit to the finance company on the total capital employed in its business in 1937 was 5.56 percent as compared with the 11.53 percent equivalent annual rate paid by the purchasers of these cars and of other equivalent annual rates paid by the purchasers of other vehicles, the deferred-payment sales of which were financed by this company in 1938. Such facts should be borne in mind in connection with the interpretation of the rates of interest shown in any of the tables presented in these chapters dealing with the financing of motor-vehicle sales.

Section 2. Résumé of Average Costs of Installment Purchasing, and Noteworthy Features of Installment Selling, of Motor Vehicles.

Introduction.—In sections 3 to 7, following, are presented in considerable detail a great mass of data pertaining to numerous samples of transactions in which motor vehicles were sold on installments in 24 regions in the eastern half of the United States. These transactions involved the sale of new passenger cars, of new trucks, and of used passenger cars. The transactions were classified not only in this manner, but with reference to the duration of the contract, 12 months, 18 months, and 24 months. Some of these transactions were financed by the factory-controlled finance company, some by the factory-preferred finance companies, and some by independent finance companies; and the data for the transactions have been classified and presented accordingly.

An important purpose to be served by this phase of this investigation was to show how much extra it costs the automobile-purchasing public to buy motor vehicles on installments instead of paying for them in full at the dates of the transactions. Not only has the presentation of the data accomplished this purpose, but several other important features of installment selling and of the financing of installment sales have been brought out in the illustrations. It has disclosed the effects of the documentary stamp taxes in Indiana and certain other States, and the effects of the large notary fees that are prevalent under the peculiar notaries public system in Louisiana. It has disclosed the practices by many dealers of "packing" the finance charges, i. e., of making arbitrary additions, for no extra service rendered, to the finance charges as determined by the rate charts furnished these dealers by the finance companies. It has disclosed the importance to car purchasers who buy on installments of examining very carefully and in detail the total charges added by the vending dealer to the cash purchase prices of the cars—examination to make sure that the dealer applies the correct finance rate chart and that he does not recover the allowance made for the used car traded in by making additions to the correct finance charges; examination to make sure that the car purchaser obtains the full insurance protection for which he is charged in the total charges added to the cash purchase price.

In the following sections, the data for the transactions that occurred in 1935 are presented by classes of motor vehicles (new passenger cars, new trucks, and used cars), by duration of contract, and by class of finance company that financed the transactions. Due to the fact that the so-called 6-percent plan was in effect throughout 1936, 1937, and 1938, and the results were about the same for the respective classes of finance company in the 3 years, the sample data for those 3 years have been combined for purpose of presentation in this text, although the data for the respective years and discussion thereof are presented in appendix 4 to this report. The data so presented in the appendix are also subclassified by divisions of the eastern half of the United States—North Atlantic, South Atlantic, North Central, and South Central. Furthermore, the data for the samples of transactions that occurred in 1935 are also presented in this appendix, these data also being subdivided according to these four divisions. Inasmuch as the presentation of this great mass of data, even when so condensed, occupies a large amount of text, it is thought desirable to summarize the important results in brief space in this section.

Summary of new passenger cars sold on installments in 1938.—Table 160 presents the aggregate data and the results for 2,108 transactions in which new passenger cars were sold on 12-month installments, for 3,893 transactions in which new passenger cars were sold on 18-month installments, and for 1,954 transactions in which new passenger cars were sold on 24-month installments, by dealers in the eastern half of the United States in 1938.

TABLE 160.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on installments by dealers in the United States and financed by all groups of finance companies in 1938*

	12-month installments			18-month installments			24-month installments		
	Factory-controlled finance companies	Factory-preferred finance companies	Independent finance companies	Factory-controlled finance companies	Factory-preferred finance companies	Independent finance companies	Factory-controlled finance companies	Factory-preferred finance companies	Independent finance companies
Number of transactions	427	803	878	569	1,664	1,660	119	896	939
Cash purchase price of vehicle as delivered	$448,340.33	$806,364.33	$875,714.40	$651,136.02	$1,655,588.33	$1,547,072.09	$131,751.28	$926,157.42	$931,609.22
Retail insurance premium	11,507.41	30,804.07	31,236.47	24,998.07	91,847.17	81,206.32	6,359.38	64,751.41	65,264.77
Total cash purchase price of vehicle and insurance	459,847.74	837,168.40	906,950.87	676,134.09	1,747,435.50	1,628,278.41	138,110.66	990,908.83	996,873.99
Down payment, including allowance for used car traded in	256,168.44	455,608.94	495,547.42	298,368.24	725,428.36	679,445.62	51,180.17	355,794.30	375,249.49
Total deferred cash purchase price of vehicle and insurance	203,679.30	381,559.46	411,403.45	377,765.85	1,022,007.14	948,832.79	86,930.49	635,114.53	621,624.50
Finance charges:									
Finance company's provision for expenses and profit	10,055.66	17,427.92	21,043.37	27,300.64	74,580.43	77,534.21	8,375.64	64,656.77	60,733.33
Dealer's loss reserve	2,421.71	4,521.48	1,245.42	6,605.17	14,847.16	2,446.11	2,006.24	9,025.88	1,782.73
Dealer's bonus		1,313.23	4,784.07		2,823.53	12,961.23	60.90	2,090.34	12,030.72
Dealer's addition to regular finance charge	21.48	1,253.42	801.67	2.29	2,131.66	2,137.58		1,567.29	1,841.36
Total finance charge	12,498.85	24,516.05	27,874.53	33,908.10	94,382.78	95,079.13	10,442.78	77,340.28	76,388.14
Face amount of purchaser's obligation, payable in equal monthly installments	216,178.15	406,075.51	439,277.98	411,673.95	1,116,389.92	1,043,911.92	97,373.27	712,454.81	698,012.64
Total time price of vehicle and insurance	472,346.59	861,684.45	934,825.40	710,042.19	1,841,818.28	1,723,357.54	148,553.44	1,068,249.11	1,073,262.13
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	4.94	4.57	5.12	7.23	7.30	8.17	9.63	10.18	9.77
Dealer's loss reserve	1.19	1.19	.30	1.75	1.45	.26	2.31	1.43	.29
Dealer's bonus		.34	1.16		.28	1.37	.07	.33	1.93
Dealer's addition to regular finance charge	.01	.33	.19		.21	.22		.24	.30
Total finance charge	6.14	6.43	6.77	8.98	9.24	10.02	12.01	12.18	12.29
Rate of interest implied in total finance charge:									
Per month	.93	.97	1.01	.92	.95	1.03	.93	.94	.95
Equivalent annual rate (compounded monthly)	11.73	12.30	12.99	11.63	11.97	13.02	11.73	11.89	12.00
Conventional annual rate (12 times monthly rate)	11.16	11.64	12.12	11.04	11.40	12.36	11.16	11.28	11.40

The 2,108 transactions in which new passenger cars were sold on 12-month installments, data for which are presented in the above table, represented an aggregate cash sale price of $2,130,419.06. The 3,893 transactions in which new passenger cars were sold on 18-month installments represented an aggregate cash sale price of $3,853,796.44, and the 1,954 transactions in which the dealers sold new passenger cars on 24-month installments represented an aggregate cash sale price of $1,909,517.92.

Referring to the transactions in which the new passenger cars were sold on 12-month installments, the finance charges in the 427 transactions that were financed by the factory-controlled finance company averaged 6.14 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums; the like charges in the 803 transactions that were financed by the factory-preferred finance companies averaged 6.43 percent; and the finance charges in the 878 transactions that were financed by the independent finance companies averaged 6.77 percent. These finance charge percentages are to be compared with the normal 6 percent for 12-month installment contracts under the 6-percent plan, which was in effect in 1938, and also in 1936 and 1937. It will be observed that all three of these finance charge percentages exceeded the normal somewhat.

Referring to the first of these three groups of 12-month installment contracts, finance charges amounting to $12,498.85 added to the total deferred cash purchase prices of these automobiles, including the insurance premiums, aggregating $203,679.30, implied the payment of interest by these car purchasers at the average rate of 0.93 percent per month on the unpaid balances of the cash purchase prices of their vehicles, or at the average rate of 11.73 percent per annum. In the second group, the finance charges aggregating $24,516.05 on the total deferred cash purchase prices of these automobiles aggregating $381,559.46 implied interest paid by these car purchasers at the average rate of 0.97 percent per month on the unpaid balances of the cash purchase prices of their vehicles, or at the average rate of 12.30 percent per annum. In the third group of transactions, the finance charges totaling $27,874.53 on the total deferred cash purchase prices of these automobiles aggregating $411,403.45 implied interest paid by these car purchasers at the average rate of 1.01 percent per month, or 12.99 percent per annum.

Coming to the transactions in which the dealers sold the new passenger cars on 18-month installments, the finance charges in the 569 transactions that were financed by the factory-controlled finance company averaged 8.98 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums; the like charges in the 1,664 transactions that were financed by the factory-preferred finance companies averaged 9.24 percent; and the finance charges in the 1,660 transactions that were financed by the independent finance companies averaged 10.02 percent. These finance charge percentages are to be compared with the normal 9 percent for 18-month installment contracts under the 6-percent plan; and it will be observed that two of these average finance charge percentages exceeded that normal, while one of them fell slightly below it.

The finance charges totaling $33,908.10 on the total deferred cash purchase prices of the automobiles, including insurance premiums, aggregating $377,765.85 in the transactions financed by the factory-controlled finance company implied interest paid by these car purchasers at the average rate of 0.92 percent per month, or 11.63 percent per annum, on the unpaid balances of the cash purchase prices of these vehicles. In the transactions financed by the factory-preferred finance companies, the finance charges totaling $94,382.78 on the total deferred cash purchase prices of these automobiles aggregating $1,022,007.14 implied interest paid by these car purchasers at the average rate of 0.95 percent per month, or 11.97 percent per annum, on the unpaid balances of the cash purchase prices of these vehicles. And, in the transactions financed by the independent finance companies, the finance charges totaling $95,079.13 on the total deferred cash purchase prices of these automobiles aggregating $948,832.79 implied interest paid by these car purchasers at the average rate of 1.03 percent per month, or 13.02 percent per annum.

Coming to the transactions in which the dealers sold the new passenger cars on 24-month installments, the finance charges totaling $10,442.78 on total deferred cash purchase prices aggregating $86,930.49 in the transactions financed by the factory-controlled finance company implied the payment by the car purchasers of interest at the rate of 0.93 percent per month, or 11.73 percent per annum, on the unpaid balances of the cash purchase prices of these automobiles, including the insurance premiums. In the transactions financed by the factory-preferred finance companies, the finance charges totaling $77,340.28 on the total deferred cash purchase prices aggregating $635,114.53 implied interest paid by these car purchasers at the average rate of 0.94 percent per month, or 11.89 percent per annum. In the transactions financed by the independent finance companies, the finance charges totaling $76,388.14 on the total deferred cash purchase prices aggregating $621,624.50 implied the payment by the car purchasers of interest at the average rate of 0.95 percent per month, or 12 percent per annum, on the unpaid balances of the cash purchase prices of these automobiles, including the insurance premiums.

The costs of purchasing these new passenger cars on the installment plan are best expressed by the rates of interest that were implied in the finance charges. It will be observed that in no group of transactions was the average rate of interest less than 0.92 percent per month, or 11.63 percent per annum. The highest average for any group was 1.03 percent per month, or 13.02 percent per annum. However, these are only the average results of numerous transactions, the interest rates implied in which varied over a considerable range both below and above these averages. The reasons for these variations are brought out and illustrated in the subsequent sections of this report in numerous discussions of transactions with the minimum and with the maximum finance charge percentages.

It will be observed that, whether the automobiles were sold on 12 months', 18 months', or 24 months' time, the lowest average finance charge percentages and the lowest average rates of implied interest pertained to the transactions that were financed by the factory-controlled finance companies. Next came the transactions that were financed by the factory-preferred finance companies. The highest average finance charge percentages and the greatest average rates of implied interest were associated with the transactions that were financed by the independent finance companies. The reasons for these relationships were as follows: In conducting its relations with the dealers from whom it purchased these installment contracts the factory-controlled finance company acted in the interest of the manufacturer, i. e., to keep the differential between the time price and the cash price of the automobile in each transaction down to the minimum provided by the rate chart furnished by it to the dealer. This kept the time price of the automobile relatively low; and this was in the interest of the manufacturer in that, other things being equal, a relatively low time price had the tendency to maximize the retail sales of the products of the manufacturer and, thereby, to maximize the manufacturer's sales and to obtain for the manufacturer the economies incident to the maximum volume of production.

To this end additions made by the vending dealer to the regular finance charges, as provided by the rate chart, were rigorously disallowed by the finance company and were credited to the car purchasers' installment contracts, unless these additions represented recording fees, notary fees, and the like that were paid by the vending dealers and that, naturally, should be reimbursed to them. However, if a dealer, in the process of determining the total charges to be added to the cash purchase price of the vehicle in order to determine the time price and the amount of the purchaser's installment contract, made an error whereby the amount of the charges so determined was less than those provided by application of the rate charts, it was not practicable to go back to the car purchaser and rectify the error, and the dealer suffered the consequences in the amount of the check from the finance company for the installment contract. The natural effect of this course was to produce finance charges that averaged less than the normal 6, 9, or 12 percent for transactions of 12, 18, and 24 months' duration, respectively. However, the "territorial charges" charts furnished the dealers for the purpose of determining the amounts of the insurance premiums based these charges on the average premiums for the respective styles of car body in the respective regions. So that, in any particular transaction, the amount of the actual insurance premium was usually a little more or a little less than the amount provided by application of the territorial charges chart. It appears that in the 12-month and 24-month transactions that were included in these samples the territorial charges averaged slightly more than the actual insurance premiums, the excess inuring to the benefit of the finance company and producing average finance charge percentages that were slightly above the normal 6 and 12 percent; whereas, in the transactions composing the 18-month sample, the actual insurance premiums exceeded slightly the territorial charges, and the deficiency was made up out of the provided finance charges, resulting in an average finance charge percentage that was slightly below the normal 9 percent.

To a considerable extent the factory-preferred finance companies also administered their relations with the dealers in the interests of the manufacturers that accorded them the preferences. However, one of these finance companies put certain large and important dealers on a preferred-dealer list and furnished these dealers with two sets of rate charts—one based on the 6-percent finance charge rate, the other based on a higher rate of finance charge. These dealers, when in their judgment they could do so, used the rate charts based on the higher rates of finance charge for the purpose of determining the amount of charges to be imposed upon the car purchaser; but, in determining the amount of the discount at which such installment contracts were to be sold to the finance company, they used the rate chart based on the lower rate of charge. In this manner the vending dealers were enabled to "pack" the finance charges to a limited extent, these "packs" usually being concealed in the amounts allowed these dealers as loss reserves. Furthermore, certain of the factory-preferred finance companies financed installment sales of cars not made by the manufacturing companies with whom they had the preferential arrangements and, in these cases, the vending dealers were allowed even greater latitude in the process of "packing" the finance charges. In consequence, the finance charges and the implied interest rates in the samples of transactions obtained from these finance companies averaged somewhat higher than in the samples of transactions obtained from the factory-controlled finance company. The independent finance companies, enjoying no preferential arrangements with the manufacturers and not having the same incentives to act in the interest of the manufacturers, but, on the other hand, finding themselves under the necessity of offering some financial inducement to dealers to finance through them rather than through their factory-controlled and factory-preferred competitors, allowed the vending dealers even greater opportunities to "pack" the regular finance charges. The natural effect of this was that the finance charges and the rates of interest implied therein, in the samples of transactions obtained from these finance companies were even higher, on the average, than those in the samples obtained from the factory-preferred finance companies.

In addition to the causes of variations in finance charge rates, and in the rates of interest implied in them mentioned above, dealers have in some cases been supplied with rate charts based on lower rates of finance charge to be used by them, when necessitated by the keenness of competition, in determining the finance charges in transactions involving high-priced cars, such as the Cadillac. In Louisiana, where there is a limited number of notaries public appointed for life, the regular finance charges are usually augmented to the extent of $10 or more for a notary fee of such magnitude imposed by a notary public.

Another cause of finance charges considerably in excess of the normal rate operates frequently in transactions in which the insurance on the automobile is not placed through the finance company but is placed by the dealer direct or by the car purchaser. The finance companies require that the motor vehicles that constitute the security for payment of the installment contracts purchased by them be insured against loss through fire, theft, incidental damages, and through collision or upset. The collision and upset coverage usually exempts the insurance company for liability except for damage in excess of $50 in the case of cars in the low-priced class, $75 in the case of cars in the intermediate-priced class, and $100 in the case of cars in the high-priced class. Customarily, the damages, in case of loss, are made payable to the car owner or to the vending dealer or to the finance company according to interest at the time of the loss. General Motors Acceptance Corporation places the insurance with General Exchange Insurance Corporation, an affiliated insurance company controlled by General Motors Corporation.

A few of the other finance companies organized subsidiary insurance companies. Practically all of the other finance companies have entered into contractual relationships with independent insurance companies whereby they are allowed certain designated percentages of the retail insurance premiums as commissions for bringing such business to these insurance companies. Customarily, these commission percentages are adjusted from time to time on the basis of the insurance company's loss experience in connection with the business furnished by the particular finance company; and these commissions range as high as 52 percent or more of the retail insurance premium. In consequence, the commissions on such insurance constitute a very important part of the income of these finance companies. The vice president of a certain finance company stated to an examiner for this Commission that the profit of the finance business was in the insurance. In consequence, when a dealer or a car purchaser places the insurance elsewhere than through the finance company, the deduction from the total charges made by the latter to represent this fact often consists only of the cost of the insurance to the finance company, not the entire retail premium. In this manner the finance company's commission on the insurance that it did not write becomes incorporated in the finance charge. It goes without saying, of course, that in these cases the car purchaser pays for something that he does not receive; and the finance charge percentage in such a transaction is naturally considerably greater than the normal.

Results for prior years.—The data presented in the foregoing part of this section pertained to new passenger cars sold on 12, 18, and 24 month's time in 1938. If similar data were presented for new trucks sold on installments in 1938 the results would be about the same as those shown for new passenger cars. The same is true of the results for transactions in which new passenger cars and new trucks were sold on installments in 1936 and 1937.

For transactions in 1935, however, the results would be different. In section 2 of the preceding chapter, the results were presented for new passenger cars sold on 12-month installments in 1935, these results being summarized separately for transactions in the North Atlantic, the South Atlantic, the North Central, and the South Central regions. The data obtained from the independent and the factory-preferred finance companies for 1935 related to transactions that occurred in April, May, and June of that year. The data obtained from the factory-controlled finance company covered its operations during the entire year. However, in the autumn of 1935, the factory-controlled finance company put into effect the so-called 6-percent plan, pursuant to which the amount of the basic finance charge was to be one-half of 1 percent of the total deferred cash purchase price of the automobile, including the insurance premium, taken as many times as there were months in the duration of installment contract; and the data obtained from this company have been divided into two groups, namely, transactions that occurred and were financed before the 6-percent plan was put into effect and transactions that occurred and were financed after the plan went into effect. The effect of this change was to reduce the finance charges in transactions financed by this company about one-fourth. For example, the average finance charge in 12-month contracts financed by this company before the 6-percent plan went into operation was

7.87 percent in North Atlantic regions as compared with 5.98 percent after the plan went into operation. For South Atlantic regions the corresponding averages were 8.18 percent before and 6.04 percent after; for North Central regions, the corresponding percentages were 7.97 percent and 6 percent, respectively; and for South Central regions they were 8 percent and 7.71 percent, respectively.

As compared with an average finance charge of 7.87 percent in 12-month installment contracts financed by the factory-controlled finance company in that part of 1935 before the 6-percent plan was put into effect, the finance charges in similar transactions financed by the independent finance companies averaged 9.27 percent, and in the transactions financed by the factory-preferred finance companies averaged 9.49 percent. In comparison with the average finance charge of 8.18 percent in 12-month installment contracts in South Atlantic regions, financed by the factory-controlled finance company in the forepart of 1935, the finance charges in the transactions financed by the independent finance companies averaged 8.89 percent, and in the transactions financed by the factory-preferred finance companies averaged 9.64 percent. In North Central regions in 1935, in comparison with finance charges averaging 7.97 percent in transactions financed by the factory-controlled finance company, the finance charges in the transactions financed by the independent finance companies averaged 10.67 percent, and the charges in the transactions financed by the factory-preferred financed companies averaged 9.25 percent.

Comparison of the average finance charge percentages just stated with the average finance charge percentages pertaining to 12-month installment contracts in 1938, as shown in the table under the preceding paragraph heading, shows that the rates of finance charge were much lower in 1938 than in the forepart of 1935. The interest rates implied in the finance charges in 1938 were also correspondingly lower than those implied in the finance charges in the forepart of 1935. The interest rates pertaining to the transactions in 1935 are shown in section 2 of the preceding chapter, and reference is made to that presentation for details as to the magnitudes of those rates.

Comparison of methods and rates of financing time sales of motor vehicles and farm machinery.—It was shown in chapter XVII and other chapters of this report that automobile manufacturers receive cash for their motor vehicles before they leave the factory on their way to distributors or retail dealers. These distributors and dealers finance their purchases through other channels, usually so-called finance companies, and General Motors Corporation is the only manufacturer that even indirectly extends this credit and that only to distributors and dealers who finance with its controlled finance company.

In contrast with this practice, the farm implement and machinery manufacturers, as shown in this Commission's report on the agricultural implement and machinery industry, sold their products to retail dealers on credit of many months' duration, requiring them to settle with the manufacturer only as they resold these implements and machines one by one excepting those not sold by fixed settlement dates determined according to the dates by which the farmers will have completed their purchases during the year of the respective classes of implements and machines, allowing them cash discounts for settlement in cash instead of by remitting farmers' notes and even extending the credit period a whole year—subject to the same discounts—on a specified proportion of the respective implements and machines remaining in the dealer's possession unsold at the specified settlement dates.

Like the purchasers of automobiles on time, farmers pruchasing expensive International Harvester machines during the year, December 9, 1936, to December 1, 1937, were offered the option of paying in 12 or 18 equal installments, the interest and other finance charges being included in the installments. The great bulk of time sales of these and other makes, however, was effected on interest-bearing notes, the maturities and amounts of which were fixed according to the farmer's expectations as to the dates by which he would have realized cash for his respective crops and the amounts to be realized by those respective dates—a separate interest-bearing note for each maturity date. And if the vending dealer desired to settle for a machine by remitting the purchasing farmer's notes, and the manufacturer deemed the farmer's credit and the amounts and maturity dates to be satisfactory, the manufacturer accepted these notes at their face value, or the non-interest bearing installment notes at their discounted value, in settlement with the dealer—usually without recourse to the latter in case of default by the farmer. Thus, the manufacturer not only financed the dealer's wholesale purchases but also his credit sales at retail.

In these time sales of farm machinery to farmers on the latter's interest-bearing notes, the rate of interest before maturity was usually 6 or 7 percent per annum, as compared to the averages of 11½ percent or more shown in the above-presented samples of transactions in which automobiles were paid for in installments. Furthermore, the farmer's base did not customarily include insurance premiums, although it did include investigational charges and recording fees. Also the interest in 12-month installment contracts financed by International Harvester Co. in 1937, which averaged 6.95 percent per annum, was equivalent to a finance charge of only 3.678 percent,[2] as compared with finance charges averaging 6.14 percent, 6.43 percent, and 6.77 percent in samples of 12-month automobile installment contracts financed in the spring of 1938 by the factory-controlled, the factory-preferred and the independent finance companies, respectively.

Section 3. Cost of Purchasing New Passenger Cars on Installments in 1935

Introduction.—This section presents the data pertaining to samples of transactions in which new passenger cars were sold in 1935 by dealers in 24 regions in the eastern half of the United States. The next section presents data with reference to similar samples in which new passenger cars were sold on installments by dealers in the same 24 regions in 1936, 1937, and 1938. This division, in presentation of data, between 1935, on the one hand, and 1936 to 1938, inclusive, on the other hand, is made advisable because of a change in finance rates made by General Motors Acceptance Corporation in the autumn of 1935. This change constituted a substantial reduction in finance

[2] Federal Trade Commission, Report on the Agricultural Implement and Machinery Industry, p. 456.

charge rates. The samples of transactions obtained from the records of General Motors Acceptance Corporation included transactions financed in every month in 1935; and, therefore, they included transactions financed by this company before this change was made and also transactions that were financed after the change. The samples obtained from the other finance companies of transactions financed in 1935, however, included only transactions financed during April, May, and June. The results of these samples are, therefore, properly comparable only with the results from samples of transactions financed by General Motors Acceptance Corporation before the change was made.

The reduction in finance-charge rates made by General Motors Acceptance Corporation in the autumn of 1935, together with the instructions furnished car purchasers whereby they could compute the finance charges for themselves and thereby prevent the vending dealers from inserting overcharges, or "packs," into the regular finance charges provided by the finance company's rate charts, constituted an important competitive move by General Motors Corporation and its controlled General Motors Acceptance Corporation. As soon as the other principal finance companies could prepare the rate charts and the advertising material, they also reduced their rates of finance charge to meet the reduction made by General Motors Acceptance Corporation; and by the spring of 1936, practically the entire industry of financing installment sales of motor vehicles was on the so-called 6-percent basis. Furthermore, the industry continued on this basis through the remainder of the period covered by this investigation, namely, 1937 and the first half of 1938. In consequence, for purpose of presentation in the main text of this report, it has been possible to consolidate the data obtained in samples of transactions financed in 1936, 1937, and 1938. And this has been done for the purpose of presenting these data in relatively small space.

In the original draft of this chapter, the sample data obtained were presented separately for each of the years 1935 to 1938, inclusive. Not only so, but they were grouped by four groups of regions, North Atlantic, South Atlantic, North Central, and South Central; and the data pertaining to the transactions in each of these four groups were presented separately. The resulting draft was entirely too voluminous, however; and for presentation in the main text of this chapter, the data were consolidated by eliminating the separate presentation for these respective groups of regions and by consolidating the data for 1936, 1937, and 1938. However, the original draft showed many interesting variations in results and practices from region to region, and contained discussions of numerous specific transactions that illustrated many interesting variations in practices in financing installment sales of motor vehicles. Consequently, the original draft of the sections that presented and discussed these data in the greater detail is presented in appendix 4 to this report.

The samples for 1935 included 5,939 transactions in which new cars were sold on installments. Of these, 3,232 transactions were financed by the factory-controlled finance company, 1,510 were financed by factory-preferred finance companies, and 1,197 transactions were financed by independent finance companies. Of these 5,939 transactions, 2,139 involved the sale of new passenger cars on 12-month installments, 3,480 on 18-month installments, and 320 transactions involved the sale of new passenger cars on 24-month installments.

Cost of purchasing new passenger automobiles on 12-month installments in 1935.—Of the 2,139 transactions included in the sample in which new passenger cars were sold on 12-month installments in 1935, 1,136 were financed by the factory-controlled finance company, 556 by the factory-preferred finance companies, and 447 transactions were financed by independent finance companies. Table 161 presents the data obtained with reference to these 2,139 transactions.

TABLE 161.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in the United States and financed by independent, factory-preferred, and factory-controlled finance companies in 1935*

	Independent finance companies	Factory-preferred finance companies	Factory-controlled finance company			
			Pre-6 percent plan total sample	6-percent plan total sample	Pre-6 percent plan modal group	6-percent plan modal group
Number of transactions	447	556	896	240	613	173
Cash purchase price of vehicle as delivered	$380, 802. 41	$479, 107. 45	$976, 339. 84	$283, 557. 75	$582, 564. 94	$199, 301. 01
Retail insurance premium	10, 297. 41	13, 068. 86	25, 692. 78	7, 197. 00	16, 317. 69	4, 990. 55
Total cash purchase price of vehicle and insurance	391, 099. 82	492, 176. 31	1, 002, 032. 62	290, 754. 75	598, 882. 63	204, 291. 56
Down payment, including allowance for used car traded in	199, 300. 11	245, 891. 63	500, 695. 77	142, 405. 79	313, 796. 11	100, 872. 82
Total deferred cash purchase price of vehicle and insurance	191, 799. 71	246, 284. 68	501, 336. 85	148, 348. 96	285, 086. 52	103, 418. 74
Finance charges:						
Finance company's provision for expenses and profit	14, 533. 78	17, 123. 95	31, 554. 17	7, 209. 93	18, 975. 79	4, 937. 54
Dealer's loss reserve	1, 113. 29	5, 609. 46	6, 396. 22	1, 732. 05	3, 984. 98	1, 247. 97
Dealer's bonus	3, 000. 34	26. 99				
Dealer's addition to regular finance charge	435. 52	291. 30	26. 45	36. 90	2. 65	
Total finance charge	19, 082. 93	23, 051. 70	37, 976. 84	8, 978. 88	22, 963. 42	6, 185. 51
Face amount of purchaser's obligation, payable in equal monthly installments	210, 882. 64	269, 336. 38	539, 313. 69	157, 327. 84	308, 049. 94	109, 604. 25
Total time price of vehicle and insurance	410, 182. 75	515, 288. 01	1, 040, 009. 46	299, 733. 63	621, 846. 05	210, 477. 07
Percentage to total deferred cash purchase price of—						
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	7. 58	6. 95	6. 29	4. 86	6. 65	4. 77
Dealer's loss reserve	. 58	2. 28	1. 28	1. 17	1. 40	1. 21
Dealer's bonus	1. 56	. 01				
Dealer's addition to regular finance charge	. 23	. 12	. 01	. 02		
Total finance charge	9. 95	9. 36	7. 58	6. 05	8. 05	5. 98
Rate of interest implied in total finance charge:						
Per month	1. 49	1. 40	1. 14	. 92	1. 21	. 90
Equivalent annual rate (compounded monthly)	19. 42	18. 21	14. 59	11. 56	15. 56	11. 42
Conventional annual rate (12 times monthly rate)	17. 88	16. 80	13. 68	11. 04	14. 52	10. 80

The 2,139 transactions in which new passenger cars were sold on 12-month installments by dealers in the eastern half of the United States in 1935, data for which are presented in the above table, represented an aggregate cash sale value of nearly $2,120,000. Of this total, the 1,136 transactions financed by the factory-controlled finance company represented an aggregate cash sale value of approximately $1,259,900. For purpose of presentation, these 1,136 transactions have been divided into two groups, the data for 896 of them being designated as a "pre-6-percent plan" group, and the data for the other 240 transactions being designated as a "6-percent plan" group. The first of these two groups presents the aggregate data for those transactions in the sample that were financed by the factory-controlled finance company during that part of 1935 before the so-called 6-percent plan was put into effect; and the results of this pre-6-percent plan group are directly comparable with the results for the 447 transactions financed by the independent finance companies and for the 556 transactions financed by the factory-preferred finance companies. Within the 896 transactions constituting the pre-6-percent plan group was a subgroup of 613 transactions, the finance charge percentages in which not only varied with practical continuity over a relatively narrow range but also evidenced a marked tendency to concentrate around a central, or modal, value; and the data for these 613 transactions are presented in the column headed "pre-6-percent plan modal group." There was a similar modal subgroup of 173 transactions within the 240 transactions that constituted the 6-percent-plan group; and the data for this modal group are presented in the last column in the table.

Directing attention to the first three amount columns in the above table, which present data for transactions financed by the three groups of finance companies, respectively, during the pre-6-percent period in 1935, it will be observed that the finance charges in the transactions financed by the independent finance companies averaged 9.95 percent of the total deferred cash purchase prices of these motor vehicles, including the insurance premiums; that the finance charges in the transactions financed by the factory-preferred finance companies averaged 9.36 percent; and that the finance charges in the transactions financed by the factory-controlled finance company averaged 7.58 percent.

Thus the finance charges averaged highest in the transactions financed by the independent finance companies and lowest in the transactions financed by the factory-controlled finance company. These variations in the average finance charge percentages are no doubt due in part to fluctuations in sampling. The main cause of these variations, however, consists of the differences between the practices of the respective groups of finance companies with reference to the elimination from the finance charges as originally imposed by the dealers of the so-called dealers' "packs," or additions made by the vending dealers to the regular finance charges as provided in the rate charts furnished by the finance companies to the dealers. The factory-controlled finance company, acting in the interest of the manufacturer, which was to keep the differentials between the time prices and the cash prices of the motor vehicles at a minimum so as to minimize the time prices and therethrough to maximize the manufacturer's volume of sales, rigorously disallowed such "packs," and deducted them, where found, from the original face amounts of the car-purchasers' installment contracts.

The factory-preferred finance companies also eliminated such "packs" made by most dealers, particularly in installment contracts that involved sales of motor vehicles made by the manufacturers with whom they had the special agreements, contracts, or arrangements. However, one of these factory-preferred finance companies, in order to retain the business brought to it by certain large and important dealers, put them on a preferred dealers' list and furnished each with two rate charts, one based on the minimum rate of charge required by the finance company, the other based on a higher rate of charge; so that these dealers could use the chart based on the higher rate when negotiating with the prospective car purchaser and determining the amount of finance charges to be imposed upon him, and could use the chart based on the minimum rate of charge in determining the amount of discount when selling the installment contract to the finance company. Another factory-preferred finance company operated under special preferential arrangements with certain manufacturers; however, it also financed installment sales of all other makes of cars, and, in purchasing installment contracts involving these other makes, it did not have so great an incentive to eliminate dealers' "packs." In consequence, a considerable portion of the transactions included in the samples obtained from the factory-preferred finance companies contained dealers' "packs" in the finance charges; and, in consequence of this fact, the average finance charge percentage in the sample transactions financed by these companies was higher than the average in the transactions financed by the factory-controlled finance company.

The independent finance companies had no special arrangements with manufacturers whereby they received any kind of preferential treatment from manufacturers. In consequence, they had no special incentive to minimize the differentials between the time and cash prices of the motor vehicles in transactions financed by them. On the contrary, due to the handicaps placed upon them in obtaining or holding installment financing business in competition with the factory-controlled General Motors Acceptance Corporation and the factory-preferred finance companies, permitting the dealers to "pack" the finance charges and paying them the amounts of such "packs" constituted an important competitive device for overcoming these handicaps. Consequently, the dealers financing through these independent finance companies have had much more freedom in the matter of making these additions to the regular finance charges. Indeed, several of these independent finance companies have furnished their dealers, not only with two but with three or more rate charts based on different rates of finance charge, so that these dealers were provided with instrumentalities whereby they could exercise even a wider discretion as to the amounts by which they could "pack" the finance charges in individual transactions. The result of all this was that the finance-charge percentages in the transactions in the samples obtained from the independent finance companies averaged higher than did the finance-charge percentages in the transactions financed by either the factory-controlled or the factory-preferred finance companies.

In the 896 installment contracts financed by the factory-controlled finance company, the purchasers of these cars could have obtained their cars and the insurance thereon at a total cost of $1,002,032.62 if they had paid for these cars and insurance in full at the dates of purchase. Due to the fact that they purchased these automobiles and insurance on 12-month installments, however, they paid $37,976.84 more than the previously stated amount. The amount that they did not pay at the dates of purchase was $501,336.85; and from the viewpoint of these purchasers, the additional $37,976.84 paid by them eventually constituted interest on this $501,336.85. While this finance charge amounted to 7.58 percent of the total unpaid cash purchase prices of their automobiles, including the insurance premiums, the rate of interest implied in this relationship was greater than 7.58 percent per annum because of the fact that a portion of the original unpaid cash purchase price was paid in the process of paying the first installment at the end of the first month, another portion was paid in the process of paying the second installment, and so on. The rate of interest implied in the finance charges in these transactions was 1.14 percent per month, which was equivalent to 14.59 percent per annum. In like manner, the finance charges in the 556 transactions financed by the factory-preferred finance companies implied interest at the rate of 1.40 percent per month, or 18.21 percent per annum; and the finance charges in the 447 transactions financed by the independent finance companies implied the payment of interest at the rate of 1.49 percent per month, or 19.42 percent per annum.

However, it should be borne in mind that, while the purchasers of these new passenger automobiles on 12-month installments did the equivalent of paying interest at these rates on the total deferred cash purchase prices of their automobiles, including the insurance premiums, not all of this constituted net profit to the finance companies. In the first place, a portion of the total finance charges was paid to the vending dealers. The dealers' portion of the finance charges in the transactions financed by the factory-controlled finance company amounted to $6,422.77, or 1.29 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums. The like portion of the finance charges in the transactions financed by the factory-preferred finance companies was $5,927.75, or 2.41 percent; and the like portion of the finance charges in the transactions financed by the independent finance companies was $4,549.15, or 2.37 percent of the total deferred cash purchase prices. Furthermore, a considerable part of the finance charges retained by the finance companies was consumed in operating expenses of those companies—the expense of credit investigations, the expense of making up and furnishing to the car purchasers books of installment coupons showing the amounts of the installments and the dates on which they were due, the expense of preparing second, third, and fourth notices to be mailed to the respective car purchasers in case they should become delinquent in the payment of any installment, the expense of setting up the account with each installment contract, the expense of recording collections, etc. In consequence of these dealers' participations and of these expenses, the rates of net profit to these finance companies on the total capital employed in their business in in 1935 were 6.95 percent for General Motors Acceptance Corporation, 8.92 percent for the factory-preferred finance companies combined, and 9.16 percent for the 24 independent finance companies.

Reduction in finance-charge rates effected by 6-percent plan. As before stated, General Motors Acceptance Corporation put into effect in the autumn of 1935 a so-called 6-percent plan. The above table presents data with reference to 240 transactions in which new passenger cars were sold on 12-month installments during that period in 1935 in which the 6-percent plan was in effect. The finance charges in these transactions averaged 6.05 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums, as compared with an average of 7.58 percent in the 896 transactions financed by the same company during that part of 1935 before the 6-percent plan was put into effect. The one average is a little more than 20 percent less than the other average. The comparison of the average finance charge percentages in the two model groups may be more fully representative. The finance charges in the 613 transactions that were financed before the 6-percent plan went into effect averaged 8.05 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums; and the finance charges in the 173 transactions in the 6-percent plan modal group, i. e., the transactions that were financed after the 6-percent plan was put into effect, averaged 5.98 percent. The last stated finance charge percentage is 25.7 percent lower than the previous average. It may be stated that the effect of the 6-percent plan was to reduce the normal finance charges about 25 percent in the case of motor vehicles sold on 12-month installments.

What was this plan? As advertised, it was labeled the General Motors 6-percent plan. It also sought to instruct the prospective car purchaser on the installment plan how to compute the finance charges for himself. To the unpaid cash purchase price at the date of the purchase, he was to add the amount of the retail insurance premium. For the purpose of computing the finance charges, he was to apply to the resulting total a multiplier, which was to be 6 percent in the case of an installment of 12-month duration; for any other duration of the contract, the multiplier was to be one-half of 1 percent taken as many times as there were months in the duration of the contract. Thus, the multiplier would be 6 percent in the case of a 12-month installment contract, 3 percent in the case of a 6-month contract, 9 percent in the case of an 18-month contract, and 12 percent in the case of a 24-month contract. The percentage was always to be applied to the entire original unpaid balance, including the retail insurance premium. The amount of finance charges so computed was to be added to the total original unpaid balance of the cash purchase price, including the insurance premium, in order to ascertain the face amount of the car purchaser's installment contract; and this amount was to be divided by the number of months in the duration of the contract in order to ascertain the amount of the monthly installment.

These instructions, if comprehended and applied by the prospective car purchaser, would not only enable him to compute the finance charges, the face amount of his installment contract, and the amount of each monthly installment but would enable him to detect any overcharge or "pack" that the vending dealer might attempt to insert into the finance charges, and thereby to eliminate these packs. The elimination, by this method, of "packs" sought to be made by General

Motors dealers would remove much, if not all, of the advantage to them of financing through finance companies other than General Motors Acceptance Corporation.

Furthermore, if these instructions were comprehended and applied by prospective car purchasers generally, the natural effect would be that they would compare the rates of finance charge in installment contracts offered by the vendors of other makes of car; and, to the extent that the comparison favored cars of General Motors make, the effect would be, other things being equal, that a certain amount of demand would be transferred from other makes of motor vehicle to motor vehicles made by General Motors Corporation. So that the so-called 6-percent plan as advertised not only constituted a substantial reduction in the rates of finance charge but also was a clever competitive device both for increasing the volume of sales of General Motors products and for obtaining finance business for General Motors Acceptance Corporation.

The finance charges in the 173 transactions in the 6-percent plan modal group implied the payment of interest by the car purchasers on the unpaid balances of the cash purchase prices of their automobiles, including the insurance premiums, at the rate of 0.90 percent per month or 11.42 percent per annum. The corresponding rates pertaining to the 240 transactions constituting the total 6-percent-plan sample were 0.92 percent per month, or 11.56 percent per annum. In neither group of transactions was the average finance charge percentage exactly 6 percent. In a finance-charge percentage of exactly 6 percent for a 12-month transaction, the implied rate of interest is 0.91 percent per month, or 11.48 percent per annum.

Cost of purchasing new passenger cars on 18-month installments in 1935.—Table 162 presents data with reference to 3,480 transactions in 1935 in which dealers in the eastern half of the United States sold new passenger cars on 18-month installments. These transactions represented an aggregate cash sale value of a little more than $3,456,000.

TABLE 162.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 18-month installments by dealers in the United States and financed by independent, factory-preferred and factory-controlled finance companies in 1935*

	Independent finance companies	Factory-preferred finance companies	Factory-controlled finance company			
			Pre-6-percent plan total sample	6-percent plan total sample	Pre-6-percent plan modal group	6-percent plan modal group
Number of transactions	613	926	1,558	383	1,178	343
Cash purchase price of vehicle delivered	$608,025.88	$839,289.08	$1,605,122.35	$403,809.75	$1,08,238.32	$344,452.82
Retail insurance premium	24,183.60	38,366.19	64,433.43	14,834.99	46,292.43	13,276.44
Total cash purchase price of vehicle and insurance	632,209.48	877,655.27	1,669,555.78	418,644.74	1,154,530.75	357,729.26
Down payment, including allowance for used car traded in	246,038.24	330,964.44	664,105.04	166,526.86	468,538.16	144,643.97
Total deferred cash purchase price of vehicle and insurance	386,171.24	546,690.83	1,005,450.74	252,117.88	685,992.59	213,085.29

TABLE 162.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 18-month installments by dealers in the United States and financed by independent, factory-preferred and factory-controlled finance companies in 1935*—Continued

	Independent finance companies	Factory-preferred finance companies	Factory-controlled finance company: Pre-6-percent plan total sample	Factory-controlled finance company: 6-percent plan total sample	Factory-controlled finance company: Pre-6-percent plan modal group	Factory-controlled finance company: 6-percent plan modal group
Finance charges:						
Finance company's provision for expenses and profit	48,843.26	57,886.46	98,256.91	19,673.03	69,160.18	16,817.21
Dealer's loss reserve	2,253.69	12,489.92	12,412.10	2,900.08	9,012.64	2,527.59
Dealer's bonus	4,940.98	292.77				
Dealer's addition to regular finance charge	1,352.74	120.35	59.74	2.62	21.67	2.47
Total finance charge	57,390.67	70,789.50	110,728.75	22,575.73	78,194.49	19,347.27
Face amount of purchaser's obligation, payable in equal monthly installments	443,561.91	617,480.33	1,116,179.49	274,693.61	764,187.08	232,432.56
Total time price of vehicle and insurance	689,600.15	948,444.77	1,780,284.53	441,220.47	1,232,725.24	377,076.53
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	12.65	10.59	9.77	7.80	10.08	7.89
Dealer's loss reserve	.58	2.29	1.23	1.15	1.32	1.19
Dealer's bonus	1.28	.05				
Dealer's addition to regular finance charge	.35	.02	.01			
Total finance charge	14.86	12.95	11.01	8.95	11.40	9.08
Rate of interest implied in total finance charge:						
Per month	1.50	1.31	1.12	.92	1.16	.93
Equivalent annual rate (compounded monthly)	19.58	16.96	14.35	11.60	14.86	11.77
Conventional annual rate (12 times monthly rate)	18.00	15.72	13.44	11.04	13.92	11.16

Of the 3,480 transactions in which dealers in the eastern half of the United States sold new passenger cars on 18-month installments in 1935, data for which are presented in the above table, 1,941 transactions, representing an aggregate cash sales value of nearly $2,009,000, were financed by the factory-controlled finance company. Of these, 383 transactions were financed after the so-called 6-percent plan was put into effect; and the data for them are shown separately in the table, as also are the data for the other 1,558 transactions that were financed by the factory-controlled finance company during the period in 1935 before the 6-percent plan was put into effect. The results of the latter sample are directly comparable with the results of the 926 transactions that were financed by the factory-preferred finance companies and of the 613 transactions that were financed by the independent finance companies.

The finance charges in the 1,558 transactions that were financed by the factory-controlled finance company before the so-called 6-percent plan was put into effect, averaged 11.01 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums. The finance charges in the 926 transactions financed by the factory-preferred finance companies averaged 12.95 percent; and the like charges in the 613 transactions financed by the independent finance companies averaged 14.86 percent. Again the average finance charge percentage was lowest in the transactions financed by the factory-controlled finance company and was highest in the transactions financed by the independent finance companies. It is not necessary to go into the reasons for this; the same explanation applies here as was given in the discussion of the transactions in which new passenger cars were sold on 12-month installments.

The finance charges in the transactions financed by the factory-controlled finance company during the forepart of 1935 implied interest paid by the car purchasers on the unpaid balances of the cash-purchase prices of their automobiles, including the insurance premiums, at the rate of 1.12 percent per month, or 14.35 percent per annum. The corresponding rates pertaining to the transactions financed by the factory-preferred financed companies were 1.31 percent per month, or 16.96 percent per annum; and the corresponding rates implied in the finance charges in the transactions financed by the independent finance companies were 1.50 percent per month, or 19.58 percent per annum.

Coming to the transactions that were financed by the factory-controlled finance company, after the so-called 6-percent plan was put into effect, the finance charges in these 383 transactions averaged 8.95 percent. This may be compared with the average of 11.01 percent in the transactions financed before the 6-percent plan went into effect, and it represents a reduction of about 18.7 percent in the average rate of finance charge. Within this group was a subgroup of 343 transactions, the finance-charge percentages in which not only varied with practical continuity over a relatively narrow range but also evidenced a marked tendency to concentrate around a central or modal value. The data for this subgroup are shown in the last column in the table; and the data for a similar modal group of 1,178 transactions financed before the 6-percent plan was put into effect are shown in the next to the last column. The finance charges in the transactions composing this pre-6-percent plan modal group averaged 11.40 percent of the total deferred cash-purchase prices of these automobiles, including the insurance premiums; and the finance charges in the 6-percent plan modal group averaged 9.08 percent. The latter represents a reduction from the former of a little more than 20 percent.

The finance charges in the 343 transactions constituting the 6-percent plan modal group implied interest paid by these car purchasers on the unpaid balances of the cash-purchase prices of their automobiles, including the insurance premiums, at the rate of 0.93 percent per month, or 11.77 percent per annum. The finance charges in the 383 transactions constituting the entire 6-percent plan sample implied interest paid at the rate of 0.92 percent per month, or 11.60 percent per annum.

Cost of purchasing new passenger cars on 24-month installments in 1935.—Table 163 presents similar data with reference to 320 transactions in 1935 in which dealers in the eastern half of the United States sold new passenger cars on 24-month installments. These transactions represent an aggregate cash sales value of nearly $330,900. The extent of the sample is much smaller than the samples of new cars sold on 12- and 18-month installments, because at that time the finance companies were endeavoring to keep the duration of installment contracts down to 18 months in the case of new passenger cars and to 12 months in the case of used cars.

TABLE 163.—*Cash-purchase prices, retail insurance premiums, down payments, total deferred cash-purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash-purchase price, and rates of interest implied in finance charges for new passenger cars sold on 24-month installments by dealers in the United States and financed by independent, factory-preferred, and factory-controlled finance companies in 1935*

	Independent finance companies	Factory-preferred finance companies	Factory-controlled finance company	
			Pre-6-percent plan, total sample	6-percent plan, total sample
Number of transactions	137	28	118	37
Cash-purchase price of vehicle as delivered	$123,015.57	$25,115.21	$141,032.93	$41,710.24
Retail insurance premium	8,677.75	1,627.27	6,409.54	1,794.76
Total cash-purchase price of vehicle and insurance	131,693.32	26,742.48	147,442.47	43,505.00
Down payment, including allowance for used car traded in	47,365.69	8,603.51	53,100.35	14,528.72
Total deferred cash-purchase price of vehicle and insurance	84,327.63	18,138.97	94,342.12	28,976.28
Finance charges:				
Finance company's provision for expenses and profit	8,917.71	2,377.83	11,408.16	3,153.47
Dealer's loss reserve	170.88	413.47	1,053.03	319.69
Dealer's bonus		153.37		
Dealer's addition to regular finance charge	27.17	81.00	9.00	
Total finance charge	9,115.76	3,025.67	12,470.19	3,473.16
Face amount of purchaser's obligation, payable in equal monthly installments	93,443.39	21,164.64	106,812.31	32,449.44
Total time price of vehicle and insurance	140,809.08	29,768.15	159,912.66	46,978.16
	Percent	*Percent*	*Percent*	*Percent*
Percentage to total deferred cash-purchase price of—				
Finance company's provision for expenses and profit	10.58	13.11	12.09	10.88
Dealer's loss reserve	.20	2.28	1.12	1.10
Dealer's bonus		.84		
Dealer's addition to regular finance charge	.03	.45	.01	
Total finance charge	10.81	16.68	13.22	11.98
Rate of interest implied in total finance charge:				
Per month	.84	1.27	1.02	.93
Equivalent annual rate (compounded monthly)	10.56	16.39	12.93	11.70
Conventional annual rate (12 times monthly rate)	10.08	15.24	12.24	11.16

Of the 320 transactions in which dealers in the eastern half of the United States sold new passenger cars on 24-month installments in 1935, data for which are presented in the above table, 155 transactions, representing an aggregate cash sale value of a little more than $182,700, were financed by the factory-controlled finance company. Of these, 37 transactions were financed after the so-called 6-percent plan was put into effect; and the data for these transactions are presented separately in the above table, as also are the data for the other 118 transactions, which were financed before the 6-percent plan was put into effect. The results of the last mentioned group of transactions are directly comparable with the results of the 28 transactions that were financed by factory-preferred finance companies and of the 137 transactions that were financed by the independent finance companies.

The finance charges in the 118 transactions financed by the factory-controlled finance company before the 6-percent plan was put into effect averaged 13.22 percent of the total deferred cash-purchase prices of these automobiles, including the insurance premiums. The finance charges in the 28 transactions financed by the factory-preferred finance companies averaged 16.68 percent; and the like charges in the 137 transactions financed by the independent finance companies averaged 10.81 percent. In this comparison, the average finance charge percentage was lowest in the sample of transactions financed by the independent finance companies and was highest in the sample financed by the factory-preferred finance companies.

The interest rates implied in the finance charges in the transactions financed by the independent finance companies averaged 0.84 percent per month, or 10.56 percent per annum. The like rates pertaining to the transactions financed by the factory-preferred finance companies averaged 1.27 percent per month, or 16.39 percent per annum; and the interest rates in the transactions financed by the factory-controlled finance companies prior to the introduction of the 6-percent plan averaged 1.02 percent per month, or 12.93 percent per annum.

The finance charges in the 37 transactions financed by the factory-controlled finance company after the 6-percent plan went into effect averaged 11.98 percent as compared with 13.22 percent in the transactions financed before that plan was put into effect. The interest rates implied in the finance charges in the transactions under the 6-percent plan averaged 0.93 percent per month, or 11.70 percent per annum.

However, the reminder is again due that, although the purchasers of these new passenger cars on 24 months' installments did the equivalent of paying interest at these rates on the unpaid balances of the cash purchase prices of their automobiles, including the insurance premiums, not all of this constituted net profit to the finance companies for the reasons previously stated: the rates of net profit to these companies on the total capital employed in their businesses in 1935 were 6.95 percent in the case of General Motors Acceptance Corporation, 8.92 percent for the factory-preferred finance companies combined, and 9.16 percent for the 24 independent finance companies.

Cost of purchasing new trucks on 12-month installments in 1935.—Data were also obtained from the factory-controlled and factory-preferred finance companies with reference to 798 transactions in 1935 in which dealers in the eastern half of the United States sold new trucks on installments. Of these, 482 transactions, with a cash sale value of $375,452.13, represented the sale of trucks on 12-month installments. Table 164 presents the data for these 482 transactions.

TABLE 164.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new trucks sold on 12-month installments by dealers in the United States and financed by factory-preferred and factory-controlled finance companies in 1935*

	12-month installments				
	Factory-preferred finance companies	Factory-controlled finance company			
		Pre-6-percent plan—total sample	6-percent plan—total sample	Pre-6-percent plan—modal group	6-percent plan—modal group
Number of transactions	77	330	75	263	48
Cash purchase price of vehicle as delivered	$63,874.42	$252,846.19	$58,731.52	$199,901.55	$35,251.29
Retail insurance premium	1,962.23	10,248.54	2,379.51	8,125.83	1,417.66
Total cash purchase price of vehicle and insurance	65,836.65	263,094.73	61,111.03	208,027.38	36,668.95
Down payment, including allowance for used-car traded in	27,559.27	108,449.93	23,625.60	85,585.19	14,711.88
Total deferred cash purchase price of vehicle and insurance	38,277.38	154,644.80	37,485.43	122,442.19	21,957.07
Finance charges:					
Finance company's provision for expenses and profit	3,038.97	10,275.11	1,835.49	8,212.69	1,012.11
Dealer's loss reserve	998.40	3,730.56	519.83	3,022.12	294.34
Dealer's bonus					
Dealer's addition to regular finance charge	89.85	10.41		15.00	
Total finance charge	4,127.22	14,016.08	2,355.32	11,249.81	1,306.45
Face amount of purchaser's obligation, payable in equal monthly installments	42,404.60	168,660.88	39,840.75	133,692.00	23,263.52
Total time price of vehicle and insurance	69,963.87	277,110.81	63,466.35	219,277.19	37,975.40
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expenses and profit	7.94	6.64	4.90	6.71	4.61
Dealer's loss reserve	2.61	2.41	1.38	2.47	1.34
Dealer's bonus					
Dealer's addition to regular finance charge	.23	.01		.01	
Total finance charge	10.78	9.06	6.28	9.19	5.95
Rate of interest implied in total finance charge:					
Per month	1.61	1.36	.95	1.38	.90
Equivalent annual rate (compounded monthly)	21.16	17.61	12.02	17.86	11.36
Conventional annual rate (12 times monthly rate)	19.32	16.32	11.40	16.56	10.80

Of the 482 transactions in which new trucks were sold on 12-month installments in 1935, data for which are presented in the above table, 77 transactions were financed by factory-preferred finance companies, and the other 405 transactions were financed by the factory-controlled finance company. Of the latter total, 330 transactions were financed in that portion of 1935 before General Motors Acceptance Corporation put into effect the so-called 6-percent plan; and the other 75 transactions were financed after that plan was put into effect. The data for these two groups of transactions are presented separately in the above table. Within these two groups were subgroups of 263 and 48 transactions, respectively, the finance charge percentages in which not only varied with practical continuity over a relatively narrow range but also evidenced a marked tendency to concentrate around a central, or modal, value; and the data for these two subgroups are also presented separately in the last two columns of the table.

The results of the transactions in the pre-6-percent-plan groups are the results that are directly comparable with the results of the 77 transactions that were financed by the factory-preferred finance companies. The finance charges in the 77 transactions that were financed by the factory-preferred finance companies averaged 10.78 percent of the total deferred cash purchase prices of these trucks, including the insurance premiums. The finance charges in the 330 transactions constituting the total pre-6-percent-plan sample obtained from the factory-controlled finance company averaged 9.06 percent; and the charges in the 263 transactions constituting the pre-6-percent-plan modal group averaged 9.19 percent.

The finance charges in the transactions financed by the factory-preferred finance companies implied the payment by these truck purchasers of interest on the unpaid balances of the cash purchase prices of their trucks, including the insurance premiums, at the rate of 1.61 percent per month or 21.16 percent per annum. The finance charges in the 330 transactions constituting the total pre-6-percent plan sample that was financed by the factory-controlled finance company implied the payment of interest at the rate of 1.36 percent per month or 17.61 percent per annum; the corresponding rates of interest implied in the finance charges in the pre-6-percent plan modal group were 1.38 percent per month or 17.86 percent per annum. However, the reminder is pertinent that, although the purchasers of these trucks on 12-month installments did the equivalent of paying interest at these rates on the unpaid balances of the cash purchase prices of their vehicles, including the insurance premiums, not all of this constituted net profit to the finance companies for reasons stated in previous discussion. The rate of net profit to the factory-controlled finance company on the total capital employed in its business in 1935 was 6.95 percent; and the average rate of net profit to the factory-preferred finance companies was 8.92 percent in that year.

The finance charges in the sample of 75 transactions that were financed by the factory-controlled finance company during the period in 1935 in which the so-called 6-percent plan was in effect, averaged 6.28 percent; and the finance charges in the 48 transactions that constituted the 6-percent plan modal group averaged 5.95 percent. Comparing these percentages with the like percentages in the pre-6-percent plan sample, it will be observed that there was a reduction in the finance charges on new trucks sold on 12-month installments of 30 to 35 percent.

The finance charges in the 48 transactions constituting the 6-percent plan modal group implied the payment of interest by the purchasers of these trucks on the unpaid balances of the cash purchase prices of their vehicles, including the insurance premuums, at the average rate of 0.90 percent per month, or 11.36 percent per annum. For the entire 6-percent plan sample, the interest rates averaged 0.95 percent per month, or 12.02 percent per annum.

Cost of purchasing new trucks on 18-month installments in 1935.—Table 165 presents data with reference to 316 transactions, representing an aggregate cash-sale value of $253,112.50, in which dealers in the eastern half of the United States sold new trucks on 18-month installments in 1935.

TABLE 165.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new trucks sold on 18-month installments by dealers in the United States and financed by factory-preferred and factory-controlled finance companies in 1935*

	Factory-preferred finance companies	Factory-controlled finance companies	
		Pre-6-percent plan—total sample	6-percent plan—total sample
Number of transactions	52	211	53
Cash purchase price of vehicle as delivered	$44,083.35	$165,707.93	$43,321.22
Retail insurance premium	2,472.89	9,887.69	2,370.29
Total cash purchase price of vehicle and insurance	46,556.24	175,595.62	45,691.51
Down payment, including allowance for used-car traded in	16,199.15	60,904.31	16,211.51
Total deferred cash purchase price of vehicle and insurance	30,357.09	114,691.31	29,480.00
Finance charges			
Finance company's provision for expenses and profit	3,425.31	12,072.93	2,323.22
Dealer's loss reserve	668.65	2,541.67	396.13
Dealer's bonus			
Dealer's addition to regular finance charge	13.00	29.58	.15
Total finance charge	4,106.96	14,644.18	2,719.50
Face amount of purchaser's oligation, payable in equal monthly installments	34,464.05	129,335.49	32,199.50
Total time price of vehicle and insurance	50,663.20	190,239.80	48,411.01
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*
Finance company's provision for expenses and profit	11.29	10.53	7.88
Dealer's loss reserve	2.20	2.22	1.34
Dealer's bonus			
Dealer's addition to regular finance charge	.04	.02	
Total finance charge	13.53	12.77	9.22
Rate of interest implied in total finance charge:			
Per month	1.37	1.30	.95
Equivalent annual rate (compounded monthly)	17.75	16.72	11.96
Conventional annual rate (12 times monthly rate)	16.44	15.60	11.40

Of the 316 transactions in new trucks sold on 18-month installments in 1935, data for which are presented in the above table, 264 transactions were financed by the factory-controlled finance company. Of these, 211 transactions were financed in that part of 1935 before the so-called 6-percent plan was put into effect, and 53 transactions were financed after that plan was made operative. The data for these two groups are presented separately in the above table.

The results of the sample of 211 transactions that were financed by the factory-controlled finance company before the 6-percent plan was put into effect are the results that are comparable directly with those of the transactions financed by the factory-preferred finance companies. The finance charges in the 52 transactions that were financed by the factory-preferred finance companies in 1935 averaged 13.53 percent of the total deferred cash purchase prices of these trucks, including the insurance premiums. The corresponding percentage for the 211 transactions financed by the factory-controlled finance company during the comparable period was 12.77 percent.

The finance charges in the transactions financed by the factory-preferred finance companies implied the payment by these truck purchasers of interest on the unpaid balances of the cash purchase prices of their trucks, including the insurance premiums, at the average rate of 1.37 percent per month, or 17.75 percent per annum. The corresponding rates implied in the finance charges pertaining to the 211 transactions financed by the factory-controlled finance company during the period before the 6-percent plan was put into effect averaged 1.30 percent per month, or 16.72 percent per annum. In interpreting these interest rates, however, the same caution applies as was stated in previous discussion.

The finance charges in the 53 transactions financed by the factory-controlled finance company after the so-called 6-percent plan was put into effect averaged 9.22 percent of the total deferred cash purchase prices of these trucks, including the insurance premiums. This average was nearly 28 percent below the corresponding average in the transactions financed before the 6-percent plan was put into effect. The finance charges in these 53 transactions implied the payment by these truck purchasers of interest on the unpaid balances of the cash purchase prices of their vehicles, including the insurance premiums, at the average rate of 0.95 percent per month, or 11.96 percent per annum. The introduction of the 6-percent plan reduced the average implied interest rates 27 to 28 percent.

Section 4. The Cost of Purchasing Motor Vehicles on Installments in 1936, 1937, and 1938

Introduction.—As stated in section 3, the principal competitors of General Motors Corporation and General Motors Acceptance Corporation reduced their basic finance charge rates to meet the General Motors 6-percent plan as soon as they could prepare the necessary rate charts and advertising matter; so that by the spring of 1936, practically the entire industry of financing installment sales of motor vehicles was operating on the 6-percent plan basis. Indeed, some of the other motor-vehicle manufacturers and their related finance companies also announced and advertised so-called 6-percent plans. Furthermore, the automobile financing industry continued to operate on this basis through the remainder of the period covered by this investigation, namely, 1936, 1937, and the first half of 1938. For this reason it has been possible to consolidate the sample data obtained of transactions financed in those 3 years instead of presenting them for the respective years separately.

Cost of purchasing new passenger cars on 12-month installments in 1936, 1937, and 1938.—Table 166 presents data with reference to 6,086 transactions, representing an aggregate cash-sale value of nearly $6,024,000, in which dealers in the eastern half of the United States sold new passenger cars on 12-month installments during 1936, 1937, and 1938.

TABLE 166.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in the United States and financed by all groups of finance companies in 1936, 1937, and 1938*

	Model group sample			Total sample		
	Factory-controlled finance company	Factory-preferred finance companies	Independent finance companies	Factory-controlled finance company	Factory-preferred finance companies	Independent finance companies
Number of transactions	1,195	1,523	1,645	1,456	2,142	2,488
Cash purchase price of vehicle as delivered	$1,289,624.54	$1,453,113.71	$1,582,519.46	$1,596,400.66	$2,064,149.13	$2,363,362.06
Retail insurance premium	33,429.84	54,146.00	55,888.68	40,228.75	75,679.40	82,757.52
Total cash purchase price of vehicle and insurance	1,323,054.38	1,507,259.71	1,638,408.14	1,636,629.41	2,139,828.53	2,446,119.58
Down payment, including allowance for used car traded in	726,403.93	803,441.51	870,975.92	881,317.15	1,155,908.73	1,326,190.95
Total deferred cash purchase price of vehicle and insurance	596,650.45	703,818.20	767,432.22	755,312.26	983,919.80	1,119,928.63
Finance charges:						
Finance company's provision for expenses and profit	28,898.48	32,306.66	38,532.48	36,568.66	44,848.53	59,350.21
Dealer's loss reserve	7,295.54	9,301.71	2,294.75	8,919.40	13,304.83	4,055.27
Dealer's bonus	------------	1,524.69	9,171.97	------------	2,245.91	13,672.52
Dealer's addition to regular finance charge	17.14	497.12	1,236.64	126.52	3,532.89	2,387.39
Total finance charge	36,211.16	43,630.18	51,235.84	45,614.58	63,932.16	79,465.39
Face amount of purchaser's obligation, payable in equal monthly installments	632,861.61	747,448.38	818,668.06	800,926.84	1,047,851.96	1,199,394.02
Total time price of vehicle and insurance	1,359,265.54	1,550,889.89	1,689,643.98	1,682,243.99	2,203,760.69	2,525,584.97
Percentage to total deferred cash purchase price of—						
Finance company's provision for expense and profit	*Percent* 4.84	*Percent* 4.59	*Percent* 5.02	*Percent* 4.84	*Percent* 4.56	*Percent* 5.30
Dealer's loss reserve	1.23	1.32	.30	1.18	1.35	.36
Dealer's bonus	------------	.22	1.20	------------	.23	1.22
Dealer's addition to regular finance charge	------------	.07	.16	.02	.36	.21
Total finance charge	6.07	6.20	6.68	6.04	6.50	7.09
Rate of interest implied in total finance charge:						
Per month	.92	.94	1.01	.91	.98	1.07
Equivalent annual rate (compounded monthly)	11.59	11.85	12.80	11.53	12.44	13.63
Conventional annual rate (12 times monthly rate)	11.04	11.28	12.12	10.92	11.76	12.84

Of the 6,086 transactions in new passenger cars sold on 12-month installments by dealers in the eastern half of the United States during 1936, 1937, and 1938, data for which are presented in the above table, 1,456 transactions were financed by the factory-controlled finance company, 2,142 installment contracts were financed by the factory-preferred finance companies, and 2,488 were financed by independent finance companies. Within these total samples, were subgroups of 1,195, of 1,523, and 1,645 transactions, respectively, the finance charge percentages in which not only varied with practical continuity over a relatively narrow range but also evidenced a considerable tendency to concentrate around central, or modal, values; and the data for these three subgroups are presented in the first three columns of the above table.

The finance charges in the 1,456 transactions in new passenger cars sold on 12-month installments that were financed by the factory-controlled finance company averaged 6.04 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums. The corresponding percentages in the samples that were financed by the factory-preferred and the independent finance companies were 6.50 and 7.09 percent, respectively. These finance-charge percentages are to be compared with the normal 6 percent for 12-month installment contracts under the 6-percent plan, which was in effect practically throughout this period. It will be observed that the average percentage in the sample financed by the factory-controlled finance company was only slightly above the normal, while the average percentages in the transactions financed by the factory-preferred and independent finance companies were respectively one-half point and 1.09 points above this normal.

The higher average finance charge percentages in the transactions financed by the factory-preferred and the independent finance companies may be due in part to so-called fluctuations in sampling. However, the main cause is the certain degree of liberality of the factory-preferred finance companies and the even greater liberality of the independent finance companies in permitting the vending dealers to make additions, or "packs," to the regular finance charges provided by the minimum rate charts furnished to the dealers, as discussed in section 3 of this chapter in connection with the presentation of the data with reference to new passenger cars sold on 12-month installments. These dealers' "packs" are represented in part in the above table by the amounts shown on the line designated as "dealer's addition to regular finance charge"; but, in the case of the factory-preferred and the independent finance companies, due to the dual and multiple rate-chart systems, "packs" are also concealed in the amounts purporting to be dealers' loss reserves and dealers' bonuses. It will be observed that the dealers' participations in the finance charges in the 1,456 transactions financed by the factory-controlled finance company averaged 1.20 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums. Of this, $126.52, or 0.02 percent, represented dealers' additions; but, due to the practice of this finance company of rigorously eliminating dealers' additions where these represented no extra service rendered by the vending dealer to the purchaser, most, if not all, of these additions represent local recording fees, stamp taxes, and the like that were paid by the vending dealers, included in the time prices of the cars and reimbursed to the dealers by the finance company. In the case of the sample financed by the factory-preferred finance companies, the dealers' loss reserves and bonuses together averaged 1.58 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums; and their total participations, including those segregated as additions to the regular finance charges, averaged 1.94 percent. The corresponding participations by the dealers in the finance charges in connection with the transactions financed by the independent finance companies averaged 1.58 and 1.79 percent, respectively.

Coming to those portions of the total samples that are shown in the above table as modal subgroups, the finance charges in the transactions financed by the factory-controlled finance company averaged 6.07 percent, those in the transactions financed by the factory-preferred finance companies averaged 6.20 percent, and the finance charges in the transactions financed by the independent finance companies averaged 6.68 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums.

The interest rates paid by the car purchasers on the unpaid balances of the cash purchase prices of their vehicles, including the insurance premiums, averaged 0.91 percent per month, or 11.53 percent per annum, in the case of the 1,456 transactions that were financed by the factory-controlled finance company. The corresponding rates in the total sample financed by the factory-preferred finance company averaged 0.98 percent per month, or 12.44 percent per annum; and in the total sample financed by the independent finance companies averaged 1.07 percent per month, or 13.63 percent per annum. These interest rates may be compared with the normal 0.9099 percent per month, or 11.48 percent per annum, for 12-month contracts under the 6-percent plan. For the entire sample of 12-month new passenger-car transactions financed by all three groups of finance companies, the average rate of interest implied in the finance charges was 1 percent per month, or 12.67 percent per annum.

Cost of purchasing new passenger cars on 18-month installments in 1936, 1937, and 1938.—Table 167 presents similar data with reference to 10,499 transactions in 1936, 1937, and 1938, in which dealers in the eastern half of the United States sold new passenger cars on 18-month installments. These transactions represent an aggregate cash sales value of more than $10,127,000. The plan of this table is precisely similar to that of the preceding table: Data are presented for the aggregate samples obtained, respectively, from the factory-controlled finance company, and the factory-preferred and the independent finance companies; data are also presented for modal subgroups, i. e., groups of transactions the finance charge percentages in which varied with practical continuity over a relatively narrow range and also evidenced a considerable tendency to concentrate around central, or modal, values.

TABLE 167.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 18-month installments by dealers in the United States and financed by all groups of finance companies in 1936, 1937, and 1938*

	Modal group sample			Total sample		
	Factory-controlled finance company	Factory-preferred finance companies	Independent finance companies	Factory-controlled finance company	Factory-preferred finance companies	Independent finance companies
Number of transactions	1,771	2,921	3,389	2,019	3,890	4,590
Cash purchase price of vehicle as delivered	$1,814,078.72	$2,758,947.69	$3,138,282.42	$2,202,522.02	$3,691,162.26	$4,233,644.30
Retail insurance premium	69,161.47	148,557.96	159,944.68	80,514.73	198,361.84	212,370.58
Total cash purchase price of vehicle and insurance	1,883,240.19	2,907,505.65	3,298,227.10	2,283,036.75	3,889,524.10	4,446,014.88
Down payment including allowance for used car traded in	817,035.31	1,200,099.84	1,353,618.09	981,154.32	1,618,542.54	1,841,028.50
Total deferred cash purchase price of vehicle and insurance	1,066,204.88	1,707,405.81	1,944,609.01	1,301,882.43	2,270,981.56	2,604,986.38
Finance charges:						
Finance company's provision for expenses and profit	79,902.78	124,892.29	160,006.42	96,605.43	165,721.59	224,531.19
Dealer's loss reserve	16,919.08	26,420.53	5,490.98	20,035.92	35,138.29	7,582.24
Dealer's bonus		4,072.80	24,632.77		5,355.89	33,644.88
Dealer's addition to regular finance charge	71.83	1,248.02	4,836.20	137.87	5,826.98	7,612.46
Total finance charge	96,893.69	156,633.64	194,966.37	116,779.22	212,042.75	273,370.77
Face amount of purchaser's obligation, payable in equal monthly installments	1,163,098.57	1,864,039.45	2,139,575.38	1,418,661.65	2,483,024.31	2,878,357.15
Total time price of vehicle and insurance	1,980,133.88	3,064,139.29	3,493,193.47	2,399,815.97	4,101,566.85	4,719,385.65
Percentage to total deferred cash purchase price of—						
Finance company's provision for expenses and profit	*Percent* 7.49	*Percent* 7.31	*Percent* 8.23	*Percent* 7.42	*Percent* 7.30	*Percent* 8.62
Dealer's loss reserve	1.59	1.55	.28	1.54	1.55	.29
Dealer's bonus		.24	1.27		.23	1.29
Dealer's addition to regular finance charge	.01	.07	.25	.01	.26	.29
Total finance charge	9.09	9.17	10.03	8.97	9.34	10.49
Rate of interest implied in total finance charge:						
Per month	.93	.94	1.03	.92	.96	1.07
Equivalent annual rate (compounded monthly)	11.78	11.89	13.03	11.62	12.11	13.65
Conventional annual rate (12 times monthly rate)	11.16	11.28	12.36	11.04	11.52	12.84

Of the 10,499 transactions in new passenger cars sold on 18 months installments in 1936, 1937, and 1938, data for which are presented in the above table, 2,019 transactions representing a cash sale value of more than $2,202,500 were financed by the factory-controlled finance company, 3,890 installment contracts representing a cash sale value of nearly $3,691,200 were financed by the factory-preferred finance companies, and 4,590 transactions representing a cash sale value of more than $4,233,600 were financed by the independent finance companies.

The finance charges in these transactions averaged 8.97 percent of the total deferred cash purchase prices of the automobiles, including the insurance premiums, in the transactions financed by the factory-controlled finance company, 9.34 percent in the transactions financed by the factory-preferred finance companies, and 10.49 percent in the transactions financed by the independent finance companies. In the modal subgroups, the finance charges in the transactions financed by the three groups of finance companies averaged respectively 9.09 percent, 9.17 percent, and 10.03 percent. These finance charge percentages are to be compared with the normal 9 percent for 18-month installment contracts under the so-called 6-percent plan, which was in effect during this period. It will be observed that the average finance-charge percentages in the transactions financed by the factory-controlled finance company did not differ greatly from this normal, while the percentages in the transactions financed by the factory-preferred finance companies exceeded the normal somewhat on the average, and the average percentages in the transactions financed by the independent finance companies exceeded this normal by more than 1 point percent. The reasons for these deviations have already been discussed and need not be repeated here.

The finance charges in the 2,019 18-month installment contracts financed by the factory-controlled finance company implied the payment by these automobile purchasers of interest on the unpaid balances of the cash purchase prices of their cars, including the insurance premiums, at the average rate of 0.92 percent per month, or 11.62 percent per annum. The corresponding rates implied in the finance charges in the 3,890 transactions financed by the factory-preferred finance companies were 0.96 percent per month, or 12.11 percent per annum; and the like rates implied in the finance charges in the 4,590 transactions financed by the independent finance companies averaged 1.07 percent per month, or 13.65 percent per annum. The interest rates implied in the finance charges in the transactions included in the three modal subgroups did not differ substantially from those just stated for the total samples. However, the reminder is again pertinent that, although the purchasers of these cars did the equivalent of paying interest at these rates on the unpaid balances of the cash purchase prices of their automobiles, including the insurance premiums, not all of this constituted net profit to the finance companies. Not only were portions of the finance charges consumed in operating expenses of the finance companies themselves, but portions of them were paid to the vending dealers as loss reserves, or bonuses, or in the payment to these dealers, especially in the case of the factory-preferred and independent finance companies, of "packs" added by these dealers to the regular finance charges. These participations by the dealers averaged 1.55 percent of the total deferred cash purchase prices of the automobiles figuring in the transactions financed by the factory-controlled finance company, to 2.04 percent in the transactions financed by the factory-preferred finance companies, and to 1.87 percent in the transactions financed by the independent finance companies.

Cost of purchasing new passenger cars on 24-month installments in 1936, 1937, and 1938.—The samples collected by this Commission in this investigation included 10,570 transactions in 1936, 1937, and 1938, representing a cash sale value of more than $9,635,000, in which dealers in the eastern half of the United States sold new passenger cars on 24-month installments. The data pertaining to these transactions are presented in table 168. The plan of this table is precisely similar to the preceding two tables, the data for 512 such transactions that were financed by the factory-controlled finance company, for 4,705 transactions that were financed by the factory-preferred finance companies, and for 5,353 transactions that were financed by the independent finance companies being presented separately. Within these total samples were subgroups of transactions, the finance charge percentages in which varied with practical continuity over a relatively narrow range and also evidenced considerable tendency to concentrate around central, or modal, values; and the data for these modal subgroups are also presented separately in the table.

TABLE 168.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 24-month installments by dealers in the United States and financed by all groups of finance companies in 1936, 1937, and 1938.*

	Modal group sample			Total sample		
	Factory-controlled finance company	Factory-preferred finance companies	Independent finance companies	Factory-controlled finance company	Factory-preferred finance companies	Independent finance companies
Number of transactions	324	3, 566	4, 079	512	4, 705	5, 353
Cash purchase price of vehicle as delivered	$329, 423. 33	$3, 353, 478. 97	$3, 427, 509. 83	$551, 240. 50	$4, 486, 388. 67	$4, 507, 669. 25
Retail insurance premium	15, 920. 43	218, 542. 49	229, 573. 20	25, 995. 01	292, 379. 28	302, 581. 54
Total cash purchase price of vehicle and insurance	345, 343. 76	3, 572, 021. 46	3. 657. 083. 03	577, 235. 51	4, 778. 767. 95	4, 900, 250. 79
Down payment, including allowance for used car traded in	127, 997. 40	1, 267, 046. 78	1, 306, 524. 22	210, 542. 65	1, 705, 805. 93	1, 753, 589. 64
Total deferred cash purchase price of vehicle and insurance	217, 346. 36	2, 304, 974. 68	2, 350, 558. 81	366, 692. 86	3, 072, 962. 02	3, 146, 661. 15
Finance charges:						
Finance company's provision for expenses and profit	21, 691. 32	239, 763. 62	243, 186. 21	36, 668. 60	318, 440. 68	346, 420. 34
Dealer's loss reserve	4, 485. 96	35, 460. 41	5, 903. 41	7, 045. 92	46, 880. 09	8, 109. 51
Dealer's bonus	60. 99	4, 410. 36	36, 778. 81	152. 08	5, 510. 89	48, 381. 28
Dealer's addition to regular finance charge	11. 80	1, 097. 67	5, 142. 79	62. 51	8, 068. 99	9. 666. 26
Total finance charge	26, 250. 07	280. 732. 06	291, 011. 22	43, 929. 11	378, 900. 65	412, 577. 39
Face amount of purchaser's obligation, payable in equal monthly installments	243, 596. 43	2, 585, 706. 74	2, 641, 570. 03	410, 621. 97	3. 451, 862. 67	3, 559, 238. 54
Total time price of vehicle and insurance	371, 593. 83	3, 852, 753. 52	3, 948, 094. 25	621, 164. 62	5, 157, 668. 60	5, 312, 828. 18
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expenses and profit	9. 98	10. 40	10. 35	10. 00	10. 36	11. 01
Dealer's loss reserve	2. 06	1. 54	. 25	1. 92	1. 53	. 26
Dealer's bonus	. 03	. 19	1. 56	. 04	. 18	1. 54
Dealer's addition to regular finance charge	. 01	. 05	. 22	. 02	. 26	. 30
Total finance charge	12. 08	12. 18	12. 38	11. 98	12. 33	13. 11
Rate of interest implied in total finance charge:						
Per month	. 93	. 94	. 96	. 93	. 95	1. 01
Equivalent annual rate (compounded monthly)	11. 79	11. 80	12. 09	11. 69	12. 04	12. 82
Conventional annual rate (12 times monthly rate)	11. 16	11. 28	11. 52	11. 16	11. 40	12. 12

The finance charges in the 512 24-month installment contracts financed by the factory-controlled finance company, data for which are presented in one column of the above table, averaged 11.98 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums. The like charges in the 4,705 transactions financed by the factory-preferred finance companies averaged 12.33 percent; and the finance charges in the 5,353 transactions financed by the independent finance companies averaged 13.11 percent. For the modal subgroups of transactions, the average finance charge percentages in the transactions financed by the three groups of finance companies in the same order were respectively 12.08, 12.18, and 12.38 percent. These finance charge percentages are to be compared with the normal 12 percent for 24-month transactions under the so-called 6-percent plan, which was in effect practically throughout this period. Again it will be observed that the average finance charge percentages in the transactions financed by the factory-controlled finance company were close to this normal, while the finance charge percentages in the transactions financed by the factory-preferred finance companies averaged somewhat higher, and the average finance charge percentages in the transactions financed by the independent finance companies exceeded this normal by even greater amounts. The reasons for these variations from group to group of the finance companies have already been discussed in connection with previous tables and need not be restated here.

The finance charges in the 512 24-month installment contracts that constituted the total sample financed by the factory-controlled finance company implied the payment by these car purchasers of interest on the unpaid balances of the cash purchase prices of their automobiles, including the insurance premiums, at the average rate of 0.93 percent per month, or 11.69 percent per annum. The corresponding rates in the 4,705 transactions constituting the total sample financed by the factory-preferred finance companies averaged 0.95 percent per month, or 12.04 percent per annum; and the like rates implied in the finance charges in the 5,353 transactions constituting the total sample financed by the independent finance companies averaged 1.01 percent per month, or 12.82 percent per annum. The rates of interest implied in the finance charges in the three model subgroups of transactions did not differ greatly from those just stated for the total samples, except that the rate implied in the 4,079 transactions financed by the independent finance companies averaged 0.96 percent per month or 12.09 percent per annum, and was therefore closer to the rates implied in the finance charges in the transactions financed by the factory-controlled and factory-preferred finance companies. However, in interpreting these interest rates, there is pertinent the customary caution that the rates of net profit to the finance companies were considerably lower than these implied interest rates paid by the car purchasers because of the portions of the finance charges that were consumed in the operating expenses of the finance companies and because of the portions that were paid to the participating dealers as loss reserves and bonuses and also of the amounts paid to these dealers representing their "packs." In the transactions financed by the factory-controlled finance company, these dealers' participations averaged 1.98 percent of the total deferred cash purchase prices of the automobiles, including the insurance premiums; the corresponding participations in the finance charges in the transactions financed by the factory-preferred finance companies averaged 1.97 percent and in the transactions financed by the independent finance companies averaged 2.10 percent.

Cost of purchasing new trucks on 12-month installments in 1936, 1937, and 1938.—Table 169, presents similar data with reference to 772 transactions in 1936, 1937, and 1938 in which dealers in the eastern half of the United States sold new trucks on 12-month installments. These trucks had an aggregate cash sales value of a little more than $679,400.

TABLE 169.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new trucks sold on 12 months installments by dealers in the United States and financed by all groups of finance companies in 1936, 1937 and 1938.*

	Factory-controlled finance company	Factory-preferred finance companies	Independent finance companies
Number of transactions	342	278	152
Cash purchase price of vehicle as delivered	$277,686.43	$271,023.67	$130,705.97
Retail insurance premium	11,318.65	12,228.54	4,984.47
Total cash purchase price of vehicle and insurance	289,005.08	283,252.21	135,690.44
Down payment, including allowance for used car traded in	119,088.09	110,074.42	55,985.19
Total deferred cash purchase price of vehicle and insurance	169,916.99	173,177.79	79,705.25
Finance charges:			
Finance company's provisions for expenses and profit	8,276.86	9,069.76	5,722.46
Dealer's loss reserve	2,108.14	1,986.26	380.12
Dealer's bonus	0	119.18	624.04
Dealer's addition to regular finance charge	7.50	173.54	173.34
Total finance charge	10,392.50	11,348.74	6,899.96
Face amount of purchaser's obligation, payable in equal monthly installments	180,309.49	184,526.53	86,605.21
Total time price of vehicle and insurance	299,397.58	294,600.95	142,590.40
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	4.87	5.24	7.18
Dealer's loss reserve	1.24	1.15	.48
Dealer's bonus	0.00	.07	.78
Dealer's addition to regular finance charge	.01	.10	.22
Total finance charge	6.12	6.55	8.66
Rate of interest implied in total finance charge—			
Per month	.93	.99	1.30
Equivalent annual rate (compounded monthly)	11.70	12.55	16.78
Conventional annual rate (12 times monthly rate)	11.16	11.88	15.60

Of the 772 transactions in new trucks sold on 12-month installments in the eastern half of the United States during 1936, 1937, and 1938, data for which are presented in the above table, the sample of transactions financed by the factory-controlled finance company comprised 342 transactions, that financed by the factory-preferred finance companies comprised 278 transactions, and the sample financed by the independent finance companies contained 152 transactions. The finance charges in these transactions averaged 6.12 percent of the total deferred cash purchase prices of the trucks, including the insurance premiums, in the case of the factory-controlled finance company, 6.55 percent in the transactions financed by the factory-preferred finance companies, and 8.66 percent in those financed by the independent finance companies.

Thus, it will be observed, the finance charges in the transactions financed by the factory-preferred finance companies averaged somewhat higher than those in the transactions financed by the factory-controlled finance company; and the finance charges in the transactions financed by the independent finance companies average highest. As stated in previous discussion, these differences are due in considerable part to the differences in attitude among the three groups of finance company toward permission to the vending dealers to make additions, or "packs," to the regular finance charges as provided in the minimum rate charts furnished by the finance companies to the dealers. This is evidenced in the above table, in part, by the amounts shown on the line designated as "dealer's addition to regular finance charge." In the 342 transactions financed by the factory-controlled finance company, these additions aggregated only $7.50; and, in all probability, they represented local recording fees and the like that were paid by the vending dealers, included in the total time prices of the trucks and in the installment contracts, and reimbursed to the dealers in the checks from the finance company.

The like additions in the 278 transactions financed by the factory-preferred finance companies aggregated $173.54, or one-tenth of 1 percent of the total deferred cash purchase prices of these trucks, including the insurance premiums; and the like charges in the 152 transactions financed by the independent finance companies aggregated $173.34, or 0.22 percent of the unpaid cash purchase prices of the trucks. While a certain portion of these additions made by the vending dealers in transactions financed by the factory-preferred and the independent finance companies represented recording fees, notary fees, and stamp taxes paid by the vending dealers included in the total charges and reimbursed to them, a considerable portion represents additions made by these dealers to the regular finance charges for no extra service rendered by them. Furthermore, due to the dual and multiple rate chart systems employed by the dealers financing through certain of these finance companies, other "packs" are included in the amounts shown in the table as dealer's loss reserves and dealer's bonuses. It will be observed that the participations in the finance charges by the dealers averaged 1.32 percent of the total deferred cash purchase prices of the trucks, including the insurance premiums, in the transactions financed by the factory-preferred finance companies, and averaged 1.48 percent in the transactions financed by the independent finance companies, as compared with 1.25 percent in the transactions financed by the factory-controlled finance company. It will also be observed that the portion of the total finance charges retained by the finance companies for the purpose of meeting their own operating expenses and providing them with profit were higher percentages of the total deferred cash purchase prices of the trucks in the case of the factory-preferred and the independent finance companies than in the case of the transactions financed by the factory-controlled company—5.24 and 7.18 percent, respectively, as compared with 4.87 percent. These greater percentages are due in part to the practice of certain of these finance companies in retaining for themselves a portion of the "packs" inserted into the regular finance charges by the vending dealers.

The finance charges in the 342 transactions that were financed by the factory-controlled finance company implied the payment by the truck purchasers of interest on the unpaid balances of the cash purchase prices of their vehicles, including the insurance premiums, at the rate of 0.93 percent per month, or 11.70 percent per annum. The like rates of interest implied in the finance charges in the 278 12-month new truck transactions financed by the factory-preferred finance companies averaged 0.99 percent per month, or 12.55 percent per annum; and the rates implied in the 152 transactions financed by the independent finance companies averaged 1.30 percent per month, or 16.78 percent per annum. However, in the interpretation of these implied interest rates, the reminder is due that, while the purchasers of these new trucks on 12-month installments did the equivalent of paying interest at these rates on the unpaid balances of the cash purchase prices of the vehicles, including the insurance premiums, not all of this constituted net profit to the finance companies for reasons stated in previous discussion: The rate of net profit to the factory-controlled finance company on the total capital employed in its business was 5.65 percent in 1936 and 5.56 percent in 1937; the corresponding rates of net profit on the total capital employed in the businesses of the factory-preferred finance companies were 7.92 and 6.47 percent, respectively, and on the total capital employed in the businesses of the independent finance companies from whom data were obtained were 9.44 and 7.86 percent, respectively.

Cost of purchasing new trucks on 18-month installments in 1936, 1937, and 1938.—Table 170 presents data with reference to 1,084 other transactions in 1936, 1937, and 1938 in which dealers in the eastern half of the United States sold new trucks on 18-month installments. These trucks had an aggregate cash sale value of a little more than $989,000.

Of the 1,084 transactions in new trucks sold on 18-month installments in the eastern half of the United States in 1936, 1937, and 1938, data for which are presented in the next table, 304 transactions were financed by the factory-controlled finance company, 452 were financed by the factory-preferred finance companies, and 328 transactions were financed by the independent finance companies. The finance charges in the transactions financed by the factory-controlled finance company averaged 9.04 percent of the total deferred cash purchase prices of these trucks, including the insurance premiums; those in the transactions financed by the factory-preferred finance companies averaged 9.47 percent; and the like charges in the transactions financed by the independent finance companies averaged 11.75 percent. These finance charge percentages are to be compared with a normal 9 percent for 18-month installment contracts under the so-called 6-percent plan. It will be observed that the average in the transactions financed by the factory-controlled finance company was only a trifle above that normal, while the average in the transactions financed by the factory-preferred finance companies was somewhat greater and the average in the transactions financed by the independent finance companies was 2.75 points percent above that normal.

TABLE 170.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new Trucks sold on 18-month installments by dealers in United States and financed by all groups of finance companies in 1936, 1937, and 1938.*

	Factory-controlled finance company	Factory-preferred finance companies	Independent finance companies
Number of transactions	304	452	328
Cash purchase price of vehicle as delivered	$247, 542. 89	$466, 599. 46	$274, 898. 41
Retail insurance premium	13, 060. 64	30, 080. 86	16, 038. 84
Total cash purchase price of vehicle and insurance	260, 603. 53	496, 680. 32	290, 937. 25
Down payment, including allowance for used car traded in	93, 890. 43	166, 640. 76	101, 344. 88
Total deferred cash purchase price of vehicle and insurance	166, 713. 10	330, 039. 56	189, 592. 37
Finance charges:			
Finance company's provision for expenses and profit	12, 408. 87	26, 101. 97	19, 254. 94
Dealer's loss reserve	2, 674. 12	4, 245. 18	682. 96
Dealer's bonus		352. 91	1, 835. 90
Dealer's addition to regular finance charge	[1] 4. 62	546. 70	503. 15
Total finance charge	15, 078. 37	31, 246. 76	22, 276. 95
Face amount of purchaser's obligation, payable in equal monthly installments	181, 791. 47	361, 286. 32	211, 869. 32
Total time price of vehicle and insurance	275, 681. 90	527, 927. 08	313, 214. 20
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	7. 44	7. 91	10. 16
Dealer's loss reserve	1. 60	1. 29	. 36
Dealer's bonus		. 10	. 97
Dealer's addition to regular finance charge		. 17	. 26
Total finance charge	9. 04	9. 47	11. 75
Rate of interest implied in total finance charge:			
Per month	. 93	. 97	1. 20
Equivalent annual rate (compounded monthly)	11. 73	12. 28	15. 34
Conventional annual rate (12 times monthly rate)	11. 16	11. 64	14. 40

[1] Negative quantity.

Again the principal explanation of the larger average finance charge percentages in the transactions financed by the factory-preferred and the independent finance companies than in the transactions financed by the factory-controlled finance company is the presence in the total finance charges in the transactions financed by the first two mentioned groups of finance company of dealers' additions, or "packs," to the regular finance charges. In the sample of 304 transactions financed by the factory-controlled finance company, dealers made errors against themselves to such an extent that, in the aggregate, they received $4.62 less than the cash sale prices of their trucks. In the 452 transactions financed by the factory-preferred finance companies, the dealers made ascertained additions to the regular finance charges aggregating $546.70 or approximately one-sixth of 1 percent of the total deferred cash purchase prices of all of the trucks included in this sample; and in the 328 transactions financed by the independent finance companies, the dealers made ascertained additions aggregating $503.15, or a little more than one-fourth of 1 percent of the total deferred cash purchase prices of these trucks, including the insurance premiums. As stated in the discussion of the preceding table, however, due to the dual and multiple rate chart system applied by the dealers financing with certain of these factory-preferred and independent finance companies, additional "packs" were concealed in the amounts purporting to be dealer's loss reserves and dealer's bonuses. The participations by the vending dealers in the finance charges in these transactions averaged 1.56 percent of the total deferred cash purchase prices of the trucks, including the insurance premiums, in the transactions financed by the factory-preferred finance companies and 1.59 percent in the transactions financed by the independent finance companies as compared with 1.60 percent in the transactions financed by the factory-controlled finance company. Again, furthermore, the portion of the finance charges retained by the finance companies for the purpose of meeting their operating expenses and providing them with profit averaged higher in the transactions financed by the factory-preferred and the independent finance companies than in the transactions financed by the factory-controlled finance company—7.91 and 10.16 percent, respectively, of the total deferred cash purchase prices of the trucks, including the insurance premiums, as compared with 7.44 percent.

The finance charges in the 304 eighteen-month new truck transactions financed by the factory-controlled finance company implied the payment by the car purchasers of interest on the unpaid balances of the cash purchase prices of these trucks, including the insurance premiums, at the rate of 0.93 percent per month, or 11.73 percent per annum; the like rates of interest implied in the finance charges in the 452 transactions financed by the factory-preferred finance companies averaged 0.97 percent per month, or 12.28 percent per annum; and the like rates implied in the finance charges in transactions financed by the independent finance companies averaged 1.20 percent per month, or 15.34 percent per annum. Again, however, the reminder is due that, although the purchasers of these new trucks on 18-month installments did the equivalent of paying interest at these average rates on the unpaid balances of the total deferred cash purchase prices of their trucks, including the insurance premiums, not all of this constituted net profit to the finance companies for reasons stated previously in these discussions, the rates of net profit to these finance companies on the total capital employed in their business in 1936 and 1937 were stated at the end of the discussion of new trucks sold on 12-month installments.

Section 5. Illustrations of Specific Practices and Charges in Financing Installment Sales of New Motor Vehicles in Various Regions.

Introduction.—The original draft of this chapter classified transactions according to divisions of the eastern half of the United States in which they occurred—North Atlantic, South Atlantic, North Central, and South Central—and it presented the data accordingly, each table being devoted to the data pertaining to transactions financed by a single class of finance company. Thus, in presenting the data with reference to transactions in which new passenger cars were sold on 18-month installments by dealers in South Atlantic regions in 1935, these data were presented in three successive tables, one containing the data with reference to transactions financed by the factory-controlled finance company, the second being devoted to transactions financed by the factory-preferred finance companies, and the third presenting the data for transactions financed by the independent finance companies. Similarly for transactions in which new cars were sold on 18-month installments, in which new trucks were sold on 12-month installments, and so on. Each of these individual tables presented not only the aggregate data for the sample, and in many cases the aggregate data for a modal subgroup, but also the data for the two transactions in the sample that had the maximum and the minimum finance charge percentages.

In the process of consolidating these samples for purpose of condensing this text, the samples for the four groups of regions were combined, as also were the samples for 1936, 1937, and 1938. Furthermore, the tables in which were presented the data so consolidated, showed, for each class of vehicle and for each duration of contract, the aggregate data for the samples of transactions that were financed respectively by the three classes of finance company. In consequence, in order to keep these tables down to a practical size, it was necessary to omit from these tables the data with reference to the transactions with the minimum and the maximum finance charge percentages. Such condensation necessarily eliminated from the discussion a large number of specific illustrations, the details of which were not only interesting but informative as to the various kinds of practices indulged in by vending dealers and by various finance companies in various regions in the eastern half of the United States. Although all that part of the original draft that has been omitted from this revised draft of this chapter is presented in appendix 4, it is deemed desirable to present in this section of this chapter a few chosen tables and illustrations for the purpose of illustrating a few of the specific practices referred to.

Cost of purchasing new passenger cars on 12-month installments in North Central regions in 1935.—The areas around and centering in Detroit, Cleveland, Indianapolis, Chicago, Milwaukee, Minneapolis, Omaha, Kansas City, and St. Louis are spoken of in this chapter as "North Central regions."

Table 171 presents data with reference to 420 transactions in which new passenger cars were sold on 12-month installments by dealers in North Central regions in 1935, these transactions being financed by factory-controlled finance companies. This table presents the data not only for the total sample of 420 transactions and for the 2 transactions with the minimum and the maximum finance charge percentages, respectively, but also for two subgroups, namely, a subgroup of 230 transactions that occurred and were financed prior to the date at which the so-called 6-percent plan went into effect; a subgroup of 67 transactions that occurred and were financed after the 6-percent plan became effective. In each of these two groups, not only did the finance charge percentages vary with practical continuity over a certain narrow range, but they also showed a marked tendency to concentrate around a central or modal value.

TABLE 171.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in North Central Regions and financed by factory-controlled finance company in 1935*

	Transaction with—		Total 6-percent modal group	Total pre-6-percent modal group	Total sample
	Minimum finance charge percentage	Maximum finance charge percentage			
Number of transactions	1	1	67	230	420
Cash purchase price of vehicle as delivered	$3,044.00	$917.00	$80,878.46	$221,602.35	$463,639.63
Retail insurance premium		8.66	1,766.10	5,674.14	11,017.71
Total cash purchase price of vehicle and insurance	3,044.00	925.66	82,644.56	227,276.49	474,657.34
Down payment, including allowance for used car traded in	1,145.00	536.00	43,111.09	121,066.94	242,454.01
Total deferred cash purchase price of vehicle and insurance	1,899.00	389.66	39,533.47	106,209.55	232,203.33
Finance charges:					
Finance company's provision for expenses and profit	85.80	30.83	1,898.59	6,982.31	13,997.10
Dealer's loss reserve		6.06	474.64	1,483.24	2,886.97
Dealer's bonus					
Dealer's addition to regular finance charge		14.55		2.65	22.45
Total finance charge	85.80	51.44	2,373.23	8,468.20	16,906.52
Face amount of purchaser's obligation, payable in equal monthly installments	1,984.80	441.10	41,906.70	114,677.75	249,109.85
Total time price of vehicle and insurance	3,129.80	977.10	85,017.79	235,744.69	491,563.86
Percentage to total deferred cash purchase price of—					
	Percent	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	4.52	7.91	4.80	6.57	6.03
Dealer's loss reserve		1.56	1.20	1.40	1.24
Dealer's bonus					
Dealer's addition to regular finance charge		3.73			.01
Total finance charge	4.52	13.20	6.00	7.97	7.28
Rate of interest implied in total finance charge:					
Per month	.69	1.96	.91	1.20	1.10
Equivalent annual rate (compounded monthly)	8.55	26.25	11.47	15.39	14.00
Conventional annual rate (12 times monthly rate)	8.28	23.52	10.92	14.40	13.20

The finance charges in the 420 transactions in new passenger cars sold on 12-month installments, data for which are presented in the above table, ranged from a minimum of 4.52 to a maximum of 13.20 percent of the total deferred cash purchase prices of these cars, inclusive of insurance premium; and they averaged 7.28 percent. The average for the 230 transactions in the pre-6-percent modal group was 7.97 percent; and the average for the 67 transactions in the 6-percent modal group was 6 percent.

In the case of the transaction with the minimum finance charge percentage, the car was a 1935 Cadillac sold in the Detroit region on July 23, 1935, at a cash price of $3,044 or a time price of $3,129.80. The finance company did not place the insurance on this car. The dealer's participation in the finance charges amounted only to 1 cent; and not even this was set up on the finance company's books as a dealer's loss reserve. The fact that there was no dealer's loss reserve indicates that the dealer either made an error against himself in figuring the finance charges or that he gave the purchaser of the car the benefit of his share in the regular finance charges, which normally would have amounted to about $17.

In the case of the transaction with the maximum finance charge percentage, 13.20 percent, on a transaction of 12 months, the car was a 1935 Oldsmobile five-passenger touring coupe sold in the St. Louis region on January 5, 1935. Although the cash sale price of this car was $917, the amount of the retail insurance premium on the insurance placed through the finance company was only $8.66, indicating that either the dealer or the purchaser of the car placed the major portion of the insurance direct. In addition to the regular finance charges amounting to $36.89, there was an amount of $14.55 made by the dealer, and the finance company's check to the dealer included this $14.55 in addition to the unpaid cash purchase price amounting to $381. This additional amount may have represented insurance premium paid directly by the dealer or it may have represented the car license fee paid by the dealer and included in the total time price of the car but not included in the amount reported as the cash sale price of the vehicle. In the latter event, the total deferred cash purchase price of the vehicle and insurance was understated and the amount of the finance charges and finance charge percentage were overstated. However, inasmuch as the finance company did not obtain an explanation of this item, it has been included in the total finance charges.

Coming to the data for the aggregate sample of 420 transactions, it will be observed that the dealers' participation in the aggregate finance charges of $16,906.52 amounted to $2,909.42, or 1.25 percent of the total deferred cash purchase prices of the cars, inclusive of the insurance. Of this total participation, $22.45 constituted apparent additions to the regular finance charges made by the vending dealers. This consists of the $14.55 discussed above, of one addition of $3, of another addition of $1, of one addition of 50 cents, one of 40 cents and three additions of 25 cents each. All of these additions except the one of $14.55 suggest that they represented either local recording fees or notarial fees paid by these dealers and included in the time prices of the cars.

The interest rates implied in the finance charges in these 420 transactions in which new passenger cars were sold on 12-month installments ranged from a low of 0.69 percent per month, or 8.55 percent per annum, to a high of 1.96 percent per month or 26.25 percent per annum; and they averaged 1.10 percent per month, or 14 percent per annum. The interest rates implied in the finance charges in the 230 transactions composing the pre-6-percent group, averaged 1.20 percent per month, or 15.39 percent per annum; and the interest rates implied in the 67 transactions comprising the 6-percent group averaged 0.91 percent per month, or 11.47 percent per annum. While the purchasers of the cars in these 420 transactions did the equivalent of paying interest at these rates on the total deferred cash purchase prices of their cars, inclusive of insurance premium, not all of this constituted net profit to the finance company, because of the amounts eventually paid to the dealers as participations in these finance charges and because of the finance company's operating expenses: the rate of net profit to the finance company on the total capital employed in its business in 1935 was 6.95 percent.

Table 172 presents similar data with reference to 276 transactions in which new passenger cars were sold on 12-month installments by dealers in North Central regions in 1935, these transactions being financed by factory-preferred finance companies. The table presents data not only with reference to all 276 transactions and with reference to the two transactions with the minimum and the maximum finance charge percentages respectively, but also with reference to a subgroup of 174 transactions, the finance charge percentages pertaining to which not only varied with practical continuity over a relatively narrow range but also evidenced a marked tendency to concentrate around a central or modal value.

TABLE 172.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in North Central Regions and financed by factory-preferred finance companies in 1935*

	Transaction with—		Total modal group	Total sample
	Minimum finance charge percentage	Maximum finance charge percentage		
Number of transactions	1	1	174	276
Cash purchase price of vehicle as delivered	$816.00	$993.90	$148,324.49	$237,429.69
Retail insurance premium	43.60	33.00	3,519.96	6,044.13
Total cash purchase price of vehicle and insurance	859.60	1,026.90	151,844.45	243,473.82
Down payment, including allowance for used car traded in	524.49	568.90	75,872.73	125,044.24
Total deferred cash purchase price of vehicle and insurance	335.11	458.00	75,971.72	118,420.58
Finance charges:				
Finance company's provision for expenses and profit	.89	28.10	5,392.77	8,284.58
Dealer's loss reserve		77.30	1,495.66	2,578.99
Dealer's bonus			3.68	17.99
Dealer's addition to regular finance charge			.40	74.80
Total finance charge	.89	105.40	6,892.51	10,955.36
Face amount of purchaser's obligation, payable in equal monthly installments	336.00	563.40	82,864.23	129,385.44
Total time price of vehicle and insurance	860.49	1,132.30	158,736.96	254,429.[illegible]
Percentage to total deferred cash purchase price of—				
Finance company's provision for expense and profit	*Percent* 0.27	*Percent* 6.13	*Percent* 7.[illegible]	*Percent* 7.[illegible]
Dealer's loss reserve		16.88	1.97	[illegible]
Dealer's bonus				[illegible]
Dealer's addition to regular finance charge				[illegible]
Total finance charge	.27	[illegible]	[illegible]	[illegible]
[illegible]				
[illegible]	[illegible]	[illegible]		[illegible]
[illegible]				
[illegible]				

they averaged 9.25 percent. The finance charges in the 174 transactions comprising the modal group averaged 9.07 percent.

The transaction with the minimum finance charge percentage occurred in the Chicago region on May 3, 1935. The amount of the down payment, $524.49, was more than 60 percent of the cash purchase price of the vehicle. As previously explained, down payments of such large proportion of the cash purchase price had the effect, in application of rate charts as then constructed, of scaling down the provision for the retail insurance premium and of absorbing, for the purpose of making up the deficiency, an equal amount out of the finance charges as provided. In this case, also, there was no amount provided as a dealer's bonus, indicating that the dealer had made an error against himself in the process of determining the amount of charges to be added to the cash purchase price of the vehicle. In consequence of these circumstances, not only was there no participation by the dealer in the finance charges, but the amount left to the finance company with which to meet its operating expenses and provide a profit was only 89 cents.

The transaction with the maximum finance charge percentage, 23.01 percent, also occurred in the Chicago area on April 29, 1935, and involved a 1935 four-door touring De Soto. The contract was purchased by the finance company under a repurchase agreement providing a very large participation by the dealer in the finance charges; and it will be noted that out of an aggregate finance charge of $105.40, the dealer received $77.30 while the finance company retained, to cover its operating expenses and provide a profit, the amount of $28.10. The normal dealer's participation in these finance charges would have been about $7.50 instead of $77.30; and it is probable that the amounts set up as dealer's loss reserve in this transaction concealed a large dealer's "pack."

Coming to the aggregate data for all 276 transactions included in this sample, it will be observed that while most of the installment contracts were purchased by the finance companies under repurchase agreements, evidenced by the fact that the dealers' loss reserves aggregated nearly $2,579 as compared with much smaller amounts for the other dealers' participations, some of the transactions were purchased nonrecourse, evidenced by the fact that there was a total of $17.99 of dealers' bonuses. Also, the dealers added a total of $74.30 to the regular finance charges as provided in the rate charts. The last stated amount, however, was the net result of a number of additions to the regular finance charges made by the dealers and of certain errors made by the dealers against themselves in the process of ascertaining the total amount of charges to be added to the cash sale prices of the vehicles. Review of the transactions discloses that the dealers made additions to the regular finance charges as follows: $5 each in installment contracts of $552, $411, $435.36, $351, $271.56, and $256.20; $6 each in contracts of $228, $264, and $444, respectively; $7 in a contract of $216; $5.40 each in contracts of $480.60 and $337.92; $1 each in contracts of $480, $372, and $240; $11 each in contracts of $288 and $456; $13 in a contract of $408; and $21.90 in a contract of $386.40. One dealer made an error against himself amounting to $9.84, another $13.56, a third of $9; and one dealer made an error against himself of $19.

The interest rates implied in the finance charges pertaining to these 276 transactions in which new passenger cars were sold in

12 months' installments ranged from a low of 0.04 percent per month, or 0.52 percent per annum, to a high of 3.34 percent per month, or 48.32 percent per annum. The average rate of interest implied in all transactions was 1.39 percent per month, or 17.99 percent per annum; and the average interest rate implied in the finance charges pertaining to the 174 transactions in the modal group was 1.36 percent per month, or 17.62 percent per annum. While the purchasers of these cars on 12 months' installments did the equivalent of paying interest at these rates on the total deferred cash purchase prices of their cars, inclusive of the insurance premium, it should be borne in mind constantly that not all of this constituted net profit to the finance companies: Something more than two-sevenths of the aggregate finance charges were paid by the finance companies to the dealers as dealers' loss reserves, bonuses, and as dealers' additions to the regular finance charges; and the finance companies' operating expenses consumed a considerable portion of the funds retained by the finance companies, so that the average rate of net profit to these finance companies on the total capital employed in their business in 1935 was 8.92 percent.

Table 173 presents similar data with reference to 230 transactions in which new passenger cars were sold on 12 months' installments by dealers in North Central regions in 1935, these transactions being financed by independent finance companies.

TABLE 173.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in North Central regions and financed by independent finance companies in 1935*

	Transaction with—		Total sample
	Minimum finance charge percentage	Maximum finance charge percentage	
Number of transactions	1	1	230
Cash purchase price of vehicle as delivered	$970.99	$611.85	$192,282.83
Retail insurance premium	47.82	12.42	4,588.02
Total cash purchase price of vehicle and insurance	1,018.81	624.27	196,870.85
Down payment, including allowance for used car traded in	670.99	400.00	98,965.55
Total deferred cash purchase price of vehicle and insurance	347.82	224.27	97,905.30
Finance charges:			
Finance company's provision for expenses and profit	3.78	20.00	7,845.36
Dealer's loss reserve			110.07
Dealer's bonus		32.93	2,362.00
Dealer's addition to regular finance charge			126.72
Total finance charge	3.78	52.93	10,444.15
Face amount of purchaser's obligation, payable in equal monthly installments	351.60	277.20	108,349.45
Total time price of vehicle and insurance	1,022.59	677.20	207,315.00
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	1.09	8.92	8.02
Dealer's loss reserve			.11
Dealer's bonus		14.68	2.41
Dealer's addition to regular finance charge			.13
Total finance charge	1.09	23.60	10.67
Rate of interest implied in total finance charge:			
Per month	.17	3.42	1.59
Equivalent annual rate (compounded monthly)	2.02	49.73	20.91
Conventional annual rate (12 times monthly rate)	1.94	41.04	19.08

The finance charges in the 230 transactions, data for which are presented in the above table, ranged from a minimum of 1.09 to a maximum of 23.60 percent of the total deferred cash purchase prices of the cars, inclusive of the insurance premium, and they averaged 10.67 percent.

The transaction with the minimum finance charge percentage represented the sale of a 1935 Oldsmobile in the Cleveland region on June 15, 1935. The amount of the down payment, $670.99 (of which $646 represented the allowance on a used vehicle traded in), was approximately 70 percent, instead of the usual 33⅓ percent, of the cash purchase price of the vehicle; and this fact had the natural effect of scaling down the provision for the retail insurance premium and, therefore, of absorbing a large portion of the finance charges as provided in order to make up the deficiency. Apparently, also, the dealer made an error against himself in ascertaining the total amount of the charges, in consequence of which he was allowed no participation in the finance charges. The net result was that the amount left as finance charges, all of which was retained by the finance company to cover its operating expenses and provide a profit, was $3.78.

In the case of the transaction with the maximum finance charge percentage, 23.60 percent, the amount of the retail insurance premium was only $12.42 on a car the cash sale price of which was $611.85, which indicates that the amount of coverage provided by the finance company on this car was considerably less than the coverage for which retail insurance premium was provided in the rate chart—the difference augmenting the regular finance charges. This installment contract was purchased by the finance company without recourse to the dealer; yet the dealer participated in the finance charges to the extent of $32.93, while the amount left to the finance company with which to meet its expenses and provide a profit was only $20. The finance company that handled this transaction follows the practice of furnishing its dealers with several rate charts based on different rates of finance charge. In any transaction, the dealer exercises his own judgment as to which rate chart to use for the purpose of ascertaining the total amount of charges to be imposed upon the purchaser of a car; but, in determining the amount of discount when selling the contract to the finance company, the dealer uses the rate chart based on the lowest finance charge rate. By this device, the dealer is able, in many cases, to include in the finance charges an actual "pack," yet if the purchaser objects to the charges, the dealer can justify his charges to the prospective purchaser by showing the finance company's rate chart, disclaiming all responsibility for the amount of the charges, and claiming that these charges are imposed upon him by the finance company.

Coming to the aggregate data pertaining to all 230 transactions included in this sample, it will be observed that most of these installment contracts were purchased by the finance companies without recourse to the dealers. This is evidenced by the fact that, out of a total dealers' participations amounting to $2,598.79, $2,362 consisted of dealers' bonuses, while only $110.07 consisted of dealers' loss reserves. The remaining $126.72 constituted additions to the regular finance charges made by the dealers themselves. Over and above these additions that appear as such, it is probable that a considerable amount of other such additions is concealed in the $2,362 appearing as dealers' bonuses, these being concealed in the manner described above in connection with the transaction with the maximum finance charge percentage.

The rates of interest implied in the finance charges pertaining to these 230 transactions in new passenger cars sold on 12-month installments by dealers in North Central regions in 1935 ranged from a low of 0.17 percent per month, or 2.02 percent per annum, to a high of 3.42 percent per month, or 49.73 percent per annum; and they averaged 1.59 percent per month, or 20.91 percent per annum. Again it is pertinent to point out that while the purchasers of these cars did the equivalent of paying interest at these rates on the total deferred cash purchase prices of their cars, inclusive of the insurance premium, not all of this constituted net profit to the finance company. In addition to the amounts paid to the dealers as their participations in these finance charges, a considerable portion was consumed in the operating expenses of the finance companies; the average rate of net profit on the total capital employed in businesses of the independent finance companies in 1935 was 9.16 percent.

In review of the three tables just presented with reference to new passenger cars sold on 12-month installments in North Central regions in 1935, it will be observed that the finance charges in the transactions financed by the independent finance companies averaged 10.67 percent, in the transactions financed by the factory-preferred finance companies averaged 9.25 percent, and in those transactions financed by the factory-controlled finance companies in the period before the 6 percent plan went into effect averaged 7.97 percent. The interest rates implied in the finance charges in the transactions financed by the independent finance companies averaged 1.59 percent per month, or 20.91 percent per annum; the corresponding rates for the transactions financed by the factory-preferred finance companies were 1.39 percent per month, or 17.99 percent per annum; and the rates implied in those transactions financed by the factory-controlled finance companies prior to the date of the 6 percent plan were 1.20 percent per month, or 15.39 percent per annum.

Cost of purchasing new passenger cars on 12-month installments financed by the factory-controlled finance company in South Central regions in 1937.—The areas around Dallas, New Orleans, Memphis, and Birmingham are spoken of in this chapter as South Central regions.

Table 174 presents data with reference to 57 transactions in 1937 in which dealers in South Central regions sold new passenger cars on 12-month installments, these transactions being financed by the factory-controlled finance company.

The finance charges in the 57 transactions in new passenger cars sold on 12-month installments in 1937 by dealers in South Central regions, data for which are presented in the next table, ranged from a minimum of 4.81 to a maximum of 7.58 percent of the total deferred cash purchase prices of these vehicles, inclusive of the insurance premiums; and they averaged 6.24 percent for the entire sample. The average for a subgroup of 34 transactions, the finance charge percentages pertaining to which ranged from 5.90 to 6.14 percent and evidenced a marked tendency to concentrate around 6 percent, was 6.00 percent.

TABLE 174.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in South Central regions and financed by factory-controlled finance company in 1937*

	Transaction with—		Model group	Total sample
	Minimum finance charge percentage	Maximum finance charge percentage		
Number of transactions	1	1	34	57
Cash purchase price of vehicle as delivered	$832.00	$1,132.64	$35,925.28	$62,092.20
Retail insurance premium	29.95	30.60	995.11	1,777.07
Total cash purchase price of vehicle and insurance	861.95	1,163.24	36,920.39	63,869.27
Down payment, including allowance for used-car traded in	409.00	848.00	19,166.69	32,229.02
Total deferred cash purchase price of vehicle and insurance	452.95	315.24	17,753.70	31,640.25
Finance charges:				
Finance company's provision for expenses and profit	21.38	19.90	852.05	1,566.68
Dealer's loss reserve	5.34	3.98	212.03	381.42
Dealer's bonus				
Dealer's addition to regular finance charge	[1] −4.95		1.25	24.95
Total finance charge	21.77	23.88	1,065.33	1,973.05
Face amount of purchaser's obligation, payable in equal monthly installments	474.72	339.12	18,819.03	33,613.30
Total time price of vehicle and insurance	883.72	1,187.12	37,985.72	65,842.32
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	4.72	6.32	4.80	4.95
Dealer's loss reserve	1.18	1.26	1.19	1.21
Dealer's bonus				
Dealer's addition to regular finance charge	[1] −1.09		.01	.08
Total finance charge	4.81	7.58	6.00	6.24
Rate of interest implied in total finance charge:				
Per month	.73	1.14	.91	.94
Equivalent annual rate (compounded monthly)	9.92	14.58	11.46	11.92
Conventional annual rate (12 times monthly rate)	8.76	13.68	10.92	11.28

[1] Negative figure.

In the case of the transaction with the minimum finance charge percentage, the dealer made an error against himself in the process of ascertaining the total charges to be added to the cash sale price, in consequence of which error the amount of the dealer's loss reserve set up for his benefit was less than the standard 1½ percent of the unpaid cash purchase price and, also, the check to the dealer was $4.95 less than the unpaid cash purchase price of the car.

The transaction with the maximum finance charge percentage, 7.58 percent, was the sale of a 1937 Buick coupe in the Birmingham region on June 2, 1937. In addition to the regular finance charges, there was a charge of $4 for stamp taxes on the deferred payment contract. This addition accounts for the excess of the finance charge percentage over the normal 6 percent.

Coming to the aggregate data for all 57 transactions in this sample, it will be observed that the dealers added a total of $24.95 to the regular finance charges. This was the net result of seven additions of 50 cents, 75 cents, $1.21, $3, $7 and two additions of $10 each, coupled with two errors in consequence of which the dealers suffered penalties of $2.56 and $4.95, respectively. The smaller additions suggest local recording fees and notarial fees. The larger additions remind us of the arbitrary charges by the notaries public in Louisiana. The average dealer's loss reserve in these transactions amounted to 1.21 percent of the total deferred cash purchase prices of the cars, inclusive of the insurance premiums.

The rates of interest implied in the finance charges in these 57 transactions in new passenger cars sold on 12-month installments by dealers in South Central regions in 1937 ranged from a low of 0.73 percent per month, or 9.92 percent per annum, to a high of 1.14 percent per month or 14.58 percent per annum. The average for the modal subgroup of 34 transactions was 0.91 percent per month, or 11.46 percent per annum; and the average for the entire sample was 0.94 percent per month or 11.92 percent per annum. However, there is again due the reminder that, while purchasers of these cars on 12-month installments did the equivalent of paying interest at these rates on the total deferred cash purchase prices of their vehicles, inclusive of the insurance premiums, not all of this constituted net profit to the finance companies: The rate of net profit to the finance company on the total capital employed in its business in 1937 was 5.56 percent.

Cost of purchasing new passenger cars on 12-month installments in South Central regions in 1938.—Table 175 presents data with reference to 45 transactions in South Central regions in 1938, in which the dealers sold new passenger cars on 12-month installments, these transactions being financed by factory-controlled finance companies. In this sample is a modal subgroup of 24 transactions, the finance charge percentages in which ranged from 5.97 to 6.37 percent and evidenced a marked tendency to concentrate around a central or modal value.

The finance charges in the 45 12-month new passenger-car transactions, data for which are presented in the next table, ranged from a minimum of 5.56 to a maximum of 8.58 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums; and they averaged 6.52 percent. The average for the modal subgroup of 24 transactions was 6.10 percent. These finance charge percentages are to be compared with the normal 6 percent, under the 6-percent plan, for 12-month transactions.

The transaction with the minimum finance charge percentage was the sale of a 1938 Cadillac sedan in the Birmingham area on May 25, 1938. The unpaid cash purchase price at the date of this transaction was $1,311.71. The installment contract was purchased by the finance company under a repurchase agreement with the vending dealer; and the normal loss reserve to the dealer under the 6-percent plan was $11.55. The actual reserve allowed this dealer, however, was $14.49. There is nothing on the surface of the data obtained with reference to this transaction that offers explanation as to why the finance charges should have been less than the normal 6 percent.

The transaction with the maximum finance charge percentage, 8.58 percent, was the sale of a 1938 Buick sedan in the New Orleans area on April 8, 1938. The amount allowed the vending dealer as a loss reserve under a repurchase agreement, $5.29, was less than the normal 1½ percent of the unpaid cash purchase price of $385.80. However, included in the total finance charges, was a notarial fee of $10, which is sufficient to explain the excess of this finance charge percentage over the normal 6 percent.

TABLE 175.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in South Central regions and financed by factory-controlled finance companies in 1938*

	Transaction with—		Modal group	Total sample
	Minimum finance charge percentage	Maximum finance charge percentage		
Number of transactions	1	1	24	45
Cash purchase price of vehicle as delivered	$2,354.61	$1,264.80	$27,116.66	$53,729.30
Retail insurance premium	63.60	38.80	906.85	1,569.85
Total cash purchase price of vehicle and insurance	2,418.21	1,303.60	28,023.51	55,299.15
Down payment, including allowance for used car traded-in	1,042.90	879.00	14,625.24	29,531.16
Total deferred cash purchase price of vehicle and insurance	1,375.31	424.60	13,398.27	25,767.99
Finance charges:				
Finance company's provision for expenses and profit	61.96	31.15	656.18	1,349.72
Dealer's loss reserve	14.49	5.29	161.08	307.98
Dealer's bonus				
Dealer's addition to regular finance charge				21.48
Total finance charge	76.45	36.44	817.26	1,679.18
Face amount of purchaser's obligation, payable in equal monthly installments	1,451.76	461.04	14,215.53	27,447.17
Total time price of vehicle and insurance	2,494.66	1,340.04	28,840.77	56,978.33
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	4.51	7.34	4.90	5.24
Dealer's loss reserve	1.05	1.24	1.20	1.20
Dealer's bonus				
Dealer's addition to regular finance charge				.08
Total finance charge	5.56	8.58	6.10	6.52
Rate of interest implied in total finance charge:				
Per month	.84	1.29	.92	.98
Equivalent annual rate (compounded monthly)	10.59	16.63	11.65	12.48
Conventional annual rate (12 times monthly rate)	10.08	15.48	11.04	11.76

Coming to the aggregate data for all 45 transactions in this sample it will be observed that all of these installment contracts were purchased by the finance company under repurchase agreements, and that the amounts allowed the vending dealers as loss reserves averaged 1.20 percent of the total deferred cash purchase prices of these cars. Certain dealers made additions to the regular finance charges totaling $21.48.

The interest rates implied in the finance charges in these 45 12-month new passenger-car transactions in South Central regions in 1938 ranged from a low of 0.84 percent per month, or 10.59 percent per annum, to a high of 1.29 percent per month or 16.63 percent per annum. The average for the modal subgroup of 24 transactions was 0.92 percent per month, or 11.65 percent per year; and the average for the entire sample was 0.98 percent per month, or 12.48 percent per year. However, the reminder is pertinent that, while the purchasers of these cars on 12-month installments did the equivalent of paying interest at these rates on the unpaid balances of the total deferred cash purchase prices of their cars, only a relatively small portion of this constituted net profit to the finance company, because of the portions paid to the vending dealers as participations in the finance charges and of the finance company's operating expenses.

Table 176 presents similar data with reference to 102 other transactions in South Central regions in 1938 in which the dealers sold new passenger cars on 12-month installments, these transactions being financed by factory-preferred finance companies. In the sample is a subgroup of 84 transactions, the finance charge percentages in which ranged with practical continuity from 5.77 to 7.13 percent and evidenced a marked tendency to concentrate around a central, or modal, value.

TABLE 176.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in South Central regions and financed by factory-preferred finance companies in 1938*

	Transaction with—		Modal group	Total sample
	Minimum finance charge percentage	Maximum finance charge percentage		
Number of transactions	1	1	84	102
Cash purchase price of vehicle as delivered	$777.00	$995.95	$85,694.76	$103,747.53
Retail insurance premium	42.60	44.50	3,761.46	4,551.76
Total cash purchase price of vehicle and insurance	819.60	1,040.45	89,456.22	108,299.29
Down payment, including allowance for used car traded in	627.00	550.00	46,262.60	57,419.43
Total deferred cash purchase price of vehicle and insurance	192.60	490.45	43,193.62	50,879.86
Finance charges:				
Finance company's provision for expenses and profit	[1] −1.79	25.90	2,168.69	2,520.53
Dealer's loss reserve	2.59	6.69	508.05	574.19
Dealer's bonus	5.20		21.64	45.98
Dealer's addition to regular finance charge		22.96	11.53	75.97
Total finance charge	6.00	55.55	2,709.91	3,216.67
Face amount of purchaser's obligation, payable in 12 equal monthly installments	198.60	546.00	45,903.53	54,096.53
Total time price of vehicle and insurance	825.60	1,096.00	92,166.13	111,515.96
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	[1] −0.93	5.28	5.02	4.95
Dealer's loss reserve	1.35	1.37	1.18	1.13
Dealer's bonus	2.70		.05	.09
Dealer's addition to regular finance charge		4.68	.02	.15
Total finance charge	3.12	11.33	6.27	6.32
Rate of interest implied in total finance charge:				
Per month	.48	1.69	.95	.96
Equivalent annual rate (compounded monthly)	5.85	22.27	12.00	12.09
Conventional annual rate (12 times monthly rate)	5.76	20.28	11.40	11.52

[1] Negative figure.

The finance charges in these 102 12-month new passenger-car transactions, data for which are presented in the above table, ranged from 3.12 to 11.33 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums; and they averaged 6.32 percent. The average for the modal subgroup of 84 transactions was 6.27 percent. These percentages are to be compared with the normal 6 percent on 12-month transactions under the 6-percent plan.

The transaction with the minimum finanace charge percentage was the sale of a 1938 Chevrolet sedan in the Birmingham region on April 9, 1938. The finance company purchased this installment contract under a repurchase agreement with the dealer. The unpaid cash purchase price in this transaction was only $150, considerably less than one-fifth of the total cash sale price instead of the assumed two-thirds. In consequence, a very large part of the finance charges provided by application of the rate chart was absorbed in making up a deficiency in the provision for the retail insurance premium, leaving a residue of only $6. Out of this the vending dealer was allowed a loss reserve of $2.59 and a "special reserve" of $5.20. In consequence, the finance company had left with which to meet its own operating expenses and provide itself with profit $1.79 less than nothing.

The transaction with the maximum finance charge percentage, 11.33 percent, was the sale of a Dodge two-door touring sedan in the Birmingham region on January 8, 1938. This transaction also was purchased by the finance company under a repurchase agreement with the dealer. The unpaid cash purchase price was $445.95; and the normal loss reserve to the dealer on this basis was $6.69. However, the finance company set up in its record what purported to be a loss reserve of $29.65. This indicates that, as a matter of fact, the dealer, using a rate chart based on a high finance charge rate for the purpose of determining the charges to be imposed upon the purchaser of the car and a rate chart based upon a low finance charge rate for the purpose of determining the discount when selling the installment contract to the finance company, added $22.96 to the regular finance charges under the 6-percent plan.

Coming to the aggregate data for all 102 transactions in this sample it will be observed that the great bulk of these installment contracts was purchased by the finance companies under repurchase agreements with the vending dealer, as is evidenced by the fact that the amounts allowed the dealers as loss reserves totaled $574.19 as compared with only $45.98 allowed certain dealers as bonuses. These participations in the finance charges by the dealers averaged 1.22 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums. Certain dealers, not content with the regular participations in the finance charges, made additions thereto openly totaling $75.97.

The interest rates implied in the finance charges in these 102 transactions in new passenger cars sold on 12-month installments by dealers in South Central regions in 1938 ranged from a low of 0.48 percent per month, or 5.85 percent per annum, to a high of 1.69 percent per month or 22.27 percent per annum. The average for the modal subgroup of 84 transactions was 0.95 percent per month, or 12 percent per year; and the average for the entire sample was 0.96 percent per month, or 12.09 percent per year. However, while the purchasers of these cars on 12-month installments did the equivalent of paying interest at these rates on the unpaid balances of the cash purchase prices, only a relatively small portion of this constituted net profit to the finance companies.

Table 177 presents similar data with reference to 49 other transactions in which dealers in South Central regions in 1938 sold new passenger cars on 12-month installments, these transactions being financed by independent finance companies.

TABLE 177.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in South Central regions and financed by independent finance companies in 1938*

	Transaction with—		Total sample
	Minimum finance charge percentage	Maximum finance charge percentage	
Number of transactions	1	1	49
Cash purchase price of vehicle as delivered	$812.98	$796.00	$46,049.28
Retail insurance premium	73.92	55.50	1,416.24
Total cash purchase price of vehicle and insurance	886.93	851.50	47,465.52
Down payment, including allowance for used car traded in	509.58	280.00	22,699.31
Total deferred cash purchase price of vehicle and insurance	377.35	571.50	24,766.21
Finance charges:			
Finance company's provision for expenses and profit	10.84	92.76	2,046.05
Dealer's loss reserve		7.74	71.39
Dealer's bonus	4.45		167.85
Dealer's addition to regular finance charge			
Total finance charge	15.29	100.50	2,285.29
Face amount of purchaser's obligation, payable in equal monthly installments	392.64	672.00	27,051.50
Total time price of vehicle and insurance	902.22	952.00	49,750.81
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	2.87	16.23	8.26
Dealer's loss reserve		1.36	.29
Dealer's bonus	1.18		.68
Dealer's addition to regular finance charge			
Total finance charge	4.05	17.59	9.23
Rate of interest implied in total finance charge:			
Per month	.62	2.58	1.38
Equivalent annual rate (compounded monthly)	7.65	35.82	17.93
Conventional annual rate (12 times monthly rate)	7.44	30.96	16.56

The finance charges in these forty-nine 12-month new passenger-car transactions, data for which are presented in the above table, ranged from 4.05 to 17.59 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums; and the average for the entire sample was 9.23 percent. These percentages are to be compared with the normal 6 percent for 12-month transactions under the 6-percent plan.

The transaction with the minimum finance-charge percentage was the sale of a 1935 Ford de luxe coupe in the Dallas region on June 10, 1938. The contract was purchased by the finance company wholly without recourse to the vending dealer; nevertheless the latter was allowed, by way of participation in the finance charges, a bonus of $4.45, which was nearly the normal 1½ percent of the unpaid cash purchase price that would have been allowed under a repurchase agreement. The unpaid purchase price at the date of the transaction was only $303.40 or about 37 percent of the cash sale price of $812.98, as compared with the assumed two-thirds. The retail insurance premium in this transaction was $73.92, which appears to be more than the normal premium for the normal protection on a car in this price class; and the natural inference is that a considerable portion of the provided finance charge was absorbed in making up a deficiency in the provision for the retail insurance premium.

The transaction with the maximum finance-charge percentage, 17.59 percent, was the sale of a 1938 Plymouth two-door business sedan in the New Orleans area on April 9, 1938. This installment contract was purchased by the finance company under a repurchase agreement; and the amount allowed the vending dealer as a loss reserve was only a little more than the normal 1½ percent of the unpaid cash purchase price. There is nothing on the surface of the data obtained with reference to this transaction that offers explanation of why the finance charges should have been so much more than the normal 6 percent. Apparently the finance company provided the dealer with a rate chart based on a higher rate, which, no doubt, also made provision for the arbitrary high notarial fees imposed by the limited number of notaries public in Louisiana.

Coming to the data for all 49 transactions in this sample, it will be observed that the major portion of these installment contracts was purchased by the finance companies wholly without recourse to the vending dealers, as is evidenced by the fact that the amounts allowed the dealers out of the finance charges as bonuses totaled $167.85 as compared with only $71.39 allowed certain dealers as loss reserves. These participations by the dealers in the finance charges averaged 0.97 percent of the total deferred cash purchase prices of the vehicles. The data disclosed no additions made by the vending dealers to the regular finance charges.

The interest rates implied in these 49 transactions in new passenger cars sold on 12-month installments by dealers in South Central regions in 1938 ranged from a low of 0.62 percent per month, or 7.65 percent per annum, to a high of 2.58 percent per month, or 35.82 percent per annum. The average for the entire sample was 1.38 percent per month, or 17.93 percent per annum. However, the reminder is due that while the purchasers of these cars on 12-month installments did the equivalent of paying interest at these rates on the unpaid balances of the total deferred cash purchase prices of their cars, not all of this constituted net profit to the finance companies, because of the amounts absorbed in dealers' participations in the finance charges and the amounts absorbed by the finance companies' operating expenses.

In review of the three tables just discussed with reference to new passenger cars sold on 12-month installments by dealers in South Central regions in 1938, it will be observed that the finance charges in the transactions financed by the factory-controlled finance companies averaged 6.52 percent, that the charges in the transactions financed by the factory-preferred finance companies averaged 6.32 percent, and that the finance charges in the transactions financed by the independent finance companies averaged 9.23 percent of the total deferred cash purchase prices of these cars, including insurance premiums. The interest rates implied in the finance charges in the first-mentioned group of transactions averaged 0.98 percent per month, or 12.48 percent per year; the rates in the second-mentioned group of transactions averaged 0.96 percent per month, or 12.09 percent per year; and the rates implied in the finance charges in the third-mentioned group averaged 1.38 percent per month, or 17.93 percent per year. The rates in the transactions financed by the factory-preferred finance companies were the lowest; and those in the transactions financed by the factory-controlled finance companies were next in order of magnitude.

Cost of purchasing new passenger cars on 12-month installments in North Atlantic regions in 1938.—The areas around and centering in Boston, Providence, New York City, Buffalo, Pittsburgh, and Philadelphia are spoken of in this report as "North Atlantic regions."

Table 178 presents data with reference to 133 transactions in 1938 in which dealers in North Atlantic regions sold new passenger cars on 12-month installments, these transactions being financed by the factory-controlled finance company. In the sample is a subgroup of 85 transactions, the finance charge percentages in which varied with practical continuity from 5.87 to 6.49 percent of the total deferred cash purchase prices of the automobiles, including the insurance premiums, and also evidenced a considerable tendency to concentrate around a central, or modal, value.

TABLE 178.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in North Atlantic regions and financed by factory-controlled finance companies in 1938*

	Transaction with—		Modal group	Total sample
	Minimum finance charge percentage	Maximum finance charge percentage		
Number of transactions	1	1	85	133
Cash purchase price of vehicle as delivered	$2,467.00	$1,238.20	$100,021.80	$105,643.00
Retail insurance premium	41.80	17.10	2,611.85	2,715.70
Total cash purchase price of vehicle and insurance	2,508.80	1,255.30	102,633.65	108,358.70
Down payment, including allowance for used car traded in	867.00	1,073.55	58,884.22	62,260.77
Total deferred cash purchase price of vehicle and insurance	1,641.80	181.75	43,749.43	46,097.93
Finance charges:				
Finance company's provision for expenses and profit	65.80	10.37	2,130.96	2,233.29
Dealer's loss reserve	16.44	2.28	523.66	548.67
Dealer's bonus				
Dealer's addition to regular finance charge				
Total finance charge	82.24	12.65	2,654.62	2,781.96
Face amount of purchaser's obligation, payable in equal monthly installments	1,724.04	194.40	46,404.05	48,879.89
Total time price of vehicle and insurance	2,591.04	1,267.95	105,288.27	111,140.66
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	4.01	5.71	4.87	4.84
Dealer's loss reserve	1.00	1.25	1.20	1.19
Dealer's bonus				
Dealer's addition to regular finance charge				
Total finance charge	5.01	6.96	6.07	6.03
Rate of interest implied in total finance charge:				
Per month	.76	1.05	.92	.91
Equivalent annual rate (compounded monthly)	9.51	13.32	11.59	11.53
Conventional annual rate (12 times monthly rate)	9.12	12.60	11.04	10.92

The 133 transactions in which dealers in North Atlantic regions sold new passenger cars on 12-month installments in 1938, data for which are presented in the above table, represented a cash sale value of more than $105,600. The finance charges in these transactions ranged from 5.01 to 6.96 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums; and they averaged 6.03 percent. The average for the modal subgroup of 85 transactions was 6.07 percent. These percentages may be compared with the normal 6 percent for 12-month transactions under the 6-percent plan.

The transaction with the minimum finance charge percentage was the sale of a 1938 Cadillac sedan in the Providence area on May 24, 1938. The unpaid cash purchase price at the date of the transaction, $1,600, was only a trifle less than two-thirds of the cash sale price. On this basis, the vending dealer under a repurchase agreement was allowed a loss reserve of $16.44, which was $3.44 more than the normal. The retail insurance premium was $41.80, which was not high for a car in that price class; so that there is nothing on the surface of the data obtained with reference to this transaction to indicate why the finance charges should have been less than the normal 6 percent.

The maximum finance charge percentage, 6.96 percent, was less than 1.00 percent in excess of the normal 6 percent. The transaction was the sale of a 1938 Oldsmobile four-door touring sedan in the New York area on April 22, 1938. The cash sale price was $1,238.20, of which only $164.65 remained unpaid at the date of the transaction. The insurance premium was only $17.10, and the indication is that the application of the "territorial charges" chart provided a slight excess for the insurance premium, which excess inured to the benefit of the finance company and augmented the finance charges. There was also a local recording fee of $1.25.

All of the installment contracts in this sample of 133 transactions were purchased by the finance company under repurchase agreements with the vending dealers; and the loss reserves allowed these dealers averaged 1.19 percent of the total deferred cash purchase prices of the automobiles. There were no additions made by the vending dealers to the regular finance charges.

The interest rates implied in the finance charges in these 133 transactions in new passenger cars sold on 12-month installments by dealers in North Atlantic regions in 1938 ranged from a low of 0.76 percent per month, or 9.51 percent per year, to a high of 1.05 percent per month or 13.32 percent per year. The average for the modal subgroup of 85 transactions was 0.92 percent per month, or 11.59 percent per annum, and the average for the entire sample was 0.91 percent per month, or 11.53 percent per annum. However, while the purchasers of these automobiles on 12-month installments did the equivalent of paying interest at these rates on the unpaid balances of the deferred cash purchase prices of the vehicles, not all of this constituted net profit to the finance company, because of the participations in the finance charges that were eventually paid to the dealers and because of the finance company's own operating expenses.

Table 179 presents similar data with reference to 277 other 12-month installment sales of new passenger cars in North Atlantic regions in 1938, these transactions being financed by factory-preferred finance companies. In the sample is a subgroup of 206 transactions, the finance charge percentages in which varied with practical continuity from 5.78 to 7.57 percent and also evidenced a marked tendency to concentrate around 6 percent.

TABLE 179.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in North Atlantic regions and financed by factory-preferred finance companies in 1938*

	Transaction with—		Model group	Total sample
	Minimum finance charge percentage	Maximum finance charge percentage		
Number of transactions	1	1	206	277
Cash purchase price of vehicle as delivered	$753.00	$1,088.00	$209,172.58	$280,064.58
Retail insurance premium	51.60	46.85	8,584.57	10,748.32
Total cash purchase price of vehicle and insurance	804.60	1,134.85	217,757.15	290,812.90
Down payment, including allowance for used car traded in	505.76	875.85	119,139.46	161,760.57
Total deferred cash purchase price of vehicle and insurance	298.84	259.00	98,617.69	129,052.33
Finance charges:				
Finance company's provision for expenses and profit	2.77	15.68	4,229.30	5,588.60
Dealer's loss reserve		7.24	1,320.62	1,655.77
Dealer's bonus	2.47		469.36	603.79
Dealer's addition to regular finance charge		71.00	136.20	827.36
Total finance charge	5.24	93.92	6,155.48	8,675.52
Face amount of purchaser's obligation, payable in equal monthly installments	304.08	352.92	104,773.17	137,727.85
Total time price of vehicle and insurance	809.84	1,228.77	223,912.63	299,488.42
Percentage to total deferred cash purchase price of:	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	0.93	6.05	4.29	4.33
Dealer's loss reserve		2.80	1.34	1.28
Dealer's bonus	.82		.47	.47
Dealer's addition to regular finance charge		27.41	.14	.64
Total finance charge	1.75	36.26	6.24	6.72
Rate of interest implied in total finance charge:				
Per month	.27	5.12	.94	1.02
Equivalent annual rate (compounded monthly)	3.29	80.34	11.93	12.89
Conventional annual rate (12 times monthly rate)	3.24	61.44	11.28	12.24

The 277 transactions in new passenger cars sold on 12-month installments by dealers in North Atlantic regions in 1938, data for which are presented in the above table, represented a cash sale value of slightly more than $280,000. The finance charges in these transactions ranged from 1.75 to 36.26 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums; and they averaged 6.72 percent. The average for the modal subgroup of 206 transactions was 6.24 percent.

The transaction with the minimum finance charge percentage was the sale of a 1938 Chevrolet Master town sedan in the New York area on April 30, 1938. The cash sale price of this car was $753, of which only $247.24 remained unpaid at the date of the transaction. The finance company, which purchased this installment contract wholly without recourse to the vending dealer, furnished its dealers with a single set of rate charts with which to make provision for both the insurance premium and the finance charges; and, with so small a portion of the cash sale price remaining unpaid at the date of the transaction, a considerable portion of the finance charge provision was absorbed in order to make up a deficiency in the amount provided for the insurance premium. The vending dealer was allowed a bonus of $2.47, which was precisely 1 percent of the unpaid cash purchase price. This left the finance company with only $2.77 with which to meets its operating expenses and provide itself with profit.

The transaction with the maximum finance charge percentage, 36.26 percent, was the sale of a 1938 Nash coupe in the Philadelphia region on April 15, 1938. The finance company purchased this contract under a repurchase agreement with the vending dealer. Out of a cash sale price of $1,088, only $212.15 remained unpaid at the date of the transaction; but the vending dealer was allowed a loss reserve of $7.24, or nearly 3.4 percent. The finance company's record of this transaction showed only $22.92 of finance charges. However, the differential between the reported cash sale price of $1,088 and the time price of $1,228.77 was $140.77, which, after deduction of the retail insurance premium and the finance charges as shown, left an unexplained balance of $71, and the vending dealer received this $71, in addition to the unpaid cash purchase price, in the check from the finance company. This has been indicated as a dealer's addition to the regular finance charges.

The great majority of the installment contracts in this sample of 277 transactions was purchased by the finance companies under repurchase agreements with the vending dealers, evidenced by the fact that the loss reserves allowed them totaled $1,655.77 as compared with only $603.79 allowed certain dealers as bonuses. These participations by the dealers in the finance charges averaged 1.75 percent of the total deferred cash purchase prices of the automobiles. Certain dealers, not content with the regular participations in the regular finance charges, made additions thereto totaling $827.36, or more than five-eighths of 1 percent of the deferred cash purchase prices of all vehicles in the sample.

The interest rates implied in the finance charges in these 277 transactions in new passenger cars sold on 12-month installments by dealers in North Atlantic regions in 1938 ranged from a low of 0.27 percent per month, or 3.29 percent per year, to a high of 5.12 percent per month, or 80.34 percent per year. The average for the modal subgroup of 206 transactions was 0.94 percent per month, or 11.93 percent per year; and the average for the entire sample was 1.02 percent per month, or 12.89 percent per annum. However, the reminder is due that, while the purchasers of these cars on 12-month installments did the equivalent of paying interest at these rates on the unpaid balances of the deferred cash purchase prices of their cars, not all of this constituted net profit to the finance companies.

Table 180 presents like data with reference to 415 other transactions in which dealers in North Atlantic regions in 1938 sold new passenger cars on 12-month installments, these transactions being financed by independent finance companies. In this sample is a subgroup of 318 transactions, the finance charges in which ranged from 3.17 to 9.41 percent, but evidenced no tendency to concentrate around any one value.

TABLE 180.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in North Atlantic regions and financed by independent finance companies in 1938*

	Transaction with—		Central group	Total sample
	Minimum finance charge percentage	Maximum finance charge percentage		
Number of transactions	1	1	318	415
Cash purchase price of vehicle as delivered	$1, 119. 18	$840. 00	$330, 838 89	$421, 578. 13
Retail insurance premium	75. 30	14. 45	12, 916. 01	16, 685. 61
Total cash purchase price of vehicle and insurance	1, 194. 48	854. 45	343, 754. 90	438, 263. 74
Down payment, including allowance for used car traded in	1, 020. 23	425. 00	186, 636. 84	247, 869. 63
Total deferred cash purchase price of vehicle and insurance	174. 25	429. 45	157, 118. 06	190, 394. 11
Finance charges:				
Finance company's provision for expenses and profit	−9. 20	42. 40	6, 605. 68	8, 167. 46
Dealer's loss reserve			817. 24	1, 020. 64
Dealer's bonus	1. 39	26. 15	1, 704. 72	2, 146. 65
Dealer's addition to regular finance charge			396. 35	665. 96
Total finance charge	−7. 81	68. 55	9, 523. 99	12, 000. 71
Face amount of purchaser's obligation payable in equal monthly installments	166. 44	498. 00	166, 642. 05	202, 394. 82
Total time price of vehicle and insurance	1, 186. 67	923. 00	353, 278. 89	450, 264. 45
Percentage to total deferred cash purchase price of:	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	−5. 28	9. 87	4. 20	4. 29
Dealer's loss reserve			. 52	. 54
Dealer's bonus	. 80	6. 09	1. 09	1. 12
Dealer's addition to regular finance charge			. 25	. 35
Total finance charge	−4. 48	15. 96	6. 06	6. 30
Rate of interest implied in total finance charge:				
Per month	−. 70	2. 36	. 92	. 95
Equivalent annual rate (compounded monthly)	−8. 09	32. 23	11. 58	12 06
Conventional annual rate (12 times monthly rate)	−8. 40	28. 32	11. 04	11. 40

The 415 transactions in new passenger cars sold on 12-month installments by dealers in North Atlantic regions in 1938, data for which are presented in the above table, represented an aggregate cash sale value of nearly $421,600. The finance charges in these transactions ranged from a negative 4.48 percent to a maximum of 15.96 percent of the total deferred cash purchase prices of these automobiles, inclusive of the insurance premiums, and they averaged 6.30 percent. The average for the central subgroup of 318 transactions was 6.06 percent. These finance-charge percentages may be compared with the normal 6 percent on the 12-month transactions under the 6-percent plan.

The transaction with the minimum finance charge percentage, a negative 4.48 percent, was the sale of a 1938 Pontiac four-door touring sedan in the New York area on April 2, 1938. Out of a cash sale price of $1,119.18, only $98.95 remained unpaid at the date of the transaction. The insurance premium of $75.30 brought the total deferred cash purchase price up to $174.25. In consequence of so very small an unpaid cash purchase price, application of the single rate chart for the purpose of making provision both for the retail insurance premium and the finance charge had the effect of greatly underproviding for the insurance premium; indeed, the insurance premium alone exceeded the total charges by $7.81. The installment contract was purchased by the finance company wholly without recourse to the dealer, who, however, was allowed a bonus of $1.39. There was also a local recording fee of $1.25. After making these provisions and making up the deficiency in the provision for the retail insurance premium, the finance company had left with which to meet its own operating expenses and provide itself with profit $10.45 less than nothing.

The transaction with the maximum finance charge percentage, 15.96 percent, was the sale of a 1938 Plymouth Tudor sedan in the New York area on March 9, 1938. This installment contract also was purchased by the finance company wholly without recourse to the dealer. However, on an unpaid cash purchase price of $415, the dealer was allowed a participation in the finance charges, or bonus, of $26.15. Inasmuch as the normal bonus was only $4.15, this indicates a dealer's "pack" of the finance charges to the extent of $22. It is also noted that the retail insurance premium was only $14.45 for a car the cash sale price of which was $840; and it is inferred that a considerable portion of the provision for the insurance premium inured to the benefit of the finance company and augmented the finance charges.

The great majority of the installment contracts in this sample of 415 transactions was purchased by the finance companies wholly without recourse to the vending dealers, as is evidenced by the fact that the bonuses to these dealers totaled $2,146.65, as compared with only $1,020.64 of dealers' loss reserves. These participations by the dealers in the finance charges averaged 1.66 percent of the total deferred cash purchase prices of the automobiles. Certain dealers, not content with the regular participations in the regular finance charges, made additions thereto totaling $665.96, or 0.35 percent of the total deferred cash purchase prices of all cars in the sample.

The interest rates implied in the finance charges in these 415 transactions in new passenger cars sold on 12-month installments by dealers in North Atlantic regions in 1938 ranged from a negative 0.70 percent per month, or a negative 8.09 percent per year, to a high of 2.36 percent per month, or 32.23 percent per year. The average for the central subgroup of 318 transactions was 0.92 percent per month, or 11.58 percent per annum; and the average for the entire sample was 0.95 percent per month, or 12.06 percent per annum. However, the reminder is again pertinent that while the purchasers of these cars on 12-month installments did the equivalent of paying interest at these rates on the unpaid balances of the deferred cash purchase prices of their vehicles, not all of this constituted profit to the finance companies, because of the participations in the finance charges paid to the vending dealers and because of the operating expenses of the finance companies themselves.

In review of the three tables just discussed with reference to new passenger cars sold on 12-month installments by dealers in North Atlantic regions in 1938, it will be observed that the finance charges in those transactions financed by the factory-controlled finance companies averaged 6.03 percent, the charges in the transactions financed by the factory-preferred finance companies averaged 6.72 percent, and the finance charges in the transactions financed by the independent finance companies averaged 6.30 percent of the total deferred cash purchase prices of the automobiles in question. It will be noted that in this comparison the finance charges in the transactions financed by the independent finance companies were second in order of magnitude, and those in transactions financed by the factory-preferred finance companies were the highest. The interest rates implied in the finance charges in the transactions financed by the factory-controlled finance companies averaged 0.91 percent per month, or 11.53 percent per annum. The rates in the transactions financed by the factory-preferred finance companies averaged 1.02 percent per month, or 12.89 percent per annum, and the rates in the transactions financed by the independent finance companies averaged 0.95 percent per month, or 12.06 percent per annum.

Cost of purchasing new passenger cars on 12-month installments in North Central regions in 1938.—Table 181 presents data with reference to 147 transactions in which dealers in north central regions sold new passenger cars on 12-month installments in 1938, these transactions being financed by factory-controlled finance companies. In the sample is a modal subgroup of 116 transactions, the finance charge percentages in which varied with practical continuity from 5.92 to 6.15 percent and evidenced a marked tendency to concentrate around 6 percent.

The 147 transactions in new passenger cars sold on 12-month installments in north central regions in 1938, data for which are presented in the next table, represented an aggregate cash sales value of more than $171,000. The finance charges in these transactions ranged from 4.69 to 7.98 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums, and they averaged 6 percent. The average for the modal subgroup of 116 transactions was 6.02 percent. These finance-charge percentages are to be compared with the normal 6 percent for 12-month transactions under the 6-percent plan.

The transaction with the minimum finance charge percentage was the sale of a 1938 Oldsmobile business coupe in the St. Louis region on March 12, 1938. Although the finance company purchased this transaction under a repurchase agreement with the vending dealer, the latter was allowed no participation in the finance charge, indicating that he either made an error against himself in the process of ascertaining the total charges to be added to the cash sale price of this car or deliberately gave the benefit of his normal share of the finance charge to the car purchaser.

The transaction with the maximum finance charge percentage, 7.98 percent, was the sale in the Cleveland area on April 30, 1938, of a 1938 Chevrolet de luxe coupe. This installment contract was purchased by the finance company under a repurchase agreement with the vending dealer, pursuant to which the latter was allowed a loss reserve out of the finance charges amounting to $3.83, which, however, was somewhat less than the normal 1½ percent for a 12-month transaction on the unpaid cash purchase price of $293.95. However, the finance charges contained a charge of $6.10 by the dealer for transfer and filing fees; and this is more than sufficient to account for the excess of this finance charge over the normal 6 percent. It is interesting to note that while the dealer charged the purchaser of the car $6.10 for transfer and filing fees, the actual cost of these to the dealer was only $3.95.

TABLE 181.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in north central regions and financed by factory-controlled finance companies in 1938.*

	Transaction with—		Modal group	Total sample
	Minimum finance charge percentage	Maximum finance charge percentage		
Number of transactions	1	1	116	147
Cash purchase price of vehicle as delivered	$980.00	$767.35	$134,525.76	$171,347.13
Retail insurance premium	23.05	22.55	3,183.45	3,955.03
Total cash purchase price of vehicle and insurance	1,003.05	789.90	137,709.21	175,302.16
Down payment, including allowance for used car traded in	642.00	473.40	76,960.17	97,011.48
Total deferred cash purchase price of vehicle and insurance	361.05	316.50	60,749.04	78,290.68
Finance charges:				
Finance company's provision for expenses and profit	16.95	21.43	2,926.27	3,772.76
Dealer's loss reserve		3.83	728.34	920.65
Dealer's bonus				
Dealer's addition to regular finance charge				
Total finance charge	16.95	25.26	3,654.61	4,693.41
Face amount of purchaser's obligation, payable in equal monthly installments	378.00	341.76	64,403.65	82,984.09
Total time price of vehicle and insurance	1,020.00	815.16	141,363.82	179,995.57
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	4.69	6.77	4.82	4.82
Dealer's loss reserve		1.21	1.20	1.18
Dealer's bonus				
Dealer's addition to regular finance charge				
Total finance charge	4.69	7.98	6.02	6.00
Rate of interest implied in total finance charge:				
Per month	.71	1.21	.91	.91
Equivalent annual rate (compounded monthly)	8.89	15.41	11.48	11.45
Conventional annual rate (12 times monthly rate)	8.52	14.52	10.92	10.92

All of these installment contracts were purchased by the finance company under repurchase agreements with the vending dealers; and the amounts allowed these dealers as loss reserves averaged 1.18 percent of the total deferred cash purchase prices of the automobiles in question. It was interesting to note that the data for this sample show no additions made by the dealers to the regular finance charges.

The interest rates implied in the finance charges in these 147 transactions in new passenger cars sold on 12-month installments by dealers in North Central regions in 1938 ranged from a low of 0.71 percent per month, or 8.89 percent per year, to a high of 1.21 percent per month, or 15.41 percent per year. The average for the modal subgroup of 116 transactions was 0.91 percent per month, or 11.48 percent per annum; and the average for the entire sample was also

0.91 percent per month but 11.45 percent per annum. However, the usual reminder is in order to the effect that while the purchasers of these cars on 12-month installments did the equivalent of paying interest at these rates on the unpaid balances of the deferred cash purchase prices of their vehicles, not all of this constituted net profit to the finance company.

Table 182 presents similar data with reference to 284 other transactions in North Central regions in 1938, in which dealers sold new passenger cars on 12-month installments, these transactions being financed by factory-preferred finance companies. This sample contains a modal subgroup of 214 transactions, the finance charge percentages of which varied with practical continuity from 5.83 to 6.65 percent and also evidenced a marked tendency to concentrate around a central, or modal, value.

TABLE 182.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in North Central regions and financed by factory-preferred finance companies in 1938*

	Transaction with—		Modal group	Total sample
	Minimum finance charge percentage	Maximum finance charge percentage		
Number of transactions	1	1	214	284
Cash purchase price of vehicle as delivered	$901.75	$882.00	$214,310.72	$284,129.57
Retail insurance premium	42.00	19.00	7,008.79	9,440.00
Total cash purchase price of vehicle and insurance	943.75	901.00	221,319.51	293,569.57
Down payment, including allowance for used car traded in	701.75	565.00	119,051.89	161,866.24
Total deferred cash purchase price of vehicle and insurance	242.00	336.00	102,267.62	131,703.33
Finance charges:				
Finance company's provision for expenses and profit	.91	31.65	4,663.82	5,925.89
Dealer's loss reserve	2.85		1,175.90	1,464.57
Dealer's bonus		21.51	395.66	555.30
Dealer's addition to regular finance charge			60.24	158.87
Total finance charge	3.76	53.16	6,295.62	8,104.63
Face amount of purchaser's obligation, payable in equal monthly installments	245.76	389.16	108,563.24	139,807.96
Total time price of vehicle and insurance	947.51	954.16	227,615.13	301,674.20
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	0.37	9.42	4.56	4.50
Dealer's loss reserve	1.18		1.15	1.11
Dealer's bonus		6.40	.39	.42
Dealer's addition to regular finance charge			.06	.12
Total finance charge	1.55	15.82	6.16	6.15
Rate of interest implied in total finance charge:				
Per month	.24	2.34	.93	.93
Equivalent annual rate (compounded monthly)	2.93	31.97	11.77	11.75
Conventional annual rate (12 times monthly rate)	2.88	28.08	11.16	11.16

The 284 transactions in new passenger cars sold on 12-month installments, data for which are presented in the above table, represented an aggregate cash sales value of more than $284,000. The finance charges in these transactions varied from a minimum of 1.55 to a maximum of 15.82 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums; and they averaged 6.15 percent. The average for the modal subgroup of 214 transactions was 6.16 percent.

The transaction with the minimum finance charge percentage was the sale of a Chevrolet town sedan in the Chicago area on April 8, 1938. Of the cash-sale price of $901.75, only $200 remained unpaid at the date of the transaction. Application to so small a base of the rate chart for the purpose of determining the insurance premium provision as well as the finance charge had the effect of making gross underprovision for the premium and, consequently, of absorbing the major portion of the provided finance charge in order to make up the deficiency. In consequence, after allowing the vending dealer a loss reserve of $2.85, there remained for the finance company with which to meet its operating expenses and obtain profits only 91 cents.

The transaction with the maximum finance charge percentage, 15.82 percent, was the sale of a Terraplane sedan in the Chicago area on April 26, 1938. The amount of the premium for insurance based on this car was only $19, which seems very small for a car the cash sale price of which was $882; and it is inferred that the provision for retail insurance premium made by application of the rate chart was considerably more than this amount, the excess inuring to the benefit of the finance company and augmenting the regular finance charges. Furthermore, the unpaid cash purchase price at the date of the transaction was only $317. Nevertheless, the vending dealer was allowed a bonus of $21.51, or $18.34 more than the normal bonus, indicating a concealed dealer's "pack" in the amount as set up.

The major portion of the 284 installment contracts in this sample was purchased by the finance companies under repurchase agreements with the vending dealers, as is evidenced by the fact that the amounts allowed these dealers as loss reserves totaled $1,464.57 as compared with only $555.30 allowed certain dealers as bonuses. These participations by the dealers in the finance charges averaged 1.53 percent of the total deferred cash purchase prices of the cars in question. Certain dealers, not content with the regular participations in the regular finance charges, made additions openly thereto totaling $158.87, or a little less than one-eighth of 1 percent of the total deferred cash purchase prices of all cars in the sample.

The interest rates implied in the finance charges in these 284 transactions in which dealers in South Central regions in 1938 sold new passenger cars on 12-month installments ranged from a low of 0.24 percent per month, or 2.93 percent per year, to a high of 2.34 percent per month, or 31.97 percent per year. The average for the modal subgroup of 214 transactions was 0.93 percent per month, or 11.77 percent per annum; and the average for the entire sample was also 0.93 percent per month, but 11.75 percent per annum. However, there is due the usual reminder that, while the purchasers of these cars did the equivalent of paying interest at these rates on the unpaid balances of the deferred cash purchase prices of these cars, only a relatively small portion of this constituted net profit to the finance companies.

Table 183, presents like data with reference to 305 other transactions in new passenger cars sold on 12-month installments by dealers in north central regions in 1938, these transactions being financed by independent finnace companies. In this sample is a central subgroup of 213 transactions, the finance charge percentages in which varied with practical continuity from 5.91 to 9.37 percent, but evidenced no marked tendency to concentrate around any one value.

TABLE 183.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for new passenger cars sold on 12-month installments by dealers in North Central regions and financed by independent finance companies in 1938*

	Transaction with—		Central group	Total sample
	Minimum finance charge percentage	Maximum finance charge percentage		
Number of transactions	1	1	213	305
Cash purchase price of vehicle as delivered	$1,147.82	$967.00	$215,020.04	$305,127.42
Retail insurance premium	36.75		6,245.31	9,372.01
Total cash purchase price of vehicle and insurance	1,184.57	967.00	221,265.35	314,499.43
Down payment, including allowance for used car traded in	947.82	495.00	117,004.18	170,888.71
Total deferred cash purchase price of vehicle and insurance	236.75	472.00	104,261.17	143,610.72
Finance charges:				
Finance company's provision for expenses and profit	.21	47.40	6,034.70	7,854.02
Dealer's loss reserve	0	23.60	4.56	28.16
Dealer's bonus	4.00	0	1,277.35	1,909.80
Dealer's addition to regular finance charge	0	0	11.40	21.18
Total finance charge	4.21	71.00	7,328.01	9,813.16
Face amount of purchaser's obligation, payable in equal monthly installments	240.96	543.00	111,589.18	153,423.88
Total time price of vehicle and insurance	1,188.78	1,038.00	228,593.36	324,312.59
Percentage to total deferred cash purchase price of:	*Percent*	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	0.09	10.04	5.79	5.47
Dealer's loss reserve	0	5.00	0	.02
Dealer's bonus	1.69	0	1.23	1.33
Dealer's addition to regular finance charge	0	0	.01	.01
Total finance charge	1.78	15.04	7.03	6.83
Rate of interest implied in total finance charge:				
Per month	.27	2.22	1.06	1.03
Equivalent annual rate (compounded monthly)	3.31	29.26	13.51	13.11
Conventional annual rate (12 times monthly rate)	3.24	26.64	12.72	12.36

The 305 sales of new passenger cars on 12-month installments, data for which are presented in the above table, represented an aggregate cash sales value of slightly more than $305,000. The finance charges in these transactions varied from a minimum of 1.78 to a maximum of 15.04 percent of the total deferred cash purchase prices of these automobiles, including the insurance premiums; and they averaged 6.83 percent. The average for the central subgroup of 213 transactions was 7.03 percent, although there were more transactions with finance charges of 5.98, 5.99, and 6 percent than in any other part of the range.

The transaction with the minimum finance charge percentage was a sale of a 1938 Buick sedan in the Cleveland area on March 24, 1938. The cash sale price of this car was $1,147.82, of which only $200 remained unpaid at the date of the transaction. Application of a single rate chart to this relatively very small unpaid cash purchase price for the purpose of making provisions for both the insurance premium and the finance charge had the effect of making a gross underprovision for the former and, in consequence, of absorbing most of the latter in order to make up the deficiency. The vending dealer, from whom the finance company purchased the contract without recourse, was allowed a bonus of $4 or 2 percent of the unpaid cash purchase price.

In consequence, there remained for the finance company, with which to meet its operating expenses and provide it with profit, the sum of 21 cents.

The transaction with the maximum finance charge percentage was the sale of a 1938 Plymouth sedan in the Chicago area on May 1, 1938. The insurance on this car was provided by the purchaser himself. Car purchasers who provide their own insurance should exercise great care in order to make sure that they do not also pay, in the finance charges included in the total of the installment contract, for insurance that they do not receive. On an unpaid cash purchase price of $472 at the date of this transaction, the vending dealer under a repurchase agreement was allowed what purported to be a loss reserve of $23.60. Inasmuch as the normal loss reserve on this unpaid balance was only $7.08, it is evident that this vending dealer actually "packed" the finance charges to the extent of $16.52. This helps to explain the excess of this finance charge percentage, 15.04 percent, over the normal 6 percent.

The great bulk of installment contracts in this sample of 305 transactions was purchased by the finance companies wholly without recourse to the vending dealers, as is evidenced by the fact that the amounts allowed them as bonuses totalled $1,909.80 as compared with only $28.16 allowed certain dealers as loss reserves. These participations by the dealers in the finance charges averaged 1.35 percent of the total deferred cash purchase prices of these automobiles. Certain dealers, not content with the regular participations in the regular finance charges, made additions thereto aggregating $21.18.

The interest rates implied in the finance charges in these 305 transactions in new passenger cars sold on 12-month installments by dealers in North Central regions in 1938 ranged from a low of 0.27 percent per month, or 3.31 percent per year, to a high of 2.22 percent per month, or 29.26 percent per year. The average for the central subgroup of 213 transactions was 1.06 percent per month, or 13.51 percent per annum; and the average for the entire sample was 1.03 percent per month, or 13.11 percent per annum. However, there is due at this point the usual reminder that, while the purchasers of these cars did the equivalent of paying interest at these rates on the unpaid balances of the deferred cash purchase prices of their vehicles, not all of this constituted net profit to the finance companies, because of the participations in the finance charges paid to the dealers and because of the finance companies' operating expenses.

In review of the three tables just discussed with reference to new passenger cars sold on 12-month installments in North Central regions in 1938, it will be observed that the finance charges in the transactions financed by the factory-controlled finance companies averaged 6 percent, the charges in the transactions financed by the factory-preferred finance companies averaged 6.15 percent, and those in the transactions financed by the independent finance companies averaged 6.83 percent of the total deferred cash purchase prices of the automobiles in question. The interest rates implied in the finance charges in the first-mentioned group of transactions averaged 0.91 percent per month, or 11.05 percent per annum; the rates in the second-mentioned group averaged 0.93 percent per month, or 11.75 percent per annum; and the rates implied in the finance charges in the third-mentioned group of transactions averaged 1.03 percent per month, or 13.11 percent per annum.

SECTION 6.—COST OF PURCHASING USED CARS ON INSTALLMENTS IN 1935

Introduction.—It is claimed by the industry of distributing automobiles that, in recent years, it is necessary that the dealers sell approximately three used cars for every new car sold. The sale of a new car usually involves the acceptance of a used car at an allowed valuation in part payment. This used car usually has to be reconditioned; and in its resale, the vending dealer has to take another used car in part payment. The second used car, after undergoing reconditioning, is sold; and a third used car is usually accepted in part payment. Not until the dealer has reconditioned and resold this third used car without taking another used car in part payment has he realized in cash the full margin on the new car, the sale of which commenced this chain of transactions.

In the sale of used cars on the installment plan, finance charges are customarily imposed at a higher rate than in the sale of new cars. There are several reasons for this. In the first place, used cars are purchased for the most part by individuals with smaller incomes than are enjoyed by the great body of new car purchasers; the purchasers of the second and third used cars in the chain of transactions outlined above are usually individuals with incomes of very moderate magnitude. In consequence, used-car transactions on the installment plan are regarded as involving considerably greater credit risks than are new-car transactions. The imposition of the larger finance-charge rates takes the form, in the practice of certain large finance companies, of making a flat addition of $7.50 or of $10 to the finance charges as they would be provided by application of the new-car finance-charge rates. Inasmuch as the unpaid balances of the cash purchase prices of used cars, including the insurance premiums, are usually small in comparison with the like unpaid balances in sale of new cars on the installment plan, the addition of such flat charges naturally results in a relatively large finance charge percentage.

Cost of purchasing used cars on 12-month installments in 1935.—Table 184 presents data with reference to 375 transactions in 1935 in which dealers in the eastern half of the United States sold used passenger cars on 12-month installments. These transactions represent an aggregate cash sales value of a little under $133,800. Of these, 104 transactions were financed by factory-preferred finance companies; and the remaining 271 transactions were financed by the factory-controlled finance company. Of the latter, 27 transactions occurred during that part of 1935 in which the so-called 6-percent plan was in effect; and the data for these transactions are presented separately in the last column of the table.

The remaining 244 transactions were financed by the factory-controlled finance company during that part of 1935 before the 6 percent plan was put into effect; and the results in this portion of the sample are the results that are comparable, if comparison is in order, with the results in the sample obtained from the factory-preferred finance companies. The table does not present data with reference to any used car transactions financed by the independent finance companies. The reason for this is that, in the original draft of this chapter, the plan of presentation was to group the sample data and present them separately for four divisions of the United States (North Atlantic, South Atlantic, North Central, and South Central); and for the purpose of this divisional presentation, the samples of used car transactions were too small to warrant presentation. In the revision of the chapter by consolidating the data for all four of these divisions, there was not sufficient time for tabulation of the samples of transactions obtained from the independent finance companies.

TABLE 184.—*Cash-purchase prices, retail insurance premiums, down payments, total deferred cash-purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash-purchase price, and rates of interest implied in finance charges for used passenger cars sold on 12-month installments by dealers in the United States and financed by factory-preferred and factory-controlled finance companies in 1935*

	Factory-preferred finance companies	Factory-controlled finance company	
		Pre-6-percent plan total sample	6-percent plan total sample
Number of transactions	104	244	27
Cash purchase price of vehicle as delivered	$37,813.90	$84,988.32	$10,955.00
Retail insurance premium	1,153.07	3,503.36	398.25
Total cash purchase price of vehicle and insurance	38,966.97	88,491.68	11,353.25
Down payment, including allowance for used car traded in	14,714.74	36,811.61	4,616.15
Total deferred cash purchase price of vehicle and insurance	24,252.23	51,680.07	6,737.10
Finance charges:			
Finance company's provision for expenses and profit	2,998.42	4,663.60	603.12
Dealer's loss reserve	1,249.12	2,310.45	245.65
Dealer's bonus	13.48	0	0
Dealer's addition to regular finance charge	113.25	5.95	.50
Total finance charge	4,374.27	6,980.00	849.27
Face amount of purchaser's obligation, payable in equal monthly installments	28,626.50	58,660.07	7,586.37
Total time price of vehicle and insurance	43,341.24	95,471.68	12,202.52
	Percent	*Percent*	*Percent*
Percentage to total deferred cash purchase price of—			
Finance company's provision for expenses and profit	12.36	9.03	8.95
Dealer's loss reserve	5.15	4.47	3.65
Dealer's bonus	.06	0	0
Dealer's addition to regular finance charge	.47	.01	.01
Total finance charge	18.04	13.51	12.61
Rate of interest implied in total finance charge:			
Per month	2.65	2.01	1.88
Equivalent annual rate (compounded monthly)	36.84	26.90	24.98
Conventional annual rate (12 times monthly rate)	31.80	24.12	22.56

The finance charges in the 104 transactions in used passenger cars sold on 12-month installments and financed by factory-preferred finance companies, data for which are presented in the above table, averaged 18.04 percent of the total deferred cash-purchase prices of these used cars, inclusive of the insurance premiums where there were insurance premiums. The like charges in the 244 transactions financed by the factory-controlled finance company in that part of 1935 before the so-called 6-percent plan was put into effect averaged 13.51 percent.

The finance charges in the sample of transactions that was financed by the factory-preferred finance companies implied the payment by these used-car purchasers of interest on the unpaid balances of the cash-purchase prices of their automobiles, including the insurance premiums, at the average rate of 2.65 percent per month, or 36.84 percent per annum. The like interest rates implied in the finance charges in the 244 transactions financed by the factory-controlled finance company before the 6-percent plan was put into effect averaged 2.01 percent per month, or 26.9 percent per annum. Comparison of these finance-charge rates and of these implied interest rates with the like rates in the transactions in which new cars were sold on 12-month installments discloses that the rates pertaining to used-car transactions were very much the higher.

The finance charges in the 27 transactions constituting the sample of used passenger cars financed by the factory-controlled finance company during that part of 1935 after the 6-percent plan was put into effect averaged 12.61 percent of the total deferred cash purchase prices of these used cars, including the insurance premiums. This average was somewhat less than the average finance charge percentage in the transactions financed before the 6-percent plan went into effect. These finance charges implied the payment of interest by these used-car purchasers on the unpaid balances of the cash purchase prices of their vehicles, including insurance premiums, at the average rate of 1.88 percent per month, or 24.98 percent per annum.

Used-car transactions with maximum and minimum finance charge percentages financed by the factory-controlled finance company in 1935.—The data presented in table 184 above show the average finance charge percentages in samples of transactions financed by the factory-controlled and the factory-preferred finance companies. One should not assume, however, that the finance charge percentages in the respective transactions composing these samples were all precisely equal to the average percentages of the respective samples; indeed, there was a wide range of variation. Review of the individual transactions composing these samples discloses much interesting information as to the practices of the dealers and of the finance companies in the matter of imposing finance charges upon the purchasers of the cars. It will be interesting to review a number of these transactions in which the finance-charge percentages were at the minima or at the maxima of the respective divisions in which these transactions occurred.

In the 12-month used-passenger-car transactions financed by the factory-controlled finance company with the minimum finance charge percentage in the North Atlantic division in 1935, the cash sale price of this used car was $510. The insurance premium, $21.25, brought the total cash value up to $531.25. The down payment of $226.25

left an unpaid cash purchase price, including the insurance premium, of $305. To this was added a finance charge amounting to $24.40, or 8 percent of the unpaid cash purchase price, including the insurance premium. Of this finance charge, $14.40 was retained by the finance company and the remaining $10 was set up as the dealer's loss reserve and was eventually paid to the vending dealer. The amount of this loss reserve indicates that the dealer did not fail to include the customary flat charge in the finance charges. However, the unpaid cash purchase price of $305 was relatively large for a used car, so that the finance-charge percentage was only two points percent above the normal 6 percent for new-car installment contracts under the 6-percent plan, which was in effect at the time this transaction occurred. The finance charges in this transaction implied the payment by this used-car purchaser of interest on the unpaid balances of the cash purchase price of his vehicle, including the insurance premium, at the rate of 2.25 percent per month, or 30.56 percent per annum.

The transaction financed with the maximum finance charge percentage by the factory-controlled finance company in the North Atlantic region in 1935 involved a used passenger car the cash sale price of which was only $135. There was no insurance on this car; and a down payment of $54 left an unpaid cash purchase price of $81. To this was added a finance charge amounting to $18.96, or 23.41 percent of the unpaid cash purchase price. Of this amount, $11.46 was retained by the finance company and $7.50 was set up and eventually paid to the vending dealer as a loss reserve. The inclusion in the finance charges of a flat amount, when related to so small an unpaid cash purchase price as $81, naturally resulted in a large finance charge percentage. This finance charge implied the payment by the purchaser of this used car of interest on the unpaid balances of the cash purchase price at the rate of 3.39 percent per month, or 49.26 percent per annum.

In the South Atlantic division, the used-car transaction financed by the factory-controlled finance company with the minimum finance charge percentage involved the sale of a 1935 Chevrolet Master sedan in the Baltimore area on December 13, 1935. This was in that portion of that year in which the so-called 6-percent plan was in effect; and this fact would tend to make the finance charges in this transaction lower in proportion than the general average of the sample. The cash sale price of this used car was $600; and the insurance premium, $18, brought the total cash value up to $618. The down payment, $200, left an unpaid cash purchase price of $418, including the insurance premium. To this the dealer added finance charges aggregating $33.44, or 14.4 percent of the total deferred cash purchase price of the car, including the insurance premium. Of this finance charge, the finance company retained $27.44 and allowed the dealer $6 as a loss reserve. The relatively small magnitude of this loss reserve indicates that the dealer did not provide the full amount of finance charges that he was expected to provide. In consequence of this and of the relatively large total deferred cash purchase price of this car, the finance charge percentage in this transaction was the smallest percentage in the used-car transactions included in the sample financed by this company in the South Atlantic division during 1935. However, 14.4 percent for a 12-month installment contract is not small. The finance charges in this transaction implied the payment of interest by this car purchaser on the unpaid balances of the cash purchase price of his automobile, including the insurance premium, at the rate of 1.2 percent per month, or 15.44 percent per annum.

The transaction with the maximum finance charge percentage in the South Atlantic sample involved a used car the cash sale price of which was only $180. The insurance premium, $10, brought the total cash value up to $190. The down payment, $63, left an unpaid cash purchase price, inclusive of the insurance premium, amounting to $127. To this, the vending dealer added finance charges amounting to $24.80, or 19.53 percent. Of this, $14.30 was retained by the finance company, $7.50 was set up and eventually paid to the vending dealer as a loss reserve, and $3 constituted an addition by the dealer to the regular finance charges. The last probably represented local recording fees, notarial fees, and the like paid by the vending dealer, included in the time price and the face of the installment contract and reimbursed to the dealer. The amount of the dealer's loss reserve indicates that the dealer added at least a portion of the customary flat charge to the finance charges that were determinable on a percentage base; and, related to so small a base as $127, the addition of this flat charge and of the other $3 naturally resulted in a large finance charge percentage.

In the sample of 12-month used-car transactions financed by the factory-controlled finance company in the North Central division in 1935, the transaction with the minimum finance charge percentage involved a used car the cash sale price of which was $150. Addition of $10 for insurance premium and deduction of the down payment of $50 left an unpaid cash purchase price of $110. To this, the dealer added finance charges amounting to $7.38, or 6.71 percent. No portion of this finance charge was paid or allowed to the vending dealer, a fact that indicates that the dealer failed to provide the usual flat charge in the finance charges. This explains why the finance charge percentage was so small. Nevertheless, this finance charge implied the payment of interest by this used-car purchaser on the unpaid balances of the cash purchase price of his automobile, including the insurance premium, at the rate of 1.01 percent per month, or 12.86 percent per annum.

The transaction with the maximum finance charge percentage in the North Central region involved a used car the cash sale price of which was only $75. Addition of $4 for insurance premium and deduction of the down payment of $25 left an unpaid cash purchase price of only $54. To this relatively small base, the dealer added finance charges amounting to $14.52, or 26.89 percent. Of this, the finance company retained $7.02 and allowed, and eventually paid, the dealer $7.50 as a loss reserve. The amount of this reserve indicates that this dealer did not fail to provide at least a major portion of the customary flat charge; and, related to so small a base as $54, this flat charge naturally resulted in a very large finance charge percentage. This finance charge implied the payment by this used-car purchaser of interest on the unpaid balances of the cash purchase price of his automobile, including the insurance premium, at the rate of 3.87 percent per month, or 57.68 percent per annum.

Used-car transactions with maximum and minimum finance-charge percentages financed by factory-preferred finance companies.—In the sample of 12-month used-passenger car transactions financed by the factory-preferred finance companies in the North Atlantic division in 1935, the transaction with the minimum finance-charge percentage involved a used car with a cash sale price of $450. Addition of the retail insurance premium, $14.52, and deduction of the down payment, amounting to $243, left an unpaid cash purchase price, including the insurance premium, of $221.52. To this, the vending dealer added finance charges amounting to $17.14, or 7.74 percent. The fact that no part of this finance charge was allowed the dealer, and that all of it was retained by the finance company, indicates that this vending dealer failed not only to provide the customary flat charge but to provide the full amount of charges that would have been imposed if this had been a new car. In fact, this finance charge percentage was considerably less than the average finance charge percentage in new cars sold on 12-month installments in the fore part of 1935 and financed by the factory-preferred finance companies. Nevertheless, this finance charge implied the payment by this used-car purchaser of interest on the unpaid balances of the cash purchase price, including the insurance premium, at the rate of 1.17 percent per month, or 14.93 percent per annum.

The transaction with the maximum finance-charge percentage in this same North Atlantic sample involved a used car the cash sale price of which was only $123. Addition of the insurance premium, $5, and deduction of the down payment, $36, left an unpaid cash purchase price, inclusive of the insurance premium, amounting only to $92. To this relatively small base, the vending dealer contrived to add finance charges aggregating $28, or 30.43 percent. Of this, $16.55 was retained by the finance company, $4.45 was allowed the vending dealer as a loss reserve, and $7 constituted an addition to the regular finance charges made by the vending dealer. The finance charges in this transaction implied the payment by this used-car purchaser of interest on the unpaid balances of the cash purchase price of his automobile, including the insurance premium, at the rate of 4.35 percent per month, or 66.59 percent per annum.

In the 12-month used passenger car sample of transactions financed by the factory-preferred finance companies in the South Atlantic division in 1935, the transaction with the smallest finance charge percentage involved a used car the cash sale price of which was $625. Addition of the retail insurance premium, $27.40, and deduction of the down payment, $375, left an unpaid cash purchase price, including the insurance premium, amounting to $277.40. This was a relatively large unpaid balance for a used passenger car. To this, the vending dealer added finance charges aggregating $34.60, or 12.47 percent. Of this, $21 was retained by the finance company and $12.50 was allowed, and eventually paid, the vending dealer as a loss reserve. The amount of this reserve indicates that this vending dealer made no omission of any flat charge or other charge that he was expected to apply. The finance charges in this transaction implied the payment by this used-car purchaser of interest on the unpaid balances of the cash purchase price of his automobile, including the insurance premium, at the rate of 1.86 percent per month, or 24.70 percent per annum.

The transaction with the maximum finance-charge percentage in the same sample involved a used car the cash sale price of which was $209. Addition of the insurance premium, $10, and deduction of the down payment, $50, left an unpaid cash purchase price, inclusive of the insurance premium, amounting only to $169. To this relatively small base, the vending dealer added finance charges amounting to $47, or 27.81 percent. This transaction presents another interesting feature. The vending dealer was allowed a participation in these charges of $7.95 by way of a dealer's loss reserve. In addition to this, the finance company set up as a special dealer's reserve the amount of $11, the purpose of which was to compensate the vending dealer for any loss that he might sustain if, instead of reconditioning and reselling any of the used cars taken by him in trade, he should convert antiquated and dilapidated cars to junk. The inclusion in these finance charges of the usual flat charge applied in used-car transactions and the addition of this special reserve of $11, when related to so small an unpaid cash purchase price as $169 naturally resulted in a large finance charge percentage. The purchaser of this used car did the equivalent of paying interest on the unpaid balances of the cash purchase price of his automobile, including the insurance premium, at the rate of 3.99 percent per month, or 59.98 percent per annum.

In the sample of used cars sold on 12-month installments in North Central regions and financed by the factory-preferred finance companies in 1935, the transaction with the smallest finance-charge percentage involved a used car, the cash sale price of which was $575. Addition of the retail insurance premium, $21.96, and deduction of the down payment, $151, left an unpaid cash purchase price, inclusive of the insurance premium, amounting to $445.96. To this base, the vending dealer added finance charges amounting to $46.04, or 10.32 percent. However, this dealer made an error of $7.25 against himself, a fact that helps to explain why the finance charge percentage was not larger—although 10.32 percent is not small. The purchaser of this used car did the equivalent of paying interest on the unpaid balances of the cash purchase price of his automobile, including the insurance premium, at the rate of 1.54 percent per month, or 20.20 percent per annum.

The transaction with the maximum finance-charge percentage in the same sample involved the sale of a used 1931 Ford coupe, the cash sale price of which was $125 and the unpaid portion of which was only $70. Addition of the insurance premium, $5, brought the total unpaid cash purchase price up to $75. To this relatively small base, the vending dealer added finance charges amounting to $24.96, or 33.28 percent. Of this, $14.96 was retained by the finance company and $10 was allowed the vending dealer as a loss reserve. The amount of this reserve indicates that the dealer made no failure to include all of the charges that he was expected to provide. The finance charges in this transaction implied the payment by this used-car purchaser of interest on the unpaid balances of the cash purchase price of his automobile, including the insurance premium, at the rate of 4.72 percent per month, or 73.92 percent per annum.

Cost of purchasing used passenger cars on 18-month installments in 1935.—Table 185 presents similar data with reference to 30 other transactions in 1935 in which dealers in the North Central division sold used passenger cars, this time on 18-month installments. Samples of similar transactions for the North Atlantic, the South Atlantic, and the South Central divisions were not included because, in preparing the original draft of this chapter, those samples were too scanty to warrant separate presentation and, in preparation for the present text, there was not sufficient time for their tabulation and inclusion.

TABLE 185.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for used passenger cars sold on 18-month installments by dealers in North Central regions and financed by factory-preferred and factory-controlled finance companies in 1935*

	Factory-preferred finance companies	Factory-controlled finance company
Number of transactions	13	17
Cash purchase price of vehicle as delivered	$6,613.30	$12,037.50
Retail insurance premium	288.32	504.08
Total cash purchase price of vehicle and insurance	6,901.62	12,541.58
Down payment, including allowance for used car traded in	2,554.42	4,514.13
Total deferred cash purchase price of vehicle and insurance	4,347.20	8,027.45
Finance charges:		
Finance company's provision for expenses and profit	653.90	860.25
Dealer's loss reserve	128.24	153.65
Dealer's bonus		
Dealer's addition to regular finance charge	5.50	
Total finance charge	787.64	1,013.90
Face amount of purchaser's obligation, payable in equal monthly installments	5,134.84	9,041.35
Total time price of vehicle and insurance	7,689.26	13,555.48
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*
Finance company's provision for expenses and profit	15.04	10.72
Dealer's loss reserve	2.95	1.91
Dealer's bonus		
Dealer's addition to regular finance charge	.13	
Total finance charge	18.12	12.63
Rate of interest implied in total finance charge:		
Per month	1.81	1.28
Equivalent annual rate (compounded monthly)	24.06	16.53
Conventional annual rate (12 times monthly rate)	21.72	15.36

The 30 transactions in used passenger cars sold on 18-month installments, data for which are presented in the above table, represented a cash sale value of $18,650.80. Of the total, 13 transactions were financed by factory-preferred finance companies and 17 transactions were financed by the factory-controlled finance company. The finance charges in the sample that was financed by the factory-preferred finance companies averaged 18.12 percent of the total deferred cash purchase prices of these used cars, including the insurance premiums. The finance charges in the sample financed by the factory-controlled finance company averaged 12.63 percent. It will be observed that the dealers' participations in the finance charges in the first-mentioned sample averaged 3.08 percent of the total deferred cash purchase prices of these used cars, as compared with an average of 1.91 percent in the second-mentioned sample; also that the portion of finance charges retained by the finance companies averaged 15.04 percent of the total deferred cash purchase prices in the sample financed by the factory-preferred finance companies, as compared with 10.72 percent in the sample financed by the factory-controlled finance company.

The finance charges in the transactions financed by the factory-preferred finance companies implied the payment by the car purchasers of interest on the unpaid balances of the cash purchase prices of their used automobiles, including the insurance premiums, at the average rate of 1.81 percent per month, or 24.06 percent per annum. The corresponding rates implied in the finance charges in the sample financed by the factory-controlled finance company averaged 1.28 percent per month, or 16.53 percent per annum.

Used passenger car transactions with maximum and minimum finance charge percentages.—In the sample of used passenger car 18-month installment contracts financed by the factory-controlled finance company in North Central regions in 1935, the transaction with the minimum finance charge percentage involved the sale of a 1936 Master Chevrolet sport sedan on November 26, 1935, in the St. Louis region. Although this transaction was marked on the finance company's record as a used car, the cash sale price, $840.30, suggests that it was a car used for demonstrating purposes and sold to the purchaser as a new car. This is further evidenced by the fact that the amount set up as the dealer's loss reserve, $7.61, was only a trifle more than the normal dealer's loss reserve for a new car with the same unpaid cash purchase price, $522.17. Addition to the cash sale price of the insurance premium, $27.83, and deduction of the down payment, $318.13, left an unpaid cash purchase price, inclusive of the insurance premium, amounting to $550. To this base, the vending dealer added finance charges amounting to $49.40, or 8.98 percent. Of this, the finance company retained $41.79 and allowed the dealer the loss reserve of $7.61 stated above. The purchaser of this used car did the equivalent of paying interest on the unpaid balances of the cash purchase price of his automobile, including insurance premium, at the rate of 0.92 percent per month, or 11.63 percent per annum—rates about equal to the normal interest rates implied in the finance charges in new-car transactions under the 6-percent plan.

In the same sample, the transaction with the maximum finance-charge percentage involved the sale of a 1929 Lincoln sedan, the cash sale price of which was only $400. Addition of the insurance premium, $21.75, and deduction of the down payment, $150, left an unpaid cash purchase price, inclusive of the insurance premium, amounting to $271.75. To this base, the vending dealer added finance charges amounting to $50.73, or 18.67 percent. Of this, the finance company retained $40.73 and allowed the vending dealer $10 as a loss reserve. The amount of this reserve indicates that this vending dealer did not fail to make any charge that he was expected to make in this used-car transaction, and the inclusion in the finance charges of a flat charge, related to a base of only $271.75, naturally resulted in a relatively high finance charge percentage. The finance charges in this transaction implied the payment by this used-car purchaser of interest on the unpaid balances of the cash purchase price of his automobile, including the insurance premium, at the rate of 1.87 percent per month, or 24.86 percent per annum.

In the sample of used passenger cars sold on 18-month installments in North Central regions and financed by the factory-preferred finance companies in 1935, the transaction with the minimum finance charge percentage involved a used car, the cash sale price of which was $595. Addition of the insurance premium, $31.72, and deduction of the down payment, $259, left an unpaid cash purchase price, inclusive of the insurance premium, amounting to $367.72. To this base, the vending dealer added finance charges amounting to $46.28, or 12.59 percent. All of this finance charge was retained by the finance company, a fact indicating that the dealer committed errors against himself or allowed the purchaser of the car the entire portion of the normal finance charges that would have accrued to the dealer. This explains why the finance charge percentage in this transaction was the minimum for the sample, although 12.59 percent on an 18-month transaction was not small.

The finance charges in this transaction implied the payment by this used car purchaser of interest on the unpaid balances of the cash purchase price of his automobile, including the insurance premium, at the rate of 1.28 percent per month, or 16.47 percent per annum.

The transaction with the maximum finance charge percentage in the same sample involved the sale of a 1934 Chevrolet coach in the St. Louis region on June 18, 1935. The cash sale price was $500; and addition of the insurance premium, $12.13, and deduction of the down payment, $375, left an unpaid cash purchase price, inclusive of the insurance premium, of only $137.13. To this base, the vending dealer added finance charges amounting to $42.87, or 31.26 percent. Of this, the finance company retained $28.62, allowed the vending dealer $8.75 as a loss reserve and $5.50 constituted an addition to the regular finance charges that was made by the dealer and was paid to him by the finance company. The inclusion of the usual flat charge, when related to so small a base as $137.13, naturally resulted in a large finance charge percentage. And the dealer's further addition enlarged the finance charge percentage substantially. The finance charges in this transaction implied the payment by this used-car purchaser of interest on the unpaid balances of the cash purchase price of his automobile, inclusive of the insurance premium, at the rate of 3.04 percent per month, or 43.16 percent per annum.

Section 7. Cost of Purchasing Used Passenger Cars on Installments in 1936, 1937, and 1938

Introduction.—In the preceding section, in which data were presented and discussed with reference to the cost of purchasing used passenger cars on installments in 1935, tables were presented and discussed in which the data for samples of transactions financed by the factory-controlled and factory-preferred companies respectively were shown in the same table. The discussion of the data presented in the table was followed by presentation of the data pertaining to a number of individual transactions in the North Atlantic, South Atlantic, and North Central divisions, respectively, which transactions were those with the minimum and the maximum finance charge percentages in the respective divisions. The samples of used passenger car transactions that occurred in 1936, 1937, and 1938 include 963 transactions, with an aggregate cash sale value of a little more than $334,000, in which the cars were sold on 12-month installments and 925 transactions, representing an aggregate cash sale value of a little under $498,000, in which the used cars were sold on 18-month installments. These samples include samples of transactions financed by the independent finance companies as well as samples financed by the factory-preferred and the factory-controlled finance companies.

For the purpose of the present discussion, the data for the 12-month sample were presented in three separate tables—a separate table for each class of finance company. The data for the 18-month-installment contracts are presented in like manner. Each of these tables shows not only the data for the aggregate sample but the data for the two transactions in the sample that had, respectively, the minimum and the maximum finance charge percentage. Inasmuch as the transaction with the minimum finance charge percentage may have occurred in one part of the United States and the transaction with the maximum finance charge percentage may have occurred in another part, the discussion of such transactions is supplemented by the presentation and discussion of data pertaining to other transactions with the minimum and the maximum finance charge percentages in other divisions in the eastern half of the United States. This method of presentation facilitates the presentation and discussion of these supplementary illustrations.

Cost of purchasing used passenger cars on 12-month installments in the United States, 1936–38.—Table 186 presents data with reference to 194 transactions in the eastern half of the United States in which, in 1936, 1937, and 1938, dealers sold used passenger cars on 12-month installments, these transactions being financed by factory-controlled finance companies.

TABLE 186.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for used passenger cars sold on 12-month installments by dealers in the United States and financed by factory-controlled finance companies in 1936, 1937, and 1938*

	Transaction with—		Total sample
	Minimum finance charge percentage	Maximum finance charge percentage	
Number of transactions	1	1	194
Cash purchase price of vehicle as delivered	$550.00	$100.00	$68,482.25
Retail insurance premium	20.00		2,834.00
Total cash purchase price of vehicle and insurance	570.00	100.00	71,316.25
Down payment, including allowance for used car traded in	160.00	25.00	30,090.03
Total deferred cash purchase price of vehicle and insurance	410.00	75.00	41,226.22
Finance charges:			
Finance company's provision for expenses and profit	22.96	10.74	3,679.42
Dealer's loss reserve	9.84	7.50	1,491.36
Dealer's bonus			4.50
Dealer's addition to regular finance charge			120.18
Total finance charge	32.80	18.24	5,295.46
Face amount of purchaser's obligation, payable in equal monthly installments	442.80	93.24	46,521.68
Total time price of vehicle and insurance	602.80	118.24	76,611.71
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	5.60	14.32	8.92
Dealer's loss reserve	2.40	10.00	3.62
Dealer's bonus			.01
Dealer's addition to regular finance charge			.29
Total finance charge	8.00	24.32	12.84
Rate of interest implied in total finance charge:			
Per month	1.20	3.52	1.91
Equivalent annual rate (compounded monthly)	15.43	51.44	25.34
Conventional annual rate (12 times monthly rate)	14.40	42.24	22.92

The finance charges in the 194 12-month used-passenger-car transactions, data for which are presented in the above table, ranged from 8 to 24.32 percent of the total deferred cash purchase prices of these used cars, including insurance premiums; and they averaged 12.84 percent. In new-car transactions the normal finance charge for 12-month installment contracts is 6 percent. In used-car transactions, however, it is customary not only to make a finance charge at the rate of one-half of 1 percent per month on the total deferred cash purchase price of the vehicle, including insurance premium, for the entire duration of the contract, but also to make a flat addition thereto, the purpose of which is to cover the supposed extra risk involved in connection with the financing of a used-car sale. With one finance company this flat addition was $7.50 per car. The natural effect of this flat addition is a finance charge percentage that is above the normal 6 percent for a 12-month transaction involving new cars.

The transaction with the minimum finance charge percentage, 8 percent, was the sale of a 1936 used Chevrolet standard coach in the Dallas area on May 17, 1937. In used-car transactions the vending dealer is customarily allowed a loss reserve of not less than $10. The dealer in this transaction was allowed a loss reserve of only $9.84—indicating that the dealer did not impose the full amount of the finance charges contemplated for a used-car transaction in which the unpaid cash purchase price was $390. It is also observed that the cash sale price of this used car was $550, which was a relatively high price for a used car. The natural effect of including a flat charge in the finance charges pertaining to a high-priced used car is that the percentage of such flat charge to the total deferred cash purchase price of the car is relatively small. So that, although the finance charge percentage in this transaction was two points above the normal percentage for a new-car transaction, it was nevertheless relatively low for used-car transactions.

The transaction just discussed occurred in the South Central region. In discussing these samples that have been consolidated for all regions in the eastern half of the United States, it is deemed interesting to present the data with reference to transactions with the minimum finance charge percentages in the various divisions. Such a transaction was the sale of a 1935 Oldsmobile used sedan in the Omaha territory on June 3, 1936. The finance charge percentage in this case also was 8 percent of the total deferred cash purchase price of the car, including the insurance premium. The dealer in this transaction was allowed a loss reserve of $6, which was $4 below the above-stated minimum and was precisely 1½ percent of the unpaid cash purchase price of $400—again a fact indicating that the dealer did not impose the full amount of the charges contemplated for a used-car transaction. The total deferred cash purchase price of this car, including the insurance premium, was $410; so that any flat charge included in the finance charges in this transaction naturally constituted a relatively small percentage of this base.

Another such transaction was the sale of a 1937 used Buick sedan in the Philadelphia region on March 15, 1938. On the basis of an unpaid cash purchase price of $560, the dealer was allowed a loss reserve of $13.97, which indicates that the dealer included the full flat charge in the finance charges. However, related to so large a base as $581.75, including the insurance premium, the flat charge constituted a relatively small percentage addition, so that the finance charge percentage in this transaction also was a little more than 8 percent.

The transaction with the minimum finance charge percentage in the South Atlantic region involved the sale of a used 1936 Ford Tudor sedan in the Richmond area on December 8, 1936. The cash sale price of this used car was $505; but the unpaid cash purchase price was only $230. On this base the dealer was allowed a loss reserve of only $3.45, or 1½ percent of the unpaid cash purchase price, as compared with the normal minimum of $10. This again indicates that the dealer did not impose the full amount of the charges contemplated for a used car with this unpaid cash purchase price. However, that some amount other than the normal 1½ percent of the total deferred cash purchase price of the car, including the insurance premium, was included is evidenced by the fact that the finance charge percentage was 8.22 percent as compared with the normal 6 percent in a new-car transaction of the same duration.

In contrast with these transactions in which the cash sale prices of the used cars, and the unpaid cash purchase prices of them, were relatively large, the transactions with the maximum finance charge percentages involved used cars with much smaller cash sales prices and unpaid balances thereof. The transaction with the maximum finance charge percentage, 24.32 percent, involved the sale in the Chicago area, on December 3, 1936, of a used 1931 Ford sport roadster. The cash sale price of this car was only $100; and the unpaid cash purchase price was only $75. The inclusion in the finance charges of a flat $7.50 (which was the amount allowed this vending dealer as loss reserve), related to so small a total deferred cash purchase price naturally resulted in a large finance charge percentage.

No insurance was provided by the finance company on this car; and, apparently, a further addition was made to the finance charges to compensate for this omission.

The transaction with the maximum finance charge percentage in the South Atlantic region was the sale in the Atlanta territory on April 2, 1938, of a used 1931 Chevrolet sedan. The cash sale price of this used car was only $175, of which $100 remained unpaid at the date of the transaction. The insurance premium of $9.50 brought the total deferred cash purchase price up to $109.50. The fact that, on the basis of an unpaid cash purchase price of $100, the dealer was allowed a loss reserve of $6.07 indicates that some portion of the normal flat charge was included in these finance charges, although the fact that the reserve allowed the dealer was less than $10 indicates omission of a part of the flat charge. Related to so small a base, the natural result of the inclusion of such a flat charge was a large finance charge percentage, 18.36 percent.

The transaction with the maximum finance charge percentage in the South Central region was the sale, in the Birmingham area on May 6, 1937, of a used 1929 Plymouth roadster. The cash sale price of this used car was only $165; and, of this, only $105 remained unpaid. The vending dealer was not allowed the full $10 as a loss reserve, but the fact that he was allowed a reserve of $5.99 on so small an unpaid cash purchase price indicates that he included at least a part of the normal flat charge in the finance charges. The charges also contain local and State taxes amounting to $3, which amount was paid by the dealer and was reimbursed to him in the check from the finance company. Related to so small a total deferred cash purchase price as $115.50 (including the insurance premium of $10.50), the inclusion of such charges in the finance charges had a natural result of a relatively high finance charge percentage, 19.90 percent.

The transaction with the maximum finance charge percentage in the North Atlantic region involved the sale, in the Pittsburgh area on March 26, 1937, of a used 1932 Studebaker 2-door sedan. The cash sale price of this used car was only $225, of which only $95 remained unpaid at the date of the transaction. Again the vending dealer was not allowed the normal minimum as a loss reserve; but the fact that he was allowed a loss reserve amounting to $6.17 indicates that he did include a considerable portion of the normal flat charge in the finance charges. Related to so small a total deferred cash purchase price as $95 (there was no insurance placed through the finance company), the natural result was a large finance charge percentage, 21.64 percent.

Nearly all of these 194 used passenger car installment contracts were purchased by the finance company under repurchase agreements with the vending dealers. This is evidenced by the fact that the loss reserves allowed these dealers aggregated $1,491.36 as compared with only $4.50 allowed them as bonuses. Certain dealers made additions to the regular finance charges aggregating $120.18, or nearly three-tenths of 1 percent of the total deferred cash purchase prices of these used cars.

The interest rates implied in the finance charges in these 194 used passenger car transactions ranged from 1.20 percent per month, or 15.43 percent per year, to a high of 3.52 percent per month, or 51.44 percent per year. The average for the entire sample was 1.91 percent per month, or 25.34 percent per annum. It will be observed, in comparing these finance charge percentages and these interest rates with the like percentages and rates in transactions in which new passenger cars were sold on 12-month installments and the sales were financed by the factory-controlled finance company, that the rates pertaining to used cars were considerably higher than the rates pertaining to new cars.

The transactions in the sample just discussed with reference to used passenger cars sold on 12-month installments during 1936, 1937, and 1938 were financed by the factory-controlled finance company. Table 187 presents data with reference to 395 other transactions in 1936, 1937, and 1938 in which the dealers sold used passenger cars on 12-month installments, these transactions being financed by factory-preferred finance companies.

TABLE 187.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price and rates of interest implied in finance charges for used passenger cars sold on 12-month installments by dealers in the United States and financed by factory-preferred finance companies in 1936, 1937, and 1938*

	Transaction with—		Total sample
	Minimum finance-charge percentage	Maximum finance-charge percentage	
Number of transactions	1	1	395
Cash purchase price of vehicle as delivered	$365.00	$160.00	$141,116.60
Retail insurance premium	5.00	5.00	5,363.80
Total cash purchase price of vehicle and insurance	370.00	165.00	146,480.40
Down payment, including allowance for used car traded in	143.00	50.00	61,446.01
Total deferred cash purchase price of vehicle and insurance	227.00	115.00	85,034.39
Finance charges:			
Finance company's provision for expenses and profit	20.85	19.12	8,977.32
Dealer's loss reserve	[1] −29.85	10.00	2,894.07
Dealer's bonus			123.61
Dealer's addition to regular finance charge	10.00	23.88	1,051.46
Total finance charge	1.00	53.00	13,046.46
Face amount of purchaser's obligation, payable in equal monthly installments	228.00	168.00	98,080.85
Total time price of vehicle and insurance	371.00	218.00	159,526.86
Percentage to total deferred cash purchase price of:	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	9.19	16.63	10.56
Dealer's loss reserve	[1] −13.15	8.69	3.40
Dealer's bonus			.14
Dealer's addition to regular finance charge	4.40	20.77	1.24
Total finance charge	.44	46.09	15.34
Rate of interest implied in total finance charge:			
Per month	.07	6.38	2.27
Equivalent annual rate (compounded monthly)	.82	109.98	30.87
Conventional annual rate (12 times monthly rate)	.84	76.56	27.24

[1] Negative quantity, percentage.

The finance charges in the 395 12-month used-passenger-car transactions, data for which are presented in the above table, ranged from 0.44 to 46.09 percent of the total deferred cash purchase prices of these used vehicles, including the insurance premiums; and they averaged 15.34 percent.

The transaction with the minimum finance charge percentage, 0.44 percent, involved the sale in the Providence area on June 5, 1936, of a used 1933 Ford Fordor sedan. In computing the total charges to be added to the cash sale price of this used car, the dealer committed an error against himself of $39, and he suffered the consequence in the amount of the check received from the finance company. Normally, the dealer would have been allowed a loss reserve of $9.15 and, in addition thereto, a special reserve of $10 to compensate him for any loss that he might sustain by junking used cars taken in trade instead of reconditioning and reselling them—allowances making for a large rather than a small finance charge percentage. However, the result of this error of $39 was the very small finance charge percentage noted above.

The transaction discussed in the preceding paragraph occurred in the North Atlantic region. The transaction with the minimum finance charge percentage in the North Central region involved the sale, in the Kansas City area on December 4, 1936, of a used 1935 Chrysler coupe. The cash sale price of this used car was relatively large, $775; but the unpaid cash purchase price was only $200. This installment contract was purchased by the finance company wholly without recourse to the vending dealer in case of default by the car purchaser. The fact that the dealer was allowed no participation in the finance charge, even by way of bonus, indicates a dealer's error in the computation of the total charges to be added to the cash sale price of this vehicle. Indeed, the fact that the total charges exceeded the retail insurance premium of $33.55 by only $6.45 indicates, not only that there was a dealer's error, but that application of the rate chart to the relatively small base made inadequate provision for the retail insurance premium, in consequence of which a considerable portion of the provided finance charge was absorbed in order to make up the deficiency.

The transaction with the minimum finance charge percentage in the South Atlantic region, 6.46 percent, involved the sale, in the Atlanta area on April 19, 1938, of a used 1936 Studebaker sedan. The cash sale price of this used car was $580, of which $350 remained unpaid at the date of the transaction. The vending dealer was allowed a loss reserve of $12.25, which indicates no failure on his part to provide all the charges contemplated by the rate chart, including the usual flat charge pertaining to a used car. However, this finance company supplied its dealers with only one set of rate charts with which to determine the provision both for the finance charge and the retail insurance premium; application of such a chart to the relatively small base of $350 had the natural effect of making under provision for the insurance premium and of absorbing a part of the provided finance charge in order to make up the deficiency.

The transaction with the minimum finance charge percentage in the South Central region, 2.76 percent, involved the sale, in the Birmingham area on May 30, 1938, of a used 1937 Ford touring sedan. The cash sale price of this car was relatively large, $525; and the unpaid cash purchase price was $302. The dealer was allowed, as a loss reserve, $10, which indicates no failure on his part to provide the full charges. However, the amount of the insurance premium was $50.05, which is relatively large for a used car in the low-priced class and which indicates that a portion of the provided finance charge was consumed in making up a deficiency in the provided insurance premium.

The transaction with the maximum finance charge percentage, 46.09 percent, involved the sale in the Fort Worth area on June 10, 1938, of a used 1930 Model A Ford sedan. The cash sale price of this used car was only $160; and only $110 of this remained unpaid at the date of the transaction. Not only did the dealer include the usual flat charge of $7.50 in the finance charges but he made an addition to the regular finance charges amounting to $23.88. This addition and this flat charge when related to so small a base as $115, the total deferred cash purchase price of this car including the insurance premium, naturally resulted in a very large finance charge percentage.

The transaction with the maximum finance charge percentage in the South Atlantic region involved the sale, in the Atlanta territory on April 28, 1938, of a used 1933 Ford Fordor sedan. The cash sale price of this car was only $225; and, of this, only $104 remained unpaid at the date of the transaction. On this small base, the dealer was allowed a loss reserve of $10—indicating that he made no failure to provide the full amount of the finance charges including the usual flat charge. The premium for the insurance on this car was only $5.98, a fact that indicates that a portion of the provision for the insurance premium that was charged the purchaser inured to the benefit of the finance company. There was also an addition to the regular finance charges of $2 to cover notary and recording fees. These additions to the finance charges, when related to so small a base, naturally resulted in a large finance charge percentage, 30.93 percent.

The transaction with the maximum finance charge percentage in the North Central region involved the sale in the Minneapolis area on May 4, 1936, of a used 1928 Ford sedan. The cash sale price of this car was only $127; and, of this, only $100 remained unpaid at the date of the transaction. The vending dealer was allowed a loss reserve of $5. In addition thereto, the finance charges contained a provision and allowance to the vending dealer of $24 to compensate him for the risk of loss that he might sustain if he junked used cars taken in trade instead of reconditioning and reselling them. In relation to so small an unpaid cash purchase price, such amounts naturally resulted in a high finance charge percentage, 39.81 percent.

The transaction with the maximum finance charge percentage in the North Atlantic region involved the sale, in the Pittsburgh area on April 7, 1938, of a used 1935 Ford sedan. The cash sale price of this car was only $278, of which $185 remained unpaid at the date of the transaction. There was an addition of $2 to the regular finance charges to cover notary and recording fees. Normally, the loss reserve provided to the dealer on a transaction of this magnitude would have been not more than $10. However, this dealer was allowed a participation in the finance charges amounting to $46.15—indicating a dealer's "pack" of approximately $36. Including the insurance premium, the total deferred cash purchase price of this used car was only $191.61. Related to so small a base, the inclusion of this dealer's "pack" together with the usual flat charge applying to a used car naturally had the effect of a very large finance charge percentage, 34.65 percent.

Coming to the aggregate data for all 395 of these 12-month used-passenger-car transactions, it will be observed that the great bulk of these installment contracts was purchased by the finance companies under repurchase agreements with the vending dealers. This is evidenced by the fact that the loss reserves allowed these dealers aggregated $2,894.07 as compared with only $123.61 allowed them as bonuses. Certain vending dealers, not content with the regular participations in the regular finance charges, made additions to these charges aggregating $1,051.46, or 1.24 percent of the total deferred cash purchase prices of these used cars, including the insurance premiums. The regular participations averaged 3.54 percent.

The interest rates implied in the finance charges in these 395 transactions in which dealers sold used passenger cars on 12 months installments in 1936, 1937, and 1938 ranged from a low of 0.07 percent per month, or 0.82 percent per year, to a high of 6.38 percent per month, or 109.98 percent per year. The average for the entire sample was 2.27 percent per month, or 30.87 percent per annum. However, the reminder is pertinent that although the purchasers of these used cars on 12-month installments did the equivalent of paying interest at these rates on the unpaid balances of the cash purchase prices of their cars, including the insurance premiums, not all of this constituted net profit to the finance companies because of the participations in the finance charges that were paid to the vending dealers and because of the portions of the finance charges that were consumed in the operating expenses of the finance companies themselves; the average rates of net profit to these companies on the total capital employed in their business were 7.92 percent in 1936 and 6.47 percent in 1937.

The transactions in the two samples just discussed of used cars sold on 12-month installments in 1936, 1937, and 1938 were financed by factory-controlled and factory-preferred finance companies. Table 188 presents data with reference to 374 other such used-car sales on 12-month installments during the same period, these transactions being financed by independent finance companies.

TABLE 188.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentage of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for used passenger cars sold on 12-month installments by dealers in the United States and financed by independent finance companies in 1936, 1937, and 1938*

	Transaction with—		Total sample
	Minimum finance charge percentage	Maximum finance charge percentage	
Number of transactions	1	1	374
Cash purchase price of vehicle as delivered	$200.00	$125.00	$124,438.13
Retail insurance premium	38.10	6.84	4,623.20
Total cash purchase price of vehicle and insurance	238.10	131.84	129,061.33
Down payment, including allowance for used car traded in	71.25	40.00	51,407.35
Total deferred cash purchase price of vehicle and insurance	166.85	91.84	77,653.98
Finance charges:			
Finance company's provision for expenses and profit	1—7.53	18.56	10,164.65
Dealer's loss reserve	.76	30.00	1,188.01
Dealer's bonus			2,366.44
Dealer's addition to regular finance charge			341.99
Total finance charge	1—6.77	48.56	14,061.09
Face amount of purchaser's obligation, payable in equal monthly installments	160.08	140.40	91,715.07
Total time price of vehicle and insurance	231.33	180.40	143,122.42
Percentage to total deferred cash purchase price of:	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	1—4.51	20.21	13.10
Dealer's loss reserve	.45	32.66	1.53
Dealer's bonus			3.04
Dealer's addition to regular finance charge			.44
Total finance charge	1—4.06	52.87	18.11
Rate of interest implied in total finance charge:			
Per month	1—[illegible]	7.27	2.66
Equivalent annual rate (compounded monthly)	1—[illegible]	132.1[illegible]	37.[illegible]
Conventional annual rate (12 times monthly rate)	1—[illegible]	87.2[illegible]	31.92

1 Denotes negative quantity, percentage.

The finance charges in the 374, 12-month used-passenger-car installment contracts, data for which are presented in the above table, ranged from a negative 4.06 percent to a positive 52.87 percent of the total deferred cash purchase prices of these used vehicles, including insurance premiums; and they averaged 18.11 percent.

The transaction with the minimum finance charge percentage, a negative 4.06 percent, involved the sale, in the New York area on June 9, 1937, of a used 1931 Buick sedan. The cash sale price of this car was only $200; and, of this, only $128.75 remained unpaid at the date of the transaction. This installment contract was purchased by the finance company under a repurchase agreement with the vending dealer. However, the latter was allowed a participation in the finance charges, by way of loss reserve, amounting only to 76 cents. This fact indicates an error committed by the dealer in ascertaining the total charges to be added to the cash sale price of this used car. The fact that the premium for the insurance placed on this car was $38.10 as compared with total charges amounting only to $31.33, is further indication of an error. Thus, the purchaser of this used car obtained his car and the insurance protection on 12 months' time for $6.77 less than he would have had to pay if he had paid cash in full at the date of the transaction.

The transaction discussed in the preceding paragraph occurred in the North Atlantic region. The transaction with the minimum finance charge percentage in the North Central region involved the sale, in the Chicago area on May 7, 1938, of a used 1937 Chevrolet sedan. The cash sale price of this car was relatively large, $680; and the unpaid cash purchase price was $320. The finance company purchased this installment contract wholly without recourse to the vending dealer. Notwithstandnig the fact that this was a used-car transaction the dealer was allowed a bonus of only $4.90, or a little more than 1½ percent of the unpaid cash purchase price. Although this was a used car, the amount of the retail insurance premium was $31.60. The data obtained with reference to this transaction thus indicate that the dealer made an error in the form of under provision of charges and that a portion of the finance charges was absorbed in making up a deficiency in the provision for the retail-insurance premium—thus accounting for the relatively low finance charge of 5.26 percent.

The transaction with the minimum finance charge percentage in the South Atlantic region involved the sale, in the Richmond area on March 31, 1938, of a used 1937 Pontiac two-door touring sedan. The cash sale price of this vehicle also was relatively high, $750, and, of this, $500 remained unpaid at the date of the transaction. The finance company purchased this installment contract wholly without recourse to the vending dealer. The latter was allowed a bonus of $5, which was precisely 1 percent of the unpaid cash purchase price and indicates that the dealer omitted some portion of the flat charge that is customarily made in connection with the used-car transaction. So that the finance charges, although above the normal 6 percent, for a new-car transaction, amounted only to 7.37 percent of the total deferred cash purchase price of the car, including the insurance premium of $27.84.

The transaction with the minimum finance charge percentage in the South Central region involved the sale, in the Dallas area, on February 15, 1938, of a used 1936 Chevrolet Master coupe. The cash sale price of this car was $375, of which $300 remained unpaid at the date of the transaction. The finance company purchased this installment contract under a repurchase agreement with the vending dealer. The insurance on this car, if any, was not provided through the finance company. The fact that the vending dealer was allowed a loss reserve of only $5, or about one-half the normal minimum in a used-car sale, indicates omission of some portion of the normal charges. So that although the finance charges exceeded the normal 6 percent for a new-car transaction they amounted only to 8 percent of the total deferred cash purchase price of this used car.

Passing to the transactions with the maximum finance charge percentages, it will be observed that these transactions involve relatively small cash sales prices and small unpaid cash purchase prices. The transaction with the maximum finance-charge percentage, 52.87 percent, involved the sale, in the Pittsburgh area on May 18, 1936, of a used 1929 Chrysler sport roadster. The cash sale price of this used car was $125, of which $85 remained unpaid at the date of the transaction. This installment contract was purchased under a repurchase agreement with the vending dealer. Normally, the loss reserve allowed the dealer on an unpaid cash purchase price of only $85 would certainly not have been in excess of $10. This dealer, however, was allowed a loss reserve of $30. This fact indicates a large dealer's "pack" concealed in and masquerading as the loss reserve. So large an addition to the regular finance charges related to so small a base (the total deferred cash purchase price, including insurance premium, was only $91.84) naturally resulted in a very large finance-charge percentage.

The transaction discussed in the preceding paragraph occurred in the North Atlantic region. The transaction with the maximum finance charge percentage in the South Atlantic region involved the sale, in the Baltimore area on May 23, 1936, of a used 1931 Ford Tudor sedan. The cash sale price of this used car was only $185 and, of this, only $103 remained unpaid at the date of the transaction. This installment contract was purchased by the finance company under a repurchase agreement with the vending dealer. Again, the amount allowed the dealer as a loss reserve on so small a base would not normally have been in excess of $10. This dealer, however, was allowed a loss reserve of $24—indicating an extensive dealer's "pack" included in the regular finance charges. This pack helps to explain the very large finance-charge percentage, 46.74 percent.

The transaction with the maximum finance-charge percentage in the North Central region involved the sale, in the Chicago area on June 1, 1936, of a used model A Ford sedan. The cash sale price of this car was only $175 and, of this, only $115 remained unpaid at the date of the transaction. On this small base, the dealer was allowed a loss reserve of $20—indicating the presence in the total finance charges of a substantial dealer's "pack" and helping to explain a finance charge of 41 percent in connection with a 12-month transaction.

The transaction with the maximum finance-charge percentage in the South Central region involved the sale in the [illegible] area on [illegible] date of the transaction. This installment contract was purchased by the finance company wholly without recourse to the vending dealer in case of default by the car purchaser. However, in comparison with a normal bonus not in excess of $7.50, this dealer was allowed a participation in the finance charges amounting to $35—indicating the inclusion in the total finance charges of a substantial dealer's "pack." The natural result of such an addition to the finance charges, when related to so small a base, was a large finance-charge percentage, 33.23 percent.

Coming to the aggregate data for all 374 of these 12-month used passenger-car transactions, it will be observed that the great bulk of these installment contracts was purchased by the finance companies wholly without recourse to the vending dealers. This is evidenced by the fact that the bonuses allowed these dealers aggregated $2,366.44, as compared with only $1,188.01 allowed them as loss reserves. These participations by the dealers in the finance charges averaged 4.57 percent of the total deferred cash purchase prices of these used cars, including insurance premiums. As before intimated, a considerable portion of these bonuses and loss reserves consisted of dealers' "packs." In addition to these concealed "packs" dealers made other additions to the regular finance charges, aggregating $341.99, or nearly five-ninths of 1 percent of the total deferred cash purchase prices of all used cars in this sample.

The interest rates implied in the finance charges in these 374 12-month used-passenger-car transactions ranged from a negative 0.63 percent per month, or a negative 7.31 percent per year, to 7.27 percent per month, or 132.13 percent per year. The average for the entire sample was 2.66 percent per month, or 37.15 percent per annum. However, the reminder is due that, although the purchasers of these used passenger cars on 12-month installments did the equivalent of paying interest at these rates on the unpaid balances of the cash purchase prices of their vehicles, including the insurance premiums, not all of this constituted net profit to the finance companies for reasons stated previously: The average rates of net profit to these companies on the total capital employed in their business were 9.44 percent in 1936 and 7.86 percent in 1937.

In review of the three samples just discussed of used passenger cars sold on 12-month installments in the eastern half of the United States in 1936, 1937, and 1938, it will be observed that the finance charges in the transactions financed by the factory-controlled finance company averaged 12.84 percent of the total deferred cash purchase prices of these vehicles, including the insurance premiums; that the finance charges in the transactions financed by the factory-preferred finance companies averaged 15.34 percent; and that the like charges in the transactions financed by the independent finance companies averaged 18.11 percent. The interest rates implied in the finance charges in the first-mentioned group of transactions averaged 1.91 percent per month, or 25.34 percent per annum; the rates implied in the second-mentioned group averaged 2.27 percent per month, or 30.87 percent per annum; and the interest rates implied in the finance charges in the third-mentioned group of transactions averaged 2.66 percent per month, or 37.15 percent per annum.

Cost of purchasing used cars on 18-month installments, 1936–38.—The transactions in the three samples just discussed pertained to used cars that were sold on 12-month installments in the eastern half of the United States during 1936, 1937, and 1938. The present discussion deals with used cars sold in the same regions during the same period but on 18-month installments. Table 189 presents data with reference to 99 such transactions, which were financed by the factory-controlled finance company.

TABLE 189.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for used passenger cars sold on 18-month installments by dealers in the United States and financed by factory-controlled finance companies in 1936, 1937, and 1938*

	Transaction with—		Total sample
	Minimum finance charge percentage	Maximum finance charge percentage	
Number of transactions	1	1	99
Cash purchase price of vehicle as delivered	$1,178.35	$285.00	$59,764.05
Retail insurance premium	56.15	23.25	2,676.66
Total cash purchase price of vehicle and insurance	1,234.50	308.25	62,440.71
Down payment, including allowance for used car traded in	393.50	95.00	21,935.81
Total deferred cash purchase price of vehicle and insurance	841.00	213.25	40,504.90
Finance charges:			
Finance company's provision for expenses and profit	62.58	31.15	3,923.18
Dealer's loss reserve	15.14	13.34	1,265.46
Dealer's bonus			
Dealer's addition to regular finance charge		3.80	199.15
Total finance charge	77.72	48.29	5,387.79
Face amount of purchaser's obligation, payable in equal monthly installments	918.72	261.54	45,892.69
Total time price of vehicle and insurance	1,312.22	356.54	67,828.50
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	7.44	14.61	9.69
Dealer's loss reserve	1.80	6.25	3.12
Dealer's bonus			
Dealer's addition to regular finance charge		1.78	.49
Total finance charge	9.24	22.64	13.30
Rate of interest implied in total finance charge:			
Per month	.95	2.24	1.35
Equivalent annual rate (compounded monthly)	11.98	30.50	17.47
Conventional annual rate (12 times monthly rate)	11.40	26.88	16.20

The finance charges in the 99 transactions in used cars sold on 18-month installments, data for which are presented in the above table, ranged from 9.24 to 22.64 percent of the total deferred cash purchase prices of these used vehicles, including the insurance premiums, and they averaged 13.30 percent. If these had been new cars, these finance-charge percentages would have been comparable with the normal 9 percent for 18-month installment contracts under the 6-percent plan. However, as explained above, it is customary to include in the finance charges in a used-car transaction a flat charge per car in addition to the regular percentages that are applied in the case of a new car. In consequence, the finance charges in 18-month used-car transactions are normally in excess of 9 percent; and the amount of the excess depends to a very large extent upon the magnitude of the unpaid cash purchase price of the car, being relatively small when the unpaid cash purchase price is relatively large, and being relatively large when the unpaid cash purchase price is relatively small.

The transaction with the minimum finance charge percentage, 9.24 percent, involved the sale, in the Jacksonville area on May 4, 1938, of a 1938 Pontiac four-door touring sedan that had been used as a salesmen's demonstrator. The cash sale price of this demonstrator was $1,178.35, of which $784.85 remained unpaid at the date of the transaction. The installment contract was purchased by the finance company under a repurchase agreement with the vending dealer. The loss reserve allowed the dealer, $15.14, was $2.30 more than the normal loss reserve on the same balance for a new car, indicating that the dealer had included a flat charge in the finance charges. However, related to a total deferred cash purchase price of such magnitude as $841, the flat charge constituted only a small percentage.

The transaction discussed in the preceding paragraph occurred in the South Atlantic region. The transaction with the minimum finance charge percentage in the North Central region involved the sale of a used 1936 Chevrolet standard sedan in the Indianapolis area on May 6, 1937. The cash sale price of this used car was $495, of which $330 remained unpaid at the date of the transaction. The insurance premium brought the total deferred cash purchase price up to $361.50. The dealer was allowed a loss reserve, under a repurchase agreement, of only $4.95, which was even less than the normal 2 percent of the unpaid cash purchase price for a new car, indicating the absence of the usual flat charge or of some portion of it. Just why the finance charge percentage should have been 10.99 percent instead of falling below 9 percent does not appear on the surface of the data.

The transaction with the minimum finance charge percentage in the North Atlantic region was the sale, in the Boston area on April 13, 1936, of a used 1935 Oldsmobile sedan. The cash sale price of this car was $815, and the unpaid cash purchase price at the date of the transaction was $520. The insurance premium brought the total deferred cash purchase price up to $540, a relatively large base. This installment contract, also, was purchased by the finance company under a repurchase agreement with the vending dealer. The loss reserve allowed this dealer, $7.60, was considerably less than the normal 2 percent of an unpaid cash purchase price of this magnitude in a new-car transaction, again indicating the omission of a part or all of the usual flat charge. The fact that the finance company's finance charge differential, $56.70, was itself more than 10 percent of the total deferred cash purchase price of this used car indicates that the insurance provision made by application of the "territorial charges" chart exceeded the actual amount of the insurance premium and helps to explain why the finance charge percentage, 11.61 percent, was above the normal 9 percent for an 18-month new-car transaction.

The transaction with the minimum finance charge percentage in the North Central region was the sale of a used 1936 Pontiac two-door sedan in the Minneapolis area on May 9, 1936. The cash sale price of this car was $560, and the unpaid cash purchase price was only $210. This installment contract was purchased under a repurchase agreement with the vending dealer, but the loss reserve allowed the latter, $3.15, was precisely 1½ percent of the unpaid cash purchase price, or below the normal 2 percent for a new-car transaction. This again indicates the omission of the usual flat charge from the finance charges; and, again, the explanation of why the finance charge percentage was 11.77 percent instead of being under 9 percent seems to lie in the excess of the insurance provision over the actual insurance premium: the finance charge differential, $24.97, was itself in excess of 10 percent of the total deferred cash purchase price of $239.

The foregoing discussion relates to transactions with the minimum finance charge percentages in the respective regions. The transaction with the maximum finance charge percentage, 22.64 percent, involved the sale, in the Kansas City area on April 2, 1938, of a used 1933 Oldsmobile sedan. The cash sale price of this vehicle was only $285, of which only $190 remained unpaid at the date of the transaction. This installment contract was purchased by the finance company under a repurchase agreement with the vending dealer, and the latter was allowed a loss reserve of $13.34, indicating the inclusion of the full flat charge in the finance charges. Furthermore, the dealer added $3.80 to the regular charges, possibly for local fees paid by him and included in the time price of the car, and he received this amount, together with the unpaid cash purchase price, in the check from the finance company. The inclusion of the flat charge and of this extra charge, when related to a total deferred cash purchase price of only $213.25, naturally resulted in a large finance charge percentage.

The transaction with the maximum finance charge percentage in the North Atlantic region involved the sale, in the New York area on May 11, 1937, of a used 1934 Chevrolet sport sedan. The cash sale price of this car was only $375, and the unpaid cash purchase price at the date of the transaction was only $188. The insurance premium brought the total deferred cash purchase price up to $213.50. This installment contract, also, was purchased by the finance company under a repurchase agreement with the vending dealer. The latter was allowed a loss reserve of $13.17, which indicates the inclusion in the finance charges of the full flat charge. There was also a recording fee of $1.25. These charges, when related to so small a base, naturally resulted in a relatively large finance charge percentage, 21.15 percent.

The transaction with the maximum finance charge percentage in the South Atlantic region involved the sale, in the Baltimore area on June 12, 1937, of a used 1931 Cadillac seven-passenger sedan. The cash sale price of this used car was only $275, of which only $180 remained unpaid at the date of the transaction. The fact that the vending dealer, under a repurchase agreement, was allowed a loss reserve of $12.71 indicates inclusion in the finance charges of the full flat charge. There was also a recording fee of $1. Including the insurance premium, the total deferred cash purchase price of this car was $200. Related to so small a base these charges naturally resulted in a relatively large finance charge percentage, 21.68 percent.

The transaction with the maximum finance charge percentage in the South Central region involved the sale, in the New Orleans area on December 19, 1936, of a used 1934 Oldsmobile touring sedan, the cash sale price of which was $550, and the unpaid cash purchase price of which was $350. Again, the fact that the vending dealer, under a repurchase agreement, was allowed a loss reserve of $10.62, indicates the inclusion of at least a portion of the usual flat charge. The dealer also added $4 to the finance charges as otherwise constituted and received this amount, together with the unpaid cash purchase price, in the check from the finance company. Including the insurance premium, the total deferred cash purchase price of this car was $377. Related to this base these charges naturally resulted in a relatively high finance charge percentage, 17.79 percent.

Referring to the aggregate data for the entire sample, it will be observed that all 99 of these installment contracts were purchased by the finance company under repurchase agreements with the vending dealers, as is evidenced by the fact that no bonuses were allowed these dealers but that the loss reserves allowed them aggregated $1,265.46. These participations by the dealers in the finance charges averaged 3.12 percent of the total deferred cash purchase prices of these used cars, including the insurance premiums. It will be observed that this percentage is much higher than the average for new-car transactions of the same duration.

The interest rates implied in the finance charges in these 99 transactions in used passenger cars sold on 18 months' installments during 1936, 1937, and 1938 ranged from a low of 0.95 percent per month, or 11.98 percent per year, to a high of 2.24 percent per month or 30.5 percent per year. The average for the entire sample was 1.35 percent per month, or 17.47 percent per year. It will be observed, in comparing these interest rates with the like interest rates pertaining to transactions in new cars that were sold on 18 months' installments, that these rates are much higher; indeed, the rate in the transaction with the minimum finance charge percentage was of about the same magnitude as the average rate for new-car transactions financed by the same finance company. However, the reminder is pertinent that, although the purchasers of these used cars on 18 months' installments did the equivalent of paying interest at these rates on the unpaid balances of the cash purchase prices of their vehicles, including the insurance premiums, not all of this constituted net profit to the finance company for reasons stated previously; the rate of net profit to this company on the total capital employed in its business was 5.65 percent in 1936 and 5.56 percent in 1937.

The transactions in the sample just discussed with reference to used passenger cars sold on 18 months' installments during 1936, 1937, and 1938 were financed by the factory-controlled finance company. Table 190 presents data with reference to 485 other such transactions during the same period, which, however, were financed by factory-preferred finance companies.

The finance charges in the 485 18-month used-car transactions, data for which are presented in table 190, ranged from 7.14 to 40 percent of the total deferred cash purchase prices of these used vehicles, including the insurance premiums, and they averaged 17.38 percent.

TABLE 190.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied in finance charges for used passenger cars sold on 18 months' installments by dealers in the United States and financed by factory-preferred finance companies in 1936, 1937, and 1938*

	Transaction with—		Total sample
	Minimum finance charge percentage	Maximum finance charge percentage	
Number of transactions	1	1	485
Cash purchase price of vehicle as delivered	$750.00	$537.00	$257,618.66
Retail insurance premium	69.85		12,945.10
Total cash purchase price of vehicle and insurance	819.85	537.00	270,563.76
Down payment, including allowance for used car traded in	250.00	357.00	96,514.20
Total deferred cash purchase price of vehicle and insurance	569.85	180.00	174,049.56
Finance charges:			
Finance company's provision for expenses and profit	27.21	20.16	23,843.38
Dealer's loss reserve			4,282.72
Dealer's bonus			167.40
Dealer's addition to regular finance charge	13.50	51.84	1,961.61
Total finance charge	40.71	72.00	30,255.11
Face amount of purchaser's obligation, payable in equal monthly installments	610.56	252.00	204,305.27
Total time price of vehicle and insurance	860.56	609.00	300,818.87
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	4.77	11.20	13.70
Dealer's loss reserve			2.46
Dealer's bonus			.10
Dealer's additions to regular finance charge	2.37	28.80	1.12
Total finance charge	7.14	40.00	17.38
Rate of interest implied in total finance charge:			
Per month	.74	3.81	1.74
Equivalent annual rate (compounded monthly)	9.21	56.63	22.99
Conventional annual rate (12 times monthly rate)	8.88	45.72	20.88

The transaction with the minimum finance charge percentage, 7.14 percent, involved the sale, in the Birmingham area of June 28, 1938, of a used 1938 Plymouth 4-door sedan. The cash sale price was $750, and the unpaid cash purchase price at the date of the transaction was $500. The insurance premium brought the total deferred cash purchase price up to $569.85. The vending dealer, under a repurchase agreement, was allowed a loss reserve of $17, which indicates that he included at least a part of the flat charge. However, he made an error of $3.50 and suffered the consequence in the amount of the check from the finance company. An insurance premium of $69.85 on a used Plymouth seems very large; and it indicates that a considerable portion of the finance charge provided by application of the rate chart was absorbed in order to make up a deficiency in the insurance provision—thus accounting for the relatively low rate of finance charge.

The transaction discussed in the preceding paragraph occurred in the south central region. The transaction with the minimum finance charge percentage in the north Atlantic region involved the sale, in the Pittsburgh area on May 9, 1938, of a used 1937 Chrysler 4-door touring standard sedan. The cash sale price of this car was $805;

and the unpaid cash purchase price at the date of the transaction was $440. The insurance premium brought the total deferred cash purchase price up to $497.88, a relatively large amount for a used car. The finance company purchased this installment contract under a repurchase agreement with the dealer. The fact that the latter was allowed a loss reserve of $15.80 indicates that the dealer included the full flat charge in the finance charges. However, the insurance premium of $57.88 appears large for a used car and indicates that a portion of the provided finance charges was absorbed in making up a deficiency in the amount provided for the insurance premium, thus resulting, when related to so large a base, in a relatively low finance charge percentage, 7.99 percent.

The transaction with the minimum finance charge percentage in the North Central region involved the sale, in the Kansas City area on January 22, 1937, of a used 1937 Chrysler sedan. The cash sale price of this car was $1,055; and $684.82 of this remained unpaid at the date of the transaction. The vending dealer, under a repurchase agreement, was allowed a loss reserve of $11.84, which was precisely the amount of the normal reserve in a new-car transaction with an unpaid cash purchase price of the above-stated amount—indicating that the dealer did not include the usual flat charge in the finance charges. Furthermore, a small portion of the finance charges that were provided was consumed, apparently, in making up a deficiency in the amount provided for the insurance premium. In consequence of all this, the finance charge percentage, instead of being in excess of 9 percent, was only 8.94 percent.

The transaction with the minimum finance charge percentage in the North Central region was the sale in the St. Louis area on April 18, 1938, of a used 1936 Graham coach. The cash sale price of this car was $450, of which $300 remained unpaid at the date of the transaction. The insurance on this car, if any, was not placed through the finance company. Although the finance company purchased this installment contract under a repurchase agreement with the vending dealer, the latter was allowed no loss reserve or participation of any kind, indicating that the dealer gave the purchaser of this car the benefit of his entire portion of the finance charges. In consequence, the finance charge percentage was only 9 percent.

The discussion in the preceding four paragraphs referred to the transactions with the minimum finance charge percentages in the respective regions. The transaction with the maximum finance charge percentage, 40 percent, involved the sale, in the Providence area on December 31, 1936, of a used 1936 Ford coach. The cash sale price of this car was $537, of which only $180 remained unpaid at the date of the transaction. The insurance on this car, if any, was not placed through the finance company. However, the vending dealer participated in the finance charges to the extent of $51.84 and received this amount together with the unpaid cash purchase price in the check from the finance company. This amount evidences a very large dealer's "pack" included in these finance charges; and, related to so small a base as $180, the natural result was a very large finance charge percentage.

The transaction discussed in the preceding paragraph occurred in the North Atlantic region. The transaction with the maximum finance charge percentage in the North Central region involved the sale, in the Cleveland area on April 24, 1936, of a used 1933 Dodge 4-door sedan. The cash sale price was $461.75; and the unpaid cash purchase price at the date of the transaction was $300. The insurance premium of only $4.80 brought the total deferred cash purchase price up to $304.80. The finance company purchased this installment contract under a repurchase agreement with the vending dealer. The amount purporting to be the loss reserve allowed the dealer was $46.50 instead of not more than $10 on an unpaid cash purchase price of $300. This evidences a large dealer's "pack" included in the finance charges, in addition to the usual flat charge. The finance company's finance charge differential of $58.20 was itself approximately 19 percent of the total deferred cash purchase price of this used car, indicating either that the finance company participated in the dealer's "pack" or that the provision for the insurance premium greatly exceeded the actual premium for the actual coverage placed on the car. The result of all this was a finance charge of 34.35 percent.

The transaction with the maximum finance charge percentage in the South Atlantic region involved the sale, in the Baltimore area on May 24, 1937, of a used 1934 Ford De Luxe coupe. The cash sale price was only $300; and the unpaid cash purchase price at the date of the transaction was only $225. On this basis, the vending dealer was allowed a loss reserve of $13.50, which indicates that the full flat charge was included in the finance charges. A further $10 was included in the finance charges and allowed the dealer as compensation for the risk of loss that he might sustain in junking antiquated and dilapidated used cars taken in trade rather than reconditioning and reselling them. There were also notary and recording fees amounting to $2. The total deferred cash purchase price of this used car, including the insurance premium was only $243. In relation to this relatively small base, the charges spoken of naturally resulted in a large finance charge percentage, 33.33 percent.

The transaction with the maximum finance charge percentage in the South Central region involved the sale, in the Dallas area on May 14, 1938, of a used 1936 Chevrolet 2-door sedan. The cash sale price was $440, of which $268 remained unpaid at the date of the transaction. The vending dealer, under a repurchase agreement, was allowed a loss reserve of $12.36, which was $7 plus 2 percent of the unpaid cash purchase price. Not content with this participation in the finance charges, this dealer added $29.25 to the regular charges. The total deferred cash purchase price of this used car, including the insurance premium, was only $291.25. Related to so small a base, the flat charge of $7 and the dealer's "pack" of $29.25 naturally resulted in a large rate of finance charge, 29.79 percent.

Referring to the aggregate data for the entire sample, it will be observed that the great majority of these 485 installment contracts was purchased by the finance companies under repurchase agreements with the vending dealers. This is evidenced by the fact that the loss reserves allowed these dealers aggregated $4,282.72 as compared with only $167.40 allowed them as bonuses. These participations by the dealers in the finance charges averaged 2.46 percent of the total deferred cash purchase prices of these used cars, including the insurance premiums. Certain dealers, not content with the regular participations in the regular finance charges, made additions to these charges aggregating $1,961.61, or 1.12 percent of the total deferred cash purchase prices of all used cars in this sample.

The interest rates implied in the finance charges in these 485 transactions in which dealers sold used cars on 18-month installments during 1936, 1937, and 1938, ranged from a low of 0.74 percent per month, or 9.21 percent per year, to a high of 3.81 percent per month or 56.63 percent per year. The average for the entire sample was 1.74 percent per month, or 22.99 percent per annum. However, the usual reminder is again due that, while the purchasers of these passenger cars on 18-month installments did the equivalent of paying interest at these rates on the unpaid balances of the cash purchase prices of their vehicles, including the insurance premiums, not all of this constituted net profit to the finance companies for reasons already stated: The average rates of net profit to these companies on the total capital employed in their business were 7.92 percent in 1936 and 6.47 percent in 1937.

The transactions in the two samples just discussed of used passenger cars sold on 18-month installments in 1936, 1937, and 1938 were financed by factory-controlled and factory-preferred finance companies. Table 191 presents data with reference to 341 other such transactions, which, however, were financed by independent finance companies.

TABLE 191.—*Cash purchase prices, retail insurance premiums, down payments, total deferred cash purchase prices, finance charges, total time prices, amounts of installment notes, percentages of finance charges to deferred cash purchase price, and rates of interest implied n finance charges for used passenger cars sold on 18-month installments by dealers in the United States and financed by independent finance companies in 1936, 1937, and 1938*

	Transaction with—		Total sample
	Minimum finance charge percentage	Maximum finance charge percentage	
Number of transactions	1	1	341
Cash purchase price of vehicle as delivered	$422.50	$405.00	$180,601.12
Retail insurance premium	62.19	7.77	8,410.14
Total cash purchase price of vehicle and insurance	484.69	412.77	189,011.26
Down payment, including allowance for used car traded in	142.75	220.00	65,535.72
Total deferred cash purchase price of vehicle and insurance	341.94	192.77	123,475.54
Finance charges:			
Finance company's provision for expenses and profit	6.18	70.50	20,243.63
Dealer's loss reserve	3.24	76.57	911.13
Dealer's bonus			2,893.85
Dealer's addition to regular finance charge			591.17
Total finance charge	9.42	147.07	24,639.78
Face amount of purchaser's obligation, payable in equal monthly installments	351.36	559.84	148,115.32
Total time price of vehicle and insurance	494.11	339.84	213,651.04
Percentage to total deferred cash purchase price of—	*Percent*	*Percent*	*Percent*
Finance company's provision for expense and profit	1.80	36.57	16.39
Dealer's loss reserve	.95	39.72	.74
Dealer's bonus	0	0	2.34
Dealer's addition to regular finance charge	0	0	.48
Total finance charge	2.75	76.29	19.95
Rate of interest implied in total finance charge:			
Per month	.29	6.79	1.99
Eqivalent annual rate (compounded monthly)	3.52	120.06	26.68
Conventional annual rate (12 times monthly rate)	3.48	81.48	23.88

The finance charges in the 341, 18-month used-passenger-car transactions, data for which are presented in the above table, ranged from 2.75 to 76.29 percent of the total deferred cash purchase prices of these used vehicles, including the insurance premiums; and they averaged 19.95 percent.

The transaction with the minimum finance charge percentage, 2.75 percent, involved the sale in the New York area on April 30, 1937, of a used 1933 Buick victoria. The cash sale price was $422.50, and the unpaid cash purchase price at the date of the transaction was $279.75. The insurance premium brought the total deferred cash purchase price up to $341.94. The vending dealer, under a repurchase agreement, was allowed a loss reserve of only $3.24, or considerably less than the amount of the loss reserve in a new-car transaction with the same unpaid cash purchase price. This indicates an error by the dealer. Furthermore, an insurance premium of $62.19 on a used car with such a low cash purchase price is very unusual and indicates that a portion of the finance charges that were provided by application of the rate chart was consumed in making up a deficiency in the insurance premium. This explains why the finance charge percentage was so abnormally low.

The transaction discussed in the preceding paragraph occurred in the North Atlantic region. The transaction with the minimum finance charge percentage in the North Central region involved the sale, in the Milwaukee area on May 6, 1937, of a used 1936 Buick sedan. The cash sale price was $1,092, of which $500 remained unpaid at the date of the transaction. The insurance premium brought the total deferred cash purchase price up to $563.95. The finance company purchased this installment contract under a repurchase agreement. The vending dealer not only participated in the regular finance charges to the extent of $10 but he also packed the finance charges to the extent of $10 and received this amount, together with the unpaid cash purchase price in the check from the finance company. In view of these participations by the dealer, the question naturally arises as to why the finance charges amounted only to 7.88 percent of the total deferred cash purchase price. The only answer appearing on the surface of the data is that the insurance premium of $63.95 was considerably larger than the amount provided in the rate charts and absorbed a corresponding portion of the provided finance charges.

The transaction with the minimum finance charge percentage in the South Central region involved the sale, in the Dallas area on July 14, 1938, of a used 1937 Buick 2-door sedan. The cash sale price was $1,014.04, of which only $400 remained unpaid at the date of the transaction. Inasmuch as the insurance on this car, if any, was not provided through the finance company, this also was the total deferred cash purchase price of the vehicle. Although the finance company purchased this installment contract under a repurchase agreement with the vending dealer, the latter was allowed no participation whatsoever in the finance charges. This indicates that the dealer not only omitted the customary flat charge but also a portion of the finance charges that are determined by application of the normal percentages. In consequence, the finance charges in this transaction amounted to 8.99 percent of the total deferred cash purchase price of this used car.

The transaction with the minimum finance charge percentage in the South Atlantic region involved the sale, in the Richmond area on May 10, 1937, of a used 1936 Ford Tudor sedan. The cash sale price was $485, of which $336.40 remained unpaid at the date of the transaction. The insurance premium brought the total deferred cash purchase price up to $364.84. The finance company purchased this installment contract wholly without recourse to the vending dealer. The latter was allowed a bonus of $5.04, which was precisely 1½ percent of the unpaid cash purchase price. There is nothing on the surface of the data obtained with reference to this transaction that offers explanation as to why the finance charges should have been relatively low. However, not much explanation is needed, inasmuch as the finance charge percentage was 13.43 percent, or 4.43 points percent greater than the normal 9 percent for new-car transactions on 18-month installments.

Poor Tony.—The preceding four paragraphs were devoted to discussion of transactions with minimum finance charge percentages. The transaction with the maximum finance charge percentage, 76.29 percent, involved the sale in the Chicago area on April 5, 1936, of a used 1933 Dodge sedan. Automobile distributors all over the eastern half of the United States have complained bitterly about the excessive allowances that keen competition compels them to make on used cars offered in trade. They aver they are not really in the business of selling new cars but in the business of bidding against each other in the purchase of used cars. Many of these dealers, feeling the sting of the gross overallowances that they have made on used cars for the purpose of clinching the sale of a car in which the customer is interested, feel a strong temptation to attempt to recover the over-allowance by inserting an extra amount into the finance charges.

Tony is an Italian tailor who owned a car of that ancient vintage and dilapidated condition that, in the vernacular of the trade, is characterized as a "jallopy." The time came, in 1936, when Tony decided that he needed a better car; and he proceeded to shop around in order to find a bargain in a good used car and, incidentally, in order to dispose of his old car at a bargain to himself. The dealer who persuaded Tony to purchase a reconditioned 1933 Dodge sedan allowed him $70 for his "jallopy" and took Tony's check for $150, making a total down payment of $220 on a used car, the cash sale price of which was $405. This left an unpaid cash purchase price at the date of the transaction of $185. The insurance premium of $7.77 brought the total deferred cash purchase price up to $192.77. On this base, the dealer succeeded in imposing finance charges aggregating $147.07 for an 18-month transaction. Tony, as he drove away behind the wheel of his newly acquired reconditioned car, may have felt happy in the thought of the splendid allowance that he had received for his "jallopy." It is wondered, however, whether Tony would have been so jubilant if he had known that the dealer's share in the finance charges imposed upon him amounted to $76.57, or $6.57 more than Tony was allowed for his "jallopy." If $70 was the fair value of Tony's old car, which assumption is probably unwarranted, the interest rate implied in the finance charges imposed upon Tony was 6.79 percent per month, or 120.06 percent per annum.

The transaction discussed in the preceding paragraph occurred in the North Central region. The transaction with the maximum finance charge percentage in the South Atlantic region involved the sale, in the Baltimore area on May 31, 1938, of a used 1938 Ford Tudor sedan.

The cash sale price was only $278, and of this, only $185 remained unpaid at the date of the transaction. The finance company purchased this installment contract under a repurchase agreement with the vending dealer. On this small base, the latter was allowed a loss reserve of $11.35, which indicates no omission on the part of this vending dealer to impose the full amount of finance charges expected. There was also a recording fee of $1.25. The premium for the insurance placed on this used car was only $4.30 and brought the total deferred cash purchase price to $189.30. The finance company's finance charge differential of $67.10, was itself considerably more than 30 percent of the total deferred cash purchase price and indicates either that the total charges included a much larger provision for the insurance premium or that the finance company split a large "pack" with the vending dealer, probably the former. The aggregate finance charges amounted to 42.10 percent of the total deferred cash purchase price of this used car.

The transaction with the maximum finance charge percentage in the South Central region involved the sale, in the New Orleans area on April 29, 1936, of a used 1934 Ford coach. The cash sale price of this car was only $465; and the unpaid cash purchase price at the date of the transaction was only $325. The insurance premium brought the total deferred cash purchase price to $337.79. On this relatively small base, the dealer succeeded in imposing finance charges aggregating $126.75 for an 18-month transaction, or 37.52 percent. The finance company purchased the installment contract under a repurchase agreement, pursuant to which the dealer was allowed a loss reserve of $12. The dealer was not content with this, but added another $12.50. There were notary and recording fees amounting to $2.50. The finance company's finance charge differential, $99.75, was itself nearly 30 percent of the total deferred cash purchase price of this used car. The victim of this transaction did the equivalent of paying interest at the rate of 3.59 percent per month, or 52.75 percent per annum, on the unpaid balance of the cash purchase price of his car, including the insurance premium.

The transaction with the maximum finance charge percentage in the North Atlantic region involved the sale, in the Philadelphia area on April 14, 1937, of a used 1934 Oldsmobile coupe. The cash sale price of this car was $450, of which $290 remained unpaid at the date of the transaction. The insurance premium brought the total deferred cash purchase price up to $305.21. On this base, the vending dealer succeeded in imposing finance charges aggregating $101.23, or 33.17 percent. The finance company purchased this installment contract wholly without recourse to the vending dealer, but allowed him a bonus of $11.70. The finance company's own finance charge differential amounted to $89.53, or approximately 23 percent of the total cash purchase price of this used car. This victim did the equivalent of paying interest at the rate of 3.21 percent per month, or 46.04 percent per annum on the total deferred cash purchase price of his used vehicle.

Referring to the aggregate data for the entire sample, it will be observed that the great bulk of these 341 installment contracts was purchased by the finance companies wholly without recourse to the vending dealers. This is evidenced by the fact that the bonuses allowed these dealers aggregated $2,893.85 as compared with only

$911.13 allowed them as loss reserves. These participations by the dealers in the finance charges averaged 3.08 percent of the total deferred cash purchase prices of these used cars, including the insurance premiums. As before intimated, a considerable portion of these participations consisted of dealers' "packs" that were concealed in amounts purporting to be bonuses. Certain vending dealers made other additions to the regular finance charges aggregating $591.17, or nearly one-half of 1 percent of the total deferred cash purchase prices of all used cars included in this sample.

The interest rates implied in the finance charges in these 341 transactions in which dealers sold used passenger cars on 18-month installments during 1936, 1937, and 1938 ranged from a low of 0.29 percent per month, or 3.52 percent per annum, to a high of 6.79 percent per month, or 120.06 percent per annum. The average for the entire sample was 1.99 percent per month, or 26.68 percent per annum. However, the usual reminder is again due that, although the purchasers of these used passenger cars on 18-month installments did the equivalent of paying interest at these rates on the total deferred cash purchase prices of their vehicles, including the insurance premiums, not all of this constituted profit to the finance companies, partly because of the participations in the finance charges that were paid to the vending dealers and partly because of the portions of these charges that were consumed by the operating expenses of the finance companies themselves. The average rates of net profit to these companies on the total capital employed in their business were 9.44 percent in 1936 and 7.86 percent in 1937.

In review of the three samples just discussed in which dealers in the eastern half of the United States sold used passenger cars on 18-month installments during 1936, 1937, and 1938, it will be observed that the finance charges in the transactions financed by the factory-controlled finance company averaged 13.30 percent of the total deferred cash purchase prices of these used vehicles, including the insurance premiums; that the like charges in the transactions financed by the factory-preferred finance companies averaged 17.38 percent; and that the like charges in the transactions financed by the independent finance companies averaged 19.95 percent. The interest rates implied in the finance charges in the first-mentioned group of transactions averaged 1.35 percent per month, or 17.47 percent per annum; the rates implied in the second-mentioned group averaged 1.74 percent per month, or 22.99 percent per annum; and the interest rates implied in the finance charges in the third-mentioned group of transactions averaged 1.99 percent per month, or 26.68 percent per annum. These rates of finance charge and of interest averaged much higher than the corresponding rates in new-car transactions.

Section 8. Importance of Exercising Care With Reference to Insurance Provided on Automobiles Purchased on Time

Introduction.—It was pointed out in previous chapters that the insurance on motor vehicles sold on deferred payments is an important phase of the financing of installment sales of these vehicles. From the finance company's point of view, this is important for two reasons. In the first place, the automobile itself constitutes the specific security to the finance company for the payment of the car purchaser's installment obligation; and it is important to the finance company that this security be preserved against loss by theft or through destruction by fire, collision, or upset or through partial destruction through other accidental injury. Consequently, the finance companies have insisted that the motor vehicles represented in installment contracts purchased by them should be insured against loss from these causes, the indemnities under the insurance contract usually being made payable to the car purchaser, the finance company, or the vending dealer, according to interest. In the second place, the insurance phase is important to the finance companies because of the fact that the insurance on the great bulk of motor vehicles financed by them is placed by the finance company, and the latter receives, or retains, a substantial proportion of the retail insurance premium as an agent for the insurance company.

The insurance phase is also important to the car purchaser for the reason that he is interested in the character of the protection provided to him, and particularly in the question as to whether he has been provided with all of the protection for which he has been charged and for which he pays in the process of paying his installment obligation. In the course of this investigation, attention of the Commission's examiners has been called to instances in which a car purchaser has paid for collision and upset insurance and believed that he was so protected, only to discover after sustaining a loss through such accident that he was not protected.

Not all of the finance companies find it easy to conduct their business so that it will be profitable; and there is at least one finance company that has yielded to the temptation to furnish the car purchasers with less insurance protection than that for which they were charged.

Illustration of frauds perpetrated by a certain finance company.—The finance company referred to in the preceding paragraph was not satisfied with the margins contained in its share of the finance charges and with its commissions out of the retail premiums on the insurance placed by it with the insurance company. In order to enlarge its share of the retail premiums, it made arrangements with the insurance company whereby the latter created a special policy with unusually severe restrictive terms, so that the car purchaser was actually provided with considerably less protection than that provided by the normal insurance policy on the basis of which the so-called "conference premiums" were charged. The retail premiums on these special policies were also considerably less than the conference premiums. Nevertheless, through the medium of the rate charts furnished by this finance company to the dealers who financed with it, the car purchasers were charged the full conference premiums. The finance company pocketed the difference between the conference premiums charged to and collected from the car purchasers on the one side and, on the other side, the retail premiums on the basis of which it settled with the insurance company for the actual protection provided; and it also retained out of the latter premiums the commissions allowed by the insurance company.

Table 192 presents certain data with reference to 58 installment contracts financed by this finance company in 1937 and 1938.

TABLE 192.—*A sample of frauds perpetrated by a certain finance company upon car purchasers by providing them with less insurance than that for which it charged them, 1937 and 1938*

Transaction No.	Cash price of vehicle	Actual retail premium for insurance protection actually provided	Premium charged purchaser for normal protection	Amount of fraud	Percent of fraud to premium charged	Actual cash price of car and insurance provided	Percent of fraud to cash price
1937							
1	$1,245.00	$22.60	$28.10	$5.50	19.57	$1,267.60	0.43
2	1,033.50	49.85	74.95	25.10	33.49	1,083.35	2.32
3	1,075.95	40.31	74.95	34.64	46.22	1,116.26	3.10
4	787.50	24.83	40.72	15.89	39.02	812.33	1.96
5	1,037.00	21.16	38.70	17.54	45.32	1,058.16	1.66
6	818.00	32.25	49.35	17.10	34.65	850.25	2.01
7	785.00	14.06	34.18	20.12	58.86	799.06	2.52
8	1,695.00	65.20	95.10	29.90	31.44	1,760.20	1.70
9	818.50	32.25	48.35	16.10	33.30	850.75	8.89
10	1,148.24	84.11	84.11	------	------	1,232.35	------
11	2,412.28	57.40	107.00	49.60	46.36	2,469.68	2.01
12	1,082.00	18.64	34.40	15.76	45.81	1,100.64	1.43
13	295.00	14.00	17.00	3.00	17.65	309.00	.97
14	723.66	17.45	18.55	1.10	5.93	741.11	.15
15	165.00	3.00	9.75	6.75	69.23	168.00	4.02
16	1,285.00	21.70	23.60	1.90	8.05	1,306.70	.14
17	802.66	19.35	26.45	7.10	26.84	822.01	.86
18	610.42	17.45	18.55	1.10	5.93	627.87	.17
19	763.22	19.35	23.45	4.10	17.48	782.57	.52
20	1,015.00	21.50	22.60	1.10	4.87	1,036.50	.11
21	1,287.00	21.39	26.60	5.21	19.59	1,308.39	.40
22	1,070.00	18.70	23.60	4.90	20.76	1,088.70	.45
23	651.40	24.90	28.00	3.10	11.07	676.30	.46
24	651.87	17.45	18.55	1.10	5.93	669.32	.16
25	612.54	17.45	18.55	1.10	5.93	629.99	.17
26	1,261.63	62.18	85.35	23.17	27.15	1,323.81	1.75
27	1,290.00	26.53	57.35	30.82	53.74	1,316.53	2.34
28	1,285.00	23.23	51.35	28.12	54.76	1,308.23	2.15
29	1,297.00	43.55	57.35	13.80	24.06	1,340.55	1.03
30	552.50	17.45	18.55	1.10	5.93	569.95	.19
31	195.00	3.00	5.85	2.85	48.72	198.00	1.44
Total, 1937	29,751.87	872.29	1,260.96	388.67	30.82	30,624.16	1.27
1938							
1	1,074.00	57.90	70.00	12.10	17.29	1,131.90	1.07
2	795.00	38.25	49.35	11.10	22.49	833.25	1.33
3	950.00	55.05	61.15	6.10	9.97	1,005.05	.61
4	895.00	47.80	63.90	16.10	25.20	942.80	1.71
5	975.00	51.90	64.00	12.10	18.91	1,026.90	1.18
6	834.30	31.10	39.20	8.10	20.66	865.40	.94
7	876.00	31.53	46.63	15.10	32.38	907.53	1.66
8	1,559.00	57.60	57.60	------	------	1,616.60	------
9	794.00	28.85	32.85	4.00	12.18	822.85	.49
10	3,497.00	367.27	367.27	------	------	3,864.27	------
11	1,113.48	45.15	48.75	3.60	7.38	1,158.63	.31
12	883.00	49.05	67.15	18.10	26.95	932.05	1.94
13	892.00	41.05	61.15	20.10	32.87	933.05	2.15
14	936.00	28.65	38.75	10.10	26.06	964.65	1.05
15	907.15	53.65	71.75	18.10	25.23	960.80	1.88
16	785.65	52.05	64.15	12.10	18.86	837.70	1.44
17	872.00	36.93	39.93	3.00	7.51	908.93	.33
18	1,189.00	73.10	86.20	13.10	15.20	1,262.10	1.04
19	895.00	72.35	74.45	2.10	2.82	967.35	.22
20	715.75	24.90	28.00	3.10	11.07	740.65	.42
21	797.90	29.33	37.43	8.10	21.64	827.23	.98
22	853.00	37.53	51.63	14.10	27.31	890.53	1.58
23	863.00	29.33	43.93	14.60	33.23	892.33	1.64
24	1,091.00	60.85	79.75	18.90	23.70	1,151.85	1.64
25	1,248.25	42.70	46.30	3.60	7.78	1,290.95	.28
26	1,528.75	43.65	47.25	3.60	7.62	1,572.40	.23
27	1,247.05	45.15	48.75	3.60	7.38	1,292.20	.28
Total, 1938	29,067.28	1,532.67	1,787.27	254.60	14.25	30,599.95	.83
Grand total	58,819.15	2,404.96	3,048.23	643.27	21.10	61,224.11	1.05

The 58 transactions represented in the foregoing table do not include all of the transactions, data for which were obtained from this finance company. They do include, however, all of the transactions for which information was obtained both as to the amounts of insurance premium charged the car purchasers and the amounts of the actual retail insurance premiums for the protection actually provided. The second amount column shows the amounts of the retail insurance premiums on the basis of which the finance company settled with the insurance company. The third amount column shows the amounts of the conference premiums charged to the purchasers of these cars. The fourth amount column shows the differences between the two insurance premiums; and these constitute the amounts charged to and collected from the car purchasers for insurance protection that was not provided to them. The fifth column shows the percentages that the latter amounts were of the conference premiums charged to these car purchasers. It will be observed that of the 31 transactions in 1937, there was only 1 transaction in which the car purchaser was provided with the full amount of the protection for which he paid, and that in the 27 transactions in 1938, there were only 2 transactions in which the car purchaser was provided with all the protection for which he paid. In the sample for 1937, the amounts by which these car purchasers were defrauded ranged from nil up to more than 69 percent of the amount paid by the car purchaser for insurance protection, and averaged nearly 31 percent; in the sample for 1938, the amount ranged from nil up to 33 percent and averaged 14¼ percent of the conference premiums charged. The average for the entire sample of 58 transactions was 21.10 percent of the conference premiums collected from these car purchasers.

It is not intended to imply, in presenting the data shown in the above table, that this illustration is typical of the business of financing deferred-payment sales of automobiles. This is only one finance company; and similar information was not obtained from the records of any other finance company. It is believed, however, that the presentation of these data will serve the useful purpose of visualizing to the automobile-purchasing public the importance of exercising care to make sure that the insurance protection they obtain includes the full amount of protection for which they pay.

In the course of this investigation, recommendations have been received from parties versed in the business of distributing motor vehicles and of financing installment sales thereof that the vending dealers should be required to furnish their customers with invoices that detail all of the charges that are included in the cash sale prices and in the time prices. In these recommendations, it was specifically recommended that such invoices show in full detail the insurance protection that was to be provided together with the retail premium for each portion of this insurance protection. It was also recommended that copies of the insurance policies should be furnished to the car purchasers directly by the insurance companies, and that these policies should also detail the protection provided and the retail premium charged for each item of protection.

CHAPTER XX. SUMMARY AND CONCLUSIONS

SUMMARY

CONCENTRATION IN THE MOTOR-VEHICLE INDUSTRY

There is a high degree of concentration in the motor-vehicle industry. This degree of concentration is greater in the manufacture and sale of passenger automobiles than in the sale of commercial vehicles. In the Commission's inquiry, a field examination was made of the seven leading passenger-automobile manufacturers. In 1937, these seven manufacturers sold 98 percent of the total number of new automobiles sold by American manufacturers, and 93 percent of the combined unit sales of passenger cars, trucks, and commercial vehicles. In 1938, these seven concerns sold 99 percent of the new passenger cars registered.

Three companies, namely, Chrysler Corporation, Ford Motor Co., and General Motors Corporation, accounted for 89 percent of new passenger-car sales in 1937, and for 85 percent of the combined number of new passenger cars and commercial vehicles sold in that year. In 1938, these three companies sold slightly more than 90 percent of the new passenger cars registered.

In 1937, General Motors sold 39.7 percent, Chrysler 23.2 percent, and Ford 21.9 percent of all motor vehicles in the domestic and export trades of the United States, and, in 1938, General Motors had 44.8 percent of new passenger-car registrations in the United States, Chrysler was second with practically 25 percent, and Ford third with 20.5 percent.

The bulk of motor vehicles sold in the United States is in the low-price class. In 1937, the three lower priced motor vehicles made by Chrysler, Ford, and General Motors, namely, Plymouth, Ford, and Chevrolet, combined, accounted for approximately 57 percent of the total unit sales in the domestic and export markets of the United States. In 1938, of total new passenger-car registrations, Chevrolet had 24.6 percent, Ford 19.2 percent, and Plymouth 15.1 percent.

PHENOMENAL GROWTH AND PROFITS OF LARGE AUTOMOBILE MANUFACTURERS

During about 34½ years from June 16, 1903, to the end of 1937, Ford Motor Co. manufactured nearly 27,000,000 automobiles and sold them for a little under $14,180,000,000. The aggregate profit was nearly $978,900,000. Of this, nearly $262,540,000 was distributed in cash dividends, nearly $106,265,000 was paid as premiums in the retirement of the stock held by minority interests and more than $610,095,000 was retained in the company's treasury or was used in expanding the production and distribution facilities of the enterprise.

Starting with a capital of $100,000 in 1903, the capital employed by Ford Motor Co. was built up by the end of 1937 to $636,155,735, an increase of nearly $636,056,000; and of this, only $14,663,444, representing employees' investments of savings out of their wages, constituted borrowed funds. The remainder consisted either of profits retained in the company's treasury or used in expansion of facilities, or of the products of the investment of cash dividends by the Fords in other Ford enterprises—coal mines, and the like. The company acquired the Lincoln motor business at receiver's sale, and the assets of several parts manufacturers. However, the great bulk of the growth in magnitude of this enterprise represented the use of profits for expansion from within, rather than the consolidation of formerly independent enterprises.

In 1908, General Motors Co., predecessor to the present named corporation, was organized by William C. Durant and associates. Immediately thereafter the company began acquiring the more important manufacturers of motor vehicles and motor-vehicle parts and accessories. A controlling interest was quickly acquired in 12 important manufacturers of motor vehicles and parts, including Buick, Olds, Cadillac, and Oakland. Negotiations were conducted with a view to acquiring Ford Motor Co., Reo Motor Co., Willys-Overland Co., and the E. R. Thomas Co., of Buffalo. Except for the lack of cash demanded by the sellers, it is more than probable that General Motors would have acquired these manufacturers. Most of the earlier acquisitions were made through an exchange of stock, but Henry Ford and R. E. Olds, of Reo demanded a substantial part in cash and the deal fell through. When the Dodge Bros. properties were put on the market in 1925, General Motors submitted a bid through J. P. Morgan & Co., but the sale was made to Dillon, Read & Co.

In all, General Motors, during its corporate existence, has acquired either the entire interest or a substantial interest in the capital stock or assets and properties of approximately 70 formerly independent corporations. As consideration for these capital stocks, assets, and properties, it gave approximately $500,000,000—mostly in valuation of General Motors capital stocks given in exchange. At the close of 1937, the capital employed by General Motors Corporation, after eliminating appreciation, goodwill, and other intangibles, amounted to $895,247,000.

In later years, the expansion and growth of General Motors in the motor-vehicle field has been through the development and expansion of the Cadillac, LaSalle, Buick, Oldsmobile, Pontiac, and Chevrolet lines of cars rather than through the acquisition of established lines. In earlier years, the corporation acquired each of these lines, except LaSalle, and, in addition, it acquired not fewer than 12 other lines of cars the production of which was subsequently discontinued. From its very beginning it was active in acquiring manufacturers of accessories and parts and by the close of 1937 it produced practically every finished part needed to build a motor vehicle except rubber tires, window glass, and upholstery.

During the 29 years of operation, 1909 to 1937, inclusive, General Motors made net profits amounting to $3,013,013,048 before payment of income taxes. After setting aside $402,127,492 for payment of income taxes there remained a balance of $2,610,885,556. This balance was disposed of by paying cash dividends to common-stock holders amounting to $1,653,153,244; by paying cash dividends to preferred-stock holders amounting to $164,510,372; by increasing the par, or stated, amount of common-stock accounts by the sum of

$164,189,635 and issuing common stock as stock dividends; by setting aside $8,212,519 for outstanding minority interests; by paying $168,336,996 to executives and employees through profit-sharing plans. The balance remaining after paying dividends and bonuses was used for general corporate purposes or retained in the business. Including the sum added to the par, or stated, amount of common-stock accounts, the total profits retained in the business were $558,979,376.

During 1937 General Motors Corporation built approximately 40 percent of all motor vehicles built in the United States and approximately 35 percent of all those built in the world. It built motors for virtually every use from the one-one-hundredth-horsepower midget for electric fans to the 6,000-horsepower Diesels that pull stream-lined railway trains. It not only built motors and motor vehicles, but a long line of refrigeration equipment, air-conditioning equipment, heating equipment, small lighting plants and equipment, electric household appliances, and numerous allied items of equipment. It has substantial investments in Bendix Aviation Corporation, North American Aviation, Inc., Ethyl Gasoline Corporation, Yellow Truck & Coach Manufacturing Co., and in motor-vehicle dealerships. Through other subsidiaries it finances users in purchasing motor vehicles on partial-payment plans and engages in insuring motor vehicles.

General Motors earned more profits for its stockholders during the 11-year period, 1927 to 1937, inclusive, than any other manufacturing corporation in the United States, but its total assets of $1,566,000,000 at the close of 1937 were slightly exceeded by a few other domestic corporations. Its year of greatest earnings was 1928, when a profit of $330,216,167 was earned before provision for Federal, State, and foreign income taxes.

In 3 other years, namely, 1927, 1929, and 1936, its annual profits, on the same basis, ranged from $283,961,144 to $297,341,859. In no year during the 11 years, 1927 to 1937, inclusive, did the corporation fail to show some profit. The year of lowest profit was 1932, when a profit of $10,600,194 was shown on the total operations; however, there was a loss of $1,340,430 on manufacturing operations. This remarkable record, in view of the experience of most corporations during the economic depression, was made possible through General Motors' ability to obtain such a large proportion of the motor-vehicle business at substantial profits on unit sales. During the 27 years 1911–37 General Motors sold approximately 22,000,000 automobiles.

The Chrysler Corporation developed to its present position as one of the largest three manufacturers in the motor-vehicle industry, largely through taking over and developing the plants and facilities of Maxwell Motor Corporation, Chalmers Motor Corporation, and Dodge Bros., Inc. The facilities of the three corporations were acquired by exchanging new stocks for the old stocks outstanding of these corporations or assuming their debts. In addition, Chrysler Corporation extended and improved these facilities by reinvesting $82,733,702 of profits. The growth of Chrysler Corporation has been rather remarkable when it is considered that the corporation sold 134,478 cars in 1925, that its sales had grown to 1,113,900 cars in 1937, and totaled approximately 6,200,000 in the period 1925–37.

During the 13 years of operations, from 1925 to 1937, inclusive, Chrysler Corporation made net profits amounting to $355,049,438 before payment of income taxes. After setting aside $53,831,494 for payment of income taxes, there remained a balance of $301,217,944. This balance was disposed of by paying $174,273,429 in cash dividends to the common stockholders, $6,238,341 in cash dividends to preferred stockholders, and $18,730,000 to officers and executives through profit-sharing plans. The balance remaining after these payments was used for general corporate purposes or was retained in the business.

PROFITS REALIZED BY SEVEN MOTOR-VEHICLE MANUFACTURERS

During the 11 years, 1927 to 1937, the largest seven manufacturers of passenger automobiles realized profits amounting to more than $2,375,000,000 before provision for income taxes. Of this total, General Motors alone accounted for 79.7 percent, Chrysler Corporation accounted for 11.6 percent, Ford Motor Co., 0.10 percent, and the four smaller manufacturers examined together accounted for 8.6 percent.

The profits of General Motors came from the three general divisions of its operations. The motor-vehicle divisions, consisting of the six lines of cars, produced about 61.4 percent of the total, the accessories and parts divisions produced about 22.4 percent, and all other products produced about 16.2 percent of General Motors' profits.

RATES OF RETURN FOR THE LARGEST THREE MANUFACTURERS

The profits of the motorcar manufacturers have varied greatly according to time and circumstances. The path of the industry's growth is strewn with scores of companies that have failed, while on the other hand, a considerable number has been absorbed by Chrysler Corporation, and by General Motors Corporation, chiefly the latter.

Since 1927, three great companies, General Motors, Ford, and Chrysler, have comprehended a proportion increasing from about 59 to approximately 85 percent of the industry; and they have obtained an even larger share of the profits. Ford, however, has been less fortunate in this respect than the other two, experiencing heavy losses in the severe depression years and also in 1927 and 1928 when changing models and reconstructing his factory.

The profits of General Motors and Chrysler in the 11-year period, 1927–37, were very large and, notwithstanding the extremely large investment of capital involved, the rates of return on their investment in manufacturing operations were generally extraordinarily high.

Thus, for General Motors, the rates of profit from 1927 to 1937, inclusive, averaged no less than 35.5 percent per annum and have ranged from a loss of 0.28 percent in 1932 to a profit of 66.24 percent in 1928. During the same period, the average for Chrysler was a profit of 28.59 percent, and the range was from a loss of 9.75 percent in 1932, to a profit of 74.46 percent in 1936. The average rate of return for Ford during the same period was a loss of 0.80 percent; and the return ranged from a loss of 13.89 percent in 1932 to a profit of 15.26 percent in 1929.

RATES OF RETURN FOR SMALLER OR INDEPENDENT MANUFACTURERS

The smaller manufacturers are commonly referred to in the automobile trade as independents. Of the hundreds of manufacturers that have made passenger automobiles, only 11 are active today—the big 3 and 8 independents. In their struggle to maintain or improve their place in the industry, independent manufacturers have been forced to make important contributions to the development of motor vehicles.

In comparison with the above-stated rates of return for Chrysler Corporation and General Motors Corporation, the rates of profit of the leading four independent manufacturers, during the same 11 years, were as follows: The return to Hudson Motor Car Co. ranged from a loss of 17.33 percent in 1932, to a profit of 41.39 percent in 1927, and averaged a profit of 9.40 percent per annum. For Nash Motors Co., the range was from a loss of 33.0 percent in 1934, to a profit of 75.63 percent in 1927, and the average was a profit of 36.90 percent per annum. The return to Packard Motor Car Co. averaged 21.25 percent per annum and ranged from a loss of 29.14 percent in 1934, to a profit of 65.61 percent in 1928. For the Studebaker Corporation the return averaged 6.13 percent per annum and ranged from a loss of 6.59 percent in 1932, to a profit of 16.21 percent in 1928.

NET MARGINS OF PROFIT ON SALES OF ACCESSORIES AND REPLACEMENT PARTS

Numerous dealers complained that the largest three manufacturers coerced and forced them to purchase large stocks of accessories and replacement parts. The examination of the records of the larger manufacturers shows that they made much larger margin of profit on accessories and parts than on cars. For illustration, during 6 of the years of the period 1929–37 the motorcar divisions of General Motors Corporation made an average net profit of 24.85 cents on every dollar of accessories and parts sales as contrasted to 7.18 cents on every dollar on sales of new cars. Chrysler Corporation made an average net profit of 17.3 cents on every dollar of sales of accessories and parts during the 9-year period 1929 to 1937, inclusive, as contrasted to 6.6 cents on sales of new cars. During the last 9 years, 1929 to 1937, Ford Motor Co. lost an average of 0.36 cent on every dollar of new car sales but made 12.07 cents on every dollar of sales of accessories and replacement parts.

The replacement parts and accessories business is an important source of profit to motor-vehicle manufacturers. During the 9 years, 1929 to 1937, approximately $21,655,000 out of $221,628,000 of profits made by Chrysler Corporation in motor-vehicle manufacturing came from sale of parts and accessories. During the same period, Ford Motor Co. netted a loss of $13,085,000 on motor-vehicle sales, but had a profit of $49,194,000 on parts and accessories. During 6 years of the period 1927–37, General Motors Corporation netted profits in motor-vehicle operation aggregating $497,662,000; and of this, nearly $117,943,000 came from the parts and accessories sales.

PRICES OF PASSENGER CARS

A comparison of factory prices of reasonably comparable four-door sedans, covering roughly the period since 1923, as submitted by each of the seven companies examined by the Commission, shows a net decrease in the price of such motor vehicles. In general, prices reached the lowest point during the depression years following 1929, but increased somewhat in more recent years. For example, a Chrysler four-door four-cylinder car of 38.5 horsepower, less Federal tax, sold for $1,095 f. o. b. factory in June 1925 as compared with $708 for an 82-horsepower Plymouth six-cylinder car in September 1938; a 38-horsepower four-cylinder Nash sold for $1,445 in July 1923 as compared with $1,025 for a comparable six-cylinder car of 105 brake horsepower in October 1937; and a Studebaker six-cylinder of 50 horsepower sold for $1,595, f. o. b. factory in August 1924, as compared with $973 for a six-cylinder 90-horsepower car in September 1938. Prices of other manufacturers showed a similar trend.

Based upon the cost per maximum brake horsepower and the cost per pound of car weight, the price reductions are even more impressive; for example, for the cars mentioned the reductions were from $29.48 per brake horsepower in 1925, to $8.85 in 1938 for the Chrysler-Plymouth, and from $39.40 in 1923, to $10 in 1937, for the Nash.

In addition to this substantial price reduction, every manufacturer gave the car user greater beauty, comfort, efficiency, and safety.

THE FINANCIAL RECORD OF THE MOTOR VEHICLE MANUFACTURERS

For many years the automobile industry was regarded as highly speculative and the manufacturers, to a very large extent, had to finance expansion through reinvestment of profits rather than by borrowing. In this respect the industry has furnished a better example than have some other industries. While there have been occasional lapses from sound accounting policies as, for example, in the write-up of property accounts, this factor, at least in recent years, has not been a significant one. It is true that these companies did not have the same incentive to misrepresent their assets, as companies that are generally subject to regulation, as respects rates or charges for services. The large companies have seldom in recent years needed to borrow heavily, thus preserving more securely their financial independence.

PROFITS OF MOTOR VEHICLE DEALERS

The Commission's data on the profits of motor-vehicle dealers reported to it are neither as comprehensive nor as representative as was desired, because of the failure of many of the 5,600 dealers addressed to make the returns which were sought. Such returns were requested on the basis of cooperation. The authority of the Commission to require reports does not extend to individuals or partnerships nor to corporations engaged solely in intrastate business.

Several hundred retailers addressed were unable to furnish data because they were out of business, in receivership, or in process of liquidation. Usable answers were confined to about 525 concerns, many of which were partnerships or sole proprietorships. Among this sample 25 percent of those reporting for 1935 and 1937 and 17 percent for 1936 had losses. Notwithstanding this fact, the results for all reporting dealers indicated a substantial average rate of profit for the group.

Reports by retail dealers and dealer-distributors, which were not audited by the Commission's accountants, support their claim that they sell their new cars at little or no profit on account of excessive used-car allowances. The showing of retail-dealer reports covering 119,131 new cars of all makes sold in 1937 is that the dealers' average net operating profit per new car sold was entirely derived from sales of parts, accessories, supplies, and services that represented only 15 percent of their total business. For distributor-dealers, whose business combined both wholesaling and retailing, the showing was that nearly 97 percent of their profit of $13.10 per new car sold was derived from sales of parts, accessories, supplies, and service representing less than 12 percent of their total business.

HIGH COST OF INSTALLMENT PURCHASING OF MOTOR VEHICLES

Approximately 60 percent of retail motor-vehicle sales are effected on the installment plan, mostly of 12, 18, and 24 months' duration. Prompt financing of these sales, as well as of dealers' purchases, is important from the viewpoint of the effect upon the manufacturer's volume of sales and production and ability to compete with other manufacturers. So also is the minimization of the differential between the time and cash prices of these vehicles. To this end, General Motors Corporation organized General Motors Acceptance Corporation, Ford Motor Co. organized Universal Credit Corporation, Chrysler Corporation acquired an interest in Commercial Credit Co. and entered into special contracts with it, and other manufacturers made special financing arrangements with Commercial Investment Trust Corporation.

Basic finance charge rates of one-half of 1 percent per month on the entire original unpaid purchase prices, including the retail premiums for the insurance protection of automobiles purchased on the installment plan became generally prevalent in 1936; and these rates constituted a reduction of about 25 percent from the previously prevailing basic rates. These rates, however, imply interest paid by the car purchasers at about 0.91 percent per month, or 11½ percent per annum, on the monthly unpaid balances of the cash purchase prices of their automobiles and insurance. Not all of this is net profit to the finance companies, however, due to the participations in the finance charges that are paid to the vending dealers as loss reserves and bonuses, and to the not inconsiderable operating expenses of the finance companies themselves. During the 3 years, 1935 to 1937, inclusive, the average rate of net profit on the total capital employed in the business was 5.94 percent per annum in the case of General Motors Acceptance Corporation, 7.48 percent in the case of the other two finance companies of comparable magnitude, and 8.67 percent in the case of 26 so-called independent finance companies.

Actual finance charges frequently fall below the basic rate because of dealers' errors or special concessions and because the averaged retail insurance premiums charged the car purchasers are frequently less than the actual premiums; and instances have been found in which, consequently, the time prices were actually somewhat less than the cash prices.

Actual finance charges frequently exceed the basic rate because: (*a*) The actual retail insurance premiums are frequently somewhat less than the averaged premiums charged the car purchasers; (*b*) in transactions in which the insurance on the car is not placed through the finance company, the regular finance charges are often augmented to compensate the finance company for its loss of insurance commission; (*c*) in some regions the basic finance charges are augmented by documentary stamp taxes, recording fees, and notary fees—the last being especially large in Louisiana, where the notaries public, appointed for life and limited in number, frequently charge $10 or more per transaction; (*d*) of the customary addition to the basic charges of a flat charge per car in installment sales of used automobiles; and (*e*) of additions to the basic charges, or "packs," made by the vending dealers for no extra service rendered. These "packs" are facilitated by the practice of many finance companies in providing the dealers with two or more rate charts based on different rates of charge, so that a dealer can use a chart based on a high rate when dealing with a car purchaser, but will use the chart based on the minimum rate when determining the discount at which to sell the installment contract to the finance company. Some dealers vending automobiles claim that they are specially motivated to insert such "packs" in order to recoup overallowances, forced by keen competition for sales under pressure from manufacturers, on used cars taken in trade.

A 12-month new car transaction was found with a finance charge of 28.25 percent, equivalent to interest at 4.05 percent per month, or 61.08 percent per annum; the insurance was not placed through the finance company. A 12-month used-car transaction was found with a finance charge of 52.87 percent, equivalent to interest at 7.27 percent per month, or 132.15 percent per annum; with an unpaid cash purchase price of only $91.84, the vending dealer added not only the customary flat charge of $7.50 but also a "pack" of $36.55. Such "packs" would largely be prevented if automobile purchasers were so instructed that they could compute the finance charges themselves. The transactions just given were not made by manufacturer-preferred or manufacturer-controlled finance companies.

Commissions consisting of large percentages of the retail premiums for insurance on motor vehicles, sometimes more than 50 percent, are an important source of profit to most of the finance companies—so much so that one finance company stated that the profit in the financing business is in the insurance. The system offers opportunity for providing the automobile purchasers with less protection than that for which they are charged; and at least 1 finance company, among the 30 examined, does this systematically.

Manufacturers' measures in favor of Commercial Credit Co., Commercial Investment Trust Corporation and its controlled Universal Credit Corporation, and the factory-controlled General Motors Acceptance Corporation gave these finance companies such effective advantage over their competitors that they have attained about 78 percent of the business of financing motor-vehicle distribution as compared with about 18 percent done by several hundred independent finance companies and 4 percent done by commercial and small-loan banks.

MOTOR VEHICLE MANUFACTURERS ASSOCIATIONS

The Commission's examination of the records and files of the associations of motor-vehicle manufacturers did not disclose price agreements or other cooperative activities that appear to be contrary to the antitrust acts. The apparent absence of price agreements among motor-vehicle manufacturers, particularly passenger-car makers, is partly because their products are commodities so individual in character that they are not easily adapted to price-fixing by the ordinary methods; and partly because of the lack of sufficient unity among manufacturers. The reaction of the rest of the industry to the attitude of the Ford Motor Co. was aptly described by R. M. Grant, of the General Motors Corporation, who, at the sales managers committee of the Manufacturers Association meeting of December 9, 1932, stated:

> Mr. Ford, who won't play, is pretty much the price-setter in this industry. I'll bet if Mr. Ford's cars were $50 higher ours would be $50 higher.

The Association of Licensed Automobile Manufacturers, one of the predecessor associations, for a time continued in virtual control of the automobile industry, and its articles of agreement provided that no licenses should be granted by the Electric Vehicle Co., which had an exclusive license from the patentee, G. B. Selden, without the unanimous consent in writing of the executive committee of the association. The apparent domination of the automobile industry by this association was ended in January 1911 by a United States circuit court of appeals decision in favor of the Ford Motor Co.

The National Automobile Chamber of Commerce, Inc., now the Automobile Manufacturers Association, Inc., comprising most of the important automobile manufacturers excepting the Ford Motor Co., established a common use of patents in 1915, which made it possible for each member of the cross-licensing agreement to go ahead with the use of any of these patents covering the design and construction of motor vehicles as he deemed most acceptable to the public, without having to worry about patent infringements and infringement suits. It appears, however, that this benefit may have been largely due to the avoidance of controversies pertaining to patents, as the Ford Motor Co., a nonmember, continued the development of its product and today is one of the three leading automobile manufacturers.

It appears that the present agreement pertaining to the common use of patents by most of the members of the Automobile Manufacturers Association, Inc., is an instrument of lessened value when compared with the original agreement. The present agreement, which was executed in 1935, includes only patents acquired prior to January 1, 1930, and also exempts patents held by certain divisions or corporations controlled by parties to the agreement, and as time goes on the number of patents included in the agreement will become fewer and fewer until ultimately there will be no patents included under the cross-licensing agreement.

It appears that the association, through its legislative department, has at times been overenthusiastic in its effort to defeat certain State legislation. A case is cited where the chairman and secretary of that department urged the veto of a measure which had been passed by both branches of a State legislature. In other cases, the association conducted its activities through member manufacturers who were requested to ask their dealers to present certain views to their State legislators. This practice of working through dealers does not appear commendable as it leaves the impression that the dealers may have been coerced, through fear of manufacturer reprisals, into taking a stand otherwise contrary to their best interests.

The association has been active in furthering highway safety through plans for the disposal of obsolete automobiles which were considered dangerous on the highways. Under some plans the manufacturers allowed dealers a bonus to apply on their allowances for junked automobiles.

AUTOMOBILE DEALERS' TRADE ASSOCIATION ACTIVITIES

The survey made of the activities of a limited number of State and local dealer associations indicate that although dealers' associations have not been able to accomplish all of their objects respecting improvement in dealer profits and operating conditions, they have, however, accomplished a number of things desired by their members, especially through legislative activities. The Wisconsin and Iowa associations, for example, have been successful in obtaining the enactment of legislation which they desired. Similar associations in many other States have actively sponsored laws to regulate trade in used cars, especially by limiting the importation of used cars and taxicabs. Also, State associations have sponsored the formation and activities of local dealer associations with varying degrees of success.

Various State associations are affiliated nationally to form the National Automobile Dealers Association, which conducts on a national scale various legislative and other activities intended to benefit the interests of dealers. At most, however, the National Automobile Dealers Association represents directly only about 10 to 15 percent of the 40,000 or more automobile dealers of the country. Possibly this is due, in part at least, to the fact that in the past some manufacturers have objected to their dealers becoming members of State and local associations.

In further explanation of this apparent lack of interest of dealers in the national association, a number of dealers have pointed out that many of the key positions among the executive officers and directors of both State and local associations have been occupied by wholesale distributors and manufacturer-controlled dealers. It is further alleged that the interests of such dealers parallel those of the manufacturers with whom they are affiliated, rather than those of the large majority of independent dealers who are not so affiliated. Dealers dissatisfied with the past conduct of the national association claim that the influence of manufacturers, exerted through such key-position dealers, prevented it from really representing the interests of dealers.

BASIS OF MANUFACTURER-DEALER RELATIONS

The larger automobile manufacturers, especially, exercise extensive supervision over many of their dealers. This statement applies to conditions at the present time as well as in the past, although during 1938 the methods of supervision employed were less direct than in former years. Many instances which were disclosed by the Commission's inquiry confirm complaints of the types made to the Congress at the time the inquiry was under consideration. Under threat or fear of cancelation, some dealers have reported they felt compelled to operate their businesses in such a manner that their profits were wiped out and even their investments were largely dissipated.

This investigation disclosed some cases in which the dealer, upon cancelation of his contract, not only had nothing in prospect, but also was burdened with a substantial investment in buildings, leaseholds, equipment, stocks of used cars, accessories, and parts, in the liquidation of which he often sustained a heavy loss. Some dealers reported that in fear of cancelation, or refusal to renew contracts, faced with such injurious consequences, they have, against their best business judgment, accepted terms and adopted policies dictated by the manufacturer.

Many of the dealers have complained of the following provisions in manufacturer-dealer agreements:

(1) That the dealer shall make a capital investment that is satisfactory to the manufacturer; that no capital withdrawals may be made without the consent of the manufacturer; and that, if the manufacturer so indicates, the dealer must leave in the business such part of the profits thereof as may be necessary to increase the investment to a point satisfactory to the manufacturer.

(2) That the dealer shall at all times maintain salesrooms, service facilities, and signs satisfactory to the manufacturer.

(3) That the dealer shall develop his sales territory to the satisfaction of the manufacturer, including the maintenance of sales and service personnel approved by the manufacturer.

(4) That the dealer shall comply with all of the manufacturer's policies, whether set out in the agreement, or in addenda thereto, or communicated by letters, or even by oral statements of his field agents who make most of the contacts with the dealers.

(5) That in carrying out these policies, the dealer places orders that are binding upon him, but are not binding upon the manufacturer until accepted.

(6) That the manufacturer disclaims all financial responsibility for the dealer's commitments, even though they may have been made at the instance of the manufacturer's field men who, by the terms of the agreement, cannot bind the manufacturer in any way by statements, promises, or understandings that are not reduced to writing, signed by designated officials of the manufacturing company and made a part of the dealer's written agreement.

(7) That the dealer must either sell exclusively the line of the manufacturer signing the agreement, or that another, or competing, line may not be handled by the dealer without the consent of the said manufacturer.

(8) That an agreement may be canceled by the manufacturer upon short notice, compared with the dealer's ability to readjust his investment and financial obligations.

Notwithstanding the fact that the dealer agreements, particularly of the three large manufacturers, have been revised since the commencement of this investigation, not all of the bases for dealer complaint have been eliminated.

The manufacturing companies give wide authority to their field representatives, and their general officers may not always be fully aware of the frequency and extent of dealer complaints or the bases therefor. Provision, however, has been made by one of the large companies for appeals to a board composed of higher company officials.

Some of the smaller manufacturers have recently featured claims of "friendliness" and "fairness" as characterizing their attitude toward their dealers and have cited changes in their 1939 contracts as indicating a "better deal for dealers" under which "dealers of independence" are given an opportunity to successfully build their businesses on a "permanent" basis without "intrusive" factory interference.

PRESSURE ON DEALERS TO TAKE CARS, PARTS, ACCESSORIES, TOOLS, AND EQUIPMENT

This inquiry developed the fact that there has been pressure, especially by the largest three manufacturers, on many dealers, to take and sell new cars. Some manufacturers have canceled the contracts of dealers who do not attain desired volume of sales. This pressure has been less severe since this inquiry was ordered.

Demand for increased volume originates with the manufacturer and apparently increases with successive steps from the manufacturer through the manufacturer's branch and zone selling organizations to the dealer. A practice of manufacturers is to establish sales estimates and, on the basis of these estimates, to assign to their branches or zones more or less definite sales quotas. The branch or zone managements break down these quotas among distributors or dealers, thus assigning these distributors or dealers their quotas. In order to attain the quota assigned them the branch managers exert pressure on their field representatives, who in turn press the dealers to take sufficient cars to sell the quotas assigned them or at least to maintain the manufacturer's percentage of new-car registrations in that market.

Cases were reported in which dealers were influenced to take such large numbers of cars near the end of the model year that the losses sustained entirely offset the dealers' profits during the following year and in some instances led to the financial failure of dealers. This year-end pressure in general has not been as severe in recent years and was rarely reported at the end of the 1938 model year.

Conditions similar to those described in connection with forcing dealers to order cars also were found to exist in varying degrees in respect to inducing dealers to purchase unwanted parts, accessories, tools, and equipment. This complaint of dealers, especially with respect to parts and accessories, is closely related to the manufacturers' service policy, under which dealers are required to handle and use only "authorized" repair parts and accessories in order to assure satisfactory service as a means of protecting the interest of the car user and manufacturer. Enforcement of this policy may require the dealer to use exclusively authorized repair parts and accessories of the car manufacturer, on which the dealer makes a smaller profit than would be made if parts and accessories were purchased from other sources. In addition, some manufacturers have objected to the practice of some dealers of charging prices for accessories that are higher than the manufacturers' suggested resale prices when such accessories are sold with new cars, because the prices charged are regarded as such as to interfere with the sale of the new cars.

MANUFACTURERS' USED-CAR POLICIES AND PRACTICES

For many years there has been a steady increase in the number of new-car buyers who offer used cars for trade as part payment in the purchase of new cars. The records of manufacturers show that in their desire to have their dealers sell the maximum number of new cars, consideration has been given to used-car merchandising as a competitive factor affecting both the number of new cars sold and the profits of retailers who sell them. Manufacturers, especially the larger ones who are the leaders in industry, have had various policies at different times respecting the handling of used cars by their dealers.

Prior to 1925, Ford Motor Co. recognized that the amount of allowances made by dealers on used cars taken in trade could be made the means of indirectly cutting the suggested prices of new cars which Ford Motor Co. wished dealers to maintain, and that competitive overallowances for used cars reduced dealer margins and profits through losses in subsequent merchandising of used cars. Ford Motor Co., therefore, took the position that its dealers should buy and sell used cars on a basis yielding a merchandising profit, or at least no loss, and enforced this policy by canceling, as price cutters, dealers who made overallowances on used cars. Later, this position was abandoned in favor of one under which the dealer should so conduct his used-car business as to result in a maximum of new-car sales. Recognition was given to the fact that to do this dealers must often overallow on trade-ins in order to make sales, and the percentage of dealer margin on new-car sales was increased from 17½ to 22 percent in 1930, and later to 25 percent, in order to provide larger gross profit on new cars to enable dealers to make larger allowances for trade-ins without suffering loss on the total business done in both new and used cars.

General Motors, on the other hand, as early as 1925, took the position that its dealers should not get business by consistent overbidding for used cars but that in certain instances it might be better to handle used cars taken in trade at little or no profit, or even at a small loss, rather than to lose new-car sales. Somewhat later in the year 1925, the minutes of the general sales committee of General Motors Corporation indicate that it was the consensus of opinion of members of the committee that no definite policy should be adopted respecting encouragement of dealers to make more liberal allowances for used cars taken in trade. It also was concluded that sufficient funds should be provided by the dealer to carry the requisite number of used cars, as well as new cars, over the winter months.

In 1930 General Motors also gave attention to what might be done to reduce dealer mortality due to used-car trading without decreasing the volume of sales of used and new cars. As the result of this study, the chairman of the general sales committee of General Motors Corporation stated that in his opinion it was necessary for each selling division of the corporation to take a positive stand on the subject of used-car trading, and at the same time to initiate a strong new-car sales promotional effort to offset any tendency of this policy to decrease new-car volume. Used-car policies of other manufacturers have developed along similar lines.

Another method of assisting dealers was through junking plans, pursued partly as a matter of safety on the highways and partly as a means of removing from the market the maximum number of used cars as they approached the end of their utility as safe and economical transportation. Extensive accounting and statistical studies also have been made the basis for formulating used-car merchandising plans to be followed by their dealers.

Some of the manufacturers' plans for the merchandising of used cars by their dealers, when considered in connection with pressure claimed to have been exerted to bring about the sale of the maximum number of new cars, have been the subject of dealer complaint to the effect that they were not permitted by their manufacturers to conduct their businesses in accordance with their own best judgment.

EXCLUSIVE HANDLING OF ONE MANUFACTURER'S LINE

For years it has been the general policy of each motor-vehicle manufacturing company to limit its dealers to the exclusive handling of its line of cars. This, in general, is true of both large and small manufacturers. Various conditions, however, may make it inadvisable to follow this practice strictly in every instance, because the volume of business for a single line may be insufficient to support a dealership. This situation was met during the depression by the establishment of a considerable number of dual dealerships handling the productions of more than one manufacturer. With the return of more normal times there has been a marked decrease in the number of such dual dealerships. This is true of both dealerships handling more than one line made by a particular manufacturer and of dealerships handling more than one line made by different manufacturers.

In setting up multiple-line dealers, the large manufacturers such as General Motors, Chrysler, and Ford, that manufacture several different lines covering a wide price range, have a distinct advantage over their smaller competitors in that they can set up multiple-line dealerships handling only their own lines.

Facts developed in this inquiry indicate that Chrysler Corporation, Ford Motor Co., and General Motors Corporation are the most emphatic in their demands that their dealers shall handle no other manufacturer's line. Some dealers have been canceled by these concerns because they either took on additional makes of cars or refused to discontinue other makes already handled.

Also, General Motors Corporation has advocated the placing of their lines with dealers already handling other manufacturers' lines with the express purpose of eventually eliminating the competing lines. If the dealerships required the handling of more than a single line to operate profitably, the General Motors policy was to replace the line eliminated with a second line of its own. It appears that Chrysler Corporation has pursued a somewhat similar policy in forcing out other manufacturers' lines.

MANUFACTURERS' POLICIES AND PRACTICES RESPECTING DEALER ACCOUNTING

Among the principal interests of the manufacturers in accounting systems of dealers is the question of adequacy of these systems in furnishing the manufacturer with uniform information concerning the details of the dealer's business. This is evidenced by the fact that while some of the manufacturers exert pressure to some extent upon dealers to adopt their prescribed accounting systems, the principal insistence of the manufacturer is that, whatever system is used, it must be capable of supplying the information required by the manufacturer.

The information obtained in audits and in reports required of dealers has been reported to have been used sometimes by some of the leading manufacturers as the basis for pressure on their dealers to increase investments, facilities, and personnel, and otherwise to carry out merchandising plans and policies intended to increase volume of sales of new cars and accessories.

TRANSPORTATION CHARGES IN EXCESS OF AMOUNTS ACTUALLY PAID

Some manufacturers often bill their dealers for transportation in amounts in excess of the actual cost of delivering automobiles to the dealers. It appears that the greatest number of dealer complaints concerning excess freight charges pertain to the manufacturers' practice of shipping automobiles to dealers from nearby assembly plants and requiring the dealers to pay for transportation in an amount equivalent to, or even greater than, the rail freight rates from the factory to the dealers' delivery points.

The 1938 dealer agreement of the Chevrolet Motor Division of General Motors Corporation provides in part that the manufacturer has the right to ship by whatever mode of transportation and from whatever point he may select and that the dealer agrees to pay a transportation charge to be determined by the manufacturer based on the all-rail freight charge from Flint, Mich., to the dealer's delivery point. Other General Motors divisions have similar provisions in their dealer agreements. The Ford Motor Co.'s transportation charges are based on the carload rate from Detroit, Mich., to destination. Both the General Motors Corporation and the Ford Motor Co. have assembly plants in various parts of the country.

Transportation charges in excess of the actual amount paid apparently are not confined to deliveries from assembly plants.

Some dealers regard excess transportation charges as a manufacturer's "pack" and, as the dealers generally pass them on to the consumers, it appears that these excess charges operate especially to the disadvantage of those consumers who reside at points most distant from the factories.

SALES OF DRIVEN CARS AS NEW CARS

The inquiry developed that some manufacturers allowed dealers to take cars from the factory or assembly plants and drive them to distant places for sale to users as new cars. These cars were reported to have been driven with speedometers disconnected, frequently at high rates of speed and even pulling a second "new" car. It was contended by some manufacturers that the regularly constructed passenger cars were not built with sufficient power and strength to pull another car and that if this was done an injurious strain was thereby placed on the towing "new" car. It was further contended that the towed car was not guided, but instead skidded around turns and corners and that this was injurious to the tires and chassis of the towed "new" car.

In numerous instances it was developed that new cars that had been used by dealers as demonstrators or by manufacturer or dealer officials, sometimes driven distances up to 4,000 miles or for a period not exceeding 3 months, were then sold to users as new cars.

CONCLUSIONS

The main features of this report that directly affect the conclusions and recommendations that may be of public interest concern three branches of economic activity and their relations to each other, namely, the motor-vehicle manufacturers, the motor-vehicle dealers, and the companies financing the purchase of motor vehicles on installment payments. The conclusions to be considered in this connection relate especially to the competitive conditions and the extent of, or trends toward, concentration, and any abuses prevailing in these fields in the nature of unfair methods of competition or unfair or deceptive acts or practices.

CONCENTRATION IN THE MOTOR-VEHICLE INDUSTRY

The Commission finds that a high degree of concentration prevails in the motor-vehicle industry, there being in 1938 only 11 companies (or company groups) producing passenger cars regularly, and 3 of them had no less than 89 percent of the total unit sales of passenger cars; that among these 3 leading motor-vehicle manufacturers there prevails, apparently, a condition of active competition.

The Commission finds that in the early stages of the industry, when there were many small motor-vehicle manufacturers, the General Motors Corporation had an advantage resulting from the acquisition and combination of several of the leading companies making distinct lines of motor vehicles, some of which included two or more types of cars of different price classes; and that the company, now known as the Chrysler Corporation, to a less extent obtained a similar advantage through the purchase of the Dodge line, but it was also greatly aided by its development of the Chrysler and Plymouth cars.

On the other hand, the Ford Motor Co. development was characterized, substantially, by a concentration of its efforts on developing a single line of very low-priced motor vehicles, which for a time put it in the forefront of the industry in unit production.

COMPETITION IN PRODUCTION AND PRICES

There is strong competition for business in the automobile industry both among manufacturers and retail dealers. Price competition in motor vehicles, however, is naturally different from that in commodities that are of the same, or standardized, description and quality for producers generally. The constant effort of a motor-vehicle manufacturer is to emphasize the superiority of his car and the special features it has as a justification for this claim. The retail prices of motor vehicles are widely advertised by the manufacturers, and the dealers are expected generally to conform to them, except in connection with allowances for trade-ins. In some instances, however, where a low-priced car, for example, of one manufacturer has been reduced, a competing manufacturer has made a corresponding reduction for his car in the same price class; price reductions on current models are sometimes made, also, for the higher-priced cars, just before the annual change to new models.

Competition of manufacturers with respect to passenger cars in the low-price class is more in volume than in prices, though prices are potentially important.

With reference to any question of price fixing in other price classes, the nature of the demand is such, and consumer preference such a vital element of demand, that it would be difficult not only to fix prices but also to establish any quota system of production, even if the retail dealers could be brought into effective cooperation for that purpose.

Policies with respect to exclusive handling of the product of a particular manufacturer by a dealer having a dealership agreement with him tend to restrict competition by making it more difficult for the smaller manufacturers to obtain adequate dealer representation, because in many markets they are unable to establish exclusive dealerships with sufficient volume to operate profitably. Such restriction of competition perpetuates the high degree of concentration already existing in the hands of the three large manufacturers.

Active competition among automobile manufacturers, although some of them have made very large profits, gave to the public improved products, often at substantially reduced prices. In the automobile industry this has been especially true of those manufacturers who are able to obtain large volume of production through competitive improvement in motor-vehicle construction, style, performance, and safety, particularly in the low-priced class. Such competition has been the basis for the remarkable growth of the industry.

Consumer benefits from competition in the automobile-manufacturing industry have probably been more substantial than in any other large industry studied by the Commission.

COMPETITION AMONG MOTOR-VEHICLE DEALERS

The Commission finds that the retail motor-vehicle trade is competitive in the sense that the individual dealer generally pushes actively the sale of the particular make of motor vehicles which he is under contract to sell, and that the prices thereof, as advertised by the motor-vehicle manufacturer, though quite generally adhered to in appearance, are frequently cut by allowances for used cars quite generally traded in as part payment for new cars. These allowances are sometimes excessive in the sense that, when reconditioned and sold, the prices obtained for them are substantially below such allowances. In a number of instances the Commission found evidence of local combinations among motor-vehicle dealers to prevent competition regarding such allowances made on used cars traded in.

"PADDING" NEW- AND USED-CAR PRICES

It is also concluded from the study that the practices of dealers of "padding" new car prices and "packing" finance charges falls most heavily on the minority of automobile buyers who have no used cars to trade. The majority of car buyers who have cars to trade also suffer in case the amount of consumer price enhancement is greater than the overallowance made by dealers.

DEALER PRICE FIXING ACTIVITIES

The Commission finds that local associations of motor-vehicle dealers in various parts of the country have engaged in the following practices to fix or maintain prices: (1) Fixing minimum prices on new cars, often by means of uniform maximum discounts from the manufacturer resale prices in transactions where no trade-ins are involved; (2) establishing maximum purchase prices, or allowances, for used cars taken in trade; (3) regulating bidding on used cars taken in trade by means of uniform minimum increases on all bids subsequent to the original bid, or by requiring all bids subsequent to the original bids to be less than the original bid; and (4) adopting published used-car price guides as a basis for maximum allowances for used cars.

The Commission found that in certain instances, and in varying degrees, General Motors Corporation and Ford Motor Co., or representatives of these companies, cooperated with dealers in the formulation or operation of dealer plans to fix retail prices and limit dealer competition. Ford Motor Co., however, in its 1939 dealer agreements, requires its dealers—

> to avoid in every way such trade practices in connection with dealer's competition with other Ford dealers and in selling company products to the public as are injurious to company's good name and goodwill or are detrimental to public interest.

LEGAL ASPECTS OF USED-CAR VALUATION OR APPRAISAL BUREAUS

The Commission found that many local associations operate used-car valuation or appraisal bureaus that are essentially combinations of dealers in particular localities who are bound by agreements to restrict competition in used-car trading. A plan in effect in a large city in 1938 entirely eliminated competitive bidding if the prospective buyer obtained his first bid on his used car from the dealer in whose zone, or trading area, he resided.

The question as to whether Federal jurisdiction exists respecting such local association activities depends upon whether interstate commerce is involved. In complaints before the Commission in which cooperation with local combinations of dealers to control used-car trade-in allowances was a factor, upon investigation it was found that interstate commerce was not involved to a sufficiently substantial extent to establish jurisdictional requisites. Consequently, cases have either been closed subject to the Commission's right to reopen them, or dismissed without prejudice. In general, therefore, the regulation of the activities of such local combinations of dealers becomes a matter to be handled by the law-enforcement agencies of the various States, acting under their respective State laws, the terms of which vary greatly among the approximately 40 States that have enacted State antitrust acts.

UNFAIR METHODS OF MOTOR-VEHICLE MANUFACTURERS IN THEIR RELATIONS WITH THEIR DEALERS

The Commission finds that motor-vehicle manufacturers, and, by reason of their great power, especially General Motors Corporation, Chrysler Corporation, and Ford Motor Co., have been, and still are, imposing on their respective dealers unfair and inequitable conditions of trade, by requiring such dealers to accept, and operate under, agreements that inadequately define the rights and obligations of the parties and are, moreover, objectionable in respect to defect of mutuality; that some dealers, in fact, report that they have been subjected to rigid inspections of premises and accounts, and to arbitrary requirements by their respective motor-vehicle manufacturers to accept for resale quantities of motor vehicles or other goods, deemed excessive by the dealer, or to make investments in operating plants or equipment without adequate guaranty as to term of agreement or even supply of merchandise; and that adequate provisions are not included for an equitable method of liquidation of such investments, sometimes made at the insistence of the respective motor-vehicle manufacturer.

MANUFACTURERS' TREATMENT OF DEALERS

In the opinion of the Commission, this inquiry has demonstrated that inequities exist in the terms of dealer agreements, and in certain manufacturers' treatment of some dealers, calling for remedial action.

It is recommended that present unfair practices be abated to the end that dealers have (*a*) less restriction upon the management of their own enterprises; (*b*) quota requirements and shipments of cars based upon mutual agreement; (*c*) equitable liquidation in the event of contract termination by the manufacturer; (*d*) contracts definite as to the mutual rights and obligations of the manufacturers and the dealers, including specific provision that the contract will be continued for a definite term unless terminated by breach of reasonable conditions recited therein.

ABUSES OF INSTALLMENT FINANCING

The Commission finds that in the methods employed by some of the companies engaged in financing the purchaser of a new motor vehicle, serious abuses have developed, not only in permitting dealers to impose exorbitant charges but also in serious deception, or even direct defraudation, of the purchaser.

In the more general practice by the larger companies, the principal objection was that, in the original advertising of the so-called 6-percent plan, it was not made clear that the finance-charge rates were not interest rates and that the interest rates implied in the charges were nearly twice as much as 6 percent per annum on the money borrowed. However, the application of this plan constituted a substantial reduction from the rates of finance charge and interest that were in general use just previously.

The more serious deceptions have been engaged in generally by the dealer, often in connivance with a finance company. The practices here referred to relate to the so-called "packs" (padding), which are additions made, for no extra service, by the dealer to the regular finance charges provided in the finance-company's minimum-rate chart; and certain finance companies provided their dealers with the instrumentalities for such deceptions by furnishing them with two or more rate charts based on different rates of charge.

The Commission found, among the 30 finance companies examined, 1 finance company that systematically failed to afford car purchasers a portion of the insurance protection for which they were charged.

ITEMIZED INVOICE NEEDED FOR CONSUMER PROTECTION

In order that the automobile purchaser may be protected against overcharges, there is need of regulation requiring retail automobile dealers to furnish each retail purchaser with an itemized invoice showing in detail the components of the cash sale price—stating separately the charges for accessories, Federal excise tax, State or local sales tax, transportation, advertising, "handling charges," service, motor-vehicle license, motor-vehicle title registration, and each other charge included in the cash sale price of the vehicle as delivered—and the components of charges added to the cash sale price by reason of the fact that the vehicle is sold on time—the amount and components of the retail insurance premium and the extent of the coverage to be provided for each component, the amounts respectively charged for recording fee, notary fee, and documentary stamp tax, and the amount of the finance charge.

DECEPTION IN CHARGES FOR TRANSPORTATION OF MOTOR VEHICLES

The frequent practice of either motor-vehicle manufacturers or dealers of adding to the factory price a transportation charge to a certain point of delivery based on the published railroad rate, but which is greater than that actually incurred by the manufacturer or dealer, because of differing methods of transportation and delivery, is, in the opinion of the Commission, an unjustifiable imposition upon the purchasers of such vehicles, which should be eliminated.

SALE OF DRIVEN CARS AS NEW CARS

The practice of some retail dealers in selling as new cars those which have been towed or driven from the factory or used as demonstrators, unless the full facts, including the miles driven, are disclosed to the purchaser, is deceptive and unfair and should be eliminated.

By the Commission.

R. E. Freer,
Chairman, Federal Trade Commission.

June 5, 1939.

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