

STENOGRAPHIC REPORT OF THE ADDRESS

of

HON. JOSEPH E. DAVIES, CHAIRMAN,

FEDERAL TRADE COMMISSION,

BEFORE THE CLEVELAND ADVERTISING CLUB, AT THE HOTEL STATLER,

CLEVELAND, APRIL 19, 1916.

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Mr. Toastmaster, Mr. President, Gentlemen of the Advertising Club, and of the City of Cleveland: Upon different occasions, I have been in an unhappy state of mind when called upon to address public gatherings of this kind, but, at no time, have I been so perturbed mentally as on this occasion. When I sat down at your table the first thing that I noted was a slip with the printed announcement that stenographic reports of what I had to say could be had by signing the card and sending it to the secretary. That was anything but reassuring to a man who was relying in large part upon ex tempore expression. Then, in order to make me feel easy, the president of your club said, "This is a great audience that you are going to talk to to-day. They are vigorous, clear-headed business men. No theorizing goes with them." (Laughter.) Then, the toastmaster said, "Yes; and they are very well informed. They have had a great many of the most distinguished men of the country within the last few months to address them, (laughter) and they have set a pretty stiff pace for all the rest that are coming." (Laughter.) It is needless to tell you that I didn't enjoy my lunch. (Laughter.) It has been said, "Uneasy lies the head that wears a crown." It is not in it with this proposition. (Laughter.) It should have been paraphrased, "Uneasy wiggles a gullet over which revolves a speech." (Laughter.)

It is a pleasure, and indeed I regard it as a privilege, to be able to come to Cleveland and address this body of representative business men. For many years, being a resident of Wisconsin and a student of the University of Wisconsin with one of your distinguished citizens, Mr. Allard Smith, I have followed the executive and constructive accomplishments of your City of Cleveland with great admiration. It was a distinct pleasure to be able to come here and address a body of men who have been through this experience. It is gratifying to come to a community that has tried consistently in a world made of men to make government an agency to serve men in a practical and immediate way. And it is a distinct pleasure to come to the city which has contributed so many brilliant men to American history, and, if you please, none more brilliant than your recent contribution. I refer to Cleveland's loss and the nation's gain: to your former mayor, our able, strong visioned, clear-headed Secretary of War, the Hon. Newton D. Baker. (Applause.)

Your membership consists, I understand, not only of advertising men, but of men in other professions and businesses. In your lobby I noticed an invitation or a suggestion of the Associated Advertising Clubs of the World. It was my privilege to address the opening inspirational meeting of the Associated Advertising Clubs of the World last June in Chicago, and, from that experience, I can bespeak for all of you who go a most interesting experience and a revelation of the degree in which practical business men, foremost in their professions in the United States, can apply a moral principle in a workaday manner to everyday practices and everyday life to the common good of

their country and themselves. I never participated in an association that was more vigorous, more energetic, more practical, and yet that had more splendid, fine aspiration for service than that convention of the Associated Advertising Clubs of the World.

ADVERTISING, ITS POTENCY AND THE PUBLIC INTEREST.

Mr. Houston, of "The World's Work," recently told me that he had computed, during the last year, the amount of money spent for advertising. It surprised me to know that in his judgment the amount spent in newspapers, magazines, and billboards for one year was the enormous total of seven hundred millions of dollars. Advertising has become a very large factor in our business, and indeed in our national life. Advertising creates demand; fixes prices; determines how much you shall pay for things. Advertising, in a measure, determines the cost of living. Advertising is resorted to as one of the powerful influences in the warring countries to-day to arouse men to a realization of the obligations they owe to their country. The posters in England and in France are very significant of the relationship between business and national life even in modern wars. Illustrative of that in our own experience, it may interest you to know that there has just been projected an advertising campaign for the month of May, with which I am familiar, by Mr. Howard E. Coffin, of the Hudson Motor Company, assisted by the Associated Advertising Clubs of the World, that will use practically every advertising medium in the country, without cost of a single dollar to the Federal Government, to bring about immediate and active cooperation on the part of manufacturing interests with Mr. Coffin's committee, which is seeking to make an industrial survey of the manufacturing and other interests of the country for purposes of prepared-

ness in the event of war. Advertising will not have had a more striking illustration of its usefulness and its value than that phenomenon which is just about to happen in the magazines of the country next month.

Advertising affords to men an abundant opportunity to make quick money dishonestly. There is no line that requires honesty to a greater degree than advertising. It is significant of the character of advertising men of this country that they have found in their own consciousness the initiative and the moral impulse to establish organizations such as these and which have taken as their motto the words "Truth in Advertising." It is a splendid commentary upon the business outlook of America. It is, I believe, indicative and typical of the attitude of business of the United States. Business, by and large, is honest. You cannot indict a nation, and you cannot now indict a class. That there may be exceptions is doubtless true, but, from the experience of the last three years that I have had in government agencies, having to do directly with business, it is my judgment that the business men of the country desire to do right, and to do that which is honest and square. (Applause.)

Your toastmaster has asked me to tell you something about the Federal Trade Commission. The total business of the country, the total property value of the country, amounts to two hundred billions of dollars, and, incidentally, it is interesting to note that the warring nations of Europe to date, it is estimated, have spent fifty billions of dollars, which is a destruction of one-fourth of the amount of the total wealth of the United States. Approximately, thirty-six billions of dollars of this two hundred billions of dollars in property value is made up of industries outside of transportation and banking, and is under the

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jurisdiction of the Federal Trade Commission. The Federal Trade Commission was created out of a desire to bring into the relations between government and business and society, a constructive agency. It was designed by those who created it not as a punitive, but as a corrective force. It was hoped that it would serve to bring about a more simple, direct and informal agency for adjustment of matters than would be afforded through a strictly judicial or a strictly administrative agency. It is a nonpartisan body of five men appointed for a term of seven years for business and economic qualifications.

The chief function contemplated by Congress was to prevent unfair methods of competition in business. I presume that the history of the development of all monopoly will show that monopoly has had its seed and beginning either in control of the raw material, which is taken out of the earth, or in control of the transportation facilities, or in an understanding with the transportation facilities which would give secret rebates, or unfair methods of competition resorted to to drive competitors out of business. For instance, local price cutting is a practice which has been engaged in in the past whereby the price was cut in the community in which a competitor was doing business, and raised in another community to offset the loss, and thus step by step remove the potential competitor by driving him out of business by sheer weight of capital and power. There are many other forms of unfair competition. These unfair methods of competition are resorted to before a monopolistic condition has been accomplished. After the horse has been stolen, there is no particular need for locking the barn.

We were created, in part, at least, to try to prevent unfair methods of competition being practiced and being used to destroy small competitors,

before they have actually been destroyed and monopoly had been achieved. Of the three hundred and five thousand corporations that are doing business in the United States, ninety-nine per cent of them are little fellows. Now, when I say little, I mean little relatively. A million dollars is little as compared with several hundred million. A million-dollar concern, a two-million-dollar, or a five-million-dollar, or a ten-million-dollar concern, may have at its head a man of a commanding genius, who keeps in touch with every detail of his work, who inspires the personnel under him to energetic action, who has good judgment, who keeps in touch with every efficiency in his plant, and with fair dealing may be able to more than encompass and overtake the advantage which mere size on the part of the less well-organized concern might have, and he is entitled to every chance without the fear that he will be driven from the market simply by the overpowering size of the other man.

The greatest menace to the great body of business men of this nation lies in the practices of unfair competition which are potential in large and monopolistic rivals. Of the 305,000 corporations of the United States, 296,000 have a capital, surplus, and undivided profits of a million dollars or less. But 1600 corporations have a capitalization of five million or over. And yet one hundred of these corporations own one-seventh of the total property value of the nation. The greatest menace to these 296,000 corporations of relatively small capital, who constitute 95 per cent of the business interests of the country, is the unfair methods of competition which might be employed by their larger and more powerful rivals, who might have no scruples in the methods they might employ.

For instance, only eight weeks ago the manager of an independent company came to us and complained of the fact that a very large rival was engaged in an unfair practice. He said that while the value of their property was large, that if this practice were to continue, they would be required to meet it, that they could not stand it as they were losing some thirty to fifty thousand dollars a month. Investigation disclosed that there was probable cause for complaint, and pursuant to practice the offending corporation was notified of the complaint and asked what it had to say. The first letter received no reply. The second letter received no reply. The third was a telegram, and they came. Sitting down around the table with the complainant, the persons complained against, and our Commission, we talked it out. The net result of it was that the offenders agreed to desist voluntarily from those unfair practices, not only as to the local complainant, but as to all other local independents wherever situated in the United States. There wasn't much said about that. Indeed, the virtue of our work of that character is largely because of the lack of publicity involved. We don't published the names of the persons complained against until we have decided to issue a formal complaint. We find, sometimes, that there are strike complaints lodged with us. We have to protect the party complained against as well as the party complaining. This illustration might be duplicated with others of the manner in which the Federal Trade Commission, in a quiet way, is seeking to serve the great body of business of this country. It is doing it in a spirit of constructive helpfulness, with the design of keeping off the front page of the newspapers. It does not harass; it seeks to help. We have been met by the business communities, small and large, in a splendid spirit of accommodation.

The whole idea of the Commission, indeed, the only service that a commission can perform, is to bring speedy, expeditious and quick results in a situation that brings relief quicker than the courts, or other administrative agencies. If it cannot do that it has little justification for its existence.

Among other functions we have been charged with the duty of making certain economic investigations; and we are now engaged upon such inquiries into gasoline prices, the Standard Oil dissolution, the sisal, lumber, and bituminous coal industries. Similar activities affecting our foreign trade may be of interest to you. When this war broke, a man came to my office and told me that there would be a shortage in dyestuffs. He was a Member of Congress. He had been telling his story to a great many officials in the Government. Within four months from that time, what he said became very evident. Now, what is the situation? The German dyestuffs cartel is said to have a capital stock of thirty-six million dollars. It is an old, established and highly integrated organization. It is highly scientific. It has property of the value estimated at four hundred million dollars. Recently we took some testimony over the country, and in Detroit an American manufacturer of one of the dyestuffs (intermediates) testified before our Commission that whenever they sought to make inroads in any substantial way upon the American market as against German dyestuffs they were met with cut prices by the German manufacturers. This gentleman in Detroit told us, corroborating what had been said by two other gentlemen in New York, that the agents of the foreign cartel had expressly stated to them that if they were wise they would keep out of that particular industry, because they would not permit their market to be encroached upon by an American

enterprise; that they were better fitted than the rest of the world to manufacture dyestuffs, and they were going to keep their markets. As a matter of fact; they are no better equipped so far as natural resources are concerned. They may be better equipped in the number of scientific chemists and the number of scientific men which they have trained by several generations of experience. These gentlemen also made the statement that there was no protective tariff that would be sufficiently large to protect them, and that when a protective tariff had sought to protect them the tariff had been absorbed by the foreign manufacturer. Now, that is dumping. A great many people think there is going to be a good deal of dumping after this war. Others believe that so many factories have been destroyed, so many men have been killed, so much poverty and destitution will result that it will be all the foreigner can do for many years to come to take care of himself without seeking to actively compete in a foreign market? For myself, I am inclined to believe that there is relatively little danger from dumping, because the economic history of all wars, certainly in our country, and certainly within the last hundred years, shows that where dumping has occurred, it has not been precipitated by a country which has been worn by war upon a peaceful nation, but, indeed, that quite the reverse has been the case, and that dumping processes have been going on from the nation that has been at peace into the nation that has been devastated by war. It was so after the War of 1812. There was dumping in this country. It was so after our Civil War. There was dumping in this country, and it was so in Germany after the Franco-Prussian War. The probabilities are that there will be little danger of dumping by foreign countries; but, regardless of that, fair precaution and reasonable diligence would require

that we should exercise every degree of prudence, and not follow theory alone, and take every possible precaution against any such unfair competition, and the Federal Trade Commission has been in conference with the Secretary of Commerce, and we have prepared a bill which undoubtedly will be presented to Congress, and probably enacted, to prevent unfair competition from abroad, to the same degree that we prevent unfair competition in this country. That is provided by the Clayton Act in this country. Why, then, should not it be provided to prevent the foreigner from taking advantage of our manufacturers.

I recall one time when I was at the University of Wisconsin, which is located at the State Capital, going down to the assembly chamber to listen to a debate, and I saw a very statesmanlike looking individual, with very long hair, waving his arms and orating in a very loud tone of voice. Presently, my friend, who is of the keen, shrewd, type of man, got up and said, "Mr. Speaker, I rise to a point of order." "State your point of order," said the Speaker. Just at that time, the oratorical gentleman had stopped to take a drink of water as I am doing now. He said, "Mr. Speaker, I make the point of order that it is not order, parliamentary or natural, for a windmill to go by water." (Laughter.)

Resuming in a serious vein for just a moment more, here is another interesting situation in the foreign field that may interest you. We have been conducting an investigation of the degree of competition that exists in the foreign market. That is, we have tried to find in South America what competition American manufacturers going down into that field would have to meet from European competition. Going into China, what competition do we meet? What do we meet in South Africa? What do we meet all over the world? We find a most interesting condition to

exist. We find that there are six hundred cartels or syndicates in Germany that are combinations of many manufacturers, not only for domestic but for export trade. We find that there are rings in England of affiliated manufacturers, who are equipped in China to furnish everything from a locomotive to the financing of a province. They will build their factories, they will import the foodstuffs to live on; they will buy the material when it is done and pay the cash. We find that there are combinations existing in foreign trade which our manufacturers and exporters have to meet. One of the most interesting reports, I think, that will have been issued from the Government press for a long time will be this report on foreign trade, which we will shortly issue. We did something that has not been done heretofore. We availed ourselves of the commercial attaches of the industries of this country, and the consuls of the State Department, and we sent to all of them a questionnaire asking various questions, and the volume of interesting information that we got from those splendid, well-equipped men in foreign fields serving our Government for from twelve hundred dollars a year up is perfectly astounding. For instance, you may have been surprised that Turkey should have sided in with Germany. It is not surprising when you read the report of the consul in Turkey to the Federal Trade Commission and when you find the degree to which railroads and public utilities and other business there have been financed by German capital. In Constantinople a daily trade paper has been simultaneously published in German and in the Mohammedan language. This is only typical. If we are going to engage in foreign trade of the world, we are obliged to meet these conditions and these concerted activities.

In the absence of injury to any American interest a greater degree of cooperation in export trade than is allowed in domestic trade may be beneficial to the country. If this is not now permitted by law, new legislation, to that end, properly safeguarding the public interest, should be enacted.

BASIC PRINCIPLES.

This position is in entire consonance with the public policy of this nation with reference to Government's relation to industry. Competitive conditions in foreign markets are assured by the international conflict of interests. Opportunity is afforded, through cooperative effort in this field, to those who otherwise, by reason of their limitation in size, would be denied such opportunity.

The objection which is urged with greatest force any cooperation for foreign business is that the combinations effected for export trade may be used to oppress competitors here at home and to exploit consumers in the home market. There is plainly a serious danger here, and it must be met frankly and guarded against effectually. But abuses of this kind, and the possible abuse of an extension of a monopolistic condition into the foreign field to the disadvantage of the smaller manufacturer in such activity, can be prevented, we believe, by Federal regulation. Other nations having policies similar to ours have found it possible within the law; and it is equally possible for us. It is not consonant with the spirit of our people to fail to grasp a great opportunity because of possibilities of evil, which can be guarded against and prevented.

I believe that it can be done. The whole problem that this revolution of the last eighteen months, this horrible war has projected upon us -- and I pray it may be the only problem -- is the industrial question of whether

democracy is equally efficient and capable of equal efficiency with autocracy.

EFFICIENCY IN INDUSTRIAL COMPETITION.

While the significance of Germany's efficiency may perhaps have been exaggerated, nevertheless it is true that an industrial as well as a military organization has been quietly developed in Europe that has eclipsed anything of the kind that we have seen. Economies have been induced in production; scientific methods effected in marketing and distribution; exploitation through combinations of an international character have been developed and are the complement of a military machine that has commanded the admiration of the world. Within the months last past these facts have not been apparent to us alone. England, France and Italy have, under the pressure of overpowering necessity, endeavored to specialize industry for greater economy and effectiveness, and to a degree that it is difficult for us to understand. These influences will obtain after peace has come. To speculate as to the future conditions following the war is idle. But it is still greater folly to assume that in the long future these lessons derived from these conditions will not be translated with military effectiveness and discipline into efficiencies and economies of production and distribution, when the energies pent up in the struggle shall be released for industrial endeavor. The reorganization of industry, when finally established in Europe, will in all probability be invested with a degree of efficiency that will command the respect of all rivals in international competition in the markets of the world. The stimulus of necessity will speed these processes, with the resumption of peace; for international bills will have to be paid through reversing

balances of trade, if that be possible; people will have to be employed, and every effort will be made by governments involved to sustain themselves from destruction.

When these conditions will obtain in international industry it will require all of our vision and discipline, enterprise and conservatism, sagacity and daring, to meet them. It will require that our industries shall be integrated and stabilized so that not only will the economies of sustained production be available, but it will require that the social well-being of the workers shall also be sustained upon a proper level, to the same end. It will require a large-minded intelligence and vision in the division of the fruits of industry between capital and labor. Socialized autocracy did this before this epochal war, in a manner that challenged the admiration of the world. It is our task to demonstrate that representative democracy can be equally efficient and serviceable. For a monarchy this task is relatively simple; the task for democracy is far more difficult. For in democracy we cleave to certain essential, fundamental principles as the covenant of our faith, whereas in autocracy there are no such principles that impede translation of theory into effect. We believe in democracy, in America. We believe that it is our first mission in civilization to preserve and sustain it, and demonstrate it as the enduring form of government for the benefit of mankind. It is the very essence of our aspiration, and the spirit of democracy that there shall be fair opportunity for all, not only in political rights but in the exercise of industrial and commercial vocations. Autocracy and monopoly are not abhorrent; they are the same thing -- one in political life, the other in industry. Democracy and monopoly are incompatible, because monopoly consists of a denial of the principle of liberty in a sphere of action that

touches most intimately and vitally the life of the people. But this does not mean that we should set our face against the advance of progress in industry. The economies of large-scale production to the extent that they exist, the advantages of integration of industry, the sustaining force of stabilization in industry, the prevention of feast and famine, the prevention of cutthroat competition, can all be encompassed in a democratic state without yielding to monopoly in principle or in effect. The problem of democracy is to conserve the efficiencies of industry to the highest degree that is compatible with the fundamental conception of liberty and freedom in industry. The problem of government is not only not to thwart efficiencies, but to stimulate them, to aid them, to develop them to the highest degree that is compatible with the general welfare. That is the problem for democracy. That is the great challenge that comes in the history of civilization to this great Republic, with renewed insistence, out of this epochal war.

It requires that we shall coordinate and marshal all of the best forces that are in our industrial, business, and political life, for its solution. The critical function is easy, the constructive function is hard.

We seek to build up, and not to destroy. We desire to aid, and not to harass.

To preserve for the benefit of posterity the real essence of liberty and freedom in opportunity which America has always prided herself in, is the fundamental source of our effort in Democracy.

I thank you. (Loud and continuous applause which finally brought Mr. Davies to his feet with the following remark:)

What the toastmaster and your president said with reference to the character of this audience is preeminently true, as testified to by your enthusiasm. (Laughter and applause.)

The Chairman: Gentlemen, your intense individual attention to every single word that Mr. Davies spoke must be proof positive to him of your appreciation of what he has said. I simply am speaking for you, and want to thank him for this wonderful address, and to thank the officers of the club for having brought him here. We are adjourned.
