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ADDRESS

of

EDWARD N. HURLEY,
VICE CHAIRMAN OF THE FEDERAL TRADE COMMISSION,
BEFORE THE BOSTON COMMERCIAL CLUB,

March 28, 1916.

It affords me great pleasure to be with you to-night and to address the Boston Commercial Club, a club which is so well and favorably known.

I am glad to meet with business men in the great city of Boston, where such marvelous strides in growth, development, and wealth have been made during the last decade.

The Federal Trade Commission, recognizing the importance of New England in manufacturing and shipping, held its first public meeting in Boston. We have received valuable information from your business men, which has been very helpful in outlining our report on foreign trade. This report will be presented to Congress in a few days.

Most of the larger problems of business with which you are concerned have to do with the improvement of conditions in industry as a whole and to that extent the industrial welfare of our country.

GOVERNMENT COOPERATION.

Government and business are and should be mutually helpful. Through a period of years the Government has been gradually extending its machinery of helpfulness to different groups upon whose prosperity depends in a large degree the prosperity of the country. To adjudicate, and determine the questions that arise between shippers and carriers the Interstate Commerce Commission was established. Through it the railroads and the shippers alike can secure prompt and definite rulings as to what they can and can not do. The fruit growers of the country, the farmers' cooperative elevator associations, the dairy producers' associations receive aid, advice, and rulings on important questions from the Department of Agriculture, and all are urged to cooperate to benefit their conditions. Now the bankers, through the Federal Reserve Board, can receive authoritative decisions as to their powers and duties. All of this is of general benefit to the whole country.

BUSINESS, TOO, REQUIRES ASSISTANCE

To do for general business that which these other agencies do for the groups to which I have referred was the thought behind the creation of the trade commission. To make that thought clear I will quote from the President's statement on the subject:

The business of the country awaits also, and has long waited and has suffered because it could not obtain further and more explicit legislative definition of the policy and meaning of the existing anti-trust law. Nothing hampers like uncertainty, and the business men of the country desire something more than that the menace of legal process in these matters be made explicit and intelligible. They desire the advice, definition, guidance, and information which can be supplied by an administrative body, an interstate trade commission. The opinion of the country would instantly approve of such a commission. It demands such a commission only as an indispensable instrument of information and publicity, as a clearing house for the facts by which both the public mind and the managers of great business undertakings should be guided, and as an instrumentality for doing justice to business where the processes of the courts, or the natural forces of correction outside the courts, are inadequate to adjust the remedy to the wrong in a way that will meet the equities and circumstances of the case.

Groups of business men are constantly coming before the Federal Trade Commission, asking for information as to how they can improve conditions. Manufacturers come to us protesting against overproduction or complaining against their competitors, claiming unfair methods of competition, and asking us for relief. They assert their competitors are selling goods below cost and ruining the industry in which they are engaged. For these evils, often of many years' standing, they request relief.

The Federal Trade Commission has been in existence one year, and after surveying the field we found from a preliminary investigation that 200,000 corporations out of a total of 260,000 engaged in the manufacturing and mercantile business of the United States were eking out an existence; 100,000 of them did not earn a penny. Out of 60,000 successful corporations doing a business of \$100,000 a year, over 30,000 charged off no depreciation whatever. Only 10 per cent of our manufacturers and merchants know the actual cost to manufacture and sell their products; 40 per cent estimate what their costs are; and 50 per cent have no method, but price their goods arbitrarily. Most of the manufacturers and merchants who do not know what their goods cost are basing their selling price on what their competitors sell for, and with only this knowledge for a basis they are frequently cutting prices and demoralizing the industry in which they are engaged.

There were over 22,000 business failures in the United States last year; more than 20,000 of them were small concerns. We all know that a large percentage of business is run at loose ends, haphazard, and without the proprietors really knowing at any time how they stand or whether they are making a profit or a loss.

LACK OF ADEQUATE INFORMATION.

The Federal Trade Commission, no matter how anxious it is to be helpful to those laboring under these industrial disadvantages, is confronted at the outset with a lack of adequate information regarding industry.

With all the attention that has been given to business the past 15 years it is a remarkable fact that today there are no comprehensive data available, no constructive material at hand to furnish to a manufacturer, merchant, or trade association desiring to improve the unsatisfactory conditions in their industry. Without such data it is impossible to make recommendations to Congress for helpful constructive legislation.

From the Government the railroads receive statistics giving them a broad view of the transportation situation of the country. The farmer is told frequently the conditions of the crop, so that he may know how and when to dispose of his surplus products. The health of his stock is under the jurisdiction of the Government. The banker is furnished details as to the financial condition in the country by the Treasury Department. These are helpful fields of Government activity, and the people of the country are heartily in accord with this work.

Manufacturers and merchants who are merchandising the farmer's product, shipping their goods over the railroads, depositing their money in the banks, and meeting the pay roll of thousands of employees -- these, too, should be furnished with data and information regarding their respective industries.

In order to cooperate intelligently with the manufacturers and merchants of the country the Federal Trade Commission must have these facts. With this thought in mind we recently mailed to every corporation in the United States a form containing a few simple questions pertaining to their industries. This information embraces the products which they manufacture, their annual sales, the capital invested, and other principal items, such as depreciation, and so forth. These data will be compiled by industries and a summary of results sent to each company engaged in that particular line. This will give each and every man in the business an opportunity to know whether or not the industry he is engaged in is in a healthy condition. If an industry with large capital is showing no earning power, that industry either is not well managed or the production exceeds the demand. Knowledge of existing conditions will prevent others from entering the business or unprofitably investing additional capital where overproduction already exists. The industry in which conditions are unsatisfactory will receive particular attention and the real causes of the conditions will be ascertained.

These facts are not to be asked for in any inquisitorial spirit, and the hearty cooperation which the Trade Commission has so far received from the business men of the country indicates their appreciation of the need of such definite facts.

BUSINESS COOPERATING WITH COMMISSION.

During the past year business men appearing before the Federal Trade Commission have presented many of their problems, and as a business man it has been particularly gratifying to me not to have had a question presented that did not show honesty of purpose and straightforwardness in every way. From this experience I know that we will continue to receive cooperation from the business world.

In the Federal Trade Commission's investigation on foreign trade most of the information was supplied with unusual promptness from business men, who spent a great deal of time in giving us facts and figures regarding actual conditions existing in foreign markets and the difficulties experienced in competing with our foreign neighbors. This report is on the press and will be published in a few days, and I hope it will be useful to the business men of the country. It could not have been published without their hearty cooperation.

Is this not evidence that Government and business have a better understanding and both recognize, in order to do big things, they must have the same object in view and have confidence in each other? I believe these conditions exist today, and if it continues the problems will be easy to solve and will make the effort worth while.

The Association of Public Accountants has appointed an advisory board to confer with the Federal Trade Commission on matters pertaining to standard forms of accounting. The National Association of Credit Men has also appointed a committee to confer with us at any time on request.

The Chamber of Commerce of the United States has a Federal trade committee, of which Mr. Harry A. Wheeler, of Chicago, is chairman. Last autumn this committee sought a conference with the Department of Justice with a view to ascertaining the probable attitude of the Department of Justice with respect to future prosecutions under the antitrust laws. It was explained to the Attorney General by representatives of the committee that if he would express himself it might be regarded as reassuring to the public mind and at the same time dispel some uncertainty which heretofore has been said to exist. A number of conferences were held, and the result was that the Attorney General made a statement in which, among other things, he outlined the policy of the department as regards the method of enforcing the law in those cases which are admittedly doubtful. He stated that where men have entered into a transaction believing in good faith that the transaction is a lawful one, and subsequently, upon complaint made, the department reaches the conclusion that the transaction was not in accordance with the statute, but is yet satisfied of the good faith and innocent purpose of the parties, and can see that there was ground for the view upon which they acted, it has not been and will not be the policy of the department to invoke extreme penalties against them. In such a case the department would consider that the just and appropriate and quickest way of enforcing the law would be by a civil proceeding in which the question involved could be contested or a consent decree entered, according as the defendants desired, or by a notice to the parties of the department's conclusion, with opportunity to abandon or modify the transaction. It was further stated by the Attorney

General that no proceeding is ever instituted until after the most painstaking and exhaustive investigation, in the course of which the person or corporation against whom complaint is made is given full opportunity to submit its defense before any action is taken.

The Illinois Manufacturers' Association, the National Foreign Trade Council, and many similar organizations have committees of business men who stand ready and willing to cooperate with the Federal Trade Commission.

QUESTIONS BEFORE THE AMERICAN PEOPLE.

Efficient methods of manufacturing, industrial preparedness, and foreign trade seems to be the most important questions before the American people today. You are vitally concerned.

Undoubtedly the business of the country requires some helpful readjustment. Many suggestions have been made by writers and lawyers of note, by captains of industry and legislators, prescribing different remedies. There is no one remedy that will give relief to all of our ills. What will help one industry may injure or kill another, but I believe there are a few fundamental principles upon which may be based the diagnosis and treatment of ailments of industry and commerce.

STANDARD ACCOUNTING METHODS.

When business was done on a large percentage of profit questions of accurate cost and of operating efficiency were not so important; but in most lines of industry today the large percentage of profit has passed. Manufacturers are working on smaller margins and must absolutely know what their goods cost. With margins of profit so close, any unreliable method of arriving at cost of production must be eliminated.

It is a fact well understood among business men that the general demoralization in a large number of industries has been caused by firms who cut prices, not knowing what their goods actually cost to manufacture; and the cost of selling, which is equally important, is almost wholly lost sight of. Are the officers of the companies who are cutting prices right and left, irrespective of their costs, fair to their customers, stockholders, or competitors?

A manufacturer who does not know with a close degree of accuracy what it costs him to produce the different articles he manufactures and what it costs him to sell them is not in a position to meet intelligently competition, and invites business disaster.

Many of the larger manufacturers have thorough cost accounting systems, which they recognize as necessary in order to give them the information essential to successful management. On the other hand, the number of small manufacturers who have no adequate cost-accounting system and who price their goods arbitrarily is amazing.

Proper accounting for the smaller manufacturer is most essential. It is necessary for his success that he know on what particular article he is making a fair profit and on what he is making only a narrow margin of profit or losing money. If he has this information, he can concentrate on the manufacture and sale of the product on which the profits are satisfactory.

Whole industries, in many instances, are suffering from a general lack of intelligent knowledge of cost.

HOW THE COMMISSION CAN HELP.

How can the Federal Trade Commission help to improve this situation?

The commission has no intention and no desire to use compulsory methods, but it does hope to reach the desired end by encouraging improvements in accounting practice, by indorsing standard systems of bookkeeping and cost accounting, and by assisting in devising standard systems, either at the request of individual merchants and manufacturers or through the association that represents the industry.

It is recognized that no one standard system of accounting is applicable to all classes of business, but that special systems are required for each group or class of commerce and industry.

The commission, however, while recognizing the commercial advantages to be derived from uniformity of systems, does not advise making a change where systems already installed give adequate information and are economically operated.

STANDARDIZING PRODUCTS AND PROCESSES.

In the field of standardizing products, processes, and raw material much has already been accomplished. Let me illustrate what has been done in this direction by citing a few representative industries. In the implement and vehicle field, wagon wheels have been standardized from 41 heights to 4; the width and length of tires have been made uniform. In automobiles, standards have been adopted for horsepower rating, tube sizes, spark-plug shells, ball bearings, and many other items. The association of knit-goods manufacturers adopted a scale for underwear sizes which, as you know, is at present used by practically every maker of underwear in this country, with a consequent prevention of loss formerly caused by wrong sizes. Architects and builders are urging uniform plans and specifications. The steel manufacturers issue booklets containing standard specifications for structural and boiler steel, steel rails, concrete reinforcement bars, and so forth. And so it goes. The manufacturer has fewer sizes to order and to make, the material men only a limited number to supply and keep in stock. Economy in production and continuity of operation are both served by this means and the consuming public shares the benefit by not having to pay for the wide and unnecessary variety of products and materials. Much of all this has been brought about by trade associations.

TRADE ASSOCIATIONS.

Commercial clubs, boards of trade, trade associations, manufacturing associations, and similar organizations constitute a most potent influence for accomplishing the ends for which they have been organized.

There are about 6,500 commercial, industrial, and trading organizations in this country. These include 2,500 chambers of commerce, commercial clubs, boards of trade, and similar promotive business organizations; a thousand manufacturing and mercantile associations of a general character, comprising business concerns in a number of different industries, such as State manufacturers' associations, credit associations, and so forth, and about 3,000 trade associations -- groups of business men in particular manufacturing, mining, or mercantile industries.

The commercial club, the board of trade, the chamber of commerce, attempts to bring together business men of all lines for the many kinds of cooperative endeavor so necessary for the progress of a business community. The general manufacturers' and merchants' association fills a similar need for the broad manufacturing or mercantile field, while trade associations consist of concerns in particular industries, and include manufacturing, mercantile, and producing associations, national and even international associations, and State and local associations.

THEIR FIELD OF ACTIVITY.

The activities of all of these business organizations are manifold, and the business done by their members runs into the billions. These groups of associated business men are putting forth special efforts to improve systems of cost accounting, bettering their processes of manufacture, standardizing their output, obtaining credit information, and endeavoring to advance the welfare of their employees, and are bound to be most important factors in our country's development in the course of the next few years.

Special commendation should be given to associations that are endeavoring to build up industry in these constructive ways. Successful production and successful merchandising require many steps in the process of changing the form of the raw materials and putting the product on the market at a figure adequate to cover the cost of production and the cost of selling and net some profit to the producer, without charging the consumer an excessive price; and neither the individual manufacturer nor the Government alone can work out the many serious economic and business problems involved so successfully as can a group of associated producers, laboring together in cooperation. These associations, when conducted intelligently and rationally, with the thought of bringing about improved business conditions, will make it possible for our industries to compete in price and quality in the markets of the world.

Trade associations should not only be encouraged to increase their membership, but should be furnished by the Government with complete statistics in their particular line and should be assisted in every way to develop and stabilize the industry.

The Federal Trade Commission's report on industries will be most helpful to associations, since it will furnish facts and figures not now available which will enable them to perform their proper functions of stimulating cooperative effort and improvement.

Industrial preparedness and the mobilizing of our industries in case of war can be accomplished and developed more rapidly through trade associations than by any other method. It is recognized that the foreign trade of Germany, France, and England could not have been developed so thoroughly if it were not for the trade association. If we are to be important factors in the world's commerce, the trade association must be encouraged.

The questions of giving to our workmen continuous employment so that they may average longer periods of prosperity can be solved through the trade association. With its knowledge of labor requirements in the whole industry, it can assist its members obtaining unemployed men from other parts of the country.

There should be a greater degree of organization and of mutual helpfulness in all lines of trade and industry, so that American business may be welded into a commercial and industrial whole, the part of the Government being to cooperate with business men, on request, to bring about the results that will benefit business and hence promote our national welfare.

FOREIGN TRADE.

If our business men are to be factors in the world's markets, they must receive encouragement to do as our foreign rivals are doing.

We have reached the point under normal conditions where we must have foreign markets for our surplus manufactured product. The American people, including every day laborer, every clerk, every mechanic, every farmer, and every business man, large and small, is heartily in favor of the Government giving immediate relief that will make it possible for us to obtain our share of foreign business, so that our factories may run continuously and keep our labor permanently employed.

With all that has been accomplished in this direction by collective effort, however, we have made only a beginning. In Germany every important industry is organized into trade associations, and 85 per cent of the manufacturers engaged in those industries are represented in their respective trade associations.

Germany's success as a commercial and industrial world power is due very largely to the policy of organizing and cooperating of the working together of its captains of industry, of establishing communities of interest between the small and the big business men for the mutual purpose of promoting trade at home and abroad. The old adage, "In unity there is strength," is put into practice and has proved to be the backbone of Germany's industrial and commercial achievements, efficiency, and strength.

More than 600 independent associations of manufacturers, producers, and merchants exist in Germany today, and, besides, the entire industrial system of that country is honeycombed with about 5,000 subsidiary business organizations.

In foreign trade men think in terms of national competition. In China and in South America the contest is not so much between individual corporations as it is between national industries. For example, the contest in South America is not between two steel manufacturers in Germany or two steel manufacturers in England, but it is between the German steel industry, the English steel industry, and the American industry.

In South America we do not hear of the actual or potential competition of European individual corporations or houses. We hear of German, French, American, or English competition. By means of cartels or trade associations, the leading industries in those countries have organized, and when they move forward into foreign markets they move forward united against competitors from other nations. Countries like England and Germany have built up a permanent export market in the countries of the world. This has come as the result of earnest cooperative efforts on the part of those interested in the particular industry in question.

The Government can furnish information to business men as to conditions in this country as well as to conditions in foreign markets. Necessity forced England and Germany to seek foreign markets; necessity will force us to seek foreign markets. No matter what efforts the Government may put forth, upon the business men of the country rest the responsibilities for the ultimate success of American foreign trade.