
GOVERNMENT'S PART IN OUR
DISTRIBUTION SYSTEM

ADDRESS OF

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The topic, The Government's Part In Our Distribution, probably was assigned to me because the Commission recently submitted to Congress about 8 parts of the very comprehensive study entitled, "Report on Distribution Methods and Costs." It's really a peacetime distribution study of some 20-odd industry groups, mostly for the prewar years 1939 and 1940. I am not going to go into that now; I just explained why I thought you asked me to take that subject.

The subject not only has those studies as its background, but it has also the quasi judicial work of the Commission in part. Among the cases which are decided by the Commission are a great many which have as their objective the breaking up of monopolistic practices and other restraints on free and fair competition which is the life-blood of trade. We have also worked out in the Commission a method of dealing with industries, whole industries at a time, through our trade practice conference procedure. We have more than 150 industries brought under this cooperative Commission procedure. I haven't time, nor do I think it appropriate, to deal with these matters today but I want to point out to you who are interested in the Commission's activities that we touch distribution not only through our general studies but through our formal case work and our cooperative trade practice conference procedure. I have more to say about our formal case work later on. I am not going to dwell on the trade practice conference procedure; I am just giving our own "plugs" and "commercials" for reports and rules that you gentlemen may care to write to me or to the Commission about and we'll be glad to send them to you.

IMPORTANCE OF DISTRIBUTION COSTS

One of the most important aspects of our postwar economy, it seems to me, is the question of the distribution costs. We're all consumers and the costs of distribution as well as the costs of production are borne by the consumer. Because these costs of distribution often are fully as large as, or larger than, costs of production and because perhaps less has been accomplished before and during the war toward making distribution more efficient, cutting the marketing costs offers the broader avenue to lower consumer prices and a higher standard of living for all of us. I told a gentleman this morning that I wasn't going to say to you that distribution costs too much, but that I was going to offer the testimony of others pointing in that direction; that, whether distribution costs too much or not, distribution was the avenue on which we had to work, to try to reduce costs, and I wasn't going to tell

you how to do that; but that I was going to tell you that it was a subject that demanded your attention. I'm very happy that you are having this conference because I think out of it will come some progress toward solving this extremely important question.

In Printers' Ink, April 28, 1944, the President of an advertising agency had this to say about distribution: "It costs too much to distribute merchandise and services. For every dollar of product value the consumer pays an average of two dollars and ten cents. Sixty percent of labor earnings are lost in the process of exchanging labor product for labor product. Is the maintenance of that kind of free enterprise all that business can offer to the world of tomorrow?"

In the March 23, 1944, issue of The American Wool and Cotton Reporter, a leading article cites the costs of getting taffeta into the hands of the consumer as "several times" the original cost of the fabric. I quote again: "From a manufacturing standpoint the important thing is to get busy on improved and more economical methods of distribution if production levels are to be maintained and employment held at full 100 percent for those who need it." Now like your speaker last night, and others who have addressed you, I'm not talking about this temporary situation with its pent-up demand for goods but about the long-range economy. The United States News, commenting on conditions in the Middle West, recently reported: "The first faint signs of an attitude like that in a 'buyers' strike' are showing up in stores around the country. More and more buyers are starting to balk at paying just any price for the first thing that is offered. * * * Enough of them back away now from low-quality, high-priced goods to make merchants take notice. Real shoppers are returning, the kind who quote a competitor's price on radios and other things that once sold without question. * * *"

ACCOUNTING IN RELATIONS TO COSTS

It's not easy to ascertain the manufacturer's exact cost of distribution even for companies with detailed accounting systems. Depreciation and obsolescence, repairs and maintenance, corporate taxes, and research and development usually, and administrative and general office expense always are incurred partly in production and partly in distribution hence should be prorated to those functions. The channels of distribution used by a corporation materially influence its distribution cost. The baker engaged in house-to-house bread selling, for example, has a much higher distribution cost than the wholesale baker selling to distributors and retail dealers. Selling and delivery are wholly distribution expenses which vary widely from industry to industry. For example, in 1940 for 91 industry groups, selling and delivery expense varied from a minimum 32/100 of a cent for crude petroleum producing companies to a maximum of 35.55 cents per dollar for sewing machine manufacturers. Again you can see the difference in the business makes a good deal of difference in the cost. Advertising is of course wholly a distribution expense; it ranged for leading industries from a minimum of 6/100 of one cent for the shipbuilding industry (which had only one customer in 1940) to 13.94 cents per dollar of sales for drugs and medicines.

In many industries the manufacturer performs some of or all the functions of wholesale distribution. That is particularly true in the

food lines. Associated retailers have formed wholesale organizations while the wholesalers supplement the distribution organizations of manufacturers. The food trade also has cooperative wholesale grocers, that is wholesalers buying for associated grocers. They've achieved much lower distribution costs than the old-line wholesalers. In 1939 the cost of the former was 5.87 cents per dollar of sales compared with 9.65 cents for the latter. I'm not going to read you a lot of figures from our reports for 2 reasons. First, I think that figures are very poor post prandial dessert; second, I don't want to tell you what is in the report, because I hope those of you who are interested in the various parts of our reports, will write the Commission and obtain copies.

AGRICULTURE'S STAKE IN DISTRIBUTION

I do want to say a word about agriculture's stake in distribution. Following the Civil War and again following World War I, American agriculture experienced long periods of declining prices. Agriculture is always one of the first industries to develop large production following a war. While every segment of our population is interested in efficient, low-cost distribution to match our development in production techniques, no part of our population has a greater stake in low-cost distribution than agriculture. The operations of the American farmers today are highly specialized and where the products are produced far from centers of large consumption it's easy for a complicated system of distribution to develop. The American farmer sells in the wholesale (or processor) market and purchases in the retail market. High distribution costs reduce farm income and thus restrict the sales of industries that sell to the farmers.

In 1936 the Federal Trade Commission made a study of the distribution of the proceeds among producers, middlemen, processors, transportation agencies, and retail dealers. The information was obtained by tracing carload shipments from assemblers, through all the different handlers, including chain-store retailers, to consumers. One of the products that we traced was Pacific Northwest apples. Data were obtained covering the sale of 707,617 boxes of apples. Every important apple-producing region in your state was included in the study tracing sales in 11 important markets including New York, Chicago, Boston, and Philadelphia. I'm not going to read you all those figures, but I'm going to give you a few. It was found that for sales made in Boston, the Pacific Northwest apple grower received only 15.74 cents, on the average, out of each dollar paid for apples by the consumer. Distribution margins were more than double the amount obtained by apple growers, or 33.50 cents out of each dollar expended for apples by consumers. Freight and other transit charges were 28.49 cents of the consumer's dollar of sales; and all other charges including washing, packing, sorting, grading, storing, inspection, and loading costs were 22.27 cents. For sales in Philadelphia, growers' proceeds averaged 25.15 cents out of the Consumers' dollar, in New York City, 22.97 cents, and in Chicago, 22.37 cents.

Of course the farmer's low proceeds for sales in Boston were caused by higher freight and other transit charges, and very high storage

charges which were either nearly double or more than double those in the other cities. On the other hand, the Boston Chain store retailers took a smaller proportion of the consumer's dollar than the chains in New York, Philadelphia, or Chicago. In other words, the extra expense did, in part, come out of handling costs rather than out of your farmer's pocket.

TABLE I

NET PROCEEDS TO GROWERS AND TRANSIT CHARGES PER BOX FOR PACIFIC NORTHWEST
APPLES SOLD THROUGH CHAINS AND FOR TOTAL SALES (1936 study)

City	Sales through chains			Total sales	
	Transit Charges	Growers' Net Proceeds	Retail Margin	Transit Charges	Growers' Net Proceeds
Boston.....	\$0.67	\$0.37	\$0.65	\$0.49	\$0.68
New York.....	.66	.64	.80	.63	.66
Philadelphia.....	.65	.76	1.01	.55	.66
Chicago.....	.64	.54	.76	.43	.54

Another Pacific Coast product that was traced from the grower to the consumer, through chain-store sales was iceberg head lettuce. Quite a wide range prevailed in the proportion of the consumer's dollar that was obtained by growers for sales in different markets. For sales in Dallas, the grower received only 14.22 cents out of each dollar of sale. The charge for freight and other transit was 25.98 cents, the retail margin 37 cents, and packing and loading cost 18.22 cents--all much larger than the grower's proceeds. The largest proportion received by the grower was for sales in Atlanta, where the consumer was charged \$1.73 per crate more than at Dallas. The grower's proceeds were 27.38 cents out of each sales dollar, or \$1.59 per crate, compared with only 58 cents per crate for sales in Dallas. In the 9-market study, the retail dealer's margin exceeded the grower's proceeds in every market except Atlanta, freight and other transit costs were greater than the grower's proceeds, and the packing and loading costs constituted an important part of the price paid by consumers.

PER CRATE MARGINS RECEIVED BY MAJOR MARKETING AGENCIES AND GROWERS FOR
PACIFIC COAST ICEBERG LETTUCE SOLD IN SELECTED MARKETS

Market	Retailers	Transportation Agencies	Packing and Loading Cost	Lettuce Growers
	Cents	Cents	Cents	Cents
Dallas.....	37.00	25.98	18.22	14.22
Kansas City.....	33.14	24.87	16.95	17.96
St. Louis.....	33.98	25.11	16.25	13.41
Atlanta.....	26.41	28.11	13.89	27.37
Chicago.....	33.96	25.66	15.47	21.63
Baltimore.....	31.50	26.64	13.29	20.73
Philadelphia.....	37.42	26.59	12.57	16.55
New York City.....	32.62	25.94	12.71	20.43

REPORTS ON COSTS AND PROFITS

The Chief message I want to bring you about distribution, is the importance of its cost. Also, however, I want to say a word about the need for adequate reports regarding production and distribution costs and profits. All of our periods of maximum business activity have coincided with the development of important new industries. Under our free enterprise system an individual, say a returning veteran, is

free to engage in any new venture even if it be foredoomed to failure. But it is only successful ventures which are of permanent benefit to our country. Hence, new ventures should be carefully chosen and in that regard I want to put in a plug for the federal government. It can collect and currently furnish facts and figures, sufficiently comprehensive with respect to the aggregate profitableness of existing business enterprises, as will minimize the risks of sowing venture capital and vital energy on unproven ground. I know from my work in the Federal Trade Commission, that businessmen constantly want information with respect to production, prices, consumption, many things. Many industrial trade associations sporadically gathering such information for the use of their members, including some of those in such important industries as oil, lumber, cement, and drugs, have been charged with misusing such information in violation of the anti-trust laws; whenever they do that, their members get cold feet and the associations drop much of the valuable part of their statistical collecting programs. The Temporary National Economic Committee unanimously recommended that the kind of statistics the businessmen want and need should be collected by the Federal Trade Commission. Their final report, 1941, page 31, said: "One of the striking facts of experience in national economic policy formulation during the past decade, amply demonstrated by the experience of this committee, and more recently emphasized by the pressing problems of industrial mobilization confronting the national defense authorities, is the inadequacy of factual information concerning the structure and functioning of our industrial economy."

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

I believe our business leaders today have indicated a very laudable desire to undertake the major responsibility for the functioning of our general post-war economy after reconversion is complete. The degree of their success in my opinion depends on the boldness with which they attack the problem of reducing the costs of distribution. The solution of that problem will insure an expanding production of consumers' durable goods. Our own organization hopes to furnish statistical grist for grinding in the research mills of those who want to help solve this problem. We have always taken the position that what is needed is not less but more business statistics available to business and the public alike. We have followed in the footsteps of our predecessor, the Bureau of Corporations in the old Department of Commerce and Labor, by publicizing business facts and figures from time to time. More than 100 reports of investigations promotive of technological efficiency in both production and distribution have been made by the Commission, either at the request of the President, the Congress, or on our own motion.

GOVERNMENTAL CLIMATE

Perhaps a talk on distribution by a member of the Federal Trade Commission might not be complete without some word about the governmental climate in which goods and services must be distributed in our

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

The Federal Trade Commission Act and the Robinson-Patman Act as well as the other antitrust statutes, are based on the underlying philosophy that competition, if free and fair, will provide in and of itself all the general regulation necessary. The Department of Justice and the Commission, therefore, are not given large regulatory powers but are charged merely with seeing that there is competition and that it is fair. That is the fundamental philosophy of the Federal Trade Commission. It doesn't seek to regulate business, but provides the rules of the game by which a runner who has hit a ball is required to run to first base and not confuse the shortstop by running to third base. He has to follow the rules of the game; other than that, the Commission's objective is to keep effective the few rules that will keep the economy functioning without artificial restraints on competition.

To the extent that the Commission has challenged and impeded the development and operation of monopolistic practices, I think it has promoted both technological efficiency and social efficiency in distribution. I refer, in that regard to some of the Commission's cases in which a challenge is directed to the legality of certain systems of delivered prices, - three types: "the basing point system," "the delivered price zoning system," and the so-called "f.o.b. plant freight equalized system." The United States Supreme Court upheld the Commission's order directed to the Corn Products Refining and Staley Companies and their operation of a uniform delivered price basing point system. Other cases involving the other 2 systems mentioned and one involving the cement industry are in the process of court review now. Those systems have in common the deprivation to customers of advantage in delivered costs in dealing with nearby producers who must sell f.o.b. destination under a program of matching and equalizing delivered prices. Since these systems of "uniform delivered prices" and "identical delivered price quotations" have as their companions excessive cross-hauling and phantom freight, I might guess that the governmental climate may be forecast as continued cool toward them.

NATIONAL OBJECTIVE

Now a word about the philosophy of what our national objective should be from the point of view of the Federal Trade Commission's work. We think it should be expanding production, efficient distribution, and nonwasteful consumption. In no other way can we contribute to the maximum to the gigantic task of rebuilding the post-war world. Under the pressure of wartime demand our manufacturing and processing industries have learned very valuable lessons in production economies. This progress should be matched in the field of distribution. In the last analysis, the quantity of production and distribution of any given

commodity depends upon consumption. The manufacturer cannot long continue to produce and distribute his product unless the consumer will buy. We had a buyer's strike following World War I in protest against the price of clothing; I remember a United States Senator appearing in Congress dressed in overalls. We again have buyers worried about high prices.

Balance is an essential element in efficiency of any kind, whether in the process of producing, distributing, or consuming goods. If we systematically produce and attempt to distribute more than we can consume, we destroy the balance between those 3 basic functions of our economy; we create a buyers' market and a stagnant industry. Likewise, the systematic consumption of more than current production and surplus stocks upsets the balance in the opposite direction and we have a sellers' market with its hectic activity. In a sellers' market there is always a tendency for manufacturers to increase their prices. We are going through enough of that right now -- I don't need to illustrate it. But the greatest increase frequently comes in distribution. For example, following World War I, there was a shortage of anthracite coal. Prices rose to such heights, that the Commission was directed to make an inquiry as to the causes. It was found that through pyramiding of middlemen's charges, the customary wholesaler's margin of not to exceed 25% per ton for anthracite coal was increased to as much as \$5 and \$6 per ton.

Whatever be our accomplishments in enhanced technological efficiency of production, or distribution as such, there is a question whether or not there is real social efficiency when we thus alternate between "boom and bust" with the consumer tormented by unemployment in the buyers' market and plagued by a zooming cost of living in the sellers' market. There is need for the engineering and pioneering type of mind in the search for technological efficiency in the production and distribution of goods; there is also need for engineers and pioneers in the search for efficiency in maintaining a proper balance between such production and distribution and consumption. Our individual interests as consumers in any long-range view are necessarily paramount to our individual interests as producers or distributors. And the greatest spur to consumption is low price; the lowest price consistent with the maintenance of productive and socially desirable enterprise is the hallmark of efficiency. Whatever tends to lower prices, tends to create efficiency through increased consumption. This in turn tends to stimulate production and distribution and to maintain all three in balance. The theory underlying the competitive system is that it is the best method of inducing men of superior mental endowment to work efficiently to the end that society in general may thereby reap the benefit. Unless it does reap that benefit, organized society is merely maintaining a system under which the efficient may exploit the inefficient and the strong may exploit the weak.

The efficiency that reduces costs and then spreads the benefit throughout the whole social organism by reducing prices doesn't flourish in the hothouse climate of private monopoly. Even though such a monopoly may reduce its costs by more efficient methods, it has a strong

incentive to monopolize the benefits unless prodded by the spur of competition. In competitive sport the game is for one competitor to outdo the other. And the contestants are expected to call upon their varying abilities and reserves of efficiency for that purpose. We would regard the game as fixed and fraudulent were it otherwise. It is the effort to outdo the competitor that creates and releases unsuspected reservoirs of ability and efficiency in all the contestants. Let's not abandon that principle in business. I should hate to see business become like book chess, where black may be expected to know every move that white's going to make. And I don't think that business should deceive itself to think that it can remain free and at the same time deny to society the benefits of competitive efficiency, thereby periodically putting the mass of small consumers through the wringer of depression and unemployment and progressively wiping out the small producer.

CONCLUSION

I have given you a few of my thoughts and philosophies regarding distribution and it comes back again to the point I made that costs of distribution for essential products are important. I am not here to tell you that we in the Commission have found that it costs too much to distribute products because we haven't; we have found that costs of production are frequently more than equalled by costs of distribution. Since so much progress has been made regarding production and its costs, I think the door is wide open for a thorough study directed toward reducing the costs of distribution to the end that we may all have a higher standard of living. I wish you success in this conference and hope that you will repeat it in the future.

