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Remarks by

Honorable James M. Mead,
Chairman, Federal Trade Commission

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The Federal Trade Commission and the vast retail business of the country, of which you are representatives, have much in common, for both are concerned with the practices and methods which adversely affect the business of selling and distributing merchandise to the buying public. We are both interested in maintaining the free functioning of industry and trade on a sound and constructive basis, under which the public as well as business itself is shielded from the harmful effects of unfair competitive methods and monopolistic controls. The present emergency emphasizes the importance of this common objective for good business.

In the commercial and industrial aspects of the present world struggle the contest is essentially between a system of free competitive enterprise, on the one hand, and a regimented totalitarianism on the other. The preservation of our liberties, the survival of our democratic way of life, depend in no little measure upon our ability to operate our system of private enterprise in such way as to outstrip all others in production and distribution of materials and products for defense and for the civilian requirements.

To accomplish this we must not only harness to the task our productive capacity to its fullest potential, but we must also see to it that private business, which serves us all, is not pushed, or allowed to drift, into the clutches of private monopoly. Trade must be carried on under principles of scrupulous practices, to the exclusion of methods which injure competition by deceiving or exploiting the consumer or undermining the confidence of the people in the integrity of business.

These tasks call for greater vigilance on the part of the law enforcement agencies such as the Federal Trade Commission, whose functions are directed to the protection and preservation of the competitive enterprise system.

Our President has been mindful of the need on the part of Government for special alertness in these matters. In a directive of September 28, 1950, the President referred to the fact that during the last war the long standing tendency toward economic concentration was accelerated and that mobilization, in the absence of protective measures, may again expose our economy to this threat and thereby imperil the very system we are seeking to protect.

He pointed out the fact that in various provisions of the Defense Production Act of 1950, Congress likewise indicated its concern over this danger to free competitive enterprise. In order that the danger may be minimized the President instructed the defense agencies to consult with the Attorney General and the Chairman of the Federal Trade Commission for the purpose of determining and eliminating, without impairment of the defense effort, "factors which may tend to suppress competition unduly, create or strengthen monopolies, injure small business, or otherwise promote undue concentration of economic power."

Restraints of trade and other monopolistic conditions stemming from industrial combinations, and the use of deceptive practices and unfair methods of competition, are problems with which the Federal Trade Commission must deal. Because their harmful effects upon our economy are more deeply

felt in times of emergency than in normal competitive periods, the Commission's task is more urgent than in normal times. It is not erased by the fact that we are mobilizing for defense. We all know that in periods of emergency some rights and privileges of peacetime must be temporarily abridged or restricted in the interests of national survival. However, that need not, and should not, entail the surrender or crippling of our competitive and free enterprise system and all that goes with it, including economic freedom.

Last week, as Chairman of the Federal Trade Commission, I directed the Commission's staff to be on the watch for "opportunists in the business world," who may seek to exploit consumers and the Government during the national defense emergency. In that connection it was pointed out that based upon the experience of World Wars I and II, it is anticipated that unfair acts, practices, and methods in connection with obtaining defense contracts will be employed more extensively as the letting of such contracts expands. Experience has demonstrated that when the Government begins to take an increasing proportion of the output of industrial concerns, efforts are often shifted on the part of some to securing a preferred position on Government work, or a preferred position with respect to scarce materials or products needed in the civilian economy, or a preferred position in respect to business operations after the emergency is over--in short, some special unwarranted advantage to the detriment of one's competitors.

During the last war, small and intermediate business found it necessary to organize and to seek the assistance of the Federal Trade Commission and Committees of Congress in order to remain in business. The Commission was called upon to expend considerable time and effort on cases involving collusive bidding and fraudulent efforts to deprive the Government of a fair price on its defense purchases.

The impact of the present mobilization effort is already being felt in our economy. It is placing a strain upon our free enterprise system and increasing the threat of private monopolistic controls and unfair trade methods. If the accelerated growth of the concentration of economic power experienced in World Wars I and II is to be prevented in the present emergency, and small business afforded opportunity to survive and offer real competition, intensive vigilance is required.

Some Specific Problems

Factors arising in a period of mobilization which tend to increase the dangers to our free enterprise system are many. When I was a member of the Truman Committee during the last war, we found that undue industrial concentration is often promoted by scarcities which accompany mobilization. Sellers are likely to serve their large customers first, with rather severe restrictions upon their service to independent merchants or customers. Another factor in the picture is that small business tends to be underused.

When small business is not adequately utilized, a large proportion of the country's total productive capacity is prevented from contributing to the country's economic strength. This was true in the last war. In 1943, for example, a survey of unused capacity among small plants was made by the

Department of Commerce. It concluded that only thirteen percent of the concerns studied were using their existing facilities fully; that half of the companies could increase their output if they obtained men and materials to do so; and that a third of them could increase their output even without additional men and materials. Among the plants which had from 21 to 125 wage earners, twenty-five percent were producing less in January 1943 than in 1941 and about thirty percent reported that they could increase production by fifty percent or more without adding new facilities.

This underuse of the small establishment was a corollary of an excessive concentration of government contracts. From June 1940 to September 1944 fifty-one percent of the prime contracts went to thirty-three corporations and more than sixty-seven percent to one hundred corporations. A study of 252 of the nation's largest corporations made by the Smaller Warplants Corporation in 1943 showed that these firms sublet about thirty-four percent of the value of their prime contracts but that only a quarter of this amount went to subcontractors with less than five hundred workers. When we overload the industrial machine at one end and underload it at the other, the inevitable result is failure to produce as much and as fast as can be produced.

There were many instances during the last war in which either the government or the civilian market or both went unduly short or waited an unduly long time because orders had been concentrated in the large companies beyond their capacity, while the productive facilities of the smaller companies were less fully utilized.

The failure to use the resources of small business is most striking in the smaller communities that oftentimes depend upon a single enterprise or, at most, upon a few enterprises. During the Second World War, small cities came to my attention while a member of the Truman Committee whose few factories had been engaged in industries that were shut down or severely cut back in wartime. No one saw to it that these factories should be converted to war production, and relatively few of the persons who had been employed there left their homes to find employment elsewhere. The towns withered away. Not only their productive equipment but also their productive labor remained unused to a large extent in the war effort. Unless we take steps to prevent it, there will be similar pools of idle labor and idle machines in neglected communities throughout the United States during the present emergency.

The easy way of organizing industrial mobilization so that it depends chiefly upon large enterprises is not the efficient way of getting full production. The small companies are a part of our national capacity. Their output is a part of our national strength. An equal opportunity for them to produce is essential if we are to use our full potential.

Competitive private enterprise is regarded by all of us as one of the fundamental expressions of our freedom and one of the fundamental supports as well. While we may differ among ourselves from time to time about whether a large company has acquired monopoly power that needs to be curbed, I think most of us agree that to keep private competitive enterprise we must preserve small business along with large business.

We in the Commission have a large share in that undertaking. For in the measure that the channels of trade and commerce are kept free from the obstructions of unfair methods of competition and monopolistic practices or combinations, in that measure does free enterprise flourish and effectively develop to serve our economic well-being.

Deceptive Practices

When considering matters of importance to the protection of the competitive enterprise system under which our country has produced the highest standard of living in the world, we must not overlook the need for guarding against the types of acts or methods in selling merchandise which collectively fall under the heading "deceptive practices."

In times of war or, as in the present emergency, in all-out preparedness for adequate national defense, the functions of the Commission in this field likewise occupy a position of much importance. When there are shortages in essential materials, and substitutes must be used, the necessity for truth in advertising becomes greater than when such materials are in full supply. Particularly is this true of such things as food, clothing, household furnishings and medicinal preparations.

As more and more physicians are called into the military service, self-medication inevitably increases. The civilian then must rely to an increasing extent upon the efforts and the accomplishments of the Federal Trade Commission to check promptly false and deceptive claims made for dangerous drugs, ineffective remedies, or fake nostrums. The citizen who must to a large extent treat himself is entitled to all the protection and safeguards that this Commission can throw around the advertisements of foods, drugs, and medical devices. Not only is this true with respect to the preservation of the public health, it is also true with respect to protection of the consumer's pocketbook. In times when taxes must be sufficiently high to support the military burden, it is important that the public should receive real value for its money. Purchase of ineffective remedies is not only a waste of the public's money, but it is also a hazard to health, because the use of and the reliance upon such remedies postpone or prevent recourse to proper treatment.

It is also highly important to give such protection as can be given promptly to the public in its purchase of other necessary household supplies and requirements. Experience in World War II showed that as soon as some materials become scarce, the opportunist of light or no conscience will use substitutes, materials of inferior value, or which may even be harmful. Use of substitutes may not in itself be objectionable, but what should be done is to prevent false advertising of such substitutes and the use of false claims which will be detrimental to the purchasing public and unfair to the honest competitor who does not engage in such falsities.

To give a concrete illustration, some years ago motorists, unknowingly, were injuring their car engines with antifreeze compounds which contained corrosive ingredients. Motorists resorted to the use of such compounds because they were represented as safe and effective and because regular and safety tested antifreezes were not readily available. At a time when

production of automobiles for civilian purposes was heavily curtailed, the use of such corrosive ingredients was especially harmful, as it further reduced the number of vehicles available for necessary transportation. Such conditions will arise again unless the Commission can find the means for mounting a vigilant guard against it.

High wool prices, shortages of raw wool and conditions arising from emergency controls will undoubtedly increase the use of shoddy and wool substitutes in the manufacture of consumer fabrics. Changes in fiber content, stresses which arise from shortages and attendant conditions, together with pressure to maintain accustomed price ranges in general merchandise, make it more necessary and more urgent than ever that there be thorough enforcement of our Wool Products Labeling Act. I am happy to note that informative labeling generally has in recent years become an integral part of the merchandising practices of progressive manufacturers and merchants. Scrupulous manufacturers and merchants must be protected against dishonest competitors who would pass off their products as wool, when in reality they contained substitute fibers, or who would falsely label their fabrics as raw wool when they were made of shoddy, or who might otherwise conceal the true fiber content.

Proper wool labeling must be enforced as a necessary medium of protecting the civilian population during the emergency period which will involve many changes in quality and standards. Active enforcement is highly important to bring an adequate measure of protection to our fiber producing industries, to our manufacturers and merchants against the evils of deception, confusion, and unfair competition in the marketing of clothing and other goods.

Our field investigation staff is located in strategic industrial centers to expose false or unfair sales practices whether in the form of advertisements, or labels, or other form. Our continuing surveys of radio and periodical advertising, as well as our unfair competition and antimonopoly work form part of the government's effort to protect the public in the mobilization effort and to maintain our free enterprise system.

Constant vigilance is required not only by the government but also on the part of business itself. Government alone cannot do the job adequately. Much depends on the active and moral support of the vast group of scrupulous and patriotic men and women in business who constantly keep their sights on that which is honest and fair in industry and trade, and who eschew special privilege or undue advantage. With business and government working together in unity under the inspiring motive of doing what is best for our country, we can be assured of the ultimate triumph of our ideals of freedom and liberty for all.