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THE EUROPEAN WAR AND INDUSTRIAL DEMOCRACY.

Address of Joseph E. Davies, Chairman, Federal Trade Commission,  
Before the American Manufacturers Export Association,  
New York City, December 21, 1915.

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Gentlemen: The economic map of the world is being remade. The nations are to-day studying it keenly. This is so, whether it be in Australia, South Africa, Central America, the Orient, or in the warring countries themselves. The best thought of the world is seeking to forecast conditions and to so readjust affairs as to procure the greatest possible national advantage in future development. The industrial, commercial, and financial intercourse of the world is in the process of being recast. The next few years contain possibilities of as far-reaching and enduring consequence to our industry, commerce and finance as perhaps any years in the history of our country.

POSSIBILITIES OF INDUSTRIAL AMERICA.

What are we doing under these circumstances? To be sure, in the immediate shock of change, our business community met conditions with splendid adaptability. Yankee ingenuity and American enterprise display its genius to no greater advantage than in remaking its industry to conform to the changing conditions of the last 14 months.

But that is not enough. How are we building? What are we going to do with this vast volume of gold coin, constituting one-fourth of the total of the world's supply, which is pouring into this country and

bringing with it unprecedented expansion and prosperity? Shall it be dissipated by an era of wild speculation that will bring inevitable reaction, or shall it be utilized for the broad and extensive building of a firm structure which the constructive vision, sagacity, and daring of American industry can translate into enduring benefit for the American people?

What of foreign trade? Are we to be content with immediate and large profits? Or shall we recognize a great opportunity through which we may establish the character, quality, and value of American goods, and thereby establish a firm grip upon international markets, in anticipation of the keen competition that is to come, so that thereby a body of substantial foreign trade may be developed which shall serve as a backlog and as a stabilizer of American industrial conditions for the long and great future?

#### AMERICAN STATECRAFT REQUIRED.

The character of your membership, and the fact that there exist organizations of this kind; the extension of banking facilities in South America, with splendid vision, and without regard to immediate profit; the projection of an American investment corporation to engage in the financing of projects in neutral countries that have been crippled by war conditions; these and other facts which might be named are indications that in the present situation there is a commercial and financial statecraft in this country to-day that is the equal of our best traditions, and that gives promise of enduring advantage for our people.

## THE GOVERNMENT AND ITS FUNCTIONS.

But men engaging in business enterprise may well reverse the shield, and ask, "What has Government done, and what is it doing in this situation, to perform its functions of serving the people of the United States?" The manner in which the forces of the Federal Government were marshalled to avert the economic and financial catastrophe in the first fateful weeks of the war is new history. The millions in gold from the Federal Treasury which came to the support of the tottering financial structure not only of this nation but of the world were dispatched to the financial centers with a speed and a promptitude that was regarded as physically impossible. Executive order, legislative authorization, and executive action were projected into the situation with promptness and wisdom that will stand out as worthy of the finest achievements of American capacity to meet emergency.

Since that time, and through the long period of 14 months of delicate and hazardous international relations, the big, substantial fact remains that this country has been kept out of war and has been held upon the paths of peace. That is the signal service that your President of the United States has rendered in this situation, not only to the nation but also to humanity.

In lesser degree every agency of the Federal Government has been bending its efforts to the aiding and sustaining of American interests in this war crisis. Of these various activities I cannot speak with definiteness, except as to those of the Federal Trade Commission affecting our foreign and our domestic industry under those conditions

With foreign trade we have come into contact through the provisions of the organic act creating the Commission.

Being charged by Congress with the obligation of ascertaining and reporting from time to time as to competitive conditions that exist in foreign countries of the world which affect adversely the interests of American industry, the Federal Trade Commission concluded that the present was a time than which there could be none more opportune or valuable for the exercise of that power. Information has been gathered from all published sources as to the existence of foreign combinations of an international character that existed prior to this war, and which were operating in the markets of the world; investigators have procured first hand information as to conditions in foreign markets; hearings have been held in the principal centers of foreign trade in this country to obtain first-hand information from the business men engaged in foreign commercial enterprises; 30,000 letters have been sent out to business men, containing searching questionnaires upon the facts connected with foreign trade, upon this subject. One of the most significant facts in this connection lies in this, - that within the last six weeks we have received 20,000 replies out of those 30,000 requests to the business men of this country. From them we have received with promptness and generosity a vast volume of fact and detailed information, to be addressed to the solution of this problem of what steps, if any, are necessary that American manufacturers and merchants shall stand on an equality with their rivals in international competition. Time we have regarded as the essence in this situation. Within the next few weeks we hope to have assembled and digested a record of facts and opinions gathered from business sources, from publicists, from economists, and from first-hand knowledge of conditions in foreign countries, which will afford a substantial basis of accurate information for such legislative action as Congress may deem necessary and wise.

## CUSTOMS REGULATIONS IN PAN AMERICA.

A somewhat similar investigation arose out of conditions which exist as between the United States and Pan American countries, which operate to artificially and unreasonably restrict the commercial relations between the countries of this Continent. It is generally known to those conversant with conditions that customs tariff regulations, and tariffs of these countries operate as hardships upon America, where no reason obtains for their existence, as the conditions which they were designed to meet have long since passed away, and which indeed now serve to defeat the purposes for which they were imposed. Invoices and harbor regulations that are vexatious and useless, and other conditions have been permitted to obtain largely through inertia. Only an intelligent appreciation of their significance is required to bring about advantageous change. The time is peculiarly opportune for their consideration. The countries of South and Central America are studying conditions, and on the verge of simultaneously making changes in their legislation and their regulations, and not again in a decade will come so favorable an opportunity to bring about desired change. Upon the request of the President of the United States and the Secretary of the Treasury the Federal Trade Commission is making an intensive, scientific study of these conditions. Investigators are now in South America gathering information of this kind, not only for the benefit of the United States, but for the benefit and advantage of all the countries involved. A report upon these conditions we hope will be ready and available for the meeting of the International Joint High Commission which will be held in Buenos Aires in April, next, and which will address itself to these matters. It is designed to be an impartial,

reasonably complete and accurate statement of conditions which ought to be changed and remedied for the mutual advantage of all the countries and peoples concerned.

#### DUMPING

The possibilities of dumping, by foreign manufacturers, of their product subsequent to the war, to the detriment and disadvantage of American industry, has also been an object of investigation and study in conjunction with the Secretary of Commerce. The Federal Trade Commission, with the Secretary of Commerce, will be prepared to make recommendations to Congress as to the methods by which any such anticipated situation may be best prevented.

These, in a general way, are the functions which the Federal Trade Commission has been seeking to perform in the interest of American industry in the foreign field.

What have been the activities and the benefit of the Commission as to domestic industry, you may well inquire.

#### SURVEY OF INDUSTRIES

The Federal Trade Commission has been in existence nine months. During that time the energies of the Commission have been largely devoted to a survey of the industries of the country. The sound basis for action comes only from an accurate and thorough appreciation of conditions. The processes of industry, the constituent parts thereof, and the interrelations that exist between different kinds and classes of industrial activities are matters of intricate and extensive importance. Information of this kind has been compiled, and is now available.

During that time the Commission has come into personal contact with practically two-thirds of the industries of the country, measured in

value of investment not only to know the man engaged in the businesses, respectively, but to see first hand some of the problems that confront them. There is at hand, and will be immediately available for the Commission on Preparedness which it is reported the President of the United States is considering the appointment of for the consideration of the mobilization of the industrial resources of this country, a record not only of the industries available, but their respective capacities, actual and potential, the degree of their integration, physical and financial. This is the first survey of these factors, assembled through governmental agency.

The investigations of specific subjects, formerly conducted by the Bureau of Corporations, have been continued. Under the directorship of Vice Chairman Hurley, the facilities of the accounting branch of the organization have been extended to such businesses as desire assistance in matters of cost accounting and efficiency methods in manufacture or commerce. This cost accounting service has not been imposed upon anyone, but exists for those who might wish to avail themselves of it. It has been met with great favor by all classes of business.

#### UNFAIR METHODS OF COMPETITION.

The principal function for which the Federal Trade Commission was created was undoubtedly to prevent practices of unfair competition in industry. The object was to destroy monopoly in the seed, and to protect the great majority of business units in industry, whose chief menace comes from practices of unfair competition which might be employed by not a more efficient but by a more powerful rival. Complaints covering many varieties of unfair methods have been filed with the Commission, such as, false advertising, bogus independents, price discrimination,

bribery of employees, boycotts, misbranding of goods, rebates, and the like. These complaints have come from all classes of industry, covering the fields of mining, agriculture, manufacture, and distribution. Of these complaints, and their disposition, the public has not heard much. This is so because of two conditions which the Federal Trade Commission has imposed upon its procedure, for the public interest. No information is given out, or is obtainable upon any application for a complaint which is made to the Federal Trade Commission, until the case has been investigated and until it has been determined that a formal complaint is to be served by the Commission against the parties complained of. The reasons for this are, first, to protect those who in good faith make the complaint, from reprisals by those against whom the charges are made; and, second, to protect legitimate business from the injury which the publication of malicious or improper applications or complaints might subject them to. The other policy which has been adopted is that of advising the party complained against, of the nature and character of the charges made, before formal complaint is made and filed by the Commission, to the end that either the party complained of may establish the lack of public interest, or be given an opportunity, if the situation is clear, to agree that neither as to the complainant nor as to the general public will there be a continuance of such illegal practice. These policies tend to obscure the amount of work done by the Commission, so far as the publicity of its work is concerned; but it has been felt that a larger service was being performed by the proper protection of legitimate interests of business and by the speedy accomplishment of the relief to the general public and to the parties complained of.

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. The fact that there may be comparatively few complaints brought by this body is therefore not an indication that relief is not being accorded; but may be in fact an indication that the effectiveness of this agency is being demonstrated along the lines contemplated by those who sought its enactment. A few illustrations of the manner in which this operates will illustrate the situation.

A corporation engaged in the business of selling typewriters circulated among dealers in many cities a letter falsely stating that a competitor had moved its factory from Chicago, and that the customers of such factory would be compelled to make new arrangements for obtaining typewriters, which need the advertising corporation was prepared to fill. A letter directed to the corporation complained of resulted in a retraction, and in the circulation of such retraction extensively, and the applicant for a complaint thereupon requested the dismissal of the matter.

In still another case, a corporation engaged in the manufacture of an article, published advertisements in which were statements disparaging the goods of a competitor in an improper way. The practice was called to the attention of the Commission, with the result that it was immediately discontinued.

Recently complaint was made by one of the large so-called independents against an allowed price-discrimination practice indulged in by a larger competitive rival. Upon complaint being made by the Commission with the larger competitor, the assurance was voluntarily given that the practice

would be discontinued, not only as to the party complaining but also as a general practice, and as to all persons in the trade. Thus it happens that the relief which the Commission could give, to wit, the procurement of the stopping of the practice, is secured with immediate relief to those injured, instead of going through a long process of litigation and procedure that might involve months, or possibly years, for its final determination.

It is contemplated that by the publication of a ruling upon each case, as it is disposed of, that ultimately a body of cases will be built up which will operate as a code of what establishes fairness and unfairness in trade, to the benefit of industry in this situation where formal complaints do not come to trial.

The powers of the Federal Trade Commission are limited by the law of its creation. They are not as extensive as many proponents might have desired; but its responsibilities are greater than its power. To the extent that in its power lay, it is bent and animated by a desire and purpose to aid in every possible manner that is consistent with democratic institutions, in the development of the power and greatness of this nation as an industrial, commercial and financial nation in the world.

It is one of the agencies of Government that must seek, in small part, to aid in the solution of the great problem of the future.

#### 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. Economics 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 prob-

lem 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 marshall 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.