LABOR and the CONSUMER
AND OTHER PAPERS

Selected Addresses from the

Conference on

UNEMPLOYMENT AND THE CONSUMER

Asilomar, California

June 13–15, 1958

INSTITUTE OF INDUSTRIAL RELATIONS (Berkeley)

University of California Berkeley, ~~California~~ [1959]

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INSTITUTE OF INDUSTRIAL RELATIONS
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F O R E W O R D

In June, 1958, the Institute of Industrial Relations presented, in cooperation with Consumers Union and a number of labor, cooperative and credit union organizations, a two-day conference on consumer problems in a recession. The conference attracted wide attention throughout the state, and was attended by more than 250 people from all walks of life.

The interest in the subject of consumer protection has been sustained since that time among many of the participants in the conference, and more activities are in prospect. In view of this interest it seems appropriate to issue for general consumption some of the papers delivered at the 1958 conference, together with one by Dr. Colston Warne of Amherst College on the specific matter of trade union interest in consumer problems.

It is hoped that these proceedings will be of interest and help to those involved in a development of increasing importance to the community.

ARTHUR M. ROSS, Director
Institute of Industrial Relations
University of California, Berkeley

WHAT LABOR CAN GAIN FROM ASSOCIATION WITH THE CONSUMER MOVEMENT

How a New Consumer Orientation May Affect Real Incomes

Colston E. Warne
President
Consumers Union
New York

The impressive advances which the organized labor movement in the United States has made in the past two or three decades needs no review before this audience. The American trade unions, through the collective bargaining process, have brought about a tremendous increase in the income of working men and women. Vacations with pay, a rarity just a few years ago, are now part of the American way of life. Fringe benefits too numerous to mention decorate thousands of union-management contracts.

Areas of activity which an earlier generation of trade unionists considered no part of their business have become very definitely a part of the business of today's union. Cooperative housing projects, once the subject only of rather timid exploration by the garment and clothing workers unions, are now a common pattern; scores of unions, in various parts of the country, have invested either their treasury's money or the money of health and welfare funds in low-rent and medium-rent apartment dwellings.

Before the war, leaders of most unions complained about the high cost of medical care but did nothing very substantial about the problem. Today health and welfare plans have made at least a start in the direction of providing decent medical, hospital and surgical care for union members. In a number of cases, including right here in Philadelphia, unions -- sometimes alone, sometimes in cooperation with employers -- have opened medical and dental clinics to provide an even greater measure of low cost medical care. This type of development, and it is not necessary for me to go into detail about them, provides a welcome effort by pragmatic unions to do something constructive about the very real problems which their members and their trade union organizations face in this complex middle twentieth century. What was once looked upon as too idealistic, or too difficult, or outside the normal field of activity of the trade union, has become a standard which occasions no surprise and produces great benefits.

Indeed these are "changing times," as Mr. Kiplinger, the magazine publisher, has discovered to his handsome financial benefit. I suggest, as one who has spent much of his time during the past three decades in the consumer movement of this country, that the changing times we witness suggest new challenges for the trade unions in the field which we can broadly describe as consumer education. In meeting these challenges, in searching for the same sort of pragmatic solutions which unions have found for their other problems, I believe that the labor movement in association with the consumer movement, can profitably devote more of its thinking and more of its great energy to helping the union member in his role as a consumer, as it has already done for his role as a producer.

Let's face one basic fact. America seems to be rapidly approaching the time when a fifth freedom needs to be enunciated -- the right to be free from the harassment of high-powered advertising and salesmanship, free from phony credit terms, free from false packaging and deceptive weight, free from ten-cent drugs blown up to a dollar by nauseating commercials, free from manufacturer-pegged prices which limit competition in the market, free from nondescript additives and preservatives designed for the seller's benefit rather than utility and, most of all, free from an annual model racket which has become but a phase of planned product obsolescence.

In today's America of the hard sell, salesmanship and advertising have become ascendant. The central problem of our day is not how to make goods; it is how to develop a gimmick to get rid of them. The industrial worker is in a fair way to give way to manipulators of human desire -- the clerk, the salesman, the packager, the lithographer, the salesman -- and, of course, the repair man. Our television shows of today seem the almost exclusive property of circus pitchmen.

Let me suggest two or three reasons for my belief that the American public generally is becoming more "consumer conscious." Trade union members are a significant part of that consuming public; and, while I have no statistics, I am sure they would reflect this developing thoughtfulness about the role of the consumer in American life and about the steps which may be taken to improve the status of the consumer. This concern with consumer problems is reflected in many ways: in the role, steady but not spectacular, of the consumer cooperative movement; in the rise in the circulation of the Consumer Union magazine, Consumer Reports, from 100,000 at the end of the war to some 800,000 today; and in many manifestations of growing concern by the American consumer about the quality, the design and the pricing of the products which are offered to him. If I read the signs aright, many concerns faced with lagging sales are becoming concerned too!

So far as the trade union movement is concerned, it faces specific problems that, in my judgment, justify a greater orientation toward the problem of the consumer. For one thing, longer term contracts, of three and five years duration, tend to give union officers more time to devote to non-wage matters. Secondly, the almost constant rise in prices works hardships on workers, even those protected by escalator contracts. Thirdly, and by no means least significant, the character of the American working force is obviously undergoing change. Government statistics show that for the first time the white collar worker outnumbers his brother in the blue collar category. Already trade union leaders are noticing the effect of this sociological change on their organizations. Scarcely a day passes without a reference to the need for appealing to and organizing the white collar workers -- a group which with a few exceptions has not been noticeably cordial to the invitations of union organizers.

New approaches, as many trade union leaders are now saying, will be necessary to appeal to these white collar workers; and, for a group whose incomes have been eroded by inflation, renewed thinking about the problems of the consumer and new efforts to involve labor unions in consumer matters, seem to me necessary for the unions themselves. Early in this talk I alluded to a number of steps which unions have taken away from the traditional patterns of trade union behavior and interest. Clearly if unions can become interested in such seemingly "unorthodox" activities as health and housing, vacations and old age centers, they can -- and I believe should -- become increasingly interested and concerned with the problems of their members as consumers. Furthermore, the benefits will prove as tangible as those which unions have experienced in the various fringe fields.

Still another reason exists for a vital interest of labor in the consumer front. At the present time, factory production costs are coming to bear a more and more tenuous relationship to the finished prices of articles. Yet modern public relations and opinion-forming groups, fortified by most dubious economic reasoning, have conspired to place the blame for increases on the whole range of administered prices squarely upon the shoulders of the unionized industrial worker who is painted as the ogre behind so-called wage-push inflation. This allegation conveniently ignores mounting sales and advertising expenses, not to mention the costs of vice presidents in charge of market research and market manipulation. Indeed, in not a few articles, the distributors' margins tend to overshadow the initial factory outlays for labor. Increasingly, retail markets have become a price jungle. In auto tires, CU discovered, the leading brands carry virtually identical list prices. Yet our recent survey in 17 cities revealed the actual retail prices of the four leading brands average about 10 per cent below list. (In some cases, discounts ranged from 33 to 50 per cent below list.) A fairly large number of quotations were given at full list and a number of quotations were recorded of about 20 per cent above list. The Sears and Ward's prices varied by as much as $10 to $12 for the same tire, including large variations in the same city for Sears.

If labor is not to carry the blame for the whole skein of administered price practices, it must of necessity enter the consumer field and learn something about marketing practices -- and be concerned about them. Moreover, by such concern, labor can be in a position to assist its members not alone in raising the content of their pay envelopes, but also by helping to increase the buying power of wages.

What sort of consumer activities can unions profitably undertake?

First of all, the area of consumer education. The AFL-CIO Community Service activities has been taking a number of first steps in the months since it received authorization from the AFL-CIO Executive Council to operate in the consumer education field. Discussion outlines and practical guidance for community service councils are being prepared and beginning to be used. These discussion outlines may prove the basis for opening new vistas for local officers and for rank and file members in several fields: "How to buy" information, education in the field of installment buying and consumer credit, education about the cost of buying decent medical care.

Much of this information falls into the sphere of influence that CU has itself developed in some 20 years of publishing our monthly magazine, Consumer Reports. Month after month we have been able to bring material about prices and quality to our readers -- and they tell us that they save money by subscribing. In our most recent issue one subscriber reported to us that by following CU's advice on financing the purchase of a car he saved $200 -- considerable savings indeed on the basis of a $5 annual subscription! Other readers often write to CU with stories of savings of from $5 to over $50 on the purchase of appliances and other products tested in the Consumers Union laboratories and reported on in our magazine.

The questionnaires which CU distributes from time to time to its members indicate that the median income of the readers of Consumer Reports magazine is about $8,000 a year. Thus a high proportion of the people who subscribe to the magazine and find it advantageous as a buying guide, are in an income group generally above that of the average trade union member. It is regrettable that members of labor groups who need expert buying guidance and consumer education even more, in order to get full advantage from a lower income, have not generally received the sort of consumer education which helps save money and gives them a better understanding of their role and rights. To the extent that consumer education activities, both by the AFL-CIO itself and by its affiliated unions, can help the people in this lower-middle income group, the unions will be rendering a real service to the people in this group. And, if the new members of the white collar set reflect a somewhat more sophisticated economic group than their blue collar brothers -- sophisticated that is in almost everything except the advantages of trade union membership -- an approach to consumer education on the part of the unions is one way of demonstrating to potential new members that unions do have attractive values.

Secondly, I believe that trade union papers and trade union radio shows can do more to publicize news and feature material in the consumer realm. A number of these papers have already moved into this area. The popularity of the very excellent columns of writer Sidney Margolius is evident, when one thumbs through labor papers. In recent months, Consumers Union itself has initiated a program of sending news and feature materials to trade union papers, after an unfortunate lapse of many years. Radio programs like those of the UAW and the IUE have carried considerable consumer material based on the CU releases and on material from other sources. But over and above these columns and releases, there is a considerable body of material available from government publications and other consumer organizations that I fear is rarely used.

A third area for union activity is certainly the field of legislation. I know that many unions have supported legislation designed to improve the status of consumers, but rarely have they taken a very active part in these legislative battles. There are many legislative areas in which unions could participate and where successes would have a double advantage: first to win benefits for their member-consumers; and secondly to demonstrate to the public, including potential members of the labor movement, that union activities are not self-centered but are devoted to the interest of all the people. A couple of issues come to mind at once. As CU pointed out a few months ago, a number of states lack legislation providing minimum standards for hydraulic brake fluid sold to motorists. Low quality brake fluid can lead to accidents and death on the highways. An issue like this, it seems to me, is one completely germane to the protection of motoring trade unionists.

In addition, I think it is high time that the trade unions played a more direct part in stopping the persistent rackets that flourish in the loan shark business; in the packing of scandalous extra charges and fantastically high interest into consumer credit; and the various malpractices that swarm around installment buying like bees attracted to honey. Most of the people who are hurt by these malpractices, or whose mode of life is seriously affected by exhorbitant interest or service charges, are people in the lower income group -- people who are either trade union members or potential trade union members. It should be as essential, I feel, to protect members from these malpractices as it is for unions, through their union health and welfare funds, to protect members from the ravages of ill health and heavy medical bills.

The United States government has a number of agencies established to help the consumer. The Federal Trade Commission, the Food and Drug Administration, the Home Economics Division of the Department of Agriculture, indirectly the Bureau of Standards are just some of the governmental agencies composed of sincere people devoted to their tasks. How much contact do these good souls have with the representatives of organized labor? How conscious is organized labor of the help they may get from these agencies? How much time does organized labor spend battling for their appropriations, protecting them from conservative assaults, helping publicize their work? Very little, I would suspect. It is understandable that much of labor's legislative energy must be used to hold back the constant assaults on the collective bargaining process and preventing legislation that would impair the very existence of trade unions. Nevertheless some energy, some time must somehow be carved out of the busy schedules of labor union officials to provide more help, more support, more understanding for these government agencies whose job in life is to help us, the consumer.

Let me just list a few additional straws in the wind.

1. Here is an Associated Press clipping from Sacramento, California. "Brown plans counsel for consumer aid," describing "legislation to help California battle the high cost of living which will be introduced

through California's new governor." Introducing a bill to create the office for consumer counsel as a forceful spokesman of the consumer in government, Brown said, "We consumers have little defense against highly organized special interests." The counsel would be given authority to make investigations and make special reports; all other government agencies would have to cooperate with the consumer counsel's probes and studies.

2. The consumer counsel movement of New York State, upon which the Brown program is based, was ably inaugurated by Persia Campbell under Governor Harriman. It is being continued in revised form by Governor Rockefeller. Through the work of the consumer counsel in New York, laws were passed against bait advertising, against excessive charges on durable goods and automobile credit; hearings were held on trading stamps and a variety of topics. The experience in New York has demonstrated the great protection that such an office can provide for consumers and the great potential for education. The record in New York serves to emphasize the value of establishing similar departments in other state governments. Such legislative activity by the unions would benefit their members and the general public.

3. Last month, Massachusetts established under its Attorney General a consumer council which took as its first job that of holding hearings on milk prices which, at retail stores, had spiralled 25 per cent through the action of a milk distributor-controlled board. The Massachusetts Committee on February 3rd will hold hearings on fraud and misrepresentation on the sale and servicing of consumer goods.

4. In New York City, the Metropolitan New York Consumers Counsel has been formed by the cooperation of trade unions, credit unions, cooperatives, settlement houses, Consumers Union and the American Labor Education Service. The chief purpose of this new consumer counsel is to provide the organizations with a joint meeting ground and spokesmen to coordinate the work on behalf of consumers and provide a clearing house for information. Specifically, the new counsel will do research on consumer issues and give expert appraisals of the effect on the membership of such problems as rising living costs, utility rates, credit and installment gyps, plus such basic necessities as housing, medical care, milk. The counsel will appraise the effects of new developments such as trading stamps, fair trade legislation. It will present the consumer viewpoint on such problems at legislative hearings before state and local governments and official rate making bodies such as the State Insurance Department and Public Service Commissions. It will encourage consumer programs in state and municipal governments. It will assist in educating wage earners in family financial management for the protection of living standards from unscrupulous practices and seek to aid workers in getting the most for their money. Course outlines will be prepared, qualified speakers on budgetary techniques, medical care, etc., will be available. A package of consumer educational courses will be developed. City-wide consumer institutes will be arranged. Moreover, the counsel will encourage consumer information courses in public schools and adult education; they will maintain a library of consumer information.

5. Renewed vitality of the consumer movement is also being witnessed in Washington. Within the last fortnight, Senator Kefauver has proposed the establishment of a Federal Department of the Consumer -- a proposal which grows out of the surveys of his committee in the field of steel prices, auto prices and pharmaceutical prices. The head of the Department of Health, Education and Welfare has recently called a conference of consumer groups to advise on the expansion of the program of the Food and Drug Administration for the protection of the consumer. The Federal Trade Commission has under consideration the development of a Consumer Advisory Committee for the Commission. Since this last November's election, more interest has been expressed in a new forward march on consumer legislation than has been the case for the last decade.

These items I have just mentioned are but straws. The consumer movement in the United States is yet but young and has not come to a pivotal position. Consumers Union, for example, after twenty-three years has a monthly circulation of less than 900,000. The nation at large is still caught up with the Madison Avenue psychology. Yet it is significant that such consumer-manipulative psychology is being today challenged on a wide variety of fronts. We have Kenneth Galbraith spelling out for the intellectual the dilemma of the affluent society which, with its advertising accent, can produce a surfeit of cars but not of roads, billboards but not parks -- in a word a society which has not gained sufficient consumer pressure to channel income in a way which deviates markedly from the pattern determined by advertising. And, too, we have a parade of statistical studies on consumer behavior, emerging in great profusion in recent years. Consumer purchase expectations are being reckoned by the Census, by the National Bureau of Economic Research, by the Michigan Survey Research Center, and by a host of others. Consumer purchasing is not being taken for granted, as it once was. The moral of such research to some advertisers may be that increased shouting, Operation Upturn style, will be effective. Other more sober practitioners may question this. Yet out of all of these consumer opinion surveys, one fact looms large. It is apparent that even with $11 billion of advertising miseducation, consumers still have at least a grain of sense and, particularly those exposed to consumer education, tend to rebel and even laugh at the comedy of the hard sell. They become, as the advertiser says, advertising-deaf and advertising-blind.

It would, I think be the height of absurdity for anyone today to suggest the exact course which the consumer movement of the nation will take in the years ahead. No social movement, labor included, has long followed predicted patterns. Movements respond to abuses, adopt new goals, change in perspective with time. Consumers Union itself was set up, as some of you may recall, as a strike relief measure, and initially dedicated a fair share of its efforts to the development of a service for trade unionists. The sad fact was that labor in the mid-thirties just was not interested. We found our market in the middle class and the professional class. Today, as labor itself is increasingly turning "middle class," it is becoming a substantial element in our membership. We welcome this. We feel that much needs to be done, particularly in the long-neglected state arena, where weights and measures laws have been defective, where intra-state food and drug acts have been non-existent or unenforced and where one finds the bulk of other types of legislation affecting the consumer.

In this appraisal, I hope that I have not sounded either like a zealot or a preacher. I have tried to speak plainly and to the point, because I believe the point is extremely important. The American consumer is surrounded by a fabulous volume of goods, and by constant, unremitting exhortations to buy. There are more goods produced than ever before and greater sales pressure than ever before. In an age when it is almost un-American not to live beyond one's living standards, the consumer needs guidance and protection as he has rarely needed it before in our history. If the assault on the consumer is less dramatic than the Ludlow massacre or the Memorial Day Massacre in Chicago in 1937, it nevertheless affects more people more of the time than either of these two ugly events. For that reason, and for the reason that the labor movement itself faces the challenge of the new technology and a changing work force, I believe it must increasingly be oriented towards a greater consumer consciousness than it has displayed in the past.

The consumer movement, with its own history of trial and error in this complex field, stands ready to work in close association with the trade unionists. Perhaps we should have made greater efforts in years past to build a working relationship. At any rate, now is a good time to seek new ways of associating ourselves in a common cause that I believe will help the worker as a consumer as dramatically as the trade union has helped the worker as a producer.

GOVERNMENT AGENCIES
AND THE
PROTECTION OF THE CONSUMER

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In approaching a topic as broad and as heterogeneous as "Government Agencies and the Protection of the Consumer," especially where there is a forty-five minute time limit, the speaker has only two alternatives: to deal with the subject extensively or to approach it intensively. The first alternative would require an enumeration of the many ways in which government agencies, state, federal and local, protect or, for that matter, affect the consumer. Unfortunately, a listing alone, without comment, would occupy far more than the allotted time. Before I had really done very much thinking about what I should say this morning, I had a modification of the "extensive" approach in mind, but when I actually got down to the job of making an outline of my presentation, I quickly realized the futility of that approach. My penciled notes of that afternoon planning session about three weeks ago still reveal twenty-eight separate subjects of current interest, almost unrelated except that all had to do with the part played by government agencies in the protection of the consumer. They ranged from Treasury and Federal Reserve responsibilities on fiscal policy to legislation for the protection of consumers from defects in product design, from compulsory product simplification and standardization to the regulation of employment agencies, from food, drug and labeling acts to solving the parking problem by regulating automobile length, breadth, and bulk, and from building codes to the antitrust laws.

After a dream one night that I was here on the platform next weekend still reeling off my interminable list, I abandoned the extensive approach for the intensive. Of course, there was one other factor involved in my decision: there are large areas of this field of consumer protection about which I know nothing, except possibly as a consumer, and that is not a very authoritative position from which to talk unless one represents large numbers of consumers. Whatever my explanation, I decided to examine with you this morning only three areas which I consider to be of particular importance and interest and with which I have some familiarity.

Some of my comments will be devoted to problems that are especially relevant to a consumer in a recession or to the prices a consumer pays for the things he buys, but I will also devote a portion of my allotted time to the discussion of other types of consumer problems, problems that are of particular importance today and with which many of you may not be familiar. The first topic that I want to discuss with you concerns a very special type of consumer, who is probably represented here this morning by a substantial number of people who do not look upon themselves as "consumers" in this connection. I speak of the small investor or shareholder. There are some issues he should be thinking about and which all of us as interested members of our corporation dominated economic society should be thinking about also. My second topic has to do with one of the most disturbing phenomena of the last thirty years: the decline and threatened fall of price competition. Here the recession is of particular importance as a setting for our discussion, because the depression of the 1930's made it plain that depressions and recessions are grease for the skids that price competition seems to be riding. The third and last topic is a completely different type of problem but one that is important for us to examine at this time: the protection of the consumer from the cancer quack. Here we will give special attention to the present situation in California where some new and advanced legislation is under consideration.

Protection of the Individual Consumer of Shares of Stock

During the twelve years following the termination of World War II, a great deal has been written about the changing functions and concepts of the corporation in the United States. Pressures for publication being what they are in academic circles, it is sometimes difficult to determine the real significance of these sudden additions to the literature. It may be that changes that took place fifty years ago are just now being discovered. It is possible that changes we have been aware of for a long time are simply being given a new name or orientation. It is also a possibility that there has not been any change at all. It is probable, however, that important changes have been and are taking place. Whatever the significance of the recent writings may be, it is clear that a large number of people are at work trying to assess, or reassess, as the case may be, the function and concept of the corporation in our society. Some have concluded that the big corporation is not a danger to competition or to freedom because unions are big, and governments are big, and other corporations are big, and all of these seats of power are countervailing and tend to equalize and balance each other. We have heard that no matter what the corporate structure of our economy is, or whether we like it or not, there is nothing we can do about it, so all of us might just as well get to know it, understand it, and adjust to it. The suggestion has been made that we are now entering an economic era characterized as a "new capitalism" or the "age of the manager."

Although much of this extremely important area is being examined, often with great skill and insight, one major portion of it has received very little attention. As one might expect, the forgotten man is the consumer, not the Consumers Union type of consumer this time, the one who buys refrigerators and automobiles, but the shareholder type of consumer who buys ownership. This poor fellow is getting less attention than a "no smoking" sign. In all honesty, it must be admitted that he does receive attractive or amusing annual reports from his corporation, and occasionally, even an informative one. His corporation does offer him the opportunity to buy more shares from time to time, but not as often as used to be the case; it is easier now to sell them to an insurance company or to another institutional investor. Many shareholders also receive dividend checks. The lucky shareholder enjoys a real day in the limelight when rival groups of managers, or would-be managers, compete for his favor at the annual shareholders meeting for the election of the board of directors. But all of these moments of glory are short lived, and after a brief flurry of attention the shareholder is once more ignored.

The shareholder represents one of the least understood portions of our economic society. He provides much of the capital with which the corporation operates, yet he has almost nothing to say about the way in which his capital is used. He provides the capital with the expectation of getting some return on it in the form of a share in the profits, but the managers often decide that there are better uses to which the profits can be put. He is told that he elects the directors of his corporation, but nobody has ever asked him to be on the nominating committee and he almost never has a choice of candidates. Some harbingers of the "new capitalism" discuss corporations as though there were no shareholders at all. The states curry the favor of incorporators and vie with each other in adopting incorporation laws that are favorable to managers. The new Uniform State Securities Act, which seeks to make uniform the state laws designed to protect the purchaser of shares, embodies those portions of existing laws that give less protection to the shareholder and more leeway to the promoters and managers. The basic requirement of such shareholder oriented laws as the California Corporate Securities Act, that the issue of shares be "fair, just, and equitable," is omitted from the uniform statute.

The explanations for these paradoxes are relatively simple. The distribution of ownership among a vast number of owners makes mandatory the concentration of the decision-making function in the hands of a small group, but it does not necessarily require a group owing no responsibility to anyone except itself. An interesting example of this responsibility-to-self among corporate managers lies in their discretion with regard to dividends. Because the managers determine what portion, if any, of the corporate profits should be paid out to the shareholders in dividends, managers of corporations find themselves in the unique position of being able to hire capital at a price determined by themselves. Ambrose Bierce, it is interesting to learn, defined a corporation as an "ingenious device for obtaining individual profit without individual responsibility," but Ambrose was writing in the days when one thought of the shareholders when one thought of a corporation. Without any sort of genuine participation or control by the shareholders, our concepts of ownership and of private property may have to undergo a severe modification. Of course, it can be argued that most shareholders are apathetic and take no interest in their corporations, even to the point of not sending in their proxies, so are really not deserving of any substantial right of participation. But as owners of the capital involved, the choice of participation or non-participation within reasonable limits, should be that of the shareholder and not legislated out of existence or otherwise taken away from him.

The nature of the corporate device necessitates some considerable delegation of discretion by the shareholder to the managers, but there seems to be an increasing trend toward the view that the incorporators and managers may decide almost without limit how much discretion the shareholders should delegate. The view is held by some that the incorporation laws should be no more than enabling acts kept as simple as possible and management oriented in order to encourage the creation of new enterprises and to facilitate their operation once created. Unless one opposes all investor protection, however, a necessary part of such an argument is that if the protection of the shareholder is not to be of major importance in the incorporation laws then it should be of primary consideration in the statutes that regulate the issuance and sale of corporate securities. It is generally recognized that certain basic shareholder safeguards should be present in the incorporation laws, although some of these show signs of erosion too, and there is little agreement on what is basic and what is not. The choice is left to the states. However, a state that elects to include extensive shareholder safeguards in its incorporation laws finds rather quickly that its objectives are conveniently subverted as incorporators and promoters go to other states with less strict laws and then return as foreign corporations to the original state to sell their shares and to do business. In these circumstances the state with the strict incorporation law has little control over the internal structure of the foreign corporation although all of its business and most of its shareholders are local. Delaware is not the incorporators' favorite state because of its preoccupation with shareholder protection.

No matter what one's theoretical views may be with regard to shareholder protection in the incorporation laws, the only tenable practical view, in the absence of high level federal laws of incorporation, is that the shareholder must look to the securities act for his safeguards. Here again the states may do as they please, short of unconstitutional burdens on interstate commerce, but the local policies cannot be as readily subverted by the laws of a sister state with little or no interest in the protection of shareholders and investors. In the stricter states, such as California, no corporation may sell securities of its own issue until it has first applied for and obtained from the Corporation Commissioner a permit authorizing it to do so. The law requires the Commissioner to determine affirmatively that the issue is "fair, just, and equitable" to all concerned before he issues the permit. The permit portions of the statute can be avoided if the corporation, provided it is not a California corporation, sells its shares outside of California and the shares are brought into California by local brokers and dealers. The sale by the broker in California is not a sale of "securities of his own issue," hence does not require a permit, but the law is not entirely circumvented by this procedure because the broker-licensing provisions of the statute make it possible for the Commissioner to prevent brokers and dealers under his jurisdiction from dealing in shares which the Commissioner feels are unfair or unjust. Although most other states have less comprehensive statutes than California's, or none at all, California investors can still be protected. It is important to note that most informed people are of the opinion that the strict California rules have had little, if any, deterrent effect on legitimate corporate promotions or financing.

Another important, though often ignored, phase of shareholder protection is that having to do with such corporate activities as mergers, consolidations, voluntary recapitalizations, stock dividends and stock splits, where opportunities exist to create inequities among shareholders or adversely affect minority or outside shareholders. All of these situations require permits under the California law. None of them is covered by the new Uniform Securities Act.

The new Uniform Act stops considerably short of the California level. If adopted here, the nature and extent of the safeguards would be measurably reduced and altered. The strongest argument for universal adoption of the Uniform Act is that it would simplify the present complicated task that a corporation seeking to qualify its shares in many states must face. My own feeling is that the complications are somewhat exaggerated by the backers of the Uniform Act. There are complications, no question of that, but most of them are of a very routine nature and are frequently handled by the more junior members of the law firms doing this kind of qualification work. Uniformity is convenient to have but not at the expense of protections considered in some states to be of vital importance to small shareholders. A reconsideration of the Uniform Act by a group more evenly balanced between corporation oriented and shareholder oriented lawyers would probably produce a statute that is less of a lowest common denominator and more attractive to the states committed to the stricter forms of corporate securities laws.

Shareholders' rights have been eroding slowly during the last half century. There have been occasional periods of concern over the protection of shareholders, and there is legislative evidence of this concern. The state "blue sky" laws and the securities regulation by the Federal Government are examples of enactments aimed ostensibly at greater safeguards for the purchasers of shares. In some states the regulation of the issuance and sale of securities is at a high level, but in other states, including such important financial and commercial states as New York, securities regulation is either non-existent or set at such a low level that it affords the shareholder little protection other than the satisfaction of seeing the fraudulent promoter prosecuted and punished by the state. Although the common law concept of "fraud" has been considerably expanded in many of the states that rely on fraud laws to protect the investor, the protection afforded still falls far short of safe levels. While shareholder protection, from the securities regulation point of view, has increased in some states, effective protection is still not widespread. More important, perhaps, is the fact that many incorporation laws are now so liberal in permitting the promotors to limit or confine the rights of shareholders that even good securities acts lose some of their efficacy.

As corporations have become larger, shareholders have become more and more remote from the affairs of their corporations. We must constantly be on our guard to precent statutory, evolutionary, or other types of erosion of shareholders' rights and safeguards for small investors. This important type of consumer has few champions, fewer organizations, and almost no spokesmen to plead his cause or watch out for his interests. Our incorporation laws and securities acts should be understood and their purposes and effects determined. Proposed changes in existing law must be examined at greater depth than the advertising of their supporters. Sensible and well-considered protection of the shareholder and investor types of consumer are important to the health of our economy at any time but are of particular importance during recessive periods of economic activity.

The Decline and Fall of Price Competition

It seems now to be an inescapable conclusion that it is a part of human nature to prefer to buy in markets where there is price competition and to sell in markets where price is non-competitive. There are many techniques by which a seller may seek to reduce or eliminate price competition in the market in which his goods are distributed. He may enter into agreements with his competitors fixing the prices of the competitive products, but this kind of price-fixing agreement is illegal per se under the Sherman Antitrust Act, for the obvious reason that the very act of fixing prices is an unreasonable restraint of trade. A seller may seek to acquire direct control of his competitors by merger or by other devices, but here the antitrust laws again intervene where the purpose or the effect of the acquisitions is to lessen competition or achieve a monopoly. Or a seller may seek to accomplish the same ends by indirect means. It is with these indirect means that we are primarily concerned today.

Manufacturers have long sought to control the prices at which their retailers resell their products to the consumer. Originally, the basic motive of the manufacturer was to protect the goodwill and property values attached to his brands and trademarks from the depreciation he felt they suffered when his products were used as loss leaders or sold at what the manufacturer considered to be unreasonably low prices when compared with the products of a competitor. When national advertising became a part of our economic scene, it became attractive to some manufacturers to advertise their products on a national scale and to include the retail price as a part of the inducement, partly, I think, to persuade the inhabitants of the far corners of the country that the product could be bought in Green Apple, California, for the same price one would have to pay in Philadelphia. The manufacturer believed, and still does to some extent, that his brands, and hence his products, became less enticing in the eyes of the consumer if offered for sale at prices less than the advertised prices. The most convenient method for achieving the ends he sought was the resale-price maintenance contract whereby the wholesalers and retailers were required to sign contracts agreeing to resell the manufacturer's products only at the prices he specified, although the goods were actually owned by the wholesaler or retailer. But in 1911, these contracts were found to be illegal by the Supreme Court as violations of the Sherman Act. Manufacturers could still use agency and consignment techniques, where the manufacturer retains the ownership of the goods until they are sold to the ultimate consumer, and could, of course, refuse to sell to those who cut prices, but these methods were not as clean nor as convenient as the resale-price maintenance contract, and were not even possible in some industries. The incredible confusion and cost that would result from the use of the consignment device in the retail drug business can only be imagined.

Some state courts had found resale-price maintenance contracts to be valid at common law, but this permitted the use of such contracts only in intrastate commerce. Many states had found the contracts invalid at common law as unreasonable restraints of trade. After 1911, many bills were introduced in Congress for the purpose of legalizing these contracts in interstate commerce and overruling the Supreme Court, but none of them even came to a vote until 1936. In the meantime, certain retailers' groups recognized in the resale-price maintenance contract a technique by which price competition in their own retail markets could be reduced or eliminated, but the pressures behind this point of view were light and generally ineffective until the 1930's and the Great Depression. The retailers were also enlisting the support of the manufacturers in their campaign to legalize resale-price maintenance contracts by threat of boycott and by putting pressure on manufacturers to grant price concessions to the retailers and wholesalers so that they could compete more effectively with the chain stores and others who were selling for less.

The first change in the public policy against resale-price maintenance and indirect price-fixing came in California in 1931 when the first "Fair Trade" law was enacted. The first statute simply legalized resale-price maintenance contracts within the state, and was unnecessary in California because the courts had long since upheld the contracts at common law, but the enactment of this only slightly controversial law made it easier two years later to insert the real teeth. The weakness in the resale-price maintenance contract, when used alone, was that only those who signed it were bound by its terms. The nonsigners could sell at any price they pleased. In 1933, the so-called "nonsigners clause" was added to the California "Fair Trade" law. It bound every retailer to the terms of the resale-price maintenance contract whether he had signed it or not. This meant that every retailer of a particular product in California was legally bound to sell at the price specified in a contract between the manufacturer and any one retailer of the product. There were doubts as to the constitutionality of this provision, on due process and other grounds, but these were resolved by the Supreme Court of the United States in 1936 when it upheld the Illinois and California statutes on the ground that they were justifiable extensions of the state's police power for the purpose of protecting the manufacturer's property interest in his brands and trademarks, although the container and its contents were the property of the retailer or wholesaler and not of the manufacturer.

The ban on the use of price maintenance contracts in interstate commerce still stood, however, but this was eliminated in 1937 with the passage of the Miller-Tydings amendment to the Sherman Act legalizing the use of the contracts in interstate commerce, and presumably authorizing also the effect of the nonsigners clause. The "Fair Trade" laws received a setback in 1951 when the Supreme Court ruled in the famous Schwegmann case that the Miller-Tydings Act did not authorize the nonsigners clause in interstate commerce, but the setback was regained the next year in the passage of the McGuire Act. During the prosperous post-war years the effects of the "Fair Trade" laws have been concealed in high and rising prices, and the joys of a prosperous economy relaxed the pressures for extension and enforcement of the "Fair Trade" laws.

Since 1948, the important developments in "Fair Trade" have been taking place on the state level where fifteen states have found all, or only the nonsigner portions, of their "Fair Trade" laws to be unconstitutional, or invalid for other reasons. The most frequent ground was the unconstitutional delegation of legislative power to private parties. The list of "fair trading" states has dropped from 45 to 30 in the last ten years.

These successful attacks on the "Fair Trade" laws would alone have been enough to renew pressures for Federal "Fair Trade" laws and other techniques for reinstating or extending the full force of "fair trade," but we now have the recession also to goad the supporters of these statutes to increased activity. The Federal "Fair Trade" law which does not even bother with the fiction of a contract, has appeared in Congress again, and pressures are being brought to bear elsewhere. The proponents of this kind of legislation make a superficially convincing argument that the alternative to "Fair Trade" price-fixing is "cut-throat price competition." The real weakness in the argument is that to most of the "Fair Trade" group <u>any</u> price competition is cut-throat. The success of the discount house everywhere in the country is ample evidence that the consumer is price conscious even if the retailer is not. The discount house may also be evidence that the forty percent markup in many fields is going to have to be replaced by something a bit lower, unless a Federal "Fair Trade" law or another similar technique freezes retail prices in the grip of indirect price-fixing.

On August 27, 1953, the Attorney General of the United States appointed a committee of the country's outstanding economists, antitrust lawyers, professors, and businessmen to study the antitrust laws. The President of the United States expressed the hope that this committee could prepare the way for modernizing and strengthening our laws to preserve our economic system against monopoly and unfair competition. The conclusions of this committee with regard to the "Fair Trade" laws are very persuasive. In its final report, the following comment appears: "It is the Committee's view that 'Fair Trade' pricing when used as a device for relieving distributors from the rigors of price competition is at odds with the most elementary principles of a dynamic free enterprise system. On balance, we regard the Federal statutory exemption of 'Fair Trade' pricing as an unwarranted compromise of the basic tenets of National antitrust policy...We therefore recommend Congressional repeal both of the Miller-Tydings amendment to the Sherman Act and the McGuire amendment to the Federal Trade Commission Act, thereby subjecting resale-price maintenance, as other price-fixing practices, to those Federal antitrust controls which safeguard the public by keeping the channels of distribution free." But let us not think that the fight to protect price competition has been won or that it is being fought only on the "Fair Trade" front.

There is on the statute books of California and many other states today another statute, also enacted first in 1931, that is further evidence of the decline of price competition. The preamble of the statute states its purpose as follows: "...to safeguard the public against the creation or perpetuation of monopolies and to foster and encourage competition by prohibiting unfair, dishonest, deceptive, destructive, fradulent and discriminatory practices by which fair and honest competition is destroyed or prevented." Now nobody who is for "mother" and agains sin could possibly object to that statement, but an examination of certain provisions of the statute and its enforcement history may cast a few doubts on its sincerity. This statute is the "Unfair Trade Practices Act" or sometimes called the "Loss Leader Act" or the "Sales Below Cost Act." It has some desirable features and some that are perfectly consistent with the policy set forth in the preamble.

One portion of this statute is designed to prohibit sales below cost. The statute once prohibited sales made below cost "for the purpose of injuring competitors AND destroying competition," but in 1937 the "and" was stricken out and the work "or" substituted. An innocuous change? Not at all! Before the change the language was consistent with the basic antitrust policy of preserving competition, because the person selling below cost had to have an intent to destroy competition in general, as well as to injure a competitor, in order for there to be a violation. The change placed the intents in the alternative, so that all that was needed was a showing of an intent to injure a competitor. I think we can all agree that a sale below cost for the purpose of destroying competion or creating a monopoly is inconsistent with basic antitrust policy and should be prohibited, although this intent may be extremely difficult to demonstrate except by presuming it from the very act of selling below cost. But if "injuring competitors" is interpreted to mean "obtaining business for one's self", then apparently the purpose of the statute is to prohibit competition rather than to protect it. For what other purpose than acquiring more business for himself, at someone else's expense, is any competitive technique, whether it be a sale below cost, a new showcase, advertising, or green stamps? This is what competition is all about!

Another feature of the statute that manifests a legislative purpose of anti-price competition is the enforcement procision that permits "any person or trade association" to bring an action to enjoin a violation. The seller is threatened with suit from any direction if his pricing policies are such as to arouse a suspicion of a sale below cost. The seller is likely to avoid a price even approaching the danger area if he thinks that a suit is forthcoming. The inclusion of the trade associations in the provision and the admission of cost surveys conducted by trade associations as evidence in proving the costs of an alleged violator is an open invitation to trade associations to enforce minimum price policies throughout the trade. As a matter of fact, two California trade associations have been convicted of price-fixing under the Sherman Act while purporting to be acting under the authorization of the sales below cost statute.

A further problem raised by the language and purpose of the statute is the insurmountable difficulty of defining "cost." Some elements of cost may be allocated to particular products with ease, as invoice or material cost, but the allocation of overhead is at best an arbitrary action. Although there have been few attempts to enforce the statute where the sale was above invoice or replacement cost, the threat of suit still remains as an inducement to the seller to keep his prices at levels which are above suspicion. A few states have found their "loss leader" statutes unconstitutional on the ground that the requirements of the statute, especially with regard to "cost," are too uncertain to guide the conduct of those seeking to comply.

Another manifestation of declining price competition is the reluctance of sellers of all kinds to meet the decreasing sales of this recession period by price reductions. We have been told to buy automobiles as a patriotic duty and encouraged to go out and buy just anything, whether we needed it or not and whether it was a good buy or not, but almost nobody has mentioned that corny old possibility that lower prices might help. A year of declining business has produced no effect on the cost-of-living, which continues to rise. This paradox should be no surprise to anyone who recognizes the loss of popularity that price competition has undergone, the legislative aid that has been given to its demise, as well as the other rigid features of our pricing mechanism.

The latest development on the pricing front is the attempt of the automobile industry to get Congress to make it a crime for a dealer to represent the list price of a car at anything except the suggested retail price with which the factory labels the car. Such a bill has already been approved by the Senate. The avowed purpose of this legislation is to stop a "shoddy way of doing business," as the Wall Street Journal puts it, known as "price packing," where the dealer misrepresents the list price of the car and its accessories so as to make his discount or trade-in appear much larger than it really is. It seems to me that a Federal law requiring the tagging of every new car with the manufacturer's suggested retail price and imposing criminal penalties for violations as a method of dealing with a minor unethical business practice is much like using an intercontinental ballistic missile with a hydrogen warhead to kill a pestering housefly. Such a statute might be an encouragement to the dealer to stick to the list price without undercutting it, and price competition would suffer another setback. I do not think many people want to be forced to buy automobiles the way they usually buy toothpaste, without bargaining and without seeking the best price. Furthermore, the retailer should have the right to ask any price he wants on a product he owns, whether the manufacturer has put a list price of a "Fair Trade" price on it or not, and the consumer has a right to bargain, if he wants to, or go elsewhere, or not buy at all if he does not like the price. This is the essence of competition.

Protection of the Consumer from the Cancer Quack

In addition to the problems already considered, most of which have particular reference to the consumer in a recession or are relevant primarily to the consumer's pocket book, I would like to make a few comments on another problem the real importance of which is related to the consumer's health and physical well-being. The problem I refer to is that of cancer quackery or the fraudulent, dangerous, unscientific and deceptive practices used in the treatment of cancer. The cancer quack cannot be completely eliminated until our medical and research scientists and their laboratories have added cancer to the list of man's victories over disease. Such a victory cannot be expected in the immediate future, although great progress has been and is being made toward the control and defeat of cancer. Until such victory is realized, the cancer quack is going to continue to take advantage of the misinformed, the desperate and the naive and to feed on fear and human tragedy.

The cancer quack has his pocketbook features too. Although the extent of the quack's monetary harvest is very difficult to determine with any degree of accuracy, the estimates of his exaction range from $10,000,000 to $50,000,000 a year. But the real price that society pays for its toleration of the cancer quack is not properly measured in dollars and cents. The real price is measured in terms of unnecessary or premature death, of human suffering and heartbreak, and of false hope for the hopeless.

Sixteen percent of the deaths in the United States each year result from cancer in one or another of its many forms. Indeed, the quack makes his own contribution to this grisly statistic, but that is not the primary reason we should be concerned about this 20th century witch doctor. The cancer quack <u>thrives</u> on that statistic; he does not, by himself, <u>cause</u> it. If sixteen percent of all the deaths in this country were caused by mumps, we would have mump quacks too. The phony cure for tuberculosis was once rather common but has now almost disappeared as "t.b." has come under control. Nor is cancer the only area in which the medical quack now operates. The arthritis quack and the hemorrhoid quack are still with us, and if you are really interested in the subject, you can find dandruff quacks and high blood pressure quacks and even virility quacks. The cancer quack presents the most serious problem largely because of the air of mystery that surrounds the disease and its treatment and because of the horror with which most people regard it. The efforts of the American Cancer Society and other organizations to put across the idea that a large proportion of all cancer cases is curable, if diagnosed and treated in time, have met with some success. Public understanding of cancer and its treatment is much greater than it was five or ten years ago, but not enough greater to have much effect on the cancer quack.

The appearance of the cancer quack was, perhaps, inevitable, the nature and extent of the disease being what they are, but the continued success and prosperity of the quack are not inevitable. Some legislation, both federal and state, is applicable to the cancer quack and does serve to limit his activities in a few ways, but the existing legislation is totally inadequate to deal with the problem. The California law in this connection is probably the most advanced in the country, yet it provides little more than a mild inconvenience for the ingenious cancer quack. The Federal Food, Drug, and Cosmetic Act makes it possible for the Food and Drug administration to stop the interstate shipment of falsely advertised or mislabeled drugs and medicines, but this hardly interferes with the quacks at all. The statute exempts drugs sold by prescription, so the quack simply sends prescription blanks to a local confederate who writes the prescriptions for the patient who, in turn, sends the prescription, together with payment, to the quack who then mails the drugs and paraphernalia to the patient.

The quacks have neatly inserted their activities and practices into the gaps left open by the food and drug acts on one side and the healing arts laws on the other. The sale of drugs and devices is reasonably well controlled in California, but the quack usually does not sell anything, except diagnosis and treatment, and present laws provide no control over the diagnosis or treatment of cancer no matter what method is used. Even if adulterated or mislabeled drugs are involved, the only remedy available is the seizure and destruction of the drugs themselves. There is no way to stop the quack from making new supplies; there is no way to close his place of business; there is no way to prevent his advising the patient to use the worthless or dangerous drugs; if the quack is a licenses physician, chiropractor or osteopath, there is no way to prevent him from treating patients, and the unscrupulous non-licensed operator seems to have no trouble employing licensed persons to give the actual treatment. Probably most important is the fact that there is no legal method for determining whether a drug or treatment is worthless or dangerous.

Perhaps the answer lies in a simple shrug of the shoulders: "There will always be suckers and there will always be confidence men to give the suckers what they want; a fool who pays a quack $600 for a distilled water cure for cancer has really suffered no physical harm, and often the patient does not have cancer anyhow." This approach ignores the real danger of the cancer quack and the insidious nature of cancer itself. Every day that the cancer victim wastes on a distilled water treatment reduces his changes for cure or prolongation of his life. An Interim Committee of the California State Senate recently concluded, after a series of hearings, that one of the most serious aspects of the medical quack problem is that the quack delays his patients or prevents their access to recognized treatments while there is still time for help. But there is even more to it than that. Some of the quacks actually hasten or cause the deaths of their patients. One of the better known quacks operated on a woman who had breast cancer, using a razor blade, and inserted arsenic in the wound. The woman died a few days later, not of cancer, but of heavy metals poisoning, after one of the most excrutiatingly painful ends than anyone could possibly imagine. This charming fellow still operates hospitals in Texas and Pennsylvania, contemplates a new one in California, and has local representatives in most states. One of the common ingredients of his cancer medicine is a chemical that legitimate research indicates may actually speed up the development of cancer. His eighth grade education and grossly inadequate laws, are sufficient, apparently, to assure him a very lucrative medical practice.

Except for the dangerous delays caused by the quacks, many of them use methods of treatment or diagnosis that are themselves physically harmless. The formulas for some of the medicines sound like voodoo love potions: ground centipedes, snails, poultice of yellowdock root, marrow of a hog's jawbone, rhododendron paste and vinegar. One practitioner prescribes a diet of red cabbage and milk for all of his patients, which probably makes his patients forget their cancer for at least a short time. Some use phony electronic equipment: an automobile headlight that contains an electromagnet that buzzes, the volume of the buzz being controlled by a "hum adjusting screw"; a metal cylinder filled with sand that "diaducts" oxygen into the body through a wire fastened to the wrist; a "radioclast" that detects vibration rates of body organs and certain diseases and then effects a cure by tuning in and normalizing the vibrations. And then there is the electronic diagnostic machine that scans a drop of the patient's blood, rings a bell and hands out a printed card containing the diagnosis. One variation on this device always returns a cancer diagnosis, though with some originality still being shown in the type of cancer. The real advantage of this machine is that the patient can mail in his drop of blood. One machine found cancer in a drop of red ink thus mailed in, and another found cancer in the breast in a male doctor in perfect health, and the quack in this case stated that he did not really need the drop of blood for his diagnosis because the paper was all smeared with cancer germs.

A California corporation cannot sell a share of stock today unless the Corporation Commissioner has found that the issue is "fair, just and equitable." But the cancer quack can kill and maim and prescribe worthless drugs and treatments and deprive his patients of timely access to legitimate medication without serious interference from anyone.

I do not intend to leave my horror story without saying something about its solution. A partial answer, but only a partial one, lies in better dissemination of information about cancer and more thorough education of the public. The American Cancer Society and many other groups, both public and private, have made rapid strides in this area in recent years. Unfortunately, fear, shock and desperation often override reason and knowledge. Not all of the quack's patients are stupid or uneducated. As I see it, the answer to the cancer quack lies only in legislation, but not just any legislation. We have ample evidence already that present legislation is inadequate, not only in extent but also in approach to the problem. It will not solve the problem simply to increase the penalties or seize more mislabeled drugs and devices. That technique is unreliable and very expensive. We cannot get rid of the quacks by limiting the practice of the healing arts to a particular medical degree. Some of the worst quacks are M.D.'s. We do not want to ban all research and investigation other than that bearing the stamp of orthodoxy. This approach would seriously hinder research and progress in cancer treatment.

The legislative answer lies in another direction. Essentially, the cancer quack is a charlatan who defrauds and injures the public by falsely representing the curative effects of his treatment for this particularly frightening disease. The heart of the quack's pitch to each patient is his claim that he has cured other patients. Every quack has a long list of statements from or about patients who have been "cured" or have improved under the quack's treatment. The explanation for the testimonials is obvious. A large share of the cancer quack's testimonial patients never had cancer in the first place; most of them have only the quack's word for it that they were ill with cancer. Many of the patients go to a quack after the sometimes very slow-acting legitimate treatment has begun to take effect, but the patient is not yet aware of it, and some legitimate treatments actually make the patient feel worse for a time. Such a patient is quite pleased with the beneficial effects of the quack's distilled water of rhododendron juice. A few of the patients who actually had cancer and were treated only by the quack got well in spite of the treatment, as do a few who never had treatment of any kind. Quacks do not keep records, except testimonials, and it is very difficult to determine what, if anything, had been wrong with a "cured" patient. Of course, the dead and the maimed do not testify. The testimonials are essential because one sure sign of the quack is the claim that he has a treatment known only to himself and available only through himself. Legitimate researchers and doctors make known their discoveries, but never the quack. But the quack has an explanation for this. In hundreds of pages of courtroom and other public testimony the quacks have explained their refusals to reveal their secrets on the ground that they were being persecuted by the medical trust and would not get a fair hearing on their formulas or treatments. What the quack wants least, of course, but says he wants most, is a fair hearing on his methods. New legislation should give him what he says he wants.

The solution to the problem lies in a fair and workable means for separating the worthwhile methods of diagnosis and treatment from the worthless. Power should be given to a proper state administrative agency such as a department of public health, to require persons representing themselves as engaged in the diagnosis or treatment of cancer to submit his drugs or devices for adequate testing under the supervision of the agency. The decision on whether the method is worthwhile or worthless should be made by a special cancer group or council representing the medical professions, the approved medical schools, and the public. The vote of the group should be unanimous or near unanimous before any cease and desist order can be issued to prevent the use of a particular drug or treatment. The usual review by the courts should also be available. The medical professions are no less attracted by the charms of orthodoxy than any other members of society are, but reasonable safeguards are not impossible to achieve.

A bill embodying these suggestions was introduced in 1957 into the California Legislature by Assemblyman Weinberger of San Francisco. Certain procedural objections were raised to the bill and it has since been amended to overcome the objections. It will probably be considered during the 1959 session. Because the bill is so advanced and because it poses a real threat to the cancer quack, money with which to fight the bill is pouring into California from quacks all over the country. Scurrilous letters, handbills and postcards charging the author of the bill and its supporters with all manner of reprehensible conduct are being circulated. But I predict that California will next year take this necessary step toward effective protection of the consumer from that salesman of suffering, the cancer quack.

INTELLIGENT BUYING IN A RECESSION

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There are few genuine price reductions so far in this recession. What we are beginning to get is a deterioration in quality -- in an attempt to conceal high prices by reducing the quality.

The few genuine price reductions are in household appliances, some building materials, and textiles. There is also some hope of lower-cost housing as a result of the recession; not that construction costs themselves are actually declining but builders and prefabricators are beginning to concentrate again on lower-cost models. Too, interest rates on mortgages are beginning to decline at least a little. Wage earners on the West Coast have an especially hard burden to carry in the form of higher mortgage rates, which are generally 1/2 to 1 per cent higher there than in most other regions.

The big problem in this recession is the exceptionally high cost of food. Bedsheets may be selling at pre-World War II prices (they actually are). But consumers need to eat as well as sleep.

Even while we have to cope with reduced incomes, we have to deal with a rear attack from the third big inflation since the end of World War II. Since the start of the current wave of inflation early in 1956, prices in general have risen about 8 per cent. Food prices have gone up 7 per cent in just the 12 months from April, 1957, to this past March.

The hardest problem to solve is the high cost of meat this year. Meat now costs 15 per cent more than a year ago. Meat is the biggest item in the average family's food bill, taking 25 cents of every dollar spent for food.

Even though farm prices, particularly live stock, will decline next fall, food prices will remain close to the present high levels. One reason is the increasing spread between farm and retail prices. This is being caused by higher marketing margins required by both processors and retailers. In the case of processors, for example, the trend has been to package meats and other common foodstuffs under brand names instead of just selling meat as meat. Too, the supermarket's share of the retail food dollar has been increasing from 16 per cent in the case of many large, well-organized markets to more typically 18 and 19 per cent.

There are definite reasons for the advance in supermarket margins -- the fancier stores, the extra services such as carry-out boys, parking lots, etc., but most of all, the multiplicity of brands each store carries. Now a new type of store is being born in this recession, just as the supermarket was born in the big depression of the 1930's. Here and there small self-service markets known as bantam markets are being tried out. These are simpler neighborhood stores without the frills, and concentrating their inventories on fewer brands of each item. You may have your choice of only five or six brands of soap, not a dozen.

As well as some price cuts, there are some fake bargains being offered in this recession to combat consumer price resistance to high prices.

For example, a manufacturer of casings for frankfurters, reports some meat processors are making frankfurters thinner but the same length so there are as many as twelve in a pound instead of the usual eight or ten. The manufacturers are doing this, the casing company explains, because housewives are seeking more for their money in this recession. You aren't, of course, getting any more for your money this way.

It's also necessary to keep a sharp eye on the quality of produce. The U. S. Agricultural Marketing Service reports concern over misrepresentation of quality by some growers and shippers. Unlike most other foods, fresh fruits and vegetables may be labeled with the U. S. grades without actual official inspection. The authorities depend on occasional sample checks at the markets to catch up with dishonest sellers.

In these days when many fresh produce items as potatoes are already packaged, it's difficult to check quality before you buy. Thus, safest buys are those prepackaged fruits and vegetables which not only say on the container "U. S. Grade No. 1" or "U. S. Grade A," as the case may be, but also are labeled: "Packed under continuous inspection of the U. S. Department of Agriculture."

Similarly, a business newspaper reports some apparel manufacturers are holding down costs by using more machine stitching, reducing the number of buttons and amount of trimming.

In this recession there are three buying techniques that can be especially useful to combat the joint effects of high prices and reduced incomes. These are:

1. Buying the middle price lines to avoid both the quality deterioration of the lower price lines and the unnecessary extra price asked for deluxe and fancy grade merchandise.

2. Shopping to take advantage of specials and sales. Manufacturers have been reluctant to actually and openly reduce list prices but have been offering retailers many special short term merchandising allowances. They offer these temporary price reductions in the hope that we will recover from the recession before they are finally forced actually to

reduce prices. Such special but temporary reductions are noticeable on refrigerators, washers, TV sets, tools and similar goods consumers will have to buy this year. For example, a leading manufacturer of power tools cuts prices to retailers a full 30 per cent for just one month. Several big TV manufacturers are special-pricing TV sets on a temporary basis. Auto manufacturers resist cutting list prices but do give dealers special merchandising allowances of $100 on a car so dealers can cut prices late in the model season.

3. The most important trend being spurred by the twin forces of high prices and reduced incomes is group buying. The new group-buying trend is most noticeable in certain services which have advanced sharply in cost and which consumers cannot solve on an individual basis, such as housing, optical goods, drugs and insurance. For example, the Oregon labor unions are now experimenting with providing group auto insurance for their members. Credit unions have become a valuable source of low-cost life and even auto insurance. The retail clerks union in Los Angeles, operates a group buying service for life, auto and even fire insurances. Southwest credit unions even have started their own insurance company, the Members Mutual Insurance Company, which sells credit union members auto and fire insurance. Significantly, last year this member-owned insurance company paid out 79 cents of every premium dollar it took, collected either in claims (62 per cent) or rebates (15 per cent). The usual privately-owned stock insurance company pays out to policy holders in claims only 50 cents of every dollar it collects, and keeps the other 50 cents for sales expense, overhead and profit.

But while such group economic activity is showing some significant successes, there have been failures too, and in at least one case, that of a Texas insurance company, unions were taken in by a sharp promoter who milked the insurance company and left it to the unions to rehabilitate it. That they are doing. Often merchants and promoters come to unions and other groups offering special discounts for their members in return for their mass volume. Sometimes these arrangements do save members money. But they do need to be constantly re-checked and supervised. There also is a growth in group optical services, often under the sponsorship of labor unions and consumer co-ops. These have been able to provide eyeglasses at one-half and sometimes one-third the cost charged by privately owned dispensors.

Credit unions themselves have become the fastest-growing savings and loan facility in the country, with an increase in deposits of 80 per cent from 1952 to 1957, compared to 22 per cent for banks and 50 per cent for savings and loan associations.

One of the most interesting developments is group drug services. One recently-launched group drug service in New York is privately owned but sells only to union members on a group basis. In another case, a union, Local 65 of the Retail, Wholesale and Department Store Workers Union, owns and operates its own pharmacy and optical dispensory for members. These services have demonstrated savings of 20 per cent to as much as 60 per cent on commonly-used pharmaceuticals and even prescriptions.

The samples of drugs and toiletries here, illustrate three important points about buying in a recession:

1. The high prices being charged for advertised brands of packaged goods. Much of the heavy buying of such household medicines and toiletries can be traced to the impact of television advertising. The constant bombardment of television advertising has set back consumer education in buying drugs and toiletries a whole generation.

2. These are private brands offering significant savings.

3. They are an example of modern group purchasing. In this case, the group is a large union local which buys these products wholesale for resale to its members only.

Many present large established co-ops started in the last depression as basement buying clubs, with the members wrestling their own cases of oranges and soap.

The significant fact about modern group buying efforts is that they are not as likely to start with a small group of families who get the cooperative idea, but are often launched by big established organizations in a big way. Thus, the new housing co-ops are started by labor unions, veterans and other organizations teaming up with established cooperative housing groups. The families in the new housing co-op then generally start a credit union and many other group buying ventures, sometimes even inviting an established food cooperative to open up a branch in its new building. An extraordinary amount of group buying is going on both informally and formally in the recently-built housing co-ops, ranging from group discounts on furniture and household equipment to group discounts on milk. In New York, a number of new housing co-ops now even have joined their purchasing power to buy fuel oil and other supplies mutually.

In all realism, group buying is the most important single key to intelligent buying in a recession. Nowadays you really don't have to be a very smart shopper to get a discount from purported list prices. There are discount houses in every town and even traditional retailers give discounts. But we do need to go back further than the retailer to develop further savings and better control of the kinds of goods and services we buy. We can only do this on a group basis.

We need also to take greater advantage of the savings available in private brands. This is not as important nowadays in buying appliances. The reduction of retailer and jobber margins on national-brand appliances now makes these often as reasonable as the private-brand appliances of the big mail-order houses and retail chains. But private brands are as valuable as ever, if not more so, in foods and drugs, toiletries, hardware and some home furnishings. It is especially important to realize this at a time when packers are trying to popularize brand-name prepackaged frozen meats, and prepackaged brand-name fruits and vegetables, and when the consumer is being influenced by heavy television advertising to spend an increasing amount of money for brand-name toiletries as hair sets and tooth pastes.

As just one example of the difference in price for the same goods sold under a nationally-advertised brand-name and a retailer's private-brand name, take the case of Borden's canned milk. The Federal Trade Commission has found that the Borden Company sells the same milk under its own brand name at a price of $6.45 a case, but it sells to larger retailers under their own brand names at $5.01 to $5.59 a case. When you go to the store to buy this milk, you pay 15½ cents a can under the Borden name, but only 13 to 13½ cents under the store's own brand name.

Service has become a large expense, and a special recession problem because consumers try to make things last longer. It's become as important to judge the durability, case of repair and accessibility of service of an appliance or car as the initial value. Five cents of every dollar spent by a typical family now probably goes to repair its possessions, possibly more, as the BLS figures may be a bit behind the times in this respect.

When the cost of living goes up, different components rise at different rates. In the late fifties we have to allow more particularly for housing, medical care and transportation. Here's where BLS now figures a typical family's money goes, in comparison to where it went:

	1947-1949	1958
Food	40.9%	28.6%
Housing, furnishings	25.7	32.9
Clothing	12.1	9.0
Cars, transportation	6.8	11.5
Medical care	3.2	5.3
Recreation, reading	2.7	5.3
Tobacco, liquor, misc.	6.2	5.2
Personal care	2.4	2.2
	100%	100%

But what does it cost to live these days? Updating the "modest but adequate" budget for a family of four that BLS figured out in 1950, the cost now runs from $4,270 a year in Scranton, Pa., to $4,865 in San Francisco, which has displaced Washington, D. C. as the most expensive town. Here's what this modest living standard now costs in other cities: Atlanta, $4,607; Baltimore, $4,684; Boston $4,681; Chicago, $4,650; Cincinnati, $4,657; Cleveland $4,530; Detroit, $4,606; Houston, $4,584; Kansas City Mo., $4,328; Los Angeles, $4,759; Milwaukee, $4,725; Minneapolis, $4,644; New York, $4,442; Philadelphia $4,445; Pittsburgh, $4,590; Portland, Ore., $4,540; St. Louis, $4,551; Seattle, $4,694; Washington, D. C. $4,761.

BLS suggests that the cost for a family of three is about 81 per cent of that for four; for a family of five, 114.

In comparison with these costs, the average American wage-earner is earning about $4,100 a year if he is working full time. Thus the average wage-earner cannot afford this modest standard of living.

The famous Heller budget prepared at the University of California for the San Francisco area, shows even higher costs. The budget for 1957 was priced at $5,829 for a family of four which rents its home. This was a noticeable jump over the 1956 cost of $5,591. The 1958 budget undoubtedly will draw another rise, and may be well over $6,000.

THE ROLE OF COOPERATIVES IN A RECESSION

Robert L. Smith
Director of Public Relations
Consumers' Cooperative Society
Palo Alto, California

On April 23 of this year, the Palo Alto Co-op ran a full page ad with the heading "You'll Like Co-op's $100,000 Recession Remedy." The ad copy went on to say:

> "Thousands of local families, Co-op customer-owners, will share over $100,000 when Co-op makes its annual patronage refund next week. Dozens of local businesses will benefit from their added purchases. Co-op refunds are a built-in recession remedy, year in and year out. Co-ops build purchasing power. Co-ops return all earnings to customer-owners after setting up legally required reserves and paying federal income taxes. Any customer may become an owner at any time. Ask at the information desk."

There in a nutshell is the answer to an even more fundamental question: "What is the role of Cooperatives in an age of abundance?" Our local Co-op did not cook up a recession remedy. It just operated as any true and sound cooperative operates -- as a not-for-profit enterprise that pays back all of its earnings to customer-members at the end of each year.

Ask any ten economists for an opinion on almost any subject and you'll get at least a half dozen answers. But on one question they'll all agree: For at least a quarter of a century the problem of producing abundance has been licked and the problem has become how to maintain consumption -- how to build and sustain purchasing power in the hands of consumers.

The Co-op -- any consumers' cooperative -- makes a twofold contribution to the solution of that problem. Since it is owned by consumers its purpose is to sell at as low a price as possible. On top of that, it refunds all earnings to consumers on the basis of their purchases as a final downward adjustment of price. In an era of artificially fixed prices, it is important to have at least a segment of our economy exerting this kind of competitive pressure.

Lower Prices Stimulate Sales

Let me illustrate with another example from our own local cooperative experience. A year ago on January 1, our Co-op introduced a new policy of giving a 2¢ per gallon discount from pump prices on gasoline to members. Normally Co-op's follow the practice of selling at the prices of the principal competition in the area and refunding earnings. We discovered that a number of gas stations were giving under the counter discounts to favored customers and that some of our own members were unable to resist this kind of temptation. The 2¢ discount was therefore adopted.

What happened? Our total gallonage during the year from two stations rose from 10,000 gallons a week to 20,000 gallons, an increase of 100 per cent. During 1957, trade papers reported excessive inventories of gasoline in the hands of producing companies. There was no talk of reducing prices, but price wars began at various points. On the Peninsula, they worked their way south from South San Francisco. Note that since these wars were not officially sanctioned by the big companies, it was the retailer who took the loss for a time. Later, some got a "subsidy" from their suppliers. Co-op kept its 2¢ discount in effect even during the three price war periods during the year. In our annual report we were able to point out to members that they had saved $34,000 on gasoline during the year -- $15,000 from the 2¢ discount, $10,000 because of price war reductions and yet another $9,000 as a result of the Co-op year end refund of 2.9 per cent which was paid on top of the other savings.

My cooperative operates super-markets, drug-variety stores, gas stations, a dry cleaning plant, an insurance service, a credit union. The area we serve has a population of about 38,000 families. We have a little over 12 per cent of them in membership. We do about 8 per cent of the food business. It is clear that we exert some favorable influence. It is easy to see how helpful an effect Co-ops could have across the nation if they served as much as 10 per cent of the American people instead of 1/3 of 1 per cent.

Retail Co-ops Are Expanding Through Branches

Yet I am not here to urge you to rush home to organize a retail co-op. Successful co-ops today must start with facilities equal to or better than the best in town. This takes capital, member loyalty and proven management. It requires at least $200,000 and more if land and buildings are also owned. This is a hard package to put together and it accounts for the fact that only a half dozen urban retail co-ops of any significance have started in the past decade in the United States. Growth now is coming by the opening of branches by successful co-ops that got their start at an earlier period. Ours is operating two centers and negotiating for a third. The Berkeley Co-op is operating two and has recently bought a third site. In the Washington, D. C. area, one co-op is now operating eight centers.

You would be interested to know that this very afternoon, the general managers of 35 of the nation's biggest consumer cooperatives are assembling in San Francisco for a conference. They will be discussing problems of multiple unit operation among others. They'll come from the East Coast, the Mid-west and California. Canada and

Puerto Rico will be represented too. They will wind up their conference on these very grounds next week. Their societies are proof of what can be done by urban consumers through co-ops.

Co-op Housing Shows Savings

In what other fields are Co-ops stretching consumers dollars or otherwise helping improve their standard of living. Let's take a look at housing. Even if a million units of private housing are built in 1958, the number would have to be at least doubled to begin to meet the need. The role of public housing is recognized by many. The role of Cooperative housing is recognized by few, yet it appears to hold one of the few solutions for meeting the needs of middle income people. There have been cooperative sections of the Federal Housing Act since 1950. Sometimes FHA has given cooperatives equal aid with private developers. Sometimes not. At present there is an assistant administrator charged with carrying out the cooperative sections of the law and doing a good job of it. From 1950 to 1956, 362,369 dwelling units have been built. Dwight Townsend, the FHA Co-op official, has said that families tend to save 20 per cent compared with the costs of non-co-op building. Examples from both coasts illustrate the point. In New York, Co-op apartment houses are remaking the face of a number of former slum areas. In the Columbia University area (Morningside Heights) 1500 middle income families have recently moved into a 1700 family Co-op project. Below Brooklyn Bridge, a 1700 family unit sponsored by the International Ladies Garment Workers Union offers each family an apartment with balcony, most with river view, for $20 monthly carrying charges per room -- a good 20 to 35 per cent below commercial rates. The buildings occupy only 35 per cent of the land, making possible attractive landscaping and recreation areas. These were built under redevelopment legislation using a cooperative ownership method.

In 1956 a Senate sub-committee reported that the median price being asked for West Coast homes was $15,000 while the median income could afford a maximum of $11,750. Dedication ceremonies were recently held in Milpitas, California, for a second unit of cooperatively constructed individual homes sponsored by the United Auto Workers near the Ford plant in Milpitas. The first 76 homes sold for $11,500. The new unit will sell for $12,300, a figure the workers can afford. Nearby tracts are averaging $14,000 to $15,000. Furthermore, the cooperative approach has made possible a racially integrated community. Ford's Negro workers were having a difficult time finding housing in the area until the Co-op built.

As in Co-op retailing, Co-op housing is no easy matter. But it can be done and when it is done well, the results can be very very helpful. More aid is available today than at any previous time.

Students Use Co-ops

Housing leads us quite naturally into the student housing field. Thousands of American college students would never have completed their degrees without the cost cutting effect of cooperative living arrangements on many campuses. One of the most impressive developments is at the University of California in Berkeley. The University Student Cooperative Association operates nine houses accommodating over 900 students -- approximately the same number housed by the university itself. Furthermore, it does it at a cost range of from $204 to $236 a semester as compared with the University range of $380 to $435. This 46 per cent saving has meant and is meaning the difference to many students between having to leave college and getting through. A few months ago, the Board of Trustees of the University, who had often frowned on the Co-op in its earlier years, honored it with a special evening when it passed its 25 year milestone.

Campus Co-ops got their start in the depression of the thirties. Many have folded their cots if not their tents, since the postwar period of prosperity. Perhaps the recession will mean a renaissance for the student co-ops. A bill introduced by Senator Paul Douglas would permit Student Co-ops to borrow federal funds through the Federal National Mortgage Administration just as colleges are now permitted to do. If it is adopted before Congress adjourns, it could mean much as an aid to the job Campus Co-ops can do to help students help themselves.

Co-op Insurance Companies Play Important Role

Money is an important tool for institutions designed to serve people without profit as well as for those designed to sell to them for profit. This makes important the building of financial organizations aware of and sympathetic to the unique methods and values of Co-ops. American insurance companies now loom larger than banks as institutional investors. Co-ops have shown some dramatic examples of pioneering in insurance too. For example, Mutual Service Insurance companies, now serving ten states including California, felt some years ago that school bus rates were exhorbitantly high. They went after the business in Minnesota with a resulting 44 per cent saving to the schools. Such alert operating practices have brought growth and with growth has come the opportunity to help finance other co-op endeavors. Currently a dozen of the oldest co-op retail organizations in the country in the Minnesota, Wisconsin area are building new, modern shopping centers with the aid of loans from Mutual Service. Another Co-op insurance organization, Nationwide Insurance, has pioneered other services. Most recent is a policy that pays off even if the other fellow wasn't insured. It recognizes the fact that, from the consumer point of view, coverage is the important thing, not who was responsible. Nationwide has also initiated bonds hitched to the cost of living index to protect the investing consumer from inflation. Both of these Co-op insurance groups sell their policies substantially below the rates of old line companies.

Health Plans Meet Need

Health is said to take an average of 5 per cent from a family's annual income. We all know that it can take a lot more in a given year. The cooperative approach via comprehensive prepaid medical care plans offering group practice medical service, not cash indemnity, is one of the most promising solutions. There are some 300 plans of this general sort functioning today. About 25 of them have the consumer control of the business operations and medical control of medical service that co-op people feel is ideal. The closest thing to such a plan in California is the Kaiser Foundation Plan. Its relatively comprehensive service for a fixed monthly fee makes possible a high degree of medical security and the possibility of preventive medical care. Seattle has a fully consumer controlled plan serving 20,000 people.

Some of the most important Co-op health plans are to be found in rural areas where a dangerous lack of medical facilities existed prior to their organization.

Co-ops Farmers' Salvation

Rural residents have used the Co-op to advantage in many ways. It is estimated that 25 per cent of all farm supplies are now purchased through co-ops. To the farmer who has been fighting a recession for a half dozen years, Co-ops come close to being a life or death matter. Traditionally the farmer is the man who sells at wholesale and buys at retail. He needs a co-op to at least assure that what he buys at retail will be at cost and not cost plus a retailer's profit. This same pressure is what has carried the farmer back into processing and manufacture in the things which he buys from his co-op. It accounts, for example, for the more than 2,000 miles of pipe line and more than 16 refineries now operated by Co-ops serving primarily rural people. Co-op leaders have claimed that if the government would give just a fraction of the encouragement to farmers to help themselves through their own Co-ops that it spends on farm subsidies, the farmer could lick much of the farm problem.

Co-operators have criticized Secretary of Agriculture Ezra Benson for his failure to speak out on the importance of farmer owned Co-ops to the family farm and to the nation's farm problem despite his personal awareness of this fact. Last month Benson finally did speak out. He said: "If farmers are successfully to protect themselves against the increasing cost of production and distribution, if they are going to mobilize their strength to bargain on a more equal basis with highly organized industry and labor, if they are going to keep government or industry from managing the farm business, if they are going to stay in control of their own business, they will have to invest more of their efforts and capital in cooperative endeavors."

Murray Lincoln, President of the Cooperative League of the USA and himself a farmer, as well as head of the cooperative Nationwide Insurance

Companies said in a recent speech, ". . . if as much as ten per cent were to be chopped off the costs of processing and distributing farm products while ten per cent more were to be taken off the costs of farmers' supplies (by cooperative selling and buying), the two items together would add more than fifty per cent to farmers' net incomes today without costing consumers a penny."

I won't take time to discuss the important role of cooperative institutions in the field of savings and loans because Vance Austin is here to do that job for you. Suffice it to say that I feel Credit Unions to be one of the most important consumer tools in a recession or any day. The story of their impressive growth and record of service is a dramatic and remarkable one.

Co-ops Electrified Rural America

The last Cooperative field I will touch upon is rural electrification. The significance of the story is partly summed up by the fact that only 10 per cent of the nations' farms were electrified when the Rural Electrification Administration was set up in 1936. Today almost 95 per cent have electricity. Co-ops strung 95 per cent of the REA financed lines. They have functioned as an effective yardstick where they compete with profit operated public utilities. Were it not for them the farmers' plight would be much worse than it is, and the city dweller's bill for food and fibre much more expensive.

Co-ops Are People -- Not Stores

I have tried to show you that Cooperatives are people applying an idea to a problem. They are not "a store" or a "gas station." I have not told you much about "Cooperatives and the Recession." It is in part because I feel that the role of Co-op is little different during a recession than at any other time. The principal connection with the recession may be a psychological one -- people worried about a recession may be more willing, even anxious, to look into what Co-ops have to offer. I have skirted the topic in part because people have a way of cooking up their own broth when it comes to applying the Co-op idea. During the big depression California had a lot of experimenting with self-help Co-ops. Most of them were of passing duration. This is not to say that they served no useful purpose. On the contrary, their method of barter and exchange, at a time when capable people could get no work, saved many a family and prevented many a suicide. A cooperative does not have to live forever to have been worthwhile. But we would hope that present economic knowledge and present political maturity of voter and politician alike would eliminate the need for any such strong measures. If the need should arise, the ingenuity of people could be expected to apply cooperative techniques in a variety of ways.

Areas of Likely Co-op Growth in a Recession

As long as the turn in our economy justifies the term recession, the public is likely to show most interest in and get most satisfaction from applying the Co-op idea to budget stretching devices such as these:

Baby sitting Co-ops -- where a group of young families swap hours instead of dollars. Almost every new subdivision develops one or more. Normally 25 families seems to be maximum.

Co-op Nursery Schools -- There are unknown thousands of these across the country making it possible for parents to afford valuable pre-school experience for their youngsters. In California, many are related to the public adult education program and serve a valuable parent education purpose too.

Equipment Co-ops -- where a group of families share the purchase of motorized mowers, hedgeclippers, snow plows, drill sets and saws. Not many of these have developed partly because of the changing needs for tools of different types, partly because of the problem of maintenance, because of simultaneous need and because of some very efficient profit equipment rental businesses.

Informal Buying Club -- when someone discovers he can get a lower price on 10 bales of peat moss or lawn fertilizer than on one, a buying club is born. The group clubs together several times a year to pool resources on some common need. In pre-World War II days it might have included food. This is less likely today when the universal practice of week-end specials makes the advantage of case lot buying a limited one.

Discount groups -- The idea of going to a merchant with an organized body of buying power and getting a discount in return never dies. The groups do however. For a year or two such a group may show results. Two to three years seems to be about maximum life for such an approach.

Student housing and dining Co-ops -- Rising tuitions and the increase in college enrollments is sure to rekindle interest in a cooperative solution. In many cases the approach will be an informal one of five or six students renting a house and sharing expenses. In others a campus "Y" or some other group is certain to be asked to sponsor a "house" with a more permanent approach to solving the problem.

Used book Co-ops -- A recession period can be expected to produce interest in reducing the profit spread in used text books on most campuses. The interest may carry over into new books too. Historically this has often led to friction with the college administration who may be operating a book service and using the income to help cover student activity deficits. But student interest will inevitably show up on many campuses.

Senior Citizen Housing -- There is no more tragic situation than an aging person or couple whose fixed income has been whittled away by inflation. The problem is particularly acute in California. A fresh recession, accompanied by rising prices emphasizes it. Recent changes in the Federal Housing Act have recognized the need for encouraging what is essentially a cooperative approach to meeting the housing needs for senior citizens. Church bodies, teachers retirement funds and others are experimenting in this field. More interest and experimentation can be anticipated.

I have not attempted to give an exhaustive list of how the Cooperative idea can be applied. I have tried to suggest that the variety of application is almost infinite. If there is a problem one family cannot lick alone, if the need is shared by others, if democratic attitudes prevail and one vote for each participant is acceptable, if a non-profit solution is desirable -- a Co-op is the obvious answer. Indeed it is so natural an answer that thousands of families have applied it without even being aware that it was a Co-op they had formed and that a large body of experience was available to them.

Need for Co-ops Goes Deeper Than Dollars

I would like to close on a different note. Thus far we have considered primarily mercenary reasons for using the Cooperative technique. There are other reasons, perhaps more important, for more people to make an effort to develop cooperative institutions of permanence.

One is the trend toward merger and integration apparent in almost all fields in the United States. Anti-trust laws have proven an inadequate restraint. Large, integrated cooperative competitors appear more needed today than at any previous time if the consumer is to receive benefits from bigness and if balance is to be kept in our economy.

A second is the role of the United States in relation to the newly developing areas of the world. In India, the Phillipines, Indo-China, Burma, and many other places, the cooperative method is increasingly recognized as offering the needed combination of democratic methods and socially desirable results. A strengthened cooperative movement in the United States is important to inspire and help these new areas. The newly awakened peoples will not permit the massing of wealth by a few and they want an alternative to a communist state operation to assure their newly won freedom. Co-ops hold forth this promise.

For all of these reasons it can be hoped that one silver lining to the recession cloud may be an increased awareness of the Cooperative idea among the American people.

THE ROLE OF THE CREDIT UNION IN A RECESSION

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I am sure that most of you are aware of the fact that credit unions first appeared as a response to the challenge of hard times and depression. The present recession puts no strain on credit unions that they have not experienced before. It is true that credit unions are not quite the same as they were in 1930, and it is even more true that they are not the same as they were in 1848. However, the basic principles on which they operate have not changed; what is new is principally the living and working conditions of the members, which of course have changed substantially in 110 years. A credit union is simply a means by which people help each other, and it is essentially a very simple instrument if you know the rules.

Depression Babies?

It was hard times -- extreme economic conditions that led Raiffeisen to develop credit unions in Germany more than 100 years ago, and the same conditions in Quebec coupled with flagrant exploitation of the worker and farmer that led to the development of the credit union movement in that province 60 years ago.

In the United States, the history of credit union development has been quite different in some ways -- this is the first country, for instance, where credit unions developed primarily among employee groups. Yet here too, a need was met by increased organization of credit unions during the depth of a depression. It is true that growth was relatively slower during the 1920's because of a lack of laws, and that those laws, including the Federal Credit Union Act, came into being in the thirties. But it is still significant that the number of credit unions in this country -- and most of them among employee groups -- grew seven-fold between 1929 and 1939. During the present recession, the rate of organization of new credit unions has maintained a pace equal to that of last year for the same period.

Why Employee Groups for Credit Unions?

I would like to give you a little more history about the development of credit unions during those depression years, before going on to describe the credit union in situations such as we are right now experiencing.

The very name credit union was a red flag to many employers in those days, and occasionally still is. It was picked quite deliberately to describe these credit cooperatives by Edward A. Filene, whose fortune helped support our national organization during the years of its infancy. In other countries, these organizations had been given names like "people's banks," "village banks" or "credit co-ops." Filene favored "cooperative bank" but chose the name "credit union" because another type of institution was already using this name extensively in New England.

As it worked out, the early organizers of credit unions had to work wherever it was easiest, and this usually turned out to be among groups like postal employees, school teachers and railroad employees. With some exceptions, it was found to be very difficult to organize industrial groups, and it was not until rather late in the thirties that auto workers, steel workers and electrical workers had their credit unions. In most industries, management is now very much sold on credit unions and anxious to be helpful -- an attitude which we appreciate unless it becomes a kind of paternalistic cuddling, where management pays many of the credit union's proper costs and tends to dominate the thinking of the credit union officers. I should also make it clear that we don't like to see credit unions dominated by labor unions either, or by any church or cooperative among whose members a credit union may be organized. A credit union, according to credit union doctrine now very well established, should be independent, stand on its own feet, and serve its members without discrimination, according to their needs. The credit union movement has its own philosophy, which spells out the meaning of this in a great detail. Some of it is borrowed from the cooperative principles of the Rochdale pioneers, some from the teachings of Raiffeisen and others, but much of it is indigenous North American thinking developed out of the typical conditions of work, income and credit needs in the United States and Canada.

This credit union independence, the ability to stand on its own feet, is one of the favorable factors which make the credit union stand out among financial institutions in times of depression.

What are some other characteristics of these "people's banks" in the face of adversity?

Members Feel an Obligation to Their Own Organization

The average member feels a strong obligation to repay his credit union loan. This is his organization and he puts the repayment of his credit union loan ahead of many other obligations. This loyalty is a valuable factor when times are tough and delinquency is on the increase.

For many years, the people who did the organizing and educational work of the credit union movement had to put enormous effort into explaining to credit committees that you can lend money to the average credit union member on his signature and get it back. "The average guy is honest," has been said at least five million times at credit union meetings. Men who had never handled a hundred dollars in their lives became quite naturally timid when they found themselves entrusted with the management of thousands of dollars belonging to their fellow workers, and they often tended to tie the borrowers down by more rigid security standards than banks and loan companies would apply. No doubt the fact that so many credit unions were organized during the depression added to this problem. But as the years passed by, the educational program of the credit union movement began to show results, and credit committees gradually loosened up their lending procedures. We have said over and over again, "We are here to make loans that banks wouldn't make," and to a large extent it is true. It happens. I am proud, for example, of the story of a steelworker in Gary which appeared first in The Credit Union Bridge, our own publication, and more recently in Coronet. He had bought a house on a land contract, and the strike was called just a week before his last payment was due. It was a balloon type of payment, calling for quite a large sum, and he had no assurance of income. If he failed to make the payment, he would lose the house and all the payments he had made on it. He went to his credit union, borrowed the money, and was permitted to postpone making any payments on the loan until he was back at work and had received his second pay check. This is what we mean by service. Years ago, many credit committees might have been afraid to make such a loan, but I don't think many would be today. I know of credit unions today that are lending several thousand dollars on a wage assignment. This kind of service goes on in good times and bad. The member knows there is one place he can get a loan if he needs it -- even when he may appear to others to be a bad risk.

Members Regulate Their Own Borrowing

The credit union movement discovered during the great depression of the thirties that people become very cautious about borrowing in bad times (many credit unions have reported savings up and loans down in the past few months). In the thirties we found that delinquencies increased, of course, as members worked shorter weeks or lost their income entirely from time to time, but losses were no worse. Our members were very sober in their attitude toward the use of credit. They borrowed only when they felt they had to and when they felt pretty sure they could pay us back. In addition to that, credit was harder to find in those days, and they felt that sense of loyalty, mentioned earlier, that gave any well-run credit union the feeling of being a close-knit family. Some credit unions liquidated as the result of plant closings, but losses on bad loans were low. Credit unions for over thirty years have charged off somewhat less than 1/2 of 1 per cent of the loan volume. While losses on commercial loans and real estate loans were catastrophic at some times during the depression, there were never any serious losses in the consumer field. Actually credit unions found it much more difficult to operate during the war -- the red tape of the credit regulations, the labor turnover, the low demand for loans, the overtime that so many officers and committeemen had to put in on the production line, the competition of savings bonds -- these things were much harder to cope with. There were many more liquidations during the war than during the depression.

Operation Bootstrap

Another characteristic of credit unions during good times and bad is stability. If there are enough of them in proportion to the total population, credit unions can exert an important stabilizing influence on the community. Credit union members learn to save (they have a personal cushion against emergencies) and they have a source of reasonable credit when they need it. The credit union is neither inflationary nor deflationary. It operates on the savings of its members. It does not create or destroy artificial capital or lending power. The interest rate and the dividend rate remain relatively constant in periods of tight money or plenty, in boom or bust. The credit union is truly a bootstrap operation -- less dependent on or influenced by the eccentricities of the economy or the fortunes and misfortunes of others than any other type of financial institution. The credit union share of personal credit in the U. S. increases year by year, and this is a healthy, if small, factor in our economy.

What Does a Good Credit Union Do?

I do not mean to suggest that credit unions are totally unaffected by recessions. Plenty of credit unions are in trouble and, in just a moment, I will outline some of these problems and what we are trying to do about them.

But the well-run credit union has nothing to fear unless facing liquidation for some reason beyond its control -- closing of the plant, for instance. The good credit union checks its operation carefully to effect every possible economy, steps up its membership education program so that members will use its services to the best advantage, makes sure that it has effective delinquency control -- and then calmly serves its members as usual.

Recession Problems Today

Today, the credit union movement faces the same problems as in the thirties, but on a different scale. There are many more credit unions organized in those branches of industry where layoffs and shutdowns are common. Instead of serving mainly those stable groups of employees who work for the railroads, the utilities, the schools and the government, we now are serving groups in the auto industry, the appliance industry, the electrical industry, the metal working industries, the aircraft industry. Over the past three years there have been some forty credit unions liquidated in Michigan due to plant closings, and these have shown us what the new problems are. Workers are more mobile today than they were in 1930. They disappear quickly, unless you keep in touch with them. These are big groups, too -- thousands and thousands of members in some of them. When a layoff comes, or a shutdown, you have to have pretty alert management in your credit union to keep your collections moving. It is not that your members become dishonest; they don't. But it is awfully easy for them to forget that they owe the credit union money if the credit union doesn't remind them. The vast majority of them go on willingly with their payments as long as they can swing it. If they can't swing it, the good credit union officer tries to waive payments as long as the member is in trouble, refinance his loan, and keep in touch. Many members will find employment some place else quite soon, very likely in a plant where there is a credit union, and then a transfer of membership can be arranged, and the new credit union will take over the loan.

Recently the Daisy Air Rifle Company in Plymouth, Michigan, announced that it was going to close its plant and open another one in Arkansas. The officers of this credit union, like most of the members, did not intend to move to Arkansas to keep their jobs; they wanted to stay in Plymouth among their friends. But they wanted to keep the credit union going. So they applied for a new charter which would permit them to take in as members any resident of Plymouth. This was approved, and the credit union office has now been moved to a room just off the lobby of the town's only hotel. There are a lot of new officers in the credit union now, representing different groups in town, and the old Daisy Air Rifle group is experiencing new growth. This sort of conversion is often possible in a small community.

In other states some credit union leagues, notably Missouri, have had outstanding success in recent months in finding means for a credit union with a similar or identical common bond to take in the entire membership, assets and obligations of a credit union facing liquidation because of a plant closing. No two cases are ever alike, but it seems that something can be done for almost every group facing this problem if enough sympathetic study is directed to the problem.

Stabilization Programs Gain Rapidly

To protect members' savings against loss resulting from liquidation, another program is now building up. This is called the stabilization program, and it has been developed primarily up to now under league sponsorship. In Saskatchewan a fund has been built up under the provincial government to which all credit unions must contribute but which is administered by a committee of credit union people; this fund helps credit unions through liquidations and pays members 100 cents on the dollar.

In Michigan all credit unions in the league now contribute part of their dues to a league-administered fund called the stabilization service, which makes up losses suffered during liquidations. In Wisconsin, a central credit union takes over the loans of credit unions when they liquidate and pays off share withdrawals. In Illinois, a share guaranty corporation has been set up which handles the problem somewhat along the lines of an insurance program. During the past eight months, several other leagues have set up similar programs -- among them, Iowa, North Dakota, British Columbia, Nebraska, Louisiana, California, Connecticut.

Nineteen altogether either have such programs in operation or are planning to set them up, according to the last report. At our last annual meeting, in May, the directors of the Credit Union National Association voted to authorize an international stabilization fund to back up these state and provincial programs. We are very happy about this development. It answers one of the problems of recession without sacrificing the voluntary non-profit character of the credit union movement.

How Important a Factor is the Credit Union

There are about 23,000 credit unions today in the United States and Canada, with nearly 12,000,000 members. The average savings of credit union members reached $355 at the end of 1957, and the average loan stood at $280. In the United States nearly 6 per cent of the population were credit union members, and in Canada 13 per cent. The number of credit unions increased 5 per cent in the United States last year, the number of members 8 per cent, the savings of the members 18 per cent.

This growth is impressive, yet we in the credit union movement are far from satisfied. There is a big discrepancy between the best and the worst -- we want to do something about closing that gap. We think we can do a better job promoting thrift than we have done. We think there is a whole area of activity ahead of us that we have hardly touched -- the area of family financial counseling. We have 300,000 officers, with a turnover of something like 30 per cent each year -- this gives us an enormous training and educational job to do. In addition to this, we have a world-wide program to support, for we now have affiliated leagues in Puerto Rico, Jamaica, Trinidad, British Honduras, British Guiana and Chile. Leagues in Fiji, Australia and the Philippines are preparing to apply for membership.

Summary

In summary then, credit unions have no reason to fear recession conditions. They had the best survival record among all employee thrift plans during the depression of the thirties and many of them came into being at that time.

Credit unions have certain built-in strengths which steady them in trying times. They are independent and not too affected by the fortunes of other institutions. Loyalty of members protects the credit union from losses when other obligations may be delayed or written off.

The credit union not only gives its own members confidence and real help when the economy slumps, but exerts a stabilizing influence of benefit to the entire community. Credit union members show a strong tendency to self-regulation in bad times. They are cautious about over-extending themselves.

Credit unions do have some recession problems. Workers are more mobile today and it takes alert credit union management to keep track of them when a plant cuts back or shuts down. Plant closings create a serious liquidation problem which is being met by combining existing credit unions, changing the designated bond of membership and through a rapidly growing program of stabilization programs.

The credit union movement continues growing, apparently without relation to good times or bad, and serve an ever-increasing per cent of the personal credit needs of our people.

I'm sure all of you have seen the well-known trademark of the organized credit union movement -- our Little Man Under the Umbrella. I think he expresses our position exactly. If you look at him closely you will see that he is smiling confidently and his umbrella is protecting him from a number of ills which beset the human race, and the first of them is hard times.

The credit union is a steady rock for all of us to cling to when we are beset by any of these financial problems and our only wish is that we had many, many more of them to help every single person who might want or need that help.

CONSUMPTION MANAGEMENT: A NEW TRADE UNION FUNCTION

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Four items will be touched upon this evening. By way of introduction, brief attention will be paid to that which has been achieved for consumers in the past. There's an excellent tradition there but one which we are failing to live up to. That brings up my second point: Why? For the most part because consumption management, that is, the art of spending money wisely has become increasingly difficult. Media of information serve manufacturer and distributor interests rather than truth, and in many cases are dominated by one brand of politics. The simple products of an agricultural and frontier economy have been displaced by the complicated technical products of an industrial economy. A white collar group not versed in making, testing, and handling goods and equipment has become more numerous than the blue collar or blue shirt group that worked on the farm and in the factory years ago. In the third place, a series of technological revolutions coupled with the corporate and organizational revolutions have fostered the emergence of a power elite, a triumvirate of industrial magnates, military potentates and political leaders who use business and government to further their interests rather than that of the more dispersed and much more numerous consumption units. Finally, what new methods are geared to these modern developments? What can the marginal units, the intelligent 5 per cent do? Can they tip the scales back in favor of consumer sovereignty? You will find that my questions far outnumber my solutions.

A Century of Consumer Achievement

In our present concern about what the government is failing to do, let us take heart from the splendid tradition and record of the past -- and this at all levels of government, federal, state and local. In an era of self-reliance and rugged individualism, state and local governments everywhere developed public education such that public schools and universities became the "cathedral" landmarks of American cities. They took on the purification and distribution of water so that in 1950 out of 94 cities having a population of 100,000 or more, 86 operated their own water processing system as a public monopoly. Scarcely more than a hundred years ago, securities of water companies and toll roads dominated the stock market the way industrials such as General Motors do today. Local governments in ever increasing numbers owned and operated utilities providing electricity, gas, transportation, libraries, parks, and other services.

Even citadels of rock-ribbed Republicanism such as the city of Palo Alto decided at the turn of this century in favor of municipal ownership and operation of its public utilities. Today, in addition to extensive police protection, fire protection, construction and maintenance of streets, freeways, bridges, harbor and airport facilities, playgrounds and hospitals, cities in many cases provide socialistic golf courses, socialistic ball parks and socialistic industrial exhibition facilities, many so recent that we wonder how so much could have been done for the consumer with such boldness.

At the federal level even the postal service is, as the history of governments go, relatively recent. The regulation of banking protecting the validity of the currency consumers handled was undertaken in the national banking act of 1862, that protecting his bank deposits some seventy years later. A sample of the extensive legislation beneficial (though sometimes incidentally) to consumers would include legislation covering rail, water, motor and air transportation, telephone, telegraph, radio, and television service, the Sherman Anti-Trust Act, extensive social security legislation (bound sooner or later to cover medical care), the Tennessee Valley Authority and other public power measures which make electric light in most areas of the country today the cheapest article in the consumer budget, pure food and drugs legislation, government information of all sorts, housing, G.I. insurance, loan and educational benefits -- these represent, as you well recognize, but a sample of the measures enacted by congress in the interest of the consumer in times past.

Erosion of Consumer Sovereignty

Under a system of vigorous competition consumers determine who shall produce, how much, of what quality, at what price. Intelligent, shrewd consumption management is the governor of the intricate economic machine.

Three important forces have undermined the dominance and efficiency of consumers. First has been the shift from an agricultural economy with easily identifiable products readily tested to and industrial and pecuniary economy in which even farmers specialize and depend on others for most of the items they consume and use. Their well-being too, depends on prices rather than industrious persistent efforts producing food, textiles, repairs, houses, etc., for themselves.

During the nineteenth century those who didn't like the construction costs in urban areas could escape to the frontier and build their own homes. Thus the treks of Conestoga wagons over the turnpike to Vandalia, Illinois in 1837, to California in 1849, and to other areas even as late as 1893.

Secondly, the job of consumption management has become more and more complicated. Today there is scarcely a greater challenge than being a homemaker, an intelligent manager of that most vital of all firms in our economy, the consumption unit, especially the family. The problem-solving functions that the manager of a household performs are usually more numerous and complex than those performed in the ordinary business firm and much more diverse than those in any ordinary executive job with specialized job specifications.

There is, first, the recognition of the needs of each member, the task of gathering information, selecting end-products, quantities, and the times which they will be used. There is program-planning in accordance with budget and relative priorities of need. The job calls for procurement of input resources, arranging payments, selecting, organizing and assisting outside suppliers such as plumbers, doctors, schools and the like. There's the problem of organizing, directing and supervising inside personnel, not merely maids but children and adolescents at various hours of the day and night, worse still the husband. There are the problems of transporting supplies and family, storing goods, processing them, selecting, organizing, and providing facilities for users, distributing them to users, testing, appraising, repairing, returning defective items, all the while handling about 80 per cent of family funds, including short-and long-term loan commitments, insurance of various kinds, in many cases, even property and income taxes.

Until recently the homemaker was listed in the United States decennial census of occupations as "no occupation." Actually the average homemaker for a family of four works 106 hours a week, 44 hours as cook, 10 as housekeeper, 8 as laundress, 6 as dishwasher, and a couple of hours each week as buyer, seamstress, dietitian, practical nurse, social secretary, gardener, garbageman, maintenance man, hostess and chauffeur.

A syndicated item in the Sunday supplement <u>This Week</u> entitled, "How Much is Your Wife Worth" written by Irene David estimated that at current hourly wage rates the economic services rendered by the homemakers would cost about $146 a week. She earns more at her job than we do at ours. Moreover, she has more capital equipment to take care of on the average than industrial workers handle. The average capital investment includes a house usually worth from $10,000 to $20,000, highly technical equipment, furniture, etc., worth several additional thousands of dollars, an automobile, and other items about which in many instances she has to know more about how to repair and how to maintain than her husband does in his job.

Consumption management becoming thus increasingly complicated, has recruitment kept pace with specifications? T'would hardly seem so. Job opportunities are opened and men most attracted by feminine qualities far removed from expertise in consumption management. The importance of the latter does not become apparent until some time after the ceremony when the promises during courtship meet the hard reality of the limited earning power. While the men have good reason to know what their brides expect of them, the trouble is that they cannot afford it.

At the federal, state, and local government levels, the impotence of the consumer and her lack of training for the job in hand is even greater. There her interest is a diffused general interest without special representation or lobbies, whereas those actually presented with maximum intensity are special producer interests. In this age of specialized industries, many far removed from consumers, the discovery has long since been made that as pointed out by C. Wright Mills in his book The Power Elite, a five times larger yield results from making an extra dime out of a half million customers at the point of a managed price increase than $10,000 from a bank at the point of a gun. It is also safer.

The varieties of legislative and other devices whereby producer interests contrive to secure special advantages are legion: tariffs, subsidies, price-supports, exemptions from anti-trust laws, "quickie write-offs," depletion allowances, tax advantages, profitable contracts, and the like. In every instance the smaller interest will be powerfully represented, the much larger consumer interest hardly at all.

If to secure an additional million dollars of profit, each of 51 million consumer households are made to pay an extra dollar, the 51 million dollar consumer interest will rarely find utterance even in the Congressional Record while the million dollar special interest readily spends $100,000 or more on public relations experts, economists, lawyers, hiring entire floors (as they do in some instances) of various Washington hotels to "make friends and influence people." Whatever opposition there is is lambasted in their newspapers. Pressure is brought upon the legislators in their home districts, upon their campaign contributors, even on university professors who sometimes dare to give voice and argument to the larger consumer interest.

The high degree of organization with which such pressure is exerted can be best illustrated by the lobbying for the McGuire Fair Trade Act. The National Association of Retail Druggists used the "Captain Plan" whereby in every single precinct of the country a druggist or some other sympathetic "captain" was appointed. These inside of six hours could deluge a recalcitrant congressman or senator with as many as ten thousand telegrams plus innumerable letters.

Many congressmen in "doubtful" districts virtually had to succumb or commit political suicide. For though the supporters of fair trade did not constitute 50 per cent, 20 per cent, 10 per cent, nor sometimes even 5 per cent of the community, yet where the balance between Democrats and Republicans was close and in many it is (if a candidate receives 55 per cent of the vote, he does well, 60 per cent represents an overwhelming victory), the druggists might be the marginal five per cent, the small difference between defeat and victory or between a precarious battle at the polls and an assured easy triumph.

During the nineteenth century when our economy was more than 50per cent agricultural, the farmers stood to gain as much by legislative action relative to what they bought as by what they sold. So on the whole there existed a dispersal of interest.

But in a highly specialized economy one gains income more easily as a producer especially as a member of a trade association or trade union. The untrained executive in consumption management, like the small businessman, feels that the nub of her problem is lack of capital. She finds it easier to put pressure on her husband to earn more. Yet in most instances and in small business, in roughly 90 per cent of the failures, the cause is poor management, half of them failing even to keep accounting records. So in much the same way that small business gets aid by using its political sex appeal, the manager of a household finds it easier to pressure her husband into earning more, rather than undertake that hard labor and thought necessary to perform her job better. Of course, unless he gains more than other producers and sellers, he will still be a loser. Hence the competitive rat-race between prices of farm products, industrial products, retail prices, and wages -- which assures most consumption managers a period of lonely widowhood toward life's sundown.

Better consumption management may well increase real incomes by 25 per cent or more, especially so if the homemaker lets advertising pressures, the Joneses and other forces push her around. If she buys exactly what advertisers urge her to do, her spendthrift expenditures will soon bring on financial insolvency. The rules of intelligent purchasing as practiced by business purchasing departments are no less useful for the managers of consumer households: know your product, insist on specifications, shop around, make scientific tests, never buy on impulse, get trade discounts for cash, in general caveat emptor.

If consumers insist on brand or label instead of content and performance, if they buy on impulse or on credit, if they permit vanity, concern for their family, the Joneses, subliminal advertising, caprice, sex appeal, or any force other than shrewd buymanship to influence their purchases, they are likely to get as much as 30 per cent less for the dollars their husbands earn. Such was the estimate made for the temporary National Economic Committee by Forrest Q. Walker, then chief purchasing agent for Sears and Roebuck.

Coupled with the more skillful utilization of human and feminine frailties have been the roadblocks to the intelligent exercise of consumer sovereignty imposed by a series of technological revolutions. Within the memory of the not so much older generation, the consumer could touch, taste, handle and test nearly all products she bought. And frequently in the very presence of the artisan producer. By her dollar ballot she could select for survival those businesses that gave her the most value for her money.

Today myriads of plastics, chemicals, antibiotics, radio isotopes, products of electronics, nucleonics, automation, and refrigeration are progressively weakening and frustrating her ability even to understand, not to mention test, the increasing complexity of the items she's buying. So far as comparative performance and values are concerned, she can scarcely help being economically illiterate. So she does what she considers to be the second best thing, namely she trusts some brand or label. She is presold. The merchants of today no longer are purchasing agents for their customers but are becoming mere order-takers, using an IBM machine to tell them when to reorder. Neither the customer, the retail clerk, nor the merchant have the engineering skill or testing facilities to know the products handled. In short, the consumer is no longer the efficient, independent governor of the competitive process.

Further eroding consumer sovereignty has been the revolution that has taken place in media of communication. Those as little as sixty years young remember with affection the independent country newspaper editor characteristic of the local communities of their childhood. He could nearly always be relied upon to speak out vigorously for the cultural and consumer interest of our home town.

Today local newspapers are fast disappearing. Out-of-town firms, national chains and metropolitan department stores dominate the advertising columns. Syndicated columnists, "canned" boilerplate, and press releases selected for roughly 85 per cent of newspaper coverage from the rumor factory of the same political party dominate the editorial pages, all by and large presenting but one point of view. Recommendations with respect to legislation and candidates are nauseatingly uniform, often flying in the face, not merely of public judgment as expressed at the polls, but of scientific and particularly economic evidence. Whether by radio, television, or press profitable economic fallacies are continuously huckstered as "sound," "practical," "common sense" truth. Newspapers and the numerous radio and television stations they control are for the most part house organs of business and propaganda media for the Republican party.

Since so little of value is available in the way of commodity or economic information, even in the "slick" magazines, intelligent consumption management is virtually impossible without utilizing special consumer publications such as <u>Consumer Reports</u> which in furnishing commodity information are finding among the white collar, higher income consumers, I should add, a rapidly expanding subscription list.

A major problem here is that on the whole those who need it least use it most. But what about the overwhelming majority of lower- and middle-income consumer households? It is there that trade unions have the challenge and opportunity to be of substantial assistance. Unfortunately at present mass communication is less communicative than massive. How make scientific commodity information available? How escape the continual din of one-sided political clamor? How keep the American public from becoming a mass, a media market whose economic and political opinions are manipulated for hire?

A mass differs from a public, it need scarcely be repeated, in that far fewer people express opinions than receive them. The individual usually cannot answer back. All you can do is throw your shoes at the television set and then pay the expenses. The authorities control the channels of action, the individuals are powerless. And the mass has no autonomy apart from institution.

These days, by and large, an individual is never paid any mind, politically or in the mass market. If he is listened to at all it's only because he represents some large organization. And the extent to which he is listened to depends upon the size, the power and the political leverage of the organization which he represents, and the discipline he has over the voting strength and the finances of the organization of which he is a member.

Thus today the effective units of power are the large organizations, the huge corporations, inaccessible private governments, grim military establishments by whom masses at focal points are manipulated into crowds of demonstrators. Opinion-making becomes an accepted technique of power-getting and power-holding. The minority electorate of the propertied and the educated is replaced by the total suffrage and intensive campaigns for votes wherein big money has almost insuperable advantages. The small eighteenth century professional army is replaced by the mass army of conscripts and by the problems of nationalist morale. The small shop is replaced by the mass production industry and the national advertisement.

Needless to say, in dealing with the mass, public relations experts do not follow the difficult laws of logic and proof that are followed in science, but practice the techniques of propaganda. Among these techniques are a number of highly effective yet fundamentally untruthful devices. Most important is name calling or label pasting such as the "fat bureaucrat," "socialistic," or "regimentation." Then comes the big lie: for example, the charge that the government is full of traitors, subversives and communists. Use glittering generalities embodying virtue words such as "free," or "tax-paying," though a so-called "tax-paying" utility can charge even income taxes into its expenses. Publish testimonials from the dead, say "Jeffersonian" Democrat. Shout "unconstitutional," associate public enterprise with Stalin or sovietism.

All of these techniques embody logical fallacies so ancient that long Latin names can be found for them in any sophomore text on logic, but they are highly effective for those who parade profitable prejudices as hallowed principles. Don't forget the bandwagon technique: Everybody is buying stock. Picture the billionaire corporation or stockholder as a poor John Doe taxpayer in a barrel. Use the plain folks technique, "I'm a bare-foot country boy." Play on fear so that every program of human betterment is made to appear as leading to war or to depression or to inflation or social revolution or big government.

Thus consumer sovereignty has steadily been eroding away (1) as the simpler products of farmers and artisans diminished in importance from over 2/3 to less than 1/10 of total gross national product, (2) as durable consumer goods, automobiles, highly processed foods, textiles, drugs, and specialized services began to absorb the lion's share of consumer outlays, and (3) as mass media of communication substituted mass persuasion techniques for factual, scientific information and manipulated consumer acceptance by shrewd exploitation of psychological weaknesses instead of rationally enabling them to get the most in quantity and quality at lowest possible prices yielding a minimum competitive return.

The New Sovereign: The Power Elite

The economy, like nature generally, abhors a vacuum. So consumer sovereignty has been substantially replaced by giant rule-making bodies, governmental and private. Largest in terms of number of employed (2,600,000) and revenues collected ($68 billion) is the federal government.

Next to the federal government, the largest unit of power is General Motors. In 1956 it employed more people (600,000) than any other business or any state or local government in the United States. More net receipts or funds ($10,796,000,000) flowed through its coffers than has ever been seen by the combined treasuries of 40 states of the union. It is the world's biggest advertiser, the largest bank customer, and the largest shipper of freight. In addition to being the world's largest producer of passenger cars, trucks, auto parts, busses and locomotives, it is a leading producer of gas engines, bulldozers, washing machines, refrigerators, ranges, air-conditioning, lighting, heating, and water systems.

In General Motors 50 persons own 38.94 per cent of the stock. In 1955 it earned 31 per cent profit after taxes, more than double the national average. Yet no new enterprise even thought of entering the automobile industry. Freedom of entry is a dead letter, inoperative in the face of so great an organizational revolution.

By a single major decision of General Motors, the incomes and lives of 18,000 dealers, 10,000 suppliers, 500,000 employees, and millions of customers are vitally affected. It may perceptibly alter, as a matter of fact, the prosperity and strength of the United States and the Free World. In 1958 it did.

The dominant issue here raised is, of course, that of power groups in a society, of _États dans L'État_. General Motors dramatizes the exercise of power not based on the consent of those governed. For mostly by mergers it has centralized so much rule-making authority and decision-making in a single management, that a committee of corporate executives in an office hundreds of miles away is able, as part of a routine day's work, by closing a plant to pronounce sentence of substantial or total loss of income and livelihood upon an entire community. The fact that these private rule-makers are unquestionably honorable men who strive earnestly to exercise their power of economic life and death with a high order of trusteeship, merely emphasizes that such absolute power exists, that they have it, that they are not legally bound to give any accounting (except insofar as good public relations and _noblesse les oblige_) -- either to the workers or to the public primarily affected by such business decisions.

Including General Motors there are seven corporations that are larger in terms of net revenues and employment than the next political unit which is New York City. Then there are twelve more larger than the State of New York, seventeen larger than California or Texas.

In fact, General Motors, and some six other billionaire corporations are essentially world economic power units that in some instances can and do make agreements with foreign governments and interests (witness the Iranian Oil Consortium) which the States (from which these corporations obtained their existence and all their powers) would themselves be legally powerless to make.

Even the Congress of the United States was unable to get the facts back of the Iranian Oil Agreement, the consequences of which threaten to bring about an international explosion. The Anti-monopoly Subcommittee of the House Committee on the Judiciary tried assiduously in 1955 to find why five giant American oil companies were granted permission to join the Iranian Consortium despite our antitrust laws. All the officials in the Department of Justice including Attorney General Brownell were summoned to testify, each passing the buck to the next higher echelon. Brownell in turn called it a State Department matter whereupon every person in the hierarchy up to Secretary Dulles was summoned. He states that the Iranian oil agreement was a matter of crucial foreign policy. He wrapped the American flag around the consortium. The Subcommittee, he felt, ought not, and in fact, it was unable to find out why five American companies (Standard Oil of New Jersey and four others) were allowed to make this agreement with other foreign governments.

The question was raised, why were firms excluded, as for example, the cooperatives. The answer given was that the World Cooperative Alliances was an international holding company controlling as subsidiaries the cooperatives in the various countries of the world, including the United States, an allegation patently ridiculous. As in trade associations or in the International Chamber of Commerce formed by chambers of commerce throughout the world, member organizations and cooperatives in no wise surrender control. Thus firms all over the world were prevented from getting in on the cheap oil imports which so enriched the stockholders and enlarged the dividends of Standard Oil of New Jersey and the other four American participants in the world oil cartel.

This issue, needless to say, is an old one. Where do corporate executives obtain such power? Obviously from their corporate charters. And who created these corporations and gave their executives whatever powers they have? The government. And who in the United States created all governments? We the people of the United States. Then why does so large a percentage of the American public, and especially of laborers, farmers, and stockholders feel helpless when foreign economic policies dictated by giant oil companies lead to swift massive troop movements that might bring on an atomic holocaust?

Why, indeed, except that the executives of giant corporations today possess more absolute power than ever before in American history. Andrew

Jackson's battles with the Bank of the United States, Theodore Roosevelt's "Square Deal," Woodrow Wilson's "New Freedom," Franklin D. Roosevelt's "New Deal," and the Temporary National Economic Committee (TNEC) each in their day made heroic attempts to stem the tide of mergers and corporated elephantiasis. Each clearly saw that the greater the power, the more dangerous the abuse. In the words of Lord Acton's famous dictum, "all power corrupts, and absolute power corrupts absolutely."

The American people may now in fact have reached the point of no return. Modern technology has impelled business toward a corporate giantism which cannot operate efficiently without centralization and apportionment of vast amounts of power over output, wages, prices, markets, and state and federal elections. As custodians and administrators of such vast power, how can business executives deploy it creatively? That is the challenge and the dilemma -- between the technical "must" and the ethical "ought."

Hence, the sudden demand for men of caliber matching the power entrusted to them. Hence the premium on Grade A administrative, managerial ability. Today it is the supply of such qualified people, rather than money, materials, or markets which is limiting the expansion and vigor of many corporations. And not only in business. In government, in universities and in trade unions there is an enormous shortage of such top notch managerial capacity.

The American manager is no longer a private person running a private business or trade union. The eyes of the world are upon him. Even the heir to a family-owned enterprise may find himself a public figure, listed in Who's Who, under constant evaluation by his community, his nation, and even the Free World. His attitudes and actions, his virtues and vices, are no longer merely his own concern. They are praised or criticized as representing those of the people of the United States.

As Professor Peter Drucker has stated, "It is the virtue rather than the competence of our business leaders to which we must look for the strength and growth of our free enterprise system. It is the moral values and performance of American management to which this country, if not the entire Free World today, will look for its success, if not for its very survival."

To be sure, our captains of industry share this power. Together with political leaders and with the military clustered about the Chief of Staff, they form what Professor C. Wright Mills has called "The Power Elite."

They do not operate in compartments. The interchange of managerial personnel between business and government may have reached its peak in the War Production Board and similar bodies. But it continues in full force in the Business and Defense Services Administration and in the Department of Defense. Similarly top generals and admirals in large number are retiring to posts as chairmen of the board, directors, and executives of large steel, armament, radio and banking concerns.

The military chiefs in the Pentagon not only have become a major factor in the lives of all able-bodied young men but the Pentagon with control of 60 per cent or more of the budget, has become a vital economic nerve center and a command post of economic planning. It exercises controls over foreign trade, over commodity movements to areas behind the Iron Curtain, and over vital raw materials. Its war plans guide American policy not only in ever recurring international financial and currency crises, but with respect to loans, missions, stock-piling negotiations, and control mechanisms. Even if UMT be not adopted, military attitudes shaped by crisis psychology in essence control farmer, labor, and consumer groups. They condemn virtually all strikes. They engineer increased subsidies for plant dispersal, for air and shipping lines, for atomic energy, and for other war-connected enterprises. War aims inspire increasingly direct and indirect censorship over academic freedom and over freedom of thought and speech by military, governmental and even industrial personnel when engaged on what the Pentagon labels as "defense contracts."

This subject, big business and concentration of economic power, has, of course, generated many heated controversies with respect both to the facts and to their implications. Now is neither the time nor the occasion to explore the numerous conflicting answers to this basic problem: How preserve freedom of entry, equality of opportunity, and economic justice?

Some recommend a do-nothing policy. "Every man for himself" say the elephants as they stamp among the chickens. To such cynical counsel millions of small enterprisers properly raise vehement objection and each year sponsor dozens of bills, in national and state legislatures designed to provide financial, tax, managerial, or other types of protection and assistance.

On the other hand, surely no one wants political power to be united with economic power in the kind of monolithic totalitarianism that brought catastrophe in the form of the corporate state in fascist Italy, the new order in Nazi Germany, or the Zaibatsu in Japan and which now still menaces the free world from behind the Iron and Bamboo Curtains. Both extremes, government taking over business or corporate business taking over government, spell disaster. Where lies the golden mean?

The challenges to trade union ingenuity and salesmanship are many and strong. Why, for example, permit government promotion of monopoly to go on unchecked in the aircraft, electric power, communications, transportation, and oil industries? Why not enforce antitrust, anti-merger, anti-monopoly legislation? Should we not lower or remove barriers to trade, both those due to government and those due to restrictive business and labor practices? Why did the United States join Russia in 1955 in axing the Ad Hoc Committee on Restrictive Business Practices, a United

Nations agency designed to cope with international cartels? Should the Webb-Pomerene Act be repealed? Should "Buy American" legislation be kept on the books?

Should small states, such as Delaware, grant corporations charters with wide powers over interstate and foreign commerce, powers specifically enumerated in the Constitution as belonging to the Federal government? If national banks require national charters, why not require them for other businesses engaged in interstate and foreign commerce? Such was advocated in presidential messages to the Congress by Presidents Theodore Roosevelt and William Howard Taft, and more recently by several Congressional Committees, including the T.N.E.C. headed by the able Senator Joseph C. O'Mahoney. These are but a sample of the challenges to thinking and governmental action awaiting the thoughtful labor executives and citizens of tomorrow.

The general need here -- and the basic challenge -- is obvious. With all our open-minded welcoming of revolutionary changes in technology -- atomic and solar power, fission, fusion, rocket and missile bombs, miraculous new metals such as titanium, new plastics such as polyurethanes (foam rubber), new drugs such as chlorpromazine, electronic data processing, supermarkets, vending machines, suburbanization, transistors, air conditioning in the South and in the tropics, or what have you -- have we the wisdom to devise and welcome with equal judicious alertness the changes needed in our political and economic institutions which will harness the chariot of technology to the goals and aspirations of democracy? In the race between, on the one hand, the education which the people need to work out wise decisions in the markets and at the polls -- and, on the other, the catastrophe involved in surrendering individual liberties to politicians, war lords, business leaders, or experts, will business and labor executives contribute alert, vigilant, non-opinionated, understanding leadership? Here, too, is a challenge that is not easily met.

A New Function: Consumption Management

To suggest what others and especially the government might or ought to do is frequently easier than to tell ourselves what we as individuals or organizations might or ought to do. Yet the latter is usually much more important. What new functions are geared to modern developments? No doubt there are many.

May I in this final section focus attention on but one: better consumption management. If as trade union leaders and persons interested in consumers, we would strengthen consumer sovereignty as the governing mechanism of our economic system, then the present crisis may be an opportunity. (The Chinese use the same symbol for crisis as they do for opportunity.)

If as many as 5 or 10 per cent of all consumers bought intelligently, particularly if under competition they became the marginal buyers, they might cause all to benefit. I believe that the trade unions by a system of education such as I saw in Sweden in '29 and saw again in '54 can realize for their members as much as a 25-35 per cent increase in real wages. A careful study and application by trade union households of the consumption management principles and techniques set forth by Dr. Arch W. Troelstrup in his book Consumer Problems and Personal Finance (McGraw Hill Book Company, 1957) would yield an increase in real income exceeding the fringe benefits which have been vigorously and justifiably sought in recent years. Dr. Troelstrup is Head of the Department of Consumer Education and Chairman of the Division of Home and Family at Stephens College in Missouri. In buymanship your families too, might also profit considerably by "being from Missouri," and using all "show me" aids including Consumer Reports.

Our economic system operates best under checks and balances when units of power are widely dispersed in small units, with consumer bargaining power holding the rein on producers large and small. In such a society political power is also dispersed and democracy flourishes.

The road of power elites is a road that ultimately leads to a totalitarian state and war. But even when these cataclysms are avoided, it generally leads to policies that put brakes on the growth of the country -- to economic autarchy, a fortress economy, heavy military expenses, conscription, burdensome taxes, repression of freedom of speech, and the like.

In the same way that Hitler consolidated his tyranny by continuous clamor against trade unions and the Soviets, the present power elite has let out all the stops against what is called labor monopoly, as if trade union leaders belonged to the power elite. A careful scanning of the records shows that trade unions have placed only one man in any president's cabinet thus far, a lone plumber among eight millionaires. And he didn't last long. No labor leader has ever held ambassadorial rank. Not a single army general or navy admiral had had a labor background. Even in graduate schools of business throughout the country notably Harvard, Stanford and the Ivy League where future business elite are trained, the first son of a laborer has yet to be graduated. On the whole the power elite is a co-optative oligarchy that draws recruits from its own ranks. That is too limited a reservoir from which to recruit the talent to handle the managerial problems of this new age. Managerial capacity is too scarce an item for us to be able to afford to limit recruitment to so small a group. We need to elicit it at all levels, particularly from the ranks of ordinary people. As one of our greatest presidents, Woodrow Wilson said,

> "When I look back on the processes of history, when I survey the genesis of America, I see this written on every page that the nations are renewed from the bottom not from the top that the genius that springs up from the ranks of unknown men is the genius which renews the growth and energy of the people. Everything I know about

history, every bit of experience and observation that has contributed to my thought has confirmed me in the conviction that the real wisdom of human life is compounded out of the experience of ordinary men. The utility, the vitality, the fruitage of life does not come from the top to the bottom, it comes like the natural growth of a grape tree from the soil up through the trunk into the branches to the foliage to the fruit. The great struggling unknown masses of the men who are the base of everything are the dynamic force that is lifting the levels of society. A nation is a great and only as great as her rank and file."

It is this same conviction that leads me to emphasize anew: There is an enormous amount of managerial capacity in the trade unions. Abroad it has been freely drawn upon to manage cooperatives, whereas in the United States cooperatives too frequently get their managerial skills in university centers such as Berkeley and Palo Alto. Good intentions, financial underwriting, and good will are not enough.. Merchandising and management skills are necessary in running cooperatives. Abroad trade unions contribute it. They participate in decisions to expand, to finance, to merchandise, etc.

That ability, that great ability, that lies all around us, to which the trade union leaders have access, is a type of ability that will not only help to solve the problem of consumption management but it will help also to provide better management in government at various levels. What we need is a cooperation of the best that we have of management at the university level, at the labor level, at the trade union level, at the business level, and at government levels.

We're in an age challenged and dominated by specialists in violence. And yet what we need are experts and specialists in securing voluntary coordination and cooperation among staff, the labor force, the suppliers and the customers in order to keep strong the vitality and efficiency and moral stamina and techniques of freedom, of competition, and of individual initiative. Above all, this generation is called upon to meet the challenge of greatness.

This has been admirably highlighted by Professor Harry A. Overstreet in his book entitled The Great Enterprise. You and I, all of us, in the business world are participating in that great enterprise.

In business, in the trade union, in our homes let us lift our eyes. Let us realize the context in which we're doing our work, fully understand the sacramental value of each day's labor. Where we work is the altar upon which we are serving whatever higher purposes exist in life, whatever the Architect of the cosmos may have in view. We may not know precisely how to put the matter into words.

But, as I see it, this brief span of years which we live is merely one tick in the great clock that ticks out eternity. For a few of these we are here, uncomprehending, attempting to make some record or memorial of participation in this eternal parade of life, like travelers taking notes in a strange country, through which they are being hurried on a schedule not of their making and for a purpose they do not understand. They only know that they were bustled blindfold onto this scene and that blindfold they will be bustled off again in short order.

Meaning will come to our joint endeavors only in the measure, as Mr. Overstreet puts it, we get rid of provincialism. Professors must get rid of their high tower provincialism, trade union leaders whatever remnants there are of prejudice against the college graduate and the professor. All of us should divest ourselves of prejudice against the homemaker and remember that it is the most difficult, challenging occupation which a woman can pursue. To be a career girl is for the lazy and the fearsome, those that lack capacity.

To quote the final paragraph of Dr. Overstreet's challenging book,

> "The central challenge to whatever maturity of mind we can muster is how can we work our way out of a variously unbalanced world into a world in dynamic balance. For this our time and generation this means how can we work our way out of these various closed worlds, which we have universally created. Out of the closed world of the sovereign state into the open world of the commonwealth of men. Out of the closed world of economic monopoly, restriction and exploitation into the open world of economic freedom. Out of the closed world of racial and class snobbery and oppression into the open world of men's dignity and friendliness where each of us and all of us help each other to be free. The great enterprise of this of our day is to make the climb up from these morasses of separatism, of fervent dislikes, of conflicts between races and classes and religions and nations up to a new plateau of practical living and joint spiritual endeavor which fully recognizes that we are our brother's keeper."

Let us realize that in large part our brother is what we make him. If in the market place we insist on value, bargain shrewdly and resist all devices tending to give us less for more, the business system will respond and no power elite or monopoly shall be able to prevail. If trade unions develop women's auxiliaries specializing in consumption management, they will delay and possibly stop the growth of practices in business and politics whereby power groups manipulate mass response. They will nourish democracy and competitive enterprise. This is a challenge to which we can contribute everyday by the work we do at our desk, at our job, in our kitchen, in the retail market, at the polls, or wherever we happen to be working.

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