Competition? Yes, but . . .

CHARLES F. PHILLIPS

EDITOR'S NOTE

Dr. Charles F. Phillips, student, teacher, consultant, and author on matters of economics in general and marketing in particular, has been president of Bates College at Lewiston, Maine, since 1944. This article was first presented as an address before the 26th Annual Boston Conference on Distribution, October 19, 1954.

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COMPETITION? YES, BUT . . .

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WHAT I AM going to say to you is not the usual Conference on Distribution talk – at least, it is not like the other four I have delivered to these Boston gatherings. Usually, a talk at this Conference is scientific in nature; it is based upon an analysis of facts and attempts to reach conclusions based upon those facts. What I have to say today, however, is more of a statement of faith – a faith which I cannot prove statistically – but one in which I believe deeply. Specifically, it is the faith that the preservation of a competitive society is important to the preservation of our way of life – and, further, that all too many of us who profess to believe in the competitive economy actually engage in actions harmful to its future.

To ask an American businessman – whether he be grocer, baker, or candlestick maker – if he believes in competition is almost like asking for a sock on the nose. *Of course*, he believes in competition – and he raises his voice to add emphasis to his answer.

But, after he has cooled off a bit from your question, you may find that he has his own definition of competition. For example, let's walk with him down the street toward the grocery store of which he is the proprietor. Across the way in a window of one of his competitors is a large sign: "Sugar, X cents per pound." You call it to his attention and at once his brow knits. "That's unfair competition," he says. "That so-and-so has cut his price again to attract *my* customers." I remind him that he believes in competition. "Why, yes," he replies, "but not unfair and ruthless competition." And, if you then ask him, "But why is it unfair for a competitor to cut his price?" he will explode, "Why, any darn fool knows that it is unfair to sell sugar for X cents. You can't make any money at that price. There ought to be a law in this state against such practices."

WE ARE FOR FREEDOM, BUT

I WONDER if the reaction of our friend, the grocer, does not illustrate a simple truth which can be expressed in the short but incomplete sentence: "We all like competition but . . ."

We all like competition since we know it is essential for our type of economy, and we like the freedoms which our economy gives to each of us – the freedom to enter or withdraw from any specific field or career; freedom to set our own prices; yes, even freedom to undersell somebody else and take business away from him.

But . . . all too often when a competitor really acts like a competitor and does something which hurts us – cuts a price, sells harder, improves quality – it becomes "unfair competition" and we run to our trade association, our resources, or the government for protection.

Of course, you think I am exaggerating the situation, and to a degree I am; but perhaps less than you think. Let's take a little look around this distribution world of ours.

We might begin by a little historical excursion in the retail field. If we go back to the turn of the present century, we find that small country merchants were going through the mail-order scare. Following the lead of Montgomery Ward Company and Sears, Roebuck & Company, mail-order firms were springing up in many parts of our country. To the small country retailer, this newer form of retailing was unfair. It did not employ salespeople. It did not involve the operation of a retail store. It could purchase in huge quantities. For these and other reasons, the local merchant was undersold and he objected to this result. Obviously, such competition was unfair! In a number of communities, "trade at home" clubs were organized while some local retailers organized mail-order catalogue burning parties.

UNFAIR, THEY SAY

ALONG ABOUT the same time, the "unfair" competition of the department store was also growing. As a matter of fact, by 1895 the department store had developed to such an extent that a group of retailers meeting in convention, "after an exciting debate," passed a resolution condemning this form of retailing, as it would "result in oppression of the public by suppressing competition (note that word 'suppressing') and causing the consumer in the end to pay higher prices and ultimately create a monopoly . . . and, further, that it (would) close to thousands of energetic young men who lack great capital the avenue of business which they should find open to them"* Once again, the bogey of unfair competition had reared its ugly head. Yet, it is probably not being cynical to remark that what these retailers really were opposed to was the fact that the department store was a formidable competitor.

*Quoted in C. F. Phillips, *Marketing* (Boston: Houghton Mifflin Company, 1938), p. 308.

What happened in the late Twenties and early Thirties in the chain store field is known from personal experience to practically all of us attending this Conference today. Based on charges that the chains were monopolistic; that they used such unfair practices as loss leaders; that they were a detriment to community life because of their absentee ownership, unfairness to local bankers, failure to pay their fair proportion of taxes; and that they were unfair to their employees through long hours, low wages, and offering little chance of advancement, smaller retailers spent much time, effort, and money in attacking this new method of unfair competition. Customers were urged to curtail their purchases at chains. The Robinson-Patman Act was sponsored, the misnamed Fair Trade laws were encouraged, and in over twenty states special taxes discriminating against the chains were enacted.

We all like competition, but . . .

Of course, this excursion into retail history belongs to the past, and you may ask: Is anything like this going on at the present time? The answer is "yes"– and in practically every area of business. Let's note a few illustrations.

Pick up the trade paper of today, and you will discover that discount houses are a form of unfair competition. All over the country, they are rapidly springing up on the basis of underselling the so-called established retailer, which means, and I now quote the executive secretary of the National Association of Retail Druggists, that they are trying to detroy "every established retailer in the United States . . . by unfair competition. . . ."* And he goes on with two sentences which might well have been lifted verbatim from dozens of speeches made against the chain store twenty-five years ago.

> Unless the discount house is effectively curbed . . . there will inevitably be anarchy in the market place. The American public must ask itself whether it wishes to sacrifice the legitimate retailers who make outstanding contributions to our economic and community life and who are the backbone of our mass distribution system.

Discount houses are even pointed to as being unfair to the consumer because, after all, they do not offer him all the services of the established retailer. Incidentally, whether the customer wants those services or not is rarely considered when this argument is advanced.

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*Quoted by Cameron Day, "More discount houses everywhere – is this a threat to advertising?" *Printers' Ink*, April 30, 1954, p. 33.

SOLUTION BY ELIMINATION

AND, what do the established retailers offer as a solution to the discount house? Is it an honest effort on their part to meet this new competitive factor by reducing their own margins and prices—which, if history proves anything, *must* be the way to meet it in the long run? In a few instances, the answer is yes. To illustrate, here is a refreshing statement from the chairman of the board of Sears, Roebuck & Company, Theodore Houser, who says:

> I have no patience with people who say that there ought to be some way to stop the discount house. The important thing is to bring down the price to the consumer. If the discount house can do that, good. It's Sears' job to get in there and pitch.*

But Houser's statement is really the exception which proves the rule. The majority of established retailers act as if they think the answer is *more* Fair Trade – despite the fact that it is the wide margins set by Fair Trade which are playing an important role in encouraging the growth of the discount house. Consequently, they clamor for the manufacturer to cut off the flow of merchandise to

*"For Sears: A New Era and a New Problem," *Business Week*, May 1, 1954, p. 44.

the price cutter and to enforce his Fair Trade contracts. In brief, they say: Let's not meet competition; let's have someone eliminate it for us.

Another form of what some of today's retailers refer to as unfair competition can be discovered by talking with a downtown merchant in any city where one or more major outlying shopping centers have been developed. "Here I am, a well-established retailer," he will tell you. "I have been in this location for thirty years, and I have always given good service to the public. Now, some real estate operator has come along and developed a shopping center five miles outside of this community, and *my* customers are driving out there where they have ample room to park and where they can shop during the evening. In view of all I've done for this community, I don't think it is fair."

Or, again, talk with the president of one of today's drug chains. Twenty-five years ago *his* organization was the culprit. At that time, *he* was the unfair competitor – the price cutter – but, today, he finds that the supermarket has added a drug section and is underselling him.* Whereas he opposed re-

*For a study of this trend, cf. "Grocer Horns in on Druggist," *Business Week*, February 16, 1952, p. 158 ff.

sale price maintenance laws twenty-five years ago, today he is one of their strong advocates. His own definition of unfair competition has shifted rapidly, depending upon who is being undersold. Incidentally, this same shift in opinion is becoming evident among the executives of the older and well-established food chains, and the leading trade paper in this area is now an advocate of Fair Trade.*

MAKE COMPETITION ILLEGAL

WE SEE another aspect of the Fair Trade fight in New Jersey. Here – as elsewhere – the supermarkets began to sell packaged medicines at reduced prices. The regular druggists' reaction was not to meet competition in the market place, but to try for a court ruling to prevent sales of packaged medicines in stores not having registered pharmacists.f This method of fighting competition is catching: It has also appeared in Minnesota, California, and other states.ff

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*Cf. Godfrey M. Lebhar's editorial on "Is Fair Trade in Jeopardy?" in *Chain Store Age* (Grocery edition), June, 1954, p. 51.

f "New Jersey Supers Resist Druggists' Smears," *Super Market Merchandising*, May, 1954, pp. 191-5.

ff *Printers' Ink*, September 12, 1952, p. 7.

We all like competition, but . . .

Or, again, consider the so-called plight of the automobile dealer during these past several months. For a number of years now, he has been riding the gravy train. Cars were hard to get; he was in a sellers' market and he made money. But, late in 1953, it became apparent that a shift was occurring; and by last spring, it was clear that the tide was out. The sellers' market turned into a buyers' market.

Many dealers who had grown up in the industry during its easy selling days and had never been trained for the "hard sell" suddenly found themselves in trouble. Their profit margin disappeared; they went into the "red." Some of them began to appear in Dun & Bradstreet's failure statistics. Of course, said the dealers, it was all the manufacturer's fault. As the dealers put it: "The real trouble is that auto-makers are producing more cars than dealers can sell,"* and they urged their resources to reduce their production. Oh, the dealers would admit that they might have had some part to play in the situation, since some of them were bootlegging cars – selling them to so-called illegitimate dealers who in turn would sell them at reduced prices. To check such so-called un-

Time, June 7, 1954, p. 104.

fair competition, the National Automobile Dealers Association even asked the United States Justice Department to come to the dealers' rescue and prohibit bootlegging!

But, we do not have to limit ourselves to illustrations from what we normally consider the retail field. Did you follow the ten-month strike of Local 15 of the United Hatters and Millinery Workers International Union against the Hat Corporation of America? The strike started in July of 1953, brought on basically by the Union's demand that the company sign a contract containing a clause that would prohibit it from opening new plants outside of the Norwalk area and from transferring work now done in Norwalk to any outside plant.

What the Union wanted was a limit on competition. It did not want its members to compete with workers in some other area where Hat Corporation might establish a factory. Fortunately, after ten months, the Union lost its fight. It is worth contemplating, however, what would have happened had a similar strike been won when the United States was still located on the East Coast only. Obviously, it would still be located on the East Coast only; and equally obviously, its standard of living today would be far below what it now is.

THEN, of course, there is the farmer – the so-called individualist, the man who stands on his own feet, and, as the politician puts it, "is the backbone of the nation." Here, of course, is someone who believes in competition. Yes, he does, but again there comes that but – and the but in his case is a big one, so big that through powerful lobbies he has forced through Congress price support laws which give him protection far in excess of even that provided for the retailer through Fair Trade.

In the foreign trade area, we can find this same attitude. A Randall Commission was appointed; and last January it came up with a program which could be described by the phrase, "more trade, less aid." For a time, it seemed as if practically everyone in the country was in agreement that this slogan would be a good one to put into practice. It looked as if we were going to make progress in minimizing some of our tariff barriers which limit competition and result in lower standards of living both here and abroad. Yet, when a specific program to accomplish these ends was proposed last March, many of those who, at their trade association meetings, are warm advocates of competition, suddenly found that there were certain wage cost differentials which led them to oppose lower tariffs "as posing a grave threat to the domestic economy."* As they warmed up to their subject, they pointed out that lower tariffs would throw American workers out of jobs, curtail purchasing power, and send us into a depression. The fact that domestic difficulties in specific areas would be far more than offset by benefits in other areas is something with which they were not concerned.

We all believe in competition, but . . .

I can even illustrate this attitude in the field of education – college education at that. Throughout the United States, colleges use scholarships to capture students – and I use the word "capture" deliberately. Sometimes we want them for their I.Q., sometimes for their A.P. (athletic prowess) and sometimes for both. At my college, of course, (or president Jones' college if he is the one doing the talking) we limit these scholarships to students who are in serious financial need; but, unfortunately, (that is the word used

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*For more details on these arguments, cf. "U. S. Foreign Economic Policy," in *National City Monthly Letter on Business and Economic Conditions, May*, 1954, pp. 55-59.

by college presidents when several of them gather together in a room to discuss the situation) there are a few colleges which use scholarships as an unfair method of price-cutting. Don't you think, their conversation continues, our regional association can do something about this?

Even educators like competition, but . . .

ANTI-COMPETITIVE ATTITUDE

By no means is this anti-competitive attitude confined to the United States. As a matter of fact, we are probably less prone to accept this attitude than businessmen throughout the world. In Guy de Carmoy's excellent little article on "What's Wrong with France?" he suggests that:

> In great part the French crisis is moral. Too many Frenchmen have developed the habit of seeking government protection. Industrialists, already protected against domestic competition by cartels, want the government to shield them against foreign competition by high tariffs and restrictive quotas. The peasants want government subsidies to enable them to buy the highly priced French manufactured goods. The workers want the government to supplement their inadequate wages with generous family allowances and other social benefits, while demanding at the same time the closing of borders to

foreign labor, even when it is needed for expansion of the French economy.*

He then adds that, while "the French believe that they still have a free economy . . . (what) they actually have . . . is the competition for subsidies of innumerable groups, each of which presses the state to protect its acquired position by artificial means." To underline his point, he adds that currently 35 per cent of the national budget of France goes for direct and indirect subsidies to business, industry, and agriculture.

Apparently, France believes in competition, but . . .

Now, as I conclude, let me be sure that I am not misunderstood as to the point I am trying to make. Please do not think I am saying there is no such thing as unfair competition. When a competitor resorts to false and misleading advertising, engages in misbranding, and makes false and disparaging statements against competitors or their products, he is engaging in practices which all of us would denounce.

What I am saying is this: Much of what we daily refer to as unfair competition is really just keen competition. It is the kind of competition that is essential to our type

*de Carmony, Guy, "What's Wrong with France?" *Reader's Digest*, May, 1954, pp. 117-122.

of economic system. If we want to maintain the freedoms which our system gives us – to enter businesses of our choice, to produce the merchandise we please, to set our own prices – then we must accept the competition which is essential to that kind of an economy. We must not always look to our trade association or our government to protect us from the actions of our competitors.

DO WE WANT ANOTHER SYSTEM?

OF COURSE, there are other kinds of economic systems. I studied one at first hand last winter when I spent several months in India. There I discovered that if you want to make a substantial capital investment in your plant, you must get the approval of the government licensing committee and this is not easy to do. To illustrate, during 1953, the textile industry in India – as in the United States – was not having a very happy time. A number of companies decided to install automatic looms to reduce their cost and, hence, to compete better both in the domestic and in the world markets. During the year, ten applications for such installations came before the government licensing committee: All ten applications were refused: The committee felt that the automatic looms would create unfair competition for the firms not installing similar equipment. As a result, India's textile industry finds itself increasingly unable to compete in today's market and, what is even more important, Indian customers were continuing to pay the higher prices required by the older, less efficient and, hence, more costly looms. Perhaps it is this kind of reasoning – perhaps it is this limitation on competition – which plays a part in explaining why the average per capita income in today's India is about $39.00 per year.

I would make this positive suggestion. Let us spend more time – in our offices, stores, conferences, and trade association meetings – improving our operations and less time trying to curb our competitors. Not only will individual companies be better off, but so will society. If America wants to continue its long-time development toward a rising standard of living, we need to encourage more, not less, competition.

When Stuyvesant Fish was president of the Illinois Central Railroad, there walked into his office one morning an Irishman, hat on and pipe in mouth, who said:

"I want a pass to St. Louis."

"Who are you?" asked president Fish, somewhat startled.

"I'm Pat Casey, one of your switchmen."

Mr. Fish, thinking it was a good chance to impart a lesson in etiquette, said, "Now, Pat, I'm not going to say that I will refuse your request, but there are certain forms a man should observe in asking a favor. You should knock at the door; and when I say 'Come in' you should enter and, taking off your hat and removing your pipe from your mouth, you should say, 'Are you president Fish?' I would say, 'I am. Who are you?' Then you should say, 'I am Pat Casey, one of your switchmen.' Then I would say, 'What can I do for you?' Then you would tell me, and the matter would be settled. Now you go out and come in again and see if you can't do better."

So the switchman went out. About two hours later there was a knock on the door and president Fish said, "Come in." In came Pat Casey with his hat off and pipe out of his mouth.

"Good morning," he said, "are you president Fish of the Illinois Central Railroad?"

"I am. Who are you?"

"I am Pat Casey, one of your switchmen."

"Well, Mr. Casey, what can I do for you?"

"You can go to hell. I got a job and a pass on the Wabash."*

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*Botkin, B. A. and Harlow, A. F., *A Treasury of Railroad Folklore* (Crown) 1953.

Pat Casey might have spent the rest of his life cursing president Fish and voting for congressmen who pledged themselves to work for the removal of Fish as the president of the Illinois Central Railroad. Instead, he exercised his ingenuity and got a job and a pass on the Wabash. Rather than spending our time cursing our competitors and making efforts to limit their competitive activities, some of us need to get a job and a pass on the Wabash.

"If, to please the people, we offer what we ourselves disapprove, how can we afterwards defend our work? Let us raise a standard to which the wise and honest can repair. The event is in the hand of God."

Attributed to George Washington
during the Constitutional Convention

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