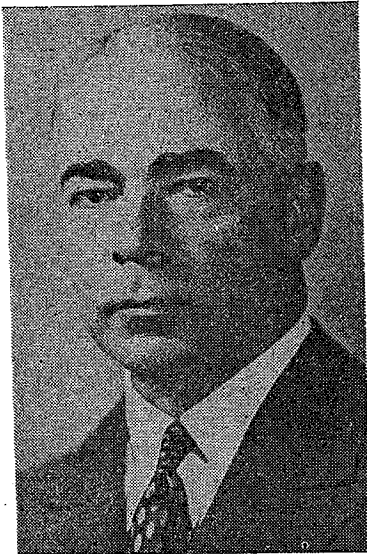


Cartels Threaten Progress

Competitive Enterprise Endangered
Says Sun Oil Company President



Underwood & Underwood

J. Howard Pew,
President of the Sun Oil Company

A vigorous denunciation of cartels as undermining the foundation of our competitive enterprise system was made by J. Howard Pew, President of the Sun Oil Company, in a recent address before the National Conference of Business Paper Editors.

"In recent years," Mr. Pew said, "there have been various pressures undermining our competitive enterprise system and pushing us toward a collectivist system under ever expanding governmental authority. I shall discuss . . . only one of these pressures, that of monopolistic restraints of trade. The widespread movement that recently has come to the front to cartelize world trade under government control through so-called 'trade accords' is, in my opinion, the greatest danger now threatening economic progress in America."

Pointing out the importance of clear definition of terms, and definite exposition of principles, he went on to say,

"Business and industry render their greatest service to the Nation when they constantly produce better products and services at lower prices through an efficiency that reconciles a low cost policy

with the payment of high wages. (The petroleum industry is one of many American industries exemplifying industrial operation under this concept. In the period 1921-41, the retail price of gasoline, ex tax, declined 47 per cent; the quality of gasoline improved from 52 to 74 octane number; average hourly wages of refinery workers increased 67 per cent; average hours worked by refinery workers declined 27 per cent; the number of refinery workers approximately trebled.) But that objective can be realized only through constantly increasing the productive efficiency of everyone engaged in business and industry. It cannot be achieved under the restrictions of bureaucratic control; nor can it be achieved in the face of featherbedding practices, whether imposed by government, labor or the owners of industry; and it cannot be achieved if we are going to adopt policies that remove both the stimulus and the means to increased efficiency by reducing alike the rewards for seeking it and the penalties for ignoring it.

"If you believe in that principle and its implications then you cannot regard cartels, in any form, as good business practices. If you do not believe in that principle, if you favor collectivism in our economic life, national socialism, national ownership and all the other philosophies which lead to the all powerful State, then you will find cartels an admirable instrument to achieve your objectives. . . .

"A cartel is an arrangement whereby two or more independent enterprises undertake to restrict the production, fix the prices, and/or allocate markets or sales quotas covering commodities in which they trade. This is the so-called private cartel.

"A government-controlled cartel

is such an arrangement under the direction or with the sanction of the government having jurisdiction over such enterprises and it usually contains provisions for the enforcement of the arrangement.

"A super-state cartel is an arrangement requiring independent enterprises to restrict production, fix prices and/or allocate markets, made pursuant to an international agreement or treaty, between two or more governments which undertake in some manner to enforce upon their nationals the terms and conditions of such an agreement.

"The private cartel embraces monopolistic practices in restraint of trade that have been outlawed in this country for more than 50 years. The evil and reprehensible nature of such practices is beyond dispute. Their effect has been to destroy initiative; close the door of opportunity for new individual entrepreneurs; destroy small business units; encourage inefficiency; raise prices and thus lower the standard of living. . . .

"Few voices today are openly raised in defense of the so-called private cartel. But there is a school of thought which believes that an undertaking which is against the general welfare, and thus bad, can be made good if it is conducted under government control.

"The super-state cartel is a relatively new evolution of the cartel idea, under the deceptive labeling of 'trade accords.' These agreements compound all the evils found in private and government-controlled cartels. . . . Just remember that the advocates of Socialism long have proposed the promotion of cartels in the conviction that a system of extensive monopolies controlled by the State paved the way for a socialist economy. The Fascists and Nazis seized upon existing cartel systems for the foundation of their totali-

tarian states. For those reasons I believe the super-state cartel is far more reprehensible and detrimental to the public welfare than private cartels entered into by individual companies, bad as they are. . . .

"International trade and domestic trade are not two different things. They cannot be isolated in compartments, one from the other. They are parts of the same thing. This country cannot be cartelized in its foreign trade and free in its domestic enterprise, any more than a nation can survive 'half free and half slave.' Once we start to regiment through allocation, price fixing and production controls our activities in the foreign field, we, of necessity, will have forced upon us by the Government restrictive measures upon operations falling wholly within the domestic field."

In answer to the argument that cartels serve to permit the orderly development of industries and stabilize prices, Mr. Pew pointed out that "Competition, bringing better products at lower prices, benefits the consuming public. So whatever restricts competition in the long run harms the public welfare. Price stabilization usually means the establishment of a rigidity designed to protect high cost and marginal producers. It destroys incentives for low cost policies. Thus, cartels operate against the smaller or relatively newer enterprises which, through increased efficiency, are challenging the position of larger and older enterprises when the latter have become water-logged through plant obsolescence and inefficiency.

"Some argue that American participation in super-state cartels is necessary to assure lasting peace. I remind them it was cartels, subsidies, unduly high tariffs, bartering and governments trading with other governments, which generated so much of the economic

friction preceding this war. The cartel idea had its origin in Germany. When Adolph Hitler seized power he found in the cartel system a completely forged weapon for his program of rearmament and war.

"This peace argument is based upon a corollary contention that they are necessary to expand world trade. Actually cartels operate to contract world trade. At best, they might serve to transfer markets from one nation to another without increasing the total of world trade. But if the ills of the world are to be healed through international trade, then the volume of international trade must be expanded. New consumer markets must be created and this can be done only through the production of better goods for sale at lower prices."

In concluding, Mr. Pew appealed for "faith in our competitive enterprise system; to demonstrate by fact and example the superiority of this system over the programs of the collectivists and totalitarians; to scrutinize with realistic eyes schemes that are labeled 'free enterprise,' but which might well undermine our competitive enterprise system, ending the best hope we have for economic progress, high levels of employment, and a rising standard of living.

"Let us not be beguiled by emotional appeals and glittering promises. . . . Through the doors of super-state and government-controlled cartels lies the road that leads to Nationalism, Isolationism, Totalitarianism, and finally, to another disastrous war."