in a year or two. We built up a merchandising organization, of which I was the head, of several hundred people. People were taken from all over the country and paid large salaries. The whole thing went by the board in a year or so, and all these people were set adrift. Many of them were unable to get established again in business, their homes had been sold, and the whole thing was a very disturbing element in the whole industry.

It seems to me most important that these three factors be considered in any question of merging small organizations into one large one. There seems to me no question, as Mr. Milner has said, about the value of consolidations in reducing production costs. From the standpoint of distribution, however, in the cases that I have known, the economies have been of a very questionable nature.

Ralph Borsodi.[5] I should like to make just one point in connection with Dr. Nystrom's paper. In discussing the change in silhouette, Dr. Nystrom left the impression that the confusion today is exceptional and unusual. If you will think back to the previous change in style, I believe you will find that a similar confusion was present at that time. I can remember the confusion which came with the change from long skirts to short ones, and the disappearance of the petticoat. Just the same sort of uncertainty confronted business. One curious difference between that period of change in style and the one now on is that the opposition then came largely from moralists, people who thought that there was something immoral about short skirts. Today opposition comes largely from physicians and those advocates of liberty who believe that the change to the long skirt is going to restrict the freedom of women in some way. I believe that what we are going through today with regard to this change in style is just a repetition of what has very often taken place in the past.

Mr. Milner left us with the strong feeling that it is impossible to answer the question of whether consolidations result in a reduction of distribution expense. From the management standpoint, I believe this may be correct, but, if we take the economic or engineering approach, I believe it is possible to get a very positive answer to the question.

Miss van Kleek made a point which impressed me greatly at your dinner last night. She suggested that it would be a very happy thing if the management engineers were to form a sort of union to keep the economic point of view to the fore. I believe this would be a very useful precept to follow in discussing this question of consolidations.

The teaching, over a period of years, of the economics that follow on the subdivision of labor and the increasing use of machines has been largely responsible, I believe, for the popularity of consolidations. We have come to believe that anything that makes possible an increased subdivision of labor, and an increased use of machinery is certain to result in economic gains. I should like to make the point that the gains that are possible from the increase in the size of organizations are confined largely to the direct field of production. When you come to distribution, even of manufactures, the exact opposite is true. In other words, when you study the history of manufacturing, you find a perfectly amazing record of reduction in manufacturing costs. Usually the study stops at that point, but, if you continue it, you will find that most of the gains due to decreased production costs are lost in increased distribution costs. One way in which I have tested this, in a broad way, has been to study the change in occupations over a considerable period of time. In the fifty years from 1870 to 1920, you find a steady decrease in the percentage of people employed in production, and a steady increase of people employed in distribution. There has been an amazing increase in the number of traveling salesmen, advertising men, and all those in occupations concerned with distribution.

One thing that always brings this to my mind is this curious fact. A student of economics discovered that in the thirteenth and fourteenth centuries the average worker spent from 160 to 180 days a year at work. In other words, the workers at that time worked for only three and a half days a week. At that time, you must remember, there was a large class of aristocrats who did no useful work. In spite of the fifty mechanical slaves that, according to Garet Garrett, are supposed to help every American citizen, the average worker today finds it necessary to work six days a week. We have increased our time at labor, I believe, through our failure to distinguish between the effects of large-scale organization on production and distribution.

I believe it is worth while to distinguish between consolidations which involve an element of monopoly and those which operate in a free competitive market. Where the monopoly element is present, the consolidation is much more apt to succeed. I think the histories of two consolidations bear out this conclusion. When the United States Steel Corporation was formed, a great variety of properties was consolidated. For many years it was an operating failure. The common stock was down so low that most of us have forgotten it. What saved this consolidation was the fact that iron mines in the Lake Superior district were among the properties acquired by the company. The corporation found itself with a virtual monopoly of these mines from which it was possible to secure the cheapest and probably the best ore of its kind in the world. It was this monopoly of mines that saved the steel corporation. The American Woolen Company, on the contrary, was a consolidation in a completely competitive market. It found no monopoly of iron ore to help it, and the result was a record in sharp contrast to that of the United States Steel Corporation. In all discussions of mergers, I believe it is worth while to ask ourselves whether or not an element of monopoly is involved.

I should like to make one other point. Mr. Milner gave the impression that it is a pretty well accepted theory that large organizations are more efficient than small ones. If by more efficient, we mean able to earn relatively higher profits, I believe that the impression is a mistaken one. On the contrary, I think that the correct theory is that large organizations are not as efficient as small ones. The reason we tend to think of large organizations as more efficient than small ones is that we do not distinguish between aggregate profits and rate of profits. Large organizations are often able to point with pride to their aggregate profits—small ones can often point with pride to a rate of profits which might well shame their larger competitors. The well managed small concern is, as a rule, able to earn a much higher rate of profit per dollar of investment than the well managed large company.

Percy Straus, Chairman.[6] Before turning the discussion over to the floor I am going to take the opportunity to make a few remarks on the two papers. In regard to Dr. Nystrom's paper, it seems to me that the important thing is to determine whether or not it is good management policy to consider consumer wants insatiable. In the first place it is a very difficult matter to determine the extent of demand at any one time. There are so many variables that the results of surveys in this field are apt to be most unsatisfactory. And this has a lot to do with whether the answer to the question put to Dr. Nystrom is affirmative or negative.

Another important matter, that Dr. Nystrom did not stress, is the extent to which price is an influence in limiting distribution. A certain commodity at a certain price may have reached its saturation point, whereas at a lower price it may have a very much wider market. I think this factor should be strongly emphasized. It is one of the variables that adds to the difficulty of evaluating consumer demand.

Dr. Nystrom's view is probably a conservative one, but Mr. Donaldson rather narrowed the discussion when he approached the question purely from the standpoint of the individual distributor. No individual store would admit having so completely covered its market as to concede that demand for a particular product had been met fully until it had succeeded in closing all the other stores distributing that product. But we have to keep in mind that there is always competition, always a struggle between competing plants. If we accept Mr. Donaldson's point of view we must conclude, therefore, that until one organization completely absorbs all possibilities of distribution in one particular line, consumer demand for that line is insatiable. That is not Dr. Nystrom's point of view, however.

Mr. Milner summed up the question of whether or not consolidations result in a reduction in distribution expense when he said that the whole thing is a matter of management. I think Mr. Borsodi's point that the possibility of cost reduction in consolidations lies in the field of production and not in the field of distribution is contrary to Mr. Milner's conclusion, and I hope that we may have more discussion on that point. Mr. Borsodi

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