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CHAIN STORES— PRO AND CON

INSTITUTE FOR CONSUMER EDUCATION

Are chain stores driving independents out of business?

Do chain stores take money out of town?

Is there room for both kinds of stores?

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CHAIN STORES— PRO AND CON

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for the
INSTITUTE FOR CONSUMER EDUCATION

The Controversy

PUNCTUALLY at seven o'clock in the morning old Mr. Huggle unlocked the door of the Corner Grocery. In his thirty-seven years of business he had followed the same routine. He put on his great white apron, straightened up the counter, and went outside to roll down the awning.

He stood for a minute, turning an inquiring eye first on the weather and then on the bright-painted front of the chain store across the street, and when he did run the peppermint-striped awning down it was with an air of shutting out something unpleasant.

Mr. Huggle could look back over the years and remember the time when the Corner Grocery had been a center of community life. It was there that old Judge Link, whose son was now manager of the local five- and ten-cent store, had held court around the big iron stove. The womenfolk used to dally over their shopping and stop for a round of gossip.

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Mr. Huggle knew all his customers well and granted credit freely. His son Charlie was kept busy after school delivering groceries. The grocer himself used to carry the heavier orders, such as sacks of potatoes or flour, dropping them off on his way home to supper.

He gave to the Christmas Fund and bought tickets to the school plays. Often he felt that he couldn't afford to do it, but it was hard to refuse when he knew everyone in town.

After the war the chain store across the street was established. Not only did it cut into Mr. Huggle's trade, but it changed his methods of business. The Corner Grocery became less of a social center. The big iron stove and the floor scales were taken out to make way for newfangled display bins.



. . . in his 37 years of business Mr. Huggle followed the same routine.

In spite of these changes, Mr. Huggle was hard hit when the depression came. One after another, his regular customers left him for the chain store. They had to leave, they said, because prices were lower there. Of those who continued to trade with him, many could not pay their bills. He carried them along, hoping that when times got better he would be able to make a real profit again.

But even when the depression began to lift, business at the store didn't improve much. Many customers who had gone over to the chain store when times were bad did not come back. For a long time Mr. Huggle made only a few dollars a week. Finally the old grocer decided to quit.

There came the morning when he changed the routine of so many years. He opened his store, put on his great white apron, and straightened up the counter. Then he went outside and scrawled on the window in crude white letters the sign, "Closing Out."

The Corner Grocery was one of the unlucky ones among the thousands of little stores that serve consumers, day in day out, in all parts of the United States. About 60 per cent of the grocery stores sell less than $100 worth of goods a week, but many of them, unlike Mr. Huggle's, manage to stay

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in business in spite of the small scale of their operations. Often they are family stores, with the family living above the store and taking food out of stock for their meals. In some cases such stores have real advantages on their side, while in other circumstances they find themselves at a disadvantage in competition with the chains or with the larger independents. They are almost always friendly stores. When one of them is closed, many people take it as a personal loss.

Curbstone Conversations

Early-morning shoppers read the notice that Mr. Huggle had scrawled on the window, and stopped in front of the store. Mr. Little, whose wife had sent him out for coffee, was first to get there. He hailed Miss Schuler, the teacher, who always left her order on her way to school.

"Did you know that Huggle was going out of business?" he asked her. Miss Schuler was shocked and surprised. "What a shame," she said. Pointing her satchel in the direction of the chain store across the street, she added, "It's all their fault."

Mr. Little fidgeted because he suddenly remembered that Mrs. Little usually did her shopping there.

By that time Mrs. Draper, whose husband owned a local dry-goods store, joined the group. She bitterly denounced "absentee ownership," and added that "the chain stores take the money out of a little town."

A passer-by might have caught the phrases "cut-throat competition" and "Wall Street bankers." Those present spoke kindly of the "little fellow" and angrily of the "big fellow."

It was not until Mr. Link of the variety store came by that anyone had anything to say in defense of the chains. "I feel sorry for old man Huggle," he said, "I've known him since I was a kid. But if you knew anything about running a store, you'd know that his methods are old-fashioned."

Then the Typical Consumer arrived on the scene. His name was Joe Armstrong and he wore blue denim overalls and carried a tin lunch pail. He made $22 a week working in a garage. He had gone to grade school with Mrs. Draper and Johnny Link, and knew them both.

"I don't know whether it's the way Huggle runs his store, Johnny," he said, "but I can tell you this: The prices across the street are a lot cheaper. Look at that window over there, 'Bread, 2 loaves for 15¢.' Of course you have to wait on yourself and carry your own groceries home."

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Miss Schuler explained that she didn't have time to carry her own groceries home. "It is worth the difference in price," she said, "to be able to leave my list with Mr. Huggle, or call him up from school and give it to him over the phone, and know that my order will be at home when I get there."

The conversation was one that might have been heard on any curbstone in America. It is a subject that is close to consumers because it is part of their daily experience. It affects their community, their neighbors, and their pocketbooks. What was thought and said about chain stores and independent stores is typical of what people have been thinking and saying for the past ten or fifteen years.

Are Chains Still Gaining Ground?

Are chains still gaining ground at the expense of the independents? The average person would probably guess that they are. Yet certain figures are frequently quoted to prove that this is not so. We are told that chain stores fell off from about 160,000 to 140,000 between 1929 and 1935. Independents, on the other hand, increased in number. Not including department stores, there were 1,370,000 independent stores in 1929. By 1935 there were 1,470,000. Later figures are unavailable.

"Then why," asks the puzzled consumer, "should everyone get so excited about the 'chain-store octopus' that is eating up the little independents? It would seem that they are quite able to take care of themselves."

The answer is this: Although there are fewer chain stores than there were at the beginning of the depression, they are doing a bigger share of the total retail trade; and although there are more independents than ever before in history, they are getting a smaller proportion of the consumers' business than ten years ago.

How does it happen that a smaller number of chain stores are doing a bigger share of the business? There are several reasons for this, one of the most important being that the grocery chains, owning a third of all the chain stores, have drastically cut the number of their units. Yet at the same time they have enlarged many of their remaining stores until they probably are doing more business now than they did when they owned a larger number of stores. "The way to strengthen a chain is to remove its weakest links."

For many years most chain groceries were economy mar-

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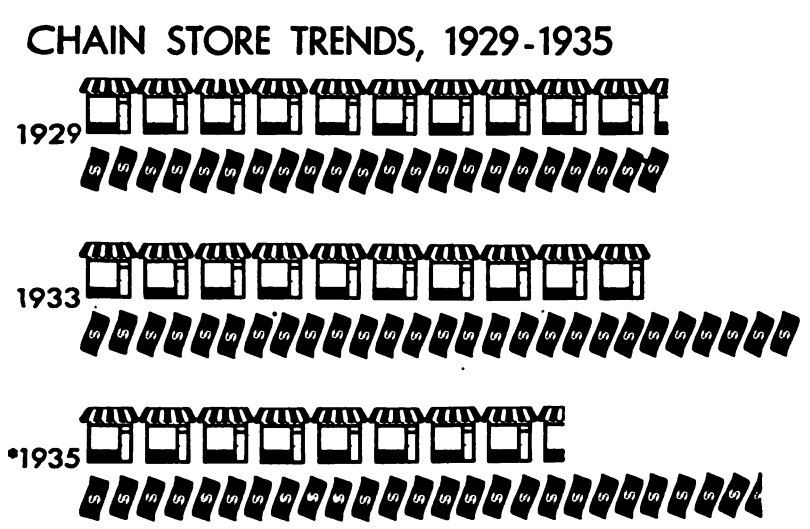
kets where Mrs. Consumer could buy canned and packaged goods and some fruits and vegetables. Later on combination markets appeared where meats as well as groceries were



sold. The trend away from little stores and toward big ones finally led to the huge supermarkets. And for every larger store that chains opened, they closed several smaller ones.

Let it not be supposed, however, that grocery chains were the only ones to bring together more business in larger stores. Shoe chains have added women's stockings, purses, and gloves; cigar stands sell candy and chewing gum, and in some cases wines and liquors; filling stations offer widely-used automobile accessories such as tires and tubes.

Chain-store taxes gave further impetus to the trend already begun in the direction of larger stores and fewer of them. When the chain-store tax was passed in Pennsylvania, for example, American Stores Company announced that it would board up more than 200 of its stores.

The comment of the puzzled consumer at this point might be, "That may explain why chains have decreased the number of their stores while increasing their share of the business, but how could the independent stores keep multiplying if business was getting steadily worse?"

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In the first place, new independents have opened because of the increase in population. Small neighborhood stores have been developed to serve new residential areas. Other independents have sprung up to sell new kinds of merchandise, such as electric and gas refrigerators, and radios. Prohibition repeal in 1933 brought back liquor stores and bars.

Independents have multiplied, too, as a result of the depression. Men and women who lost their jobs, but had enough money to start a small business, often bought a few supplies and opened a small store. Usually it was a grocery store. Many of these were clapboard affairs that had been nailed together overnight. Sometimes they were nothing more than a few shelves built into an old garage. Often the owners managed to scrimp along, never making a clear profit.

The question remains, are the chains *still* gaining ground? The answer to this seems to be that they are increasing their share of business, but at a slower rate than formerly.

In 1929 an analysis of the United States Bureau of Census statistics* showed that chains controlled 10.3 per cent of the stores in the country and were doing 21.9 per cent of the nation's retail business. Up to this time there had been a steady increase in the amount of business done by chain stores.

When the depression came, the chain-store business boomed. Customers spent what little money they had on the kind of products that most chains sell—the necessities of life. By 1933 chains still controlled only 10 per cent of the stores, but were doing 27 per cent of the business. When the depression began to lift a little between 1933 and 1935, and people could afford to pay for some services and luxuries again, chains lost some of this gain. The number of stores dropped to 8½ per cent, their share of sales to 25½ per cent.

In some types of business, chains have gained more than in others. Topping the list are the chain variety stores, which control 90 per cent of the five- and ten-cent store trade; the automobile accessories chains and the shoe chains, with 50 per cent of the business; the grocery-with-meat markets, 39 per cent; and cigar stands, 35 per cent. In others, such as grocery-without-meat markets and furniture stores, chains have shown a tendency to drop behind. This is also true of chains of filling stations, which have lately been selling out to private dealers.

Taken as a whole, however, chains seem to be increasing

* Analysis made by Charles Phillips, Professor of Marketing, Colgate University

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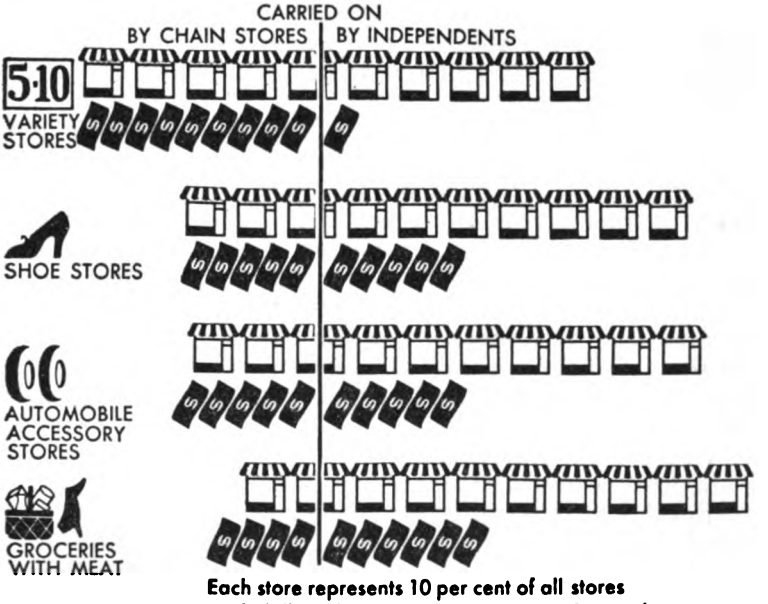
their share of the retail trade. How near they are to the peak of their development will depend on such things as the suc-

Chain Store Activity in Certain Fields, 1935

(Representing 18 per cent of the nation's retail trade)



Each store represents 10 per cent of all stores
Each dollar bill represents 10 per cent of net sales

PICTORIAL STATISTICS, INC FOR PUBLIC AFFAIRS COMMITTEE, INC.

cess of the voluntary groups of independents, the future of the supermarkets, and the number of anti-chain-store laws.

Chain Taxes

The growth of the chain stores has provoked quite a stir in many communities. Politicians on the lookout for new vote-getting and revenue-getting devices have found that chain-store taxation answers both purposes. "To tax and to please" at the same time is an opportunity that seldom comes to lawmakers. Hardly had the ink dried on the first chain-store tax, passed in Georgia in 1927, than independents and other competitors began to clamor for more such legislation. They likened the men who passed these laws to "modern Davids fighting the chain-store Goliath."

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Support for the taxes has also come from wholesalers whose existence was threatened by the growth of the chains. They realized that if the chains—which for the most part bought directly from producers—continued to grow, many wholesalers would be eliminated.

The result of this pressure was that chain-store taxes increased rapidly in number. Especially in the Southern states, where the tax originated, the bills were pushed through. Nine of the nineteen states that now have such laws are in the South.

Almost all of these taxes are of the graduated type. The more stores there are in a chain, the heavier the tax per store. In Idaho, where it is particularly severe, the tax starts out at $5 for the first store and increases until chains pay $500 a year for each store in excess of nineteen. Even this, however, is not regarded by anti-chain-store crusaders as the final limit.

The most severe tax of all has now been proposed on a national scale in Congress. It is the Patman bill, designed to put the national chains out of business. Its backers claim that it will force the big chains to break down into state organizations. The chains call it a death tax.

Under it any company owning more than 500 stores in the United States would have to pay $1,000 a store, multiplied by the number of states in which it operates. The Great Atlantic and Pacific Tea Company, with about 10,500 stores in thirty-nine states, would owe the government $39,000 for each store, or about $400,000,000 every year. This is twenty-five times the profit of $15,830,000 that the A.&P. made in 1938.

Supporters of chain-store taxes have not always had their own way. Altogether twenty-five states have tried chain-store taxes. Courts have ruled against some of these taxes; others have expired and not been renewed; in at least one case, voters recalled a state tax. In Colorado the Supreme Court ruled that the chain-store tax should apply to a big association of independents as well. Since associations of independents have been among the strongest backers of anti-chain laws, some of them now fear that the legislation may prove a boomerang.

Influencing Public Opinion

The controversy between chains and independents has not been limited to curbstone arguments and legislative debates. Both sides have made organized attempts to sway public

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opinion. Miss Schuler, Mrs. Draper, Joe Armstrong, and other everyday consumers have by now heard so many different stories that they no longer know which one to believe.

The independents and wholesalers who opposed the chains first endeavored to get public opinion behind the chain-store taxes. Soon the word was going round that chains used improper buying methods; chains compelled clerks to work long hours at starvation wages; chains did not have the interest of the small town at heart; a chain store was an octopus, reaching out its tentacles to clutch and crush the little independents.

When these arguments were first heard, the chain stores made little or no attempt to defend themselves. Their attitude was typified by that of the Hartford brothers of the A.&P., who, when asked what they were going to do about the anti-chain-store legislation, said, "Nothing. If the public wants to put us out of business, that's their business. We can always retire."

But that was in 1933 when there weren't many state taxes against the chains. Since then the trouble has become more acute, and now the chain-store executives are taking a different attitude. In 1936 the California Chain Stores Association fought to repeal the heavy tax in that state. It was there that one of the first of the business-financed consumer organizations, the Foundation for Consumer Education, was set up. It was duly exposed and discredited. However, the tax was defeated.

In 1938 a leading chain took full-page advertisements in the country's largest newspapers to announce that it would spend a substantial sum of money to campaign against chain-store taxes. This it proposed to do not only "through paid advertising" but also by "cooperating in the work or formation of study groups among consumers . . ."

Soon the "study groups among consumers . . ." emerged in the form of the National Consumers Tax Commission. The chain store behind this plan pledged itself to "go along as far as it is necessary . . . to go to see that the work is not hampered by lack of funds." There are now 5,000 study groups strung through forty-five states. Their program is built around "hidden taxes." Presumably this activity is based on the hope that if consumers can be aroused against all hidden taxes, they will oppose chain-store taxes in particular.

Chains also contribute to the support of the *American Consumer* magazine, in which stories on "hidden taxes" have

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appeared from time to time. In addition, a barrage of newspaper advertising, radio talks, window displays, and booklets has been released—carrying the chain-store story.

On the other side, and in a stronger political position because of the pressure of their numbers, wholesalers and independents have continued to push the campaign against the chains. The United States Wholesale Grocers' Association, the National Association of Retail Grocers (Nargus), and the National Association of Retail Druggists have been most active in this drive.

Early in the conflict the Merchants Minute Men were organized and sponsored anti-chain-store radio broadcasts. Later on newspaper advertisements entitled "Your Independent Grocer Has a Story to Tell" had wide circulation. The National Association of Retail Grocers pushed a "Trade Independent" campaign, and at the same time put pressure on the Department of Justice to carry on an investigation of the monopolistic practices of the chain stores.

More recently the Freedom of Opportunity Foundation was incorporated, first in Washington, D. C. There it participated in a movement to petition Congress to investigate chain propaganda, and almost in the same breath joined in a pledge to raise a fund of $2,500,000 to tell the independent side of the story.

To the ordinary consumer this babble of tongues, with its claims and counterclaims, adds confusion to a problem that is in itself confusing. Whom are we to believe? Can we, by systematic economic analysis, sift out these arguments?

FROM SMALL BEGINNINGS

The Little Red Store

THE chain store is not new. A Chinese merchant, On Lo Cass, is said to have owned a large chain of stores as early as 200 B.C. Evidence was found in the buried city of Pompeii that chain stores existed in ancient Rome. Early in the history of North America, the Hudson's Bay Company established a chain of trading posts that still survive.

In this country the story of the chain store might well be called, "The Little Red Store and How It Grew." It is typified by the growth of the Great Atlantic and Pacific Tea Company, established before the Civil War.

The big grocery chain was started when two New England

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traders, dealers in harness and leather goods, learned of the large profits made on tea and decided to go into that business. They started in 1858 as a mail-order house, selling tea, and then coffee, at cut-rate prices. From the very beginning they practiced the same buying and selling methods that chain stores use today.

They bought in quantity and they sold in quantity; and whenever they could, they cut out the middlemen. They did not buy tea and coffee by the box or by the carton; they got it by the shipload. As a result, the cost per pound was small compared with what rival independents had to pay. And instead of doling out coffee by the sack, or tea by the package, they organized consumer clubs in various cities, where members ordered their tea and coffee in large lots and divided it up. Thus the cost of selling the two items was cheaper for the tea company than for the independent grocer. Since the tea and coffee were sent directly from the mail-order house to the consumer, the only middleman was the expressman who delivered the package.

To increase the number of sales, the owners advertised widely that consumers could save 30 per cent by buying from them. They explained that they had achieved these lower prices by cutting out six or seven brokers, commission men, and wholesalers. In addition, they criticized the wasteful methods and the excessive profits of their competitors.

This brought counterattacks from the independent grocers of that day. Had Mr. Huggle been operating his Corner Grocery at that time, he would no doubt have joined the others in accusing the new mail-order house of "stealing from the local grocers," "using tea that had been damaged in shipment," and of "seeking monopoly."

The tea company, however, survived the name calling by keeping prices low, advertising that fact to the consumer, and making profits on volume sales. The first retail store was opened in 1859 in New York City. It was painted Chinese red —with gold trimmings.

And How It Grew

The first little red store was a success, and the owners plowed their profits back into the business. Within ten years there were eleven of these stores selling tea, coffee, and spices. Additional products were stocked and always it was with an eye to their widespread use. The items that appeared time

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and again on customers' shopping lists were first to make their appearance on the chain-store shelves. Foods for which there were few calls were ignored. By the beginning of the century there were more than 200 stores in this one chain.

As people moved from the country to the cities the chains, dependent on volume, profited from having many people collected together as potential customers. By 1915 there were 1,000 Great Atlantic and Pacific Tea Company stores.

At the same time the population of the United States became more mobile. Families were no longer born and brought up in the same town. They moved about. And when Mrs. Consumer was forced to find some place to shop in a new community, as likely as not she patronized a familiar chain store, rather than experiment with a new grocer.

By 1925 there were 14,000 A.&P. grocery stores.

What was true of this company was true of chains generally. Most of them started with a single store. They depended on their profits to open additional branches, and in some cases to buy out their competitors. In that way Woolworth established his red and gold five- and ten-cent stores. And it was not long before D. A. Schulte, Inc., started a chain of cigar stores, Childs Company started restaurants, and the Melville Shoe Corporation started shoe stores.

Eventually manufacturers and wholesalers entered the field and started opening chains of retail stores through which they could sell their own products. Firestone Rubber Company developed outlets for Firestone tires. The National Shoe Company, a wholesale-jobbing house, organized the National Shoe Stores chain.

Independent Groups

The independents, protecting themselves from the invading chains, have already been described as enlisting the support of the law and public opinion. But even before they turned to these weapons there was a movement on foot to beat the chains at their own game. Independents in the food field began to adopt mass-distribution methods.

The first to do so was a group of grocers in and around Philadelphia. Fifty years ago they organized the Frankford Grocery Company, which was the first cooperative association of independents (not to be confused with consumer cooperatives). They began by doing their purchasing together. They reasoned that if the chains received certain advantages

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from buying in quantity there was no reason why they should not duplicate those advantages.

It was not long before middlemen—wholesalers and jobbers—began to organize their independent customers into similar associations of retailers. The main difference was that these "voluntary" groups, as they came to be called, were usually controlled by the middlemen who organized them, rather than by the independents who belonged to them.

In most cases independents belonging to voluntary groups are bound by contract to buy a certain percentage of their goods through their association. Often they go so far as to paint the fronts of their stores alike, and arrange their merchandise in the same way, and use the same selling methods. Yet each member store is independently owned and operated. Profits go into the pockets of individual storekeepers rather than into the coffers of a large corporation.

So far voluntary associations have not spread much further than the food field. Eighteen per cent of all the grocery stores in the country belong to them. For the future, however, they may be important. Many marketing experts believe that only by getting together and adopting chain methods will the independent store owners be able to compete successfully with the chains.

DO CHAIN STORES OFFER BETTER VALUES?

Low Prices

WHEN they deserted the Corner Grocery for the chain store across the street, Mr. Huggle's customers always said they did so because, "Prices are lower." The big appeal of the chain store is the bargain appeal.

What chain-store critics have been asking consumers to consider is this: "Are chain stores actually cheaper, or do they merely use certain merchandising tricks to make it seem so?"

Joe Armstrong, the Typical Consumer, is pretty sure that they are really cheaper. He will tell you that that is why his wife buys hats, shoes, yardage, and canned goods there. She must make his small salary go a long way.

But the critics say that the Typical Consumer has been fooled, and that chain stores use "loss leaders"—items marked below cost—to attract customers, then sell other products at high prices to make up the difference.

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The truth is that some chains do use devices such as loss leaders to get customers into their stores. They slash rates on nationally advertised brands, regular prices of which most housewives are familiar with. And they stick up signs in their windows, and take space in the newspapers to advertise these "low price specials" to the public. But this is not done by chains alone. Many independents follow the same practices. Consumers must learn to recognize them for what they are and when they go shopping must make due allowances for the misleading impressions sometimes given. Having done so, they will find that chain-store prices on the whole are actually lower than independent-store prices. This has been shown by a number of statistical studies.



. . . a little saving means a lot to Joe Armstrong, the Typical Consumer.

The customer who bought at a chain grocery store in the early years of the depression saved on an average of eight and a half cents on each dollar's worth of food, according to a rather extensive survey made by the Federal Trade Commission in 1929.

Well-known articles sold in chain drugstores surveyed by the Federal Trade Commission were more than 20 per cent cheaper than the same articles in independent drugstores. A study of dry goods and furnishings in Florida showed that chains undersold independents from 3 to 17½ per cent. In a survey of automobile accessories, it was found that chains undersold independents from 10½ to 24 per cent.

In the last few years the difference between prices in independent and chain stores both in the drug and grocery field has narrowed a little. Price-fixing laws have forced cut-rate drugstores—many of which are chains—to raise their prices on certain well-known products up to the level of prices charged by independent stores.

Independent grocery stores have been able to lower their prices by changing their methods of doing business, such as by joining associations of independents, or selling on a cash-and-carry basis. Others have been forced to bring their prices

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down to meet chain competition. A study made in 1938 of five towns in Colorado showed that independent stores in direct competition with chains charged less, without exception, than independent stores which did not have that competition.

Two surveys of grocery-store prices made over a series of years show that the difference in price is narrowing. In a city in Illinois, housewives who paid 11½ per cent less by buying from chain grocery stores in 1931, saved only 6½ per cent by 1937. In towns in upper New York State, shoppers who had saved on an average of 13 cents on their grocery dollar by patronizing chains in 1932, were saving only 8 cents on the dollar by 1938.

This saving, however, is still large enough to cause many consumers to buy their food at chain stores instead of at independents. And if this amount is multiplied by the savings made on other items that can be bought in chain stores, it becomes important.

Joe Armstrong makes only $22 a week. If he can save close to a dollar of this by patronizing the chains, it means a real difference in his standard of living. Joe Armstrong, who supports three people on his low wage, is no exception. Half of the families in the country have incomes that are even smaller than his. They are forced to count their pennies.

Real Bargains

But America's typical housewife knows that counting pennies isn't everything. The things that are cheapest are not always the best buys.

She has had the experience of going into a store that advertises GOOD TO LOOK AT, WONDERFUL TO WEAR, SHOES $1.98 AND $3.98, and of coming out shod in oxfords that were worn thin in two weeks. She has selected canned goods because a sign said SPECIAL TODAY, TWO CANS FOR 25¢, and has discovered when she took them home that although they had seemed to be the same size as the cans she usually bought, they were actually smaller. She has even been short-weighted and cheated on her bills from time to time.

Are the chain stores more guilty of these practices than the independent stores? The only official study comparing qualities of goods was made several years ago by the Federal Trade Commission. Chain brands of canned fruits and vegetables were compared to brands that are to be had in most independ-

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ent grocery stores. The chain brands were found to compare favorably with the others.

At the same time the Federal Trade Commission investigated the charge that chains give short weight. They sent shoppers to a large number of chain and independent grocery stores to buy navy beans and dried prunes and other foods in bulk. Then they checked each purchase. Of those that were short in weight—and usually it was very little—chain stores erred more often than independents in cases where the food was weighed at the time of the sale, and independents erred more often than chains for pre-weighed packages.

Better Business Bureaus have made similar studies on such items as coffee, canned pork and beans, and candy bars, and have also concluded that accusations made against chains in this respect are not borne out.

Cash and Carry

America's housewife knows, of course, that she buys from a storekeeper not only goods, but also services—greater or less, according to the type of store with which she is dealing. There are times when she is short of cash and wants to charge a new dress or a pair of stockings instead of paying cash. Or she is tired and doesn't feel like lugging a wicker basket or pushing a wire grocery buggy through the maze of cans and cartons that line the aisles of a chain food store. Nor does she want to load herself down with heavy bundles. Except in larger cities, chain groceries seldom deliver.

Whether she can afford to pay a little more to have an independent merchant grant her credit, help her with her shopping, and deliver her packages, depends not only on her financial state, but also on the extent to which she needs or wants those services.

To some people these services are a necessity. Take Miss Schuler, the school teacher who was so upset when Mr. Huggle went out of business. Miss Schuler did not have time to go shopping every day. It was all that she could do to leave her grocery list at the store on her way to school. And although the bill she paid was a little higher than it would have been at a chain store, the service was well worth the difference.

There are times, too, when customers want more of a choice than they can get at chain stores. It may be something as exclusive and expensive as smoked turkey, or it may be the cheap though little-used cracked wheat. But if it is not in

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great demand, the chances are that the chains won't have it.

The reason that chains carry only the kinds of products that everybody wants to buy, and do not waste space or money on items that attract only the occasional customer, is the same reason that most chains have eliminated credit, service, and delivery. All of these goods and services increase the cost of doing business. Chains have found that many people would rather do without them and pay lower prices.

An example is the chain shoe store where Joe Armstrong sometimes buys his shoes. When he goes in to select a pair he may have to share his clerk with someone else; chains get as many sales per clerk as they can. If he buys a pair of $3.25 shoes, he must pay for them in cash. By permitting no charge accounts, most chains eliminate credit men, bill collectors, and cut down the cost of bookkeeping—to say nothing of bad debts. And, unless Joe wants to pay an extra mailing charge, he must carry his shoes home under his arm.

The statement that "chains get as many sales per clerk as they can" needs further explanation. In part, it refers to self-service systems under which customers have been taught to wait on themselves. In addition, the work of chain-store clerks is so routine and has been so simplified—by having special employees wrap packages and act as cashiers, for example—that they can spend more time actually selling. It also means that because more customers come into chain stores, each clerk has more people to wait on. On busy days there is effective use of part-time help. As a result it takes fewer clerks to run a chain store than it would take to run an independent store of the same size. This means that there is a great saving on the number of salaries that chains must pay.

Chain savings from eliminating charge accounts and delivery services are larger than most people realize. Studies made in Colorado and Illinois brought this out. It was found that although chain stores undersold regular credit-and-service independents from 6½ to 8 per cent, they undersold cash-and-carry independents by only 3 or 4 per cent. The Harvard Bureau of Business Research reported that customers of grocery chains can trace about one-half of the savings that they make to these services that they perform for themselves.

Certainly there is nothing economically unsound about performing certain services for oneself instead of paying a storekeeper to do them. But this is only half the story. Some of the differences in price between chains and independents are still unaccounted for.

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HOW CHAINS CUT COSTS

They Buy in Quantity

IN THE early days the A.&P. bought tea and coffee by the ton while their competitors were getting it by the box or the carton. Now some chains have their own canneries, factories, and refineries. Others contract for the entire output of independently owned plants. Their purchases are so large that they do not have to deal with wholesalers. As early as 1928, approximately 82 per cent of their buying was done directly from manufacturers and growers.

This method applies not only to the products that they sell, but also to counters and cash registers, showcases and red and gold paint. By comparison, the average independent is still a box-and-carton buyer.

The volume of chain purchases is so large that the chain stores can afford to maintain research departments to keep tabs on agricultural and industrial conditions. When chain buyers go into the field, they are armed with information that will help them get the most for their money.

If a chain buys the entire stock of shoes that a manufacturer produces, the manufacturer makes certain savings in his costs of production that are passed on to the chain in the form of a lower price. The plant is made to work at capacity. Men and machinery can be geared so as to get the most from them.

It is cheaper for some producers to sell in large orders, because as a result they can employ fewer salesmen. Then, too, it costs less to pack a carload of goods for shipment to a chain-store warehouse than to send a hundred orders to as many independent stores. Chains also save directly on transportation costs, since carload freight rates are lower than less-than-carload, and lower than express rates.

There is the item of prompt payment on the part of the financially strong chains. The producer who receives his money immediately can pay off the bank where he may be in debt for wages and cost of materials. And this cuts down his interest charges. He also runs less risk of not being able to collect bills at all.

Not all producers who deal with chains make all of these savings on the products that they sell. In the case of a shoe manufacturer, his only savings may be in the actual costs of production and in salesmen. A manufacturer sending a car-

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load of citrate of magnesia to a drug chain, may cut packing and shipping costs only. Wherever these "savings" do occur, however, chains naturally insist that they be passed on to them in the form of discounts.

But what of the accusation that chains get an additional advantage over the independents by using their gigantic bargaining power to beat prices down still lower? It is easy to see how producers, who might dismiss a small buyer's request for more discount with "you can take it or leave it," would think twice before using such tactics on a big chain.

The chains do have tremendous bargaining power in their hands. This has certainly been one of the reasons why they could buy at lower prices. And there have no doubt been cases where they have squeezed producers unmercifully. Still, it would be a mistake to suppose that this bargaining power has always given them an undue advantage over the sellers with whom they were dealing. Many of the sellers are giants too.

There have been cases where chains have been in a position to batter down excessively high prices, or to secure special types of goods, for the benefit of the consumer. The manufacturer of a nationally known brand of men's underwear, that regularly sells at 98 cents or $1, agreed a few years ago to duplicate the underwear and sell it under a different name through a large dry-goods chain for 49 cents.

Since 1936 discounts secured through such bargaining methods have been regulated by the Robinson-Patman Act. The act forbids producers from selling to chains cheaper than to other buyers unless it can be shown that the chains have "legitimately" earned such discounts, through savings made possible by buying in quantity.

These "savings" in themselves are large enough to be reflected finally in the lower prices that consumers pay when they buy from chain stores. Only recently Montgomery Ward & Company bought rugs to sell through its mail-order house and chain of stores, and was allowed 14 to 18 per cent as a legitimate discount under the Robinson-Patman Act.

And They Sell in Quantity

If chains buy a large volume of goods, they must sell a large volume, and just as there are savings for the manufacturer in filling large orders and for railways in transporting them, there are similar savings in retailing operations carried

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out on a large scale. Many tasks that would have to be done by some one in each independent store, are relegated to the central office in a chain. Here they are done just once for all of the stores.

For example, selection of stock is commonly taken out of the hands of the store manager. Other management services, that chains can provide centrally for all of their stores, range from selecting store locations that will catch the bulk of the traffic to arranging window displays to lure passers-by into the stores. Inside, merchandise is arranged so as to utilize all of the space. Interior decoration often lends enchantment to the goods. The cost of hiring experts to do these jobs can fall on twenty-three stores in the average chain, while an independent would have to bear the entire expense.



. . . Joe Armstrong's little boy buys three chocolate bars for a dime.

That the main reason for the large volume of sales done by chains is their low prices has already been pointed out. The large volume of sales is, in turn, a contributing factor to the low prices. A Woolworth's store can sell Joe Armstrong's little boy three milk-chocolate bars for a dime and make no more profit on the three bars than an independent merchant will make on one. But Woolworth's multiplies that profit a dozen times an hour, while an independent candy store may be lucky if it sells a dozen bars a day.

Because they sell *more,* they can afford to sell for *less.*

Straight-Line Distribution

Euclid said that the shortest distance between two points is a straight line. Applied to modern business methods this means that the shortest way to get shoes, or tires, or canned goods from the manufacturer who produces them to the consumer who uses them is by cutting through as many middlemen as possible, and taking them directly from producer to consumer. This is called straight-line distribution.

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When the A.&P. bought tea and coffee directly from importers and mailed it directly to consumers, they first used straight-line distribution. As they have grown and as tens of thousands of products have been added to the original two, the pattern has been altered only slightly.

Chains have hacked away at the salesmen, packers, and shippers of the manufacturers; at the buyers, salesmen, and truckers of the wholesalers; and at the credit men, sales clerks, and delivery boys of retail stores.

At each place where a saving could be made on commissions and on salaries by eliminating any of these jobs, or by substituting some cheaper way of getting them done, chains have made it. And cooperative and voluntary groups have followed suit.

The point at which chains have been able to telescope distribution costs most effectively has been on salesmen's salaries and commissions. If a large chain buys all the products of one manufacturer, for example, it is not necessary for that manufacturer to hire a staff of salesmen to go out and sell his goods.

By doing their buying centrally, even where they do not take the total output of a producer, chains avoid the need for store-to-store salesmen who make periodic calls on independent merchants. Because there are so many traveling salesmen covering the same territories in competition with each other, the costs to the wholesalers who employ them tend to be high. Eventually, of course, these salaries and commissions must come out of the price that the consumer pays for the product.

The basic function of the wholesaler, which is to select items from many different producers and bring them together in a warehouse to keep until such time as individual stores are ready to put them on their shelves, is duplicated in the distributing warehouses of the chain stores. An important difference, however, is that most wholesalers are at the beck and call of their independent customers every moment of the day. They must extend credit and give service. All of this costs money. Chains, on the other hand, do not have the problem of collections, and they usually have regular delivery days. They can route their trucks efficiently. Thus they are able to cut down on expenses. Certain voluntary groups, such as the Frankford Grocery Company in Philadelphia, are just as strict in the matter of servicing their independent members.

Wages

The first thing that occurred to Joe Armstrong when he

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heard that "wherever a saving could be made on commissions and salaries by eliminating jobs, or by substituting some cheaper way of getting them done . . . chains have done so," was that chains pay their employees low wages. Joe Armstrong knows what it is like to get low wages and if such a charge is true he is going to feel resentful against "the rich chains that take advantage of the poor working man."

He may have heard that because the job of selling is simplified in chain stores the chains feel they can afford to hire a cheaper grade of help. After all, since there are fewer kinds of merchandise to be handled in the average chain store, and since everything except the job of actually waiting on the customer is taken out of the clerk's hands, it sounds plausible. The same argument applies also to the chain-store manager, who usually does not have to worry about selecting a site for the store, buying goods, advertising, window displays, salaries, insurance, or investment.

Two government agencies have made studies in an attempt to find out whether chain employees are paid less than independent employees. The Federal Trade Commission concluded that they were paid less. The Bureau of Census, on the other hand, reported that they received more. The Federal Trade Commission study indicated that the typical chain-store manager enjoyed a better income than the typical owner of an independent store. On the question of hours of work, sweatshop conditions, and unionization, information is sketchy. But such facts as are known indicate that there is little to choose between the chains and the independents. If the chain stores have had more frequent strikes, as seems to be the case, it is probably because the chains lend themselves better to attacks by labor.

So we come to the conclusion that chains are neither better nor worse than independent storekeepers in the matter of paying good wages, that they gain only a small advantage by using their gigantic bargaining power against producers, and the main reason why they are able to lower prices to the consumer is that in certain respects their methods of operation are more economical.

Chains gain half of their price advantage over independents by using cash-and-carry methods; they gain most of the rest by buying in quantity, selling in quantity, and practicing straight-line distribution.

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THE DISTRIBUTION REVOLUTION

Who Swallows Whom?

ALTHOUGH chains are the outstanding example of retail organizations that have cut costs by reducing the number of steps between producers and consumers, they are not the only ones to operate in this manner. Just as the chains have taken over wholesaling functions, so in some cases wholesalers have started doing their own manufacturing, and manufacturers have opened retail stores.

The struggle for existence is being fought out on many fronts. The question seems to be, "Who swallows whom?"

Even before the time of the chains, department stores disrupted the business of little independents by establishing centers of trade where many products could be sold under the same roof. Often they took over the wholesaling function and bought directly from the manufacturers.

While the chains were cutting their eye teeth, mail-order houses, such as Sears, Roebuck and Company, and Montgomery Ward and Company, were upsetting the retail trade by selling through catalogues, and the wholesale trade by getting their goods from producers.

When the chains were developed, they acted as their own wholesalers and sometimes did the work of the producers as well.

It was not long before wholesalers began a counterattack. The Diamond Shoe Company is an example. In 1911 it bought out seven factories in the New England shoe towns of Newburyport, Haverhill, Brockton, and Boston. In 1924 it acquired the very small A. S. Beck shoe chain and developed it until now there are more than 100 Beck shoe stores in cities east of the Mississippi.

In the meantime, certain producers started acting as their own wholesalers; half of the total production in the shoe industry is now handled this way. Certain others, such as the Firestone Rubber Company, already mentioned, began acting as their own retailers.

Then the "wild animal" supermarkets—so called because of their widespread use of such names as Big Tiger, Big Elephant, and Big Bear—arrived on the retailing scene. Because the buying power of one of these mammoth stores was equal to that of a twenty-unit chain, they were able to act as their own wholesalers and buy goods directly from pro-

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ducers much of the time. They were even able to do their own warehousing, by the fairly simple process of making the store and the warehouse the same place. In the meantime, many independents were fighting fire with fire and joining "voluntary" associations. Most of these groups became their own wholesalers. In all of these cases one distribution agency took over a job that had previously been done by another.

There is another way of looking at the development, however, and it is the point of view from which the Typical Consumer sees it. As the obstructions in the channels of distribution are cleared away, goods are carried down to the consumer more quickly. Fewer cost-barnacles accumulate on products. The Typical Consumer pays less for his goods. He can buy more with his $22 a week. The result is mass distribution.

It's The Same Old Story

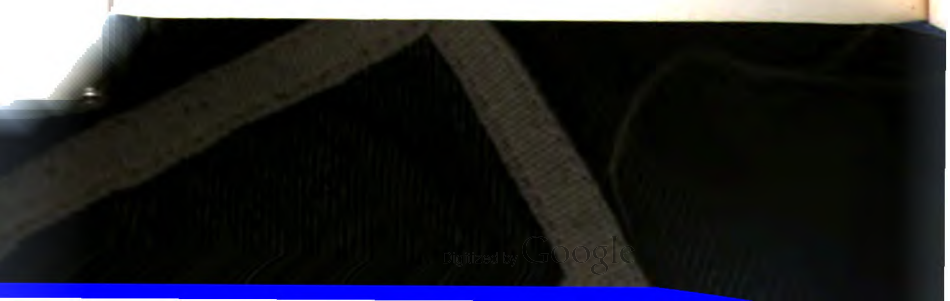
As it is now with mass distribution, so it was once with mass production. When man first made machines and began to produce things in tens and twenties and thirties, where he laboriously constructed one article before, little ownership in many cases was displaced by big ownership. And the little owners, quite naturally, fought to maintain themselves in business. Their first reaction was to wreck the machines.

The argument then was that the independent cobbler, who owned his own shop and his own tools and had work to do providing shoes for the community, would have no work. For the new machines could make enough for everyone who had formerly worn them, and for many others besides.

As jobs became more highly specialized, and laborers were hired to do a single type of operation from morning to night, every day, it was said that they would lose their pride in their work and become a race of so many robots.

There were many then who said that the new order should be destroyed, and that things should be as they had always been. Their cry was: "Let the cobbler work as he has worked in the past; get rid of the machines that are replacing him. Let the craftsman have pride in his work once more. What merit is there to jobs where men pull the same lever so that the same stamping machine can cut the same shape out of the leather all day long?"

People destroyed the machines, but they were rebuilt again. The public compelled the government to pass laws which would limit the introduction of machinery and which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would place a heavy tax upon new machines. Yet machines increased in number.

So today there are many who say that this new type of distribution should be destroyed, and that things should be as they always have been. They argue that if things keep on as they are, the independent storekeepers and wholesalers who have been displaced by straight-line distribution will have no work; that chain stores will bring about the death of the little towns, and make every man a clerk and no men leaders.

They go so far as to say that if the chains were destroyed, not only would all workers now employed in them go back to work in wholesale houses and independent stores, but that other people, now unemployed, would be absorbed as well. The destruction of the chains, however, would not necessarily mean that mass distribution methods would be destroyed. It can be predicted, rather confidently, that they would reappear in some similar form. Perhaps ours might become a nation of "voluntary" chains, or a nation of supermarkets, or even a nation of consumer cooperatives. The trend now is toward mass distribution, just as surely as it was toward mass production a century ago.

SOCIAL IMPLICATIONS

The Little Man Again

"THIS is all very well," Miss Schuler might say at this point, "but what about Mr. Huggle? Who is going to take care of him, and of the others who have been put out of business by the chain stores?"

One answer to this question might be drawn from the lesson of mass production: As mass distribution brings cheaper goods to the Typical Consumer, he will be able to spread his $22 a week further. Then, as he buys more goods, the producer will have to manufacture more; and if this case is multiplied by many cases, men will be kept at work producing the extra goods that consumers are buying.

But certainly this is not an immediate solution. This is a time of economic and social unrest; already there are many unemployed who have not been reabsorbed by industry. Nor is it going to help Mr. Huggle to tell him that eventually everything is going to be all right. Neither would it have cheered the cobbler nor the hand-loom weaver during the industrial revolution to have been told that some day many

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more men than had ever been cobblers or weavers would be put to work in factories.

Certainly at this stage it is difficult to convince anyone that mass distribution in general, and chains in particular, have contributed to employment. In fact, the very opposite is argued. Chain stores, with their efficiency and their effective use of part-time help, get many more sales per clerk than independent stores do.



. . . Miss Schuler asked, "What about Mr. Huggle? Who will care for him?"

Those who feel that something should be done to deal with this problem through public policy have two types of recommendations to make. Some say that in this time of social unrest it is unwise to make the shift to mass distribution methods too quickly; that, therefore, by taxes or other measures, the development of chains should be checked. Others point out that it would help Mr. Huggle and others who are being hurt by present-day changes, if specific measures were taken to give them a lift while the changes are taking place. For example, the government might undertake market research and advisory services to help independents become as efficient agents of mass distribution as chains are; the voluntary groups have shown that much can be done along this line.

Another criticism of the chains is that many of their clerks, and managers too, find the type of routine work that they must do unpleasant. It is not such a far cry from the workers in shoe factories who pull a lever on a stamping machine all day, to clerks in large chain stores who perform such tasks as stacking canned goods on shelves, or wrapping packages of groceries week after week. The monotony of much of the work cannot be denied. In answer it can only be argued that as jobs become more specialized—and this is the price paid for efficiency—it is to be expected that working hours may become shorter.

Here it should be pointed out that while chains may not offer the best retail-store working conditions, certainly they

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are far from the worst. Just as historians are inclined to paint in glowing terms the picture of the cobbler and the weaver, so today we tend to make the relations between the small store owner and his helpers look better than they actually have been. The worst, as well as the best, of working conditions are likely to be found among the independents.

The Little Towns

When Mrs. Draper, whose husband owned the local department store, bitterly denounced "absentee ownership," and added that "chains take the profits out of a little town," she was thinking directly of Mr. Draper's experience with the chains.

Five years before that a department-store chain had established a store in competition with his, and although there seemed to be little immediate danger of his being forced out of business, still, profits had been reduced. Mr. Draper said that he wouldn't have minded so much if the money had stayed in town.

About this he was only partly right. Although a certain amount of money does flow from a community in the form of chain-store profits to unknown shareholders, the community is not hurt by this process. After all, the money that Mr. Draper and Mr. Huggle and other independents pay to outside wholesalers, and that the local wholesaler pays to outside manufacturers, goes out of town too. It is not as if the money passed over the counter and into the cash register and then stayed there.

At the same time, since chain-store prices are lower than independent-store prices, that leaves in the pockets of the consumers more than the independent storekeeper could have kept in the form of profits.

But the most important point is that money comes into a little town in exactly the same way that it goes out. We live by exchanging goods and services. Few of us would be willing to go back and exist under a system where each community lived entirely by itself, and depended on no other area to help supply its needs. The community we have been describing, for example, is a farming center. The wheat and corn and pork produced in that region are shipped all over the United States. The money that is paid for them is used to buy other types of products that can be produced more cheaply elsewhere. And in this way all communities are better

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off because of the trade that allows each to supply the particular things it can produce to best advantage.

"Absentee ownership" does raise problems, however, that are serious. When the chain department store opened in competition to Draper's Department Store, it brought in a manager from outside the town. The local business men resented this. What upset them still further was that he took no great part in community affairs. He said that he was too busy. In any case, he felt that he probably would be transferred somewhere else within the next few years. Only in the last year or two, after the chain had inaugurated a public relations policy, has he received instructions from his central office to cooperate in community undertakings. After that he joined the Chamber of Commerce and contributed to the Community Chest. Even so, charities always had to wait until he could get permission from his central office.



. . . Mrs. Draper said, "If chains keep growing there is danger of monopoly."

The way the central office seemed to run everything about the local store was another thing of which many disapproved. The general feeling was that it was bad enough for the chain profits to go out of the town, without having the leadership go too. "If the chains, with their big experts, are going to systematize everything from A to Z, so that even their managers don't ever have to make any important decisions, how are we going to develop business leaders? Where are they going to get their experience?" is the way Mr. Draper put it.

Who's an Octopus?

In the course of the conversation that took place in front of the Corner Grocery, Mrs. Draper said that if chains kept on growing the way they were, there was danger of monopoly.

To begin with, we must straighten out Mrs. Draper's definition of a monopoly. Like most consumers, she has always been a little vague about it, her idea simply being that it is a

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big, bad business organization which gobbles up little businesses.

As a matter of fact, a monopoly may be big or little. In the very early days when Mr. Huggle first started in business, the Corner Grocery—it was a general store then—was a village monopoly. It set its own prices. It could get whatever it asked, providing no one set up a competing store. Monopolies on one kind of goods or another still exist in many of the small towns in America. Sometimes they are in the hands of a chain store and sometimes in the hands of an independent.

Of course, what Mrs. Draper probably had in mind was that if grocery chains had driven out all of the independent grocery stores, and shoe chains had taken over the shoe trade, then there would be monopolies on a national scale, instead of a local scale. But we have seen that although the growth of the chains has not stopped its rate has been slowed down. Absolute national monopolies seem unlikely to develop. What we need to fear is the power that goes with even a partial monopoly.

So far, the only chains that have come anywhere near dominating the field in which they operate are the variety stores, and, as has been pointed out, this business was started by a chain. Although the first five- and ten-cent store was opened by one chain, Woolworth's, it was not long before such competitors as Kress's, Kresge's, and Newberry's entered the field. In addition, many independent owners have started variety stores.

In the grocery field, where chains do around 40 per cent of the retail business, more than half of this amount is done by three companies—A.&P., Safeway, and Kroger. At least two of these, A.&P. and Safeway, have kept more or less out of each other's territories. Aside from this there are all outward signs of keen competition between the rival chains as well as between chain and independent stores. Whether this competition is fully effective has been questioned in view of the profits the chains have been making. This is a matter on which economists disagree. For although chain groceries make only from 1½ to 2⅓ per cent profit on sales, their profit on their investments is huge—17½ per cent for each of the years from 1929 through 1935.

If the time should come that any chain or combination of chains gets control over price and quality in a field of retailing, then action can, of course, be taken against them under the antitrust laws. If that is not sufficient, other means of

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regulation may yet have to be devised. As an alternative safeguard against such a situation, there are the consumer cooperatives in countries like Sweden and England, which—without sacrificing the economies of straight-line distribution—have done a great deal to keep competition on an effective basis.

Concentration of Control

If a broader meaning is given to the charges that chains cause "the profits to leave a little town," "absentee ownership," and "monopoly," then a momentous problem of local, state, and national importance is raised. It is the problem of the centralization of control over vast distributive organizations in the hands of comparatively small groups of big city bankers and business men. In the last analysis this is the chain-store problem. Admitting their efficiency in getting goods cheaply from producers to consumers, we still have reason for grave concern about the consequences of this concentration of economic power.

Decentralization of power among a large number of independent units is more democratic. Many feel that it is safer socially, as well as economically, than a tremendous concentration which makes it possible for the mistakes of one man to affect the lives of thousands or millions.

Here the chain-store issue merges into a general one which is occupying the attention of many of the ablest economists, business leaders, and public men of the country today. To open up this subject even briefly would take us beyond the scope of the present study. Recognition of the fundamental character of the problems suggests that any attempt to deal with them through an attack on mere bigness as is represented by the chain-store taxes, is, to say the least, entirely inadequate. Should our attention not better be given to carefully thought out changes in our codes of business law and behavior which will preserve the advantages of large-scale operations and yet provide safeguards against the abuse of power by those in whose hands control is centered?

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