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DEPARTMENT.

*Editor's Note:* The following paper on 'Effect of NRA Codes on Retail Trade' by an economist as well known as Mr. Wroe Alderson is sure to command attention. Your Editor can only urge that it be read with thoughtful care.—C. B. JORDAN, *Editor*.

## EFFECT OF NRA CODES ON RETAIL TRADE.

BY WROE ALDERSON.

In considering the broad problem of the effect of NRA codes on retail trade there are five major aspects of the problem which may be considered. These are:

- The volume of retail business done
- The morale of retailers and their support of the Recovery Program
- The competitive position of classes of retailers
- The bargaining position of retailers and their suppliers
- The efficiency of retail distribution.

In so far as the activity of retail trade might be increased by the Recovery Program, it would mean nothing more, of course, than a reflection of the improvement in business as a whole. This is aside from such general considerations as the relative improvement in consumer goods industries and capital goods industries. Looked upon as a symptom of recovery, the volume of retail trade has not shown a particularly encouraging trend.

The Bureau of Foreign and Domestic Commerce has been compiling several series to indicate the trend of retail trade for several lines. Reports now available for the first three months of this year show a general increase in volume of retail business over the same three months of last year. This is particularly marked in what is called the Rural Store Index. This increase may result from the payments that have been made to various classes of farmers under the Agricultural Adjustment Program and to various other disbursements of relief funds in the rural areas. The second greatest increase is in the case of automobiles. The indications here point to a really fundamental increase in wide-spread purchasing among persons of moderate means. Number of units purchased has increased much more than total volume of sales, indicating that a trend toward the more popular priced car. At the same time automobile financing has increased more than either units or volume, which will undoubtedly be characteristic of an increase in automobile purchase among classes of moderate income.

In other lines covered increases in value have been more than offset by increases in the retail price level. In other words, there has apparently been fewer physical units of goods sold at retail rather than a greater number. This may not mean that the total consumption of goods has actually been less since the various relief agencies have not used the existing channels of distribution in handling all commodities distributed on a relief basis.

One of the most unfortunate consequences of NRA has been its effect on the morale of retail trade. The National Recovery Administration began its work last summer in a way that indicated that it was not conscious of the importance or perhaps even of the existence of retail trade. The first several months of policy development were based entirely on considerations of the problems of the manufacturer, particularly in the heavy industries. The Administration came sharply up against the problem of retail trade when the Blue Eagle campaign was instituted. General Johnson had been impatient with the progress attained on manufacturing codes but the Blue Eagle instead of accomplishing the results desired in that direction, involved him inextricably with considerations of retail distribution.

One of the biggest aspects of the general problem of the effect of NRA on retail trade is thus the political problem of the effect upon the morale of retailers and through them upon public support of the Recovery Program arising from the peculiar way in which retailers came into the picture. Having first been told both in print and in conversations with their representatives who came to Washington that the program was not primarily interested in the retailer and might overlook him entirely, the retailer, because of his direct contact with the consumer, might have been the agent for selling the whole program solidly to the entire country if he had been handled with more consideration.

The policy originally announced of leaving considerations of retail trade for treatment at a much later date was probably a sound one. It would have been a much easier problem to secure full compliance and strict enforcement against violators if only the larger manufacturing industries had been covered. Securing compliance among retailers could naturally be expected to be a slow process because of the great number of small and sometimes irresponsible individuals engaged in the retail business. Retail violations are likely to be well known in the community and widely discussed because the retailers' operations are so open to public inspection.

From the standpoint of creating employment opportunities, the NRA could not perhaps afford to overlook retail trade with almost as many millions of people employed as manufacturing industries. It can be stated with certainty, however, that these facts did not occur to the leading minds in the NRA until much later and as a matter of fact, the retail codes were never handled in such a way as to capitalize to any great extent the employment possibilities offered. Ironically enough, the greatest single potential field for real employment was brought into the picture more or less accidentally through a failure to visualize the way in which the so-called Blue Eagle campaign would immediately become involved with retailing.

Effect of NRA on the competitive position of classes of retailers is one of the most interesting aspects of NRA and its consequences. Various groups of competing business men have become highly specialized in the degree to which they make use of various competitive devices. In the retail field three of the leading types of stores from the standpoint of competitive position have been limited price stores, cut price stores and service stores. There are other lines of cleavage such as small and large stores, specialized and general stores and groups distinguished by particular method of operation such as the chain store and the mail order house.

The line of division indicated in the first instance is the one which has been brought most sharply into the foreground by the attempt to set up NRA codes. Some of the most vital code provisions carried threats of upsetting completely the

competitive equilibrium in retailing because these code provisions seemed likely to affect the position of one class of retailers more drastically than that of another class of retailers. The limited price stores had made a place for themselves on the basis of fixed and well-known prices for a variety of items such as 10¢ for a tack hammer or \$5.55 for a pair of shoes. These stores had flourished during the past several years of declining wholesale prices. Their greatest concern related to the possibility of drastic increases in the cost of labor which would make it impossible for them to maintain their present fixed price lines which were the principal basis of their merchandising appeal to the public. One result of their having been so deeply perturbed over these matters was the formation of two brand new trade associations which called into their services two of the shrewdest merchandising men in the country. These were Dr. Paul Nystrom for the limited price variety stores and William Girdner for the fixed price chain shoe stores. Up to the present this group has come off fairly well since the increase in labor cost was much less than they had feared it might be. Some variety chains reported national improvement in their position as a result of the enforced wage increase. They found that they were getting a better class of help at a higher minimum wage and that these employees were bringing courtesy and intelligent sales effort into the variety store operation for the first time.

The service type of store was most concerned about the other step in the program for benefiting labor, namely, the shortening of hours, particularly as it implied or might require the shortening of store hours. The downtown stores generally would have had their competitive positions somewhat improved in relation to the small neighborhood stores if there had been a drastic cut in the number of store hours permitted. Many of these small merchants obtain a considerable portion of their total business solely because they are able to remain open for a longer number of hours than the larger store. Here again the tendency of the NRA to deal gently with retailing so far as prescribing a new labor burden was concerned kept this second group of retail stores from suffering any loss of competitive efficiency in the direction which they particularly feared. It would be very interesting to know just what was the basis of the very lenient policy concerning labor requirements in retail codes since some of those who were frankly representing the interests of the retailer at hearings admitted openly to administrative officials that their group was not being asked to carry their fair share of the recovery load but without apparently having any effect on the administrative attitude.

The third class of stores were those whose volume depended largely on price appeal. This included stores which had to offer prices to attract customers because of downtown locations and stores which were using aggressive price cutting in an effort to make a place for themselves as newcomers to the field during the course of the depression. This group included chain stores, department stores, the pine board store in the drug field and the supermarkets in the grocery field. All of these types devoted the closest attention to any proposed clauses which were designed to create price appeal by prohibiting sales below purchase cost or some other pre-determined level.

The result in this direction has been to favor the moderate price cutter as against either the drastic price cutter or the store depending on service appeals. While some price protection has been given in the Codes, it is sufficiently moderate

to permit the department store and chain store to sell certain items at prices lower than would normally be offered by the small service retailer. The pine boards and supermarkets are barred under the Code from exerting the full force of price cutting which they have used in the past. The general effect, therefore, is to restore the general status of competition as far as price appeal is concerned, which existed prior to the depression.

The earnings of retailers depend in part on the day to day outcome of the constant struggle between the retailer and his supplier for the larger share of the amount paid by the consumer to cover the functions performed by both. The activities of the NRA have thrown the balance slightly in favor of the supplier, particularly in the case of small manufacturers supplying the department stores. Here again this could be viewed either as an interference with the present competitive equilibrium or a return to the relative status prior to the depression. Over a long period the present policies of NRA would work more and more against the retailers as compared with the supplier. There is always, of course, the definite possibility that present policies would be modified before they had led to any drastic upsetting of the present balance of power between retailer and supplier.

From the standpoint of the general public interest, the most important question of all is what effect a Recovery Program may have on the total cost of distribution. It has long been held by many people that one of the greatest needs of our economic system was to be able to perform at lower cost the function of transferring goods from the hands of the manufacturer to those of the consumer. Specifically in connection with the Recovery Program several of the Recovery Agencies and particularly the A. A. A. have placed major stress on reduction of the cost of distribution as one of the fundamental objectives of the program. This must be acknowledged as a vital problem and one that must be solved for purposes of long range reconstruction even though its bearing on immediate recovery may be more limited.

While such a cost reduction is certainly to be desired, the important question is where to take hold of the problem since it can be shown beyond the question of a doubt that many of the efforts to reduce the cost of distribution have actually tended to increase costs. This is sometimes true for example, in the case of individual manufacturers who feel that the cost of the wholesale function as performed by the independent wholesaler is too high to attempt to sell their merchandise directly to the retailer. Only too often the manufacturer finds that he is not able to do the job as cheaply as the wholesaler. He may still hang on to the wholesale facilities which he has established either because it is difficult to withdraw his investment in them or because he finds some compensating advantage in an increased ability to control his market even though the function is performed at a higher cost.

So far as administrative points of view are concerned, the most persistent and fallacious bit of thinking concerning distribution cost has been the assumption that the small retailer was necessarily inefficient because he was small and that he should therefore be eliminated or his numbers greatly reduced. To the extent that this point of view is allowed to determine policies, the efforts of reducing the cost of distribution may have an effect opposite to that desired. As opposed to this point of view the following things can be definitely shown:

1. That the optimum size of unit in retailing is at a very moderate volume point in most lines of trade.

2. That the advantages of aggregating individual units into chain systems are advantages which can be duplicated by coöperative effort between small retailers and is not inherent in the corporate form of organization or outstanding excellences of chain management.

3. That the function of service retailing cannot be fairly judged except in relation to a definite measure of how much service the consumer wants. Retailers create place utility and it is obvious that the cost of creating it will be high if the consumer demands that commodities be brought within a few blocks of his home.

4. That the really inefficient small retailers make up a very small fraction of the total volume and that the consumer does not ordinarily carry an additional load because of their presence in the picture since the greater part of the loss which such retailers sustain through excessive operation costs is in the form of wasting their own assets.

5. That the small retailer is in several lines engaged in subsidizing the expensive fringe of retail distribution and that a unified system which attempted to cover the market completely might find its average cost considerably increased by the necessity for maintaining distribution at the points where such small retailers now maintain it.

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Gould's "Pocket Pronouncing Medical Dictionary," 10th edition. P. Blakiston's Son & Co., Inc., Philadelphia. Price \$2.00, plain; \$2.50, with thumb index. Flexible cover, 4 x 6½ inches. Contains over 40,000 words, giving the pronunciation and definition of the principal words used in medicine and the collateral sciences, including illustrations of the arteries, muscles, nerves, bacteria, bacilli, micrococci, spirilla, etc.; thermometric scales, revised dose list of drugs and their incompatibilities, systems of weights and measures, based upon U. S. Pharmacopœia X and revised veterinary dose tables. By George M. Gould.

In selecting the new words care has been taken to include those of sound and permanent value. Twelve pages are given to symbols and abbreviations. The definitions are brief but definite. "The Physician's Dose Table" has been prepared by Wilbur L. Scoville; included therein the names of Remedies are given in the first column and, in sequence, Doses in Apothecaries System, Metric, Solubility, Important Incompatibilities. The Veterinary Dose Table was prepared by Dr. W. S. Devoe, formerly inspector of Animal Industry, U. S. Department of Agriculture and revised by Dr. V. G. Kimball, assistant professor of Veterinary Medicine, University of Pennsylvania. The value of a dictionary is best determined by the users, and the revisions and large sale have evidenced the approval of the practitioners of medicine and others who have the volume in their libraries.

*Pharmaceutical Formulas* (P. F. Vol. II) published 1934, supplementary to Vol. I, and known as "The Chemists' Recipe Book." Contains formulas for adhesives, beverages, cleaning materials, culinary and household requisites, horticultural and agricultural preparations, inks, lozenges, perfumes, photographic preparations, polishes, soaps, toilet articles, varnishes, veterinary preparations, etc., including numerous descriptions of practical methods employed in their manufacture, and other information of use to pharmacists and manufacturers. Over 1000 pages. Price by post, 15 shillings 6 pence.

The formulas are to a large extent representative of the "correspondence columns" of the *Chemist and Druggist*; the replies to correspondents have been arranged under various headings and the publishers advise that, as far as possible, the formulas have been checked by experiment. Formulas from foreign official and non-official publications (other than British) are included and, in this connection, it may be pointed out that strengths of preparations and composition of them may vary, this should be taken into consideration in compounding; also quantities of this book, unless expressed in the Metric System, or otherwise stated, are given in British units of weights and measures. The *Chemist and Druggist* is well and favorably known to pharmacists and speaks for the value of the Book herein noted.