

INDUSTRIAL COOPERATION

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CONFIDENTIAL:

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The conclusions arrived in discussions on the industrial relations between employer and employee, or between capital and labor, as it is often expressed, or between the corporation and the worker, essentially depend on the viewpoint from which the subject is approached.

There are three viewpoints:

1.) CAPITALISM:

The industry is the private property of the capitalist owner, and the employee and the public have no rights in the industry, but also no duties towards it. The only relation between employer and employee is the labor contract, that is, the agreement on wages and working hours, entered into by individual or collective bargaining. Labor thus is a commodity following the law of supply and demand. If the labor supply exceeds the demand, the price of labor may fall below a living wage, and masses of unemployed may starve, without anybody being responsible. Inversely, if the demand for labor exceeds the supply, wages may rise to values destructive to the industry and harmful to the public.

This viewpoint is increasingly being abandoned by the leaders of industry and finance, as unsafe, especially since the experience during the late war. But it is still largely held by labor as represented by the orthodox labor unions and their conservative leaders, who decline any industrial responsibility beyond

that of collective bargaining.

2.) SOCIALISM:

All wealth is created by labor and therefore belongs to labor, and labor thus is entitled to the full value of its product. Capital does not create any values and therefore has no rights on the product of labor. Capital however, by acquiring control of the means of production, has thereby acquired the power to say whether labor shall be permitted to work or not, and uses this power to arrogate to itself a part of the product of labor, that is, to exploit labor.

As only a small percentage of Americans accept this viewpoint today, we may, regardless whether it is justified or not, leave it out of consideration here.

3.) COOPERATION:

Capital as well as labor are both necessary for industrial production, and both therefore have rights and duties in the industry.

As this viewpoint is gaining ground, the following discussion is based exclusively on it and the following conclusions therefore stand or fall with the acceptance or rejection of this viewpoint.

Labor as well as capital benefit from industrial prosperity and suffer by industrial depressions, and in this respect, with regards to the prosperity of the industry, the interests of capital and labor are identical, and both should cooperate to bring about industrial prosperity and avoid industrial depression.

It would be very unwise however, to conclude herefrom that the interests of labor and capital are identical in every respect, and such a statement made to labor may cause serious harm, as it is obvious, that in some respects the interests of capital and labor are antagonistic; every dollar more spent for wages, means so much less for dividends and inversely (though indirectly, increase of the amount paid as wages may increase the amount available as dividends, and inversely, by increasing the efficiency of the industry at a still greater rate, and thereby its profits).

The relation of capital and labor in the industry thus is analagous to that of manufacturer and customer, or of buyer and seller, that is, there are common interests and opposing interests. Whereas however the relations between manufacturer and customer, or between buyer and seller, are almost always friendly, and the opposing interests compromised by the common interests, the relations between capital and labor are very frequently hostile. There appears no inherent reason why this should be the case, but it is rather due to the historical developement of the situation, and a gradual change to friendly, that is, cooperative relations, should therefore be possible.

As the industry cannot prosper under internal strife and hostility between its two essential components, capital and labor, and as both benefit from the prosperity of the industry, it follows that the cooperation between labor and capital in the industry is in the interest of both.

LIVING WAGE AND FAIR RETURN ON CAPITAL.

CONTINUOUS EMPLOYMENT AND CONTINUOUS DIVIDENDS.

Cooperation presupposes that both, capital and labor, can be reasonably satisfied with their positions in the industry and their treatment by the industry.

Herefrom it follows that labor has a right to a living wage affording the minimum American standard of living. What this standard is, obviously is a matter of discussion, and undoubtedly the minimum wage affording such a standard may differ widely in different parts of the country, etc.

Inversely however, it follows that capital has a right to a minimum return, that is, a return sufficient to attract capital to the industry. What that is, again depends on conditions, for instance, on the safety of the investment.

It must be realized that in cooperation there can be no right on the one side, without a corresponding right on the other side, and a minimum return to labor presupposes as corollary a minimum return to capital.

If an industry cannot combine fair wages with fair return on the capital, that industry requires reorganization, by the elimination of waste, improved methods of production, etc. If, with the industry operating at maximum efficiency, it is not possible to satisfy capital and labor, an increase of the price of the product of the industry is justified and this is possible if the industry is non-competitive. If it is competing in its

product with the products of other industries, it means that this industry caters in an inferior manner to a demand which can more economically be supplied by another industry, and this industry therefore has no right of existence, but should be discontinued or changed to other channels of production. For instance, the manufacture of gas for illumination is competitive with the electric lighting industry, and the price of gas as illuminant therefore is limited by that of electric light. If then, under this limitation, the gas lighting industry could not combine fair wages and fair return on the capital, it would have to discontinue, or develop new non-competitive fields for its product, in this case the use of gas for heating.

Such terms however, as "living wage to afford a minimum American standard of living", and "minimum dividends making the industry attractive to capital" express an industrial policy rather than a definite numerical value which could be established by legislation, and therefore it might be difficult if not impossible to agree upon definite values, especially as these depend on the individual conditions. This however does not affect the principle, as in most cases it is not difficult to see whether an industry pays a living wage or not, or whether it gives a fair return on the investment or not.

From the principle of cooperation it further follows that labor has a right to continuous employment; but equally as much, capital has a right to continuous dividends. This is beyond the scope of an individual industry, and is a problem which can be

solved only by our entire industrial system, by eliminating the alternate periods of industrial inflation and industrial depression. This could be done by the cooperation of all the industries of the country, and such is impossible as long as a misguided public insists in making and maintaining laws against cooperation of industries, and attempting to enforce by legislation, industrial competition.

To some extent, an individual industry can mitigate the evils of our law enforced faulty industrial system, by accumulating a surplus in times of prosperity, and using this surplus in times of depression, by maintaining employment by manufacture for stock, and paying dividends out of the surplus, as has been done frequently. But this can be done to a limited extent only.

#### EVOLUTION.

When speaking of industrial reorganization or other changes towards cooperation, it must be realized that our industrial system is so complex, and so interdependent in its parts, that any sudden or radical change of any part of it is liable to have a far reaching effect resulting in widespread disorganization and harm, or even industrial disaster. Any changes in our industrial system therefore must be very gradual only, by evolution, and not by revolution. This also applies to all schemes to bring about cooperation.

Furthermore, most people, especially when engaged in constructive work, are afraid of changes and inclined to hold on to existing conditions, even if these have become unsatisfactory, rather than trying new things, of which they do not know how they will work. This applies to capital as well as labor, and is commonly the attitude of labor when asked to cooperate in employees representation schemes, expressed by the statement, that the employees do not care for any new form of representation devised by the employer, but consider that they have been and are satisfactorily represented by their labor unions.

This is one of the serious difficulties which has to be overcome in bringing about cooperation within an industry.

COOPERATION, PATERNALISM, SUB-ORDINATION.

Cooperation means the working together of two parties. A plan conceived and worked out and then established by one of the parties, the employer, is not cooperation, but is paternalism, at least in its introduction. This however is very liable to be the procedure, as the employer realizes the need of cooperation, studies various plans for years and selects the best one, while the employee does not yet see the need of cooperation, therefore is not interested in it, but rather suspicious of it as an attempt to win him away from the labor unions, and therefore disinclined to cooperate sincerely in working out a mutually satisfactory plan.

And indeed, too often plans have been worked out and introduced by employers, and widely advertized as plans for cooperation, which in reality are plans for sub-ordination, and resented as such. Especially this is liable to occur after a serious strike won by the employer. Representative employees, appointed by the employer to the committee working out the plan of cooperation, usually are resented by labor as "handpicked", and are not recognized as representing labor, and often justly so, as the employer is rarely in a position to know who have the confidence of their fellow employees and who not, and is likely to appoint those he believes most representative, and these are rarely so, due to the difference of the viewpoint of employer and employee.

Sometimes it may make a plan more acceptable by having the employees vote on it. To avoid rejection, this requires the management to explain and "sell" the plan to the employees, and the management is not always sufficiently skillful and in touch with the employees to be successful in this, and it invites the counter agitation of the labor unions, and the employee is rather more inclined to listen to the latter, as he knows them and knows what they have done for him in collective bargaining, and "fears the gifts" of the employer. Thus in some cases, where there are labor unions, but where the relations between employer and employee are friendly and have been so for a considerable time, a plan of cooperation devised by the company may on the request of the company be given a fair trial by the employees, and if a really fair plan, may then become a great success, while the same plan, when

brought to vote at its introduction, would have to be rejected. That is, the employees are willing to oblige the company by trying any company's plan but are not willing to make the plan their own and take the responsibility for it by voting for it.

If the labor unions could be induced to appoint representatives to meet with the representatives of the company to work out a plan of cooperation, such a plan would be acceptable to labor. But it is doubtful whether labor unions can be induced to appoint delegates to work out a plan which they feel would supersede them, and if they do so, whether in such a committee an agreement can be reached which is acceptable to the company. The former difficulties might sometimes be overcome by omitting at first all reference to wages and working hours, and devise a cooperative agreement on grievances, shop rules, hygiene, recreation and other things which are specific to one factory and would not conflict with the usual union activities. Later on such a shop committee, if working satisfactorily, might be encouraged to extend its activities into wages and working hours and so gradually eliminate the need of the unions in the opinion of the employees.

THE LEGAL MIND AND THE HUMAN MIND.

The corporation is a creation of the law and controlled by it, and the legal mind thus dominates the corporation activities. The legal mind however differs in some essential features from the mental attitude of the general public and thus the average employee, which I may call the human mind, so much so that the two may be unable to understand each other. For instance, the legal mind is dominated by precedence. That is, if a thing has once been done in one way, this practically established the method of procedure ever after. To the human mind however precedence means nothing, and a thing may have been done in one particular way ten times, without having any effect on the way it is done the eleventh time. This, and especially the negative side of it, may prove a hindrance in bringing about cooperation. For instance, the employer may desire to interest the employee in the prosperity of the company, by having him share in the profits, but the legal mind is afraid of the precedence establishing a right of the employee in the profits, and therefore adopts different terms, such as bonus, etc. But while the employee may get just as much, the entire beneficial effect of sharing the prosperity of the industry may be lost and even the reverse result, a certain feeling of resentment against gifts or charity. To the human mind, the idea of sharing in the profits of the industry may be the attractive feature tending towards loyalty and cooperation, even if the actual cash benefits are negligible.

Another difference between the legal mind and the human mind is the tendency of the legal mind to guard against the possibility of mistaken action, by establishing checks and counter-checks, until the mechanism is so ponderous as to stop all action - as<sup>is</sup>/to some extent the case with our judicial system. To the human mind appeals prompt action, even if a mistake may sometimes be made, and it realizes that infallibility is impossible. This is illustrated by some arrangements of dealing with grievances by a grievance committee with appeals to some other committee or body, and so on, up to final appeal to the management. Such mechanism is liable to be hopelessly top-heavy; assuming twenty thousand employees and each has only half a dozen grievances, if they all come up to the manager, he has to attend to over a hundred thousand grievances. They do not come up, because the complainants drop them before, or do not appeal at all, considering it as hopeless. But they are not satisfied and the grievance system thus fails. To the human mind a simple system would appeal far more by which the employee who feels aggrieved with his working conditions, can help himself, for instance by getting a transfer to some other department ( with such restriction as not to interfere with the efficiency of the industry) The absence of the feeling of helplessness against the grievance would then probably lead most men not to feel aggrieved at all.

THE POLITICAL OR DEMOCRATIC SYSTEM

AND

THE INDUSTRIAL OR ARISTOCRATIC SYSTEM.

In organizing the relations of labor to the industry, by establishing employees' representation, almost always a democratic system is used, patterned after our political system, sometimes so closely as to have a house of representatives, elected by all the employees with equal votes by the secret ballot; a senate composed of foremen, and a cabinet consisting of the management. In the control of the industrial corporation by capital however, this political system is never used, but the industrial system, which essentially differs from the political system. In the political or "democratic" system, positions are filled by election, and for a short time, while in the industrial system, positions are filled by promotion, that is, the incumbent essentially elects himself by his work, and are permanent, and even where there are elections, as in the stockholders voting for president, etc., the election is usually a formality and the incumbent re-elected as a matter of course. Now the industrial system, which we may call an "aristocratic" system, is highly efficient, while the democratic political system is frightfully inefficient, is a survival of the colonial days of near communism, that is, communities of men differing little from each other socially, intellectually and industrially and living in the simplest form of society. Most people do not like to criticize our democratic system even to themselves, but what

they really think of it can be seen thus: compare the private corporation in control of a public utility for instance, and a municipality. The private corporation has to pay six percent for its capital, and is expected to pay dividends in addition, while the municipality can borrow all the money at four to four and a half per cent and is not expected to make profits. Thus financially the private corporation is at a great disadvantage, when considering that a considerable part of the cost of the product is interest on the investment and dividends. Nevertheless out of ten men familiar with business and industry, at least nine will without hesitation say that the private corporation can produce more economically than the municipality.

Our country is so rich and still has so great natural resources that we can still afford to play with democracy even if it is a "rotation in office for the distribution of spoils". But Europe, broken by the war, illustrates the situation. All the governments existing at the end of the war have fallen and changed, often several times, except that of Russia, which right in the beginning abandoned democracy and established a dictatorship of the communistic party, and a few weeks ago Italy, the allied nation hardest hit by the war, followed Russia, broke with democracy and established a dictatorship, in this case a dictatorship of the middle class.

Coming back to our industrial conditions: when labor organized in the labor unions, it also did not follow the political democratic system, but devised a system similar to the industrial aristocratic system of corporation management.

Many union members do not vote, do not go to the union meetings nor take an active part in the management of the union, but allow the union to be managed by those members who attend the meetings, and of those again there is only a part, often a minority, which as leaders control the union and govern it by the consent of the governed, so that the attitude and the action of the average union man towards the union is not much different from that of the average stockholder towards the corporation. We are rather inclined to find fault with the undemocratic action and talk of agitators misleading or terrorizing the men, and sometimes this may be true but in general the evidence is against it, and in our corporation we do not practice the democracy which we preach to the labor unions, and the labor unions are not democratic, for the same reason that the corporations are not democratic, because democracy is inefficient. If we are fair we must concede that the labor unions are and have been very efficient in the pursuit of their purpose, and the fault which we find with them is not inefficiency in their purpose, collective bargaining for the greatest possible share of the profits of industry, regardless of the interest of the industry and the public, but it is that the purpose is anachronistic, is harmful to the progress of industry, and the welfare of the public, by being directed not towards cooperation, but towards industrial war.

Democracy then is so inefficient, that it is abandoned in the organization of capital as well as in the organization of labor, and still, in trying to bring about cooperation between

capital and labor, we again introduce this inefficient and discredited system of political democracy into the mechanism of employees representation. This does not seem right, and does not appear like a permanent solution of the problem. If real cooperation could be established, why should labor not be led by the same leaders and in the same manner as capital?

#### LEADERSHIP.

The most important problem of our present industrial development is the establishment and maintenance of cooperative relations between the employer and employee within the corporation, and this activity therefore appears fully as important as the administrative, or technical or financial, or manufacturing activities; probably more important at present, for the latter activities are well organized while the industrial relations are in development. The industrial relations within the corporation therefore require the continuous attention of men, fully as big as those in charge of finance, manufacture, etc. No activity can give results superior to the quality of men placed in charge of it, and if second or third rate men are placed in charge of the industrial relations department, the results as expressed by the cooperation of labor and capital can only be second or third rate. This however is very often the case: industrial cooperation plans are initiated by the big men in the corporation, but then left in charge of second rate men, with occasional supervision and attention by the big men. We would not think to place the manufacture or the administration in charge of a second rate man and expect first

rate results by occasional attention by the big men.

While men qualified for industrial relation activities may be found in all professions and in all races, in general, professionally the engineer is least qualified for dealing successfully with industrial relations, and most handicapped by his professional training. To establish and maintain cooperation, it is essential to see both sides and realize that in human relations there is no absolute right and wrong, but that the conclusions and therefore the attitude of the individual depends on his viewpoint, and the latter depends on his social, industrial and intellectual condition: the poorly educated laborer, who never earns enough to save much, and over whom and his family hangs the fear of unemployment, of sickness and of old age, necessarily takes a different attitude towards our industrial system than the educated man of independent means, who can devote his time to the work he enjoys. In engineering however, there are not two sides, but there is only one conclusion which is right, that logically derived from the experimental facts, and everything else is wrong, and in industrial relation work the engineer therefore is inclined to believe that his conclusions derived from his individual viewpoint, are absolutely right, and everything else wrong or foolish, and refuses to consider it. Unsuitable usually for industrial relation work also is the minister, as he is trained to preach to the people, from a superior attitude, and not discuss things with the people as one of them, and no matter how well meaning, the minister rarely can avoid the appearance of a certain aloofness in his dealing

with people, and this grates on the sensitivities of the people, especially those who have a feeling of educational inferiority. This often makes the most well meaning minister ineffective or even harmful in bringing about industrial cooperation. Possibly the most suitable is the lawyer. While he may be handicapped by the legal mind, and by his tendency to evolve elaborate mechanisms, as discussed above, his great advantage is that he has been trained to look at everything from both sides, and while in his profession he may represent and defend one side, he meets on even and friendly terms other lawyers taking the opposite side, so that a liberal broad-minded lawyer is probably the most qualified for the industrial relation work, to look at things from different sides, to realize the justification of the different and often antagonistic attitudes, from their respective viewpoints, and so to harmonize them. Next perhaps in this attitude of seeing both sides comes the salesman and the business man in general.

Racially, most qualified appears the Irishman, as shown by the disproportionately large number of Irish managing public utilities, political offices and in general such occupations in which the success depends on leadership by cooperation with various interests.

Next in suitability comes the Jew, due to his superior intelligence and absence of prejudice. Least qualified appears to me the Anglo Saxon and the Nordic in general, due to his ability to

hypnotize himself into the belief that what he wishes to do is his moral duty. This attitude of mind is probably best illustrated by a group of slave-holders, putting their names in all sincerity under a declaration of independence which states that "all men are endowed with certain rights, and that amongst these are liberty ....". This attitude of mind is dangerous in industrial relations, since no matter how selfish and how much dictated by personal interests the motives are, the man is fully convinced that it is his moral, or patriotic or other duty to carry out his conclusions, and that any different view is immoral or unpatriotic or revolutionary or something else, and therefore cannot be allowed. Obviously no cooperation is possible from this viewpoint.

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