

The First Annual

**SUMMER
MANAGEMENT
CONFERENCE**

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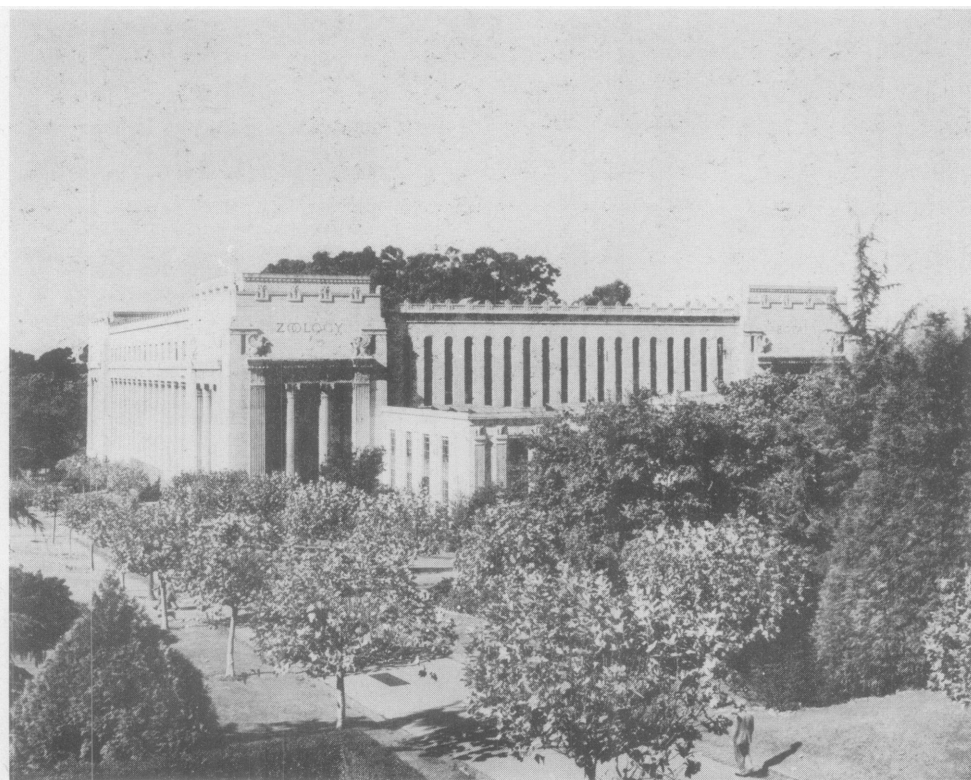
*held at the Asilomar Hotel and
Recreation Grounds, Pacific Grove, California
September 10-16, 1949*

*presented by the Institute of Industrial Relations, School of
Business Administration and University Extension,
Los Angeles and Berkeley*

U N I V E R S I T Y O F C A L I F O R N I A



*An aerial view of the Los Angeles campus of the
University of California*



*The Life Sciences building on the Berkeley campus of the
University of California*

The Role of the University in Business and Industry

*a message from Robert Gordon Sproul,
President, University of California*



The relations of the modern university to business and industry epitomize the change which has occurred in the role of higher education in society. When universities were first established, almost a thousand years ago, society felt a concern primarily for the education of its clergy, its doctors and its lawyers. Today that concern encompasses not only a long list of professions, but also the leaders in every important occupation.

John Stuart Mill, the eminent philosopher, in his essay *The Road to Progress*, has aptly stated the underlying reason for this expanding concern of society. "History," Mill says, "shows that great economic and social forces flow like a tide over communities only half conscious of that which is befalling them. Wise statesmen foresee what time is thus bringing, and try to shape institutions and mould men's thoughts in accordance with the change that is silently coming on. The unwise are those who bring nothing constructive to the process, and greatly imperil the future of mankind by leaving great questions to be fought out between ignorant change on the one hand, and ignorant opposition to change on the other."

Certainly it is true that the modern university must be prepared to gather, make available, and interpret data on every subject which is of vital concern to public welfare. It must serve not merely as a collecting and refining agency for facts already known; but more importantly as a research agency dedicated to the discovery of new facts, and as a distributive agency alive to every practical means of making what it learns known to the leaders in each relevant calling.

The collecting of facts and the discovery of new ones can be carried on by a university on its own initiative, but the distribution thereof is a task requiring that initiative be mutually shared. Before knowledge can be made widely available there must be a recognition of the need for it and a development of channels through which it may flow. It is not enough to say we shall train the next generation. The present generation's activities are of at least equal significance, and this generation can be reached only through adult programs and in-service training courses carried on with the cooperation of business and industry.

Realization of this fact has brought about a tremendous growth in University Extension, first to meet war-time emergencies, and later to solve the problems of post-war readjustment. There is every indication that the experience thus gained will never be lost, and that special training programs in conjunction with jobs is now an accepted part of industrial and business as well as educational planning. Credit for this progress must in large part go to those businesses and industries which have had faith enough to experiment with the time of their men and with the funds required to make the plan work.

The Management Institute sponsored by the University of California at Asilomar in 1949 is an outstanding example of how effective these cooperative programs can be. I sincerely hope that there will be an increasing number of such institutes in the future, covering a wide range of practical problems, and that this brochure may lead additional business and industrial groups to suggest how the University can be of service, now and in the future.



The main building at the Asilomar Hotel and Recreation Grounds, the location of the first annual Summer Management Conference.

The Objectives

What is the Institute of Industrial Relations, what are the reasons for the Summer Management Conference?

In 1945 the Legislature of the State of California established the Institute of Industrial Relations at the University of California. The general objective of the Institute is to facilitate a better understanding between labor and management throughout the State, to equip persons desiring to enter the field of industrial relations with the highest possible standards of qualifications, to provide for those already in the field of industrial relations the opportunity for the further development of their knowledge and skills, and to conduct an active research program in the field of industrial relations. In establishing the Institute of Industrial Relations, the Legislature responded to a constantly growing need of our complex industrial and social organization.

The Summer Management Conference held in cooperation with the School of Business Administration was one of several conducted by the Institute. The basic objective of the Conference was to bring together representatives of management for one week of study and discussion. Here, away from their regular duties and responsibilities, an opportunity would be provided for the interchange of ideas and information among management representatives and University staff members. Thus each participant would benefit from the experience and thinking of others in the field of industrial relations and from the thinking, experience and research of the University staff. In turn, the University faculty could achieve a more practical understanding of industry's problems, and management's approach to these problems. Further, intensive discussion could provide a proving ground upon which theories and ideas could be subjected to the examination and criticisms of experienced people.

Another objective of the Conference was to provide a time and place where each individual could re-examine his own personal practices and industrial relations programs in the light of both the theory and practice of his contemporaries, and away from the immediate pressures which sometimes make it difficult to see all aspects of these problems clearly. This objective was facilitated by the organization of the Conference so as to encourage as much discussion of specific problems as time permitted.

In conferences of this kind, the University staff members, who participate in various institutes and conferences for labor and management groups alike, have the responsibility of presenting a complete and unbiased picture of labor to management and management to labor. To the extent that they are successful in this presentation, they help to overcome difficulties which stand in the way of effective labor-management cooperation. Further, such conferences can be helpful to management and labor in formulating personnel practices and industrial relations policies based on a realistic understanding of the forces involved in our industrial life.

The Asilomar Management Conference will now be a regular annual event. The continued success of these conferences is dependent upon the cooperative efforts of industry and of the University, efforts to which each makes its unique contribution in a continuing plan of education.



The Staff

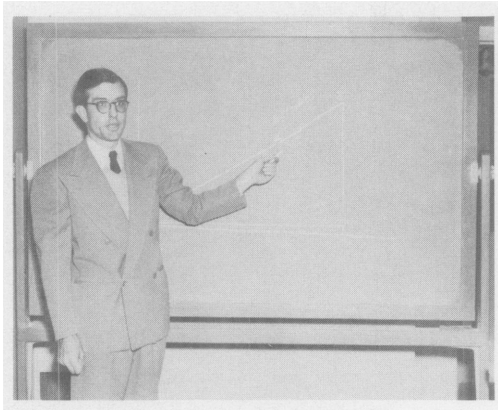
Subjects Studied

On arrival the participants were divided into three discussion groups. Each of these groups met in separate sessions. There were three such sessions each day, each dealing with one of the subjects listed above. In addition, each evening there were major talks attended by all of the participants.

Each discussion group consisted of approximately 40 participants. Each participant received discussion outlines prepared by the discussion leaders. The sessions were marked by active participation in the discussion by the participants.

At the end of the conference each of the participants filled out a questionnaire. On the basis of the replies received, the significant phases of the Institute were evaluated by the participants.

The evaluation indicated wide spread satisfaction and enthusiasm with phases of the Institute.



George Hildebrand, Research Associate, Institute of Industrial Relations, University of California, Berkeley.

The American Economy

A broad discussion of the basic facts relating to our American economy; a description of how our economic system works, the gross and net product of the American economy, the place of the American economy in

the world, the labor force of the American economy and its composition, and the nature of the business cycle. The discussion was highlighted with pertinent statistical data.

by Discussion Groups

Making the Contract Work



Abbott Kaplan, Head of Labor-Management Relations, Institute of Industrial Relations, University of California, Los Angeles.

A discussion of the day to day problems in dealing with labor unions under collective bargaining agreements. An analysis of the requirements of an effective grievance procedure.

The Nature and Function of Arbitration



Edgar L. Warren, Director, Institute of Industrial Relations, University of California, Southern Division.

A discussion of the arbitration process, its advantages and disadvantages. The use of arbitration in the settlement of grievances arising under contracts, and the arbitration of disputes regarding the terms of a contract. Conditions for successful arbitration.

Discussion Groups



Martin B. Loeb, Assistant Professor of Social Welfare, University of California, Berkeley.



Parker Jameson, East Bay Representative, California Metal Trades Association.

Psychological Factors in Industrial Relations

An introduction to some psychological problems in industrial relations. The discussion analyzed such problems as the nature of the worker and the factors influencing his behavior, the selection and testing of workers, the effective utilization of labor, the problem of maintaining willingness to help, and psychological aspects of leadership.

Mason Haire, Research Associate, Institute of Industrial Relations, University of California, Berkeley.



What Supervision Must Know About Organized Labor

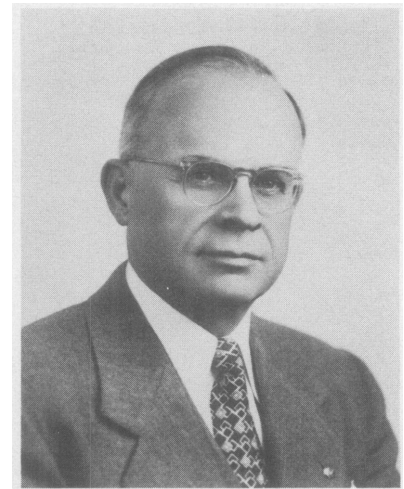
An analysis of why workers join unions; the nature of the labor union, its organizational characteristics; its internal government, the motivations of unions and union leadership; the methods used by unions; the impact of unionism on employer-employee relations.

Herbert Northrup, Labor Economist, National Industrial Conference Board.





Milton Chernin, Dean, School of Social Welfare, University of California, Berkeley.



John R. Dille, Regional Director, Wage and Hour Division, U. S. Department of Labor, San Francisco.

Social Security Demands of Labor Unions

A survey of the existing social security system and private health and welfare plans. An analysis of their coverage, their deficiencies and methods of financing. A description of some of the more prominent plans, including the United Mine Workers and the Bituminous and Anthracite Coal Industries, the Men's and Boys' Clothing Manufacturers and the Amalgamated Clothing Workers of America (CIO), the Health Centers operated by the International Ladies' Garment Workers' Union in New York, etc. A discussion of current trends in collective bargaining in this field.

From the San Francisco Chronicle

By Donald K. White

ASILOMAR, Sept. 13 — The Management Institute being held here rounded out the fourth day of its week-long meeting tonight with a demonstration and motion picture, "Previews of Progress," presented by General Motors.

The line executives and educators, at the meeting sponsored by the Institute of Industrial Relations and the College of Business Administration, University of California, Berkeley and Los Angeles combined, continued their intensive section meetings today.

They are designed to review and bring up to date the

The Federal Wage and Hour Laws

An analysis of the existing Federal Wage and Hour Laws. The discussion included the legislative and judicial history preceding the enactment of the existing federal statutes. The discussion covered the following Federal Wage and Hour laws: The Eight Hour Law, the Prevailing Wage Law (Davis Bacon Act), the Portal Act, the Public Contracts Act (Walsh-Healy Law), and the Fair Labor Standards Act.

developments in the relatively new field of industrial relations.

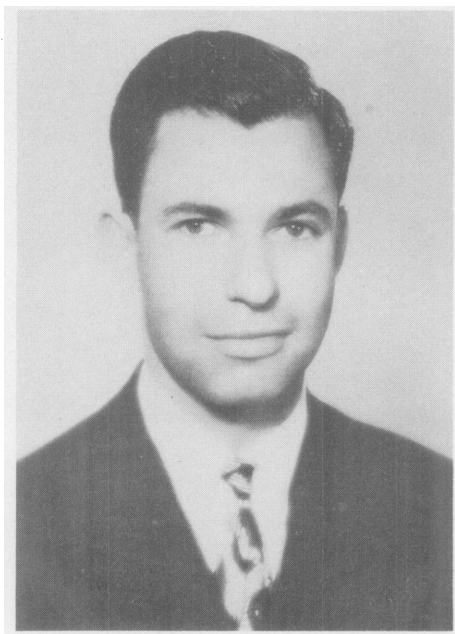
To that end, regular classroom sessions are held three times a day by members of the university's staff.

Under five general classifications — from The American Economy to Psychological Factors in Industrial Relations — the businessmen are given a broad view of their own activities. In a more particular way, they are given practical help with problems affecting certain industries.

In a morning session, Abbott Kaplan, head of labor-management relations, Institute of Industrial Relations, UCLA, discussed the great American dream — the Horatio Alger legend.

Kaplan indicated there is still the possibility of the self-made man, the rags-to-riches routine, but cited figures to show the probability factor has diminished.

Discussion Groups



Benjamin Aaron, Research Associate, Institute of Industrial Relations, University of California, Los Angeles.

Negotiating the Collective Bargaining Agreement

A review of the fundamental forces that operate in the negotiation of the labor agreement; the basic attitudes and goals of employers and unions, group relationships influencing the bargaining process, preparing for collective bargaining negotiations, the conduct of negotiations, the nature of the collective bargaining agreement.

Labor Management Relations and the Public Interest

A discussion of the development of the concept of the public stake in collective bargaining. A historical survey of Government regulation of labor-management relations, including the National Labor Relations Act, the National Defense Mediation Board, the National War Labor Board and the Labor-Management Relations Act of 1947. An analysis of the road which lies ahead; increasing government regulation vs. assumption of responsibilities by labor and management.

From the San Francisco News

By John S. Piper

PACIFIC GROVE, Sept. 12—The first management conference of the Institute of Industrial Relations, University of California, held at the Asilomar resort here, swung into its third day of sessions today. More than 100 business executives—two-thirds of them production men—and a score of educators from the Berkeley and Los Angeles campuses are attending. The conference will continue through Friday.

Speakers of national prominence are giving the industrialists constructive ideas about labor management relations to take back to their plants. So far, the theme of the conference might be stated as: "In the highly complex economic world in which we live today, labor and management can work together."

A 1946 law of the California Legislature established the Institute of Industrial Relations. Governor Warren and Robert Gordon Sproul, president of UC, sponsored the bill. The idea was that university-trained experts may have something important to contribute toward the achievement of labor peace. This hope has been justified. One of the chief accomplishments of the institute has been service to the public interest.

The staff of the institute embraces about a score of top-notch authorities and research men on each of the two campuses. Although the institute itself does not offer teaching courses, members of the staff teach in departments of the university that are concerned with the field of industrial relations.

One important public service furnished by institute men has been in the realm of arbitration. Clark Kerr, director of the Berkeley institute, has served as arbitrator in waterfront disputes. Ronald Haughton, assistant director, has arbitrated several California labor disputes.

President Sproul is chairman of an advisory committee which has brought together representatives of management, labor and the public.

At the opening session last Saturday afternoon, Edgar L. Warren, director of the institute at UCLA, outlined the organization's purposes and aims. He was formerly director of the U.S. Conciliation and Mediation Service.

Mr. Warren, explained that the research work of the institute is extremely important. For example, one study now in progress is endeavoring to develop tests to measure people's prejudices about labor problems.

He stressed that the institute strives toward an objective point of view. It seeks to foster policies that will be to the general interest of the public.



Educational Paratrooper

Excerpts from the Keynote Address of the Summer Management Conference—1949, given by Robert E. Gross, President, Lockheed Aircraft Corporation

British money talks now going on are very significant. A great nation and a great people begging hat in hand — and why? Partly because of exhaustion from two wars, but only *partly*. Much of their troubles could be helped and would not have had to occur at all if:

1. They had been more energetic in their policy of industrial relations and had kept their workers informed regarding the basic elements of business and industrial enterprise.
2. If they had recognized need to modernize plants.
3. If they had been more on the job and, in short, had practiced better *industrial management. Management is everything.*

We should not fully blame Britain's Labor Party for the ills of Britain's plight. It was the lack of topside planning in the management side that allowed these evils to catch root, and, when management becomes indifferent and fails to tell its story, it alone is responsible and cannot shift the blame.

I only mention Britain's plight because it is so timely and because it should be both a warning and a challenge to us here today. What has happened in Britain is an example of what can happen here.

Traditionally, England was like us. It built a great empire. With energy, initiative and competition as their principal resources, they were able to

Gross

develop a great industrial capacity and produce surpluses that enabled them to compete in world markets.

Today we witness an America with tremendous new responsibilities both at home and abroad. The war that we neither asked for nor wanted any part of has brought us to the threshold of new world responsibilities years quicker than we expected and perhaps years before we are ready for it.

However, we would have fallen heir to world leadership *anyway*, because, *war or no war*, our production methods and our industrial planning and relations had been growing and we were catching both the English and the Germans in production when World War I and World War II came along.

So I wonder today when we are at the top of our game whether we are thinking ahead far enough and whether our managements are ready to take on this big world load and whether we are using all the tools and services we have at hand — if we just look around and take the trouble to use them. I guess all these world conditions are relative, but certainly today the stakes are bigger, the arithmetic of the world is many times greater than it was then. And for an American, faced with today's condition, it looks like this:
1949 finds U.S.A. with:

The greatest debt in its history — over 350 billion dollars.

The greatest production potential in history.

The greatest home market ever developed anywhere.

The highest standard of living in the world.

More nations throwing themselves on our dependency every year.

More millions asking for billions every year.

The greatest drain on our natural resources.

Before I say anything else, I want to mention that while you may hear me use the two broad group terms "management" and "labor" frequently, and while some of the things I say may sound as though I am critical of labor as a class, I can assure you this is not so. I have not come to make an anti-labor speech. Far from it. I have not come to be critical of labor. Actually, if I am critical of anyone, it is of management. If anything, I am envious of the effectiveness and energy of the labor group.

Labor has made the gains these last 30 years. The rich have disappeared, and the very possession of individual wealth is considered anti-social, if not immoral. New wealth is not being created in gobs. Taxes are up. You can't lay by anything anymore. Labor has moved in and stolen the show. Well, so what! It's not labor's fault if you don't like it. Management can't cry over what it won't take an interest in.

I believe that the average manager of a business thinks of a labor union as a militant and hostile force

dedicated to the objective of forcing out of business the very last cent it possesses, whether it can afford it or not, and prepared to see the business destroyed if necessary to gain its ends.

In the first place I, personally, don't hold with these views. If I am right that thousands of business managers in America, however, do feel that way, then I feel there is a big job to be done in educating our own management group first off. I feel sure that there are also thousands of business people who know that the above concept of a labor union is distorted.

In the second place, I don't really believe that the modern labor union leader today feels that he can or should advocate getting the last penny — the old ones, maybe, but not the more modern ones.

Next, I believe that even if we were to grant as true all of the extreme things I said about labor (which I personally don't believe) — even then, I say it is not too late to do something about it and that management can so conduct itself as to make a constructive, helpful force out of the labor movement. I think that instead of allowing the management-labor relationship to slip by default into the area of open class warfare, to be slugged out the hard way, by strikes, by boycotts, by injunctions and all the current weapons of industrial warfare, there just has to be a way to improve the industrial climate.

Whether you like it or not, it certainly is too late to try to do away with labor unions — and I can't honestly think we should. I do say that if management uses a tool that is here and that it has, it can make a wonderfully constructive force out of the union, and instead of spending 50% of their time fighting about working conditions they can together solve some of the problems of U. S. business that really need a good solving and that unions can really do some good at.

And management *can* sell and enlighten labor. Management can make a free enterpriser out of every hourly worker in America. How? Not by legislation anymore. Not by fighting the unions anymore. But by the strongest force in the world — Education.

Which brings me to the real point of this meeting. I believe we must carry the use of education and training of our people to a far greater degree than we have ever done it before and to a very much larger number of people. The labor unions over the past few years have made tremendous inroads in our social structure by haranguing the working class and by working them up to a tremendous pitch through class distinctions, class struggles, and by making the worker class-conscious.

We must use the tool of education in our shops far beyond any degree to which we have previously used it. We have done a tremendous amount of work in the last few years in talking with supervision and trying to convince supervision that it is management and that it is a part of the management team.

Educational Paratrooper

All this is good. We must go a lot farther, however, and take it out to the man on the bench and convince him that he, too, has a stake in management.

We in management have spent too much time talking to ourselves. We have got to tell our story to the workers. Meetings like this are a waste of time unless the ideas exchanged are passed on. You have got to take your product to market if you want to sell it, and the market for free enterprise is the worker. I, for one, intend to do this.

Elections are won in precincts by ringing doorbells and talking with the people, not on the radio or billboards or in public places. Just so, the free enterprise battle must be won in the precincts of business and industry. National movements, trade associations, Chamber of Commerce and the like all have their place and make their contributions, but the real battleground is in the millions of individual workers' businesses of this country — from the corner grocery store to the biggest industrial organization.

Just because a company is big does not mean we cannot tell the story to our people. It is harder, but it can be done, and we must find the most expedient way of doing it. If the management of every business in this country — large and small — would recognize and assume this responsibility, I believe that the results of such a policy vigorously pursued would be electrifying. I believe that management will be astounded at the interest which the labor force takes in the business and in the ability which the labor force will have to improve its output.

If such a course were to be followed, it is not too much to expect that the top executives of a given company would actually be willing to go down into the various shops and departments of the organization and devote a few minutes each day to talking in an informal and personal way with small groups of the employees at a time — say, 25 or 30.

At such talks the sales manager, for example, could make a very interesting picture of the customer's reaction to the product, what the customer liked about it and also what he didn't like about it, how the competition lined up, and little personal anecdotes about problems that he had in selling.

Just the mere fact that we talk with these people on a day-to-day human basis can have a tremendous effect. And I wouldn't be beyond talking about the most sophisticated kinds of subjects either.

Labor has banded together and generally taken the union route, because it has been told in no uncertain terms by union agitators that it has no other way to go and that it has no other route to take; that it can't get any other information or any other betterment than by being against the boss and by fighting with the boss.

I have come to the feeling — and I stress this again and again — that it is wrong to oppose the labor movement on a class struggle basis and to battle it using the same tactics that the union chairman uses. Management, I believe, can jump over this barbed wire fence of cleavage that is brought into the corporation between management and labor, land in the middle of the hourly workers and completely disarm the old line labor union arguments by the simple device of personal contact and education along factual and absolutely factual lines.

The thing is that some of the labor groups are using this idea and, as I shall later show in my talk, are using the very tools against us that I am advocating that we use for us. However, I think there is still time but we must be quick. And we better be quick about it, too, for right here at home and all through the world the challenge is being thrown at us.

Well, how are we going to do all these things? There is certainly no one panacea and no one man can make a plan that will fill every emergency. However, one of the things that we can use and that we have not used considerably is the educational tool, and not along the lines of stirring up class warfare, but rather by the dissemination of many more facts to many more people much more often and particularly, at lower levels than ever before contemplated.

As part and parcel of this whole plan we stand here this afternoon in surroundings that are ideally suited for taking advantage of such an approach. We are under the auspices of a great institute of learning, one of several in this country that today are offering facilities in the field of industrial management and industrial relations.

I don't feel that as a class the managements of our companies have utilized these university facilities to anything like the degree which they could have been utilized, and I do not feel that they are today appreciated to their just degree.

It might interest you to know that some time ago our company ran a little survey of what the various universities and schools throughout the United States had to offer in the field of industrial relations curricula and how they were being used.

Incidentally, our survey was nationwide and covered not only state institutions but private institutions as well. I think the point that I wish to stress most highly is the impression we formed on the question of the relative participation of labor and management in the facilities and in the programs arranged by these universities.

If the figures that we compiled were anywhere near truly representative of the facts, it is a dire and dark prediction of the way management is headed on the road toward solving its family problems. For example:

Gross	Data	Labor	Management
1. The objectives of these programs favor labor's needs over those of management at the following ratio		55	21
2. The number of programs to whose support labor and management make direct financial contributions		7	5
3. The number of programs in the administration of which management and labor participate		7	4
4. The number of programs providing classroom training for management and labor groups		27	24
5. The number of programs which draw their teacher personnel directly from management and labor.....		13	9

There are a lot of other figures that we compiled, but after we got all through we came to the conclusion that management, for one reason or another, was on the short end. Although the adding up of our rating figures into totals has certain basic weaknesses, it did give us at least some indication as to the extent to which labor has participated in contrast to the extent to which management participates in these programs. The ratio of labor's participation to that of management is 120 to 77.

Education must be free — free in the sense that it has no deep-seated personal prejudices or rancors. It must be free in the sense that it must teach the real facts, if the subject be dealing with facts. But it is dealing in the field of theory or philosophy, then freely it must teach the theory of the staff that comprise it. This battle of freedom of education — like the battle for freedom of the press — is one of the stones of our building. The only place where the men who teach us in these universities and teach our young men who will one day comprise management can develop their ideas of the labor-management relationship is from the background they already have, from their own researchings, but certainly, in no small part, from their personal contact with us.

What the ratio of participation I just quoted you means is that present day management, which has much at stake in the continuing development of free business, is interested in the educational process only to the tune of about 50% of its partner in the business, the labor group. Why is this? Can it be because management does not think the university has anything to offer? I don't think so! Can it be because management does not think well of the facilities or the staff? Or the subjects taught, or for personal reasons? I don't think so! I think it is because, generally, management is thinking that the salvation of its problems is more in the drafting room, or the laboratory, or the machine shop, or the toolroom instead of in working on its personnel; — that quicker profits can be gained by a direct move in the shop than by the longer, slower process of working on the work force. I wonder about this! I

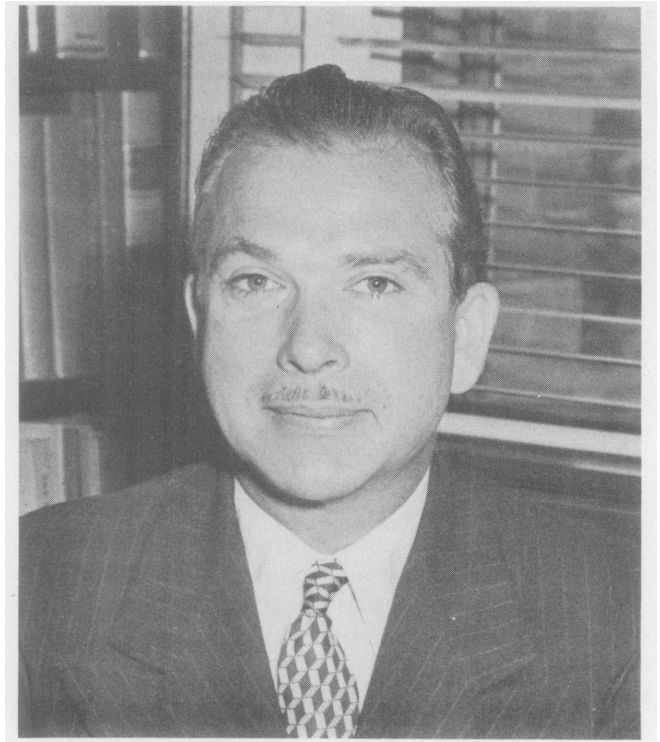
think the greatest single profit potential is in the increased productivity of the people. Management, in short, just hasn't waked up to the fact that educating its people is the real profit pool. And here in the universities and schools is one of the ways to learn how to educate them. If management doesn't take the time to use these educational facilities, there are obviously others who will and who are. If the universities themselves, through years of contact with one group more than another, take on the philosophy of one group — and it's natural they should — then education is no longer free nor will our country or our business be.

I believe that this general approach — the education and training approach — can have wonderful results in our country. If enough educational material and effort is applied directly to the people, the improvement in understanding of the problem is bound to help every segment of our business. The labor movement has not attempted this — nor has management. Instead we have allowed the battle to become a class struggle — with the real issue, survival of the business which nurtures us both, lost in the scuffle. Let us throw away the class weapons and use the new tool — a common tool available to all, thirsted for by all — the educational tool. Let the clamour for facts come forth, let facts and facts alone, widely and deeply disseminated, be our bulwark. In this approach all will survive, all will win against the other forces which, by distortion, withholding, deceit, and misrepresentation would see us destroyed.

If the American workman knows the facts, he will decide a course; and his decision in the future, like his decisions in the past when he has understood, will be right.

If we are willing to work hard enough at educating our people and training our people ourselves, we can do a lot more than legislation can ever do. This social problem of the management-labor relationship is really our own family problem. Why can't we settle it among ourselves by talking facts with one another, instead of letting it get beyond our own control and having somebody less qualified and much less interested settle it for us. I claim that to legislate is to admit we couldn't settle our problems ourselves. And I further claim that management and labor can make a better deal for one another with one another than any outsider can make for them. What better meeting ground is there than the factual approach? What better place to gather factual material is there than the modern university already set up to develop information, experience and judgment?

Education is part of the fabric of this country. In the early years of our nation's existence we began building colleges and other educational facilities. As a people we have always believed that without knowledge there can be no assurance of freedom and we have followed the precept, "Seek the truth, and the truth will make you free." In view of this tradition, it is proper that the University of California — dedicated to stimulating and training men's minds in order that they may better discern the truth — should sponsor this conference.



Keystones of a Prosperous Economy

Summary of an address by Neil H. Jacoby, Dean, School of Business Administration, University of California, Los Angeles

I. The Historic Behavior of the American Economy

1. By far the most striking and significant fact of American Economic history is the fact of *rapid growth*. We can measure this growth in the forty years preceding the Second World War by reference to a few figures. Population grew from 76 millions in 1900 to 133 millions in 1940 — a rise of 73 percent. The labor force, the number of persons desiring jobs — rose from 29 millions to around 55 millions — an increase of 90 percent. Between 1900 and 1940 manufacturing production very nearly quadrupled, as a result of a two-fold increase in number of workers accompanied by nearly a two-fold increase in the *output per worker*. Judged on the basis of efficiency, the record of the American economy is even better. Between 1900 and 1937, average hours worked per week dropped from 60 to 40 in manufacturing industry. The average worker not only drew out twice the real wages in goods and services in 1940 than he did in 1900, but he put in about one-third less time at work. This record speaks for itself. No other economy can match it.

2. A second major historical trend has been the relative growth of fixed capital (plant and machinery) in

production. Such investment was about three times as large *per worker* in 1940 as in 1900. This is the basic explanation of the growth of “big business” as well as of the spectacular increase in output per man-hour.

3. A third salient development has been the increased use of durable goods by consumers. In 1900, 11% of all production was durable consumer goods, while in 1940, this percentage had risen to 20%.

4. A fourth tendency — closely related to preceding factors — has been increasing *instability* in the volume of production and employment. Business fluctuations have increased because a growing fraction of business and consumer spending is postponable, and represented by durable goods, like houses, automobiles, factories and machinery. Growing instability explains the increasing emphasis upon “security” since 1930, and underlies the Social Security Act, State Unemployment Compensation systems, R. F. C., and the Agricultural Price Support program.

5. A final basic tendency is the expanding role of government. In 1900 only 5% of the national income was represented by tax payments of all kinds; today, the figure is closer to 26%.

Jacoby

II. Will the Fundamental Conditions of Progress Continue to Exist?

Radical changes in the political, social, and economic structure of American society are neither inevitable or desirable. If the American people understand the operation of a free economy, and act intelligently to solve its major problems, the future record of progress can be fully as impressive as the past. The fundamental conditions of our material progress have been: first, an intelligent and energetic population; second, a continental area endowed with a variety of natural resources; and third, a set of political and economic institutions that provided the individual with a large measure of freedom, opportunity, and incentive to seek his fortune as he saw fit. Population may not rise as rapidly in the future, but this need not depress the rise in production *per capita*. Scientific and technological progress can be at least as great during the next fifty years as during the past half century, when we consider the exciting possibilities of plastic materials, hydrogen chemistry, electronic tubes, and atomic energy. The real limits upon future progress appear to lie in the realm of business management and economic policy.

III. The Role of Management in the Future

Growth of population and changes in technology increasingly require men to work in large groups. In our free economy, most workers are associated with business enterprises, operated by professional managers. Economic progress depends heavily upon the competence of these managers, their leadership qualities, and their ability to discern and to adjust to external changes.

Management does *not* have a single-minded devotion to making the most money in the least time. Profit must be a primary concern of management, if for no other reason than earning a profit is a necessary condition of holding a job. But managers today accept a responsibility for the development of sound organizations, of human personalities, and of innovation. The enlightened manager recognizes diverse responsibilities to workers, stockholders and consumers. These responsibilities are not purely economic. The worker wants not merely high wages, but a sense of belonging to an organization, the approval of his fellows, and an opportunity to develop his highest potentialities. The stockholder wants not only large dividends, but a business with good public relations, active research and development, and provision for future growth. The consumer wants not merely low prices, but also dependable quality, guarantees of serviceability, courtesy, service, and new products. The task of giving appropriate recognition to all of these divergent interests, while adjusting a business to technological changes and shifting consumer demands, requires consummate skill. Managers will require in the future greater intelligence and training than ever before, to perform their complex role.

IV. Basic Economic Problems of the Future

Future economic progress will also require the adoption of public policies that create a favorable environment for business enterprise. Six problem-areas of economic policy require our most searching thought:

1. *How to maintain a reasonably stable price level.* The great postwar price inflation taught us to recognize the injustices done to different groups, the inefficiencies created in business operation, and the dislocations of international trade, that result from important shifts in the purchasing power of money. A free-market economy cannot operate satisfactorily unless the value of money remains stable over long periods of time.

2. *How to prevent extreme business fluctuations.* Neither can a competitive, free-market economy endure extreme fluctuations in overall production and employment. Absolute stability would mean a static economy; but it should be possible to prevent swings in business activity from assuming intolerably large dimensions.

3. *How to maintain a high rate of private investment.* A community that is investing enough money in an expanding stock of durable goods, and is saving the required funds out of its current income, is maintaining high employment *without* price inflation. Public policy should give as much regard for private investment as for methods of public spending. Federal tax policy is a crucial factor in private investment outlays.

4. *How to expand international trade and investment.* The advancement of our own economic welfare, as well as the establishment of durable peace, depends upon the development of a large flow of international trade and investment, *on a business basis*. The United States carries primary responsibility for the solution of this problem, because it has inherited the position held by Great Britain in the 19th Century as world investor, and defender of private enterprise, open markets, and stable currency.

5. *How to maintain workable competition in our economy.* The American economy relies mainly upon competition for the efficient allocation and use of resources, and for economic progress. In a world of changing technology, shifting demand, overhead costs, imperfect knowledge, and uncertainty, we need "workable competition" rather than the economist's theoretical model of "perfect" competition.

6. *How to create public understanding of the role of profits.* The American economy is one of risk, uncertainty, profits, and losses. The hope of profit is the key motivation of men who risk capital in new ventures or in business expansion. The realization of profit provides confirmation of the social desirability of investment, and reward for unusual managerial efficiency. The functions of profits are to direct resources into the channels where they will satisfy the most urgent wants, and to assure efficient management of production. The public must be educated in the values of protecting the right to acquire and use property, and to derive an income from it.



Productivity and Wages

Summary of an Address by Clark Kerr, Director, Institute of Industrial Relations, University of California, Northern Division

Productivity and wage rates, thought by many economists to be a highly desirable match, do not appear to possess characteristics of compatability. Disconcertingly, in the short-run, they display a clear tendency to move either in opposite directions or, if in the same direction, at quite different rates. This discussion is not concerned with whether this norm is a desirable one or not, but rather with a realistic appraisal of the likelihood of its being followed.

Physical productivity and money wages in the manufacturing segment of the economy have not conformed to the suggested norm in the recent postwar period, despite the expectations of various economists. It was confidently expected in some quarters that productivity would rise substantially after the war was over. But productivity in manufacturing industries declined in both 1946 and 1947 and recovered in 1948, but not to the levels of 1945. Average hourly earnings rose substantially, as did, consequently, unit labor costs. Man-hour output in 1948 was about five per cent less than in 1945, and average hourly earnings about thirty per cent higher. Compared with 1939, output per man-hour in 1948 was up less than five per cent while average hourly earnings had doubled.

Nor does the record appear more fortunate if the period 1919 to 1948 is examined. Table I shows that productivity and average hourly earnings moved in opposite directions during nine years, and in the same direction but at substantially different rates during twelve years. During only seven of the twenty-nine years, or about one-fourth of the time, did they move approximately together, if "approximately together" is leniently defined.

The proximate determinants of changes in man-hour output and average hourly earnings are quite different. Some of the short-run proximate determinants of changes in man-hour output may be classified into six general categories: (1) the skill and effort of the workers; (2) the general level of experience of the supervisory personnel; (3) the volume and quality of research and the effectiveness of plant, equipment, and methods; (4) the regularity of flow and the quality of raw materials; (5) the variety, quality and variability of products; and (6) the degree of utilization of capacity.

The more evident factors altering the general level of average hourly earnings can be divided into five groups: (1) the changing amount of payment of spe-

Kerr

cial premiums and other "fringes"; (2) the changing "job-mix"; (3) changes in wage differentials; (4) the tightness or looseness of the administration of the wage structure over time; and (5) general movements in the national wage schedule. The last is particularly significant.

The business cycle affects these determinants in such a manner that man-hour output and average hourly earnings cannot be expected to move closely together in the short-run. Under conditions of full employment, as in World War II, wages will tend to rise more rapidly than productivity. The early downturn dampens further rises in average hourly earnings, as in 1920-21 and 1930; but man-hour output may take a spurt. In the depths of a depression, as in 1932, average hourly earnings are under considerable downward pressure; and man-hour output may also sink, particularly because of low levels of operation even for efficient firms.

Aside from the differential effects of the business cycle, there is a second good reason why man-hour output and money wages may have divergent tendencies in the short-run. This has to do with the operation of the wage setting process. Wages and productivity, in the short-run, may be linked together primarily in three ways: (1) directly, (2) indirectly through profits, and

(3) indirectly through prices. While the direct linkage of productivity and wages and the linkage through profits tend to pull wages after productivity, the linkage through prices tends to push them apart and normally over-shadows the other two in its short-run effects. Reference to past experience indicates that money wages are, in fact, more sensitive to the tug of prices than of physical productivity, directly or through the profit-linkage; and, when the pulls are in contrary directions, prices will usually exercise the more attractive power. For example, during World War II prices were up and wages high despite productivity being down; in the early phase of the depression, however, prices were down and so were wages despite productivity being up.

Proposals to tie wage rates to changes in productivity industry by industry ignore certain realities of collective bargaining and important functions of the wage setting process. In the long run, wages tend to rise somewhat more in those industries with rapidly increasing productivity than in those where productivity is constant, falling, or rising at a slow rate. It has been suggested, consequently, that wage changes should be geared more closely to productivity changes industry by industry. Desirable as reference to this yardstick might be for a number of reasons, it would introduce unqualified chaos into the wage structure. For example, from 1939 to 1947, output per man-hour rose one hundred per cent in the rayon industry and fell ten per cent in anthracite coal. Any close reflection in wage setting of this divergent change would have impossibly distorted the wage structure.

Others have suggested that wages should be tied to changes in productivity over the whole economy. Given our present system of voluntary wage determination, it is difficult to envisage how this principle would be applied to individual wage decisions.

An alternative to these proposals is the encouragement of conditions under which productivity and wage rates will most nearly choose to advance together. If we must have full employment to get maximum production, then it may be better to have it permanently than intermittently from the point of view of matching man-hour output and average hourly earnings. If full employment were to be accompanied by stable prices, achieved largely through devices other than wage policy, the likelihood of approximating the norm would be greatly increased. A really close coupling, however, would require more centralized policy determination by government or by industry and organized labor than now exists. In the absence of continued full employment, price stability and coordinated control, the principle that wages and productivity should proceed together lacks certain ingredients for successful application.

TABLE 1. YEAR TO YEAR PERCENTAGE CHANGES IN MAN-HOUR OUTPUT AND IN AVERAGE HOURLY EARNINGS FOR MANUFACTURING INDUSTRIES IN THE UNITED STATES, 1920-48 *

Year	Man-Hour Output	Average Hourly Earnings	Year	Man-Hour Output	Average Hourly Earnings
1920	6.0	8.6	1935	5.7	3.4
1921	15.0	-2.3	1936	0.2	1.1
1922	9.6	-6.7	1937	-1.1	12.2
1923	-1.7	10.6	1938	1.8	0.5
1924	6.6	4.8	1939	9.2	1.0
1925	6.6	0.0	1940	2.2	4.4
1926	2.8	0.2	1941	2.2	10.3
1927	2.3	0.4	1942	2.4	17.0
1928	5.3	2.2	1943	1.1	12.7
1929	4.0	0.7	1944	0.6	6.0
1930	2.4	-2.5	1945	0.6	0.4
1931	4.4	-6.7	1946	-5.8	6.0
1932	-6.8	-13.4	1947	-4.0	12.6
1933	5.3	-0.9	1948	4.7	7.4
1934	4.9	20.4			

* Mr. William Goldner assisted in the preparation of this table and other statistical material.

Man-hour output is calculated from Table F-1, *Handbook of Labor Statistics* (1947 edition, Bureau of Labor Statistics, United States Department of Labor), for period ending with 1939. Methods comparable to those used in the preparation of Table F-1 have been employed here in developing the data for the period 1940-48.

Average hourly earnings are calculated from reports of the Bureau of Labor Statistics, United States Department of Labor. See particularly Table C-1, *Handbook of Labor Statistics* (1947 edition).



The Economic Outlook in Western Continental Europe

*Summary of an Address by Eric Hallbeck, Assistant Vice-President,
Bank of America, San Francisco, California*

There is no need to emphasize to Californians the importance of our trade with Europe, but few Europeans are aware of the recent rapid growth in the economy of the West Coast. To most Europeans, California is still the place where Western movies have their natural setting.

Seeing Europe in the summer of 1949 for the first time after a lapse of three years, I was astounded by the progress in reconstruction, not only in northern Europe, but particularly in France, Italy, and Germany. The excellent strides are in no small part due to the Marshall Plan aid. The food, the raw materials and machinery we gave to the people of Europe supported the physical well-being, but the encouragement which our assistance gave them was perhaps as great a factor as the material aid. The line against Communism was held; the very real danger of seeing the spirit of Western Europe extinguished was averted.

FRANCE has staged an amazing comeback in the last eighteen months. The franc is a fairly stable and trusted currency at the new level, so that the black market in money and goods has practically disappeared.

ITALY, by far-sighted monetary and financial measures instituted in 1947, brought about a sharp "disinflation" which broke the back of the black market. Industrial and commercial activity is high, but the healthy state of Italy's finances (the gold stock of Italy is almost back to pre-war figures) is not yet reflected in the standard of living of the Italian people. Given stable conditions, the Italian people will soon enjoy the fruits of that reform, in spite of the ever-present problem of unemployment caused by a rapidly growing population.

SWITZERLAND, a country of a little over 4,000,000 people, is a fine example of what industry and good government can do for a country with few natural resources.

Hallbeck

GERMANY remains the problem child of Europe. The physical destruction in the towns is indescribable, and no words of mine can convey the morbid desolation of a rubble city. The housing situation causes grave social problems. In Frankfurt, for instance, each habitable room is home to eight people. Western Germany's political problems, internal and external, persist in troubling her people and her neighbors. The rebuilding of cartel empires is, and I think rightly so, opposed by the Allied Governments, but it is difficult for diligent Germans to accept, from their conquerors, economic concepts which run counter to tradition.

BELGIUM continues to prosper although competition from other European suppliers has ended the boom conditions which prevailed right after the war.

HOLLAND has serious balance of payment problems. It is to be hoped that the restoration of peaceful relations with Indonesia will soon enable Dutch investors to enjoy again the benefits earned by organizational and industrial skill. The gradual reestablishment of her traditional trade with Germany will greatly aid Holland in balancing her trade accounts.

NORWAY, used to earning her foreign exchange by shipping, exports of fish and forestry products, has vigorously pursued a policy of capital investment; she has been able to rebuild her merchant fleet to its pre-war tonnage of 4,500,000 tons.

DENMARK, like Holland, is suffering from the impediments put in the way of German trade relations, so that her commercial relations are dependent to too great an extent on the United Kingdom.

SWEDEN came out of the war with her resources intact, but pent-up demand for consumers' goods came close to exhausting the country's gold and foreign exchange reserves in 1947. Import regulations were imposed at the eleventh hour; the situation is improving. The standard of living in Sweden remains high.

If all goes well, the relations of Pacific Coast states with the 250,000,000 people living in Western Europe will prove to be of great mutual benefit; the area is peopled with elder cousins who are only in this generation learning of Uncle Sam's boys. Let's help them get acquainted.

From the San Francisco Chronicle

By Donald K. White

ASILOMAR, Sept. 12 — Most Californians traveling in Europe meet people who have heard that we have Indians and motion picture stars and that it is a nice place to go when you are ready to die.

When it comes to knowing something about the State's economy, Europeans in general are completely in the dark.

Eric Hallbeck, assistant vice president, International Banking Department of the Bank of America, made that point a jumping off place tonight in an address before the Summer Management Institute here.

The meeting is sponsored by the Institute of Industrial Relations and the College of Business Administration, University of California, Berkeley and Los Angeles.

Hallbeck's remarks on the lack of knowledge in European countries concerning the Pacific Coast prefaced his talk on the economic outlook for Western Europe.

To pull aside this curtain of darkness, the bank official urged a campaign of enlightenment to sell the Pacific Coast.

"We must tell our overseas friends how the position of our state and of our neighboring coastal states . . . is becoming increasingly important in our national economy and that this trend will continue," Hallbeck declared. "We must point out to them that as our economy continues to expand, so also will our participation in world trade expand."

Recently returned from a tour of Europe, Hallbeck gave his audience a roundup of impressions he received on the trip.

The most improved economically, of the European countries, he found was Italy. The political situation is definitely improved and industrial strikes and slow downs are rapidly diminishing.

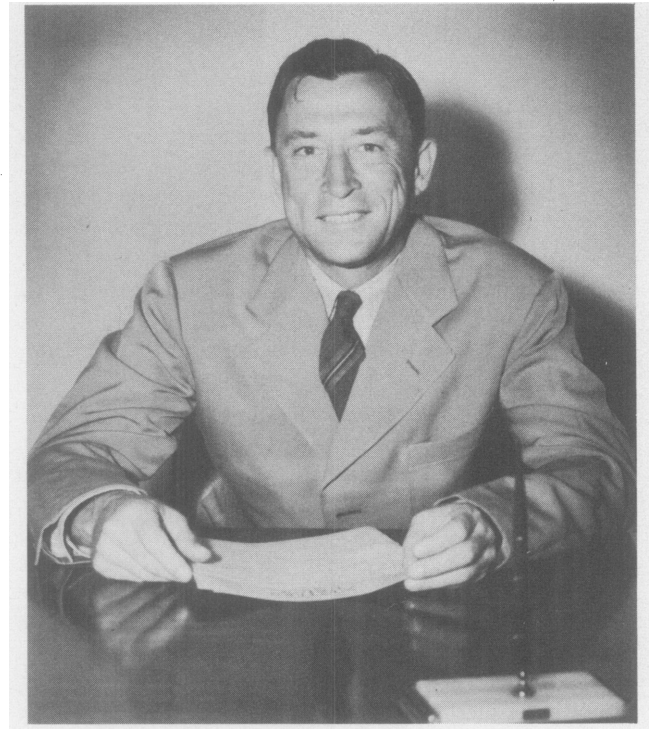
With respect to credit and banking, he said first-class Italian corporations no longer appear to have any serious problem in obtaining credit, which was difficult, even in small amounts, a year or so ago.

Hallbeck paid tribute to the Marshall Plan for accomplishing one of its objectives, that of stopping the immediate spread of Communism.

Another important objective of the plan, he said, is that of accomplishing free convertibility of currencies.

"Unless this objective has been accomplished at least by 1952," the banker predicted, "the Marshall Plan has not achieved its purpose."

As for devaluing the currencies of any of the Marshall Plan countries, he said his personal feeling was that it would be a mistake.



New Problems Confronting Management

Summary of an Address by Paul L. Davies, President, Food Machinery Corporation

American management, the strongest and most effective defender of free enterprise, in one sense occupies a conservative position. Yet it is one of the most adaptable, liveliest and most liberal of all the professions in the land.

The basic problems of business, the maintenance of financial stability, the development of sales, dealing with personnel, and earning a profit are the same today as they always have been. However, management is finding it increasingly difficult to meet these problems because of the ever increasing role of government in business. This influence is particularly harmful as it relates to matters of obtaining equity capital; handling labor problems; and planning research and sales programs.

Excessive government spending with its concomitant, deficit financing, is drying up our capital markets. High tax rates leave wealthy individuals with virtually no incentive to risk capital in new enterprises, while those in medium income brackets are not interested and have the added disincentive of being constantly barraged with anti-business propaganda by government.

Labor problems are too often a political football. Politicians vie with each other to suggest solutions to

problems which only an informed management and a stable labor movement can ever resolve satisfactorily. Collective bargaining is here to stay but it must be on the basis of equality of strength. When government exerts its influence either way it is sponsoring class feeling. Management must first be sure its own house is in order. Then it must be more vocal in presenting its case to the public and to public representatives.

Government through defense and public works programs has become industry's largest customer. Add to this its directly competitive activities such as the TVA together with a consideration of tax laws which allow capitalization of research developments rather than to place real premiums on such vital activity and it can be seen we are approaching at least the pattern of a static socialized state with the attendant destruction of the free enterprise system. The more government control the less incentive there will be to expand sales or to develop new products.

My remarks so far are not an expression of despair. Most of the social benefits achieved in our time have been pioneered by business concerns and private funds. All of them have been supported from the wealth created by American enterprise.

Davies

Why is it then that business today is assumed to be on the defensive? I submit that we need no defense but must continue to drive ahead to further dynamic achievements. It is time to forget being "defensive." It is time to enlist the whole American people in taking a personal part and man-by-man pride in improving and perfecting their greatest asset.

In America the individual still counts. Certainly we have not run out of decisions to be made, ventures to be taken, freedom to be expanded, crises to be met, or self-government to be kept a living reality.

Men of management must go out into their own communities to help turn the world-wide drift toward collectivism. There is no water-tight bulkhead between the economic and political life of the American people. These are as different as fore and aft. But they are all part of the same boat — built and run by a free people. If one part leaks, the other floods too. It takes the whole American public to plug the leaks, man the pumps, and get things shipshape again.

There has been too much government in business. Each individual must do what he can to put business

integrity and basic principles back into government. One simple, human constructive step in this direction is to make sure that every member of local management understands that it is a part of his responsibility to play a well-rounded part in the life of his community — to support local activities, to represent American enterprise as human beings, to be an active local representative of the good and human and neighborly things for which business stands.

You know and I know that industry is just as human as the men and women who make it up. But no one will ever find this out from a smokestack on the outside of a building. Buildings, machinery — the inanimate part of industry — cannot take part in the civic life of the cities where you live and work. But the individual managers in America can. It can be their local and state leadership — not just talk but positive action — full participation in civic affairs — which will shape the decisions of this nation.

There is no greater job that American management faces today. And there are no leaders in our land with a greater record for shouldering their own responsibilities than the men who manage the American people's enterprise system.

From the San Francisco Chronicle

By Donald K. White

ASILOMAR, Sept. 14.—Problems confronting American business are not very different now from 20 years ago — but they don't look the same.

Paul L. Davies, president of the Food Machinery and Chemical Corporation, drew this conclusion here last night at the University of California-sponsored Management Institute.

Today's businessmen and industrialists are faced with the problems of increasing sales, obtaining equity capital, and making profits, just as they always have been, Davies said.

But what gives these hindrances a new look, the executive declared, is government interference.

He cited the heavy Federal tax program, needed to finance a \$44,000,000,000 budget, as the main reason for the drying up of the capital market. Wealthy people, he indicated, no longer put their money into stocks, but seek tax-free outlets for their dollars. People in the medium income bracket, who should be the major investors in the American economy, have never been educated to stock investments. And finally, Davies said, the recent popularity of investment trusts has siphoned off a great deal of venture capital.

Government regulation of banks has made it difficult for small and medium-sized companies to obtain long-term borrowings from that source, the speaker indicated and added, this leaves those firms with only one

choice, a loan from the Reconstruction Finance Corporation — the government again.

As a cure for these conditions, Davies suggested changes in the tax law to allow:

- 1 — Accelerated depreciation for plant expansions.
- 2 — Lowered capital gains taxes.
- 3 — The deduction of capital kept in reserve for research.

Davies was extremely critical of the government's interference in the steel dispute. He said the setting up of the fact-finding board was just another move on the part of the government to break down the collective bargaining system. The businessman called interference of this type part of the government's tendency to set up a class feeling at a time when industry and labor should be working hand in hand.

If the board's findings are accepted, he declared, the long-run costs of the pension plan will be far more than a pay raise now would be.

From these examples, Davies predicted that within the next ten years, or possibly sooner, the decision will be made as to whether we will drift into a socialized state.

To prevent this, he urged management to sell itself just as hard as it sells its products. If management will not make the effort, Davies said, no one else will.

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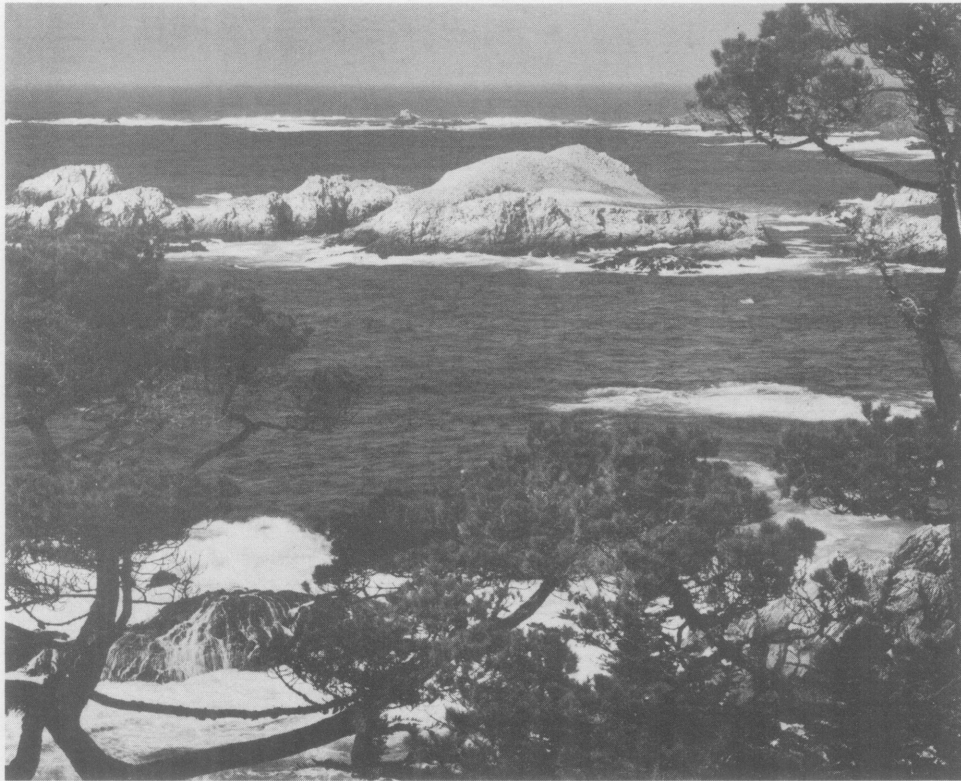
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