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INDUSTRIAL COLLEGE OF THE ARMED FORCES

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ADMIRAL HAGUE: You will recall that when I opened this particular section of the Manpower Unit, I pointed out that it had not been too many years since management discovered that its beautiful plants and wonderful equipment had to be operated by human beings. It was a peculiar time, because it hit management almost like a bombshell.

Here was a new conception, apparently, and, like all new conceptions, there immediately arose a plethora of prophets who took pen and typewriters in hand and started to tell management just how they should go about doing business. It was a very confusing time for those of us in management, because many, if not most, of these writings seemed to be full of sociological boondoggling.

It was during that period when I first began to know our speaker of this morning, Mr. Alexander R. Heron of the Crown Zellerbach Corporation and a member of the Board of Advisers of the College. His writings were like an oasis in the desert. Here was a clear-eyed and down-to-earth man writing from, obviously, practical experience; he gave us who were trying to learn something of the art something to grab hold of, something that we could go forward with confidently.

I became interested and began to look into the author's background a bit; I discovered that he was an official of the Crown Zellerbach Corporation in San Francisco and was an executive of the West Coast Pulp and Paper Manufacturers' Association. That latter fact was extremely significant, because that industry had enjoyed labor peace at that time for a period of some 15 years--today it stretches to 25 or 30 years--in spite of the fact that the industry was highly organized. Contract negotiations were carried out in public in a Portland hotel room called the Gold Fish Bowl.

There was one other peculiarity that I can't resist mentioning, and that is the fact that the union was an industrial union, a vertical union, chartered not by the CIO but by the AFL.

So I began to know something about Mr. Heron long before I met him. Actually I met him for the first time when he was a member of the Wage Stabilization Board in the past couple of years and I was chief of the Navy's Office of Industrial Relations and had to appear before its Board on various wage matters affecting the Army, the Navy, and the Air Force. That was difficult, too, because the military services have three complex wage systems and they are necessarily complex because they must reflect going wages in a locality but at the same time must maintain a national consistency between crafts, trades, and occupations.

Mr. Heron readily grasped our difficulties, the complexities of our problem and the complexities of our wage system, and this was a great help to us in those trying times in our negotiations before the Board.

When I became Commandant of the College, recognizing and feeling as I did that personnel manpower is the most precious asset that any country--and our country in particular--possesses, I felt very greatly the need on our Board of Advisers of a man who could give us sound advice in the manpower field--and naturally I thought of Mr. Heron. I invited him to become a member of the Board of Advisers and he very kindly consented.

Gentlemen, it is with a great deal of pleasure that I present to you this morning Mr. Alexander R. Heron, who will speak on "Organization and Personnel."

MR. HERON: Admiral Hague, General Greeley, gentlemen: To me the membership on the Board of Advisers of the Industrial College is a great honor. It is also an honor to have the opportunity of meeting with you, and particularly the honor of a return engagement, so to speak, the honor of being invited back after an interval of some two years. But beyond the level of an honor itself, the most outrageous piece of flattery is being invited to repeat a talk made two years previously--and it was not a safe invitation, either, because the Industrial College had been kind enough to supply me with a transcript of the talk which I made two years ago.

In spite of all the very kind things which Admiral Hague was gracious enough to say, I want to add a word in my own defense; and that is that I didn't bring the transcript with me this morning. I didn't memorize it and I am not sure what I said then. I hope this morning I will not say anything that conflicts with what I said two years ago. The facts may differ between then and now, and of course the latest edition is always the correct edition. However, I do appreciate the assurance that the mission title is not restricted.

Besides trying to write once in a while, I do devote a good deal of time to reading. Once in a while I read something written by a man who agrees with what I think, and it gets a prominent place on my shelves of books, because it is so seldom we find someone who is thinking correctly. One such article came to my attention recently, written by a very learned man, and a man whose learning did not prevent him from making a success of a business career. He is a partner of Lehman and Company.

He said, "It has taken some time for the theoreticians to revise their description of our American economy, to realize that it is not an economy based on the abundance of natural resources, it is not an economy built upon the richness of our capital plant, it is not an economy built essentially or maintained by the genius for organization and production which characterizes American business; but an economy of consumption."

Thinking of how I might twist his words to fit something that would interest you this morning, I tried this experiment. I see no one here with as much white hair as mine. Admiral Hague is headed that way, but slowly. However, those of us who have these years can remember two occasions upon which it was necessary to martial the industrial productive potential of the United States in short order for a major military function.

My recollections of the World War I task are quite hazy; of the World War II task they are quite sharp. It has been rather difficult for me to share the pride which the American private enterprise has expressed in its boast of the miracle of production that made possible the victory in World War II; and yet it was a miracle.

We became conscious of a shortage of manpower. Those of us who were intimately connected with the problem became conscious of the fact that the shortage of manpower was partially caused by the insistence or inevitability of using three men for every two jobs in most of our major war industries. We mobilized industry rather slowly, we motivated workers in industry rather ineffectively. As a substitute for motivation, we had to find ways to bypass the controls over wages and other forms of compensation during World War II.

We were utilizing hands that had become, not unskillful but unfamiliar with their tasks. We were utilizing a work force of which 25 percent had been unemployed more or less chronically over a period of years. We were dealing with a situation that was difficult because of the task of reintegrating the thinking back of those hands that had lost their skills, the thinking that was just inevitably molded by the insufficiency of employment during those years, by the unions. We had to be sure that every piece of equipment would be built as soon as possible and that it would be shared by as many people as it possibly could. This did carry over into a miracle, as we did get through it. We gave the armed forces all they needed, we supported the civilian population with all it needed, and we did extremely well in the matter of fur coats and jewelry, which a large section of the population enjoyed for the first time.

Perhaps we are more conscious than ever that any future defense of the United States must be based upon a ready, well-equipped, abundant industrial plant and industrial organization. To put it in the language of the men who write classically, national defense must have a foundation of a sound national economy.

Now, to return to the disastrous decade preceding World War II, in the depths of the depression, in 1932 and 1933, we had all the industrial plant that we had in the very prosperous years of 1928 and 1929. We had most of the management personnel. We had lost none of the technical knowledge, the engineering skills, or even the manual skills. We had the same abundant supply of raw materials and other supplies that had been fed through the economy through the industrial machine in the years of the late twenties.

We had all of these things, but we were not using them. We had a desperate depression. We had as many as 14 million workers or potential workers, desirous workers, unemployed. We had an insufficiency of goods, in addition to that; but nothing physical had happened to decrease the power and potential of our industrial plant; nothing physical or factural had happened to decrease the momentum of our economy, except one thing--and that's the thing I shall try to talk about this morning.

The spark that keeps an economic machine in operation is the spark of purchases; not purchasing power, not productive power, not available capital for investment, not a wealth of natural resources, but the pressing of the button by the customer who is the ultimate consumer. Only by his edict do we build new industrial plants; only by his edict do we produce shoes and automobiles and houses and the ten thousand and one other things that are the ultimate product of our industry and business. Only upon his demand do we produce streetcar service and telephone service and telegraph service, entertainment, recreation, educational services, even books. He has to buy them. I am speaking from experience and, quite confidentially, unless the consumer buys them, the publisher will not print them any more.

This economist banker, whose work I read recently, pointed out that ours is an economy of consumption. It operates at high speed when the consumer wills that it shall operate at high speed. It produces an abundant flow of goods and services only if those goods and services are absorbed by the ultimate consumer.

The great influence, the statistical measure of business activity, is capital construction, capital investment in plant and equipment; and the people who buy that plant and equipment are not the ultimate consumers. The people who buy that plant and equipment, who build the factories, the warehouses, and stores, and equip them with the machinery to perform their functions, do none of those things except at the mandate of the ultimate consumer.

So it seems that one of our tasks for facing the possible future mobilization of industry is facing the necessity of having ready an abundant plant, flexible, of course, guided and geared to the needs of national defense. In maintaining that kind of basic preparation, we are dependent upon the willingness as well as the ability of the ultimate consumer to support those kinds of investments, to support that kind of an industry and business and economy in times of peace.

He stopped doing it in 1930, and sometime around 1970 we will have sifted out most of the reasoning of the economists as to why he stopped doing it. Some things we know now. We know we had a period of unfortunate deficit financing during the twenties, which we talk about very little because it was deficit financing on the part of private enterprise, private promoters, private business, which is quite different from government deficit financing. I suppose the difference is, when it's a case of a private borrower, the borrower is supposed to pay the bill sometime. We know also there was a maldistribution of purchasing power. Too much of it was routed into investments that became speculation; too little was routed into the hands and pockets of the great mass of people who are the ultimate consumers.

Lacking the abundance of purchasing power, diverting some of this purchasing power they had into some of the new era stocks and investments, they slowed down on their buying of consumer items. Business slowed down on its expansion; then business slowed down on its production. As it slowed down on expansion and production, purchasing power in the pockets of those who live by wages became less and less, and the situation snowballed.

When we say that ours is an economy of consumption, we are saying the equivalent of this--it is an economy of sales. Its prosperity depends on sales--not on natural resources, not on capital investment, not on purchasing power alone, but on sales.

The depression of the thirties had new phases to it, new characteristics that had not been present in any previous depression or hard times as once we knew them. In all of the earlier major depressions, including the financial depression of 1907 and the temporary depression of 1920, there was little severe suffering. There were still opportunities for employment. Many men who lost their wage-earning jobs had something with which to support themselves. In 1907 they could raise their food, in most cases, because in those days a minor portion of the population lived in cities. Today most of us live in cities; we can't raise potatoes in the back yard of a tenth floor apartment.

In 1930 there was almost nothing these 14 million unemployed people could do that would assure them, by their own efforts, of enough food and shelter--the clothing could wait until after the depression was over.

This change has been going on for some 200 years. It is essentially the change from the status of self-employment, which means self-support, by one's own efforts, to the status of wage and salary earners.

Drawing now on the transcript, which the Industrial College was kind enough to send me, of the remarks that I made some two years ago, I am going to borrow and read an illustration which to me opens a very fruitful region for thinking. It concerns a book published some 10 or 15 years ago, which discusses the private affairs of George Washington. It is largely an account of how the household was run, particularly during the year and one-half when the President of the United States was a resident in New York City. In that story I found a record of purchases, with the prices given, of odds and ends for the household and the people who lived in it.

There was a wash tub; a wash boiler weighing 41-3/4 pounds; a set of andirons for the kitchen; a cast kitchen range; a plate stove for the bedroom; a dining table and a dozen chairs; a four-horse coach; and a surtout. Did you ever ride in a surtout, by the way? I had to look it up. It's just a plain, everyday overcoat. There was a pair of boots for Mr. Washington and a pair of slippers for Mrs. Washington. Apparently she was inclined to wander around a little bit, because there were four pairs of slippers for Mrs. Washington, two pairs of slippers for her nieces, a dozen large buttons, a dozen small buttons, two dozen conch-shell buttons; and so on and so on; a list of 40 or 50 items of that kind.

The story made a pretty sort of human people of the Washington family. They had many of the same things that the rest of us have. As I was reading casually through it, a peculiar situation suddenly became apparent. To illustrate it with this story of the boots for Mr. Washington: On a certain day he bought from a man named John Wolfe a pair of boots. About four weeks later there was a note in the ledger that Mr. Wolfe delivered the boots.

I began studying all these other purchases I was talking about. Not one of them was bought in a store; not one was manufactured in advance; there was not one stock item. Every one of them was ordered by someone in the Washington household from a craftsman who made it to order. This John Wolfe, the shoemaker, was typical of all the rest of them. Mr. Washington probably had Wolfe recommended to him by Mr. Hamilton, or someone else who was acquainted in New York, and Wolfe came to the Washington residence and probably measured the feet of the first President of the United States and talked about the leather, the style, the height, the heel height, and so on, and then trudged his way off. Out of his own stock of leather, with his own tools, he went through some 40 separate operations, made the pair of boots, delivered them to Mr. Washington, and collected his price. Incidentally, translated into our money today, there is not one of us who could afford to pay that much for shoes. Mr. Washington was a rich man. It was a high price to be paid for boots.

Where do we get boots and shoes today? It seemed to me important enough to follow through the economic heritage of some of those craftsmen who did these various jobs for the Washington family. John Wolfe is representative today of over 250,000 shoe workers who make our boots and shoes in 1,280 shoe factories in the country. You probably have never met any one of them. Not one of them has measured your feet for shoes. They don't know that the shoes they are making are going to be sold in the district in which you live.

If you stop buying shoes, they're so far disconnected from you that they can't do very much about it at the time; but out of these 250,000-odd workers, if you and I and all the others each wait a month longer between our purchases of shoes, some 25,000 of those workers will be out of jobs. The 40 operations that John Wolfe performed on Washington's shoes are performed today on each individual pair of shoes by the hands of more than 100 workers. In other words your shoes in that factory pass through the hands of more than 100 people.

John Wolfe had to do it himself and buy his own leathers. The operators now have nothing to do with that. As a matter of fact many of the operations which he performed, such as making the box for the toes, or making the heels, are done in entirely separate factories. Another great industry has grown up in the United States, called the "shoe machinery industry," which does nothing but provide machinery for shoe factories.

The significant difference is that every shoemaker, with very few exceptions, in 1790 was self-employed and did his own selling. He was his own salesman, knew his customers from contact with them, in competition with other men, each of whom was selling his own services in the shoemaking field. Today these people who make our shoes do not do any selling. They're dependent on a thousand people between them and the ultimate consumer, the last one being the shoe clerk in the shoe store who persuades us to buy shoes--partly on the quality and price of the shoes and partly on his skill as a salesman. As a matter of fact the janitor at the shoe store has a good deal to do with it. He makes the place attractive enough so that you want to go into it.

In those days about 90 percent of the free adult males self-employed, that is, including men on farms. Today 85 percent of the gainfully employed workers in the United States are on some payroll--they're not self-employed. The remaining 15 percent of those workers, perhaps a total of 10 or 11 million, include something over 6 million farmers who are self-employed; they include some hundreds of thousands of physicians, dentists, some lawyers, some certified public accountants, and professional men of various types; they include public stenographers in hotel lobbies scattered throughout the country. You can count on your fingers the other people you know who are self-employed. Included in the list is a considerable number of small proprietors--one man or a family business.

This means to me in brief that the principal task, the basic task that must be performed by management in the American economy, is the task of selling. Management has this task of selling, beyond all the other functions such as raising capital to start building a store, the design of equipment, research, the purchase of new equipment, new products, the layout of a plant, provision of comfort in the plant, the development of efficient relationships between management and the workers. All of these things are contributions toward the job of selling.

From our own industry I might draw this illustration. We have a class of employees in the forests called fallers and buckers. They work in teams of two men, and do very well for themselves. I think the average wage is 25 dollars a day for each man. They cut down trees and then cut the trees into logs. They couldn't sell those logs if their lives depended on it, because nobody goes out and buys a log, or four or five logs. In order to receive their wages they must be connected with millions of people who buy newspapers at newsstands in hundreds of different cities, and merchants who place advertisements in those newspapers. That is where the product of that log eventually goes.

Another situation with which some of you may be familiar is an imaginary one of a man in Minnesota who owns a few acres of ground which is as rich as any deposit in the Mesabi Range. He can, laboriously, with his own hands, extract iron ore from his own land, perhaps with the help of the family. He can't eat it or wear it or sell it, because no ultimate consumer wants to buy some iron ore any more than he wants to buy a hemlock log cut down somewhere in the State of Washington.

Many of you are familiar with the long journey from the Mesabi Range to the cigar counter where you buy your razor blades. No one wants to be the owner of logs or of iron ore. No one even wants to be the owner or collector of tons of paper or tons of steel; and yet, if the sale of razor blades, automobiles, scissors, barbers' clippers, and such things dropped off 10 percent, the result would be unemployment in the iron mines in Minnesota. If the circulation or advertising of American newspapers dropped off 10 percent, the result would be unemployment in the woods in Oregon, Washington, Minnesota, and Wisconsin, and down in the new areas of the Southern States, and even across the borders in Canada and Newfoundland.

The operation, the maintenance of our economy, depends on sales. The conclusion I draw from that is, every step from the iron mines in Minnesota or the forests in the Pacific Northwest, every step from there to the one where the ultimate consumer of the converted article deposits his money on the counter, every step between is a selling step; and every step that is a selling step is necessary in order to maintain our economy in a live, active, efficient status.

Admiral Hague was kind enough to refer to my interest in the relations between employers and employees. It seems to me--this is sheer speculation--that many of our most important relationships have not completely evolved yet from the tradition in which they started.

Those of you who happen to be married may argue with this a little bit--it seems to me that we have carried over into modern marriage relationships what must have been the original tradition and custom; for marriage originated in conflict and resulted in conquest. Of course, the bride was the conquered and the groom was the conqueror in the past tradition of our remote ancestors. It is a fine idea if you can get away with it.

The important thing is that tradition seems to have created a sense of opposition, so our most intimate relationship seems to be frequently one of conflict.

The relationship between employer and employee, if we trace it back far enough, was the relationship between the master and the slave. The master supported the slave; the slave was there for the master. The fact of the matter is that gradually the slave passed out of the picture and employment took his place. I don't know too much about other people's marriage relationships; ones we read about may not be typical. I do know this for sure: There is inherent in the relationship between employers and employees something that must have derived from that tradition of centuries past when the relationship was one of conflict, one of exploitation, one of conquest, one in which the worker was subordinate not only to the will but to the needs of the master.

I am sure that those of you who do any psychological or opinion research will find the reflection of that in most employer-employee relationships today.

We are pretty well off in our company, in our industry, but if you were to ask all the employees in the pulp and paper industry in the United States what they think about employers, they would say, "They're so and so's." If you ask them, "What has your employer done that makes you think that?", they will say, "Not our employer, but big business; they're bad people."

There is a sense of conflict that exists, at least abstractly, between those who work for wages and salaries and those who hire them and pay their salaries. The job of understanding that will make our economic machine operate successfully, continuously, and smoothly is the job of getting past that inherited sense of conflict, that inherited sense of being the modern counterpart of the ancient slave, and perhaps the even more prevalent carry-over from the ancient tradition of being the modern counterpart of the ancient slave owner.

I am hoping we will find one key to this puzzle in the concept that I have tried to give you this morning, where the understanding in general seems to be clearer and the employer-employee relationship seems to have reached a potential that it has not had before. That is the concept that every one of us working in any business establishment, large or small, service or productive, is working there in order to accomplish a sale, not in that plant but to the ultimate consumer some place far down the line. We have this one common task; not more production for the sake of more production, with lower costs for the sake of lower costs; not better quality for the sake of better quality; but all these things and a thousand other objectives, all headed towards one idea--the sale of that product.

All of us are dependent on that job of selling. We are all interdependent. In times of national emergency we stamp out our differences and we work together. In times when there is no declared national emergency, we are not sensitive to the fact that there is a continued national emergency. Any time we slow down on our volume of selling to the ultimate consumer, we are slowing down on our volume of employment; we are slowing down geometrically our ability to buy and therefore our ability to sell and to work.

Translating this into the work that you will be doing next year, the year after, or 5, 6, or 10 years from now is very difficult; but all through your operations and careers you will be dealing with people who have this problem on their hands; this problem of achieving relationships between those who direct the work of others and those who work for wages and salaries which will make a team of them, which will induce each of them to contribute his best to a common task. It seems to me, through emergency and quiet times, through years of war and of peace, through hot or cold war or hot or cold peace, that we can stress and continue to emphasize and re-emphasize the fact that our American economy--somewhat different from that of any other nation in the world--depends on the job of selling, and that six out of every seven of us depend upon one or a thousand, or a hundred thousand other people to do the selling for us which we can't do for ourselves.

Confidentially, I should have a tough time taking any skill that I have and going out and trying to sell a product to somebody who wants that kind of product in his kitchen, in his living room, or in his office. I don't produce that kind of thing. I am part of a team of some 15 or 18 thousand other people who have pooled their interests in a machine for selling. We call it our corporation. Its business surely is production; we are manufacturers. We can't manufacture if we haven't sales. I can't draw a salary unless the products which we do manufacture are sold in sufficient quantity at sufficient price. I depend on those other 15, 16, or 17,000 partners in our business to do the selling which makes possible the payment of my salary.

In our industry, of which our company is typical, I think the average worker realizes where his pay check comes from--from the man on the street who buys the newspaper; from the customer who patronizes the store which advertises in that newspaper; from the customer who buys something at the corner grocery store and has it delivered in a paper bag; from the customer who buys a loaf of bread which is wrapped in a sanitary paper wrapper. I think he knows that is where his wages come from. I think he consciously makes his contribution to the job of getting that final sale made.

I close with the word of advice from the Economist-Banker who recently reassured my own concept by putting it into words--that ours is an economy of consumption primarily. Translating that, the major task of business management in America is selling; all of its other steps in the management operation are steps toward selling to the ultimate consumer. Unless management provides an adequate sales result, it will fail at every other stage of its task; and particularly it will fail in what is today perhaps its most important task if it wants to continue with private management; that is, the task of providing full employment.

Full employment is the product of a full volume of sales. We trust private management to manage the American economy on the implied assurance that it will provide enough jobs; and the only way that private management can provide these jobs is by selling the ultimate product of the goods and services of 85 percent of the work force in our United States.

Thank you.

(27 Oct 1953--750)S/ijk