

Chapter 27

Adjusting to Industrial Change

EMPLOYERS

THE NATION owes its rapid industrial growth to the fact that the nineteenth century was one long moving day. It was the mass migration to the United States that provided mechanics for mills, hired hands on farms, diggers of canals, lumberjacks in forests, and builders of cities. As more and more people came to depend upon industry for a living, new relationships between employers and employees began to evolve.

When industry was in the home, the same person was owner, manager, and workman. In a home factory, as a rule, employer and employees were father, mother, children, and any relatives living with them. When industry began to move from the home to the factory, owners, managers, and employees gradually became divided into three separate groups. The change came slowly because most factories were small in the beginning. A weaver, printer, shoemaker, tailor, or any tradesman who had saved enough money to go into business for himself could start a little factory. He was both owner and manager. His employees were few and he worked with them, as he was a skilled

craftsman himself. Working together in the same room the owner-manager became well acquainted with the men he hired. They could easily talk over their common interests.

The machine age forced workmen to use tools so costly that they could not afford to own them. In early days, a canal digger brought his hand shovel to the job. He paid for it. The operator of a power-driven shovel cannot afford to buy such a tool. Therefore, others must furnish the money to buy his shovel before he can get a job digging a ditch. As machines became more and more costly, it took the savings of more and more people to create jobs. The amount of money invested to insure one job varies with the kind of industry, large sums being necessary where the risk is great and machinery is expensive. In some industries the cost is so great that corporations have more stockholders than jobholders. This system of sharing a business with investors wanting to own a part was used during Washington's first term as President of the United States.

In 1965, an estimate of the amount of money needed for investment to insure one job was approximately \$25,000. Therefore, big corporations employing



Museum of the City of New York

UNDER A BUTTONWOOD TREE ON WALL STREET, NEW YORK CITY

On May 17, 1792, twenty-four merchants and auctioneers signed an agreement to meet daily under a buttonwood tree on Wall Street to buy and sell shares in business. They also handled the buying and selling of government bonds issued by Alexander Hamilton, the first Secretary of the Treasury, to pay the debts of the Revolutionary War.

The following year, this first "broker's office" moved indoors from the table under the buttonwood tree to cozy quarters in the new Tontine Coffee House nearby. From this humble beginning grew a world center of finance, the New York Stock Exchange.

thousands of men and women need thousands of stockholders to operate successfully. For example, approximately 2,500,000 shareowners maintain the telephone and telegraph companies serving millions of people. A large automobile manufacturer has over a million owners, and a steel company has more than half a million. How does a business with so many owners operate?

The stockholders elect a board of

directors from their group, voting either at a meeting or by mail. These chosen members accept the responsibility of conducting the business for the owners. The directors, as a rule, hire trained managers to carry on the business for them, and the managers, in turn, hire employees to manufacture the products of the company, and sell them. The employees report to the managers who hire them, the managers to the board of

directors who hire them, and the board of directors to the owners who elected them.

Most big corporations providing products now in everyday use began in a small way. New products and inventions create new industries. For example, let us examine the progress of a can opener business:

1. A man invents a new can opener.
2. He secures a patent on his invention from the United States Patent Office. Now no one can

A MEETING OF STOCKHOLDERS

The president of the board of directors of an electric company reports to a group of shareholders attending an annual meeting. Although reports are mailed to each one, some part-owners like to be present at a meeting to express their own opinions.

In this company, 150,000 shareowners have invested \$221,000 per job to furnish electric power for 6,500,000 people. If any shareholder is not pleased with the progress of the company, he can sell his stock and invest his money elsewhere. It is a free market.

Southern California Edison Company



copy and manufacture his can opener without his permission.

3. He starts making can openers, perhaps in a shed in his backyard, and sells them to his neighbors.

4. The neighbors like his can opener. Soon he receives more orders than he can fill. From his local banker he borrows money to enlarge his plant and to buy a new machine to make can openers faster. He sells more, and hires a salesman.

5. More and more orders come in as distribution spreads. The inventor needs a little factory. Instead of borrowing again from his local banker, he goes to an investment banker who has customers with money to invest in any growing business. The inventor agrees to share his business with others by selling stock to get enough money to build a factory, buy new machinery, and hire more help. The investment banker sells shares in the can opener factory for a fee.

6. With the new factory, business grows rapidly. More salesmen are hired. The inventor, who is probably the president of the company and owns shares of stock, decides to incorporate under a charter from the state. To be granted this charter his company must comply with laws that protect people doing business with him. His incorporated business, under this charter, becomes a corporation and operates accordingly.

7. The corporation prospers. Additional money is needed to enlarge the factory and to buy newer machines to turn out more can openers in less time. By increasing production prices can be cut to meet competition. At this point, the business may be large enough to seek a listing on the stock exchange. The inventor applies to a stock exchange. Again, he has certain requirements to meet, one being proof that his company has many individual stockholders and that it is not owned by a few men who control nearly all the shares.

8. If accepted, shares in his company will be listed in daily newspapers. More people will buy them if the company is successful, continues to grow, and pays a fair profit to its stockholders, who really own the factory making can openers. Thus little business grows into big business.

In our highly industrialized society, business is carried on through a system of representation. As industries grow larger and larger, both employers and



The New York Stock Exchange

TRADING ON THE OLD NEW YORK STOCK EXCHANGE

A stock exchange is a market place where bonds and stocks are bought and sold. Bonds and shares are not the same. A person who loans money to a corporation, at interest, the sum to be repaid at a certain date, is a bondholder. A stockholder buys a share in a business and runs the risk of losing his money or making a profit on his investment. A bondholder is not a part-owner as is the share-owner.

As industry grew, the market place that started under the buttonwood tree had to be enlarged to keep pace with demand. After moving many times, a hall was built and seats were sold to brokers. A seat gave its owner the right to buy and sell there. Needing larger quarters, the present Exchange was built in 1903 to accommodate more brokers, but no chairs were provided for them. However, "seats" are still sold at prices that vary, since a "seat" means the privilege of trading in the market place. Brokers with orders walk among the trading posts seeking the best prices for their customers. The Stock Exchange does not buy, sell, or set prices. It is only the market place for buying and selling by brokerage firms who own "seats."

employees seek ways to speak to one another in a collective voice. Personal contacts are impossible because so many people are involved in so many ways.

EMPLOYEES

DURING THE TERMS of our first two Presidents, George Washington and John Adams, carpenters and shoemakers in

Philadelphia, tailors in Baltimore, and printers in New York were seeking the kinship of trade. In their meetings, they discussed conditions in their work. How many apprentices should a shop accept? Should the owner of a shop hire traveling journeymen? What should be the qualifications of a journeyman? (An apprentice who can prove he has mastered the skills of his trade can be "graduated" to journeyman.) Wages and hours were also debated. When craftsmen became wage earners producing for others in shops and mills instead of working for themselves in their own home factories, they felt the need to talk among themselves.

As little business grew into big business and both owners and employees were numbered in thousands, both groups were contacted through representatives. Labor organizations, generally called unions, began to grow in number and size.

ADVERTISEMENT IN CINCINNATI, OHIO NEWSPAPER

In early days it was the custom for parents to bind their children when quite young as apprentices to learn a trade. This advertisement offers a reward for the return of a runaway apprentice who had not served his full time. The apprentice system is still used but the boys are assigned under union laws, as a rule. Most laws make sixteen the age of a beginner, but many are older.

SIX CENTS REWARD.

RAN away from the subscriber, on the 5th instant, an apprentice to the Barber's business named **GEORGE KYLES**, aged 13 years. All persons are forbid harboring or trusting him on my account, as I will pay no debts of his contracting, and will not be in any way responsible for his conduct. The above reward, but no charges, will be paid to any person who returns him to the subscriber.

EDWARD KING.

Cincinnati, April 12, 1825.

3749

Members of these unions elected their officials who acted as their representatives and met with managers who represented the owners to discuss their working conditions. They met for the purpose of entering into mutually satisfactory contracts binding upon both parties.

These contracts establish wages, hours of work, paid holidays, paid vacations, safety, sanitation, and general work rules. Gradually, more personal services paid for by owners in whole or in part, have been added to union contracts. Among these benefits are medical care of employees and their families which includes hospital bills, doctors' fees, medicines, sick leave, dental care, and sometimes, psychiatric care. Many corporations, large and small, support pension plans for their employees at retirement age.

As this pattern developed in business and industry, men in various trades formed unions of their own crafts. The next step was to unite these craft unions. In 1886 at a labor conference held in Columbus, Ohio, the American Federation of Labor was organized. Samuel Gompers, an immigrant cigarmaker, was elected the first president. As industrialism advanced, more and more unskilled workmen were employed. In the early 1930's the American Federation of Labor set up a committee to organize these employees into unions for employees, no matter what their jobs were, according to industries instead of crafts. At a meeting in Pittsburgh in 1937 these industrial unions withdrew from the American Federation of Labor to form a new organization, the Congress of Industrial Organizations, known as the C.I.O. John L. Lewis, president of the United Mine Workers of America, was elected the first president of the C.I.O.



A MEETING OF RETAIL CLERKS UNION – LOCAL 770
Affiliated With Retail Clerks International Association, AFL-CIO

The people attending this meeting are clerks in food markets, drug stores, and discount centers. Such meetings are held to present new contracts for approval by members of the union. These agreements define working conditions, wages, paid holidays and vacations, apprentice-ships, medical and hospital benefits, and other items of common interest. Meetings are called by the secretary of the union when the need arises.

After being separated for about twenty years, the two joined to form a single group again.

As our industrial pattern becomes more complex, more emphasis is being placed on the human side. Jobholders are people. Managers are people. Stockholders are people. All three groups cooperate for the benefit of all concerned. No one group can succeed if one group fails. Industrial relations are human relations.

The big human problem of the machine age is to restore pride to workmen who can no longer provide their own tools, make their own products nor market them for their own personal profit. What can be done to get a workman on an assembly line to feel that he has a personal stake in the factory where he is employed? Managers give much time and thought to this question, and study the many factors to be considered.

What should be the basic wage for the average production of each workman? How can an employee be rewarded for better conduct, workmanship, and output? How can an efficient employee be encouraged to stay on his job? Since the industrial pattern is based upon mass production, the men and women who make products must be able to buy them, and to share in the services they provide for others. Therefore, basic wages need to be scaled to make consumers out of jobholders. If the workmen on an assembly line in an automobile factory were not able to drive their cars to and from their jobs, how extensive would the automobile business be? Jobholders represent the mass of consumers. Therefore, big mills and big markets demand products and services that most jobholders can afford. Small business also prospers by catering to buyers who can afford to pay more money for their products and services. Customers create business through their choice of products. This fact accounts for the American business slogan, "The customer is always right."

Employers have developed a variety of ways, generally called incentive plans, through which their employees may share in the profits earned from increased effort on their part. The employer wants to produce more goods. The employee wants to increase his income. This result may be achieved in different ways in different companies. There are many incentive plans operating in various industries in this country. All aim to encourage pride in workmanship and a personal interest among employees to aid productivity.

In some companies employees in the various departments share in a bonus award for increased production. At the end of a week, a month, or a year, they

receive extra pay. Some factories operate on a piece plan. A seamstress in a garment factory may prefer to be paid by the piece since it would be a simple matter to measure her work at the end of a day. However, the piece plan would not be practical in a large steel mill where men work with coke ovens, blast furnaces, and cauldrons of molten metal. Employees in heavy industry and in large plants with thousands of men and women usually prefer hourly wages with medical and other services provided by owners in union contracts.

In recent years the profit-sharing plan has gained in popularity, but it is not a new idea. In some corporations, profits are shared by giving employees stock on which they receive dividends the same as any shareholder who bought his stock from a broker. Owners of some big retail stores include the employees who automatically become partners in the business when they have worked there satisfactorily for a specified time. Some corporations contribute a percent of profits to pension funds to which employees also contribute from their wages, and so provide a larger income for retirement. Seldom are any two profit-sharing plans exactly alike as each one is adapted to a certain situation. The varied incentive plans, as a rule, are benefits in addition to the customary wage agreements.

The cooperative corporation has been particularly successful in agriculture. Farmers form cooperatives both for buying and selling. In contrast to the ordinary corporation, the cooperative serves only as an agent for its members. The members serve only themselves. A farmer delivers his milk to the cooperative creamery which sells and distributes it for him. At the end of each month, usually, the farmer is paid

for the milk the creamery sold for him, minus the operating expenses.

Variety is the keynote of "The American Way" for doing business. In this country during the rise of industry, there was no set pattern which could not be modified or changed for the greatest good of the greatest number. Only in a constitutional republic like the United States can there be such healthy disagreement and respect for the rights of others.

LAWS INFLUENCE INDUSTRIAL RELATIONS

WITH THE RAPID GROWTH of industry came problems of adjustment which the Federal Government sought to solve by law. Interstate commerce drew the attention of Congress during the railroad era. Following the War Between the States so many railroads were built that competition for business resulted in rate wars and unfair charges for passengers and freight. Many lines traversed new country where the settlers were too scattered to support them. Sometimes two railroads served the same territory and each tried to take business from the other by lowering the rates. When these same companies had a monopoly, and farmers were forced to ship their products on the single railroad, freight rates were unreasonably high to make up for losses suffered under keen competition. In the late 1860's freight rates between Chicago and New York varied from 25 cents to \$2.15 per hundred pounds. A few years later cattle could be hauled from Chicago to New York for \$5 a carload.

In 1867 the National Grange of the Patrons of Husbandry, an organization to

improve the lot of farmers, was formed in Washington, D.C. The Grange made a determined fight for laws regulating railroad rates and cheap transportation for farm products to markets. Although many Senators and Representatives introduced bills in Congress to regulate railroads and stop the rate wars which were harmful to the public, it took twenty years for the original Act to Regulate Commerce to win a majority of votes in Congress. The measure was signed on February 4, 1887 by President Grover Cleveland. This act established a commission to regulate commerce between the states.

From this small beginning grew the powerful Interstate Commerce Commission which controls transportation between states on railroads, inland waterways, and highways. The original act has been amended many times to fit new situations, and now includes truck and bus travel between states. In the public interest the Interstate Commerce Commission makes rules of safety for both employees and passengers; fixes rates on freight handled by any carrier; and requires insurance as a protection against loss of life or property.

Passage of the Act to Regulate Commerce has been generally interpreted as giving the Federal Government power to supervise industry. Later, Congress passed the Sherman Anti-trust Act, granting the Federal Government the authority to prevent industrial monopoly. President Benjamin Harrison signed this bill into law on July 2, 1890. The first section stated:

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared to be illegal.

According to this law, what is a trust? The word was interpreted to mean a person

or corporation, or combination owning or controlling enough industrial plants producing any certain article to be able to fix the price. People were disturbed about the way small companies refining oil, manufacturing sugar, tobacco, shoe machinery, steel products, farming implements, and other essentials were being absorbed into large corporations. The passage of the Sherman Anti-trust Act set off long and bitterly fought cases in the courts over what kind of combination constitutes a trust dangerous to the public interest. Both the Republican and Democratic parties favored anti-trust laws.

On September 5, 1901, President McKinley was shot while attending the Pan American Exposition at Buffalo, New York. The Vice President, Theodore Roosevelt, was sworn in to succeed him in the office. The new President enforced the Sherman Act so vigorously that he gained the nickname of "trust buster." During the seven and one half years of Theodore Roosevelt's administration, forty-four cases were launched under the Sherman Act. In 1909 William Howard Taft, another Republican, followed Roosevelt in the Presidency. Taft's record for a single term of four years eclipsed that of the former President with a total of ninety anti-trust proceedings. During the first term of Woodrow Wilson, who followed Taft into the White House, thirty-four anti-trust indictments were filed. In fact court dockets seldom are cleared of cases to question any monopoly leading to price fixing not in the public interest.

Although the original Sherman Act has been amended a number of times with the passage of new laws, courts find it difficult to decide when a merger of companies becomes a trust exercising a

dangerous monopoly. The United States holds the lead in scientific progress because large industrial organizations have been willing to invest capital in long, detailed, often unsuccessful experiments. Before a yard of cloth is offered for sale, \$23,000,000 maybe spent to research and develop the fabric. If the fabric is enthusiastically accepted by the public, employment is provided for thousands — in garment factories, department stores, small owner-operated shops, defense plants and numerous industries. The question then asked is: If the cloth can be purchased by anyone at a reasonable price, does the corporation owning the patent on this new fabric constitute a harmful trust?

People generally do not become concerned about the size of any corporation unless it becomes powerful enough to set prices which they consider unfair. From the beginning, the average citizen of this country has harbored an innate fear of any kind of monopoly that would rob him of personal liberty, be it in business or government.

As industries grow in size and number, industrial laws are passed by local, state, and federal governments. Business firms hire attorneys to keep officials informed on these laws, changing from time to time. One may regulate the amount of smoke from a factory chimney, and another, safety devices on machinery. Child labor laws are general. A law in Vermont states:

No minor under 14 may be employed in or about any mill, cannery, workshop, factory or manufacturing establishment, or in any other gainful occupation except during vacation and before and after school.

The minimum wage law of California contains this clause concerning hours:

No woman or minor shall be employed more than eight (8) hours during any one day of twenty-four (24) hours, or more than forty-eight (48) hours in any one week.

In some states a fund is raised by a tax upon both employers and employees, to provide a weekly allowance for men and women who have lost their jobs. The amount of tax taken from the wages of employees and the operating expense of

their employers depends upon the number of people who apply for unemployment compensation. Industrial laws differ from state to state, and legislatures add more as needed.

The United States Department of Labor, directed by a member of the President's Cabinet, was established to serve both employers and employees in adjusting to the ever-changing pattern of our complex industrial society.