

INDUSTRY AT A TURNING POINT

Is Our Economic Structure Out of Balance?

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NATIONS, like individuals, have their days when they stick out their chests and feel very much satisfied with themselves. In such periods, when the stomach and purse are both full, things take on a rosier hue. An easy optimism becomes the dominant attitude under the somnolent influence of self-satisfaction. Yet, the glib way in which we talk of prosperity and boast of breaking records should put us on our guard against the error of accepting what *seems* for what *is*.

The present era in American economic life is undoubtedly one of prosperity, of plenty of work for those who wish to work, and of good feeling all around. Yet, any one who has his fingers on the pulse of our industrial life, knows how sensitive that pulse is to numerous influences which may send it suddenly above, or as quickly below, normal. The fact is American industry is at a turning-point, is gradually entering a new and different period of development. The situation warrants us in focussing attention on some of the problems now existent, although perhaps not readily discernible, and on others in the making, which will determine industry's speed and direction in the years ahead. The nature of these problems should be understood even

though the problems themselves may not be definitely circumscribed. They should be discussed and analyzed, unfettered by traditional thought or dogma.

The French have a saying to the effect that one cannot make an omelet without smashing some eggs, nor a revolution without smashing some heads. Similarly, one cannot in this age of rapid change, enter upon a discussion of economic, social or political problems without smashing some pet ideas. After wondering for thousands of years how to arrange their hair, women finally decided to cut it off. The problems of industry, while confronting mankind for a long period, have not proved capable of such easy disposition.

Since the World War, American economic life has been in an apparent state of buoyancy. Students of economics, mindful of the European experience that it is not the height from which one falls, but the sudden stop that hurts, have been asking themselves how much longer we shall be able to run counter—as it appears to them—to economic law. Without accepting their conclusion, it is true nevertheless, that conditions in the United States present some apparent anomalies to orthodox economic and social thought.

Why is it that, for example, in the face of most liberal spending, we show such an increase in savings, whereas in Europe, where thrift has been emphasized and widely practised, actual savings have gained but little?

Why is it that the United States, in the face of the highest wage scales in the world and with a wage level that is rising, shows a declining level of wholesale prices?

Why, with the purchasing power of the American farmer at a low ebb—bearing in mind that agriculture normally exerts an annual purchasing power for nearly ten billion dollars' worth of goods and services, buying each year about one tenth of the value of manufactured products and supplying one eighth of the total freight-tonnage carried by the railroads, and with buying power throughout most of the world below normal—why have we been able to maintain such a high level of industrial activity?

Why is it that, with our supply of cheap foreign labor largely cut off through the restriction of immigration, with money wage-earnings higher than ever before, and with the standard of living two and one half times as high as that of the Old World, why is it that Europe, with its cheaper labor and lower living standard, is often unable to undersell us in world markets?

Why is it that, with employment and earnings at unprecedented levels and with charitable work conducted on a more scientific basis, relief expenditures in the United States have been steadily mounting, increasing faster than population and showing since 1916 an increase of sixteen per

cent measured in dollars of the same purchasing power?

Why is it that, in the face of high tax burdens, high wage rates and salary levels together with a declining price level, business has in most lines been able to yield fairly good profits?

Why, with employment during the winter of 1926, fully two and one half per cent lower than the average for the winter of 1914-15, was the United States in a critical situation then and apparently prosperous now, and why is the falling index of employment no longer indicative of an alarming condition?

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The answers to these and similar questions that might be raised, are not altogether easy. In many respects, actual conditions at present seem to run counter to the doctrines of the economists, so much so that there is a growing belief that the United States is moving in the direction of a new industrial-economic development in which a disregard for tradition is not only being shown, but will be increasingly made manifest and necessary.

Modern business America can hardly be said to date back of the year 1870. The period between that date and 1900 may be broadly characterized, economically, as the age of exploration, exploitation and risk-taking, just as technologically it may be spoken of as the iron and steel age, the coal age or the electrical age. While the willingness to take risks is an ever present element in an industrial life that rests on free competition between individual and individual, and between organization and organization, the last thirty years of the nineteenth century were

conspicuously daring, since it was in this period that most of the beginnings of our present-day economic life were made. It was preëminently an era of cutthroat competition, of self-reliance, of self-made men, and of laying the foundation for subsequent growth.

Toward the end of the last century and into the early years of the present, we ran through a brief but intensive muck-raking barrage that tended to clear the atmosphere, and prepare business for its next advance. The first quarter of the century has been one essentially of tightening the slack, of conservation of resources, both human and material—and of the introduction of management and scientific management methods. It has been a period of simplification and standardization, of concentrated attention on the more efficient use of brains, and of power and tools whether human or mechanical, and of the elimination of waste. It has been a period of coöperative, as contrasted with cutthroat competition, and finally, the period in which fact finding and scientific research, as a basis for the determination of plant policy, industrial policy and national policy, have been carried on and supported as never before. The period may be epitomized in this sentence: we have learned that there are many kinds of substitutes, but that there is no substitute for the Golden Rule or for intelligence in business.

Many signs clearly indicate that American industry is again entering a new era of economic development, although it is impossible at this time to characterize or designate it, for at the beginning of any formative period no one can tell what elements

will last in the process of clarifying and solidifying, or how far certain tendencies will run. Since facts are more pertinent than speculation, let us look at a few that are germane to the discussion.

There can be no doubt that to-day, life is fuller than in the past and that it holds rich promise for the future. The question is whether this condition is permanent or only fleeting. To be sure, wages are high and have reached, or are apparently reaching a state of stabilization; and the standard of living is also high, and likely to remain so, in comparison with that of pre-war periods or with that now prevailing in other countries. With business conducted along more intelligent and efficient lines, employment is more regular and more secure. "We ought not to have any more panics in business, but if we do have them, it will be because they are man-made, not because they are natural phenomena. Panics are occasioned very largely by distrust and ignorance," is the pertinent statement of one of the great industrial leaders of our country.

Hours of work are now generally shorter, and home life for the average family in the United States is less drab, while household drudgery has been fighting a losing battle against efficiency devices and methods of various kinds. These are some of the evidences of our material prosperity, but in these very gains certain dangers that are worth thinking about are involved.

Out of increased earnings, higher standards of living and greater leisure, new national habits have grown which, wisely directed, may mean

great social gain but which otherwise, may lead to social and economic decay. One of the habits is that of spending before earning, and while instalment-buying, now running in excess of six billion dollars a year, has greatly widened the market for consumer's goods, no one knows just where it will lead us. Will this development of consumer credit prove a valuable gain or will it turn out to be a delusion and a snare? What also shall we say of the new leisure we have won? Are we making the best use of it, or are we simply wasting it and developing disrespect for intensive work, especially among the younger people who have come to a new heritage without fully understanding its significance, or being adequately prepared for it?

Due partly to changing social standards, but mainly to our rapidly rising standard of living, we are cultivating an aversion to manual toil; and we are sending more and more boys and girls to schools of higher learning. Is this steadily mounting class of white-collar workers becoming a nation-wide fetish that, if continued at the present rate of increase, is likely to throw our national life out of balance? Between 1870 and 1920, the number of clerks and other office employees increased in the ratio of one to fourteen; between 1910 and 1925, their number almost doubled. Clerical and sales employees in stores have more than doubled, and while servants, housekeepers and stewards have declined over one third between 1870 and 1920, barbers, hair-dressers, and manicurists have increased over three times, and a further rapid increase has undoubtedly taken place since 1920.

The civilian army of government employees, federal, state and municipal, has grown at such a rate that approximately every ten persons otherwise gainfully employed, support one person on the public payroll. Even fully recognizing the great service rendered, does not the question arise whether our public service is not costing more than is justified by our social demands and by the results achieved? Between 1920 and 1925 the number of students enrolled in the elementary and secondary public schools, in colleges and universities, according to the United States Bureau of Education, rose from slightly over twenty-three and one half millions to about twenty-eight millions, which was one and one third million more than the number to be expected on the basis of the population increase. Between 1910 and 1924, according to the same source, the cost of education in the age-group of from five to seventeen, rose from sixteen dollars and ninety-eight cents to sixty-two dollars and seven cents a student a year. About one and one fourth of all State and local expenditures is now devoted to this single item in the cost of education. What proportion of the young men and women who are being sent to high schools, and especially to colleges and universities, has adequate capacity for learning and will be able to return in social value the money invested? Is the present tendency in education, illustrated by the mounting expenditure and the over-crowding in the advanced schools of learning, sound and wise, and is the older generation justified in dancing to the tune that is being played at a cost for public education

in excess of two billion dollars annually?

Less than four out of every ten persons in 1926 were gainfully employed, according to estimates of the National Industrial Conference Board. The remaining six plus were living on the returns of their investments or were being supported by others or at public expense. Whereas the gainfully occupied in 1910 numbered 38,167,336 or 41.5 per cent, out of a total population of 91,972,266, in 1920 there were 41,614,248 or 39.4 out of a total of 105,710,620, this on the authority of the United States Census Bureau. But for 1926, the gainfully occupied are estimated by the National Industrial Conference Board at about 43,600,000 which is 37.2 per cent of the estimated total population of 117,136,000. The 39.4 per cent gainfully occupied of our population in 1920, compares with 56.6 in Germany of the same year, 44 in Great Britain and Ireland, 53.3 in France and 46.8 in Italy. Of the more important industrial countries in Europe, only the Netherlands and Denmark recorded a lower proportion of the gainfully occupied in 1920, than did the United States. Is this decline between 1910 and 1926 to be put down as a credit or a debit in our national economic ledger?



But even without resorting to statistics, all will agree that the farm, the great breeding place of independent, resourceful and healthy citizenship, has been giving ground to the white lights of the cities, and that the farmer has been rapidly turned into a factory, mill or store worker, as the desire for a higher money return and

for a greater participation in the cities' pleasures have made the nation forget the compensating benefits that farm life offers. Are these and other trends and tendencies signs of economic and social health, or do they forecast serious vital problems in the decades immediately ahead? Thoughtful students believe that underneath all these changes definite portentous situations exist.

For example, is the lack of balance in the scale of well-being and monetary return of investment and labor between the two giant industries, agriculture and manufacture, to be viewed in terms of temporary instability of agriculture and recurrent failure of crops, or does it mean a fundamental realignment that is going on in our basic economic life? Are we to become, at least partly, dependent on the agricultural products of other lands? Will it be possible to avert the threatened dependence by improved methods and extended mechanization?

There are other instances of an unbalanced condition in our economic structure that are not so well known, because unlike agriculture, they have not been dramatized. In the bituminous coal industry, more mines are being operated than can be worked at a profit, and in the anthracite fields, the threat of interruption is more or less constant. In the building industry there is great danger of overbuilding and especially of unproductive building because of high costs, largely due to wages which at the end of 1926 were almost double those in manufacturing and fully 85 per cent higher than those in railroad transportation. Does this lack of balance not present a

menacing condition that concerns our whole national life and which may seriously affect it in the near future?

Viewing our industrial operations in the large, we know that inventions and frequent technical improvements often make for instability of processes and uncertainty of business. The railroads find a rather sudden and strong competition in the motor-truck and motor-bus. The ice producing industry sees its sway threatened by the electric refrigerator. Cotton and silk manufacturing industries are confronted by a rapidly growing artificial silk production that is tightening its grip on purchasing habits. And generally, many commodities which were once regarded as staples are now in the class of fashion goods. In all these cases and others that could be cited, are the industrial branches affected merely at a turning-point to a new and prosperous development, or are they doomed to diminishing returns and eventual elimination? Recent industrial history discloses the fact that many industries have promptly sensed, and quickly adjusted themselves to the threatened influence of change.

But history reveals also that these industries have had alert management, intelligent and well informed, on general economic conditions and trends, a new type of management that is in itself not class-conscious, but recognizes all interests in industry and seeks to coördinate them into a harmonious relationship. How significant the responsibility is of those who administer industry, may be realized from the fact that less than three and one half per cent of

the factory establishments in the United States now employ somewhat over fifty-three per cent of all wage-earners in manufacturing. Plants whose annual value of employing is \$100,000 or more, are producing fully ninety per cent of the ten and one quarter million industrial wage-earners.



Still another important factor, indicative of American industry at a turning-point, is shown in the public's sympathetic attitude toward industrial combination. For it is now obvious that great inventions and improvements, of which the public is the beneficiary, could not have been made without the massing of capital in the iron and steel industry, in the electrical and chemical industries and in others that have built and are maintaining huge laboratories for scientific research. Nor is the public unmindful of the fact that only by mass-production can the necessities of life be provided at reasonably low prices. Will industrial management's policies continue to merit and to strengthen this favorable public opinion? That is the vital question.

As we contemplate our economic life broadly, we are impressed with two important aspects that deserve a moment's closer reflection. In the first place, we find efficiency to be the watchword of the day, but it is an efficiency that is wider in scope and actuated by higher motives than it was in the past. Its motive is not the salvaging of scrap at the end, but through research and scientific knowledge, to see that there shall be no waste at the end to be reclaimed. We find also that the more scientific

management in present day business does not spring from competitive necessity alone, but from the more professional attitude of business toward itself. Industry is more than a medium for making profits regardless of the means. It seeks a steady elevation of the standard of business conduct; not because it pays, but because business has found that it cannot thrive long in a low moral atmosphere. It aims to develop self-government, not because it fears State Government, but because it believes that if it wills it can more effectively police its own affairs. What the ultimate result of this new spirit in our industrial life will be it is too early to say, but it is certainly a future to be viewed with pleasant expectations.

American industry is at a turning-point. A slow but significant change has come upon our folkways of earning and spending, and our industrial life has begun to feel that the changing tide is moving with it. High standards of living, abundant and ingenious machine production, increased leisure, new tastes and habits

have come and have brought with them a new atmosphere in which our industry must work. As our initiatives and inventiveness in the past were born of necessity and nurtured by adversity, so now they are challenged by the new problems of prosperity.

Let us remember that the modern factory system is but a century and a half old, and that its intensive development in the United States has taken place within the last fifty years. The fact, therefore, that the problems confronting us are in many respects new and confusing, should not discourage but should stimulate us to scientific study. The obstacles that lie ahead are many, but they can be removed when once recognized and understood, and when leadership has the will and the courage. We have blazed many trails in the path of economic progress, but can our industrial leaders prove as resourceful and as successful in meeting the new conditions as they were in meeting the old? That is the question facing American industry at its new parting of the ways.

GIVE AND TAKE

LUCIA TRENT

I am the eager one,
I am the giver,
My love sweeps
Like a spring-flushed river.

But your love is tranquil,
Tender and still,
Like a snug white cottage
On a high green hill.