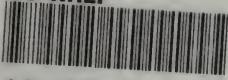


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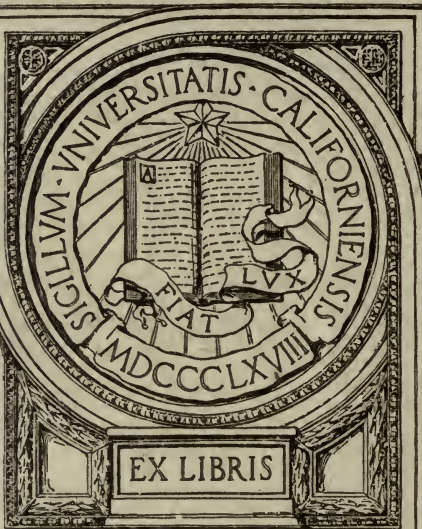


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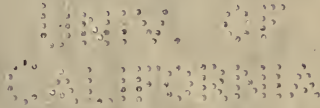
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Are We Ready For Industrial Co-operation?



An Address before
The State Convention of the Indiana Y. M. C. A.,
Hammond, Ind., November 22, 1912.



By
FAIRFAX HARRISON
President, Chicago, Indianapolis & Louisville Railway Co.

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TO THE
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ARE WE READY FOR INDUSTRIAL CO-OPERATION?

I. The Industrial Conflict.

Conflict seems to be necessary to the human animal with red blood in his veins. It keeps him from stagnation, it develops him mentally and physically, stimulates him to invention and sustained effort; in a word, it creates in him ambition. Our whole social system, and, indeed, many of our laws, have been built upon the recognition of conflict as a natural regulative force: to illustrate from contemporary politics, we insist upon industrial competition and prohibit monopoly; the law prescribes war, not peace. For this reason the social theories and experiments, which have rested without qualification upon the principle that all men are equal, have failed; equality before the law is a great and enduring achievement of our ancestors, but equality of career is almost a contradiction in terms; the right to fight for such reward as his individual equipment and industry may earn, to take his chance of success or failure, is as much as a virile man ever asks, but he does ask that. It was the assertion of this right which precipitated the conflict, now a century old, in which our American railroad industry is still engaged, but under conditions almost reversed. It is the conflict between Capital and Labor which has been waged since the organization of modern industrial society, and it represents the most important phase of the railroad question today, more important than what freight rates are or are to be, more important than car supply and the volume of traffic, more important than the relation of public opinion to the railroads. It is the vital question, and on the proper solution of it, which means the substitution for the existing civil strife of some other and more economic conflict with a common competitor, depends the future of the American railway industry.

At the beginning of the Nineteenth Century capital was all-powerful and soon abused its power. It controlled the machinery of government and it made public opinion. The economic literature of the day was all capitalistic and some of its conclusions are as revolting to us, who are engaged in industry today, as are the other extremes of the contemporary Syndicalists. The pendulum soon began to swing. To secure a just recognition of its rights, both as human beings and with respect to its contribution to the success of industry, Labor found and put to its service the principle of collective bargaining. It was an effective weapon. With its aid the labor unions grew in power until the conflict became an equal one. Occasionally war was necessary, but usually diplomacy was sufficient as the parties grew to respect one another, and at that moment substantial justice was probably done by both. The next stage marked a change in the balance of power, and today the condition of the railway industry in the United States illustrates a tendency to abuse

of power by that one of the parties who was at first abused. He who was despised now despises. We are living in the midst of a process of steadily increasing transfer of the fruits of the railway industry from capital, which once enjoyed them, to labor: not to all labor engaged in the industry, it may be noted, but to certain powerful classes of labor. The honours of war may be said to be even: there are those on both sides who have suffered, and both parties are today faced by a common risk. It behooves both Capital and Labor, therefore, to find a new vent for the human appetite for conflict and to join forces for their common good.

II. The Evil Consequences to Industry of the Existing Conflict.

Perhaps the greatest evil of this conflict is visited actually or potentially upon the public, which is entitled to a uniform and uninterrupted conduct of the transportation facilities on which it depends more and more every year, but it is not proposed to go into that important phase of the question here. Our subject is the effect upon the parties to the conflict.

There are three recognizable consequences of this conflict which have had an evil effect upon the capital invested in railroads and as many of injurious effect upon labor. Let us examine them in turn.

Not the least element of the growing strength of labor in this conflict is that labor is today popular, in the sense in which control of political policy is accomplished in a progressive democracy by what is popular. It represents votes and is heeded by legislatures. Its attitude of conflict with the management of the railways, which represent the capital invested in them, was not the cause of the assumption of the power of regulation of the railways by government; the managers themselves are responsible for that, but, since regulation became an accomplished fact, the activity of labor in the legislature has been the inspiration of many of the laws of unnecessary and oppressive regulation which have been enacted. I am myself an advocate of regulation of the railways by government, but I am unable to blink the fact that what we have had has not always been what we may fairly expect to have, the regulation which considers all alike. In the period of adjustment of the last few years the experience of every railway manager has been that many of the measures of regulation of railways have been futile and merely wasteful of money sorely needed for improvement of facilities which have in consequence been postponed. Many of these measures have originated in mere opportunism of the politician, who, seeking to commend himself to his constituents by adroit insistence upon minor wrongs, secures the enactment of a general law prescribing an invariable and expensive practice for the operation of all railroads, the suggestion for which had its origin in the failure of a particular railroad in respect of its handling of a particular shipment; but there are those also, and they are not few, which have been the direct consequence of the conflict of Labor and Capital. The managements of the railways have not been esteemed by legislatures in recent years for historical reasons which are not creditable to either of them, and it has been as easy for organized labor as for the ambitious politician to secure the passage of a law to make a railroad wince.

But more serious than this is the effect upon the railroads of the steady demands of labor for fixed and invariable increases of wages. There is no railway manager today, I venture to assert, who does not want all his employees to be well paid, to share in prosperity when prosperity exists, and to be rewarded by promotion for efficient and loyal services. If he is not able to give this feeling expression in all deserving cases it is because his constant cost for the numerically most important classes of labor has increased in greater proportion than the increases of revenue out of which that cost must come. The margin necessary for the successful administration of any industry has been thereby progressively narrowed, until the point of danger to credit even of the most prosperous roads is now distinctly visible, as any one can testify who has railroad securities for sale which he bought ten years ago. This is a situation which would be difficult in an industry which could stand still, but in an industry of which the life is growth, it discourages those who are invited to risk the new capital necessary to make even the improvements which, by increasing efficiency, will reduce expenses and so widen the margin again: much less will the funds be forthcoming for the improvements demanded by the public for comfort and convenience. In the end the tendency jeopardizes the very capital already invested.

Another consequence of the conflict in its effect upon Capital is perhaps irrevocably accomplished already. It is the change which uncertainty of income has had upon the point of view of investors. Time was when railroad stocks were a favorite form of investment, not only because they promised substantial profit by increment of value, but because they spelled stability of income. Today railroad stocks are not in favor, and whenever money is now invested in railroads (except in extraordinary cases, each of which has its historical explanation), the form of investment is the bond. In other words, the investor is no longer a partner in the business, or, to use the good old Elizabethan word, an adventurer; but has become a money lender. He prefers the right to foreclose a mortgage to an uncertain chance of a profit secured by good management and efficient operation. The capital already invested in the original construction of a railway suffers the consequence of this change of investing opinion, for it must now stand as the margin of the new investor and must risk being wiped out for his benefit and security. Whenever, as has happened in recent years, a railroad is faced by unconcerned and unyielding demands of labor at a time when it is unable both to respond to them and to maintain its credit, this risk is imminent. It is a consequence of war.

As it concerns labor, the conflict is not less dangerous in its consequences. We hear much today of the increased cost of living. It is urged as a ground for advancing wages, even when the inability of the industry to do so and continue to prosper is apparent. The argument is that those who produce what the industry markets are entitled to the first consideration in the provision of the necessities of life, and where that argument is supported by facts it is most persuasive. It is not, however, as sound an argument in the railway industry today as it was some years ago. While the cost of certain

necessaries of life has indubitably increased, the scale of living of the railway employee has increased in greater ratio, and not the least factor in this has been the increases in railway wages. This is the vicious circle of prosperity. I read the other day an old book, Robert Wallace's "Dissertation on the Numbers of Mankind," published in 1753, before the days of political economy, and there came upon a suggestive comment on this subject:

"Operose manufactures of linen, wool and silk, toys and curiosities of wood, metals or earth, elegant furniture, paintings, statues, and all the refinements of an opulent trading nation, tend," he says, "to multiply men's wants, make the most necessary and substantial things dearer and in general increase the expences of living."

This is an Eighteenth Century expression of a thought which an American of our time, who represents in his own life the success of individual initiative, industry and economy, has well phrased in the notable epigram that "It is not the high cost of living from which we suffer but the cost of high living." There is many an American railway employee who, if he searches his heart, will admit that the large increases in wages which have been secured for him in recent years have brought him very little real comfort. I was talking the other day with a locomotive engineer who was thirty-five years old and has drawn handsome pay for most of his industrial life. He told me that his father, who had been a runner on the same road, had saved and left behind him \$6,000, living meanwhile a self-respecting life on very much less wages than his son now gets. "Not only have I been unable to save anything," said the son to me, "but I have spent some of the old man's savings."

"What did you do with your last increase in pay?" I asked.

"Well, my wife said that the neighbors thought she should have a silk dress, and the girls wanted a piano, and so it went; in the end I did not find myself any better off than I was before."

This means, if it means anything, that the present position of labor in its conflict with capital is deemed to justify the expectation of continued increases in pay without regard to industrial conditions, an assurance which breeds habits of extravagance which are harmful to the individual. In other words, the increased pay is a factor in creating the high cost of living.

As the conflict is now waged, the lion's share goes to the most powerful organization, and the weak among the employees alone suffer. It is an indisputable fact that some classes of railway employees are now highly paid, both actually and relatively, and that other classes are not on the same basis in proportion to the value of their services. This is an inequality in the same industry which one can understand is intolerable to a spirited man, and indeed produces some of the worst consequences of the present system, both upon the employer and employee, but chiefly upon the latter.

Finally, the present system which required in the beginning a well disciplined and cohesive organization for self protection, now results sometimes in stifling the ambition of the individual by an assurance of drab uniformity of treatment. It is not necessary to

press the point. The warmest advocates of conservatively managed labor unions, and I am proud to include myself in the number, recognize the danger and the risk of this necessity of the system.

What then of the future, if the present conflict continues?

For the management of industry the conflict has been a stimulus to greater efficiency and the economical investment of new capital. As the wages of labor increased, an attempt to offset the increased expense by economy in operation has resulted, and vast sums have been spent, for example, in reducing grades and increasing power, to secure greater unit train loads, but the limit to this kind of economy is in sight, if it has not been reached. The candid fact is that, although other branches of industry are at this moment enjoying great prosperity, the railroads, doing the largest business in their history and passing through their treasuries the largest revenues they have ever realized, are in a more precarious condition than ever they have been, such is the burden of their expenses. It is absolutely necessary to the railroads that something shall be done to relieve the present tense situation and enable them to face the future with confidence, and I believe that the way to accomplish this is to settle the conflict of Labor and Capital in the railway industry on an enduring basis. Other remedies are mere salves on that sore.

For labor also the future is not assured under existing conditions. Already there have been expressions of discontent on the part of other classes of the community with what they call the preferred position of railroad labor. The most industrious and successful farmers and storekeepers in the country along the line seldom make as much net money in the year as do the railway employees stationed at those towns, and nothing like as much as those they see going by on the trains. They are, however, a large numerical majority of those who pay freight charges, and they now complain against the freight rates largely because they think these rates might be less if such relatively high wages were not paid to certain classes of railroad employees. If that class of the community speaks it is likely to be heard in the legislatures more sympathetically than the railroad managements are heard. All it lacks at the moment is organization and this it can learn from the successful experience of labor.

This brings us to the next point.

Whenever any class of society becomes so powerful as in the abuse of its power to affect injuriously the lives, liberty or the pursuit of happiness of or by any other considerable class or classes of society, the consequence, under the existing régime, is for government to lay the heavy hand of Regulating Authority upon it. This may happen sooner or later, but it is inevitable. Eighteen months ago, in a public address, reasoning from the same premises, I ventured to predict that the public press could not escape such legislation; and we find today an act of Congress regulating newspapers on the statute books. It is not impossible that organized labor may here-

after be faced with a strong and sustained public control of its activities. It would be the logic of the last phase of the present conflict.

III. The Remedy: Industrial Co-operation.

It is interesting, and perhaps instructive, to think out these things, but it serves little purpose unless it leads to the suggestion of a remedy. We cannot stand still, for "stand pat" policies are not popular at the moment and only serve to prolong the conflict. We cannot revert to the former conditions: the old arguments which convinced men a generation ago may still be listened to respectfully, but they are no longer heeded. We must progress.

The most tragic intellectual life of the last generation was that of the English philosopher Herbert Spencer. About the middle of the Nineteenth Century he began the compilation of a synthetic system of philosophy based upon the opinions of that time, and, with extraordinary persistence, learning and intellectual vigor, he labored on, despite physical handicaps, until he completed his self-appointed task in 1896. It was an achievement which, in a previous century, might have had enduring effect upon the opinions of mankind, but while he was writing the world was moving with an increasing velocity, and the opinions which actuated men's political and social life in 1896 were utterly different from those of 1850. His work of a life time was out of date before it was complete, and the tragedy is that he saw this. Yet he had the vision of a seer into the future. His last word was a sturdy maintenance of his belief that in 1850 there was reached in England "a degree of individual freedom greater than ever before existed since nations began to be formed," and that this was the highest state to which man could attain, but he had observed the reaction against too much individual liberty and the abuses which it bred, and marked the growing tale of statutes by which the government was given authority to interfere with the daily life of the citizen; in other words, he foresaw the growth of Regulation which is now a rooted policy of statesmanship, and he saw that this principle must continue to expand until the government controlled and operated all the industries in which the individual citizen is employed: the only alternative was a compromise, on which the conflicting forces of society, Capital and Labor, might provide for the continuance of private initiative in industrial opportunity. Dreading socialism, Herbert Spencer found this refuge in Industrial Co-operation.

This economic principle has found many expressions. Under it Labor and Capital have united in the ownership of a business and have failed. Under it labor has attempted to dispense with invested capital and do business on the aggregate credit of a number of individuals: in what we call merchandizing, and the economists call distribution, as in money lending, success has been accomplished through co-operation, but in the co-operation of production, such as manufacturing, there has been failure for lack of the capital necessary to carry the business over times of stress. Capital itself, represented by conscientious and enlightened men, has from time to time

sought to apply the principle of co-operation to industry in the form of profit sharing; here again there has been little real success in accomplishing the prime object, which was an identification of interest between Capital and Labor, because even the best laid plans of profit sharing have been regarded as a sort of tea table distribution of cake among men who work for bread. The dole is often accepted with a sneer.

I do not now propose any of these forms of co-operation for the railway industry, but one which seeks their object and attempts to avoid the causes of their failure. At the moment, that industry is in a precarious condition, everyone engaged in it has his stake at risk. In order to identify and co-ordinate all the interests involved, and to secure the success which is not only possible but almost inevitable if that result is attained, all must share in the results of the business according to the fluctuation of the industrial barometer: the spur must be the expectation of loss sharing as well as profit sharing.

Specifically, I propose, therefore, that a railway wage schedule shall be prepared as follows:

Calculate on experience what has been the percentage of the total pay roll of all classes of employees to the operating revenue in a given year or average series of years, and apply this percentage to current operating revenues to fix thereby the appropriation for pay of employees. The total appropriation, so made, would then be distributed among the several classes of employees in the percentages of their participation in the pay roll which was taken as the standard, and the individual would share in the appropriation for his class according to his services measured by agreed units.

Under this meter wages would increase automatically as revenues increased, but would decrease automatically as revenues decreased. The prosperity of the individual would be that of the road. Capital, controlling management, would alone be interested in expenses, as now: Labor's interest would be in increasing revenue, or what has been heretofore called gross earnings.

While there are many details which would have to be worked out to make this suggestion practically effective, the beneficial consequences of the acceptance of its principle might be far reaching.

The railroad industry would be a united industry: there would be a common interest between employer and employee. The intelligence and energy which is now devoted to the effort, on the one hand, to get wages increased, and, on the other, to resist increases might be expected to be applied to promoting the industry itself. The result would soon be reflected, not only in the income account, but in the statute book. If rates were too low to yield a fair wage to all, as well as a fair return to capital, there would be a united demand for their readjustment which would have the backing of

votes as well as argument. The human lust for conflict would find its expression as between railroad and railroad: officer and employee would have a common loyalty, and the healthiest kind of competition would be promoted, that of efficient service. The individual would control his household expenses and would follow the expansion and depression of trade with his own economies: he would indeed be in business, a true unit in the current industrial life of the nation, rather than the beneficiary of the plunder of a successful war.

This is the purpose of Industrial Co-operation.

Is it not worth considering ways and means to bring it about?

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