

Labor monopoly
1958

Union Monopoly vs. The Public Interest

An address by

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ERNEST R. BREECH

Son of a Missouri blacksmith and carriage maker, Ernest R. Breech has spent most of his adult life helping to develop newer and more efficient forms of transportation.

Before joining Ford Motor Company as executive vice-president in 1946, he had been at various times president of Bendix Aviation Corporation, vice-president of General Motors Corporation, president and board chairman of North American Aviation, Inc., and controller of a number of automotive and railway equipment manufacturing companies. He is a recognized leader in the field of modern American business management.

Active in business and economic affairs at the national and international levels, Mr. Breech served most recently as a member of the Congressional-appointed Panel on the Impact of the Peaceful Uses of Atomic Energy.

A year ago any periodical we read or any speech to which we listened painted a glowing picture of the projected long-term growth of this country, not only in the production of material goods and in increased standards of living for all, backed up by a population gain of more than 2½ million persons a year, but in the growth also of moral strength and of culture.

Despite the dark predictions of prophets of gloom almost every year since the end of World War II, this country's economy has grown. This can best be expressed by such things as the gross national product of the country, rising from \$257 billion in 1948 to an estimated \$435 billion in 1957; the growth in personal incomes from \$209 billion in 1948 to an estimated \$343 billion in 1957; the growth in employment from 59.4 million in 1948 to 65 million in 1957 and the growth in liquid savings of individuals from \$214 billion in 1948 to approximately \$305 billion in 1957.

During that same period, nearly 10½ million family residences have been added to take care of the nearly 25 million increase in the population.

Capital expenditures on plants, machinery and equipment in this country in the 10-year period 1948 through 1957 amounted to more than \$270 billion. Let us take just the Ford Motor Company alone. Since the end of World War II our Company has built 22 manufacturing plants, 12 assembly plants, 21 parts depots, proving grounds in Arizona and Michigan, and 17 engineering, research and office buildings and other facilities. We have also enlarged or modernized some 30 other plants and facilities. All in all, we have thus far expended more than \$2½ billion on this expansion and

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modernization program. This wonderful new plant of ours in Nashville is typical of the improvements that we have made in the Company's facilities over this period.

For those who fear over-expansion, I would like to say that it is our firm opinion, based upon careful forecasts, that by 1965 there will be peak years of automobile production amounting to as much as 10,000,000 cars and trucks, as contrasted with the total production for 1957 of 7,202,000 vehicles and in 1947 of only 4,793,000 vehicles. I should point out, incidentally, that registered vehicles have increased over the past ten years from less than 38 million to more than 67 million.

ON October 4, 1957, we were faced with an event that tended to destroy some of our national confidence. The Russians successfully placed into orbit a 184-lb. Sputnik, which was indeed quite a shock even to our scientists, and followed this up on November 3 by launching a 1,120-lb. "Mutnik." I shall not belabor you with the implications of these events other than to emphasize that, as a nation, we had to muster our forces, change our thinking, reappraise our situation, and decide what we were going to do about it. President Eisenhower has fully outlined the program of the Administration in this respect in his annual message to Congress on January 9. Let us hope that every member of the Administration, every member of the Congress and every officer in our armed services will now remember that his first duty is to serve the national interest, and get together to do a necessary job.

There is much questioning as to why we find ourselves admittedly behind the Russians in missile development. I am sure that we were all tremendously disappointed—even humiliated—when the first Vanguard launching of a test satellite failed. But there is one thing that we should always remember: America lives in a goldfish bowl. Because of our philosophy of government, we have very few secrets from potential enemies. Ours is a "govern-

ment of the people, by the people and for the people." We believe in the principle of an informed public. It is impossible to have an informed national public, however, without all other nations being equally informed. Imagine, if you can, a group of newspaper reporters and columnists in Russia observing the many efforts of the Russians to launch a Sputnik and announcing to the world the many failures that their scientists probably had before they successfully launched Sputnik I. Had we made space satellites a military rather than a purely scientific project, I am sure we would have long since had our own satellite in orbit.

Let me say to you that I am confident that the United States of America will not for long lag behind the Russians in missiles or any other scientific development. I know that it is possible in a relatively short period of time, if the American people wish to spend the money, not only to launch a missile to the moon, but even to put space platforms into orbit around this earth. These could be equipped with such recoverable scientific instruments as to improve the basic knowledge of our scientists to an extent beyond our wildest imagination.

These satellites and the conquest-of-space era which they inaugurated have already caused a new look at our economic situation. It is obvious that the prospect for a tax reduction has been dimmed considerably but, by the same token, the increased government expenditures should provide a stimulus to an upturn of our economy, provided we, as a people, use a little horse sense. There is no economic problem at hand that cannot be met with a combination of smarter planning, harder work, real selling, a certain discipline of mind and the exercise of reasonable discretion in the demands on the economy.

I WANT to talk to you for just a moment about this matter, because I feel that there is one economic problem of exceptional urgency before us all.

That problem is wage inflation—a kind of inflation that threatens us not only with severe distortions of the economy, with increasing business failure and unemployment, but also with a direct assault on the very foundations of our whole economic system.

What has happened is a matter of simple record. In recent years, giant labor unions, with unprecedented monopoly power, have pushed through larger and larger wage and so-called fringe benefit packages to a point where increased wage costs far outstrip the increase in productivity. And, parenthetically, when those “fringes” amount to some 20 per cent of the total wage package, they can hardly be regarded as mere trimmings or decorations—no surrey ever carried a fringe on top like that. The result has been a steady squeeze on corporate profits and constantly increasing prices for goods and services. A point has been reached, in fact, where virtually all of our economic gains are being swallowed by a very favored and relatively small segment of our population—the powerful industrial unions.

If anyone doubts that fact, he ought to take a good look at what has been happening to pay and profits in corporate business over the past few years.

In 1948, corporate profits after taxes were \$17.3 billion; in 1956, they were \$16.7 billion—down \$600 million. Over the same period, income taxes paid by corporations rose from \$12½ billion to \$22 billion, an increase of \$9½ billion. Compensation to employes of corporations rose from \$90 billion to \$150 billion, an increase of \$60 billion. In other words, of the nearly \$70 billion increase in income available to stockholders, employes and the government, the employes received almost 90 per cent of the total and the government got what was left.

At the same time that the employes were getting 90 per cent of this total gain in corporate payments, corporations were spending, over the period, some \$230 billion on plant and equipment. This was

offset partially by \$98 billion in depreciation allowances, but there was still a net increase of \$132 billion in capital investment. Clearly, the stockholders and others who put this money at risk were entitled to a fair return on the added investment, because it was their money that was used for this investment. As a group, they got no return on it.

When we are confronted by the consistent effort of one economic group to force the economy to yield greater wage increases than are justified by our gains in productivity, somebody else has to pay the added costs. That somebody is you and you and you—the average consumer. Sooner or later, as wage costs pyramid, something has to give. Prices are pushed up until consumers rebel and stop buying, or profits dry up and business firms begin to go broke. In either case, those illusory wage gains can lead to real stagnation and unemployment.

LET me say that it has long been the policy of the Ford Motor Company to confine our labor negotiations to the privacy of the bargaining table where we can hope to work out equitable labor contracts on a basis of reasonable give and take. We have no intention of abandoning that policy.

However, for several years it has been the practice of the United Automobile Workers leadership, well in advance of negotiations, to launch an extensive publicity campaign aimed at winning the support of public opinion for its program. The public too often has had only one side of the story.

Now, as we prepare for the negotiation of a new labor contract this spring, we again meet with a series of sensational public demands by the head of the UAW, Mr. Walter Reuther, who once more seeks to sway public opinion in his favor.

We must consider the fact that each of his superficially attractive proposals is being advanced by a man who finds himself occupying an extraordinarily powerful position in American life—a union leader with monopolistic power who apparently

feels he must always be out to get everything he possibly can. He apparently operates on the basis that what he thinks is good for the UAW is automatically good for everybody else. He professes to be representative of the public interest as a whole and to be equally zealous to safeguard the interests of all elements of society. In truth, a large part of his gains have been at the actual expense of other groups in the economy—employees of small businesses, farmers, teachers, preachers, civil servants, pensioners and others on relatively fixed incomes.

HIS announced goal for 1958 is a two-part package. Part One, labeled "Basic Economic Demands," is a 21-page listing of recommendations for higher annual wage increases based on an inflated so-called "annual improvement factor," higher automatic cost-of-living increases, enlarged pensions, extra payments for short work weeks, a revision upward of the present supplemental unemployment benefit plan and other benefits. He understandably refrains from putting a price tag on these increases. But their magnitude, even in boom times, would be tremendous.

The second portion of what Mr. Reuther terms his "two-package approach" outlines a so-called share-the-profits plan under which he seeks the power not only to bargain for his union members but, also, to negotiate dividends for stockholders, compensation for management and prices for customers.

Now, as a propaganda device, the Reuther proposal is a natural, because it appears to offer almost everybody something for nothing. But as a working proposition, it is fanciful and full of fishhooks.

Take only one part of this remarkable proposal: a suggestion that one quarter of a company's annual profits, after certain other provisions are made, should be returned to the purchaser of its products, thus presumably giving the consumer a wonderful break. One fishhook here is that it would

become immediately logical for everyone to buy the product—automobile if you will—of the manufacturer with the highest profit performance. The higher the profit per unit, the bigger would be the customer's bonus. How long do you imagine it would be before we would wind up with a one-company industry?

Another central and fatal flaw in this proposal is that it would invite increasing demands for union veto power over day-to-day management decisions. Budgets for advertising, research and engineering, new-model tooling; capital expansion plans; make-or-buy decisions—all would be viewed by the union as affecting profits. Naturally they do not propose a loss-sharing plan. The union would have no responsibility for or role in increasing profits. Yet, you can be sure, it would question all actions of management as tending to limit the hourly employee's share of profits. We have enough trouble, as it is, in our dealings with the union in our manufacturing operations alone.

If time permitted, there are many other fishhooks that I could describe.

I think perhaps we can understand more about this proposal by considering for a moment its author and the position in which he finds himself today.

I KNOW Walter Reuther personally. I was associated with him for several months on a study committee for the United States Senate, and I have had many other occasions to talk with him at some length. Although our economic and political views are apparently widely divergent, he gives the impression that he respects my viewpoint, and I certainly try to understand his.

I had dared to hope that, confronted with an economic downturn, with lowered sales and employment and with a serious international problem calling for increased diversion of our resources to defense needs, he would reveal himself as a true

labor statesman. I had hoped that he would realistically avoid complicating the already serious problems facing our country today by maintaining the status quo in the new automobile contracts which are to be negotiated in late spring; or at least not taking so extreme a position as seriously to threaten a wave of industrial discord.

MAKE no mistake about this: industry cannot submit to further excessive demands or sit back and passively watch the unbridled growth of union power. Free industry begins to see its very existence threatened by that power, and it will have no choice but to fight as effective a defense as it can.

My own misguided hopes about Mr. Reuther perhaps reflected the fact that I listened too much to what he said and did not give enough weight to the practical circumstances in which he finds himself.

The fact is that Mr. Reuther is a man with a serious problem.

I don't think most of us can appreciate fully the tremendous pressures upon a union leader seeking to maintain and increase his position of power. He must constantly defend himself against the natural drives of ambitious and power-hungry rivals to supplant and surpass him. He must constantly try to achieve for his followers greater gains than his rivals. This goes on throughout the hierarchy of union leadership, and in the contending of rival union leaders to deliver more than the next fellow—without regard to economic consequences—we have today a major threat to our national well-being.

For many years now, time and economic conditions have been kind to the Reuthers of this country. They have been able to establish positions of great prominence and of real power almost without parallel in American life. Unfortunately for them, they are today working against the economic tide. Yet in the inexorable law of union politics, the ante must be raised and re-raised.

What would you do if you were in Mr. Reuther's position? Suppose you could not back away from past assurances to your union members of a knock-down, drag-out fight for the "biggest wage increase in the history of the union" and for other sensational goals. Suppose, as you prepared to launch these demands, you looked into a period of rising living costs, shrinking profits, decreased sales, growing unemployment and other economic difficulties caused largely by past wage inflation. Suppose you were uncomfortably aware of your own role in stimulating that inflation and also of a mounting public annoyance and resistance against further wage inflation. What would you do if you were forced into such a box?

Well, Mr. Reuther is a fighter, and his answer is to come out slugging for all he is worth. If he can pin the blame for all our troubles on what he calls "The greed and gluttony of industry for profits," if—aided by his political allies—he can blame what he calls "administered prices" on industry, he will have a scapegoat. If, moreover, he can convince people that his huge demands will be exacted not out of the shrinking profits of 1958, but out of the larger profits arising from the unusually high business volume of prior years—you notice that's what he always talks about—then he can hope to enlist some sympathy for his demands.

THIS is the strategy we are witnessing today. Typically, he has sighted his guns on his traditional whipping boy, the profits of industry. His argument is a standard appeal to class warfare. He holds up profits as something intrinsically suspect, and presumes to sit in judgment on the morality of industry in pursuing them. He makes the general accusation that management is constantly engaged in actions that are, and I quote, "socially indefensible, economically unsound, and morally wrong."

To my mind, blaming a company for making good profits—for being an efficient producer, in

other words—is like blaming a cow for giving too much milk.

LET'S examine this question of whether or not profits are socially defensible. What better single test is there of the social value of a corporation than its profit ability?

Which does the better job for society:

The enterprise that consistently returns good profits, ploughs back earnings to expand its markets and provides growing, stable employment opportunities?

Or the low-profit enterprise that cannot attract funds for capital investment, that provides erratic employment at substandard wages? Is it more virtuous because it is less profitable?

Look at the history of automobile making in this country. Of the more than 1,500 manufacturers of cars and trucks who entered this industry with high expectations, only a handful remain today. As many as 2,500 individual makes of automobiles and trucks have gone down the long road to oblivion. They are gone because they could not make enough profits to stay in business.

It takes profits to provide jobs.

More than that, it takes the higher profits created by capable management to pay the higher wages that certain industries, such as the automobile industry, have been able to pay their employees.

Without the good profits that a capable management has earned, Ford Motor Company could not possibly pay its employees a rate 25 per cent higher than the average for industrial employees. It is a matter of pride to us that we were able in 1957 to pay our average hourly worker some \$6,400 in wages and other benefits such as pensions, hospitalization payments and so on.

Years ago, true liberals sided with working people against the indifference to human needs, and the social irresponsibility of old-time owners of industry. Public opinion brought about a correction of those abuses. Today those same forces cannot help but see in growing union monopoly power a new threat to our most cherished freedoms. Recognizing that threat, labor's thoughtful friends will act to protect and perpetuate the good things that organized labor has done for the people of this country.

THERE is an enormous job of economic and political education to be done. Unfortunately, any action aimed at restricting union power will be branded by some as reactionary and hostile to the interests of working people. But what is wanted is not union-busting and a general assault on all union leaders. The objective must be clearly limited to curbing the abuses that threaten our prosperity and our free economy.

You may ask, why don't the leaders of industry speak out plainly on this matter, as I have done here tonight. I answer simply that it is because of the power of union leaders to punish severely any such frank talk by management. They do this by closing down key plants through intermittent strikes attributed to grievances that normally would not cause a strike. As a matter of fact, it will be interesting to see if some key Ford plants are not pulled down in the near future because of my speech here tonight. I have chosen to take this course tonight despite that possibility, because of the overwhelming importance of this issue not only to Ford Motor Company but to the nation as a whole.

Ladies and gentlemen, we are at a critical period in the history of our country. We must demonstrate to the world that free people working in a free economy can outstrip scientifically, and every other way, a nation imbued with an absolutely opposite ideology.

We proved our great strength during World War II. This industrial and economic system of ours—primary target of the Soviet propagandists who would spare no effort to bring about its collapse—this same system produced most of the goods which saved from destruction the country that is today the greatest threat to the peace of the world.

We have been blessed by the Almighty with great resources of mind, matter and spirit. We have inherited the daring and the courage of the founding fathers of our country. We are buttressed by the strength of our religious beliefs.

I have complete confidence that, facing the facts and pulling together, we can combine and dedicate these great resources of ours to winning the fight for freedom in the cold war in which we now find ourselves engaged.

We did it before. We can do it again.

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