



Serving All Men Well

By PAUL HOFFMAN

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Economic Co-operation Administration,
responsible for Marshall Aid.*

PAUL HOFFMAN is one of the outstanding world figures who have emerged in the post-war years. The superb quality of his leadership of the Economic Co-operation Administration, responsible for the administration of the immense and generous dollar assistance provided under the Marshall Plan, has been recognised throughout the free world.

Paul Hoffman's career provides a first-rate example of a process not uncommon in the United States—a highly successful business man becoming a great national leader. He was formerly President of the Studebaker Corporation. He became Chairman of the Board of Trustees of the Committee for Economic Development, an organisation of leading businessmen formed in 1942 to explore ways and means of maintaining a high level of employment, and one performing an outstanding job in the United States today. His work with the C.E.D. preceded his appointment as Administrator of E.C.A. He resigned from E.C.A. a little over twelve months ago to take over the position of Director of the colossal Ford Foundation. General Eisenhower said of him: "By his deeds, Paul Hoffman has served America well, and thereby the cause of freedom throughout the world."

Mr. Hoffman has sent the accompanying article to us for special publication in "Review." We regard it as one of the most important that have appeared in this journal.

MY younger brother, who served with the American Expeditionary Forces in World War I, used to tell me that "Australians are more American than Americans." Having in mind the high spirits of his Australian friends, he meant this as a great compliment.

In the business world, those same high spirits are behind the determination of members of Australian business management to contribute what they can to the strength of the Australian free economy and to the cause of the free world.

AMERICAN and Australian business managers are agreed that they can best serve their own economies and humanity by seeking to bring about greatly expanded production. In view of the high level of employment which exists throughout most of the free world, this increased production can be achieved only through higher productivity—higher output per man hour. One of Wendell Willkie's stirring battle cries was the phrase: "Only the productive can be free!" It was relevant in 1940, and it has even more pointed application to our situation today.

While present emergency conditions give a special urgency to our need for increasing productivity, we would find it necessary to achieve it even if the free world were not faced with the need for rearming in order to prevent Communist aggression. The Communist threat is very much in our minds. How could it be otherwise? *But there is another fact of life that is even more pervasive, one that we must wrap our minds around—the determination of men everywhere to better themselves. We see this in societies that are relatively prosperous. We see it among long-slumbering peoples of the earth, who are today in ferment.* The Kremlin did not create this urge for a better life, although it exploits it as a means for gaining acceptance of its own programme of enslavement.

The Kremlin proposes, of course, as a first step that the "haves" be stripped of all their possessions for the benefit of the "have nots." Perhaps I should add that even in our free societies, there are always those who advocate this delusive and superficially expedient method for improving the lot of the masses. It is a definitely unpleasant method as far as the "haves" are concerned but, even more importantly, it offers at best only transient help to the "have nots." The end result is always the distribution of poverty and not of prosperity.

EXPANDING OPPORTUNITY

The fact that the methods of the Communists are doomed to failure does not relieve a free society of the responsibility of providing methods that will work. Far from it. If our free economies are to survive, they must prove that they can offer to the people not only the dignity for the individual that can come only with freedom, but also an expanding opportunity to live in decency and comfort.

I hope you will not dismiss it as the boasting statement of an American businessman when I say I believe that the free economic system here in the United States is giving a convincing demonstration of its capacity to serve all men well. Furthermore, the benefits accruing from our system have been steadily increasing.

From the standpoint of opportunity for individual material advancement, progress in the United States has been little short of miraculous. Here are a few cold statistics that tell part of the story. In 1900, the American economy offered about 27 million jobs—only fair jobs—to a nation of 75 million people. Today there are more than 62 million jobs available to our 150 million people—and they are much better jobs. Hourly wages of factory workers have more than doubled; insurance, retirement and medical plans for employees have gained almost general acceptance. The work week has been shortened from 60 to 40 hours.

ECONOMIC STABILITY

Perhaps the most spectacular changes in our system have been the introduction of measures to provide economic stability and to prevent another catastrophe like the Great Depression of the '30's—measures designed, for example, to maintain buying power on the part of the unemployed and to increase the buying power of the aged and underprivileged.

These advances are almost entirely due to the spectacular increase in industrial and agricultural productivity that has been taking place in the last half century. Industrial output per man hour in 1950 is roughly three times what it was in 1900, and agricultural productivity is up about the same.

The increases in productivity that have taken place in other countries in the last fifty years are not of the same dimensions as those that have taken place here. The tempo of improvement in the United States has been much faster. For example, today industrial output per man hour in the United States is more than $2\frac{1}{2}$ times that of Western Europe, whereas there was little difference in 1900.

There are many good reasons why this is so. Europe has felt the full brunt of two World Wars. America has some advantages in the way of natural resources. We also have advantages accruing from a large single market. But these advantages alone do not account for the disparity between productivity in other countries and American productivity. They do not account for the fact that the United States produces one-third of the world's goods and one-half of the world's manufactured goods, because we do not have anything approaching one-third of the world's people, or one-third of its land area, or one-third of its natural resources. The fact is that we produce one-third of the world's goods with one-fifteenth of the world's people, one-fifteenth of its land area and one-fifteenth of its natural resources.

HARD THINKING

If we are going to find the real explanation for the great upsurge in productivity that has taken place in the United States in the last fifty years, we will have to look beyond the physical to the psychological factors. Why is it that we have made such intensive use of non-human energy in the United States? Why is it that we have put eight horsepower behind every worker, as compared with two and a half horsepower in Europe? Why is it that American factory managers have been willing to invest so steadily and intensively in new and improved machines? Why is it that there has been such a constant striving to improve production practices?

The answer, in my opinion, lies in the fact that conditions in the United States have forced the managers to engage constantly in hard, purposeful thinking. Now thinking is a painful process; it is one of the most unpleasant forms of human effort. Most of us think hard only when forced to do so.

* In Australia this is 4 horsepower per worker.

American businessmen dislike thinking as intensely as anyone else. The fact that they do think hard about how to turn out better goods at lower cost, about how to raise wages and offer lower prices to consumers, has been due to pressures generated by this economic system of ours.

STRONG INCENTIVES

One pressure comes from the strong incentives that have been part of our system. There have been rich rewards to the individual who has been able and willing to think creatively. A pressure of a different type lies in the penalties that befall the business manager who either cannot or will not think creatively. He is very apt to go broke, because in this highly competitive system of ours the only security for the individual lies in a continuing forward march.

There's no denying that this combination of pressures makes for a rugged life for business executives. There are moments when most of us would enjoy that surcease from painful thinking that comes from price-fixing, market allocations and similar arrangements with competitors. That was proved in 1934, when businessmen rushed to Washington to help set up the National Recovery Administration, which gave legal sanction to myriad devices for "civilizing" competition. But, as you know, the NRA experiment was short-lived, and, except for the brief period of its operation, most American businessmen have had to compete and compete successfully if they wanted to live.

Any attempts on our part to avoid competition by entering into arrangements with our competitors put us in danger of going to jail. Our anti-trust laws had their birth in the late 1890's, but it was Teddy Roosevelt, "the trust buster," who in the early 1910's took the warpath on their behalf and fought against any and all convenient arrangements to stifle competition. Since then, the American anti-trust laws have been made sharper and tougher, and our government maintains a large staff of vigilant experts to see that they are lived up to and to plug up any leaks that might develop. The anti-trust laws, however—like all laws—derive their real significance from the fact that they grow out of and reflect the temper of American society, rather than from the legal mechanics of enforcement.

CO-OPERATION

The stress that I have placed on competition as a vitalizing factor of our economic system does not mean that I underestimate the importance of co-operation. *Here in the United States the members of a given industry, while asking and giving no quarter in competing for the market, co-operate enthusiastically to expand the total sales of their industry.* Our laws forbid "co-operation" in fixing prices, and allocating markets, but they encourage our working together for the common good of the industry and the welfare of our country.

Let me give you a concrete example of the twin forces of competition and co-operation with which the American business executive meets the twin pressures of reward and penalty. It is an example from the industry that I know best—the automobile industry.

As a measure of competition, I would like to point out that since the turn of the century, about 1,500 automotive manufacturing firms have gone out of business, and only 56 survive—competing with 20 makes of automobiles, 39 makes of trucks, and 20 makes of motor buses.

The mortality rate among firms constantly striving to build a better product at a lower cost has been severe, but the benefits to our economy and to consumers have been enormous.

The record of co-operation in the automotive industry is as outstanding as the record of competition, and equally important. Companies that have competed sharply—and continue to compete—have worked together continuously to solve common problems and to meet public issues growing out of the use of motor vehicles.

The first automobile show was jointly sponsored by the industry in 1900. At about the same time, the industry led the effort to support a federal system of highways. When this co-operative effort began, America had about 7,000 motor cars and there were virtually no hard-surfaced roads connecting our cities. Today, there are more than 50 million vehicles in America and our vast highway system connects every city and hamlet in the country.

The highway network alone, as the result of low-cost cars, not only gave rise to a vast construction industry and allied

industries providing goods and services, employing millions of people and billions of private capital, but actually has resulted in lower costs of goods and services to the ultimate consumer, not to mention providing military mobility.

Another adventure in co-operation that gave great impetus to the growth of the automotive industry was the cross-licensing system for patents worked out 35 years ago. In the early days, patent suits, threats and counter-threats, were the order of the day. Since this voluntary system has been in effect there has not been a single lawsuit involving patent infringements in the industry.

Through the Society of Automotive Engineers, the manufacturers agreed on standardization of basic parts and materials as early as 1905. One of the things that some countries have difficulty understanding is how members of a highly competitive industry in America can come together and swap information and help each other out in an organisation like the Society of Automotive Engineers.

Another example of peacetime industry co-operation is the work of the Automotive Safety Foundation, which has brought together elements of the entire industry—manufacturers of cars, trucks, parts and tyres, as well as dealers, finance companies, insurance companies and all the others with a stake in the problem—to make a stupendous saving of life and property possible.

One could go on for a long time talking about the benefits growing out of the apparent paradox of fighting one another to the death for a larger share of the market and working together like brothers for the common good. We know that this is not paradoxical; it is practical and realistic common sense. I have dwelt heavily upon this phase of American business life, because I believe it is the greatest of the so-called secrets behind American productivity.

RESEARCH ORGANISATIONS

Another secret of our competitive system is the belief that a fair percentage of our time, devoted to causes not necessarily directly connected with our businesses, and sitting around conference tables with our associates and our com-

petitors, is fundamentally profitable; profitable not only in terms of our individual affairs but, perhaps more important, in terms of the welfare of the country, and the quality of economic and political climate concerning all of us. *I believe the great majority of leading American industrialists belong to one and perhaps up to five or six non-profit organisations devoted to objective study and research cutting across individual interests. We do not ask for Government support for these enterprises, believing that it is to our interest in the broadest sense to support them with our money but perhaps more importantly with our time.*

There is still another management factor! Increasingly in recent years, American business management has come to realise that its responsibilities are much broader than they were once thought to be. This new concept is sometimes called the "*social consciousness of business.*"

In addition to the owners of the business, management now generally recognizes responsibility to employees and consumers as well. The only possible way in which management can fulfil its responsibility to all three groups—that is, to give owners a fair profit, employees good wages, and customers the best possible product at the least possible cost—is by increasing productivity.

Let me give you one concrete example of the way this works—again from the automobile industry.

In 1934, the average hourly wage in the automobile industry in the United States was 54c. By 1940, the average hourly wage had risen to \$1.00, and yet the labour cost per car was no higher in 1940 than it was in 1934. The increase in hourly rates had been offset by increased output per man hour, but to achieve this result the members of the management groups in our plants had lain awake a good many nights figuring out improved methods for handling material, developing new machines, and figuring out ways to save a nickel here and a penny there.

It was a better automobile for the consumer's money. The wage rate was nearly doubled, and there were more people to work in the industry. Finally the owners of the business were getting a better return on their investment.

BENEFITS OF HIGH PRODUCTIVITY

Out of the painful thinking that has resulted in a sharp increase in productivity in the United States have come collateral benefits that far exceed in importance the direct economic benefits. Our productivity has given us a surplus beyond our immediate material needs. Out of this surplus has come the means of providing all of our people with the opportunity for a free education. Out of this surplus, too, has come an enormous increase in leisure time and the corresponding opportunity for cultural development.

Far be it from me to suggest that we have made the most of our educational and cultural opportunities. I am well aware that we have not. *But at least we have succeeded in creating a new kind of social problem—the problem of how best to use our surplus to enrich the spiritual and intellectual lives of our people. Possession of the problem is, if I may say so, in itself a really wonderful achievement of a free society.*

The solution of that particular problem, like America itself, is unfinished business. If it has sounded as if I were bragging about my country, please believe me when I say that we Americans realise the imperfections and inadequacies, and we know how far we have to go.

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