

CAUTION - ADVANCE  
FOR RELEASE MORNING NEWSPAPERS  
SATURDAY, JUNE 18, 1938

ADDRESS

of

JOHN W. HANES

before

the

HARVARD BUSINESS SCHOOL  
ALUMNI ASSOCIATION

Cambridge, Mass.

on

June 17, 1938

8:00 P.M., E.S.T.

41823

I am happy to be privileged to participate in this important occasion. I am interested in the work of the Harvard Business School, having been associated with many of your graduates for the past twenty years. One of my brothers was a student in the School in its earliest days, and I am now in daily contact with twenty-three of your graduates who are doing good work with the Securities and Exchange Commission.

To those of you recently graduated and now advancing to the front lines of our economic and social struggle this much may be truly said - in one sense, you are not responsible for the ferment, unrest and national disorder that are the present - that is, you cannot be blamed for it. But in another sense you are responsible in that it will be largely up to you to meet it and deal with it intelligently.

I shall not undertake to preach you a sermon, or fill you with platitudes, or tell you that honesty is the best policy. There are many reasons why this sort of talk would seem silly coming from me. In the first place, I feel safe in assuming that you have been well grounded in the homiletic virtues; and, in the second place, I am so much at sea myself that I am afraid to go very far into the realm of speculative counsel. The only thing I know for certain today is that America and the world are in restless motion. We are going places. Where we are going, neither you, nor I, nor Harvard knows. The one thing I think I know is that we are not going back to what has been reverently called the grand old days of *laissez-faire*. These days are gone forever. As a matter of fact, in economic and social significance it has been one hundred years since 1928. I mean, of course, that in the past ten years more changes have been accomplished than were accomplished in the century preceding, from 1828 to 1928.

You are elected to enter life in a period of national decisions affecting agriculture, industry and labor. I am not a lawyer, but it does not require legal knowledge to convince one that forces at work in America are day by day wiping out the importance of state lines and moving in the direction of national control of many matters that formerly were regarded as local or state in their scope. Further, in the course of this period in which our national government is assuming these new duties and obligations, we are confronted with an economic crisis the impact of which on the minds of many of our people is so great as to reduce the changes taking place in our federal system to comparative insignificance in their eyes.

Our economic situation has been growing progressively worse during the last nine months. We in the United States today are at a very important and I think potentially dangerous point. What you would like to know and what I would like to know is where do we go from here. What is going to be the ultimate effect of these deflationary forces on our national life and way of living? I have said we are not going back to the old days. When the question arises where *are* we going, I have a definite idea and it gives me grave concern: if we do not face the facts, and organize the common sense and public spirit of our people, we are going straight to hell.

With this mild admonition, I come to my thesis. The most important issue America has to deal with today is recovery. Genuine, material economic recovery, I say, today transcends all other issues in this nation,

including monopolies, politics, programs, planning, reorganization, regulation, and reform. It makes little difference to me that one may say that this problem, or that, or another, is primary. I know to my own satisfaction that every problem in America today is subordinate to the health and happiness and well-being of 130 million people whose immediate destiny is absolutely dependent upon restoring this country to economic recovery.

There are a great many formulae proposed to restore recovery. Some of them are utterly fantastic, others wholly superficial, some feeble, and many purely temporary. One of our handicaps in getting at the bottom of our troubles is that so many of us devote our time and thought to searching with partisan and political zeal for some sinister influence or ulterior motive upon which we can blame the depression. This is not unnatural: political thinking always seems to be on the alert to find a culprit or to recognize a prejudice. Perhaps that is why politics has been defined as organized prejudice. But, natural or not, this sort of thinking is a definite obstacle in the way of a solution to our problems.

It is not my purpose to try to assess blame for starting the fire of this depression. As I remarked, there are many others devoting ample attention to this. My deepest interest today is in finding a way to put it out and to prevent its sparks from creating a general conflagration. I believe there is a way out, a direct, positive, and sure extinguisher, and one so directly in front of us that we may fail to see it because we are looking for something away off on the horizon.

The way to restore economic recovery and social stability in America is the way of genuine, determined, tolerant cooperation now, among all elements of our society. I know that ours is a competitive society, but I also know that ours is an interdependent society. I know that each of us is hopelessly incapable of achieving anything unless the economic machine functions smoothly. This economic machine does not and never has had any purpose other than to provide us with a great variety of things that make up our standard of living. We must never lose sight of fundamental interdependence. Genuine cooperation among all the elements of a competitive economy is attainable. It is attainable now and in my opinion it is a first essential to restore recovery and to reestablish in America a standard of living we all desire -- a standard which has no equal anywhere in the world.

If the success of our economic, political, and social order does in fact rest on our ability to get together, the immediate job of bringing recovery and the subsequent task of reaching a still higher level of prosperity can only be accomplished if the various interested parties -- which means all of us, regardless of our occupation or status in life -- become thoroughly imbued with the true spirit of working unity as our first civic duty. Our ability to find concrete methods for helping ourselves by helping each other depends on our sincere adherence to this duty.

In order to get my ideas clearly before you, I want to point out to you some highlights of our economic history during the last decade. In 1927, 1928, and 1929 we experienced very active years, but some of the things that were done in that period were hysterical, irresponsible, ill-advised, and certainly not cooperative. As you know, the next three years witnessed a severe depression which robbed American industry of twenty per cent of its

total wealth through terrific shrinkage in net working capital, and through a similar decline in plant and other assets. In the three years ending in 1935, we recovered some of the loss in current assets but continued to show a drop in plant and other assets. Then came 1936 and 1937, which, as we look at them now, were rather prosperous years. But we still failed to make up the ravaging losses of the 1930-1932 depression. We continued to have large numbers of unemployed, and the government relief burden was heavy.

This rough sketch represents a picture of the country's industrial impoverishment, even if allowance is made for purely bookkeeping write-offs of plants and for changes in the price level. As a matter of fact, much of our existing plant has become obsolete during the last five or ten years and needs replacement because it is no longer capable of rendering efficient economic service. Our industrial impoverishment is all the more serious because since 1928 approximately five million young people have come to business age and have not been able to find commercial or industrial employment.

Now, in a true partnership, responsibilities and awards are apportioned in relation to what is considered to be the due contribution of each participant in the agreement. Without a fair distribution of responsibilities and awards, no partnership can last. No member of any partnership can take it out on the next fellow for very long and get away with it.

What holds true for individual partnerships applies with equal force to our great partnership -- the national economy: no single group can take more than its fair share of the national income and continue to do so for any length of time without disrupting that economy and hence the basis of its own prosperity. We must come to recognize that both justice and the ultimate welfare of all of us require that the farmer receive his fair share of the national income; that the laborer receive his fair share; and that, since our system of private enterprise is based on profits, capital also must be justly and adequately rewarded. In the production and distribution of this income, private enterprise has the primary, and government the supplementary, role. Each should and must discharge its responsibilities with due regard for the function of the other.

If capital cannot earn its keep, it is natural to expect that it will stop flowing into industry which, for a society such as ours, would be fatal. Putting labor to work with aggregations of capital is a characteristic feature of the American System. Various estimates of the size of the capital investment necessary to employ one worker have been made, but we will not be too far off if we say that about \$7,000 is the average amount required to provide each worker with the necessary plant, tools, industrial housing, governmental facilities, etc., to enable him to turn out goods in accordance with American methods of production.

In this country we cannot rely upon the castor oil method to lubricate our economic machinery; nor the clenched fist method to put people to work. Our method involves working, saving, and putting the savings to productive use through private enterprise. This is how we provide for a steadily rising standard of living and a margin of safety for the generations to come. And there is only one force that makes this humble and simple relationship work: the ability to make profits -- the desire of each of us to get along in the world, to save for a rainy day and thus save for the nation.

We have no other force in this country for organizing production, for getting people jobs in factories, for providing an outlet for the raw materials of farmers and miners, and for the support of the Government itself, except the driving force which is represented by the ability of private enterprise to carry on and make legitimate profits.

But if profit is the spark that motivates private enterprise it is private enterprise that drives the engine of politics and society. Private enterprise goes hand in hand with democratic political and social institutions. Private enterprise maintains our democratic order in which each citizen has the right and the freedom to think, to talk, and to do pretty much as he pleases. Genuine private enterprise cannot breathe in the totalitarian state.

Capitalism is a very vague word. When some people think of capitalism, they envisage a few giant companies or very rich individuals and forget the myriad of less prominent but, in the aggregate, more important "little fellows" without whom the economic picture is woefully incomplete. I understand that there are, in this country, about two and one-half million business enterprises ranging from the haberdashery employing one or two people to the giant corporation with tens of thousands of employees and hundreds of millions of capital assets. This two and one-half million figure represents the teeming humanity of our business life.

Turning to the figures of the Bureau of Internal Revenue, we find that there were, at last reports, about five hundred thousand corporations and approximately four million individuals filing income tax returns. Confining ourselves to the data on corporations, we find that of all the active corporations filing returns in this country more than half have total assets of less than \$50,000 and only about six per cent of them have assets in excess of \$1,000,000, the remainder being scattered throughout the range of these two limits.

A little reflection will convince us that no line, except a very tenuous one, can be drawn between large business and small business; and even if one were to attempt to draw such a line at some point, it would have no economic significance because large corporations are so dependent upon the prosperity of small business. They have on their books the accounts of thousands of firms of infinite variety from which they buy goods and to which they sell.

A large automobile company buys its supplies from about 15,000 firms and distributes its products through a vast organization numbering something like 20,000 dealers, the overwhelming majority of whom are small businessmen. A well-known paint concern is supplied with raw materials by 4,000 different companies, and sells at wholesale to 30,000 customers, having, in addition 45,000 customers who buy in smaller quantities. A large mail order house purchases supplies from 6,000 concerns. One of the more important rubber companies obtains its supplies from 5,000 different sources and sells to 60,000 customers among whom are innumerable small enterprises.

I have said elsewhere that so-called big business is the Mississippi River of our industrial life, but little business may be likened surely to its tributaries. How long would it take the Mississippi to become a barren

ditch if the Alleghany and the Wabash and the other tributaries ceased to flow? It takes a vast water shed of branches, creeks, lakes and rivers converging to make the Mississippi, and I devoutly wish that in our public thinking and action we would consolidate our purposes for recovery and forever eliminate from our national policy the thought that we can have permanent recovery in America by developing a philosophy that little business and big business are alien.

Not only are large and small business interdependent, both rising together and falling together and actually being dependent for their prosperity one upon the other, but the various constituents of our economic and social structure are similarly dependent on each other. If we look at a chart depicting the behavior of these various elements over the last twenty-five years, for example, the period for which these data are readily available, we will find that corporate income, employment, government tax receipts, and farm income show a remarkable similarity of movement up and down, all behaving together. Although these simple truths may be forgotten in the shuffle of theories and ideas and super-ideas, they are nevertheless very elementary.

As a matter of fact, however, cooperation is no longer merely a matter of welfare of each constituent group of our society, but just as much a matter of saving the society itself. As I have said, our democracy now is confronted with a decision. Our economic difficulties have brought us face to face with an increasingly serious social problem in the form of very large unemployment, for which we have had to provide relief in constantly increasing amounts.

To all of us, democracy is as necessary as air; we cannot and will not live in another society. But unlike air, democracy cannot be taken for granted; we must dedicate ourselves anew to the purposes of democratic life, realizing fully our responsibilities as well as our rights. In our democracy there is no way to solve our problems effectively other than through the whole-hearted cooperation of labor, management, capital, and the Government.

I am convinced that this philosophy of cooperation is gradually taking hold. For example, Mr. John L. Lewis, Chairman of the Committee for Industrial Organization, is reported to have said that the "greatest task of mankind is to learn to enjoy national relationship with each other." He continued, "What we have learned long ago in the United Mine Workers is that the miners cannot make money unless the mine owners are making money."

On the side of capital, Mr. Myron C. Taylor, formerly Chairman of the Board of the United States Steel Corporation, recently said, "I have taken it as a part of my duty as a trustee working for the ultimate good of the army of stockholders and workers who together compose the Corporation to arrange, to the best of my ability, for cooperation between the Corporation and whatever national administration happened to be in power. The lines of interest of the Corporation considered as a whole and of the public considered as a whole must run parallel -- for the Corporation cannot exist except as it serves the public."

The power of cooperation to bring recovery was ably discussed by Mr. William Green, President of the American Federation of Labor, in an address at Cincinnati on May 21st of this year. Mr. Green said:

"The natural way to reduce unemployment is to provide work for the unemployed in private industry. The natural way to increase purchasing power is to raise American standards of working and living conditions.

"I want to emphasize that these real remedies can be applied effectively by sincere cooperation between labor and industry.

"I consider this a propitious moment to reaffirm the readiness and willingness of the American Federation of Labor to get together with business and industry in a recovery program."

In his radio broadcast of April 14, 1939, the President said:

"All the energies of government and business must be directed to increasing the national income, to putting more people into private jobs, to giving security and a feeling of security to all people in all walks of life. In all of this the government cannot and should not act alone. Business must help. I am sure business will help. Our capacity is limited only by our ability to work together. What is needed is the will; and I am determined to do my share toward building a better, a more stable and a more tolerant America."

We have talked about business and about labor. Now let's say something about the third member of the team -- government. This trinity of forces, business, labor and government each in turn cannot pass the buck. If business and labor in the brotherhood of distress -- and distress makes for brotherhood -- are ready and willing to look facts squarely in the face, I say with all sincerity that government must come forward in the same cordial and candid spirit and meet the issue as bravely and courageously as we would expect to display if our country were invaded by a foreign foe. I have little patience with any element in our country today which is not willing to put first things first, and the first and foremost thing in these United States is the defeat of this depression.

We hear much about dictators, of why and when they come. In my judgment, the dictator is the product of economic and social distress, and hungry men are the raw materials out of which dictators are made.

Whether we agree that the measures taken by the government to cope with the present economic situation will have the effect desired, I believe we can wholeheartedly agree that each of them aims to reach maladjustments in fields where recovery must be stimulated. Their purpose is to raise the income of the great farming classes, to encourage revival in the building trades to improve the tax structure and to remove some of the inequities of the tax burden on business and industry, to add to the wage income of the lowest paid industrial workers, to provide for the temporary maintenance of those out of work and on relief, to supply funds for permanent improvements of a public nature, and to make working capital available for those businesses and industries, large and small, that actually deserve additional capital and cannot readily borrow it in the money markets.

This is a big country. The public expenditures involved are big. In fact this Congress has made the largest appropriations in the peace-time history of the nation. There are those who think that, measured in terms of our already existing public debt, these appropriations are too large. There are others who think they will be ineffective in overcoming inertia and starting recovery, because they are not large enough. They do represent the judgment of the Congress based on the recommendations of the Executive. And they are made for the purpose of putting the engine of recovery back on the track so that it can run. Many believe that these measures will be effective to start recovery. I believe, however, that we should realize that they are merely the first steps, and that they will fail utterly unless we are able to follow through with the driving force of restimulated individual initiative to renew the flow of private capital and start the machinery of idle industry.

May I trespass upon my promise not to give advice, just enough to say this: Do not as young men ever allow yourselves to say publicly or privately, or to think in your hearts, that your government is your enemy. I say to you what I have said to business men on several occasions: I everlastingly try to discourage everyone whom I know in government from saying or thinking that business is the enemy of government.

It is through cooperation and trust and fair dealing by business, by labor, by government, by our people generally that we can build this nation back to recovery and that quickly.

The other day I read a statement to the effect that many of the leading persons in the government are secretly opposing recovery. I want to say that I am in utter disagreement with that statement. On all sides I have seen the most important men in the government working days, nights, Sundays and holidays, devoting themselves to bringing about a restoration of American prosperity.

If I may be pardoned a reference to the public body of which I have the honor to be a member, may I say here that the kind of cooperation I hope to see between government and business is to my mind exemplified by the recent reorganization of the New York Stock Exchange effected as a result of the joint efforts of the Securities and Exchange Commission and that Exchange. The constructive and understanding attitude of Chairman William O. Douglas has been reflected in the sympathetic effort of the Board of Governors of the New York Stock Exchange to join hands with the Commission in the creation of a public policy that gives substance with form and faith, and that illustrates more clearly than any words I may say the positive and practical service that comes when agencies of government and business unite with sincerity of purpose to the attainment of a mutually constructive policy for the general welfare.

If we realize that recovery is the prime issue in the nation; if we are willing to cooperate sincerely and actively in all our dealings with business, with labor, with government, if we have the will and dogged determination to do our best and to believe that others respond similarly to this kind of dealing; then I say America is safe and recovery is assured.