



BUSINESS ETHICS

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Then Kant makes a suggestion. If a powerful and avowed republic were to take the lead in these things—were to make itself the nucleus of an organization of States—we should find other States assembling around it, and we should find this Federation of Free States beginning to exist. Is there a “powerful and avowed republic,” that can remain indifferent to this possibility?

“If, therefore,”—I quote from Kant’s treatise—“If, therefore, there is a duty

to further public right, and if there is a well grounded hope to approximate it, then eternal peace is no empty idea, but it is a necessary task whose accomplishment draws continually nearer.” We have no right to give world history over to the play of a statecraft based upon force. We have no right to give up the effort to bring these United States into a position where international justice must be thought out and not merely fought out. (Applause.)

BUSINESS ETHICS *

By HERBERT HOOVER

Secretary of Commerce

THE advancement of science and our increasing population require constantly new standards of conduct and breed an increasing multitude of new rules and regulations. The basic principles laid down in the Ten Commandments and the Sermon on the Mount are as applicable today as when they were declared, but they require a host of subsidiary clauses. The ten ways to evil in the time of Moses have increased to ten thousand now.

A whole host of rules and regulations is necessary to maintain human rights, with this amazing transformation into an industrial era. Ten people in a whole county, with a plow apiece, did not elbow each other very much. But when we put seven million people in a county, with the tools of electricity, steam, 30-floor buildings, telephones, miscellaneous noises, street cars, railways, motors, stock exchanges, and what-not, then we do jostle each other in a multitude of directions. Thereupon our lawmakers supply the demand by the ceaseless piling up of statutes in attempts to keep the traffic open; to assure fair dealing in the economic world; to eliminate its wastes; to prevent some kind of abuse or some kind of domination. Moreover, with increasing education, our senses become more offended and our moral discrimination increases; for all of which we discover new things to remedy. In

one of our States over 1,000 laws and ordinances have been added in the last eight months. It is also true that a large part of them will sleep peacefully in the statute book.

The question we need to consider is whether these rules and regulations are to be developed solely by government or whether they cannot be in some large part developed out of voluntary forces in the nation. In other words, can the abuses which give rise to government in business be eliminated by the systematic and voluntary action of commerce and industry itself? This is indeed the thought behind the whole gamut of recent slogans—“Less Government in Business,” “Less Government Regulation,” “A Square Deal,” “The Elimination of Waste,” “Better Business Ethics”—and a dozen others.

National character cannot be built by law. It is the sum of the moral fiber of its individuals. When abuses which rise from our growing system are cured by live individual conscience, by initiative in the creation of voluntary standards, then is the growth of moral perceptions fertilized in every individual character.

No one disputes the necessity for constantly new standards of conduct in relation to all these tools and inventions. Even our latest great invention—radio—has brought a host of new questions. No one disputes that much of these subsidiary additions to the Ten Commandments must be made by legislation. Our public utili-

* Address delivered at the Annual Meeting of the United States Chamber of Commerce, Cleveland, Ohio, May 7, 1924.

ties are wasteful and costly unless we give them a privilege more or less monopolistic. At once when we have business affected with monopoly we must have regulation by law. Much of even this phase might have been unnecessary had there been a higher degree of responsibility to the public, higher standards of business practice among those who dominated these agencies in years gone by.

There has been, however, a great extension of government regulations and control beyond the field of public utilities into the fields of production and distribution of commodities and credit. When legislation penetrates the business world it is because there is abuse somewhere. A great deal of this legislation is due rather to the inability of business hitherto so to organize as to correct abuses than to any lack of desire to have it done. Sometimes the abuses are more apparent than real; but anything is a handle for demagoguery. In the main, however, the public act only when it has lost confidence in the ability or willingness of business to correct its own abuses.

Legislative action is always clumsy; it is incapable of adjustment to shifting needs. It often enough produces new economic currents more abusive than those intended to be cured. Government too often becomes the persecutor instead of the regulator.

The vast tide of these regulations that is sweeping onward can be stopped if it is possible to devise, out of the conscience and organization of business itself; those restraints which will cure abuse; that will eliminate waste; that will prevent unnecessary hardship in the working of our economic system; that will march without larger social understanding. Indeed, it is vitally necessary that we stem this tide if we would preserve that initiative in men which builds up the character, intelligence, and progress in our people.

I am one of those who believe in the substratum of inherent honesty, the fine vein of service and kindness in our citizenship. The vast volume of goods and services that daily flow through the land would cease instantly were it not for the instinctive dependence of our people upon the moral responsibility of the men who labor in the shops and farms and the men

who direct our production and distribution.

In these times of muddled thought it is sometimes worth repeating a truism. Industry and commerce are not based upon taking advantage of other persons. Their foundations lie in the division of labor and exchange of products; for through specialization we increase the total and variety of production and secure its diffusion into consumption. By some false analogy to the "survival of the fittest" many have conceived the whole business world to be a sort of economic "dog eat dog." We often lay too much emphasis upon its competitive features, too little upon the fact that it is in essence a great co-operative effort. And, our home-made Bolshevik-minded critics to the contrary, the whole economic structure of our nation and the survival of our high general levels of comfort are dependent upon the maintenance and development of leadership in the world of industry and commerce. Any contribution to larger production, to wider diffusion of things consumable and enjoyable, is a service to the community, and the men who honestly accomplish it deserve high public esteem.

The thing we all need to consider searchingly is the practical question of the method by which the business world can develop and enforce its own standards and thus stem the tide of governmental regulation. The cure does not lie in mere opposition. It lies in the correction of abuse. It lies in an adaptability to changing human outlook.

The problem of business ethics, as a prevention of abuse is of two categories; those where the standard must be one of individual moral perceptions and those where we must have a determination of standards of conduct for a whole group in order that there may be a basis for ethics.

The standards of honesty, of a sense of mutual obligation and of service, were determined 2,000 years ago. They may require at times to be recalled. And the responsibility for them increases infinitely in high places, either in business or government, for there rests the high responsibility for leadership in fineness of moral perception. Their failure is a blow at the repute of business and at confidence in government itself.

The second field, and the one which I am primarily discussing is the great area of indirect economic wrong and unethical practices that spring up under the pressures of competition and habit. There is also the great field of economic waste through destructive competition, through strikes, booms and slumps, unemployment, through failure of our different industries to synchronize, and a hundred other causes which directly lower our productivity and employment. Waste may be abstractly unethical, but in any event it can only be remedied by economic action.

If we are to find solution of these collective issues outside of government regulation, we must meet two practical problems:

First, there must be organization in such form as can establish the standards of conduct in this vast complex of shifting invention, production, and use. There is no existing basis to check the failure of service or the sacrifice of public interest. Some one must determine such standards. They must be determined and held flexibly in tune with the intense technology of trade.

Second, there must be some sort of enforcement. There is the perpetual difficulty of a small minority who will not play the game. They too often bring disrepute upon the vast majority; they drive many others to adopt unfair competitive methods which all deplore; their abuses give rise to public indignation and clamor which breed legislative action.

I believe we now, for the first time, have the method at hand for voluntary organized determination of standards and their adoption. I would go further; I believe we are in the presence of a new era in the organization of industry and commerce, in which, if properly directed, lie forces pregnant with infinite possibilities of moral progress. I believe that we are, almost unnoticed, in the midst of a great revolution—or perhaps a better word, a transformation—in the whole super-organization of our economic life. We are passing from a period of extremely individualistic action into a period of associational activities.

Practically our entire American working world is now organized into some form

of economic association. We have trade associations and trade institutes embracing particular industries and occupations. We have chambers of commerce embracing representatives of different industries and commerce. We have the labor unions representing the different crafts. We have associations embracing all the different professions—law, engineering, medicine, banking, real estate and what-not. We have farmers' associations and we have the enormous growth of farmers' co-operatives for actual dealing in commodities. Of indirect kin to this is the great increase in ownership of industries by their employees and customers, and again we have a tremendous expansion of mutualized insurance and banking.

Although such associational organizations can trace parentage to the middle ages, yet in their present implication they are the birth of the last 50 years, and in fact their growth to enveloping numbers is of the last 25 years. We have, perhaps, 25,000 such associational activities in the economic field. Membership, directly or indirectly, now embraces the vast majority of all the individuals of our country. Action of wide import by such associations has become an important force of late in our political, economic, and social life.

It is true that these associations exist for varied purposes. Some are strong in recognition of public responsibility and large in vision. Some are selfish and narrow. But they all represent a vast ferment of economic striving and change.

Ever since the factory system was born, there has been within it a struggle to attain more stability through collective action. This effort has sought to secure more regular production, more regular employment, better wages, the elimination of waste, the maintenance of quality or service, decrease in destructive competition and unfair practices, and oftentimes to assure prices or profits. The first phase of development on the business side was "pools" in production and distribution. They were infected with imposition upon the public and their competitors. In some part they were struggles to correct abuse and waste. They were followed by an era of capital consolidations with the same objects, but also to create a situation

of unbreakable agreements. Both were against public interest, and the public intervened through the Sherman Act. Yet underneath all these efforts there was a residuum of objects which were in public interest.

Associational activities are, I believe, driving upon a new road, where the objectives can be made wholly and vitally of public interest. The legitimate trade associations and chambers of commerce, with which I am now primarily concerned, possesses certain characteristics of social importance and the widest differentiation from pools and trusts. Their membership must be open to all members in the industry or trade, or rival organizations enter the field at once. Therefore, they are not millstones for the grinding of competitors, as was the essence of the old trade combinations. Their purpose must be the advancement of the whole industry or trade, or they cannot hold together. The total interdependence of all industries and commerce compels them, in the long run, to go parallel to the general economic good. Their leaders rise in a real democracy, without bosses or political manipulation. Citizens cannot run away from their country if they do not like the political management, but members of voluntary associations can resign and the association dies.

I believe that through these forces we are slowly moving toward some sort of industrial democracy. We are upon its threshold, if these agencies can be directed solely to constructive performance in the public interest.

All this does contain some dangers, but they will come only from low ethical standards. With these agencies used as the machinery for the cultivation and spread of high standards and the elimination of abuses, I am convinced that we shall have entered the great era of self-governing industry and business which has been a dream to many thinkers. A self-governing industry can be made to render needless a vast area of governmental interference and regulation which has grown up out of righteous complaint against the abuses during the birth pains of an industrial world.

Some people have been alarmed lest this associational movement mean the destruc-

tion of our competitive system, lest it inevitably destroy the primary individualism which is the impulse of our society. This alarm is groundless. Its rightful activities do not destroy equality of opportunity or initiative. In fact, they offer new avenues of opportunity for individuals to make progress toward leadership in the community. Any one of them will die at once if it does not offer equality of opportunity to its members; or, if it restricts its membership, rival associations at once emerge. They are the safeguards of small business, and thus prevent the extinction of competition. They are the alternative to capital consolidation. They are not a growth toward socialism—that is, government in all business—they are, in fact, a growth directly away from such an idea.

Right here, for the benefit of the gloomy persons who have a frozen belief that every form of associational activity is a conspiracy to fix *prices and to restrain trade, to perpetuate* tyranny of employer or employee, we may remember that there are some crooks in every line of endeavor. The underlying purposes of the vast majority are constructive. A minority may be violating the Ten Commandments and need the application of criminal standards. I am speaking, however, of something more vital than porch-climbing.

I am, of course, well aware of the legal difficulties that surround certain types of associational work. I do not believe that the development of standards of conduct or the elimination of abuses in public interest has ever been challenged as a violation of the Sherman Act. Moreover, to establish either a physical or a moral standard directly sharpens competition.

These associational activities are the promising machinery for much of the necessary determination of ethical standards, for the elimination of useless waste and hardship from the burden of our economic engines. Moreover, we have in them not only the agencies by which standards can be set, but by co-operative action among the associations representing the different stages of production, distribution, and use we can secure a degree of enforcement far wider than mere public opinion in a single trade.

When standards are agreed upon by the

associations representing the manufacturer and distributor and by those representing the user, we have a triple force interacting for their enforcement.

Now, I do not wish any one to think my feet are not on the ground in all this, and I propose to give a few illustrations from real life of what can be effected by constructive associations and by co-operation among them.

The Department of Commerce has, at the request of the lumber industry, held a number of conferences to discuss the rules of the road in that industry and its relations to the other industries and the common good. The problem was to establish more general and more constructive standards of practice, ethics, and waste elimination.

In the toil of formulating these standards there arose a question of how thick a one-inch board should be. It sounds easy. But it quickly developed to be a question whether it should be one inch thick when it was green; after it was dried; when planed on one side, or when planed on both sides. It developed not only that a choice had to be made among these four alternatives, but also that this choice had to be based upon a proper consideration for the conservation of our forests on one hand and the provision of a material of such structural character as to constitute a square deal to the consumer on the other. It also developed that there were 32 different thicknesses of a one-inch board in current use, and that some minority of manufacturers in the drive of unfair competition were gradually thinning the board, until it threatened to become paper. There also had to be developed the exact differences which threw a board into four or five different grades, and there had to be a determination of standard trade names for different species of wood. The point was that an accurate standard had to be determined before discrimination as to fair dealing and public service could be gauged. That occasion was the foundation of ethics in one-inch boards.

These conferences established some 80 questions, involving the whole technology of lumber and comprising for the first time a definite series of national standards. Here is the sum of our problem. It could only be accomplished through an associa-

tion in the industry. It is proof of industrial conscience and service.

The second part of the practical problem which I enumerated before is enforcement. Again associational activities were called upon. The manufacturers were not alone in these conferences, but the distributor and consumer were also represented by the Architects' Association, the Building Contractors' Association, the railway and other purchasing associations, and the retailers associations. The action and reaction of the buyer and seller upon each other in their desire to secure fair dealing in industry can procure enforcement. Joint inspection bureaus have been erected, where complaint for violation can be lodged and determination made. Enforcement may not be 100 per cent, but the standards are there and a sense of individual responsibility and self-interest will eventually, I am confident, make them universal.

For years aggrieved persons and some of the trade have been agitating this question of lumber standards in Congress. Numerous bills have been introduced. If this effort succeeds, no legislation will be necessary. This is keeping the government out of business through the remedy of abuses by business itself.

I propose now to mention one other case of a most vitally important and entirely different order, rendered possible only through associational activity, in which the Department of Commerce has been in active co-operation. That is the bituminous coal industry. There have been developed in this industry, as many of you are aware, 30 per cent too many mines, operating intermittently during nearly every week of the year, with a large seasonal dip in summer. Thus they required 30 per cent more labor and 30 per cent more capital than was necessary to produce the nation's coal. One effect of this situation was that some proportion of the employees secured too few days' work to yield them a reasonable standard of living, even at the apparently high daily wage. This minority of employees were naturally a constant source of agitation and disturbance. The result of all this was a higher cost of producing coal and consequently a higher national coal bill; speculation and uncertainty to the opera-

tors; hardship and difficulty and instability to a considerable portion of the workers. The fundamental cause was a vicious cycle of seasonal fluctuation in demand, annual shortages in coal cars, and periodic strikes, which grew out of the instability of labor relationships. These periods of shortened or suspended production always resulted in famine prices for coal and great stimulation to the opening of new mines.

At least four government commissions have examined this question. Probably 40 bills have been introduced into Congress proposing governmental regulation, in an attempt to correct the abuses and wastes and public danger that lay in the situation.

The associational agencies in the field were those of the operators, of labor, of the railway executives, and of the various associations of industries as consumers. The first problem was to secure a general knowledge of the causes, to which I feel the Department of Commerce contributed substantially. Remedy was undertaken in many directions. The railway association induced the construction of a more ample supply of coal cars and greater expedition and interchange in handling between different railways. The Department of Commerce, in co-operation with the chambers of commerce, manufacturers' associations, railway and public utilities associations, secured that more coal should be put in storage during the summer season. The result was that last year, for the first time in many years, we had no interruption in the distribution of coal due to car shortages. One element of the vicious cycle in this situation is eliminated, provided we can continue this same co-operation in the future.

The second part of the solution was the general agreement by both operators and labor that stability could not be restored in the industry unless there was a long period of continuous operation, in which the absence of coal famines and profiteering would eliminate the speculative and high-cost producers and reduce the units in the industry, and thus its intermittency. The labor agreement between these associations made last February for a term of three years has assured this improvement.

Here we have an example of the most

profound national importance in at least the beginning of stabilization of an industry involved in a most vicious cycle of waste and trouble. The national savings can be measured in hundred of millions and the human hardships greatly lessened. There will be some preliminary hardship in so great a self-imposed surgical operation, but I am confident it will heal to the mutual interest of the operators, the public, and the workers. Today I do not believe there is any sentiment for government regulation of the bituminous coal industry.

Another instance of great interest in which I had the honor to participate was the abolition of the 12-hour day in the steel industry through the action of the steel association.

I could give you a multitude of examples of the beginnings of constructive self-government in industry among many other associations. The very publication of codes of ethics by many associations instilling service as the primary purpose; the condemnation of specific unfair practices; the insistence upon a higher plane of relationships between employer and employee—all of them are at least indications of improving thought and growing moral perceptions.

All of this is the strong beginning of a new force in the business world. The individual interest is wrapped up with the public interest. They can find expression only through association. Three years of study and intimate contact with associations of economic groups, whether in production, distribution, labor or finance, convince me that there lies within them a great moving impulse toward betterment.

If these organizations accept as their primary purpose the lifting of standards, if they will co-operate together for voluntary enforcement of high standards, we shall have proceeded far along the road of the elimination of government from business. American business is never secure unless it has public confidence behind it; otherwise it will always be a prey to demagoguery and filled with discouragement.

The test of our whole economic and social system is its capacity to cure its own abuses. New abuses and new relationships

to the public interest will occur as long as we continue to progress. If we are to be wholly dependent upon government to cure these abuses, we shall by this very method have created an enlarged and deadening abuse through the extension of bureaucracy and the clumsy and incapable handling of delicate economic forces. The old law merchant is the basis of much of our common law. A renaissance of a new law merchant could so advance our standards as to solve much of the problem of government in business.

American business needs a lifting purpose greater than the struggle of materialism. Nor can it lie in some evanescent, emotional, dramatic crusade. It lies in the higher pitch of economic life, in a finer regard for the rights of others, a stronger devotion to obligations of citizenship, that will assure an improved leadership in every community and the nation;

it lies in the organization of the forces of our economic life so that they may produce happier individual lives, more secure in employment and comfort, wider in the possibilities of enjoyment of nature, larger in its opportunities of intellectual life. Our people have already shown a higher sense of responsibilities in these things than those of any other country. The ferment of organization for more definite accomplishment of these things in the practical day-to-day progress of business life is alive in our business world.

The government can best contribute through stimulation of and co-operation with voluntary forces in our national life; for we thus preserve the foundations upon which we have progressed so far—the initiative of our people. With vision and devotion, these voluntary forces can accomplish more for America than any spread of the hand of government.

INTERNATIONAL DOCUMENTS

JAPAN AND IMMIGRATION EXCLUSION

(NOTE.—Following is the text of the Japanese protest against the exclusion provisions of the Immigration Bill, handed to Secretary of State Hughes on May 31 (I), and of the Secretary's reply.)

I

JAPANESE EMBASSY,
WASHINGTON, May 31, 1924.

HON. CHARLES E. HUGHES,
Secretary of State.

SIR: In pursuance of instructions from my government, I have the honor to present to you herewith a memorandum enunciating the position of Japan on the subject of the discriminatory provisions against Japanese which are embodied in section 13 (C) of the Immigration Act of 1924, approved May 26, 1924.

Memorandum

The Japanese Government are deeply concerned by the enactment in the United States of an act entitled the "Immigration Act of

1924." While the measure was under discussion in the Congress they took the earliest opportunity to invite the attention of the American Government to a discriminatory clause embodied in the act, namely, section 13 (C), which provided for the exclusion of aliens ineligible to citizenship, in contradistinction to other classes of aliens, and which is manifestly intended to apply to Japanese. Neither the representations of the Japanese Government nor the recommendations of the President or of the Secretary of State were heeded by the Congress, and the clause in question has now been written into the statutes of the United States.

It is perhaps needless to state that international discriminations in any form and on any subject, even if based on purely economic reasons, are opposed to the principles of justice and fairness upon which the friendly intercourse between nations must, in its final analysis, depend. To these very principles the doctrine of equal opportunity now widely recognized, with the unfailing support of the United States, owes its being.