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Industrial Relations

or

Twenty Years of Co-operation Between Capital and Labor

An Address by

JOHN S. BAKER

President Baker Manufacturing Co.

EVANSVILLE, WISCONSIN

Given before the

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at

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INDUSTRIAL RELATIONS



MR. HAMBRECHT, Chairman—We are fortunate in having with us this evening two men of state and national reputation with reference to the subject matters that are assigned to them. As the forerunner of the topics discussed this afternoon would indicate, the human relation problem, or more technically referred to as industrial relation department of industry, is of growing importance: The relation of the satisfied workers, the human situation running through the plant, and the personnel, is of vital importance with reference to the success of the institution. And we have with us tonight, Mr. Baker, President of the Baker Manufacturing Company, who has given this subject a great deal of attention and has shown practical results in the establishment with which he is connected, and I have great pleasure in introducing Mr. John S. Baker.

MR. JOHN S. BAKER, Ladies and Gentlemen: Capital and labor should pull together, because their interests are almost identical. The institution with which I am connected has for the past twenty years been trying to make them pull together by making them one. The Baker Manufacturing Company, is a relatively small concern located in a small city. It was founded by my father, A. S. Baker. When a boy of about eleven his mother died. He was a member of a large family and his father farmed him out with a neighboring farmer. Not liking farming he ran away and learned the blacksmith trade. When the Civil War broke out, he enlisted and served in the Iron Brigade. He was twice wounded, the last time seriously, in the battle of Gettysburg.

After his release, he returned to Evansville and engaged in blacksmithing again. Soon he was making carriages. He conceived an idea for a rotary steam engine, and he came here to Milwaukee in the winter of 71 and 72, and supervised the building of one machine. It operated fairly well and the outlook was promising. A firm was formed of six members each putting in one thousand dollars. They bought a lot, built a shop, bought three or four machine tools and built two or three engines. They did not prove economical and they were obliged to abandon the project. Wishing to make some use of the shop they began making farm pumps and windmills.

The first few years were losing years. They had to put more money into the enterprise. After about two years, they had invested \$12,500 and they discussed whether they would give up. Up to this time the management had been somewhat divided. The buying had been done by a hardware firm and the book-keeping by a general store.

They decided to put everything in my father's hands and instructed him to go ahead and make a success of it if he could, but under no conditions was he to increase the indebtedness. As good fortune would have it, he was successful. The earnings were left in the business and by the year '82, they had accumulated \$50,000 of assets. They became incorporated for

\$100,000. Time went on and they still left their earnings in the industry, and in '92 they declared their first dividend of 6 per cent on \$100,000 capital.

The year '93 was a bad year. It was the year of the panic. They did not earn their dividend nor did they earn it the next year. In the spring of '94 it was very difficult to keep running. Money was difficult to borrow, collections were poor and orders scarce. Common labor in those days commanded \$1 a day; concerns about them cut wages and we decided that the only way to keep going was to cut wages. We called the men together and announced a cut. They did not like it. We asked the men to come together with us and try to devise some method of profit sharing for the future, but they were not interested in sharing profits with a concern that had no profits to share. As time went on, profits again appeared and the year 1897 was particularly prosperous and in the spring of 1898, we declared an extra ten per cent dividend.

At each of the annual meetings, the matter of profit sharing was brought up. Nothing was done, however, until the spring of 1899. Then the president, Mr. Almeron Eager, came out and said he was willing to share profits. He said "The Bakers have made a success of the business and if they want profit sharing, I for one am willing that they should have it." The other stockholders agreed and a liberal form of profit sharing was devised. They decided to become authorized to issue \$300,000 of stock; \$200,000 to be preferred and issued to the old stockholders for their old stock, two shares of the new for one share of the old. The other \$100,000 was to be common stock and issued in profit sharing as profits were earned.

At this time, they had \$208,000 of net assets, \$8,000 in excess of the new preferred and they decided, that, to get the good will of the men, they would pay them a ten per cent cash bonus on their past year's wages and any small amount left over would be paid to the stockholders as an extra dividend. The men were called together. There was one fellow who refused to come and advised some of his fellow men not to come. He told them "They are only going to cut wages again."

At the meeting, the men were paid a ten per cent cash bonus on their past year's wages and told that in the future, the company would share its profits liberally with them. They were very much surprised. It was explained that an inventory would be taken each year and if, after paying the regular five per cent dividend on all stock, there should be a gain, ten per cent of it was to be put into a sinking fund and the rest divided between preferred stock and employees in proportion to the earnings of each. Employees in this case meant all persons in the employ of the Company at the factory for over two years, managers as well as laborers and mechanics.

If the employees should receive during the year \$30,000 wages and preferred stock \$10,000 dividends, then the division was to be between the employees and preferred stockholders as thirty to ten. Three-fourths of the gain after setting aside the sinking fund would go to employees and one-fourth to preferred stockholders. This meant we capitalized labor at twenty times its earnings.

The first year went by and we figured up and found we had sixty per cent to add to preferred dividends, bringing our total dividends up to eight per cent, and we had sixty per cent to add to employees' wages. These

amounts were not paid in cash, only fifteen per cent in cash and the other eighty-five per cent was paid in common stock.

The directors had decided that it would be the policy of the company not to buy the stock. They did not wish to draw cash out of the business by buying the stock; they wished to buy labor-saving machinery, enlarge their plant and put themselves in better shape to compete. But there was one fellow who wanted to sell. He had three or four shares and the President said, "It is common to look upon common stock as watered stock, and we want to show these fellows that it is really worth something and has \$100 of real value back of it." He moved that in this case we buy in the stock at par. We made the offer and it was accepted and the man was very much pleased.

We continued year after year. The percentages added to preferred dividends and to employees' wages during the first eight years ran like this: January, 1900, 60; 1901, 82; 1902, 74; 1903, 98; 1904, 69; 1905, 28; 1906, 81; 1907, 120.

It was soon apparent that there would be stock continually coming on the market. The men organized themselves and tried to buy it as fast as it was offered. They wished to keep hold of it, and they wished to maintain the price at par. At first they were successful but it soon came faster than they could take care of it and the price declined. It went down and down until it struck a level of about \$65 a share.

The stock that was sold went largely into outside hands; and during this interval several of the preferred stockholders, (original stockholders), died and their stock went into the hands of their heirs. These outside stockholders and heirs began to feel that they wanted a larger share in the profits and they set about to get it. Their plan was to get the employees to vote down profit sharing. They told the employees that if they would stop sharing profits, the stock would return to par. They also offered as an inducement a twenty per cent increase in wages and higher dividends. They failed and profit sharing continued.

But by this time, we had plenty of capital and there was a profit in the purchase of stock below par, so we decided to change our policy in regard to buying stock. Up to this time, there had been no restrictions on the stock. Employees could sell to whomever they saw fit. Since the change in our by-laws in 1909 the stock has been issued only on the condition that it be left on deposit with the Company under contract to sell to the Company at the market price whenever the share holders wish, and whenever we have sufficient funds in our stock purchase fund. The Company has the privilege of buying the stock when the owner goes to work for a competitor, when he goes into business for himself, or when he has worked for another for five (5) years. If he remains with the Company until he retires the Company cannot buy the stock without the owner's consent.

The market price of stock is determined by averaging the price of the last one-hundred (100) shares sold. One of the principal elements determining the market price of stock is the sale of what we call "stub shares." The amount of stock apportioned to honorary employees cannot be measured in full shares of \$100 each. There are fractional amounts left over—these stubs are combined into whole shares and sold at the annual meeting. Each

owner of a stub is entitled to bid for these shares—the man who bids the highest gets the share or shares he bids for at the price bid and so on until all the shares are sold.

At first, the stock was nearly all bought by preferred stockholders or by some of the better paid employees, and it usually went about \$65 a share, but as time went on, it increased in value and at the last annual meeting, it sold for a little over \$80 a share, and at this time it went into many hands. There were only three men who succeeded in getting more than one share.

We used to give fifteen per cent in cash and eighty-five per cent in stock. We now give only ten per cent in cash and ninety per cent in stock. What we used to call profit sharing we now call remaining wage, and extra preferred dividends. During recent years we have had the following results: January, 1908, 100 per cent; 1909, 78; 1910, 100; 1911, 100; 1912, 47; 1913, 75; 1914, 70; 1915, 90; 1916, 50; 1917, 70; 1918, 100. And this January again another 100 per cent. The average of all these figures is 80 per cent, that is, we have added to preferred stock dividends during the twenty years, 80 per cent annually, and we have added to our employees' basing wage, 80 per cent annually. In this connection I would like to read a clipping from our local paper, which was contributed in 1913.

"THE BAKER MANUFACTURING COMPANY PROFITS SHARED WITH THE EMPLOYEES WHO QUALIFY."

"Capital And Labor On Equal Terms."

"The Baker Manufacturing Company is practically a co-operative concern. More than half of their stock is now owned by their employees and nearly all the earnings in excess of five per cent on the capital goes to the wage earners.

"All their stock receives a five per cent dividend annually, if earned. Their by-laws are such that the common stock cannot receive more, however prosperous the company may be. Any earnings in addition to the five per cent dividend are given to the employees as additional wages, and to preferred stockholders as extra dividends. At the end of 1912, the relation between wages and preferred dividends was such that the wage earners received ten times as much as the preferred stockholders.

"During the past thirteen years these extra dividends have added to the preferred stock earnings from one to six points annually, making the total earnings of preferred stock from six to eleven per cent annually.

"The same percentage has also been added to the employees' wages.

"These extra wages and dividends are not paid in cash, but in common stock which does not sell for par, but at about seventy cents on the dollar.

"Yet considering this fact, the company for the past thirteen years has added annually at the end of each year to the older employees' wages, an average of the equivalent of sixty per cent in cash.

"This means that the man who has received \$700 for a year's service in weekly wages, has received all told the equivalent of \$1,120 in cash.

"About three fourths of the employees receive these additional wages.

All are eligible to them when they have fulfilled certain conditions. They must have worked for the company 4,500 hours and must not have sold any of their stock.

"The company aims to pay its employees competitive wages weekly, i. e., wages which will enable them to live as well as if they were working for a competitor.

"The company is working on the policy of making capital and labor one, i. e., of getting the stock in the hands of the employees.

"In its earlier experience the company found that, notwithstanding the fact that it was giving a large amount of stock to its employees each year, it was rapidly drifting out of their hands and the number of shareholders was becoming impractically large.

"They now set aside each year a part of their earnings to buy stock with, and require all stock given to employees to be placed on deposit with the company, under contract to sell to the company when it is sold.

"The company has attempted to make conditions such that if the employees put forth their best efforts and work in harmony with capital, they will receive, in return, their extra earnings and savings.

"It has also tried to provide a safe place for them to invest their savings where they themselves could be the guardians of it, and draw it out little by little during old age.

"During the past fourteen years, the employees have received in addition to their weekly wages, \$428,354.00 in stock, \$69,386.00 in cash. These figures do not include the annual five per cent dividend on the stock."

And if these figures were brought up to date, there would be \$768,000 in stock and \$107,000 in cash. Some of you may wonder why it is that we could do this, and I will admit, when I say the average percentage has been 80 per cent, that it is somewhat misleading. As already indicated, not all of our employees receive this remaining wage each year—only those who have become honorary employees; i. e., worked 4,500 hours. If we had divided up the same amounts among all of our employees, it would have resulted in about 64 per cent average in place of 80 per cent; and we do not figure these percentages in every case on our employees' actual wages. We do with the office employees and day-workers, but not with piece workers. In their case, we base it on the wages they would have received had they worked day work instead of piece work. At piece work they usually earn about 25 per cent more than they do at day work. Had we divided with our piece workers on their actual wages, it would have cut the percentage from 64 to about 55 per cent.

Again, if we had gone out in the open market for our capital, we would have had to pay six to seven per cent for it, whereas we only pay five per cent on our common stock.

Then, there has been a profit in the purchase of our stock at less than par from the people who have left our employ. We have been purchasing it in at the market, which has varied all the way from 65 to 80 per cent of par.

Taking all these things into consideration, it probably would have reduced the average percentage to about 45 or 50 per cent. That is to say,

had the division been with all our employees and on their whole weekly wages, and had we paid seven per cent for all our capital and bought no stock at less than par, our average percentage would have been about 45 or 50 per cent. Where has it come from?

Some may perhaps think we have not done the fair thing by our preferred stockholders, or that we have perhaps paid a small weekly wage in order that we might pay a large remaining wage at the end of the year. Let us see what we have done for our preferred stock. I can remember on several occasions before we went into this, some of the original stockholders wanted to sell but they couldn't find a buyer. There was really no market for their stock, and when we first started there was only \$100 of property back of each share of preferred but as time has gone on, this amount has increased and today there is between \$700 and \$800 to earn the dividend on each share of preferred. It is to some extent invested in bonds, and the income on these bonds alone is sufficient to pay the preferred stock dividend two or three times over. So we have increased the security of preferred stock enormously. The Company has a standing offer to buy preferred stock at \$140 a share, and besides this, we have paid preferred for the past twenty years an average annual dividend of nine per cent. Roughly, six per cent of this nine per cent has been paid in cash, the rest in common stock.

Then as to what we have done with labor. I have investigated on numerous occasions to find out whether we were paying competitive wages. I will mention but two things. The United States Department of Commerce and Labor published a bulletin, No. 57, applying to the year 1905. In that bulletin they stated that the average wage for windmill manufacturers for the year was \$503. The average of the Baker employees for the year was \$561. The output of the windmill manufacturers of the nation was \$2486 per employee. The output for our employees was \$3400. Bulletin No. 75, applying to the same year stated that the agricultural implement concerns on the average paid \$539, and the average output per man was \$2347.

Now, where does it come from? It is my belief that this is largely the result of increased production due to increased effort and intelligence of our men; and that if you destroy this remaining wage scheme, this production would not continue.

I believe the overhead per man is less where the men have an incentive such as we have offered. To illustrate, suppose a barber running one chair has an income of \$8 per day, and his expenses are \$4. He has made for himself \$4. And supposing he should decide that he is going to put forth every effort and increases his output ten per cent. The income would then be \$8.80, the expenses would remain the same, and he would have \$4.80 for himself. Or with a ten per cent increase in output, he has made twenty per cent increase in earnings. You have heard it said that a rented house needs more repairs and depreciates faster than a house in which the owner lives. I can remember that my mother used to say that a hired girl would often prove practically worthless and be inattentive and let her work go, but as a rule the same woman after she married and had a house of her own would be a good housekeeper and become thrifty.

We had an experience which I wish to relate. Some eighteen years ago we wished a galvanizing plant. We contracted with an expert galvanizer

to come to our plant and do our galvanizing on a ton basis. The contract was drawn up in such a way that we were to know his cost and at the end of four years, it was our privilege to buy him out. We did, but kept his men, giving them the same wages that he had paid them, but we told them that if they would make the cost of galvanizing less than it had been, we would share liberally with them. And they did, they made the cost less under those conditions than they had when one man, the foremen, got all the benefit of the increased production.

We have practiced a different plan of remaining wages at other points besides Evansville. As our business has grown we have established sales houses and at three of these branches we have established a remaining wage system somewhat similar to what we have at the factory, although it is not so liberal. We recognize that the ups and downs at these branch houses would be greater than at the factory, due to the fact that they depend upon a limited territory and a good crop might make an unusual profit and a bad crop might result in a loss. Then too, we did not wish to lose the controlling interest. I will read their by-laws. They are much shorter than ours and illustrate the main features of our factory by-laws.

BY-LAWS OF BRANCH HOUSE

The employees shall be paid partial wages, which shall be full compensation for their services until they become honorary employees and are entitled to remaining wages, the remaining wages to be fixed at the end of each year, after the results of the year are known.

To determine the remaining wages, an inventory shall be taken January first of each year, of all assets, excluding accrued interest, and all liabilities, including sinking fund and the face value of stock outstanding. In pricing the materials of the inventory, the market prices shall not be used but prices midway between the moderate market prices and the prices put on the same articles in the last annual inventory; the object being to eliminate practically all the gains and losses from fluctuations in market prices.

In case the liabilities exceed the assets, the loss shall be drawn from the sinking fund; but if the assets are greater than the liabilities, the excess shall be used as follows:

(A) To pay January twentieth a seven per cent dividend on all stock outstanding January first.

(B) One third of the amount remaining shall be put into a sinking fund which shall be used for two purposes only. (1) To make up losses shown by annual inventory, and (2) to make the dividends up to five per cent in years when the earnings are less.

The sinking fund shall become the property of the preferred stock should the company be dissolved.

(C) The remaining two-thirds shall be divided equally between the preferred stock and the honorary employees—the portion going to the preferred stock to be known as an extra preferred dividend, and the portion going to honorary employees as remaining wages.

The extra preferred dividend shall be divided among the preferred stockholders in proportion to the number of shares they each hold, and the

remaining wages shall be divided among the honorary employees in proportion to their wages as honorary employees for the past year.

Payment shall be made as far as possible with the whole shares of the Company.

The remaining wages shall not be more than fifty per cent of the partial wages. Should they figure more, the excess shall not be paid to honorary employees but be put into the sinking fund.

Any person who has been continuously in the employ of the Company for two years, and has contracted to place on deposit with the Company, subject to the purchase contract, all stock he may own, shall thereupon become an honorary employee.

Any person who shall sell any of his stock or draw it out of deposit, who quits the employ of the Company, or who has been discharged, ceases to be an honorary employee and is not entitled to remaining wages for the year. Should he continue in the employ of the Company or be rehired, he shall forfeit his remaining wages on one year's time.

The book value of each share shall be par when there is a sinking fund, but when there is no sinking fund, it shall be the last annual inventory of assets less all liabilities, except stock outstanding divided by the number of shares outstanding.

The Company shall not loan its employees money except with its stock for security. It shall not loan more than \$5.00 per share. It shall not loan to employees except to assist them to own a home or in case of unusual misfortune.

PURCHASE CONTRACT

The owner agrees that when he sells this stock, he will sell it to the Company at its book value.

The owner further agrees that if he enters the employ of another or goes into business for himself, he will sell this stock to the Company at the above price whenever the Company requests it.

It is further agreed that when the owner has left the employ of the Company, and given notice in writing to the Company that he wishes to sell his stock, and the Company does not buy at the above price within thirty days after such notice then the Company agrees upon receipt of \$1.00 per share to surrender the stock to the owner free forever from the conditions of this contract.

The Company agrees to pay the owner upon his request after he has left their employ, the book value for this stock whenever they can spare the funds from their business.

The past year two of these corporations have earned sufficient so that they have added 50 per cent to their employees wage. In fact, they went beyond the limit of 50 per cent. Another corporation paid 36 per cent in remaining wages.

These remaining wages separate us from some good men, but this would be natural, for every man wants to be his own boss. It furnishes them with capital with which to go into business, and we have had a number of valuable men leave us whereas if they had not had the capital they could not

have left us. Quite a number of men have sold their stock to make their first payments on farms. Three or four years ago I was up in the Lake Superior country, and between trains my wife and I stopped off at Chetek to see an old school mate of hers, who lived in the country. On the way the school mate pointed out five different farmers who had gotten their start from the sale of our stock.

Our turn-over for a number of years prior to 1917, averaged 24 per cent; for the year 1917, 50 per cent; for the year 1918, it was 60 per cent. We carry our own employees' liability insurance. It has averaged for seven years past twenty-five cents per \$100 payroll. Forty per cent of our employees own their own homes; 28 per cent own automobiles; more than half our capital is owned by our employees. I think that capital should be in the hands of those persons who will make it serve the people best, that is who will make it do the greatest good to the greatest number. Our capital is going into the hands of those persons who have served the longest and held the most important positions, and I trust they will handle it more wisely than would parties who were not so familiar with the business nor so vitally interested in it.

Co-operative societies are often a side issue, the owners livelihood is not gained through them; to a large extent they are everybody's business. With us co-operation is our principal business, our bread and butter. Whatever we can save or produce more than workmen usually produce is ours.

Our board of directors is composed of our foundry foreman, windmill machine shop foreman, superintendent, buyer, cost accountant and myself. On the afternoon of the annual meeting we close the shop and hire the city hall for the meeting; most of the employees attend and are interested in knowing the Company's business affairs. It seems to me that this is much better than to have the capital owned almost wholly in Chicago or New York and financial matters largely a secret from the employees and neither capital nor labor really knowing the other fellow's side. If you separate capital too completely from labor, the conditions become unstable.

I believe that if, in ordinary times, any corporation will get the good will of its employees and tell them that the stockholders in the future will be paid the average amount the stock has earned (say for the past five years), and any amount which the company earns in addition to this will be divided among the employees, the amount which will be coming to the employees will be surprising.

MR. HAMBRECHT—On behalf of the commission I want to thank Mr. Baker for the splendid presentation of the business of a concern we have been very much interested in watching, and I am sure the audience is much interested in the way you have handled it.

Are there any questions you would like to ask Mr. Baker?

A VOICE—How many employees have you in this plant?

MR. BAKER—About 150 at the present time.

MR. HAMBRECHT—Any other questions?

A VOICE—Have you any literature that gives an idea how this thing works out?

MR. BAKER—In what respect?

Q.—Any details on it, any part of it, where we could get the figures.

MR. BAKER—Quite a little has been published on it. The United States Government has some literature on the subject and there are a number of references to it in different documents which I can not call to mind this minute. The U. S. Department of Labor sent a man to our place. They had so many inquiries they sent a man there to investigate, so they could give first hand information. I would also state that there was a write-up in the American Magazine some five or six years ago, by Ida Tarbell. There was also a write-up in the Independent perhaps twelve years ago.

A VOICE—What was the cause of the large labor turnover in 1916 and 1917?

MR. BAKER—I would say largely the same as caused a large turnover elsewhere. We hired all the school boys we could, and some women, and we did everything we could to fill our orders. There is a canning factory in our town which had to have labor. When they started they took a number of the boys and women away from us.

MR. JACKSON—I would like to say that 60 per cent is a very low percentage of turnover during the year 1918, when you consider the shops throughout the country going up to 300 and 400. We kept track of it in our shop and it ran up to 300 and 400.

MR. HAMBRECHT—Any other questions?

A VOICE—May I ask, Mr. Baker, what is your average daily wage for high priced labor, skilled labor?

MR. BAKER—It varies a great deal. Our best moulders are making \$6 and \$7 a day, our common labor is making about thirty-five cents an hour. We have men unloading coal and pig iron by the ton getting sixty-five cents an hour. Most of our work is piece work.

Q.—Is that independent of the dividend?

MR. BAKER—My statements refer to wages paid weekly. Remaining wages are in addition to these amounts. Our average wage is forty-three cents per hour at the present time.

MR. HAMBRECHT—Any other questions?

MR. WILCOX—I want to say this, no employee of the Baker Manufacturing Company has ever made an application to the Industrial Commission for a hearing on compensation.

MR. HAMBRECHT—I think Mr. Baker has emphasized the thing that is in the minds of a great many with reference to the human relations of the company. While many concerns have been working out their problems along the lines of their own peculiar organization, there is a great deal of food for thought in regard to what may be done and yet it is clear that the great trend of the future is toward what Mr. Baker has said with reference to what may be done in order that the worker may have some integral interest in the product of his labor. If there are no other questions we will pass on to the next subject.