

Post Depression Labor Relations: An Examination of the Two Largest Mail Order  
Companies and their Approaches to Labor Management

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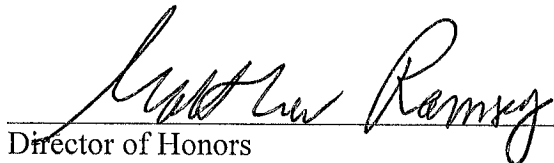
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## Introduction

The struggle between management and employees has been an ever-present issue since the birth of the modern corporation. The tension that exists between corporations and their employees is also intertwined with a third party—the Government. Each has vied for their own sense of power within this triangle causing the alliances to shift depending on the current political and economic state within the United States. Employees often sought more regulation whereas corporations favored the opposite. Realizing that many issues had to be resolved, the Government became the body to either give or take both entities' power. Although both corporations and their employees needed the Government to pass the laws, the men and woman vying for positions within Government needed the support of the other two entities in this triangle. Due to this, a mixed, complicated web emerged.

Due to the clashing opinions on regulation, Government in the United States was slow to address labor management practices. It became obvious after the industrial revolution, with the emergence of an abundance of capital and labor, that legislative solutions to this problem were necessary. These legislative solutions were met with mixed success when challenged in the court system. The common perception throughout the courts was that any collective employee action was akin to a criminally charged crime and labeled as conspiracy. In 1842, in *Commonwealth v. Hunt*, Chief Justice Shaw of Massachusetts limited the conspiracy doctrine to requiring either an illegal purpose or a parallel resort to illegal means. This limitation on the conspiracy doctrine, however, was not enough to change the court system's conservative assessment of labor practices.

Later, in 1890, legislators tried to instead limit the scope of trusts that were developing within the business world by passing the Sherman Antitrust Act, better known as the Sherman Act. This Act, although it had the right intentions, did not effectively achieve its purpose because it was too vague and companies easily found ways around the legislation. One way that the Sherman Act proved effective, however, was against labor unions, thereby raising the question of whether this Act should be applied to labor. In 1894, workers involved in the Pullman strike successfully used the Sherman Act as the basis for its defense in court and won. In 1914, the Clayton Antitrust Act (Clayton Act) was passed as an answer to the faults of the Sherman Act. This Act listed several basic categories of collective labor activities and held that none of them could be considered violations of United States law. Due to these new Acts, the United States started to pay attention to governing employer and employee relations.<sup>1</sup>

With the start of the 1920s came a new kind of life; “The Roaring Twenties” consisted of a fast paced, big spending, and carefree society. During this period, while extremely conservative politicians ruled the nation, rebellions against societal norms began to occur. In a short number of years, the United States experienced immense change as the nation tried to keep up with a transforming society. When this momentum finally slowed, what was left was a nation questioning what had occurred, trying to make sense of a shattered society. As one author described it, not only was the 1920s a time for

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<sup>1</sup> Patrick Hardin and John E. Higgins, Jr., eds., *The Developing Labor Law* (Chicago: American Bar Association, 2001), 8-12.

Big Government and Big Business, but a Big Society that took off and could not be tamed.<sup>2</sup>

Leading up to the market crash of 1929, corporations were the driving force of the economy and many had immense influence within the Government. The Government allowed big businesses and banks to prosper because their profitability was propelling the economy. However, once the market crashed, the American population was at a loss. The era of prosperity that the United States had been enjoying in the previous decade suddenly stopped. This new, dire situation that the country faced was radically different from the free-flow of spending during the 1920s. Moreover, corporations felt a great difference in their level of power. During the 1920s, conservative economic decisions had widened the gap between the wealthy and the poor to a heightened level. Once the Great Depression hit, people realized a new wealth distribution was needed and one way to do so was to limit corporations' ability to operate without regulation. During this same shift in corporate power, labor unions found their footing. Corporations had to compete with labor unions for Government support and large corporations could not count on automatic Government cooperation any longer. This power shift meant that corporations now had to address the threat that unions posed. More workers were joining labor unions and labor union strength against corporations was on the rise.

Prior to the market crash, corporations were able to retain employees without much resistance because of the practice known as welfare capitalism. Welfare capitalism is a term for the collective benefits provided to the worker that were not required by the industry or by law. Many believed this to be a system of mutual benefits to both the

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<sup>2</sup> Paul A. Carter, *The Twenties in America* (New York: Thomas Y. Crowell Company, 1975), 53.

corporations and their employees. Employers provided benefits for their employees and in turn employers were able to retain loyal employees for life. Many corporations adopted this practice, acting as “father figures” for their employees.<sup>3</sup> Corporations provided housing, benefits programs, health care, education, hosted communal events, and sponsored sports teams for their employees. This inclusive supportive interaction between corporations and their employees led to a corporate family community. Generally, this left both employees and employers satisfied with the situation because each was able to benefit from the symbiotic relationship they shared.

Once the market crashed in 1929, however, the close ties previously enjoyed between employees and employers were lost. The practices of welfare capitalism unraveled. The corporations had to fire many of their dedicated employees, many of whom had been lifelong employees and did not know how to do anything else. Not only were they out of a job, but they had grown up practicing one trade and thus had no idea where to turn to find work. Almost overnight, those who were fired no longer viewed the corporations as their protectors but instead blamed them for their financial problems. Consequently, labor unions, with their promises of security, control and safety, suddenly became much more appealing. At the same time that corporations lost the trust of their employees they also lost the ability to regulate their own policies as the Government flexed its strength for employees. The influence that corporations had once held over the Government was lost and the Government began to intervene with economic regulations and on behalf of the labor movement in a much more prominent way.

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<sup>3</sup> Sanford M. Jacoby, *Modern Manors* (New Jersey: Princeton University Press, 1997), 3.

This thesis aims to examine the ways in which corporations adapted to this shift in power between corporations and labor unions. Moreover, this thesis will examine the two biggest mail order companies—Sears Roebuck and Montgomery Ward—and the differences in their employee relations during this transformative time. Sears was a decentralized corporation that paid attention to formulating positive employee interactions. Montgomery Ward, contrastingly, was ruled by an authoritative figure that condensed the company into a centralized structure. The differences in the structures and employee relations at these companies shed light on the way in which corporations sought to succeed after the Great Depression. Companies that continued to implement welfare capitalist practices, such as Sears, sustained better employee retention and productivity.

Due to the nature of this time, with the rise in labor unions' power, this thesis also aims to explore ways in which corporations dealt with unions and what worked to mute unionizing efforts. As this thesis will demonstrate, corporations that took an active interest in their employees were better able to stop unionization of the company. At Sears, an extensive anti-union campaign helped keep unions from unionizing the entire company. However, at Montgomery Ward, the company refused to acknowledge the unions and instead constantly was defending the corporation rather than focusing on building better employee relations. Contrasting the treatment of labor relations by these two similar companies aids in the explanation of why labor and employee management has become vital to corporate health.

Chapter one examines labor unions between 1929 and 1947. In particular, the chapter highlights the changes from 1929 to 1935 and again from 1935 to 1947,



demonstrating how labor unions' objectives shifted with significant Government legislation. This chapter also explores the labor unions' interactions with Government officials and unions' growing influence upon Government in passing labor reforms. Moreover, it highlights significant changes within the unions themselves. The newfound power in dealing with businesses led to a rapid formation of new unions because every trade wished to create a union. As unions gathered more strength and amassed a growing number of members, the ideas on how to unionize workers also changed. Although there was a significant increase in the number of union victories, there was also dissension within the movement, which ultimately led to the creation of the Committee for Industrial Organizations (CIO)<sup>4</sup> from the American Federation of Labor (AFL) in 1938. After the split, a union within the CIO and a union within the AFL would often attempt to unionize the same corporation. Because of this, the struggle became not only between corporations and labor unions but also between labor unions themselves. Therefore, the period from 1929 until 1947 experienced dramatic changes for labor unions, and this chapter is intended to help identify the issues arising during this period.

Chapter two examines two methods that were used to manage the efficiency of workers—welfare capitalism and scientific management. Corporations were well suited financially to provide many of the amenities that their employees desired in order to retain their workforce. This made welfare capitalist practices prominent within corporations during the 1920s. During this same time, Frederick Taylor developed the idea of scientific management. Scientific management was the idea that one could break down a days work into tasks and synchronize them in an order that would maximize

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<sup>4</sup> Later the CIO changes its name to the Congress of International Organization.

productivity. After the market crashed in 1929, however, many corporations cut welfare capitalist practices because the programs could no longer be afforded. While many corporations stopped these benefit practices, the importance of testing employees' attitudes grew. The desire to understand what would make employees work to optimum productivity was necessary during a time when many corporations needed to maximize output with a small workforce. From this desire came the Hawthorne experiments, which provided the basis for employee attitude testing and concluded that morale, as opposed to simply benefits, was a driving factor in employee productivity. This chapter thus presents corporations' early methods of managing worker efficiency and improving labor relations prior to the 1930s.

Chapter three then turns from the macro business changes to focus on Sears and its employee relations. Sears presents an example of a corporation that continued to implement welfare capitalist practices. The company was run with a decentralized structure that allowed workers more autonomy. Within this structure, the company also made an effort to continue certain benefits for its employees. While the purpose of many of the benefits overlapped with the desire to keep unions from unionizing the entire company, employees at Sears still benefited from such largesse. Sears is an example of how a company that continued to provide for workers post 1929 was better able to reap the benefits of employee retention, better productivity, higher employee morale, and better labor relations.

Chapter four focuses on Montgomery Ward and the company's interaction with unions. This chapter demonstrates how although both Montgomery Ward and Sears were in the same line of business, the two were markedly different. Sewell Avery ruled

Montgomery Ward and did not leave any room for others to have a say in the company. The environment that Avery created left many employees unhappy with their work at Ward. Because the company was ruled with a centralized, autocratic environment, the desire to craft programs for employees' well being did not occur. Instead, Montgomery Ward viewed labor unions as an aggressor that should be fought in court. What Montgomery Ward failed to realize was that the shift in power from corporations towards labor unions caused its aggressive responses to unions to consistently be an unsuccessful strategy. Therefore, the company, in its refusal to implement magnanimous labor practices, suffered from high employee turnover and decreased productivity.

Through an examination of both Sears and Montgomery Ward, one can conclude that attention to employees helped facilitate better operations, profits, and labor relations. Allowing employees more autonomy and creating corporate divisions that attended to employees helped minimize employee turnover and increased production. Moreover, the ability to facilitate a healthy corporate environment assisted that company in deterring unions even though corporations no longer retained the same amount of power. Thus, although corporations had many options, those that looked to continue welfare capitalist practices, and increased attention towards employee matters, found they enjoyed greater profitability during a troubled time.

## Chapter I: The Labor Union Movement from 1929 to 1947

Labor unions have run a tumultuous course in which their power has both increased and waned. During the fluctuations in power, the goals of the unions have changed as well. What once began as organizations looking to better working conditions for employees has turned into powerful entities with the ability to gain more than only increases in wages for their members. As workers came to realize that in banding together, their opinion would have be heard, the notion to create labor unions arose. From 1916 until 1920, there was a small supply of labor. This caused employers to have to provide workers with benefits if they wanted to retain a workforce. Because employees received benefits, they saw no need to pay additional union dues to obtain these same benefits.<sup>5</sup> After the Great Depression, however, labor unions found their footing. Government began to blame corporations for the great losses in the economy and labor unions were seen as the answer. This chapter, which explores labor unions from 1929 until 1947, provides a look at organized labor's growth and the tension that grew from this quick rise to power. Finally, it demonstrates how the tension within the labor movement itself deterred unions' abilities to fully succeed against corporations.

### *Masked Promises—1929 to 1935*

Union membership fell drastically after the market crash of 1929. Most people no longer could afford to pay union dues. Moreover, because the unions did not hold much power against corporations, there were not many reasons to remain in unions. In court, rulings rarely went in labor unions' favor, and thus labor unions lost members due to an

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<sup>5</sup> Nathan Shefferman, *How Unions Organize*, (National Research Bureau, Inc.).

inability to gain traction for union causes after the market crash. Whilst there was a need to push for change in labor regulation, the labor unions were divided on how to proceed. Conservative members of the American Federation of Labor (AFL) wished to accomplish negotiations peacefully. However, more union members were beginning to side with the radical members who believed that drastic measures were the only way to accomplish their goals. Although the AFL was still the predominant labor federation, the tension beneath the surface between members would lead to a major schism, making unions have to fight a two front war against their own as well as against corporations.

In the early 1930s, the AFL accounted for roughly 85 percent of the organized workforce. Many of the various union groups under the AFL distanced themselves from the country's weak socialist movement. The AFL had also adopted a policy of "voluntarism," which opposed relief and welfare legislation and stressed the need for workers to depend on their own economic strength. AFL leaders remained adamantly opposed to federal or state unemployment relief and any other social welfare programs. Instead, the AFL pushed corporations to maintain wage standards so that mass purchasing would recover.<sup>6</sup>

In 1932, the passage of The Norris-LaGuardia Anti-Injunction Act helped spark the union fever.<sup>7</sup> This Act brought about relief from injunctions issued for decades against strikers. It curbed the power of corporations who used the courts to obtain mandates or restraining orders against strikes, except for fraud and violence. The Act declared that

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<sup>6</sup> Gilbert J. Gall and Robert H. Zieger, *American Workers, American Unions* (Baltimore: Johns Hopkins University Press, 2002), 54, 62.

<sup>7</sup> The Norris-LaGuardia Anti-Injunction Act is more commonly referred to as the Norris-LaGuardia Act.

workers were free to bargain collectively and join unions.<sup>8</sup> It further outlawed the “yellow dog” or anti-union contact with employees.<sup>9</sup> Because the Norris-LaGuardia Act operated solely to restrict federal judicial intervention in labor disputes, it has been looked at as more of a reform that helped organized labor to act for itself without the interference of the courts, rather than an aid to organized labor within the court system.<sup>10</sup>

The year 1932 also saw the United States’ presidential election in which Franklin D. Roosevelt beat Herbert Hoover by a landslide. Roosevelt was inaugurated on March 4, 1932 and not long after being elected, on June 16 1933, his administration passed the National Industrial Recovery Act (NIRA) as part of the New Deal. The NIRA allowed employers within a single industry to create trade associations that set production quotas or fixed prices under “Codes of Fair Competition.” Employers in turn agreed that these codes would establish minimum wages and maximum hours. The specific language of the NIRA provisions also stated that employers could not stifle unions, interfere with efforts to form unions, or refuse to enter into bargaining relationships. Within the legislation, Section 7 (a) declared that workers had the right to bargain collectively with their employers through representatives of their own choosing. Additionally, Section 7 (a) established that employers could not require employees to join company unions and that they could not stop them from joining the union of their choice.<sup>11</sup>

Unfortunately, rather than calm the issues that were mounting between unions and corporations, the NIRA ignited a strike wave and brought the issues raised by Section 7

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<sup>8</sup> National Labor Relations Board, “Pre-Wagner Act Labor Relations,” <http://www.nlr.gov/75th/prewagner.html> (accessed 20 Nov 2011).

<sup>9</sup> Irving Bernstein, *The Lean Years* (Cambridge: The Riverside Press, 1960), 415.

<sup>10</sup> Patrick Hardin and John E. Higgins, Jr., eds., *The Developing Labor Law* (Chicago: American Bar Association, 2001), 26.

<sup>11</sup> “Pre-Wagner Act Labor Relations.”

(a) to the forefront of the labor disputes. Because of this, the year 1933, and especially the second half, experienced the most work stoppages since 1921. The main reason for the strikes of 1933 was that employees sought the right to bargain collectively. Companies, however, refused to negotiate with the new union organizations that were rapidly forming and proliferating throughout the country. Instead, many companies created corporate unions as a way to maintain control over the unions that their employees would join.<sup>12</sup>

The primary purpose of the Act, however, was to boost economic recovery with the creation of the National Recovery Administration (NRA). The NRA relied on business groups and trade associations to develop codes of fair competition that would be binding on all firms enjoying their protection. The NRA gave workers hope and stimulated the formation of unions.<sup>13</sup> This legislation ignited the labor movement.

Following the creation of the NRA, in 1934, corporations experienced many strikes. During 1934, work stoppages totaled 1,800 and involved over 1.5 million strikers. Moreover, the largest labor protest in the South's history, the General Textile Strike, also occurred in 1934. Around 170,000 workers (about two-thirds of the southern textile labor force) in North and South Carolina, Georgia, Tennessee, and Alabama participated in the walkout.<sup>14</sup> During this year as well, particularly radical strikes took place in Toledo, Minneapolis-St. Paul, and San Francisco. These citywide strikes demanded labor reforms,

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<sup>12</sup> Irving Bernstein, *The Turbulent Years: A History of the American Worker 1933-1941* (Boston: Houghton Mifflin Company, 1970), 173.

<sup>13</sup> Gall and Zieger, *American Workers, American Unions*, 69.

<sup>14</sup> Janet Irons, *Testing the New Deal: The General Textile Strike of 1934 in the American South* (Urbana and Chicago: University of Illinois Press, 2000), 3-5.

and more than that, reforms for a new way of life.<sup>15</sup> This wave of strikes in part came about from the enthusiastic reaction to the NRA, but it also demonstrated just how disgruntled workers were with the limitations of labor policy even under the new federal recovery program.

Following the initial euphoria with the NRA, labor unions began to realize that there were a few major problems. Section 7 (a) could not be enforced. Although the legislation claimed that workers had the right to create unions free of employer control, the NRA had no way to enforce this issue. In theory, the Labor Advisory Board (LAB) was to hear complaints and bring them to the attention of the NRA code compliance authorities. In turn, these authorities could recommend that the NRA director, General Hugh Johnson, take away offending companies code certification, which was granted when a company complied with the code and was awarded a Blue Eagle symbol (the NRA's emblem of compliance). If code protection were taken away, the offending company would have to remove the Blue Eagle. The threat of the Blue Eagle symbol loss was not seen as an effective threat for many companies because it was merely a slap on the wrist that did not change the fortunes of any company. A company's lack of concern for whether they displayed a blue eagle demonstrated that the NRA was not as effective as intended. While the NIRA and the NRA had once been promising ideas, the NRA eventually gained the nickname the "National Run Around" because of the amount of code requirements necessary to check off in order to get anything done. In this early phase of the New Deal, the jumbled labor policies of the Roosevelt administration

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<sup>15</sup> Paul Buhle, *Taking Care of Business: Samuel Gompers, George Meany, Lane Kirkland, and the Tragedy of American Labor* (New York: Monthly Review Press, 1999), 100.



appeared to conform to a pattern of failure of labor reforms. Finally, on May 27, 1935, the United States Supreme Court stopped the NRA altogether; in A.L.A. Schechter Poultry Corp v. United States, the Court declared that the NRA was unconstitutional.<sup>16</sup> This ruling completely dismantled the entire NRA operation. Thus, the NRA ceased to exist after 1935.<sup>17</sup>

### Increased Tension and Increased Success 1935-1940

After Franklin Delano Roosevelt was elected in 1932, he was faced with the daunting task of ending an economic depression and its attendant high unemployment rate. His solution came to be known as the New Deal. The New Deal was a series of economic reforms that Roosevelt and his administration passed starting in 1933. As part of these efforts, on July 5, 1935, Roosevelt passed the Wagner Act, also known as the National Labor Relations Act. President Roosevelt proclaimed that the act “define[d], as a part of [the] substantive law, the right of self-organization of employes [sic] in industry for the purpose of collective bargaining, and provide[d] methods by which the government [could] safeguard that legal right.”<sup>18</sup> The Wagner Act made it harder for employers to stand up to collective bargaining, and employers were legally bound to negotiate with union representatives chosen by the employees themselves. The Act also made it legal for employees to organize and join unions without running the risk of being terminated by their employer. Furthermore, the Act gave workers the rights to “engage in

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<sup>16</sup> Gall and Zieger, *American Workers, American Unions*, 75, 79.

<sup>17</sup> Legal Information Institute, “A.L.A. Schechter Poultry Corp. v. United States (No. 854),” Cornell University Law School, [http://www.law.cornell.edu/supct/html/historics/USSC\\_CR\\_0295\\_0495\\_ZS.html](http://www.law.cornell.edu/supct/html/historics/USSC_CR_0295_0495_ZS.html) (accessed October 5, 2011).

<sup>18</sup> “ROOSEVELT SIGNS THE WAGNER BILL AS 'JUST TO LABOR,’” *New York Times*, July 6, 1935.

concerted activities for the purpose of collective bargaining or other mutual aid or protection.”<sup>19</sup> Now workers could engage in pickets, strikes, or other organized activities against their employer without the possibility of facing consequences. These changes greatly altered labor unions’ power against corporations. For the first time, corporations had to focus on the demands of labor; unions in turn had to craft new ways to deal with their newfound power. Labor law shifted from violence and aggressive confrontation to civility in hearing rooms and courts.

The Wagner Act’s key triad of rights was written in Section 7. These were the right to organize, the right to bargain collectively, and the right to engage in strikes, picketing, and other concerted activities. This triad was considered essential to establish a balance of bargaining power between employer and employee, and thereby to avoid the pitfalls and inadequacies that had characterized earlier labor legislation. The passing of the Wagner Act, although highly criticized by its opposition, was a seminal turning point for the struggle of labor unions during the 1930s. With this Act, the concept of “unfair labor practices” was finally addressed, which aided unions’ power. Without the passage of this Act, the labor unions would not have had the power to advance the interests of their membership with corporations and the Government. The Wagner Act was the statute by which the National Government gave labor unions the opportunity to become an important force in American society and the economy.

The Wagner Act also established an important body to govern labor disputes—the National Labor Relations Board (NLRB). The NLRB was a three-member board that was in charge of investigating and enforcing the “unfair labor practices” laid out in the Act.

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<sup>19</sup> National Labor Relations Board, “National Labor Relations Act,” <http://www.nlr.gov/national-labor-relations-act> (accessed October 5, 2011).

The Act gave the NLRB the power to rule over cases concerning employee representation. The Act further set guidelines for NLRB procedures, which included how to conduct judicial review and the right to utilize court enforcement of Board orders.<sup>20</sup>

Although the Wagner Act was seen as a great milestone for labor unions, there were still some in the movement who feared what would come next. A common fear that contradicted the fundamental beliefs of the AFL was that Government bureaucrats and NLRB board lawyers were making basic decisions regarding the future and direction of the labor movement. The AFL believed that workers' representatives should be the ones to make these decisions.<sup>21</sup> Because all AFL members did not uniformly share these beliefs, the AFL experienced dissension internally. Members were becoming more divided over which tactics should be used to fight against corporations on behalf of membership's interests. Many younger workers wanted to stage protests against corporations; traditional AFL "old-timers" did not embrace this strategy. With the passage of the Wagner Act, more unions felt encouraged to conduct their business in any way they saw fit.

The tension between union members grew as the number of people joining unions increased. After the passage of the Wagner Act, every trade wanted a union. However, the AFL policies were too limiting for some members who believed that these policies did not embrace the new powers given by the Wagner Act. Therefore, in 1935, John L. Lewis, of the United Mine Workers, along with seven other union presidents, created the Committee for Industrial Organization (CIO). After the CIO's creation, in an attempt to keep the tension with the AFL at bay, the CIO stated that it was still part of the AFL and

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<sup>20</sup> Hardin and Higgins, Jr., *The Developing Labor Law*, 27-29.

<sup>21</sup> Gall and Zieger, *American Workers, American Unions*, 81, 82.

that the CIO's basic purpose was to organize the unorganized. However, it was clear that the CIO and the AFL could not remain on amicable terms based on how they viewed one another from the outset. In a speech that Lewis gave regarding the poor working conditions for workers in America after the split, he said, "we think that American Federation of Labor is responsible for the present situation because of its eternal policy of doing nothing," demonstrating that he placed blame for labor's problems on the AFL, not just the corporations.<sup>22</sup> However, not all union members were happy with the growing internal union tensions. Many members disliked the creation of the CIO because they believed that labor's cause would be ruined by the stresses between the two unions and an inability to focus attention on unionizing employees. Unfortunately for union members, this is exactly what occurred, as strained relations rose between the two groups and eventually led to the final break between the AFL and CIO.

In 1936, Lewis sealed the split between the AFL and the CIO. The AFL had previously perceived the CIO's industrial unions' conduct as dual unionism and demanded that the CIO disband. The CIO refused and thus the AFL suspended most of the CIO unions involved.<sup>23</sup> Therefore, Lewis did not want the CIO unions (who were still part of the AFL) to be represented at the November 1936 AFL annual convention. Subsequently, Lewis angered the AFL leaders by admitting international unions that did not have AFL charters into the CIO. An AFL/CIO split was assured when Lewis brought charges against William Green, president of the AFL, as a member of the United Mine

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<sup>22</sup> Bernstein, *Turbulent Years*, 401, 403, 412.

<sup>23</sup> National Labor Relations Board. "Enforcement of the Wagner Act," <http://www.nlr.gov/75th/enforcement.html> (accessed November 20, 2011).

Workers.<sup>24</sup> Lewis claimed that Green had conspired to suspend the United Mine Workers of America from membership in the AFL. Green was scheduled for trial on these charges before the International Executive Board in Washington on the day that the AFL convention was ordered to take place. When Green did not attend his trial, the Executive Board ordered him to “cease and desist from his present acts and associations.”<sup>25</sup> In response, Green proclaimed that the Executive Board decision was a personal attack from Lewis, and therefore the ties between the AFL and the CIO were now officially severed.<sup>26</sup>

After 1937, the CIO experienced immense success. They were finally noticed as an actual rival federation to the AFL. The CIO was involved in 39 percent of strikes in 1937 versus the AFL’s 49 percent. However, while there were fewer CIO strikes, “twice as many workers were involved in the CIO strikes as in the AFL strikes.”<sup>27</sup> Moreover, almost 3 percent of the strikes during this year were disputes between rival unions. The most notable dispute between AFL and CIO was the AFL Teamsters’ protest against the CIO for organizing bakery workers.<sup>28</sup> The CIO continued to grow and expand, eventually chartering 32 national and international unions, 600 local industrial unions, and 80 state and city central bodies. In response to the CIO’s accelerated growth in union membership, the AFL realized it needed to fight back against the CIO if it was to survive. Because the CIO was mainly composed of industrial unions, the AFL slowly got rid of the industrial unions they held and focused on strengthening their craft unions.

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<sup>24</sup> William Green was the second long-term president of the American Federation of Labor, serving from 1924 until his death in 1952.

<sup>25</sup> Bernstein, *Turbulent Years*, 426, 427.

<sup>26</sup> Following the split, the CIO changed its name to the Congress of Industrial Organizations and declared itself a permanent organization.

<sup>27</sup> United States Department of Labor, *Analysis of Strikes in 1937*, Monthly Labor Review (Washington: United States Government Printing Office, 1938), 13.

<sup>28</sup> *Analysis of Strikes in 1937*, 14.

1937 was a defining year for labor unions because it was the first year that the constitutionality of the Wagner Act was fully tested. The N.L.R.B. v. Jones & Laughlin Steel Corporation was a monumental case for testing the limits of the Wagner Act.<sup>29</sup> Because the Court in this case extended the Wagner Act's reach to industries "affecting" commerce, and the commerce clause was given an expansive reading to embrace manufacturing and mining industries, the impact of the Wagner Act increased. These results were revolutionary in that they now allowed Congress to regulate labor decisions in a wider spectrum of the economy.

After the 1937 Jones & Laughlin decision, the Labor Board had an influx of cases. In 1938, the total number of cases before the Board reached an astounding 10,430 and within the next two years the number of cases continued at a high rate of between 6,000 and 7,000 cases annually. Significant expansion of labor protections continued as new interpretations of the Wagner Act held that practices such as industrial espionage, employment of *provocateurs*, strikebreaking, private police, and industrial munitioning were illegal. The Board also argued that the employer had to bargain in good faith, although because the "good faith" standard was vague, "good faith" was difficult to measure.

Unfortunately, at the same time these substantive membership protections were achieved, the Board was also spending a great deal of time handling the mounting issues arising between the AFL and the CIO. Not surprisingly, industrial and craft unions frequently wanted to unionize the same unit. Eventually, the Board resolved this

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<sup>29</sup> "N.L.R.B. v. JONES & LAUGHLIN STEEL CORP., 301 U.S. 1," [http://www.library.pitt.edu/labor\\_legacy/JonesLaughlinCase.htm](http://www.library.pitt.edu/labor_legacy/JonesLaughlinCase.htm) (accessed 15 Nov 2011).

organizing dispute by developing the “Globe election,” so named from the Globe Machine and Stamping Case of 1937. The Globe election doctrine required that if there was a unit dispute between AFL and CIO unions, then the Globe election pitted each CIO union against the AFL and whichever had more votes would then get to attempt to unionize the unit. Because union disputes and this method to resolve such disputes preceded the unions’ ability to bargain, it slowed down the process and the achievement of benefits for union members. In 1939, Senator George W. Norris commented that the real issue with the NLRB was that the board was “trapped between the AFL and the CIO and it could not satisfy either side.”<sup>30</sup>

Despite their differences, AFL and CIO union leadership, Green and Lewis, attempted to forge a relationship in 1937 with talks of unity. Such talks, however, fell through after neither side could get what they wanted. Thus, an intensification of the conflict between the two arose.

In addition to the increased conflict between the two union groups, unhappiness extended outside the unions themselves. The Roosevelt administration was also growing more displeased with the issues between the AFL and CIO. In 1938, Roosevelt helped to pass the Fair Labor Standards Act in hopes of, in part, making the AFL and CIO have a reason to be unified, but it did not work. Not only was the split between the two federations dangerous to the goals of the New Deal, but it also led to undermining Government support for the labor movement. This difficulty was of particular concern because the next election was coming due in 1940.

Unfortunately for Roosevelt, the re-election support from labor would not come

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<sup>30</sup> Bernstein, *Turbulent Years*, 647, 648, 681.

from John Lewis. In 1940, Lewis met with Roosevelt at the White House and offered his support for Roosevelt's third term if he would allow Lewis to be his vice-presidential candidate. Roosevelt did not trust Lewis and therefore refused. As a result, Lewis worked against Roosevelt's reelection. In a speech in October 1940, Lewis said, "It is obvious that President Roosevelt will not be reelected for a third term unless he has the overwhelming support of the men and women of labor. If he is [...] reelected, it will mean that members of the CIO have rejected my advice and recommendation."<sup>31</sup> Lewis went so far as to propose that he would retire at the annual labor convention in November if the CIO supported Roosevelt. When in fact Roosevelt won the election on November 5, 1940, most of labor unions rejoiced. Lewis's gamble to renounce his title undermined his own position within the CIO. At the next CIO conference in late November, Phillip Murray was elected the new president of the CIO, and John L. Lewis stepped down.

*The War Years to the Taft-Hartley Act, 1941-1947*

After Philip Murray was elected, he proclaimed that the CIO would create the "most vigorous, far-reaching organization drive that has ever been put on." Thus, in 1941, the CIO organized hundreds of strikes, and CIO members constituted 70% of the total number of strikers. In 1941, there were 4,200 strikes, one of the highest numbers in American labor history.<sup>32</sup> Once the United States joined the war effort for World War II, however, this momentum stopped due to the No-Strike Pledge (NSP). The NSP was a voluntary agreement between the AFL and the CIO leaders and the Government to stop enacting work stoppages for the duration of the war. Originally the NSP put unions in the

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<sup>31</sup> Bernstein, *Turbulent Years*, 719.

<sup>32</sup> Gall and Zieger, *American Workers, American Unions*, 106.



good graces of both employers and the Government. The number of work stoppages fell precipitously. In 1942, there were only 2,968 strikes, involving approximately 840,000 workers. This represented a decline of 31 percent in the number of strikes and 64 percent in the number of workers involved from the previous year.<sup>33</sup> The following year, 1943, proved to be a different story. The Allied powers were gaining momentum in the war and, therefore, although the NSP was still in place, it no longer stopped workers from striking. Union workers became bitter and resentful of the NSP for they believed that it only benefitted union leaders. The workers realized that without work stoppages, which were their most powerful tool, they were unable to retain leverage in negotiations at a company. Thus, from 1943 until 1945, the NSP became almost irrelevant and the number of strikes increased consistently each year.<sup>34</sup> By war's end, labor union membership was at an all-time high. The 14.5 million union members constituted over 35 percent of the civilian labor force. Moreover, with the end to the NSP, labor unions were ready to increase strikes. The great strike wave of 1945-1946 peaked in the winter, making 1946 the single most strike-torn year in American history.<sup>35</sup>

This avalanche of increased strikes greatly threatened to undermine Truman's post-war programs. The immense number of strikes threatened to completely unravel the anti-inflation program. As a result, sentiment against labor unions was on the rise. Many people now realized that there could be negative effects arising from giving unions too much power. Furthermore, it became necessary to find a way to keep unions from

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<sup>33</sup> United States Department of Labor, *Strikes in 1942: Bulletin No. 741* (Washington: United States Government Printing Office, 1943).

<sup>34</sup> Strikes in 1943 totaled over 3,700; in 1944 strikes totaled 5,000; in 1945 strikes included 3.5 million workers.

<sup>35</sup> Gall and Zieger, *American Workers, American Unions*, 144, 148,

constantly resorting to strikes because the workflow in a company needed to continue. Thus it was in 1947, that Congress passed the Labor-Management Relations Act, also known as the Taft-Hartley Act.<sup>36</sup>

The Taft-Hartley Act once again limited labor unions' power. It imposed severe restrictions on unions, strengthened managerial prerogatives, and recast the NLRB. It limited the right to strike and required union officers to sign anti-Communist affidavits. The hope of the Taft-Hartley Act was to reduce the frequency of strikes, to protect all people (workers, employers, and the general public) from wrongdoings of unions, and to undo some of the New Deal policies. The main concern, however, was to restructure the federal labor policy by changing the character and functions of the NLRB.<sup>37</sup> Section 7 remained within the law, but it now provided employees with the right to refrain from participating in union or mutual aid activities. The amendments further protected employees' rights from restraint or coercion by unions, and said that unions could not cause an employer to discriminate against an employee for exercising Section 7 rights. The new Act established that the closed shop was illegal but employers could sign a union shop agreement in which employees would be required to join the union on or after the 30th day of employment unless states said otherwise. Overall, the new act furthered a legalistic conception of the relationship between workers and unions and between unions and employers, modifying the basic orientation of the Wagner Act.<sup>38</sup>

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<sup>36</sup> President Truman, however, vetoed the bill. The bill was only enacted into law because Congress overrode the veto: National Labor Relations Board, "1947 Taft-Hartley Passage and NLRB Structural Changes," <http://www.nlr.gov/75th/1947tafthartleypassage.html> (accessed November 20, 2011).

<sup>37</sup> Gall and Zieger, *American Workers, American Unions*, 154.

<sup>38</sup> National Labor Relations Board, "1947 Taft-Hartley Substantive Provisions," <http://www.nlr.gov/75th/1947tafthartley.html> (accessed November 20, 2011).

Labor unions were extremely unhappy with the Taft-Hartley Act. They did not agree with any of the changes, and did not like the fact that power previously held was taken away. Union bankrolls were curtailed as unions were now prohibited from charging higher than necessary dues or initiation fees. They were also no longer allowed to “featherbed,” or make an employer pay for work that did not occur.<sup>39</sup> After passage of the Taft-Hartley Act, the number of union victories in NLRB-conducted elections declined. Previously, during the 12-year Wagner Act period, unions were able to win over 80 percent of the elections. In the first year alone after the Taft-Hartley Act, unions won 10 percent fewer elections.<sup>40</sup>

*Teamsters vs. ILWU—A Closer Examination of the Effects of AFL and CIO Tension*

*Teamsters*

The Teamsters, also known as the International Brotherhood of Teamsters (IBT), is a drivers union formed in 1903 at a convention in Niagara Falls, NY, under the direction of its first General President, Cornelius Shea. Four years later, the Teamsters elected Dan Tobin as General President and he served as president for the next 45 years. With Tobin’s election, the Teamsters began more aggressively organizing through the broadening of the membership base as well as gaining increased revenue and recognition. Later, when motor trucks became prominent, these drivers would become the key personnel within the Teamsters union.<sup>41</sup>

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<sup>39</sup> “1947 Taft-Hartley Substantive Provisions.”

<sup>40</sup> National Labor Relations Board, “1959 Landrum-Griffin Act,” <http://www.nlr.gov/75th/1959landrumgriffinact.html> (accessed November 20, 2011).

<sup>41</sup> International Brotherhood of Teamsters (IBT), “The Early Years,” <http://www.teamster.org/history/teamster-history/early-years> (accessed November 20, 2011).

The trucking industry in particular was extremely volatile because many truck drivers did not know whether they would be employed from one day to the next. The industry utilized a system called the “shape-up” system.<sup>42</sup> This system made it so that at the start of every day, drivers assembled at company truck terminals and were selected for work based on their seniority.<sup>43</sup> Because of this system, workers often enjoyed being part of the union because they would be notified if there were shape-ups occurring at businesses that they did not know about. Therefore, throughout the Great Depression, when jobs were even scarcer, more truck drivers turned to the Teamsters to help find employment opportunities.

1934 was an important year for the Teamsters. Minneapolis was one of the major distribution and hauling centers of the Midwest with thousands of truck drivers; however, many of these drivers were unorganized. A small group of Teamsters called the General Drivers Local 574 had been trying for years to organize drivers in Minneapolis, but had had hardly any success due to the Citizens Alliance—a council of well known, politically active, local property owners.<sup>44</sup>

In February 1934, however, the Teamsters won a strike at a coal yard, which in turn prompted many workers to join the union. By May, the number of union workers had grown to 5,000. Unfortunately, many companies still refused to recognize the union, and thus the union decided to strike. Local 574 demanded “recognition of their union,

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<sup>42</sup> Edward Corsi and C. A. Pearce, *Provisions of Teamsters Unions Contracts in New York City*, (New York State Department of Labor Division of Research and Statistics, 1949), 9.

<sup>43</sup> A worker employed with a particular company for ten days during a two-month period achieved seniority status.

<sup>44</sup> International Brotherhood of Teamsters, “1934 Minnesota Strike,” <http://www.teamster.org/history/teamster-history/1934> (accessed November 20, 2011).

wage increases, shorter working hours, and the right of the union to represent ‘inside workers.’”<sup>45</sup> The strike caused a standstill in Minneapolis because no trucks were running.

The strike resulted in much violence. The first instance of violence was May 19<sup>th</sup>, when police attacked strikers who were trying to stop scabs from unloading a truck. The most violent day of the strike, known as “Bloody Friday,” occurred on July 20. More than 100 police officers took up arms against unarmed union workers. Two picketers lost their lives and 65 other workers were injured. Governor Floyd B. Olson of Minnesota decided to declare martial law and deployed 4,000 National Guardsmen. He banned picketing and issued scab driven trucks military permits to get them moving again. However, this stoked the anger of union workers, and they again took to striking. In retaliation, the National Guard troops raided union headquarters and arrested many of the strike leaders. This sparked a massive march consisting of nearly 40,000 people. Ultimately, the leaders were released and the union headquarters was returned to the union. On August 21, 1934, the Citizens Alliance accepted the union’s major demands.

Because of the Minneapolis strikes, the Citizens Alliance broke up along with the resistance towards union organization in Minneapolis and many other cities that took up strikes because of this cause. Not only did this strike break up the Alliance, it helped the Teamsters gain credibility and grow in stature within the labor movement. Moreover, in light of the violence against striking workers the strike was a major factor in the decision

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<sup>45</sup> “Inside Workers” are workers employed in distribution centers but who were not drivers, such as warehouse and loading bay workers.

to create the protections contained in the National Labor Relations Act and later the Fair Labor Standards Act.<sup>46</sup>

*International Longshore Warehouse Union (ILWU)*

The ILWU had its origins in the longshore industry (the work of loading and unloading ships' cargoes) on the Pacific Coast. The work was strenuous, the conditions were unsafe, employment was irregular, and the pay was too low to support a family. Although initially the longshoremen attempted to create a union they had many issues between one another that the unionization effort eventually fell apart. However, in 1933, after many defeats, the longshoremen rebuilt their union. To the longshoremen who had traditionally suffered from job insecurity, union organization became a matter of survival, as they were even fewer jobs due to the Great Depression. The main demands of the newly constructed union were a "union-controlled hiring hall that would end all form of discrimination and favoritism in hiring and equalize work opportunities along with a contract in which all workers would receive the same basic wages and work under the same protected hours and conditions."<sup>47</sup>

Not surprisingly, shipowners did not want to adhere to the union's new demands. In response, members of both longshore and seafaring unions began to strike in May 1934. Employers worked alongside private industries, state and local governments, and police agencies to end the strikes. Instrumental in this mobilization of strikes was Harry Bridges, who was later elected president of the union. The unions were adamant on not giving in and continuing to strike. Once the employers realized the unions were not going

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<sup>46</sup> "1934 Minnesota Strike."

<sup>47</sup> International Longshore and Warehouse Union, "The ILWU Story," [http://www.ilwu.org/?page\\_id=814](http://www.ilwu.org/?page_id=814) (accessed November 20, 2011).

to give in, they resorted to violent opposition tactics, opening fire, using goon squads, tear gas, and calling in the National Guard, in order to stop the strikes. They fought pitched battles against the longshoremen in San Francisco, Portland, Seattle, and San Pedro. July 5, 1934 was known as "Bloody Thursday" because two workers were shot and killed and another four workers were either shot or beaten to death during the course of the strike. In the face of the management's violent response, public support for the unions of San Francisco grew, demonstrating to businesses and Government that the support for union striking went beyond the ILWU.

Although the ILWU was slowly coming together, the overall character of labor unions was experiencing disarray. The AFL became more opposed to industrial unions after John L. Lewis created the CIO. As a result, the Pacific Coast District felt pressure to join the CIO. This decision thrust the new union into a leadership role in the campaign for industrial unionism. The Pacific Coast District was still part of the ILA, and the ILA did not want to leave the AFL. Thus, after a vote in 1937, the Pacific Coast District decided to disaffiliate with the ILA and became the ILWU. The ILWU reaffirmed its position with the CIO. Between 1938 and 1948, the ILWU helped build new CIO unions in processing, manufacturing, service and entertainment industries.

#### *Teamsters and the ILWU*

In 1937, the largest of the rival union strikes was between the AFL Teamsters and the CIO ILWU. The United States Department of Labor reported that the dispute between the AFL teamsters and CIO longshoremen in San Francisco in September was one of the

biggest problems for this time.<sup>48</sup>

The warehouse industry did not successfully organize until 1934 after a maritime strike. The union continued to gain more workers each year so that by 1943, about 85 percent of warehouse workers in Sacramento belonged to the local union (ILA Local 38-118).<sup>49</sup> Although warehouse workers were celebrating their success, warehouse employers and AFL officials, who believed the warehouse worker union was overstepping its jurisdiction, were not pleased with the new local union. Throughout 1935 in the San Francisco Bay Area, employers, police, and AFL members battled against the efforts of the local warehouse unions.

In 1937, Dave Beck, head of the IBT in the West, and Joe Ryan, leader of the ILA, urged the national AFL to take away the West Coast longshore union's warehouse union affiliates. This heightened the tension between the AFL unions (the IBT and ILA) and the CIO union, represented by the warehousemen and longshoremen. Because of the AFL's attempt to remove the West Coast longshore union affiliates, warehousemen and longshoremen fought back to save the waterfront unions. Later that year, the Pacific Coast district of the ILA broke away from the ILA and joined the CIO, allowing the ILWU to organize both the longshoremen and warehousemen. The Teamsters were especially opposed to the CIO's recognition of the two groups and therefore throughout the next few years the AFL unions tried to thwart the warehousemen and longshoremen's efforts. Under Beck, the Teamsters put in place a boycott of the port of San Francisco in 1937. When this did not immediately instigate a retreat, Beck further threatened to shut down the whole coast in order to force the longshoremen to give up their warehouse

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<sup>48</sup> "Analysis of Strikes in 1937," 14.

<sup>49</sup> Later this union became ILWU Local 17 when the ILWU was created.



membership. ILWU members, rather than give into Beck's demands, retaliated by mobilizing by the hundreds at the port. This demonstration was one of the longest stoppages of work due to a conflict between two unions in 1937.

In 1938, as the ILWU was about to hold its first convention, AFL members attacked warehousemen in Crockett, CA who were striking. They attempted to break the strike and more importantly were hoping to push the warehousemen to leave the ILWU. Later, in August, warehouse employers attempted to weaken local unions by locking out warehousemen that refused to work on a boxcar that had been previously loaded by scabs. The ILWU fought back against the opposition with "mass picket lines, soup kitchens, radio broadcasts, and community cultural events." Eventually, the ILWU went back to work with wage gains and a master contract that covered more than "200 warehouses in San Francisco and Oakland-the first industry-wide area agreement ever signed in the warehouse industry." Unfortunately for the two unions, it wasn't until James Hoffa succeeded Dave Beck in 1958 that relations between ILWU and IBT were mended.<sup>50</sup>

This history of violence between the Teamsters and the ILWU demonstrates the harmful effects of the AFL and CIO union rivalry. Rather than work together to organize employees, the unions were more focused on making sure a rival was not successful in unionizing. This focus on tensions within the labor movement aided some corporations in their fights against unions. While unions experienced an increase in power after 1935, they were unable to utilize their power in the most beneficial ways, which would have meant focusing on unionizing employees and improving employees' working conditions,

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<sup>50</sup> "The ILWU Story."

rather than fighting one another. This inter-union tension is part of the reason that companies were able to avoid unionization of their employees. Recognizing the distrust between the competing unions, corporations could find a union that they could control and pit it against other unions, fueling the fight between the AFL and CIO rather than a fight between corporations and labor unions. As a result, corporations, like Sears, used the inter-union strains to its benefit and this “union pitted against union” tactic became one part of the way it was able to successfully manage employee relations and resist complete unionization of the company.

## Chapter 2: Welfare Capitalism and Employee Testing

### The Start of Welfare Capitalism

On average, during the early 1900s, workers were not satisfied with job conditions. Because of their distaste for their jobs, many workers engaged in actions that sabotaged their work. In order to avoid punishment and yet disrupt the flow of the corporation, a worker might drink, leave during the job, or only accomplish the minimal amount of work required to not get fired. A high job turnover rate hurt corporations that had to devote time and money to constantly train new employees. The workers' actions led to grave social and economic problems. Because of these issues, corporations sought to find a way to retain employees and keep them diligent during their shift. One solution was to provide them with benefits.<sup>51</sup>

Also during this early 1900s, many social reformers emerged who believed in improving the living and working conditions of the industrial worker. Much legislation was passed to help the laborers. Some of these were workers compensation, factory inspection, protection of women and child workers legislation. Because of the bad publicity that companies received over the little care granted to workers, it was obvious that a change to win over both workers and the public was necessary.

The services that companies created to help their employees were often elaborate. Some companies helped their employees who had recently moved from the country by providing care for their cows and chickens. Other companies helped their workers by providing manicurists that cleaned their hands and helped remove dirt from their fingernails. Other efforts to improve the appearance of employees include those

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<sup>51</sup> Stuart D. Brandes, *American Welfare Capitalism* (Chicago and London: University of Chicago Press, 1976), 1.

companies that provided shoe shining services so that employees' boots remained clean. In addition to superficial changes, companies also went further. Some companies staffed doctors who would visit sick or injured workers. Many times doctors would attend to wives of workers who had fallen ill as well. Together, these practices formed the beginning of welfare capitalism, which by definition refers to "any service provided for the comfort or improvement of employees which was neither a necessity of the industry nor required by law."

Many historians, in an attempt to criticize businesses, have claimed that welfare capitalism's only purpose was to avoid unions. In creating many of these practices, these historians argue, the companies were looking to further their own aims rather than sincerely help their workers. While it is a fact that welfare capitalism deterred unionization at a company, many corporations would argue that the system was intended to help employees by providing benefits for them as well. To businesses, unions were considered intrinsically bad. Therefore, the implementation of welfare capitalist practices was intended to stop unions from encroaching on their employees. Through providing these benefits, businesses hoped to convince both their employees and the public that joining a union was unnecessary because the employer would take care of them. As a consequence, workers would remain loyal to their company. Companies used welfare capitalist practices to convince the public that within the economy, the corporations' stronghold on power was justified and that a strong corporate power within the economy was viable for long term stability in the workplace.<sup>52</sup>

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<sup>52</sup> Brandes, *American Welfare Capitalism*, 4-6, 7, 32.

Not only did companies believe that it was important to implement welfare capitalist practices for their business' outlook, but so that they could improve internally as well. Many employers believed that those who improved personnel relations would save costs and also retain a better work force. A small investment to make a job satisfying would be repaid in the amount of work the worker would accomplish and in not having to train new employees.

### *The Growth of Welfare Capitalism*

Welfare Capitalism was most widely adopted during the 1920s. Those directly involved in policy making wished to create a mutuality of interests between labor and management. The idea to craft practices that could persuade employees to view their employers favorably fit well with the ideas set forth at the time surrounding labor and management. Under President Herbert Hoover, corporations were the chief instruments of social progress, and because of this, welfare capitalism complemented the economic climate.

While corporations did develop welfare capitalist practices to keep their employees from wanting to join unions and prevent them from leaving for other corporations, there was also a school of thought during the 1920s that welfare capitalism was meant to develop the employees and make them better men and women.<sup>53</sup> Under this school of thought, corporations strived to produce a workforce that consisted of "great persons." To achieve this goal, corporations sought to better every aspect of their workers lives that were seen as needing reform. These efforts included education, recreation, living situations, and healthcare. Workers lived in company houses, attended company

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<sup>53</sup> Brandes, *American Welfare Capitalism*, 33.

schools, played on company teams, and were treated by company doctors. Through these improved measures, corporations hoped to push employees through a business mold that would allow them to create a "New Capitalist Man." Because many companies bought into this notion that they could create a new kind of worker, welfare capitalism spread rapidly.

Observation of welfare capitalism in the 1920s demonstrates that these welfare capitalist programs greatly reduced the tension between labor and management and resulted in less of a push for organized labor. The number of strikes decreased drastically by the middle of the 1920s and the number of people that joined unions fell during this decade as well. Moreover, labor turnover also decreased during this time. General prosperity and a push for more conservative reform further helped to guarantee less of a desire to join labor unions. However, through choosing to engage in the provided benefits, workers were actively choosing to not unionize. The signs of contentment that historians have discovered lead to the conclusion that welfare capitalism helped decrease labor unions' popularity during this period.<sup>54</sup>

After the great depression, however, the welfare capitalism of the 1920s failed to survive. Because large losses in capital led to an inability to fund benefits, most of the programs were ended. Providing for ones' workers was not viewed as more important than keeping the company afloat and therefore some or part of the benefits stopped.<sup>55</sup> Moreover, as companies had grown, many times management lost the direct contact with their employees that it had previously established. Rather than attempt to gain back what was lost, management had little desire to reinstate the communication that had once

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<sup>54</sup> Brandes, *American Welfare Capitalism*, 28, 136-137.

<sup>55</sup> Nathan Shefferman, *How Unions Organize*, (National Research Bureau, Inc.).

existed directly between themselves and the workers.<sup>56</sup> Due to this, management lost a vital link to their workers that would hurt these companies in the future.

*AT&T and Its Subsidiaries' Welfare Capitalist Practices*

AT&T and its subsidiaries' ("the Bell System") welfare capitalism practices provides a specific example of how one company implemented welfare capitalist practices and furthermore, how, later, this led to the creation of employee attitude testing at its Hawthorne plant in Chicago, Illinois. The Bell System Company created welfare capitalist measures that were designed to win worker loyalty. They combined the capital benefits with strategies to limit, and, if possible, eliminate union organization with the use of company-controlled unions and employee representation plans. The origins of the Bell System's well developed labor relations was rooted in these programs that were originally designed as a response to labor unrest and external political and social pressures.<sup>57</sup>

In 1906, Western Electric created a pension system that allowed workers over sixty-five years of age who had worked at the company for at least twenty years to receive a pension of one percent of their salary times the number of years they had worked at the company. This was Western Electric's first attempt to help the company attract and retain workers while also discouraging them from striking. The reason the company thought this would deter strikes was because management decided who received pensions, and many viewed this as an award for their loyalty.

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<sup>56</sup> Brandes, *American Welfare Capitalism*, 141.

<sup>57</sup> Richard Gillespie, *Manufacturing Knowledge: A History of the Hawthorne Experiments* (Cambridge: Cambridge University Press, 1991), 17.

The political climate at Bell Systems also dictated its welfare capitalist practices. A package of welfare benefits created in 1913 was constructed to show state regulators, federal antitrust interests, and the public, that Bell System was a socially responsible and public utility. This package of benefits included pensions along with sickness and disability benefits. Although these items were benefits for employees, they also aided the company because in providing employee benefits, the company adhered to workers compensation laws with which they were required to comply. Like the previous plans implemented, Western Electric hoped that this would further deter employees from joining unions. The International Brotherhood of Electrical Workers (IBEW) targeted the company in 1910 and since then Bell committed itself to bettering its benefit plan so that it could deter independent labor unions.

The company was also the first to create a stock purchase plan for its employees, and by the mid-1920s the plan was the largest in the country. Created in 1915, this plan allowed employees to purchase AT&T stock below market price on installments. There were three main reasons for this plan. First, AT&T believed that by allowing employees to purchase stock at a discount they would be more likely to stay with the company for a longer period. Secondly, AT&T believed that workers who had invested in company stock would want to work harder because had a vested interest in the company's success. This aligned workers' views with management at the corporation. Finally, AT&T wanted to stress to the public that Bell System was a publicly owned company rather than a private monopoly.

At the Hawthorne plant in Chicago, more welfare capitalist programs were created. In 1908, the company opened a medical department and hospital for their



employees. A year later, the company hired a band to play concerts at lunch once a week. In 1921, the company built an athletic field for its workers that had six baseball fields, thirteen tennis courts, and a track. Later in 1927, another gym was built in memory of the first factory superintendent. The company also turned the Hawthorne plant into a social venue for employees. The Hawthorne club, as it was called, was formed in 1911, and included organized social activities, vacations, sports competitions, stores, classes, a savings and loan association, and beauty contests for company employees.<sup>58</sup> Each year, the club held elections in which candidates made speeches over the factory's loudspeaker and campaigned over lunchtime at rallies. Although a committee chose candidates who were usually managers or office workers, the voting drew a large crowd of all workers each year. The *Hawthorne Microphone* was a bimonthly magazine that kept locals informed of Hawthorne club events and also reported company news. Through the benefits that Bell System put together, the company hoped its welfare capitalist practices would stifle any existing unions.

Western Electric had their reasons, just like many corporations, for wanting to remain union free. Bell Systems did not want outside parties such as union organizers to come between management and its employees. The company feared this would destroy relationships that had been established between management and the workers.

The emphasis on personnel policies led to a new group of managers within the Bell System that made personnel managers responsible for codifying and disseminating industrial relations policies. In June 1919, AT&T established a Personnel Committee that was chaired by their Vice-President, Walter S. Gifford. The committee was responsible

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<sup>58</sup> Gillespie, *Manufacturing Knowledge*, 19.

for personnel relations and was comprised of managers appointed by each operating company. In November of that same year, the managers met for the first of what would become regular conferences.

Western Electric soon emulated its parent AT&T by creating its own personnel managers within each major branch at Hawthorne Works. In 1922, the company created a General Personnel Committee at the New York head office. AT&T believed that personnel relations were crucial to the success of the company.<sup>59</sup>

### *Scientific Management and the Hawthorne Experiments*

A competing philosophy to welfare capitalism was scientific management, or “Taylorism.” Under scientific management, workflows were broken apart and then synchronized in an order that was thought to be the most efficient. Welfare capitalists and supporters of “Taylorism” believed that there should be a solution to problems in the factory and that it was necessary to find measures that solved inefficiency. However, scientific management favored immediate results and did not believe in waiting long periods of time to determine whether increased benefits would lead to a more efficient corporation. Therefore, scientific management took a different path within corporations than welfare capitalism.

Out of scientific management came an even more vested interest by management to test employees in order to learn what increased production and morale. Social scientists wanted to observe which management practices and conditions strengthened employees’ feelings towards the company. To comprehend how management came to trust in employee testing as a means for improving labor and management relations, it is

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<sup>59</sup> Gillespie, *Manufacturing Knowledge*, 26.

important to acknowledge the first and most widely cited testing of workers, the Hawthorne experiments. These tests help clarify results from later attitude testing at other corporations. The most important conclusion that came out of the testing was that informal human relationships, rather than formal or material organizational factors, were most important in creating a productive and satisfied workforce.<sup>60</sup>

### *Scientific Management*

Frederick W. Taylor was one of the founders of scientific management. His first work, "Shop Management," produced in 1903, argued that the organization of production had to be taken from workers and instead placed under the control of management. His most famous work, *The Principles of Scientific Management*, was written in 1911. In this work, Taylor explicitly outlined that "the best management is a true science, resting upon clearly defined laws, rules, and principles, as a foundation." He further commented that this type of scientific management could be applied to all sorts of activities and if followed correctly, would produce great results.<sup>61</sup> Taylor believed that workers kept secrets to themselves and therefore worked at a collectively agreed upon rate that kept them from working to the maximum of their abilities. These workers were more interested in keeping the same schedule of work than pushing themselves to increase productivity. Taylor thought that by breaking down the job into parts and assigning new, simple tasks to carefully selected workers, he could achieve a maximum output throughout the day. Managers, according to Taylor, could dramatically increase

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<sup>60</sup> Gillespie, *Manufacturing Knowledge*, Vii.

<sup>61</sup> Frederick Winslow Taylor *Scientific Management: Comprising Shop Management, The Principles of Scientific Management and Testimony before the Special House Committee* (New York and London: Harper and Brothers, 1856-1915, 1947), 7.

production by creating a system of job analyses and then using these as measures to determine the pay scale. The system that Taylor devised was meant to standardize the work that employees were given and moreover, to help one control this standardization so extensively and intensively that it would foster a successful maintenance of all incentives.<sup>62</sup> Both Taylor and those who admired his work believed that this was a useful tool for capitalists and workers. The workers were paid higher wages and management had increased productivity, efficiency, and quality. Taylor further believed that in crafting scientific management, workers would not want to unionize because they would be receiving the same pay and job security that a union could offer without having to pay union dues.

### *Hawthorne Experiments*

The idea to measure and quantify productivity became much more popular in the 1920s. By 1920, around 296 industrial research laboratories in the United States were in place. Ten years later, the number of research laboratories expanded to 1,625. These research laboratories focused on developing testing methods that examined workers productivity. The research program at Hawthorne Works, the Hawthorne experiments, was the largest program.

The Hawthorne experiments were conducted at the Hawthorne Works of the Bell System's Western Electric Company located in Chicago, Illinois, between 1924 and 1933. Western Electric was a manufacturing subsidiary of American Telephone and Telegraph Company (AT&T). Elton Mayo and his colleagues at Harvard Business School

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<sup>62</sup> Sudhir Kakar, *Frederick Taylor: A Study in Personality and Innovation*, (Cambridge and London: Massachusetts Institute of Technology Press, 1970), 3.

conducted the experiments that were intended to measure worker productivity, job satisfaction, and workplace organization.

The first tests conducted at Hawthorne were the industrial illumination tests, which examined whether lighting made a difference in production. The tests, consisting of three series, began on November 1924 and lasted two and a half years. From this research, many concluded that the amount of light did not determine productivity. However, these tests did find that the effects of increased supervision and psychological factors felt by the workers led to a shift in productivity.

The most popular of the tests were the relay assembly test room experiments. The relay assembly test room experiments began on April 25, 1927 and lasted for more than five years when the research shifted to other studies. These were conducted to decipher which factors affected production and worker satisfaction. The average hourly output for the group steadily increased during each period of testing until after the introduction of the morning lunch in period 7—from 49.7 to 55.8 relays per hour.<sup>63</sup> From these results, researchers believed that when workers felt more at ease in their work environment, it did not matter what other variables changed because production still increased.<sup>64</sup>

The relay tests continued until February of 1933. Other researchers at the company turned their attention to creating new tests because they wanted to try interviewing, supervisory training, and test groups to gain an even more in-depth understanding of why production had increased in the assembly room tests. Out of this they created the Industrial Research Division.

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<sup>63</sup> Gillespie, *Manufacturing Knowledge*, 1, 43, 55-56.

<sup>64</sup> F.J. Roethlisberger and William J. Dickson, *Management and the Worker* (Cambridge: Harvard University Press, 1940), 59.

The Industrial Research Division was mostly directed at developing two new personnel research programs. Elton Mayo and his colleagues from Harvard were key figures during this period of testing. The first program was an interviewing program, in which all factory workers were to comment on all aspects of their work. The second was the supervisory training program, which looked at supervisors' attitudes towards their work and sought to then create a new style of supervision.

The interviewing program came about as a way to locate problems in employee-employer relations. Researchers also attempted to reach a conclusion concerning which effects would occur in response to different management styles. The interviews with workers provided management with a picture of workers' morale and their opinions of the company and management. Once the results were collected, the responses were used one of three ways. The first was to make changes to the company or its way of operating if enough negative attitudes were voiced. The second was to compile the likes and dislikes of workers to gain a clearer understanding of the mindset of the average worker at the plant. Finally, the responses were used as a basis to shift management practices.

Mayo and the other researchers at Hawthorne were firm believers in the therapeutic effect of the interview upon the worker. A report of the Industrial Research Division noted: "Until Doctor Mayo came along the most important uses for the interview seemed to be in Supervisory Training and Research work. As we know, he revealed what seems to be the greatest use of all—emotional release. In other words, the employee is given greater freedom to unburden himself and a chance to express his

thoughts.”<sup>65</sup> Through describing anxieties and other problems to the interviewer, workers were allowed to “talk out” their problems, which fostered relief. Moreover, interviewees came to find the interviews as therapeutic because throughout it the subjects often realized more about themselves than they had before.<sup>66</sup> This effect, combined with the sense that management seemed concerned about each individual, helped to attain the conclusion that interviewing employees was therapeutic and boosted their morale.

The other Industrial Research Division, supervisory training, studied the management at Hawthorne. After studying the management, researchers concluded that in order for management to improve and to increase the employees’ feelings towards management, the company had to increase supervisors’ awareness of the issues at hand. From these experiments, the researchers concluded that two conditions had to be met if a company wished to maintain adequate personnel administration within an industrial plant. The first was that management develop “explicit” skill at diagnosing human situations. In order to be “explicit” it had to be capable of being “refined and taught and communicated to others.” The second condition was that management should commit itself to a continuous process of studying both the individual and group situations of its personnel. In doing so, the company would gain continuous knowledge about its own organization and could proceed to implement continuous changes for its employees.<sup>67</sup>

The Hawthorne experiments were a culmination of many ideas. First, the company tried to find a way to continue welfare capitalist practices and appeal to

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<sup>65</sup> “A Plan for Improving Employee Relations on the Basis of Data Obtained from Employees” in Gillespie, *Manufacturing Knowledge*, 136.

<sup>66</sup> Jean Converse, *Survey Research in the United States* (Berkeley: University of California Press, 1987), 76.

<sup>67</sup> Roethlisberger and Dickson, *Management and the Worker*, 604.

employees. Moreover, the company wanted to increase worker productivity and created tests to discern how to achieve this goal. The conclusions drawn from the testing were that changing variables in the experiment mattered less than the way employees felt overall towards their job and the environment. When employees reacted positively to their job and environment, production increased.

The Hawthorne experiments have been criticized for drawing inconclusive links to productivity. For example, it has been argued that because workers were getting paid more at a time when money was scarce due to the Great Depression, the conclusions did not adequately determine what caused production to increase. However, after observing the tests, it is clear that this was not the case. The workers' pay was varied throughout the experiments and yet production increased throughout the entirety of the experiments. Therefore, the conclusion by the researchers at Hawthorne, that comfort with ones' environment and positive morale increased production, is more plausible. Moreover, had there been a serious flaw in the testing, the tests would not have received the widespread success that they enjoyed, nor would these tests have been adopted by many other companies as a successful way to better employee relations.

The popularity of the Hawthorne experiments created a desire by other companies' management to administer these tests, demonstrating the importance of the Hawthorne experiments within the field of labor and management relations. Moreover, the tests were widely publicized and received high praise within the social testing and psychology fields, thus demonstrating that many in the field did consider this to be a success. Most important, however, is that because of these tests the desire for companies wanting to find a way to improve employee morale increased and many companies



realized that putting emphasis on personnel programs could decrease costs at the company and also provide more for their employees. Although it did not happen immediately, the testing sparked a new wave of employee welfare. Through discovering what employees wanted to see within their companies, and in turn implementing solutions to fix these problems, corporations were again facilitating employee benefit practices within their companies.

Through an understanding of the history of welfare capitalism and employee testing, one is better able to determine how companies initially sought to resist unionization. Through this review, it becomes clear how after most of these practices were stopped, those companies that later implemented new kinds of employee benefits enjoyed better management and employee relations, which in turn led to benefits similar to those that companies experienced during the height of welfare capitalism. With this in mind, it is more apparent how at companies that implemented measures like attitude testing were able to achieve better employee and employer relations.

### Chapter 3: Sears Roebuck

#### Welfare Capitalist Practices after the Great Depression

Many companies that created an antiunion, welfare capitalist model achieved success in retaining employees and deterring unionization. Companies such as IBM, Du Pont, and Proctor and Gamble, which did not experience drastic profit declines during the Great Depression, did not have to worry as much as other corporations about unions. These companies did not have to partake in excessive lay-offs and therefore managing employee relations throughout the Great Depression was rather straightforward. Due to these conditions, the companies bettered their labor-management programs and implemented additional benefits to retain employees so that unions would not become an issue. Other companies, such as Thompson Products and Eastman Kodak, found that creativity, much like at Sears, afforded them success.

Thompson Products manufactured automotive and aircraft parts at factories located throughout the United States. In the 1920s, the company did not have any benefit programs in place. However, in 1933, when Frederick C. Crawford took over as president of the company, he completely reshaped its labor policies. Under Crawford, the company implemented new welfare programs, a personnel department, and a representation plan. He furthermore created company unions at all of its factories. The company unions began in 1934 under the name Thompson Products Employees' Association (TPEA). The TPEA was able to handle grievances at the company and facilitate cooperative problem solving, although its contract barred members from striking. The council for the TPEA looked over mainly plant-wide issues. The company union and management got along relatively well and had it not been for the union, outside unions would have overtaken the

company. The United Auto Workers (UAW) was intent on unionizing the workers at Thompson Products. However, because of employees' dedication to remain in the TPEA, Thompson Products was able to successfully forestall any success that the UAW could have had.

Eastman Kodak held a monopoly over film manufacturing that helped the company remain sheltered from much of union activity. This monopoly limited the company's competition tremendously. Moreover, the company was located in Rochester, New York, and because there were hardly any unions in Rochester, Eastman Kodak only experienced one unionizing attempt between 1930 and 1960. Even though the company was afforded this luxury, had it not been so intent on providing for its employees, Eastman Kodak would not have retained such a loyal workforce and resisted unionization as easily. The company built company housing and created health insurance programs for its employees. It also created an elaborate system to minimize layoffs. This system was proven to be effective because once a worker was hired, they usually remained with the company for life. If the company did have to layoff a worker, it paid the worker benefits out of a private company fund. Moreover, Kodak used profit sharing to help elevate workers' wages. Throughout the Great Depression and well into the 1960s, Kodak remained relatively unchanged and therefore resisted unionization by creating an extensive welfare capitalist program.<sup>68</sup>

Sears Roebuck made a conscious effort to continue to appeal to its employees even after the decline in welfare capitalism. The decentralized structure that Sears created focused on providing freedom for its employees, which led to high employee morale. To

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<sup>68</sup> Sanford M. Jacoby, *Modern Manors* (New Jersey: Princeton University Press, 1997), 37-60.

make sure to reach out to their employees even more, Sears implemented programs to foster favorable reactions to the company. Before most corporations, Sears created a personnel department to help deal with the changes from mail order to department stores. Moreover, Sears implemented profit sharing to help their employees feel more like part of the company. These tactics, as a continuation of welfare capitalist practices, created a management structure and company environment that was well run and highly efficient. Moreover, when the company decided that it was necessary to fight unions, the programs it had previously developed made it easier to engineer new programs to prevent complete unionization of the company.

### *The Expansion Program*

Even before the Great Depression, Sears had taken an innovative approach to modernizing its business. Sears decided to create a department store chain in 1924. This decision was risky because Sears had no experience with retail stores. However, in order to increase sales, Sears decided that this risk was necessary.

Julius Rosenwald, Sears' president from 1908 until 1924 and Chairman of the Board after 1924, believed that retail store expansion was essential to Sears' future success. Rosenwald first hired Charles Kittle, who had been general manager at Illinois Central Railroad, to become the new president of Sears.<sup>69</sup>

Many were skeptical of Sears' decision to expand into retail. Those who worked in the mail-order departments feared that Sears would lose this business, and that people would only go to their stores. Those in favor of the expansion, like Wood, Rosenwald,

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<sup>69</sup> "Business and Finance: Kittle," *Time Magazine*, November 10, 1924, <http://www.time.com/time/magazine/article/0,9171,728064,00.html> (accessed January 21, 2012).

and Kittle, instead envisioned the stores catering to city dwellers interested in buying goods at an actual store. They believed customers in rural areas would still buy from their catalogs.

In order to cater to the needs of their customers, these three men decided that their retail stores needed to be different from the retail stores already in business. They wanted their stores to cater to more than just women. Wood's view on the department store before Sears was that "eighty percent of [department store's] business was in women's wear, hosiery, and all other apparel. A man in a department store was lost." Because of this, Sears made it a point to include hardware, tires, spare parts, and other items that it deemed to be of particular interest to men. Sears also thought that in order to create a shopping experience for the family, it was vital to introduce "big ticket" items such as washers and refrigerators.<sup>70</sup> Sears' customers could now come view the items in a store rather than make a decision based on how they appeared in Sears' catalogue. Sears was always concerned, even with the first retail store, about how their items were displayed and what experience they could offer their customers to entice them into the stores or to buy the mail-order goods.

Luckily for the company, the expansion to retail stores coincided with a time when many people were moving from rural farmlands to cities. Although this process had been under way for many years, there was a surge in the movement that aided Sears' expansion. Farmers needed to find new work in factories and services because labor saving mechanical technology was increasing on the farms, thereby decreasing the need for as many farmhands. Moreover, more factories were opening in the cities because of

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<sup>70</sup> Gordon Lee Weil, *Sears, Roebuck, USA* (Briarcliff Manor: Stein and Day, 1977), 99.

the development of new consumer products. Because of the growing demand for new products, companies needed more workers to fill their urban factories and meet these demands. Therefore, those individuals migrating to the cities and the expanding companies needed each other.

The first retail store to open was at Sears' headquarters in Chicago on February 2, 1925.<sup>71</sup> In November of that same year, Sears introduced two new stores in Chicago, one located on Lawrence Avenue and one on 79<sup>th</sup> Street.

Sears' initial plan was to build large stores where their Catalog Distribution Centers were located. Following this plan, Sears built stores in Chicago, Dallas, Seattle, and Kansas City in 1925. On October 5, 1925, however, Sears branched out and opened its first store at a location, Evansville, Indiana, where it did not operate a Catalog Distribution Center.<sup>72</sup> In 1925, Sears opened eight department stores. That first year retail accounted for only 4.5% of the company's total sales, but in 1926, with the addition of only one more store, retail had already grown to account for 8.5%.<sup>73</sup> By the end of 1925 Sears had 23,193 employees, and of that number 987 were retail employees. Four years later, the company had expanded so rapidly that it had opened 324 stores and its employees now numbered 41,751, including 13,000 retail employees.<sup>74</sup>

In 1928, Kittle died abruptly, and General Robert E. Wood took over as Sears' president. Wood had previously worked at Montgomery Ward but resigned when it

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<sup>71</sup> James C. Worthy, "Sears Roebuck: General Robert E. Wood's Retail Strategy," Northwestern University Papers.

<sup>72</sup> Sears, "Sears Archives," [http://www.searsarchives.com/stores/history\\_chicago\\_oldest.htm](http://www.searsarchives.com/stores/history_chicago_oldest.htm); [http://www.searsarchives.com/stores/history\\_indiana.htm](http://www.searsarchives.com/stores/history_indiana.htm) (accessed October 5, 2011).

<sup>73</sup> Weil, *Sears Roebuck, USA*, 94.

<sup>74</sup> Boris Emmet and John E. Jeuck, *Catalogues and Counters* (Chicago: University of Chicago Press, 1950), 547.

refused to open retail stores. Due to Wood's dedication to expansion through retail, Rosenwald hired Wood as vice president of factories and retail stores, to help move the transition along smoothly. Once Kittle passed away, Wood was the best choice to take over. Wood implemented a new organizational structure and also ensured that all retail stores were run in the same manner. He made it a point to visit the retail stores frequently to understand what it felt like for a worker in one of his stores. In this way, Wood was able to understand where problem areas might be for a common worker. Moreover, he was able not only to notice the issues but also to make the necessary changes to help the workers at Sears enjoy their jobs.

To help facilitate the store expansion, Sears created a Store Planning and Display department in 1932. Before the creation of this department, Sears had built its retail stores in the space it acquired and then tried to find merchandise to fit within the building. Now, with the existence of the new department, the company first chose what items would be best sold within each store and then designed a store that would best present these items. To choose which merchandise was best, the department studied customers' habits, the flow of store traffic, sales records, and lines by department. The first store to be designed by the Store Planning and Display department opened in Glendale, California in 1935.<sup>75</sup> When it finally opened, this store, more than any other Sears store, was an immediate success due to the careful planning by the new department. Within Sears, it was becoming more commonly accepted to create departments to analyze and solve the company's problems. Eventually, when Sears implemented attitude testing and created a new department for a union buster, Nathan Shefferman, such a change was not

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<sup>75</sup> "Sears Archives."

unexpected. As prior history under General Wood showed, Sears was used to the creation of new departments that analyzed issues.

### *Break Down of Sears' Organization*

After General Wood took over Sears, he created a decentralized structure for the company. In granting each department more autonomy, Sears' employees were able to create their own rules to run the company more efficiently. Sears was managed from its "Chicago parent" office. Within this office, the administration of the entire company and policy formulation occurred. The parent offices were involved in creating policies and providing advisory services. Through this structure, Sears encouraged development both personally and as a company.

Sears had five operating territories: Eastern, Midwestern, Pacific Coast, Southern, and Southwestern. The operating territories were headquartered in Philadelphia, Chicago, Los Angeles, Atlanta, and Dallas, respectively. Each employed a territorial vice president who oversaw the operations within his region.

The stores at Sears were categorized as either A, B, or C stores. "A" stores were the largest stores and were the full-line department stores. "B" stores were categorized as B1, B2, or B3 stores. B1 stores were small department stores; B2 stores were small stores selling home furnishings and sometimes shoes and men's furnishings; and B3 stores were smaller than B2 and sold home furnishings. "C" stores were the smallest stores that Sears owned and sold home furnishings but usually without building materials.

General Wood wanted Sears to be built on men, not systems, and thus he was fond of promoting from within the company rather than hiring outside personnel for top management positions. Due to Sears' policy of decentralization, the decision for



promotion involved more than just the highest management; in order to understand whether an employee was qualified, top management relied on lower managements' opinions. Before promoting personnel, personnel history records, results of psychological tests, and the Personnel department were consulted. This process gave lower management more authority and thus made them feel more important within the company.

Sears needed to maintain a program to train employees because of the retirement standards that the company held. Retirement on pension was granted for employees at age sixty-five. Moreover, if an employee had worked at Sears for thirty years or more he/she could retire any time after reaching the age of sixty and receive full benefits. Certain top-level executives were required to retire at age sixty. The personnel department that Sears created was one of reasons employees enjoyed working at Sears.

#### *The Formation of Department 707*

Once Sears began to expand, it realized that it needed to update its structure. There were now too many departments and stores for the company to try to control them all in the same way. Thus, as stated earlier, decentralization had to occur in order to run the company in the most efficient manner.<sup>76</sup>

There had never been a need to put much thought into whom the company was going to hire. The interviewer simply had to "size up" the employee by looking to see whether he or she had common sense. Mostly, however, the hiring was left up to the judgment of the management interviewers. If the interviewer believed that the interviewee could accomplish the job, he or she was likely to get hired. When Sears first

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<sup>76</sup> James C. Worthy, *Shaping an American Institution: Robert E. Wood and Sears, Roebuck* (Urbana and Chicago: University of Illinois Press, 1984), XIV.

began hiring for the retail positions at their new stores, it originally drew upon their employees from the mail-order plants. However, it quickly realized that the skills needed to manage a mail-order plant did not coincide with the skills that were necessary to create a successful chain of Sears' stores or to run a department.

In 1928, Sears decided to attempt to establish a retail-store-manager training program. The program consisted of classroom and in-store training for their managers. To help run this program, the company hired Alvin Dodd. In a rather obvious conclusion, Dodd found that managers who were unable to perform the necessary tasks handicapped the expansion into retail stores, and that their inefficiency slowed down the stores. In response, Dodd created the company's first manual on company personnel policy to provide those who were involved in hiring with an idea of what an ideal candidate would be. Dodd hoped to keep the new stores in sync with one another and keep them from tainting a customer's view of the Sears brand. T.J. Carney, who had recently become the vice-president in charge of operations, was charged with implementing the proposal. He was sensitive to the needs of the business and was adamant about getting General Wood on board to create the retail personnel organization.

In October 1931, Carney, with General Wood's backing, created a retail personnel organization. All executives either in or connected with the new retail stores would be expected to adhere to the new regulations proposed by this committee. This organization became known as Department 705 (later changed to Department 707). One of its first achievements was to "issue a personnel manual codifying principles and procedures for confidential use of all retail store managers." However, it was not long before these manuals were replaced. The manuals were recalled in 1932 and new manuals were

issued, thus demonstrating the steep learning curve that Sears faced in this area.<sup>77</sup>

Sears soon realized that the transition into retail was far more complicated than setting up shops and hoping customers would appear at their door. While there were other problems, one major issue that Sears faced during this time was how to staff their stores. General Wood, realizing that change was necessary, again reshaped the committee in 1932. He abolished the “territorial offices” that had originally been part of the organizational chart of the first personnel department and hired J. M. Barker as vice-president of retail administration. Wood thought that adding a top position to the retail department would help the organization be more cohesive as a unit.

In 1933, Sears increased its focus on personnel development. Sears held a personnel meeting in Chicago in which operating superintendents and personnel assistants came from all over the country to spend four days attending meetings about various personnel issues. General Wood’s opening remarks from the meeting highlight Sears’ focus on personnel management and making sure that their employees were not only the right fit for the company but also content with their own positions. He explained that in the past five years Sears had found personnel to be the biggest source of problems. He went on to claim that even if goods were being bought at the right value and good auditing and operating systems were in place, the company could still fall down if “(1) the managers are not right; (2) The men and women in the stores are not right.” Moreover, he proclaimed that “no large business like [Sears], which is widely scattered, can succeed unless the manager of the store is right, and unless the men and women in the store feel

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<sup>77</sup> T.J. Carney, Letter to Supervisors, October 1, 1931, in Emmet and Jeuck, *Catalogues and Counters*, 549.

that they are working for a company that is trying to treat them fairly and justly.”<sup>78</sup> General Wood decreed that employees could not be “discharged” if they had worked at Sears for five years without the approval of the personnel department in Chicago. This department had to investigate why this long-term employee was being fired before it could approve the termination.

Not long before 1935, General Wood created a mail-order personnel program as well as a parent-personnel program, which was for those working at the Chicago parent location. Up until this point, Sears’ personnel policies had only covered retail outlets, but now they were in charge of the personnel at the headquarters and mail-order centers as well. General Wood wanted management to hire people who they believed had the potential to be promoted to management positions, and he would continue to push for this until he felt that the administration had mastered the hiring process. This strategy eventually paid off for Sears. Not only did Sears reap newfound profits but it also employed a solid, intelligent workforce that proved vital to Sears’ anti-union programs in later years.

#### “Soft” Tactics

Sears’ anti-union tactics consisted of both “soft” and “hard” tactics. The “soft” tactics focused on combating labor unions in a non-confrontational way and catered to Sears’ employees so they wanted to remain with Sears and not join labor unions. One way that Sears facilitated a concept of a Sears family was through its profit sharing program. The profit sharing program was started by Julius Rosenwald in 1916 and was continuously adapted to maintain employees at Sears. As the title implies, the program

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<sup>78</sup> Emmet and Jeuck, *Catalogues and Counters*, 551.

was a way for employees to share in Sears' profits. The fund consisted of annual donations from both Sears and its employees. Sears contributed five percent of its net earnings to the fund each year. Employees were able to participate in the program after three years of service as long as they remained an employee. Each employee contributed five per cent of his or her salary but could not deposit more than a predetermined sum that was agreed upon by management in order to ensure that no one could participate too extensively in the fund. The program was intended for employees to receive an income after retirement. After an employee had remained at the company for ten years, they were eligible to withdraw their money, which included the contributions made by Sears.<sup>79</sup> The main purpose of profit sharing was to provide an incentive for employees to remain with the company for a long time. The profit sharing program was also used as a way to persuade employees to avoid unions altogether. Sears' newspaper constantly warned that if a union organized Sears' employees, those employees might lose their profit-sharing plan. This ability to play on the employees' insecurities was a way in which Sears was able to subtly retain their employees.<sup>80</sup> However, unions eventually caught on to this method of anti-union propaganda circulating throughout Sears. The Teamsters National Sears Council published a pamphlet entitled "Profit Sharing" that they distributed to employees. This pamphlet argued that Sears' insistence that unions and profit sharing do not mix was "a desperate attempt to confuse and frighten." Instead, the pamphlet argued,

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<sup>79</sup> Sears Roebuck and Company, *Sears, Roebuck, and Co. 's Plan of Employes' [sic] Savings and Profit Sharing Fund* (July 1, 1916).

<sup>80</sup> Jacoby, *Modern Manors*, 110.

unions could provide an added benefit to the profit sharing program that would benefit employees more than with just the profit sharing program on its own.<sup>81</sup>

Sears' "soft" tactics against unions concentrated mainly on their attitude-testing program, which was created in 1938. The test was similar to the Hawthorn Experiments in that it included nondirective interviewing, but it greatly expanded the scope of testing. Before the United States' military adapted similar tests a few years later, Sears' testing was the largest scale operation that had ever been conducted. Sears utilized the testing both to subtly evade unions and to create a better work environment within their stores.<sup>82</sup>

James C. Worthy was put in charge of a research and planning division within the personnel department. One day in 1939, T.J. Carney called Caldwell and Worthy into his office. He sat them down and explained that the company needed both Carney and Wood to stay informed on what people were "thinking and feeling about their jobs and the company." Carney further explained that Worthy's task was to find a way to maintain a "reliable and continuing flow of information about the state of affairs in the one remaining absolutely vital aspect of [their] business: how [they] were getting along with [their] people." Thus, Carney and Wood started to plan how to come up with these results and realized that the best way to find out what their employees were thinking was to ask them.<sup>83</sup>

In 1939, Carney and Worthy hired Houser Associates to conduct "morale surveys" of its employees. In 1938, one of their psychologists, Arthur Kolstad, developed a questionnaire that was specifically designed for surveying the attitudes of retail

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<sup>81</sup> Teamsters' National Sears Council, *Profit Sharing*.

<sup>82</sup> Sanford M. Jacoby, "Employee Attitude Testing at Sears, Roebuck and Company, 1938-1960," *The Business History Review* 60 (1986): 602.

<sup>83</sup> Worthy, *Shaping an American Institution*, 156-157.

employees. That same year, Sears experienced the most unionization attempts that they had ever had, which scared General Wood. This made both him and Carney push for a way to receive more feedback on employee morale in addition to the other anti-union tactics that Sears already had in place. The following year, 1939, Houser Associates compiled their first surveys at Sears' mail order plant in Atlanta, Georgia. The testing consisted of questionnaires and non-directive interviewing.

The Houser Surveys lasted from 1939 to 1942. Houser Associates surveyed around 37,000 employees in all 10 mail order plants and in over 150 of the retail stores. The main part of the survey program was the questionnaire. The questionnaire consisted of sixty multiple-choice questions and asked employees their opinions on workplace practices, such as supervision, job and working conditions, local management and salaries.<sup>84</sup> According to Worthy, the surveys had a "simple, straightforward purpose of finding out how well employes [sic] liked their jobs, what their attitudes were toward supervision and management, and what factors in their employment situation might be contributing to dissatisfaction or poor working relationships."<sup>85</sup> The questionnaire further had a scale that measured employees' overall attitude toward the company. To gauge this, on a scale of one to ten, the employees were asked to compare Sears to other firms that they were familiar with. The responses to these questions led Houser to come up with a "morale score" for Sears' employees. To determine which factors influenced the company's morale, Houser Associates examined questionnaires from the top and from

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<sup>84</sup> Jacoby, "Employee Attitude Testing," 607, 611.

<sup>85</sup> James C. Worthy, "Organizational Structure and Employe [sic] Morale," *American Sociological Review* 15 (1950): 169.

the bottom of the morale scores. This allowed them to determine which attitudes affected an employee's morale the most.

In creating anti-union questionnaires, wording was carefully selected to maintain a bias against unions throughout. In an extensive study conducted from 1946 to 1947 on general anti-union surveys, it was concluded that the biased questionnaires could shift the opinions of the test takers. The wording within the tests concentrated on the negative aspects of unions. This directed the attention of the test taker to the negative words pertaining to unions and therefore formulated new, negative ideas about unions within the test taker's mind. Another issue was the wording and subject matter that was chosen for the questions. Some questions were written about issues that employees were not familiar with. These questions were phrased to reflect the company's opinion on the matter and cast the wording in either a positive or negative light. In wording the questions this way, because the test taker was unfamiliar with the issue at hand, their original impression of the issue was shaped by the test. The tests also would bring up a situation, such as a strike, in which both the corporation and unions were partial responsibility. The questionnaire would only ask questions about whether the union was to blame but would neglect to ask about the company's role in these events. Through these ways, issuers of these types of questionnaires were able to shift the opinions of those required to take the tests.<sup>86</sup>

The questionnaires at Sears were administered in either a cafeteria or a meeting room. Employees would take the test in groups of twenty-five to two hundred. Houser Associates was adamant about keeping Sears' supervisors out of the room when it

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<sup>86</sup> Arthur Kornhauser, "Are Public Opinion Polls Fair to Organized Labor?," *The Public Opinion Quarterly* 10 (1946-1947), 485-500.



conducted the survey and requested that completed questionnaires be placed into a ballot box to assure that the surveys were anonymous. Once Houser Associates had determined its findings, it met with Worthy and his staff to discuss. Then, the results were sent to management where the surveys were administered, and they were left to decide what to do to improve in the areas where their employees' "morale score" was low. The surveys proved that the three items most strongly correlated with high employee morale were "a belief that Sears dealt fairly with employee complaints, that it ordered a satisfactory future, and that it provided interesting work."<sup>87</sup>

Although this initial survey program was suspended between 1943 and 1946 because of World War Two, Sears used this period to experiment with another way to examine employee attitudes—nondirective interviewing (NDI). Social anthropologist Burleigh B. Gardner created the framework necessary for the interviews. The framework he devised was interpretive and was necessary in order to understand the mass of ambiguous, qualitative data obtained. Gardner was responsible for administering the experiments on Sears' employees and was hired under Worthy to investigate the units within the company that were experiencing low morale, high turnover, and union proclivities in order to determine whether using NDI could more precisely determine the reason why these units were so problematic.

Beneficial effects from Gardner's interviews were seen even before he finished his examination. Turnover rates fell and morale began to improve. Gardner believed that the catharsis achieved through interviewing helped Sears employees' morale, much like the conclusion reached from the Hawthorne experiments. As was observed during the

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<sup>87</sup> Jacoby, "Employee Attitude Testing," 611, 612.

Hawthorne experiments, the ability for employees to discuss the issues that they had with the corporation caused them to feel more positive after the session. Researchers viewed this as a therapeutic effect on the employees. Employees were allowed to talk with a confidential interviewer and express why they did not enjoy working at Sears. This was also viewed as a way to sway employees' opinions against unions. Providing Sears employees with what was essentially therapy moved the employees to change their opinion on certain issues, namely their attitude towards Sears as an employer and their attitudes towards joining unions.

In 1946, Sears decided to re-introduce surveys. This time, however, Worthy and Gardner created a new survey entitled the "organization survey." The organization survey had two parts: the questionnaire and the "employee-centered" interview. The questionnaire was similar to the one that Houser Associates had created, but an employee's morale was now measured by his or her overall score rather than on a separate morale scale. These new questionnaires, however, were intended to gather whether the overall morale of a subdivision was either high or low and to locate the problems that were straining the working relationships.<sup>88</sup> In the "employee-centered" interview, also known as non-directive interviewing, the surveyors returned after the questionnaires to interview selected employees. The employees were given a vague idea of what the interviewer wanted to discuss and then asked to speak his or her mind. Like NDI, this approach allowed employees to express their thoughts and in turn relax, having just communicated what they had been unable to discuss with anyone else. The organization survey brought together the questionnaire and the nondirective interviewing,

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<sup>88</sup> Worthy, "Organizational Structure and Employee [sic] Morale," 170.

which led to more success than the previous attitude tests. The questionnaire could be distributed more widely but the nondirective interviewing allowed the surveyors to talk to key employees. Thus, this new way of interviewing helped Sears' anti-union campaign immensely because the resulting morale boost and elevated opinion of Sears dissuaded employees from agreeing to join unions.

Employees at Sears were not informed that the purpose of the surveys went beyond simply recording their feedback and opinions. The tests were also conducted to persuade the employees to refrain from joining unions and to make them view unions with the same distaste that Sears' top management felt for them as well. The program resulted in many employees avoiding unions because through discussions with interviewers, the employees were able to come to a develop a better opinion of what Sears provided for them and in turn think less of unions.

While the attitude testing was an important part of Sears' anti-union campaign, it also contributed to a better workplace environment within Sears. Moreover, because data were collected routinely, management received frequent assessments of how their employees viewed their department and how their employees viewed them. As a result, management strived to improve, thus even further increasing productivity and morale within Sears.

### "Hard" Tactics

Sears hired Nathan W. Shefferman in 1935 to head the company's labor relations department. Shefferman was the key to Sears' "hard" tactics against unions. He was one of the first union busters and was also a consultant for labor relations. The practice of union busting is summed up by Martin Levitt, who worked as a union buster for over

twenty years: "When a chief executive hires a labor relations consultant to battle a union, he gives the consultant run of the company and closes his eyes."<sup>89</sup> Shefferman was successful in keeping unions from organizing the entire workforce at Sears, although he did not consistently abide by the law to do so. He relied on creating 'vote no' committees during union election campaigns, giving union leaders free Sears merchandise and other gifts, and if unionization seemed inevitable, he arranged sweetheart contracts to halt unionizing efforts against Sears.<sup>90</sup> The most notable of these tactics was Shefferman's alliance with the Teamsters.

From 1935 until 1948 Sears' labor relations were handled in a unique fashion. Shefferman headed Department 731, "Labor Relations." Although Department 707 was supposed to handle employee relations, if there was ever a union organizing drive, the responsibility for dealing with the issue was immediately transferred to Shefferman's Department, no questions asked. Shefferman made sure to make the organizing drive disappear for Sears each time there was a problem. For example, in 1937, Shefferman took to spying on unions in Chicago that had organized a strike at the mail-order plant. Due to Shefferman's efforts, the union eventually stopped attempting to organize Sears and instead moved on to other companies, such as Montgomery Ward.

In 1939, Shefferman created Labor Relations Associates (LRA) with capital provided by Sears. As a separate consulting office, LRA could consult with supplier companies as well as with Sears. This new consulting firm financed by Sears was an important piece of Sears' efforts to remain anti-union. While there were laws restricting

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<sup>89</sup> Martin Jay Levitt and Terry Conrow, *Confessions of a Union Buster* (New York: Crown Publishers, Inc., 1993), 1.

<sup>90</sup> Jacoby, "Employee Attitude Testing," 609-610.

what Sears could do, LRA was not governed by the same laws as Sears in regards to questioning employees. Although this was a loophole in the legal system, this tactic would prove important in later years as LRA helped Sears continue to fight unions.

With the strength and membership of unions growing, Shefferman realized that he needed to do more than spy on unions if he was going to succeed in keeping them out of Sears. To assist him with his efforts, he turned to Dave Beck, who was head of the Teamsters in Seattle, which was also the location of the Teamsters' headquarters. Shefferman believed that he could negotiate with the Teamsters more easily than with the International Retail Clerks, even though both unions were members of the AFL. He also believed that forming an alliance with Beck would keep away the more militant CIO unions like the Retail, Wholesale, Department Store Union (RWDSU) and the International Longshore and Warehouse Union (ILWU). The idea of creating a bond with Beck led Shefferman to create his containment policy—in strong labor towns where Shefferman felt a small degree of unionism was inevitable (Minneapolis, San Francisco, and Seattle) he would allow Sears to negotiate only with the Teamsters to come up with a solution. One example of how Shefferman helped Beck was by backing his multiemployer retail contract. The multiemployer retail contract was a contract that Beck wanted retailers to sign so that companies would only cooperate with the Teamsters. This was negotiated for Seattle and in effect shut competing unions out. However, Sears maintained a policy of refusing to sign union contracts. Because this contract was also beneficial to Sears—it held the CIO at bay and also prevented the Clerks from being allowed to negotiate with the stores—Shefferman found a way around Sears' policy. Instead, Shefferman and Beck hired an attorney to be present during negotiations who

would then send a letter to both Sears and to the Clerks describing the terms of the agreement rather than having actual signatures on the agreement. Moreover, Shefferman and Beck created a modified union shop for the Sears unit in Seattle. Rather than have an official union shop, the Seattle plant had a “union coordinator” who collected union dues to pay to the Clerks in return for them to stop publically trying to unionize Sears. Shefferman’s relationship with Beck was very close, and this helped both parties. Shefferman paid Beck a considerable amount of money (most of it was financed by Sears) and in turn Beck helped Shefferman keep other unions at bay.<sup>91</sup>

While the relationship between Shefferman and Beck did not always lead to legal agreements between Sears and the Teamsters, the friendship allowed Sears to achieve the desired results. From 1933 on, the Teamsters never made an independent organizing attempt at Sears and the only Teamsters employees within Sears were there because of contracts that Shefferman and Beck had negotiated. Furthermore, the results of Shefferman’s negotiations with Beck deterred other unions and stopped the Clerks from having bargaining power over Sears.

The Clerks attempted to organize Sears in 1938. To counter their drive, Shefferman implemented two new tactics. The first, through LRA, was to attempt to discover which employees were union workers through interviews and surveys. Once a union worker was discovered, LRA tried to get he or she to leave the union or face termination. This method is an example of the need for LRA. Department 707 was unable to administer these types of tests because it was illegal for Sears to do so. However, Sears found a way around the law because LRA was allowed to administer these tests under the

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<sup>91</sup> Jacoby, *Modern Manors*, 130, 132, 133.

condition that it was administering them as consultant measures. With these tactics, many Sears employees feared joining unions.

Other tactics that LRA instigated against the Clerks were methods to slow down the momentum for union campaigns. LRA filed numerous NLRB objections and appeals to wage warfare in the administrative and judicial systems. The LRA was able to successfully delay the union election in Boston for two years because of its legal appeal to stall a union drive. Another one of the slow-down tactics that Shefferman came up with was creating "vote no" committees. With LRA funding the committee hired an attorney and printed anti-union literature that urged employees to vote "no union" in the union elections. Moreover, besides funding the "no union" vote, the LRA also funded the other unions on the ballot. Through the funding of weaker unions, and the vote no campaign, LRA successfully thwarted the vote because no one union could win a majority vote. These tactics were common practices utilized by other corporations as well and therefore provide an example of how companies with the means to administer these measures found ways to deter unions.

The anti-union tactics that Shefferman instigated were instrumental in preventing complete unionization at Sears. The union employees at Sears were a controlled group that was necessary to keep the rest of the unions from gaining any real progress within the company. In implementing this group, Sears provided Beck with the bargaining power he needed and thus he kept other unions from attempting to unionize Sears. Although many of the "hard" tactics were not legal, they served their purpose for Sears. Sears' alliance with Shefferman and the creation of the LRA provide an explanation for how companies that put in much effort to resist unionization could succeed.

### *The Benefits of Sears' Management Structure*

Sears found an effective way to forestall unions during the 1930s and 1940s. Sears' management structure and its operations helped facilitate a climate within the company that opposed unions. The implementation of both "soft" and "hard" tactics was essential to fulfilling Wood's goal of resisting complete unionization. For Sears, it was more than Wood's steadfast stance on unions that helped it create such a successful anti-union campaign; having started an expansionist program and subsequently a labor department early on, the company was prepared to deal with labor relations.

Sears is an example of a company that made it a priority to implement programs that looked to solve labor and management issues. The decentralized structure that Sears created provided more autonomy for its employees. The autonomy given to employees coupled with benefit programs helped sustain a relationship between the management and the workers. Moreover, the implementation of attitude testing helped improve employee morale. The practices implemented were a continuation of welfare capitalist practices and much like in the past, lead to a better work environment. Moreover, the implementation of welfare capitalist practices and the work environment they fostered helped companies like Sears attain lower employee turnover, increased productivity, and superior labor management.



## Chapter 4: Montgomery Ward

### Background

Aaron Montgomery Ward founded Montgomery Ward in 1872. He soon joined forces with Charles R. Thorne and together they built the first mail order company.<sup>92</sup> Until this point, there were no stores that could sell merchandise directly to the customer in rural areas. Therefore, both men wanted to target small farmers west of the Mississippi River. This new idea caught on and quickly Montgomery Ward became the staple in rural homes.

In 1918, Montgomery Ward realized that it needed an infusion of cash and therefore needed to find a majority stockholder with much capital to contribute. Montgomery Ward's first choice for this role was George Whelan, then head of United Retail Store Corporation, a company that operated large chain stores such as United Cigar Stores and Whelan drug stores, at the time. Eventually, Whelan invested and took over control of Montgomery Ward with the help of a group of bankers at J. P. Morgan and First National Bank. Although George Whelan now held a controlling stock interest in Montgomery Ward he retained Charles Thorne as president and Charles and James Thorne remained as directors. Although the Thorne brothers continued to run the day-to-day business, Silas Stawn, a banker from Chicago, was in control. Subsequently, James Duke, one of the wealthiest men of the times, became a major owner of United Retailing and consequently of Montgomery Ward as well.<sup>93</sup>

The years 1919 and 1920 were unfavorable years for Montgomery Ward and the company saw drastically reduced profits. Not wanting to be involved with the problems

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<sup>92</sup> *The History and Progress of Montgomery Ward and Company: "The Oldest Mail Order House." The Romance of the Golden Rule and some Interesting Facts about the Mail Order Business* (Montgomery Ward and Company, 1925).

<sup>93</sup> Cecil C. Hogem Sr., *The First Hundred Years are the Toughest* (Berkeley: Ten Speed Press, 1988), 76.

associated with the company, both James Duke and Charles Whelan sold their shares in the company to a group of bankers from both J.P. Morgan and First National Bank. Robert Thorne resigned as president and Theodore Merseles was hired as his replacement. As a consequence of these management changes, bankers rather than retail businessmen now owned Montgomery Ward.

### Expanding into Retail

Montgomery Ward's expansion into retail was not straightforward. In 1921, Robert Wood, as vice president at Montgomery Ward, believed that expanding into retail would be profitable for the company but Merseles, Montgomery Ward's President, did not agree with his thinking. In 1921, Wood wrote to Merseles, "We can beat the chain store at their own game. We can easily and profitably engage in the chain store business ourselves with a relatively small amount of capital."<sup>94</sup> However, Merseles still thought that other capital investments—an increase in the circulation of the 1922 catalog, a larger budget for newspaper advertising, improvement of the copy and layout of the catalog, and an increase in women's fashion advertisements—would be best for the company. Statistically at this time, farmers, who were once Montgomery Ward's main customers, were leaving the farming industry and moving to more urbanized locations. Merseles, however, believed that the decline in farmers was because of the increase in automobiles. Because of the increase in automobiles, Merseles thought that the farmers that did not migrate would become more profitable and then spend this excessive wealth at Montgomery Ward. However, he failed to realize that not only was there a decline in the farming industry but

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<sup>94</sup> Hagem, *The First Hundred Years are the Toughest*, 85, 88.

the money that farmers were making was also decreasing due to competition that had arisen from both Europe and South America.<sup>95</sup>

Over time, Wood and Merseles' opinions began to differ more as each became more stubborn. When Merseles later learned of Wood discussing the possibility of joining Sears in 1924, he fired Wood and locked his office. In retrospect this was not a wise decision, for had Merseles kept Wood and expanded into the retail business the company would have done remarkably better.<sup>96</sup>

At Montgomery Ward, Merseles remained highly skeptical about expanding into retail, even after Sears Roebuck found it increased the success of their company. In order to test retail, Merseles implemented display stores, which allowed stores to display (but not sell) items that customers would receive when they ordered from the catalog. The first store to open was in Marysville, Kansas in 1926, and it drew encouragingly large crowds. However, customers were disappointed that they could not immediately take home the merchandise they saw in front of them in the store. It was not until events at a Montgomery Ward store located in Plymouth, Indiana, occurred where customers forcibly took display items that Merseles agreed to direct selling display stores. By May 1927, Montgomery Ward had eight display stores.

Although Merseles was seeing the benefits of expansion into retail, he remained cautious and thus only set up stores in small towns and middle-sized cities. Before the start of Merseles' expansion program got under way, he resigned and George B. Everitt became president. Everitt began an expansion program in 1928 that included three kinds of retail

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<sup>95</sup> Frank B. Latham, *1872-1972 A Century of Serving Consumers: The Story of Montgomery Ward* (Chicago: Montgomery Ward & Company, 1972), 66-67.

<sup>96</sup> Hogem, *The First Hundred Years are the Toughest*, 88.

stores. "Chain stores" were small-town display units and carried around 3,000 items. "Attached stores" were the former outlet stores that had been at the Chicago plants and branch houses. These stores were stocked with fresh goods and sold all the items in the Montgomery Ward catalog. The last group of stores was the "detached stores." These were the largest stores and were located in larger towns. They also sold a broader assortment of goods than the "chain stores." In 1928, Montgomery Ward's directors voted for an expansion of 212 detached stores. By the end of 1929, Montgomery Ward had 531 retail stores throughout the country.<sup>97</sup>

As the expansion continued, Montgomery Ward started to see that the personnel they hired for mail order was not the smartest personnel to have working for the stores. Southern stores received snowshoes and toboggans and a Florida store received skis. This proved to be costly errors and thus management wanted to hire local personnel for the stores so that these incidents would not occur again.

#### *Sewell Avery Takes Over*

After the stock market crash of 1929, Montgomery Ward did not experience the substantial growth that it had enjoyed for the first few years of its expansion. Times were hard and earnings decreased drastically. In 1930, Montgomery Ward's first quarter earnings reported a loss of more than two million dollars.<sup>98</sup> That same year, the company closed twenty-four stores, and another eighteen in 1931. With such dire developments, Montgomery Ward realized it needed help and thus turned to Sewell L. Avery to become president. Avery, who was president of U.S. Gypsum and Company, was a prime candidate

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<sup>97</sup> Latham, *1872-1972 A Century of Serving Consumers*, 70-74.

<sup>98</sup> Loreley Moore, "Guide to MONTGOMERY WARD RECORDS, 1849-1989," May 2001.

to lead Montgomery Ward. The fact that the board knew he would not allow a closed union shop to occur within their company was also considered as his candidacy for heading Montgomery Ward was reviewed.<sup>99</sup> In November 1931, Avery took over as chairman of the board, chief executive officer and general manager. The following year Avery took over as president. Avery set about to bring together mail order and retail operations through centralized control.

When Avery took over the company he made it a point to completely shift the management at Montgomery Ward. He hired Sears' alumni to learn more about Sears and what practices had benefitted Sears. He created three main departments: merchandising, operations and financial. He divided operations into six regions and gave each its own sales manager. Under each sales manager were a retail manager and a mail order manager. In just three years after Avery took over the Company, most of the employees had been replaced; two-thirds of Montgomery Ward's 35,000 employees were hired after Avery took over.<sup>100</sup> Avery was determined to build the company as he saw fit.

#### Montgomery Ward, Unions, and the Government

In 1935, Avery's disputes with the Government and labor controls began. In 1935, the NRA required companies to follow the wage and price provisions for their specific industry codes. This required each company to pay \$30,000 for an assessment by the code administration, which Avery refused. Due to this refusal to pay, Montgomery Ward was denied the Blue Eagle symbol.

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<sup>99</sup> Moore, "Guide to MONTGOMERY WARD RECORDS."

<sup>100</sup> Hagem, *The First Hundred Years are the Toughest*, 127, 187-188.

Avery believed that in 1939 the economy was going in reverse. He thought that the New Deal had been artificially pumping money into the economy and that because of this it was going to turn into a depression. His expansion plans became much more conservative and Montgomery Ward sat on cash to be ready for the market regression. Unfortunately, Avery thought World War II economics would follow the same pattern as that of WWI, but this conservative market view and the resulting refusal to expand led to more and more of Montgomery Ward's top executives impatiently quitting. Consequently, the great strides in exceptional personnel that he had hired started to slip away as he continued to rule by only the way in which he wanted.<sup>101</sup>

Contrary to Avery's outlook, World War II stimulated defense production and helped to begin the end of the Depression during 1939 and 1940. Once Avery saw this, he sped up store expansion by opening 39 more stores in 1940. After this, however, he decided that there would not be any more expansions except for those already contracted for the next year because he again became wary of inflation. By 1940, Montgomery Ward had 650 retail stores, 9 catalog houses and 183 catalog stores but this became almost too much to handle. Due to improper preparation, the large volume of business caused merchandise shortages. Because it could not get the items in time, Montgomery Ward had to triple refunds for mail orders.

Montgomery Ward experienced an issue with high employee turnover in 1942 and 1943. In a memorandum issued in April 1943, Montgomery Ward reported that "during 1942 the average monthly number of employees on the payroll was 72,628. During the year, 114,000 people left the company. That was a turnover rate of 156 percent." Because

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<sup>101</sup> Hogem, *The First Hundred Years are the Toughest*, 133.

of this problem, the company had to relax their normal standards for hiring. While the company claimed they normally were required to interview four applicants to find one employee who could fit their physical and mental standards, they dropped this down to around one out of every three applicants in order to hire enough people. The company reported that the most common reason people left the company (56 percent) was due to resignation. A majority of those that resigned were to go into war industries for higher pay or to avoid the draft by signing up for a different war effort first. The company did not foresee any immediate relief and believed that the manpower problems would only grow worse in the future. Due to this problem, the company was taking measures to hire more women instead of men. Moreover, the company reduced the Mail Order workweek from five and a half to five days, which, it commented was a “considerable sacrifice to customer service.” The company also decided to increase wages and hire part-time employees. The report indicated that the high labor turnover increased its operating costs and greatly hurt its customer service. The report provided a gloomy conclusion that as long as the conditions continued, the net earnings of the company would be less, mostly in part because they were paying more, shortening work weeks, and having to employ inexperienced people who cost more to train and made more mistakes.<sup>102</sup>

Sewell Avery demonstrated that he had no patience for companies’ that complied with union demands through the amount of cases he brought against other corporations that were too scared to fight back against labor. The Warehousemen and Office Workers had started striking on December 1941 at the mail order plants in Oakland, CA and Portland,

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<sup>102</sup> Montgomery Ward and Company, “Ward’s Manpower Problem,” April 23, 1943, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

Oregon and a year later Montgomery Ward settled the strike. Although Montgomery Ward won the strike, during its occurrence, almost all railroads, steamships, and trucking companies refused to deliver to Montgomery Ward because they did not want to experience sympathy strikes against them by their workers. Because of this, Avery sued over 80 transport carriers for delaying their work for two million dollars. Some of these companies in turn sued Montgomery Ward for \$75,000 for storage charges.<sup>103</sup>

Also in 1942, Montgomery Ward sued the United Mail Order, Warehouse, and Retail Employees Union, Local 20, CIO, again demonstrating the company's habit of taking perceived injustices of labor to court. Prior to this suit, the NLRB had issued a directive order in which the Union was to be the exclusive bargaining agency for employees at two separate bargaining units.<sup>104</sup> One was the employees of Montgomery Ward's mail order house in Chicago, Illinois and the other was the employees of Montgomery Ward's retail department store in Chicago, Illinois. Beginning in March 1942, the Union and Montgomery Ward held five bargaining meetings. At the first meeting, the Union presented a list of twenty demands. During the ensuing meetings, the Union's demands for a "closed shop, including check-off, an arbitration clause, strict seniority, and a blanket wage increase" became the main issues. In response to these issues, Montgomery Ward's explained why they did not agree with the issues at hand and why the Union was wrong in suggesting them. Montgomery Ward maintained that many of the items were "contrary to the fundamental American principles of liberty and freedom; were

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<sup>103</sup> Hogem, *The First Hundred Years are the Toughest*, 139.

<sup>104</sup> National War Labor Board, "Directive Order," *Montgomery Ward and Company, Inc. v. United Mail Order, Warehouse and Retail Employees Union of the United Retail, Wholesale, and Department Store Employees [sic] of America, Local No. 20*, November 5, 1942, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.



economically unsound because they tended to create a monopoly of labor; and that the closed shop was unnecessary to and inconsistent with sound unionism.”<sup>105</sup> In the resulting litigation, along with all the other issues that Montgomery Ward rejected, Montgomery Ward further objected to the National War Labor Board’s authority and jurisdiction. Montgomery Ward believed that the National War Labor Board was wholly without power or authority and thus it objected to the Board’s proceeding in the matter. The company also objected to the Board’s attempts at determining the main issue in the suit, a closed shop, because Montgomery Ward believed that a closed shop was not a triable issue. To Montgomery Ward, a closed shop, in any form, was illegal unless voluntarily agreed to by the employer.

On a separate front, also in 1942, Montgomery Ward again demonstrated its anti-union sentiments, this time against the NLRB. The NLRB ordered Montgomery Ward to enter into a contract establishing a form of closed shop called “maintenance of membership” along with a check-off of union dues from wages for the CIO’s United Mail Order, Warehouse and Retail Employees’ Union. Under a “maintenance of membership,” employees who are members of the union would not be free to resign from the union without being discharged, and Montgomery Ward would not be free to retain a competent worker who had resigned from the union. Avery believed that the Board’s demands “not only violated the fundamental principles of liberty but were also economically unsound and illegal under the terms of the National Labor Relations Act.”<sup>106</sup> Avery also insisted that

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<sup>105</sup> Montgomery Ward and Co., and United Mail Order, Warehouse and Retail Union, NWLB Case No. 192, June 29, 1942, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

<sup>106</sup> Sewell Avery, Letter to National War Labor Board, November 13, 1942, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

Congress was the sole law making authority under the Constitution and that since Congress was not making these demands the company would not comply with them.<sup>107</sup> The WLB turned this case over to President Roosevelt who ordered Montgomery Ward to comply with the order of the WLB. After the President required Montgomery Ward to comply, the company issued a statement to the entire company that it had complied with the President's direction and would continue to do so. The company did maintain, however, that the document the President forced the company to sign was not a contract and thus there was no agreement between Montgomery Ward and the Union. Montgomery Ward made sure to include that the provisions it agreed upon were not done so voluntarily by the Company and that it believed the agreement to be illegal and unsound.<sup>108</sup> Under the provision, Montgomery Ward was supposed to give 6,800 employees a "maintenance of membership" clause. Although Avery did compromise and recognize the union he still did not issue the check off or collect dues for the union. He also refused to fire an employee who did not join a union.<sup>109</sup>

In January 1943, Montgomery Ward once again objected to the demands of labor and the National War Labor Board called a hearing to determine whether the employees at Montgomery Ward's six largest stores must belong to unions in order to remain employees. The stores were located in Denver, Detroit, and New York City. Montgomery Ward issued a memorandum to its employees outlining its labor policy once again. It explained that it would reject demands that employees be discharged because they do not maintain union

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<sup>107</sup> Avery, Letter to National War Labor Board, November 13, 1942.

<sup>108</sup> Sewell Avery, "Memorandum to all Montgomery Ward People," December 8, 1942, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

<sup>109</sup> Hogem, *The First Hundred Years are the Toughest*, 140-141.

membership. The memorandum reiterated the labor policy that an employee was free to choose whether to join a union and, moreover, that ones' opportunities at the Company would remain the same either way. The company also stressed that an employee did not have to join a union in order to work at Montgomery Ward.<sup>110</sup> The following month, Montgomery Ward published a letter to the National War Labor Board written by Sewell Avery. The National War Labor Board panel had recommended that the Board issue another order against Montgomery Ward that required its six largest stores to have a "maintenance of membership" like in Chicago. To this, Avery explained that he saw the War Labor Board to hold no authority. He further explained that in ordering a closed shop, the Board was going against the National Labor Relations Act, which encouraged the process of collective bargaining. Avery also told the National War Labor Board that Montgomery Ward would continue to defend the principles of liberty that this request contradicted. Avery finished his letter by explaining that due to the principles that Montgomery Ward maintained, the company had to reject the proposals. Avery concluded that the proposals were illegal and therefore Avery, and Montgomery Ward, would instead take a "course which good citizenship requires."<sup>111</sup> In November 1943, Montgomery Ward filed with the Federal Court in Washington to restrain the War Labor Board from enforcing "maintenance-of-union" membership against the company. Montgomery Ward then notified the union at the Chicago plant that it would not continue the "maintenance of

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<sup>110</sup> Sewell Avery, "To All Montgomery Ward People," January 11, 1943, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

<sup>111</sup> Sewell Avery, Letter to National Labor Board, February 27, 1943, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

membership” contract in Chicago after December 8, 1943.<sup>112</sup> Because Montgomery Ward refused to comply with the order of the National War Labor Board, its four Detroit stores went on strike a year later in 1944.

Union turmoil continued into 1943. In February of 1943, the Montgomery Ward Baltimore Plant had three different unions attempting to organize the company.<sup>113</sup> The AFL itself, the ILWU, and the RWDSU were all attempting to unionize workers at Montgomery Ward. Both the ILWU and RWDSU were members of the CIO. Therefore, the strategies each union embodied not only had to persuade workers to join a union but to join their specific union.

Later in 1943, Montgomery Ward’s Baltimore Plant began to have many unionization attempts by the Mail Order, Warehouse, and Distribution Workers Union—ILWU, CIO. The three main actors in this power struggle—Government, unions, and corporations—were all very much involved in vying for power within Montgomery Ward at this time. In a Union Newsletter, “Ward Victory News,” from March 25, 1943, the union specifically laid out details of how it was going to “Win the War” and gain the changes it desired within Montgomery Ward. The first step that the union outlined was to gain a substantial number of workers within the plant to sign up for the union, which it noted had already been accomplished. The second step was for the union to ask the Government Labor Board to conduct an election in the plant so that the workers could decide whether they wanted the union. This step had also already been completed. The third step was for the Labor Board to call a hearing in which the Government, the union, and the company

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<sup>112</sup> John A. Barr, “To All Montgomery Ward People,” November 4, 1943, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

<sup>113</sup> H.D. Wolf, Letter to C.M. Odorizzi, February 26, 1943, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

would all attend. At the time of the newsletter, the union was waiting for the board to set a date for this to occur. The fourth step was for the Government to conduct an election among the workers for a majority union vote. Once this occurred, the union would be under the law of the United States and recognized by the Government and Montgomery Ward as the collective bargaining agent. The fifth and final step outlined by the newsletter was for the union, after "finding out just what the membership wants," to send representatives from workers within the plant to negotiate a contract with the company that would establish better wages, conditions, and other qualms.<sup>114</sup> In creating a campaign that likened unionizing Montgomery Ward to "winning a war" and in turn involving the Government in the steps to achieve the desired results, the union demonstrated how important it to gain power over the company and moreover how necessary the Government was in its ability to do so.

Also in Baltimore, the ILWU continued to pass out fliers at the plant to persuade a majority of Montgomery Ward employees to join the union. There are multiple letters outlining different union tactics written by H.D. Wolf, manager of the Baltimore Plant, to Montgomery Ward headquarters in Chicago. One specific example of an attempt to unionize workers was by passing out "All-day Candy Suckers." Each sucker had a tag attached that read "Don't be a sucker for Wards! Vote YES for I.L.W.U."<sup>115</sup> Another way that union members spread the word about voting "Yes" was through a union newspaper called the "Yard Bird." An issue of this Newspaper was distributed on September 21, 1943

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<sup>114</sup> Mail Order, Warehouse, and Distribution Workers Union ILWU, CIO, "Ward Victory News," March 25, 1943, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

<sup>115</sup> H. D. Wolf, Letter to C. M. Odorizzi, September 21, 1943, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

at the Bethlehem-Fairfield Shipbuilding Company. The newspaper urged employees who might have friends or relatives working at Montgomery Ward to tell them to vote "Yes" in the I.L.W.U. election that was held in Baltimore on September 23, 1943.<sup>116</sup> After the elections, the workers won the right to bargain collectively with management. However, according to the union, after this was accomplished, "the big job was yet to be done." The union desired higher wages and "the best possible contract with the Company that will protect and advance the interests of the workers." In order to push this propaganda, the union also utilized tactics of reiterating that the union was "like a family of brothers and sisters building a home. A home that protects them and gains for them more of the comforts and security of life."<sup>117</sup>

In 1944, Montgomery Ward changed tactics and sued *Business Week* alleging that it was libeled in the 1942 story, "Steelman Stymied," which was a critical look at the company's labor relations. In a letter to the president of McGraw-Hill Publishing Company, James H. McGraw, John A. Barr, who had been working as head of labor relations for two years at Montgomery Ward, outlined the grievances the company had with the article. In short, Montgomery Ward alleged that it had been libeled because the *Business Week* article outlined Montgomery Ward's opposition to any union concessions. One example of a contested section of the article was the line that claimed that "Avery's attitude—the long standing Ward policy[...] had been based on a refusal to make any concessions to unions." Barr acknowledged this section of the article and included how

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<sup>116</sup> H.D. Wolf, Letter to J.A. Barr, September 22, 1943, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

<sup>117</sup> ILWU Local 219, "Congratulations. Now for the Big Job," September 24, 1943, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

Montgomery Ward had never refused to discuss with its employees or their authorized representatives any proposed modification of its labor policies or practices.<sup>118</sup> Montgomery Ward believed that the article, in accusing the company of refusing to bargain with union representatives, rejecting every request by unions, and offending organized labor and its friends (who were also Montgomery Ward customers), had injured the company's business. The court, however, concluded that whereas employers cannot be condemned for taking the anti-union steps that it had, because unions were not entitled to the items they requested as a matter of right, there was nothing libelous about stating that Montgomery Ward opposed various union tactics. Consequently, Montgomery Ward lost at trial and on appeal.

When the contract between Montgomery Ward and Union Local 20 of the United Mail Order, Warehouse, and Retail Employees Union came due to be renewed in 1944, Montgomery Ward refused to renew on the basis that it was not confirmed whether the union still represented a majority of the Chicago mail order house and store employees. In doing so, Montgomery Ward again demonstrated its dislike of unionization and that it would not be easily overtaken. When the union could not offer any proof that it represented a majority, Montgomery Ward let the contract expire. This action angered the War Labor Board. According to the RWDSU at this time, Montgomery Ward falsely repeated that the reason for not signing the Union's demands was that it would not engage in closed shops. However, on May 1944, the RWDSU allotted that Montgomery Ward changed their reasoning when it told the Government that the reason it would not sign a contract was because the RWDSU did not represent a majority of the employees and therefore another

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<sup>118</sup> John A. Barr, Letter to James H. McGraw, Jr., May 29 1942, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

election was needed. The Union further lamented that when the next election happened, Montgomery Ward found more reasons to reject the agreement. Samuel Wolchock, president of the RWDSU, believed that Montgomery Ward “was using the crusade against the union shop as a smoke screen behind which it conducts [a] campaign to smash our Union.”<sup>119</sup> In response to Wolchock, Avery rejected the notion that the closed shop was a smoke screen, mandating that it “was a real issue between Ward and [the] union for the past eight years and remains a real issue today.” He further commented that Montgomery Ward “fully accepts unionism” and “if the union strikes, it will not be because of any reluctance on Ward’s part to sign a fair contract with the union.”<sup>120</sup> When the election occurred and Montgomery Ward rejected the decision it yielded, the RWDSU decided to strike.<sup>121</sup> 2,500 members of the RWDSU staged a walk out at the Montgomery Ward mail order houses in New York. Following this instance, Montgomery Ward and employees of the CIO Local 20 of the RWDSU began negotiations in which the union won the right to bargain for two separate units of employees.<sup>122</sup> However, the strikes did not end after this negotiation because the union was not satisfied and Montgomery Ward refused to give into more demands.

After twelve days of striking, President Roosevelt asked for both sides to come to a resolution. The strike was stalling the delivery of farm equipment and other essential items. He told Avery that if Montgomery Ward did not agree to work with the War Labor Board he would impose further sanctions. When Avery still did not comply, President Roosevelt

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<sup>119</sup> Samuel Wolchok, Letter to Sewell Avery, November 16, 1945, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

<sup>120</sup> Sewell Avery, Letter to Samuel Wolchock, November 21, 1945, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

<sup>121</sup> Latham, *1872-1972 A Century of Serving Consumers*, 79.

<sup>122</sup> “Ward Negotiations Will Start at Once,” *New York Times*, May 14, 1944.



ordered the Secretary of Commerce to possess the Chicago plant and run it as a Government operation for the war effort. Still, Avery found this to be illegal and refused to cooperate. Avery would not leave the building when the Government seized the property and therefore the Army sergeant and private had to carry him out of the building. After the Government took over, many top management executives were removed from the company and the operating executives remained. Many did not approve of the Government take over of Montgomery Ward and viewed it instead as an abuse of governments' power. The president of the Chicago Association of Commerce, Holman Pettibone, reiterated that "the business community is shocked at the military seizure." Moreover, the Chicago Tribune, which was noted as anti-Roosevelt, made this clear in reporting that "the President has violated his oath of office. What he has done is impeachable."<sup>123</sup>

Montgomery Ward went to court to contest this issue but the day before a decision was made, the Secretary of Commerce ended control of the plant and therefore legality of the take over was never decided.<sup>124</sup> Although Montgomery Ward sued the Government and won in the Federal District Court concerning the right to seize its property, the Government appealed and then won the case in the circuit court of appeals. In Montgomery Ward's Statement before the House of Representatives, it accused the War Labor Board of violating the law by granting a contract to the union when the union had refused to prove that it had any legal right to represent Montgomery Ward's employees. The company further claimed that the National Labor Relations Board and the War Labor Board conspired together to bring about the seizure of Montgomery Ward's properties to enforce

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<sup>123</sup> Louthier S. Horne, "CENTRAL STATES: Montgomery Ward Seizure Stirs Wide Criticism," *New York Times*, Apr 30, 1944.

<sup>124</sup> Latham, *1872-1972 A Century of Serving Consumers*, 80.

an order that they knew was illegal and unfair. Montgomery Ward believed that its treatment after the passage of the Wagner Act demonstrated unfairness and prejudice. Montgomery Ward further thought that the actions taken by the NLRB and WLB were common methods that these agencies used to force the surrender of the liberties of employers and employees everywhere. Montgomery Ward accused these bodies of using policies that gave unfair and illegal assistance to labor unions and thus had destroyed the established procedure of collective bargaining and encouraged labor strife instead. In agreeing with the matter, the Chairman of the National Mediation Board, William Leiserson, explained, "Unions have come to depend on Governments to give them what they could not gain by collective bargaining with employers." Due to this, he asserted that it was the Government agencies that were most responsible for the labor situation rather than the unions and their leaders. Montgomery Ward formulated the conclusion that "these many bureaus have formed a machine for purchasing political support from labor organizations."<sup>125</sup> Again, this example poses the problem of the Government, the union, and the corporation all vying for power within a situation that could be handled in a different manner. The desire for power overtook all entities during this period and did not leave much room for Montgomery Ward to better manage their employees. The personnel policies at Montgomery Ward, as more union attempts continued, became increasingly uniform and manifested in an environment that was constantly defending itself against unions rather than actively pursuing a way to deter their employees from wanting to join

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<sup>125</sup> "Montgomery Ward's Statement Before the House of Representatives Special Committee Investigating Montgomery Ward Seizure," 1944, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

unions. Although it was clear that top management was against unionization, the same mantra did not spread throughout the corporation.

The Government take over was only the beginning of Montgomery Ward's Government run-ins. Unions continued to demand a closed shop and Montgomery Ward continued to refuse. Because of this, in 1944, President Roosevelt directed the Secretary of War to again possess Montgomery Ward's plants and other stores. From December 28, 1944 until October 18, 1945, the army occupied these facilities. The army wanted the stores to pay the sales price taxes and shipping but this would mean that Montgomery Ward would be paying these amounts twice. Due to the chaos surrounding the army, Montgomery Ward was unable to fill over 10,000 orders a day and making the outlook for operations rather grim.<sup>126</sup> On November 26, 1945 the URWDSEA of the CIO picketed four of Montgomery Ward's nine mail order houses, six of its 631 retail stores, two of its 75 farm stores, and one of its 216 order offices. Despite this, all branches of Montgomery Ward remained open for business.<sup>127</sup>

After the War ended, Avery became even more conservative in his control of Montgomery Ward. He did not expand nor did he modernize any stores. During this same time, Sears implemented an opposite plan that afforded them great success. Because Avery had become more distrustful of the Government, he refused to change his ways even though \$270 million of unfilled orders had to be refunded in 1946.<sup>128</sup>

The passage of the Taft-Hartley Act in 1947 greatly helped companies such as Montgomery Ward. In December 1947, John Barr discussed whether workers lose under

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<sup>126</sup> Hogem, *The First Hundred Years are the Toughest*, 144.

<sup>127</sup> Montgomery Ward Employees, "Memorandum," November 26, 1945, Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

<sup>128</sup> Latham, *1872-1972 A Century of Serving Consumers*, 82-83.

the Taft-Hartley Law on Chicago's WGN radio station. In an attempt to persuade workers that the Act was helpful, Barr explained that "The Taft-Hartley Act, without taking from workers any of the rights originally granted them by the Wagner Act, gives to workers new and additional rights protecting them from the power and coercion of professional union leaders." The Taft-Hartley Act, he believed, went beyond the Wagner Act by freeing workers from "the abuse and coercion to which union leaders, encouraged and supported by the New Deal Administration, had long subjected them." The Taft-Hartley Act finally gave workers the "right *not* to join a union and *not* to go on strike, if they do not want to." To Barr, the "freedom of individual workers had been completely destroyed by union violence and by compulsory union membership." This Act freed employees from "slave labor." In this account, it is also clear that the ideological approaches to anti-union sentiment were changing because Barr referenced Communism as one of the evils that was freed with the passage of the Taft-Hartley Act. He further explains that "experience has shown that Communists are not loyal to the United States Government and that, as union leaders, they are more interested in promoting industrial unrest and the cause of Communism than they are in legitimate collective bargaining." In sum of his speech, Barr explained that the worker now "loses nothing because his rights to join unions, bargain collectively, and to strike for legitimate objectives are preserved, just as they were established by the Wagner Act. [But that] the worker gains a great deal now too, because he, for the first time, has real protection against coercion and abuse by professional labor leaders."<sup>129</sup> Therefore, the Taft-Hartley Act again helped limit union power and provided Montgomery Ward much-needed breathing room to improve internal problems.

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<sup>129</sup> John A. Barr, "What are the Facts about the Taft-Hartley Act?" December 2, 1947,

### The End of Avery

As Montgomery Ward grew, Avery took over more authority within the entire organization. Young executives were frustrated with his management style and older executives did not enjoy losing the power they once held. Many executives also ran the risk of being fired because Avery had a short temper and fired people over disagreements. Due to this, in 1945, Clement Ryan resigned as president.<sup>130</sup>

In 1946, Montgomery Ward selected Wilbur H. Norton as president. In May 1948, however, much of the company wanted to limit Avery's power. Therefore, in 1948 Norton and eight vice presidents made an ultimatum to the board of directors that if they did not limit Avery's power and grant them autonomy to function as their job descriptions said, they would resign. Four vice presidents had already resigned in the past two weeks and in the past twelve months, twelve vice presidents had left Montgomery Ward. The board agreed to limit Avery's power. In turn, they gave the president more power and said he would designate authorities of the vice presidents. However, in response to this decision, Avery brought in a new president and eight new people and told the board the others could resign. He cut the board from fifteen members down to twelve, and then to nine. He changed the by-laws to provide for staggered elections so that he could keep control longer. After this incident occurred, the total number of executives to quit between 1931 and 1948 amounted to 27 vice presidents and three presidents.

Soon after this spectacle, both Henry Davison, a J.P. Morgan partner, and George Whitney, president of J.P. Morgan, resigned from the board of directors at Montgomery

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Montgomery Ward Records, 1849-1989, American Heritage Center, University of Wyoming.

<sup>130</sup> Hagem, *The First Hundred Years are the Toughest*, 144.

Ward claiming that “Mr. Davidson and I have felt that our usefulness as directors has been impaired and therefore we have resigned.” This act was devastating to Montgomery Ward and did not bode well for the company.<sup>131</sup>

Avery continued to struggle to keep employees. In August 1949, William Keader walked out and Avery took over acting management. Although Avery continued to lose top management personnel, he refused to start programs such as pension funds, insurance, or profit sharing benefits for its employees. Avery had further created a culture that was not able to work together as a cohesive unit.<sup>132</sup>

In a January 1, 1950 article, *Forbes* explained how it saw Montgomery Ward: “its tremendous executive turnover, overnight personnel policy shifts and consequently low loyalty, the less said the better.” The same article also called Avery a “volatile perfectionist” with a “timorous, fear-ridden subcommand.” Finally, the article labeled Avery as too impatient and domineering to develop a balanced team and criticized Montgomery Ward’s store operations.<sup>133</sup>

The detrimental effects of Avery’s one-man methods for ruling can be seen by the turn around that Montgomery Ward experienced when John Barr took over as chairman and president in 1955. While Avery had been in control, no stores were modernized to include air conditioning, relocation to downtown sites, or to areas better accessible via automobiles. The number of retail stores under Avery had dropped to 568 from 621 by 1955.<sup>134</sup> Barr instead turned priorities to strengthening personnel at both executive and middle level management. He started an executive training department to prepare the

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<sup>131</sup> Hagem, *The First Hundred Years are the Toughest*, 150-151.

<sup>132</sup> Latham, *1872-1972 A Century of Serving Consumers*, 82-83.

<sup>133</sup> Hagem, *The First Hundred Years are the Toughest*, 155.

<sup>134</sup> Latham, *1872-1972 A Century of Serving Consumers*, 84.

young employees for advancement in the future. Furthermore, he set about to boost employee morale. He created a retirement program along with a stock option plan for key executives. Moreover, he increased wages for the employees to make each position more desirable. Avery had stopped the employee magazine *Forward* in 1931 but it was again resumed in 1956 after he was ousted.

Sewell Avery was hired for all the right reasons. However, when he left Montgomery Ward, it was clear he had overstayed his welcome. Avery refused to change with the times and remained a steadfast believer that his ideas alone should rule the company. Moreover, because Avery ruled a centralized organization, his policies reiterated throughout the entire company and had to be followed. Thus, the environment that Sewell Avery created within Montgomery Ward put the company at a disadvantage during trying times. The Government and unions all very much wanted to prove that they could gain power and Montgomery Ward became a target to both of these entities. Because of the employee-management relations at Montgomery Ward, which were almost nonexistent, the company did not realize that the best way to fight unions was to keep ones' employees from wanting to join them. Instead, Montgomery Ward was either on the defensive against union attacks or on the offensive in a very public, anti-union display. Therefore, choosing to instead fight the Government and unions in a quest for power rather than in setting up ones company for betterment in the future, Montgomery Ward failed to reap the business that it had the potential of creating. In ignoring welfare capitalist practices, and not connecting with its workers, Montgomery Ward stifled the common worker and left joining unions up to chance. While it was obvious the management wished to be anti-union, it was unclear whether its employees desired this as well. Therefore, because Montgomery Ward

was too concerned with fighting unions and playing catch up, it experienced high employee turnover and inefficient productivity.



## Epilogue

The passage of the Taft-Hartley Act in 1947 was the second major revision within American labor policy in 12 years. This Act was intended to fix the “one-sidedness” of the Wagner Act by including more provisions to accommodate employers. After this Act was passed, the initial reaction from organized labor was to take an “all or nothing” approach and repeal the Act, rather than settle for an amendment. For the first few years following the Act, heightened internal rivalry within organized labor persisted as individual unions pursued their own interests and refused to heed advice from other unions.<sup>135</sup> Although many in labor viewed the Act as a hindrance of their power, the Taft-Hartley Act sparked a new surge of benefits to employees because it allowed for the establishment of multi-employer benefit plans, which had to be jointly administered by labor and management.

At the start of the 1950s, a marked shift in welfare capitalist practices occurred. Rather than centering on profit sharing or other traditional benefits, collective bargaining became the most prominent form of employee benefit distribution. The Taft-Hartley Act allotted for a restructuring of collective bargaining to include multi-employer benefit plans. Within these plans, labor negotiated various terms, such as contribution rates, but these plans were jointly administered by labor and management, and partially financed (although sometimes in entirety) by the employer.<sup>136</sup> Due to this legislative change, many companies instead developed benefit plans through collective bargaining, rather than

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<sup>135</sup> Patrick Hardin and John E. Higgins, Jr., eds., *The Developing Labor Law* (Chicago: American Bar Association, 2001), 46-48.

<sup>136</sup> National Labor College, “Taft Hartley Act,”

[http://www.nlc.edu/cait/olc/Taft\\_Hartley/html/t-chapter%203.html](http://www.nlc.edu/cait/olc/Taft_Hartley/html/t-chapter%203.html) (accessed April 1, 2012).

through the corporate largess of welfare capitalism. With the creation of these new benefits under the Taft Hartley Act, the prominence of healthcare insurance and old age pensions grew for employees in all companies.

While this expansion of benefits to employees was emerging, Sears, as well as other companies, remained loyal to older welfare capitalist practices. The pillar of Sears' welfare capitalist practices was its profit sharing program. The program, although modified, is still in existence today, demonstrating its lasting effects. The plan continued to gain popularity with Sears' employees, and by 1950, twenty five percent of Sears' stock was held by the profit sharing fund. The profit sharing plan helped to boost Sears' stock price and therefore those who were invested received large benefits. The value of Sears' stock in 1957 was eleven times higher than what it was in 1932. Aside from the profit sharing plan, Sears continued to implement employee discounts, paid vacations, and pension funds. Sears' older model of welfare capitalism remained intact even though many employers moved towards the multi-employer benefit plans that were established through collective bargaining agreements. Employee turnover at Sears remained low even though Sears maintained the traditional welfare capitalist programs. Thus, although many employers embraced the Taft Hartley provision of a jointly administered, multi-employer benefit plan, Sears maintained its employee benefits through the more traditional welfare capitalist structure. In the end, whether obtained through organized labor or through corporate instituted benefits, the distribution of benefits to employees

expanded during this time, affording employees a greater probability that they would receive some form of benefits from their employers.<sup>137</sup>

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<sup>137</sup> Sanford M. Jacoby, *Modern Manors* (New Jersey: Princeton University Press, 1997), 109-111, 236-262.

## **Conclusion**

Welfare capitalism gradually became the most widely accepted practice used to retain employees and foster a collective attitude while simultaneously rejecting unions. In the 1920s, welfare capitalist practices were implemented in almost every industry. Management did not hide the fact that the benefits they provided were meant to keep unions from encroaching upon their workers and disrupting their businesses. Moreover, employees seldom conducted strikes because they were pleased with the benefits they received. Welfare capitalist practices therefore emerged with the notion that corporations could create a new type of worker who would want to be at the company and whose life would be bettered with what the corporation provided.

Corporations greatly desired workers' support so that costs could remain low. By reducing employee turnover, corporations found that costs of training greatly decreased. Moreover, in showcasing these benefits to the public, corporations were better able to retain power within the economy because they were viewed as a necessity to the vitality of a strong economy.

With the onset of the Great Depression, however, the balance in power between corporations and labor shifted. Employers struggled to keep their businesses afloat and could no longer afford welfare capitalist practices. Because of the loss of jobs and benefits, workers turned to labor unions to regain a voice to obtain benefits from their employers.

As was discovered during the Hawthorne experiments, dialogue between management and workers was important to improve productivity. As further attitude testing demonstrated, interviewing employees served as a dialogue that helped employees

connect to management because they were able to voice their concerns. As companies grew, however, the level of dialogue decreased. In the absence of dialogue with management, dissatisfied workers were more likely to join together so that their combined voice would be heard. Nevertheless, those companies that were able to maintain communication gained added benefits. In developing interviewing and attitude testing, corporations were able to reach out to employees and employees felt that they had a voice within the corporation. This communication led to improved conditions and boosted employee morale.

The struggle with this transition in the labor market after the Great Depression is given clarity by looking at two similar companies and their differing approaches to address this change. During this period, labor unions expanded their membership and voice in the workplace. Sears chose to address this situation by implementing welfare capitalist practices and utilizing a combination of attitude testing and an extensive anti-union campaign. This afforded them success because the company experienced better labor relations and a more productive workforce. In contrast, Montgomery Ward chose to ignore benefits and employee input, and instead tried to simply resist union efforts. This decision led to diminished productivity and a dissatisfied workforce.

Even though many companies stopped providing benefits for their employees after the decline in welfare capitalism, those that developed new ways to provide employee benefits achieved lower employee turnover and maintained a high level of productivity. After observing the differences at both Sears and Montgomery Ward, it can be concluded that companies that continued welfare capitalist practices and reinstated

efforts to develop employee morale fostered a healthier corporate environment that in turn lead to better labor policies, less employee turnover, and better overall production.

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