

The Economic Club of New York

"The Rising Market in Expectations"

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The Honorable Semon E. Knudsen  
President, Ford Motor Company

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It is indeed an honor to be invited to address The Economic Club of New York and to share your podium with my distinguished fellow citizen from Michigan, Dr. McCracken.

I am more than pleased to leave the complex field of economics in his capable hands tonight—in truth, I am considerably relieved to have so plausible an excuse.

I must admit that I am more at home with the particulars of the automobile industry, which has its own full complement of highly publicized problems.

Those problems, however, bring us to the very boundaries of Dr. McCracken's jurisdiction. Highway accidents, traffic congestion, air pollution, shortcomings in customer service and all the other undesirable side effects of a fast-growing automobile population must be solved within an economic framework. The answers must be such that they will still permit the quick, satisfactory and reasonably priced movement of goods and people, which is essential to the economy as well as to the social structure. This is a point some of our critics too often overlook.

I will not abuse your hospitality by taking this occasion to carry on our anything-but-private fight with our critics. Also, if you will grant that the motor vehicle, for all the controversies it

generates, is in fact vital to the economic and social life of our country, I will spare you all the supporting statistic and you should be warned that they are as voluminous as they are dry.

But because of the important and widespread role played by our products, the automotive industry comes into contact with a large cross-section of America—geographically, sociologically and commercially.

It is this vantage point which gives me the boldness, and perhaps the audacity, to tell an audience of top business leaders what some of their biggest challenges of the next few years will be as I see them.

My list is not inclusive. According to the nature of your business, each of you would undoubtedly make substitutions. For example, many of you would accord high priority to international trade, meeting foreign competition on the home market, labor relations or product obsolescence. But I have confined my list to just five items with which I think top management people in all businesses will find themselves increasingly occupied as we move into the 1970's. Arranged more for organization of thought than for order of importance they are:

First - the need for business to recognize its state and its ability in helping to solve many of the socio-economic problems that are rapidly emerging.

Second - the need for better business-government cooperation based on a practical approach to common goals.

Third - the need for business to find ways and means of fully assimilating the hard-core poor into the mainstream of the economy.

Fourth - the need to recognize and serve the growing sophistication and more exacting demand of consumers.

Fifth - the need to reconcile the role of business and industry with the ideals and high purposes of young people.

If I may pause to draw a breadth of recent history before plunging into our joint future, you will recall that these were to be the golden sixties. After three decades of hard times, war, recovery, and regrouping, we were ready to go.

The combination of economic growth, new technology and a sharply awakened social conscience offered the promise of unprecedented progress for everyone. And, everything considered, the Sixties have lived up to much of their promise. The economy has grown so fast that we are trying to cool it off without interrupting the longest period of continued prosperity in our history. A manned orbit around the moon has been only the most dramatic of our

technological triumphs. By any previous standards, we have made great efforts to eliminate such social ills as poverty and discrimination.

Yet the so-called Affluent Society still contains millions of very poor people whom prosperity has bypassed; bitterly disappointed minorities who are demanding the equality they were promised; young people who don't like the way any part of the railroad is being run; and great numbers of other people who feel that somehow the quality of life and the standard of living are moving in opposite directions. In short, they are making more money and enjoying it less. It has been a poor way to treat prosperity, and we must wonder how much longer prosperity will stand for it. This brings me to the first of the challenges which I think businessmen will be facing in the future.

In recent years, business has shown more and more willingness to accept social responsibilities. We have, I hope, come to a clear understanding that problems which threaten the progress of our country, our communities and our customers also threaten our economy and our individual companies. We also understand, I am sure, that people's rising expectations contribute nothing to the Gross National Product or our balance sheets. Their fulfilled expectations do.

By and large, however, we have taken the passive role in helping to fulfill their expectations. We have involved ourselves largely only in those problems which thrust themselves upon us—the

urban crisis in all its many parts, for example. We have helped put out the fires, so to speak, that with hindsight we can see we might have helped to prevent in the first place.

What I am suggesting is that business must start taking more of the initiative in those social problems where we can be of the most help. We must do so, however, with our eyes wide open to the risks we run.

For one thing, serious problems are seldom noncontroversial, and we get into them at the peril of having to tell some of our customers that, for once, they are not right. This, however, is also a strong argument for seizing the initiative. The more such problems we can anticipate and prevent from arising, the fewer damned-if-we-do-and-damned-if-we-don't decisions we will have to make later.

Danger of another kind lies in the fact that the debates over our social duties have not been confined to the business community. The line between business involvement in and business domination of public affairs has never been sharply drawn, and probably never will be.

Andrew Hacker pointed this out in The New York Times a few years ago. "What is ironic today," he wrote, "is that the Americans who are calling on large corporations to exert their influence in Southern cities in the cause of civil rights are the very people who are most uneasy about the presence of corporate power in our society."

I think, however, that these fears are based on the lingering suspicion that corporate power is used mostly to keep anything from being done. If we can demonstrate that we have the ability and the will to make changes that help solve the problems, I am sure most people will agree that society now has adequate safeguards against the return of company towns, paternalism and other ghosts of that kind of long-gone corporate control.

I am equally sure that there is minimal risk of corporate takeover in Washington. However, if business is going to work effectively in socio-economic areas which are primarily government's concern, business and government must be able to coordinate their programs to keep from working at cross purposes or duplicating each other's efforts. Improving our relationships with government is the second important objective I see for the businessman of the Seventies. It was, of course, also a top challenge for the businessman of the Thirties, the Forties, the Fifties and the Sixties. But times change and the changes are not giving either business or government much choice. The question is no longer whether they can get along with each other; it is not even a question of whether they can get along without each other. The chain reaction set off by population growth has given both sides problems that are either too big to be handled alone, like hard-core poverty, or so complex that they belong partly to both and wholly to neither, like highway safety.

The urgency and difficulty of such problems do not permit wasting energy and thought on fruitless bickering, political maneuvering, vain face-saving or head-line hunting. Finding

effective ways to attack pollution or slum clearance may involve many arguments, but the who's and how's are not the problems. The problems are dirty air, contaminated water and inadequate housing. If everybody working on the problems will concentrate on the goals at least as much as the issues, the goals will be reached much faster.

There is one more observation that needs to be made. Corporate interest in social problems is not pure altruism. The business reason for our involvement is to help create the kind of society and economic climate which will permit our companies to remain profitable over the long haul. In the shorter term, however, the exercise of social responsibility—whether it is a corporate contribution to higher education or supporting a ghetto project—is a current expense which reduces current profits.

This means that one fact should be borne in mind by everyone, in or out of government and politics—and especially those who think that any profit at all is an adequate return: the smaller the profit a company makes, the smaller the effort it can afford to make toward meeting public goals.

By the same token only a thriving business firm can provide the new jobs that are needed to absorb the hard core unemployed, which certainly must be assigned a top priority among our urgent national goals of reducing poverty and providing equal opportunity to all Americans.

American business has built itself a proud record in the past year or so. Through the National Alliance of Businessmen hundreds of leading firms have provided jobs and the chance for a new sense of self-respect to tens of thousands of men and women once written off by society as too uneducated, unskilled and undisciplined to join the regular work force.

As those of you who have taken part in this effort know, converting these sorely disadvantaged people into productive workers is a difficult task—which will have to do as my understatement of the evening. But bringing in the hard core at the bottom of the job ladder may well turn out to be the easy part. The hard part will be providing “upward mobility”—in particular the effort to qualify and employ more blacks in higher level positions, which I see as a third major objective for top management in the next few years.

The purpose of the hard core hiring program is not just to get these people off the welfare rolls or to let us enjoy our summers in tranquility. The purpose is to bring them into the mainstream of the economy where they can have the kind of living and make the kind of contribution that should go with full and equal citizenship. And their entry-level jobs, necessarily the least skilled and least paid bring them in only ankle deep.

The upgrading process is important too, for its effects on the rest of the black community, much of which is still suspicious that the hard core program is only an attempted bribe. More blacks in

better jobs appears to be the crucial requirement for gaining credibility, acceptance and a chance to lay the essential foundation for reuniting our dangerously divided country.

I am sure we have not yet found the best means for equipping hard core with the skills they will need to earn and hold better paying jobs. Industry's experience with this particular problem is as brief as the hard core's work experience. So far, just fitting these new workers into their entry level jobs has had first priority and we are just getting well into the second step.

Bit is we think it looks difficult, we should remember that we also used to think that most of these people were unemployable because they couldn't meet our employment standards. We found that the real problem wasn't so much with the people as with our standards. I suspect that we can find some new approaches for teaching higher level skills, too, if we don't let ourselves get too much locked into traditional methods.

Hard as it may prove to be to help people who start from so far behind to catch up, I frankly think it is going to be even harder to meet the fourth major business problem, which is a catch-up job of our own; catching up with the expectations of our customers.

The growing sophistication and rising expectations of consumers have been a subtle change on the business scene which is now beginning to hit us with sudden impact. Higher levels of education and increased incomes are reflected in, a new consumer class, who have the money to

buy and know exactly what they want. They want more advanced products—in more variety—with more reliability—and more value per dollar.

We may question whether consumers of that description really need all of the protection that has been offered in various legislative and regulatory proposals, but we have to admit that they have some complaints coming. I understand automobile owners are not the only customers with service problems. And I don't think many customers really expect us to mass produce a machine as complex as a car at mass production prices with the same degree of precision that goes into the space program.

But customers do expect management to work even harder. We must attract more young men into the service trades, we must milk technology to the last drop of quality, we must re-evaluate every step of the production process to find more foolproof means of making our products and, above all, we must compete even harder than we are to get the jump on our competitors.

In a society whose imagination has been fired by modern technological achievements, it is only realistic to suspect that none of us will ever really catch up with our customers' expectations. The closer we come, the higher their expectations will go. But it must be obvious to us all that from here on out, the battle for survival will be focused around narrowing that gap.

Survival is also the central theme of my fifth and final challenge to management o the Seventies: finding a common ground with the young people who will be our managers, stockholders and customers of the future. If we listen to some of the strident campus voices, we might ask ourselves: What future? Business and businessmen would seem to be charter members of the doomed Establishment.

When we read some of the smaller headlines, however, hope reasserts itself. An estimated 85% of al college students are there to get an education rather than shut the place down. But it should not be supposed, of course, that because they have foregone the demonstrations they are ready to chart their futures in the world of business. Frankly, I am not sure there has ever been a time when college students didn't have some reservations about a business career. At that age, the urge to serve is strong and there are more obvious ways than providing goods or services along with jobs and wages via the profit motive.

Today's youth, including the conforming majority, have higher ideals and higher purposes than any generation preceding them. Thus, it should not surprise us that they also appear to show less interest in business than any of their predecessors did. It seems to me, however, that the growing idealism of youth and the greater social involvement of business are two trends running in the same direction, not away from each other. We are, in reality, being present with a great opportunity. And therein may lie our brightest hope for the future.

To the extent that business accepts and does something about the challenges I have outlined tonight, we will take at least the first steps toward bridging that we advertised generation gap. Once convinced that business can and will assist government in working directly to improve human and social values; that free enterprise can and will provide the good life for even the poorest among us; that the profit system can and will provide good products and good services; once we have convinced young people of these things, then I have no doubt that we can expect the very cream of our youth to seek careers in American business as a means of fulfilling their own lofty goals.

Business and youth, one way or another, must make common cause because each must be the implement of the other in making for America the kind of future to which we all aspire.