

The Cost of the Codes

by
Allen Raymond

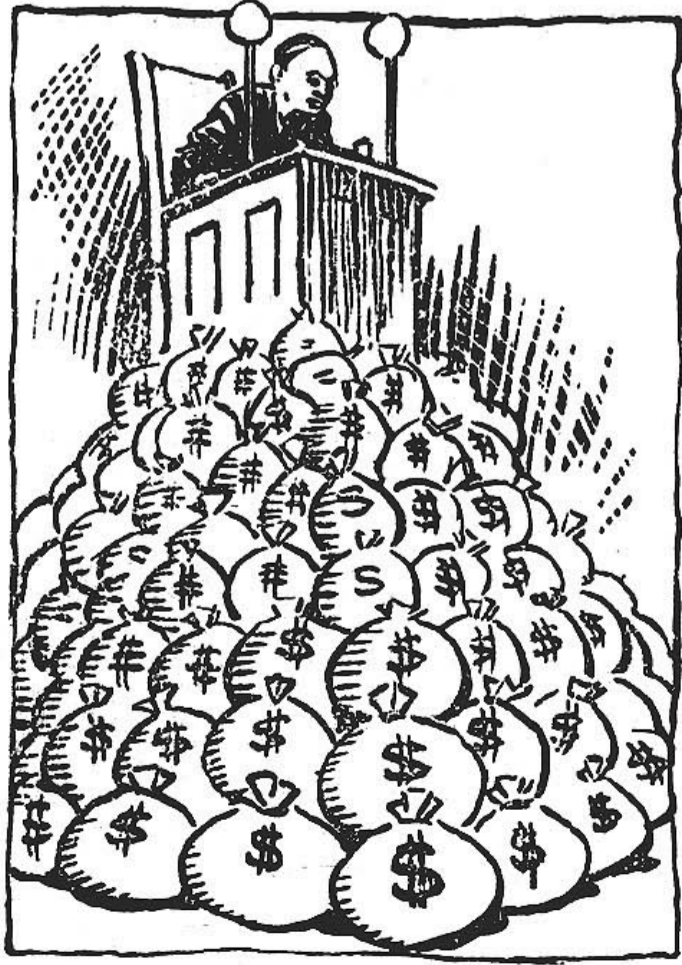
The annual tax upon American business for NRA "self-government," it is estimated, will be about one hundred million dollars annually. Mr. Raymond examines some of the more unusual budgets which make up this astounding total.

NOW that the structure of "industrial self-government" has been erected by the National Recovery Administration, at the cost of a year's hard code-making, and all the 500-odd code authorities have gotten down to the job of actually administering their domains, it begins to dawn on the New Deal savants that industrial government, like any other government, is bound to cost a lot of money.

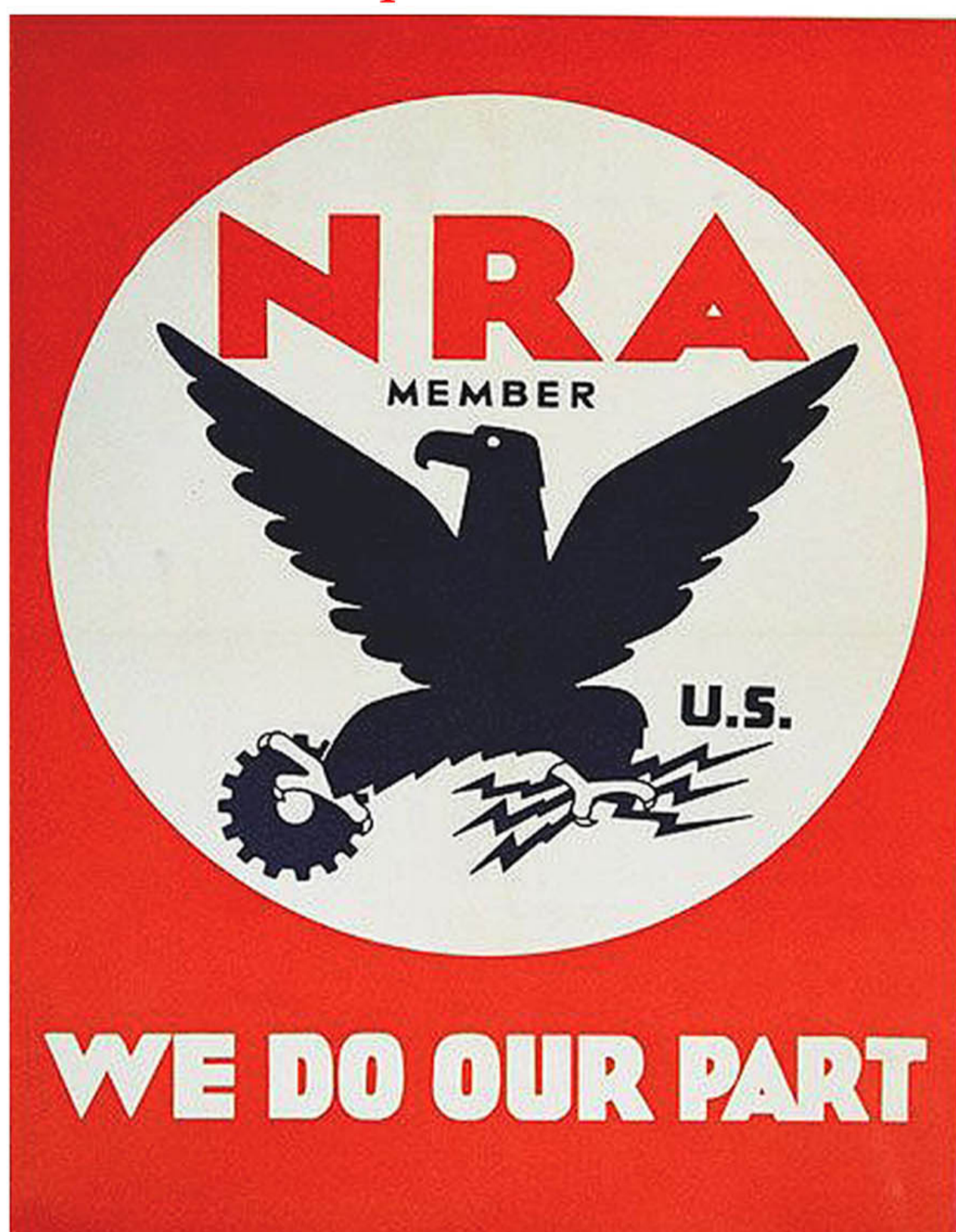
It dawned on many of the business men who are to be self-governed some time ago. They began to twitch in their pocket-book nerves, a forewarning of disaster. Now the blow has fallen. Tax bills are out for new governments, never heard of until recently, in a country laden with plenty of governments, state, local and national. The new governments are "code authorities," and they can't exist without their special taxes.

Each code authority is a taxing body; and tax collectors were never popular. Each code authority must be equipped with a group of permanent officials and their staffs, occupied, not with the promotion of business itself, but with governing it, presumably in the interests of everybody. Such folks inevitably come at last to be termed bureaucrats, if not that more stinging epithet,—politicians.

These code authorities are courts, of a sort, and in every decided conflict before a court there is a winner and a loser. The losers, in civil life, have never had high regard for the intelligence of jurists or juries deciding against them. In this new "self-government of business," barely a year old, there is already an outcry from many of the governed, who say that the code authorities are oppressing them.



In the next dawn the principal howl against the code authorities will be the cost of maintaining them. The bills are even now going out to the business constituents; and the normal reluctance against taxation begins to be evident. Perhaps those business men who serve for a time on the code authorities and who try to govern their single industry will have more

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sympathy, after their experience, with politicians serving as governors of all industries. Perhaps not. They will learn, however, how smart a politician was the late Calvin Coolidge, who strove doughtily all through his public life to keep the costs of government down, and let the people know he was doing it. There is plenty of evidence that many of these new "governors" have not yet learned this vital lesson.

It was not until mid-summer that the budgets of the new code authorities began to creep, a few at a time, into public view, as fast as they were approved by the National Recovery Administrator. There was a gasp when it was learned that the construction industry alone, with its five divisional code authorities, was to have an annual budget of \$3,500,000.

Reporters rushed up to the N.R.A., asking, "How come?" and "What's all that money going to be spent for?" Construction, they were informed, was a very sickly giant,—but nevertheless a giant,—and all that money was the medical bill. There was a well-founded suspicion that what the construction industry would really prefer was a liberal dosage of PWA funds, which would be a more healthy diet than the imposition of an extra government over it.

The details of the budgets make an interesting story. The ways in which it was proposed to raise the money, it is learned, varies naturally with the business practices of the different sections of the industry, but in general, this is the story:

The construction industry's general code authority, for example, would have a budget of \$290,300, and the basis of the contribution by individual firms determined "on the value of work or services rendered, according to the code."

The General Contracting Division of the construction industry has set up a budget of \$2,750,200, for its first year. This money is to be raised by a tax of one tenth of one per cent on the cost of construction projects.

The Electrical Contracting Division is to have a budget of \$455,624. The basis of taxation is to be one per cent on the payrolls of productive labor.

The Elevator Manufacturing Division set up a budget of \$58,443.32, and its authority ruled that the basis of the tax would be one fifth of one per cent on gross sales billed.

The Tile Contracting Division created a budget of \$78,801.42. The tax here was a little more complicated, perhaps so the auditing staffs of the tile contractors would not go unemployed. It was to be one per cent on contracts from \$100 to \$100,000; an additional one half of one

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The Paper, Paper Hanging and Decorating Division set up a budget of \$620,000. The basis of the tax is one per cent on the gross volume of sales, payable quarterly.

As these code budgets and their taxation requirements came into view, it was obvious at once that any construction job would have several of these new taxes added to former costs of building. Was this,

then, to be part of the administration's strategy of raising prices, so that business once again could thrive? The raising of business costs? What was to be the effect on consumers?

The counsel for a public utilities industry declares that if the policy of setting up a vast army of new employees for the industry to support is an inevitable part of the NRA program, it would become a "more important factor in fixing rates to the consumer than the state utility commissions."

How big was the extra load that business itself was to carry for the privilege of governing itself? Nobody knows exactly. One estimate states that about \$100,000,000 must be raised for some 400 industries. The National Retail Dry Goods Association, realizing that additional code costs on every product bought for sale in department stores would run up to a sizeable item had a study made of the 392 codes most closely affecting retailing. They found they had budgets totaling \$50,000,000. Inasmuch as at the high water mark of the NRA effort to organize all American business for self-rule it had approved of 809 codes, the N.R.D.G.A. estimated also that the total would run to \$100,000,000. But the retreat from NRA was begun in July, even as the N.R.D.G.A. was meeting, and many of the smaller codes have been abandoned.

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In response to the increasing clamor from business interests that these code costs were going to be a considerable factor in business, the NRA division of research and planning has announced that it was going immediately into the problems of administering the codes, inasmuch as the setting up of code authorities is now, at this writing, nearing completion. Its own researches, it said, corresponded with the estimates of earlier researches by newspaper men. The budgets as sent in by the Code Authorities, and approved so far, would total \$100,000,000.

By August 9, last, the approved codes were down to about 500, most of the service trades codes having been abolished amidst alternate shouts of glee from those establishments which held they could get along very well without industrial "self-rule," and wails of anguish from others who held that only price-fixing could bring them salvation.

The difficulty of arriving at a quick, accurate total of the charge upon the total economy of this new governing body is caused, in a measure, by the complicated and overlapping features of many of the codes, a state of confusion which few citizens fully appreciate, and also is caused by the fact that many decisions are still to be made on whom and how a certain code tax is to be levied. Take the blue crab industry, for example. It was not until July 23 that the National Recovery Administration finally ruled that "whereas members of an industry whose principal line of business is embraced in a trade or industry subject to a code other than the code for this industry, they are exempted from obligation to contribute to expense of code

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administration for the blue crab industry."

The budget proposed earlier for this unsuspected industry seeking "self-government" totaled \$19,391.01, the basis of contribution to be one tenth of one per cent of total annual sales for the preceding business year (as provided in the code for the fishery industry), plus two tenths of one cent per pound on all crab meat, one quarter of one cent per dozen on all soft crabs and on all shedder or peeler crabs, and two cents per barrel on all hard crabs sold.

To emphasize the problem of code costs further, the last two big industries to ask for approval of their codes, August 9, the baking industry and the wholesale automobile dealers, submitted budgets totaling \$1,250,000. The baking industry asked approval of a budget of \$900,000, and the wholesale automobile dealers, \$325,000.

Confronted by the spectacle of industrial rulers asking governmental sanction for the raising of all this money, with power to compel payment, the average citizen might be pardoned in asking, "What's it all going to be spent for?" He might also be expected to ask what the effect of all this is going to be on his income, and the prices he has to pay for goods.

The budgets are in the most general terms. They might cover almost anything. The writer, running through the budgets of fifty-nine code authorities, found they planned to spend \$611,970 for railroad travel, which ought to help restore prosperity of the railroads. No mention was made of buses or planes. These same code authorities were to spend \$231,861 on legal fees, which ought to encourage the law schools. Hotels were to benefit by \$62,042. But one of the principal reasons for the creation of the codes, alleged when they began to be framed, was the need for enforcing compliance with fair practices, including fair labor practices. Only twenty-one out of the first fifty-nine code budgets examined showed any expenditure whatever listed as for labor compliance!

Gathering knowledge about compliance, in general, might reasonably be expected to be the function of field investigators. There are going to be a great many of these. Sent out by Code Headquarters, they will journey from factory to factory and from store to store, asking questions, and gathering data, and bringing a great deal of knowledge back with them to headquarters, where administrative officers, typists, stenographers, file clerks, record clerks, and statisticians will pore over them, sort them, evaluate them, possibly use them, and certainly tuck them away in their catalogued pigeon-holes.

Here are the principal items in a code budget, that of the Construction Code authority, which is more detailed than most:

Establishment of Construction Code.....	\$31,000.00
Code Authority Expense	
1. Executive Director	\$8,400.00
2. Other Executive Officers.....	14,400.00
3. Clerical Employees	7,200.00
4. Stenographers	6,700.00
5. Office Assistant	1,000.00
	\$37,700.00
Office Expense	
1. Rent and Light.....	\$ 7,200.00
2. Office Equipment	7,200.00
3. Office Supplies, Printing and Mimeo- graphing	6,000.00
4. Postage, Telephone and Telegraph.....	7,000.00
5. Miscellaneous	2,600.00
	\$30,000.00

(continued)

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Traveling Expense

1. Members of Code Authority.....	\$34,600.00
2. Traveling and other expenses incidental to Divisional Code Authorities and unco- dified branches	15,000.00
	\$49,600.00

Incidental

1. Legal Fees	\$15,000.00
2. Accountants Fees	2,000.00
3. Insurance and Boards.....	2,000.00
4. Miscellaneous	2,000.00
	\$21,000.00

Committees and Facilities Thereof

Trade Practice Complaints Committee

1. Traveling Expense of Committee Mem- bers	\$10,000.00
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The Code Authority of the Funeral Service Industry has a modest little budget,—only \$216,650 wanted from July 1, 1934, to June 30, 1935.

Its code authority consists of fifteen members, and they plan to have six meetings, with traveling expenses of \$15,750, and a *per diem* allowance of \$20 a day given to each member, or \$7,500. Rent and office expense will be another \$17,000. Twenty field workers to cover the country will have salaries amounting to \$66,000, and travelling expenses of \$54,000.

An executive secretary will cost the funeral service men \$7,200 a year, and an administrative officer \$10,000. All the central office force combined will only cost another \$10,000,—clerks, typists, etc. Another \$7,500 has been set down for travel for the executive committee and administrative officials, and just for good measure another \$2,500 will go to Code Authority members for purposes other than attending meetings. Insurance, wages for accountants, legal expenses of \$3,000, and \$3,700 for holding a code authority election, \$10,000 for miscellaneous, and we've rolled up our \$216,650.

Will the expenditure of this money make it any less expensive to die and be buried? One wonders as a potential customer. Will it assure higher wages and better living conditions for the employees who are "partners in the industry"? One wonders, as an employee. Will it help to bring profit to all in the industry, among its owners, or to only a few of them, at the expense of some others? One has suspicions, after reading the Darrow report, but knowledge will be unobtainable until the code is administered in practice. That job is just beginning.

This single NRA budget, however, shows one boon to a class of business man hard hit by the Depression. This was the "executive director," or the "vice-president," or the high salaried minor executive in many a business and trade organization.



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As business cut down all unnecessary expenses, there was a wholesale exodus of these gentry from the marts of trade. Golf clubs over the country languished. Swagger apartment rentals slumped, and old automobiles clung to the road for several years after their owners would have wished bright shiny late-models, with the newest gadgets.

The medium vice-presidential job was hard to get, once lost in a wave of ruthless economy. Lots of these gentlemen turned up in Washington with the installation of the recovery administration, and most of the big tycoons of industry, *going* there to do their bit for the emergency will tell you of worthy cases they were able to connect with the government pay-roll.

Now they are on their way back into business again. The code authorities have developed new jobs,—not merely the \$7,200 and \$10,000 positions in the modest funeral service budget, but jobs ranging up to \$25,000 annually in business organizations with larger “takes.” A whole procession of the ex-business men whom reporters used to meet on assignments in NRA headquarters in New York and Washington, harried a little, wearing furrowed brows, but gallantly doing their best for the big Blue Eagle, are now in business again,—with the code authorities.

Here we have a development of the old trade association,—this time with government backing. Instead of having to go out and plead with business men to bring in their dollars,—or sometimes bomb the recalcitrants, as in New York and Chicago, the trade association leaders now can levy taxes on them. If the NRA ever should fold up, or be ruled unconstitutional in the higher courts, a multitude of new trade associations will be on the job, manned, financed, and rarin’ to go, as a result of this two-year experiment.

The use which some of the old trade associations, verging on “rackets,” made of their money was everybody’s business, and consequently nobody’s. It was the racketeering trade association which maintained prices at high levels in the old days, until the public revolted. Every potentiality for racketeering, at a cost to the public far outweighing the costs of administering the codes, is present in the set-up of these authorities. Once General Johnson and the pioneers get out of the NRA, and it becomes merely another government department for cursory regulation of business, like many others, look out for squalls.



Already the prospect of these costs is alarming the retailers, who although they have their own code, are buyers on a large scale, and thus representatives of the consuming public. At a recent meeting, Channing E. Schweitzer, managing director of the National Retail Dry Goods Association said:

“The use of money received by code authorities through their assessments among members of the industry has been clearly defined by the NRA. Yet there is distinct danger that code authorities may be led to use their funds for other purposes than intended, thereby fostering hardships and burdens on retailers and the buying public.

“There is likewise a danger that they may seek to go beyond the provisions of their codes, in attempting to obtain, through agreements and similar methods, rights and privileges never accorded them in their codes.”

It will not be alone the retailers who will be watching to see whether these costs of the codes do not outbalance the costs of their administration. It will be other consumers, and particularly will it be organized labor.

Representatives of code authorities already have appeared in New York City and in the South before the Regional Labor Boards at hearings on minimum wages, and hearings at which the labor boards were trying to settle strikes. The labor unions have been forced to strike

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to obtain code wages, and have not been helped in numerous instances by the very code authorities set up to see that the wages were paid. These code authorities are in practically every instance representatives of the employers only.

In the South, the code authorities have sought to break strikes, stepping into situations where code wages were \$12, and \$13 a week, and showing the labor boards that employers against whom strikes were being waged were actually paying these stipends. Any strike against a code wage was held to be unreasonable. There is one instance where a labor board took that view also, even to the extent of trying to get strikers off the relief rolls because they were perfectly able to get work at the agreed code wages if they wished to. So also minimum code wages in numerous industries have tended to become the maximum, and workers at higher wages have learned to their sorrow this cost of the codes.

What these code authorities are doing in the raising of large funds smacks of bringing in a "war chest," and holding it in the hands of a few of the strongest interests in each industry.

One wonders what the building supply code authority will do with an annual budget of \$692,891, or the Crushed Stone, Sand, Gravel and Slag Industries, with a central budget of \$285,100 for the code authority, and a budget of \$875,304.91 for the regional code committees. Two divisions of the graphic arts industry, the metropolitan and non-metropolitan daily newspaper publishing and printing industry, have a budget of \$634,616. The fur manufacturing industry has one of \$310,000. The silk textile industry's budget is \$310,040, and the Infants' and Children's Wear Industry, \$250,000. The Lumber and Timber Products Code Authority has asked for \$316,188.79, and the paper distributing industry for \$125,212.

What will the cost of these code authorities be to labor? The ruling powers in many of them are devoted to the open shop. The establishment of code wages in many lines—two or three dollars below the minimum of \$15 in President Roosevelt's PRA—shows how far from converted to the high wage theory of prosperity is American business.

What will the cost of these code authorities be to consumers? Late in June, after General Johnson had announced that the price-fixing policy of the NRA had been abandoned, Mrs. Mary Harriman Rumsey, chairman of the Consumers' Advisory Board, declared that her battle to end price-fixing in the codes was far from won.

"Under the codes," she said, "organized business has perhaps unconsciously taken advantage, and in many instances developed schemes, of minimum price control that become price-fixing in fact. It will take the combined wisdom and strength of all of us to bring about a revision of all our codes so that business men will receive protection essential to industrial stability, without at the same time permitting their exposure to the temptation of price-fixing."

Some kind of minimum price-fixing, she said, had been established in more than half of the codes already approved before General Johnson abandoned the policy of approval. These codes are those of the most important industries in the country.

What will the cost of the codes be to the "little fellows" in business, for whom first Clarence Darrow and then Senator Borah have been speaking? On August 8, "*The New York Times*" gave some inkling in an editorial as follows:

"It is not merely the price-fixing codes which are coming into disrepute," it said; "it is the whole system of conferring upon private business men extensive administrative and judicial powers. In so far as a 'code authority' consists of representatives of the leading firms in an industry, its regulations at best will tend to promote the immediate

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interests of that industry, rather than wider and more permanent social interests."

In the end the cost of the codes may not be found merely to be the \$100,000,000 spent on administration.

OUTLOOK

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