The Impacted Philosophers

Among the greatest problems facing American industry today, one may learn by talking with any of a large number of industrialists who are not known to be especially given to pontificating, is “the problem of communication.” This preoccupation with the difficulty of getting a thought out of one head and into another is something the industrialists share with a substantial number of intellectuals and creative writers, more and more of whom seem inclined to regard communication, or the lack of it, as one of the greatest problems not just of industry but of humanity. (A group of avant-garde writers and artists have given the importance of communication a backhanded boost by flatly and unequivocally proclaiming themselves to be against it.) As far as the industrialists are concerned, I admit that in the course of hearing them invoke the word “communication”—often in an almost mystical way—over a period of years I have had a lot of trouble figuring out exactly what they meant. The general thesis is clear enough; namely, that everything would be all right, first, if they could get through to each other within their own organizations, and, second, if they, or their organizations, could get through to everybody else. What has puzzled me is how and why, in this day when the foundations sponsor one study of communication after another, individuals and organizations fail so consistently to express themselves understandably, or how and why their listeners fail to grasp what they hear.

A few years ago, I acquired a two-volume publication of the United States Government Printing Office entitled Hearings Before the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, United States Senate, Eighty-seventh Congress, First Session, Pursuant to S. Res. 52, and after a fairly diligent perusal of its 1,459 pages I thought I could begin to see what the industrialists are talking about. The hearings, conducted in April, May, and June, 1961, under the chairmanship of Senator Estes Kefauver, of Tennessee, had to do with the now famous price-fixing and bid-rigging conspiracies in the electrical-manufacturing industry, which had already resulted, the previous February, in the imposition by a federal judge in Philadelphia of fines totaling $1,924,500 on twenty-nine firms and forty-five of their employees, and also of thirty-day prison sentences on seven of the employees. Since there had been no public presentation of evidence, all the defendants having pleaded either guilty or no defense, and since the records of the grand juries that indicted them were secret, the public had had little opportunity to hear about the details of the violations, and Senator Kefauver felt that the whole matter needed a good airing. The transcript shows that it got one, and what the airing revealed—at least within the biggest company involved—was a breakdown in intramural communication so drastic as to make the building of the Tower of Babel seem a triumph of organizational rapport.

In a series of indictments brought by the government in the United States District Court in Philadelphia between February and October, 1960, the twenty-nine companies and their executives were charged with having repeatedly violated Section 1 of the Sherman Act of 1890, which declares
illegal “every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations.” (The Sherman Act was the instrument used in the celebrated trust-busting activities of Theodore Roosevelt, and along with the Clayton Act of 1914 it has served as the government’s weapon against cartels and monopolies ever since.) The violations, the government alleged, were committed in connection with the sale of large and expensive pieces of apparatus of a variety that is required chiefly by public and private electric-utility companies (power transformers, switchgear assemblies, and turbine-generator units, among many others), and were the outcome of a series of meetings attended by executives of the supposedly competing companies—beginning at least as early as 1956 and continuing into 1959—at which noncompetitive price levels were agreed upon, nominally sealed bids on individual contracts were rigged in advance, and each company was allocated a certain percentage of the available business. The government further alleged that, in an effort to preserve the secrecy of these meetings, the executives had resorted to such devices as referring to their companies by code numbers in their correspondence, making telephone calls from public booths or from their homes rather than from their offices, and doctoring the expense accounts covering their get-togethers to conceal the fact that they had all been in a certain city on a certain day. But their stratagems did not prevail. The federals, forcefully led by Robert A. Bicks, then head of the Antitrust Division of the Department of Justice, succeeded in exposing them, with considerable help from some of the conspirators themselves, who, after an employee of a small conspirator company saw fit to spill the story in the early fall of 1959, flocked to turn state’s evidence.

The economic and social significance of the whole affair may be demonstrated clearly enough by citing just a few figures. In an average year at the time of the conspiracies, a total of more than one and three-quarters billion dollars was spent to purchase machines of the sort in question, nearly a fourth of it by federal, state, and local governments (which, of course, means the taxpayers), and most of the rest by private utility companies (which are inclined to pass along any rise in the cost of their equipment to the public in the form of rate increases). To take a specific example of the kind of money involved in an individual transaction, the list price of a 500,000-kilowatt turbine-generator—a monstrous device for producing electric power from steam power—was often something like sixteen million dollars. Actually, manufacturers sometimes cut their prices by as much as 25 percent in order to make a sale, and therefore, if everything was above board, it might have been possible to buy the machine at a saving of four million dollars; if representatives of the companies making such generators held a single meeting and agreed to fix prices, they could, in effect, increase the cost to the customer by the four million. And in the end, the customer was almost sure to be the public.

IN presenting the indictments in Philadelphia, Bicks stated that, considered collectively, they revealed “a pattern of violations which can fairly be said to range among the most serious, the most flagrant, the most pervasive that have ever marked any basic American industry.” Just before imposing the sentences, Judge J. Cullen Ganey went even further; in his view, the violations constituted “a shocking indictment of a vast section of our economy, for what is really at stake here is the survival of … the free-enterprise system.” The prison sentences showed that he meant it; although there had been many successful prosecutions for violation of the Sherman Act during the seven decades since its passage, it was rare indeed for executives to be jailed. Not surprisingly, therefore, the case kicked up quite a ruckus in the press. The New Republic, to be sure, complained that the newspapers and magazines were intentionally playing down “the biggest business scandal in decades,” but the charge did not seem to have much foundation. Considering such things as the public’s apathy toward
switchgear, the woeful bloodlessness of criminal cases involving antitrust laws, and the relatively few details of the conspiracies that had emerged, the press in general gave the story a good deal of space, and even the *Wall Street Journal* and *Fortune* ran uncompromising and highly informative accounts of the debacle; here and there, in fact, one could detect signs of a revival of the spirit of old-time antibusiness journalism as it existed back in the thirties. After all, what could be more exhilarating than to see several dignified, impeccably tailored, and highly paid executives of a few of the nation’s most respected corporations being trooped off to jail like common pickpockets? It was certainly the biggest moment for business-baiters since 1938, when Richard Whitney, the former president of the New York Stock Exchange, was put behind bars for speculating with his customers’ money. Some called it the biggest since Teapot Dome.

To top it all off, there was a prevalent suspicion of hypocrisy in the very highest places. Neither the chairman of the board nor the president of General Electric, the largest of the corporate defendants, had been caught in the government’s dragnet, and the same was true of Westinghouse Electric, the second-largest; these four ultimate bosses let it be known that they had been entirely ignorant of what had been going on within their commands right up to the time the first testimony on the subject was given to the Justice Department. Many people, however, were not satisfied by these disclaimers, and, instead, took the position that the defendant executives were men in the middle, who had broken the law only in response either to actual orders or to a corporate climate favoring price-fixing, and who were now being allowed to suffer for the sins of their superiors. Among the unsatisfied was Judge Ganey himself, who said at the time of the sentencing, “One would be most naïve indeed to believe that these violations of the law, so long persisted in, affecting so large a segment of the industry, and, finally, involving so many millions upon millions of dollars, were facts unknown to those responsible for the conduct of the corporation…. I am convinced that in the great number of these defendants’ cases, they were torn between conscience and approved corporate policy, with the rewarding objectives of promotion, comfortable security, and large salaries.”

The public naturally wanted a ringleader, an archconspirator, and it appeared to find what it wanted in General Electric, which—to the acute consternation of the men endeavoring to guide its destinies from company headquarters, at 570 Lexington Avenue, New York City—got the lion’s share of attention both in the press and in the Subcommittee hearings. With some 300,000 employees, and sales averaging some four billion dollars a year over the past ten years, it was not only far and away the biggest of the twenty-nine accused companies but, judged on the basis of sales in 1959, the fifth-biggest company in the country. It also drew a higher total of fines ($437,500) than any other company, and saw more of its executives sent to jail (three, with eight others receiving suspended sentences). Furthermore, as if to intensify in this hour of crisis the horror and shock of true believers—and the glee of scoffers—its highest-ranking executives had for years tried to represent it to the public as a paragon of successful virtue by issuing encomiums to the free competitive system, the very system that the price-fixing meetings were set up to mock. In 1959, shortly after the government’s investigation of the violations had been brought to the attention of G.E.’s policymakers, the company demoted and cut the pay of those of its executives who admitted that they had been involved; one vice-president, for example, was informed that instead of the $127,000 a year he had been getting he would now get $40,000. (He had scarcely adjusted himself to that blow when Judge Ganey fined him four thousand dollars and sent him to prison for thirty days, and shortly after he regained his freedom, General Electric eased him out entirely.) The G.E. policy of imposing penalties of its own on these employees, regardless of what punishment the court might prescribe, was not adopted by Westinghouse, which waited until the judge had disposed of the case and then decided that the fines
and prison sentences he had handed out to its stable of offenders were chasteishment enough, and did not itself penalize them at all. Some people saw this attitude as evidence that Westinghouse was condoning the conspiracies, but others regarded it as a commendable, if tacit, admission that management at the highest level in the conniving companies was responsible—morally, at least—for the whole mess and was therefore in no position to discipline its erring employees. In the view of these people, G.E.'s haste to penalize the acknowledged culprits on its payroll strongly suggested that the firm was trying to save its own skin by throwing a few luckless employees to the wolves, or—as Senator Philip A. Hart, of Michigan, put it, more pungently, during the hearings—“to do a Pontius Pilate operation.”

EMBATTLED days at 570 Lexington Avenue! After years of cloaking the company in the mantle of a wise and benevolent corporate institution, the public-relations people at G.E. headquarters were faced with the ugly choice of representing its role in the price-fixing affair as that of either a fool or a knave. They tended strongly toward “fool.” Judge Ganey, by his statement that he assumed the conspiracies to have been not only condoned but approved by the top brass and the company as a whole, clearly chose “knave.” But his analysis may or may not have been the right one, and after reading the Kefauver Subcommittee testimony I have come to the melancholy conclusion that the truth will very likely never be known. For, as the testimony shows, the clear waters of moral responsibility at G.E. became hopelessly muddied by a struggle to communicate—a struggle so confused that in some cases, it would appear, if one of the big bosses at G.E. had ordered a subordinate to break the law, the message would somehow have been garbled in its reception, and if the subordinate had informed the boss that he was holding conspiratorial meetings with competitors, the boss might well have been under the impression that the subordinate was gossiping idly about lawn parties or pinochle sessions. Specifically, it would appear that a subordinate who received a direct oral order from his boss had to figure out whether it meant what it seemed to or the exact opposite, while the boss, in conversing with a subordinate, had to figure out whether he should take what the man told him at face value or should attempt to translate it out of a secret code to which he was by no means sure he had the key. That was the problem in a nutshell, and I state it here thus baldly as a suggestion for any potential beneficiary of a foundation who may be casting about for a suitable project on which to draw up a prospectus.

For the past eight years or so, G.E. had had a company rule called Directive Policy 20.5, which read, in part, “No employee shall enter into any understanding, agreement, plan or scheme, expressed or implied, formal or informal, with any competitor, in regard to prices, terms or conditions of sale, production, distribution, territories, or customers; nor exchange or discuss with a competitor prices, terms or conditions of sale, or any other competitive information.” In effect, this rule was simply an injunction to G.E.’s personnel to obey the federal antitrust laws, except that it was somewhat more concrete and comprehensive in the matter of price than they are. It was almost impossible for executives with jurisdiction over pricing policies at G.E. to be unaware of 20.5, or even hazy about it, because to make sure that new executives were acquainted with it and to refresh the memories of old ones, the company formally reissued and distributed it at intervals, and all such executives were asked to sign their names to it as an earnest that they were currently complying with it and intended to keep on doing so. The trouble—at least during the period covered by the court action, and apparently for a long time before that as well—was that some people at G.E., including some of those who regularly signed 20.5, simply did not believe that it was to be taken seriously. They assumed that 20.5 was mere window dressing: that it was on the books solely to provide legal protection for the
company and for the higher-ups; that meeting illegally with competitors was recognized and accepted as standard practice within the company; and that often when a ranking executive ordered a subordinate executive to comply with 20.5, he was actually ordering him to violate it. Illogical as it might seem, this last assumption becomes comprehensible in the light of the fact that, for a time, when some executives orally conveyed, or reconveyed, the order, they were apparently in the habit of accompanying it with an unmistakable wink. In May of 1948, for example, there was a meeting of G.E. sales managers during which the custom of winking was openly discussed. Robert Paxton, an upper-level G.E. executive who later became the company’s president, addressed the meeting and delivered the usual admonition about antitrust violations, whereupon William S. Ginn, then a sales executive in the transformer division, under Paxton’s authority, startled him by saying, “I didn’t see you wink.” Paxton replied firmly, “There was no wink. We mean it, and these are the orders.” Asked by Senator Kefauver how long he had been aware that orders issued at G.E. were sometimes accompanied by winks, Paxton replied that he had first observed the practice way back in 1935, when his boss had given him an instruction along with a wink or its equivalent, and that when, some time later, the significance of the gesture dawned on him, he had become so incensed that he had with difficulty restrained himself from jeopardizing his career by punching the boss in the nose. Paxton went on to say that his objections to the practice of winking had been so strong as to earn him a reputation in the company for being an antiwink man, and that he, for his part, had never winked.

Although Paxton would seem to have left little doubt as to how he intended his winkless order of 1948 to be interpreted, its meaning failed to get through to Ginn, for not long after it was issued, he went out and fixed prices to a fare-thee-well. (Obviously, it takes more than one company to make a price-fixing agreement, but all the testimony tends to indicate that it was G.E. that generally set the pattern for the rest of the industry in such matters.) Thirteen years later, Ginn—fresh from a few weeks in jail, and fresh out of a $135,000-a-year job—appeared before the Subcommittee to account for, among other things, his strange response to the winkless order. He had disregarded it, he said, because he had received a contrary order from two of his other superiors in the G.E. chain of command, Henry V. B. Erben and Francis Fairman, and in explaining why he had heeded their order rather than Paxton’s he introduced the fascinating concept of degrees of communication—another theme for a foundation grantee to get his teeth into. Erben and Fairman, Ginn said, had been more articulate, persuasive, and forceful in issuing their order than Paxton had been in issuing his; Fairman, especially, Ginn stressed, had proved to be “a great communicator, a great philosopher, and, frankly, a great believer in stability of prices.” Both Erben and Fairman had dismissed Paxton as naïve, Ginn testified, and, in further summary of how he had been led astray, he said that “the people who were advocating the Devil were able to sell me better than the philosophers that were selling the Lord.”

It would be helpful to have at hand a report from Erben and Fairman themselves on the communication technique that enabled them to prevail over Paxton, but unfortunately neither of these philosophers could testify before the Subcommittee, because by the time of the hearings both of them were dead. Paxton, who was available, was described in Ginn’s testimony as having been at all times one of the philosopher-salesmen on the side of the Lord. “I can clarify Mr. Paxton by saying Mr. Paxton came closer to being an Adam Smith advocate than any businessman I have met in America,” Ginn declared. Still, in 1950, when Ginn admitted to Paxton in casual conversation that he had “compromised himself” in respect to antitrust matters, Paxton merely told him that he was a damned fool, and did not report the confession to anyone else in the company. Testifying as to why he did not, Paxton said that when the conversation occurred he was no longer Ginn’s boss, and that, in the light of his personal ethics, repeating such an admission by a man not under his authority would be “gossip”
and “talebearing.”

Meanwhile, Ginn, no longer answerable to Paxton, was meeting with competitors at frequent intervals and moving steadily up the corporate ladder. In November, 1954, he was made general manager of the transformer division, whose headquarters were in Pittsfield, Massachusetts—a job that put him in line for a vice-presidency. At the time of Ginn’s shift, Ralph J. Cordiner, who has been chairman of the board of General Electric since 1949, called him down to New York for the express purpose of enjoining him to comply strictly and undeviatingly with Directive Policy 20.5. Cordiner communicated this idea so successfully that it was clear enough to Ginn at the moment, but it remained so only as long as it took him, after leaving the chairman, to walk to Erben’s office. There his comprehension of what he had just heard became clouded. Erben, who was head of G.E.’s distribution group, ranked directly below Cordiner and directly above Ginn, and, according to Ginn’s testimony, no sooner were they alone in his office than he countermanded Cordiner’s injunction, saying, “Now, keep on doing the way that you have been doing, but just be sensible about it and use your head on the subject.” Erben’s extraordinary communicative prowess again carried the day, and Ginn continued to meet with competitors. “I knew Mr. Cordiner could fire me,” he told Senator Kefauver, “but also I knew I was working for Mr. Erben.”

At the end of 1954, Paxton took over Erben’s job and thereby became Ginn’s boss again. Ginn went right on meeting with competitors, but, since he was aware that Paxton disapproved of the practice, didn’t tell him about it. Moreover, he testified, within a month or two he had become convinced that he could not afford to discontinue attending the meetings under any circumstances, for in January, 1955, the entire electrical-equipment industry became embroiled in a drastic price war—known as the “white sale,” because of its timing and the bargains it afforded to buyers—in which the erstwhile amiable competitors began fiercely undercutting one another. Such a manifestation of free enterprise was, of course, exactly what the intercompany conspiracies were intended to prevent, but just at that time the supply of electrical apparatus so greatly exceeded the demand that first a few of the conspirators and then more and more began breaking the agreements they themselves had made. In dealing with the situation as best he could, Ginn said, he “used the philosophies that had been taught me previously”—by which he meant that he continued to conduct price-fixing meetings, in the hope that at least some of the agreements made at them would be honored. As for Paxton, in Ginn’s opinion that philosopher was not only ignorant of the meetings but so constant in his devotion to the concept of free and aggressive competition that he actually enjoyed the price war, disastrous though it was to everybody’s profits. (In his own testimony, Paxton vigorously denied that he had enjoyed it.)

Within a year or so, the electrical-equipment industry took an upturn, and in January, 1957, Ginn, having ridden out the storm relatively well, got his vice-presidency. At the same time, he was transferred to Schenectady, to become general manager of G.E.’s turbine-generator division, and Cordiner again called him into headquarters and gave him a lecture on 20.5. Such lectures were getting to be a routine with Cordiner; every time a new employee was assigned to a strategic managerial post, or an old employee was promoted to such a post, the lucky fellow could be reasonably certain that he would be summoned to the chairman’s office to hear a rendition of the austere creed. In his book *The Heart of Japan*, Alexander Campbell reports that a large Japanese electrical concern has drawn up a list of seven company commandments (for example, “Be courteous and sincere!”), and that each morning, in each of its thirty factories, the workers are required to stand at attention and recite these in unison, and then to sing the company song (“For ever-increasing production/Love your work, give your all!”). Cordiner did not require his subordinates to recite or sing 20.5—as far as is known, he never even had it set to music—but from the number of times men
like Ginn had it read to them or otherwise recalled to their attention, they must have come to know it well enough to chant it, improvising a tune as they went along.

This time, Cordiner’s message not only made an impression on Ginn’s mind but stuck there in unadulterated form. Ginn, according to his testimony, became a reformed executive and dropped his price-fixing habits overnight. However, it appears that his sudden conversion cannot be attributed wholly to Cordiner’s powers of communication, or even to the drip-drip-drip effect of repetition, for it was to a considerable extent pragmatic in character, like the conversion of Henry VIII to Protestantism. He reformed, Ginn explained to the Subcommittee, because his “air cover was gone.”

“Your what was gone?” Senator Kefauver asked.

“My air cover was gone,” replied Ginn. “I mean I had lost my air cover. Mr. Erben wasn’t around any more, and all of my colleagues had gone, and I was now working directly for Mr. Paxton, knowing his feelings on the matter…. Any philosophy that I had grown up with before in the past was now out the window.”

If Erben, who had not been Ginn’s boss since late in 1954, had been the source of his air cover, Ginn must have been without its protection for over two years, but, presumably, in the excitement of the price war he had failed to notice its absence. However that may have been, here he now was, a man suddenly shorn not only of his air cover but of his philosophy. Swiftly filling the latter void with a whole new set of principles, he circulated copies of 20.5 among his department managers in the turbine-generator division and topped this off by energetically adopting what he called a “leprosy policy”; that is, he advised his subordinates to avoid even casual social contacts with their counterparts in competing companies, because “once the relationships are established, I have come to the conclusion after many years of hard experience that the relationships tend to spread and the hanky-panky begins to get going.” But now fate played a cruel trick on Ginn, and, all unknowing, he landed in the very position that Paxton and Cordiner had been in for years—that of a philosopher vainly endeavoring to sell the Lord to a flock that declined to buy his message and was, in fact, systematically engaging in the hanky-panky its leader had warned it against. Specifically, during the whole of 1957 and 1958 and the first part of 1959 two of Ginn’s subordinates were piously signing 20.5 with one hand and, with the other, briskly drawing up price-fixing agreements at a whole series of meetings—in New York; Philadelphia; Chicago; Hot Springs, Virginia; and Skytop, Pennsylvania, to name a few of their gathering places.

It appears that Ginn had not been able to impart much of his shining new philosophy to others, and that at the root of his difficulty lay that old jinx, the problem of communicating. Asked at the hearings how his subordinates could possibly have gone so far astray, he replied, “I have got to admit that I made a communication error. I didn’t sell this thing to the boys well enough…. The price is so important in the complete running of a business that, philosophically, we have got to sell people not only just the fact that it is against the law, but … that it shouldn’t be done for many, many reasons. But it has got to be a philosophical approach and a communication approach…. Even though … I had told my associates not to do this, some of the boys did get off the reservation…. I have to admit to myself here an area of a failure in communications … which I am perfectly willing to accept my part of the responsibility for.”

In earnestly striving to analyze the cause of the failure, Ginn said, he had reached the conclusion that merely issuing directives, no matter how frequently, was not enough; what was needed was “a complete philosophy, a complete understanding, a complete breakdown of barriers between people, if we are going to get some understanding and really live and manage these companies within the philosophies that they should be managed in.”
Senator Hart permitted himself to comment, “You can communicate until you are dead and gone, but if the point you are communicating about, even though it be a law of the land, strikes your audience as something that is just a folklore … you will never sell the package.”

Ginn ruefully conceded that that was true.

The concept of degrees of communication was further developed, by implication, in the testimony of another defendant, Frank E. Stehlik, who had been general manager of the G.E. low-voltage-switchgear department from May, 1956, to February, 1960. (As all but a tiny minority of the users of electricity are contentedly unaware, switchgear serves to control and protect apparatus used in the generation, conversion, transmission, and distribution of electrical energy, and more than $100 million worth of it is sold annually in the United States.) Stehlik received some of his business guidance in the conventional form of orders, oral and written, and some—perhaps just as much, to judge by his testimony—through a less intellectual, more visceral medium of communication that he called “impacts.” Apparently, when something happened within the company that made an impression on him, he would consult a sort of internal metaphysical voltmeter to ascertain the force of the jolt that he had received, and, from the reading he got, would attempt to gauge the true drift of company policy. For example, he testified that during 1956, 1957, and most of 1958 he believed that G.E. was frankly and fully in favor of complying with 20.5. But then, in the autumn of 1958, George E. Burens, Stehlik’s immediate superior, told him that he, Burens, had been directed by Paxton, who by then was president of G.E., to have lunch with Max Scott, president of the I-T-E Circuit Breaker Company, an important competitor in the switchgear market. Paxton said in his own testimony that while he had indeed asked Burens to have lunch with Scott, he had instructed him categorically not to talk about prices, but apparently Burens did not mention this caveat to Stehlik; in any event, the disclosure that the high command had told Burens to lunch with an archrival, Stehlik testified, “had a heavy impact on me.” Asked to amplify this, he said, “There are a great many impacts that influence me in my thinking as to the true attitude of the company, and that was one of them.” As the impacts, great and small, piled up, their cumulative effect finally communicated to Stehlik that he had been wrong in supposing the company had any real respect for 20.5. Accordingly, when, late in 1958, Stehlik was ordered by Burens to begin holding price meetings with the competitors, he was not in the least surprised.

Stehlik’s compliance with Burens’ order ultimately brought on a whole new series of impacts, of a much more crudely communicative sort. In February, 1960, General Electric cut his annual pay from $70,000 to $26,000 for violating 20.5; a year later Judge Ganey gave him a three-thousand-dollar fine and a suspended thirty-day jail sentence for violating the Sherman Act; and about a month after that G.E. asked for, and got, his resignation. Indeed, during his last years with the firm Stehlik seems to have received almost as many lacerating impacts as a Raymond Chandler hero. But testimony given at the hearings by L. B. Gezon, manager of the marketing section of the low-voltage-switchgear department, indicated that Stehlik, again like a Chandler hero, was capable of dishing out blunt impacts as well as taking them. Gezon, who was directly under Stehlik in the line of command, told the Subcommittee that although he had taken part in price-fixing meetings prior to April, 1956, when Stehlik became his boss, he did not subsequently engage in any antitrust violations until late 1958, and that he did so then only as the result of an impact that bore none of the subtlety noted by Stehlik in his early experience with this phenomenon. The impact came directly from Stehlik, who, it seems, left nothing to chance in communicating with his subordinates. In Gezon’s words, Stehlik told him “to resume the meetings; that the company policy was unchanged; the risk was just as great as it ever had
been; and that if our activities were discovered, I personally would be dismissed or disciplined [by
the company], as well as punished by the government.” So Gezon was left with three choices: to quit,
to disobey the direct order of his superior (in which case, he thought, “they might have found
somebody else to do my job”), or to obey the order, and thereby violate the antitrust laws, with no
immunity against the possible consequences. In short, his alternatives were comparable to those faced
by an international spy.

Although Gezon did resume the meetings, he was not indicted, possibly because he had been a
relatively minor price-fixer. General Electric, for its part, demoted him but did not require him to
resign. Yet it would be a mistake to assume that Gezon was relatively untouched by his experience.

The other side of the communication problem—the difficulty that a superior is likely to encounter in
understanding what a subordinate tells him—is graphically illustrated by the testimony of Raymond
W. Smith, who was general manager of G.E.’s transformer division from the beginning of 1957 until
late in 1959, and of Arthur F. Vinson, who in October, 1957, was appointed vice-president in charge
of G.E.’s apparatus group, and also a member of the company’s executive committee. Smith’s job
was the one Ginn had held for the previous two years, and when Vinson got his job, he became
Smith’s immediate boss. Smith’s highest pay during the period in question was roughly $100,000 a
year, while Vinson reached a basic salary of $110,000 and also got a variable bonus, ranging from
$45,000 to $100,000. Smith testified that on January 1, 1957, the very day he took charge of the
transformer division—and a holiday, at that—he met with Chairman Cordiner and Executive Vice-
President Paxton, and Cordiner gave him the familiar admonition about living up to 20.5. However,
later that year, the competitive going got so rough that transformers were selling at discounts of as
much as 35 percent, and Smith decided on his own hook that the time had come to begin negotiating
with rival firms in the hope of stabilizing the market. He felt that he was justified in doing this, he
said, because he was convinced that both in company circles and in the whole industry negotiations of
this kind were “the order of the day.”

By the time Vinson became his superior, in October, Smith was regularly attending price-fixing
meetings, and he felt that he ought to let his new boss know what he was doing. Accordingly, he told
the Subcommittee, on two or three occasions when the two men found themselves alone together in
the normal course of business, he said to Vinson, “I had a meeting with the clan this morning.”

Counsel for the Subcommittee asked Smith whether he had ever put the matter more bluntly—whether,
for example, he had ever said anything like “We’re meeting with competitors to fix prices. We’re
going to have a little conspiracy here and I don’t want it to get out.” Smith replied that he had never
said anything remotely like that—had done nothing more than make remarks on the order of “I had a
meeting with the clan this morning.” He did not elaborate on why he did not speak with greater
directness, but two logical possibilities present themselves. Perhaps he hoped that he could keep
Vinson informed about the situation and at the same time protect him from the risk of becoming an
accomplice. Or perhaps he had no such intention, and was simply expressing himself in the oblique,
colloquial way that characterized much of his speaking. (Paxton, a close friend of Smith’s, had once
complained to Smith that he was “given to being somewhat cryptic” in his remarks.) Anyhow, Vinson,
according to his own testimony, had flatly misunderstood what Smith meant; indeed, he could not recall ever hearing Smith use the expression “meeting of the clan,” although he did recall his saying things like “Well, I am going to take this new plan on transformers and show it to the boys.” Vinson testified that he had thought the “boys” meant the G.E. district sales people and the company’s customers, and that the “new plan” was a new marketing plan; he said that it had come as a rude shock to him to learn—a couple of years later, after the case had broken—that in speaking of the “boys” and the “new plan,” Smith had been referring to competitors and a price-fixing scheme. “I think Mr. Smith is a sincere man,” Vinson testified. “I am sure Mr. Smith … thought he was telling me that he was going to one of these meetings. This meant nothing to me.”

Smith, on the other hand, was confident that his meaning had got through to Vinson. “I never got the impression that he misunderstood me,” he insisted to the Subcommittee. Questioning Vinson later, Kefauver asked whether an executive in his position, with thirty-odd years’ experience in the electrical industry, could possibly be so naive as to misunderstand a subordinate on such a substantive matter as grasping who the “boys” were. “I don’t think it is too naive,” replied Vinson. “We have a lot of boys…. I may be naïve, but I am certainly telling the truth, and in this kind of thing I am sure I am naïve.”

SENATOR KEFAUVER: Mr. Vinson, you wouldn’t be a vice-president at $200,000 a year if you were naïve.

MR. VINSON: I think I could well get there by being naïve in this area. It might help.

Here, in a different field altogether, the communication problem again comes to the fore. Was Vinson really saying to Kefauver what he seemed to be saying—that naiveté about antitrust violations might be a help to a man in getting and holding a $200,000-a-year job at General Electric? It seems unlikely. And yet what else could he have meant? Whatever the answer, neither the federal antitrust men nor the Senate investigators were able to prove that Smith succeeded in his attempts to communicate to Vinson the fact that he was engaging in price-fixing. And, lacking such proof, they were unable to establish what they gave every appearance of going all out to establish if they could: namely, that at least some one man at the pinnacle of G.E.’s management—some member of the sacred executive committee itself—was implicated. Actually, when the story of the conspiracies first became known, Vinson not only concurred in a company decision to punish Smith by drastically demoting him but personally informed him of the decision—two acts that, if he had grasped Smith’s meaning back in 1957, would have denoted a remarkable degree of cynicism and hypocrisy. (Smith, by the way, rather than accept the demotion, quit General Electric and, after being fined three thousand dollars and given a suspended thirty-day prison sentence by Judge Ganey, found a job elsewhere, at ten thousand dollars a year.)

This was not Vinson’s only brush with the case. He was also among those named in one of the grand jury indictments that precipitated the court action, this time in connection not with his comprehension of Smith’s jargon but with the conspiracy in the switchgear department. On this aspect of the case, four switchgear executives—Burens, Stehlik, Clarence E. Burke, and H. Frank Hentschel—testified before the grand jury (and later before the Subcommittee) that at some time in July, August, or September of 1958 (none of them could establish the precise date) Vinson had had lunch with them in Dining Room B of G.E.’s switchgear works in Philadelphia, and that during the meal he had instructed them to hold price meetings with competitors. As a result of this order, they said, a meeting attended by representatives of G.E., Westinghouse, the Allis-Chalmers Manufacturing Company, the Federal Pacific Electric Company, and the I-T-E Circuit Breaker Company was held at the Hotel Traymore in Atlantic City on November 9, 1958, at which sales of switchgear to federal,
and municipal agencies were divvied up, with General Electric to get 39 percent of the business, Westinghouse 35 percent, I-T-E 11 percent, Allis-Chalmers 8 percent, and Federal Pacific Electric 7 percent. At subsequent meetings, agreement was reached on allocating sales of switchgear to private buyers as well, and an elaborate formula was worked out whereby the privilege of submitting the lowest bid to prospective customers was rotated among the conspiring companies at two-week intervals. Because of its periodic nature, this was called the phase-of-the-moon formula—a designation that in due time led to the following lyrical exchange between the Subcommittee and L. W. Long, an executive of Allis-Chalmers:

SENATOR KEFAUVER: Who were the phasers-of-the-mooners—phase-of-the-mooners?

MR. LONG: As it developed, this so-called phase-of-the-moon operation was carried out at a level below me, I think referred to as a working group....

MR. FERRALL [counsel for the Subcommittee]: Did they ever report to you about it?

MR. LONG: Phase of the moon? No.

Vinson told the Justice Department prosecutors, and repeated to the Subcommittee, that he had not known about the Traymore meeting, the phase-of-the-mooners, or the existence of the conspiracy itself until the case broke; as for the lunch in Dining Room B, he insisted that it had never taken place. On this point, Burens, Stehlik, Burke, and Hentschel submitted to lie-detector tests, administered by the F.B.I., and passed them. Vinson refused to take a lie-detector test, at first explaining that he was acting on advice of counsel and against his personal inclination, and later, after hearing how the four other men had fared, arguing that if the machine had not pronounced them liars, it couldn’t be any good. It was established that on only eight business days during July, August, and September had Burens, Burke, Stehlik, and Hentschel all been together in the Philadelphia plant at the lunch hour, and Vinson produced some of his expense accounts, which, he pointed out to the Justice Department, showed that he had been elsewhere on each of those days. Confronted with this evidence, the Justice Department dropped its case against Vinson, and he stayed on as a vice-president of General Electric. Nothing that the Subcommittee elicited from him cast any substantive doubt on the defense that had impressed the government prosecutors.

Thus, the uppermost echelon at G.E. came through unscathed; the record showed that participation in the conspiracy went fairly far down in the organization but not all the way to the top. Gezon, everybody agreed, had followed orders from Stehlik, and Stehlik had followed orders from Burens, but that was the end of the trail, because although Burens said he had followed orders from Vinson, Vinson denied it and made the denial stick. The government, at the end of its investigation, stated in court that it could not prove, and did not claim, that either Chairman Cordiner or President Paxton had authorized, or even known about, the conspiracies, and thereby officially ruled out the possibility that they had resorted to at least a figurative wink. Later, Paxton and Cordiner showed up in Washington to testify before the Subcommittee, and its interrogators were similarly unable to establish that they had ever indulged in any variety of winking.

AFTER being described by Ginn as General Electric’s stubbornest and most dedicated advocate of free competition, Paxton explained to the Subcommittee that his thinking on the subject had been influenced not directly by Adam Smith but, rather, by way of a former G.E. boss he had worked under—the late Gerard Swope. Swope, Paxton testified, had always believed firmly that the ultimate goal of business was to produce more goods for more people at lower cost. “I bought that then, I buy it now,” said Paxton. “I think it is the most marvelous statement of economic philosophy that any
industrialist has ever expressed.” In the course of his testimony, Paxton had an explanation, philosophical or otherwise, of each of the several situations related to price-fixing in which his name had earlier been mentioned. For instance, it had been brought out that in 1956 or 1957 a young man named Jerry Page, a minor employee in G.E.’s switchgear division, had written directly to Cordiner alleging that the switchgear divisions of G.E. and of several competitor companies were involved in a conspiracy in which information about prices was exchanged by means of a secret code based on different colors of letter paper. Cordiner had turned the matter over to Paxton with orders that he get to the bottom of it, and Paxton had thereupon conducted an investigation that led him to conclude that the color-code conspiracy was “wholly a hallucination on the part of this boy.” In arriving at that conclusion, Paxton had apparently been right, although it later came out that there had been a conspiracy in the switchgear division during 1956 and 1957; this, however, was a rather conventional one, based simply on price-fixing meetings, rather than on anything so gaudy as a color code. Page could not be called to testify because of ill health.

Paxton conceded that there had been some occasions when he “must have been pretty damn dumb.” (Dumb or not, for his services as the company’s president he was, of course, remunerated on a considerably grander scale than Vinson—receiving a basic annual salary of $125,000, plus annual incentive compensation of about $175,000, plus stock options designed to enable him to collect much more at low tax rates.) As for Paxton’s attitude toward company communications, he emerges as a pessimist on this score. Upon being asked at the hearings to comment on the Smith-Vinson conversations of 1957, he said that, knowing Smith, he just could not “cast the man in the role of a liar,” and went on:

When I was younger, I used to play a good deal of bridge. We played about fifty rubbers of bridge, four of us, every winter, and I think we probably played some rather good bridge. If you gentlemen are bridge players, you know that there is a code of signals that is exchanged between partners as the game progresses. It is a stylized form of playing.… Now, as I think about this—and I was particularly impressed when I read Smith’s testimony when he talked about a “meeting of the clan” or “meeting of the boys”—I begin to think that there must have been a stylized method of communication between these people who were dealing with competition. Now, Smith could say, “I told Vinson what I was doing,” and Vinson wouldn’t have the foggiest idea what was being told to him, and both men could testify under oath, one saying yes and the other man saying no, and both be telling the truth.… [They] wouldn’t be on the same wavelength. [They] wouldn’t have the same meanings. I think, I believe now that these men did think that they were telling the truth, but they weren’t communicating between each other with understanding.

Here, certainly, is the gloomiest possible analysis of the communications problem.

CHAIRMAN Cordiner’s status, it appears from his testimony, was approximately that of the Boston Cabots in the celebrated jingle. His services to the company, for which he was recompensed in truly handsome style (with, for 1960, a salary of just over $280,000, plus contingent deferred income of about $120,000, plus stock options potentially worth hundreds of thousands more), were indubitably many and valuable, but they were performed on such an exalted level that, at least in antitrust matters, he does not seem to have had any earthly communication at all. When he emphatically told the Subcommittee that at no time had he had so much as an inkling of the network of conspiracies, it could be deduced that his was a case not of faulty communication but of no communication. He did not speak to the Subcommittee of philosophy or philosophers, as Ginn and Paxton had done, but from his past record of ordering reissues of 20.5 and of peppering his speeches and public statements with praise of free enterprise, it seems clear that he was un philosophe sans le savoir—and one on the side of selling the Lord, since no evidence was adduced to suggest that he was given to winking in any form. Kefauver ran through a long list of antitrust violations of which General Electric had been
accused over the past half-century, asking Cordiner, who joined the company in 1922, how much he knew about each of them; usually, he replied that he had known about them only after the fact. In commenting on Ginn’s testimony that Erben had countermanded Cordiner’s direct order in 1954, Cordiner said that he had read it with “great alarm” and “great wonderment,” since Erben had always indicated to him “an intense competitive spirit,” rather than any disposition to be friendly with rival companies.

Throughout his testimony, Cordiner used the curious expression “be responsive to.” If, for instance, Kefauver inadvertently asked the same question twice, Cordiner would say, “I was responsive to that a moment ago,” or if Kefauver interrupted him, as he often did, Cordiner would ask politely, “May I be responsive?” This, too, offers a small lead for a foundation grantee, who might want to look into the distinction between being responsive (a passive state) and answering (an act), and their relative effectiveness in the process of communication.

Summing up his position on the case as a whole, in reply to a question of Kefauver’s about whether he thought that G.E. had incurred “corporate disgrace,” Cordiner said, “No, I am not going to be responsive and say that General Electric had corporate disgrace. I am going to say that we are deeply grieved and concerned…. I am not proud of it.”

CHAIRMAN Cordiner, then, had been able to fairly deafen his subordinate officers with lectures on compliance with the rules of the company and the laws of the country, but he had not been able to get all those officers to comply with either, and President Paxton could muse thoughtfully on how it was that two of his subordinates who had given radically different accounts of a conversation between them could be not liars but merely poor communicators. Philosophy seems to have reached a high point at G.E., and communication a low one. If executives could just learn to understand one another, most of the witnesses said or implied, the problem of antitrust violations would be solved. But perhaps the problem is cultural as well as technical, and has something to do with a loss of personal identity that comes from working in a huge organization. The cartoonist Jules Feiffer, contemplating the communication problem in a nonindustrial context, has said, “Actually, the breakdown is between the person and himself. If you’re not able to communicate successfully between yourself and yourself, how are you supposed to make it with the strangers outside?” Suppose, purely as a hypothesis, that the owner of a company who orders his subordinates to obey the antitrust laws has such poor communication with himself that he does not really know whether he wants the order to be complied with or not. If his order is disobeyed, the resulting price-fixing may benefit his company’s coffers; if it is obeyed, then he has done the right thing. In the first instance, he is not personally implicated in any wrongdoing, while in the second he is positively involved in right doing. What, after all, can he lose? It is perhaps reasonable to suppose that such an executive might communicate his uncertainty more forcefully than his order. Possibly yet another foundation grantee should have a look at the reverse of communication failure, where he might discover that messages the sender does not even realize he is sending sometimes turn out to have got across only too effectively.

Meanwhile, in the first years after the Subcommittee concluded its investigation, the defendant companies were by no means allowed to forget their transgressions. The law permits customers who can prove that they have paid artificially high prices as a result of antitrust violations to sue for damages—in most cases, triple damages—and suits running into many millions of dollars piled up so high that Chief Justice Warren had to set up a special panel of federal judges to plan how they should all be handled. Needless to say, Cordiner was not allowed to forget about the matter, either; indeed, it would be surprising if he was allowed a chance to think about much else, for, in addition to the suits,
he had to contend with active efforts—unsuccessful, as it turned out—by a minority group of stockholders to unseat him. Paxton retired as president in April, 1961, because of ill health dating back at least to the previous January, when he underwent a major operation. As for the executives who pleaded guilty and were fined or imprisoned, most of those who had been employed by companies other than G.E. remained with them, either in their old jobs or in similar ones. Of those who had been employed by G.E., none remained there. Some retired permanently from business, others settled for comparatively small jobs, and a few landed big ones—most spectacularly Ginn, who in June, 1961, became president of Baldwin-Lima-Hamilton, manufacturers of heavy machinery. And as for the future of price-fixing in the electrical industry, it seems safe to say that what with the Justice Department, Judge Ganey, Senator Kefauver, and the triple-damage suits, the impact on the philosophers who guide corporate policy was such that they, and even their subordinates, were likely to try to hew scrupulously to the line for quite some time. Quite a different question, however, is whether they had made any headway in their ability to communicate.