

# Ideas and Action

GEORGE P. SHULTZ



© Joanne Batziotegos

tions Research Association, the organization from which LERA emerged. I gave my presidential address as the nominee for Secretary of Labor. So, I entered the world of action, but I never left the world of ideas. I will recall a variety of experiences to illustrate the importance of ideas and how they intertwine as you grapple with problems in the world of action.

## The Importance of Participation

I learned a lot in my labor and industrial relations days about the magic of the process of participation. I remember the Hawthorne Experiments, where experiments designed to study the impact on productivity of changes in lighting wound up teaching the researchers the powerful impact of paying attention to people and asking for their views. I also remember Joe Scanlon's plan of giving workers a chance to participate in how their jobs were structured. The message is: "You matter. You have a stake." The results can be dramatic.

I thought a lot about this message as I found myself in managerial positions. I was convinced that if I could create a situation around me where everybody, including me, was learning something, I would always have a hot group. People love to learn, and they like to be involved and be recognized. As a manager, you find that if you pay a little attention to your employ-

**E**arly in my career, my field of work was labor economics and labor and industrial relations. This was the world of ideas from which I went into four different cabinet positions and the presidency of a large international organization. I studied economics. I did mediation and arbitration. I was exposed to the problems created by plant closures, and I took part in the creation of manpower training programs. All this had a major impact on my way of approaching problems and on my style of work in large governmental, university, and business organizations.

The hinge for me was late 1968, when I was president of The Industrial Rela-

ees, you just might learn something. The Scanlon plan and the Hawthorne Experiments had a big and beneficial impact on my managerial style.

### The Importance of Responsibility

In the labor relations field and elsewhere, we all recognize the importance of having union and management leaders make their own decisions and take responsibility for their agreements. You do a better job administering an agreement that is yours. We also recognize that sometimes it takes a little conflict to sober people up. We stand ready to mediate and arbitrate, but responsibility needs to be accompanied by a willingness to strike or take a strike.

As a professor at the University of Chicago, I was particularly critical of extensive interventions by the Kennedy and Johnson administrations into big labor disputes on the grounds that a strike would be disruptive to the economy. Of course, that meant involvement in the terms of the ultimate outcome. I said, “If the president hangs out his shingle, he’ll get all the business.” Furthermore, intervention would inevitably lead to erosion of the private bargaining process because people would hold back on their best offers until they got to the White House.

I was tested. In the summer of 1968, a strike was started by longshoremen on the East and Gulf Coasts. President Johnson enjoined the strike using Taft-Hartley authority, declaring that the strike would create a national emergency. His decision was appealed on a fast track directly to the Supreme Court, and the Court agreed with the president. Sometime in the middle of January, the injunctive period expired, and I was sworn in as Secretary of Labor on January 21, 1969. *Okay, Professor: Now you’re Secretary of Labor; what are you going to do?* Relying on what I had learned in the world of ideas, I went to President Nixon and said, “Your predecessor was wrong, and

the Supreme Court was wrong. This strike will produce turmoil, but not a national emergency. If you bring the dispute to the White House, you’ll be spending a lot of your term in office dealing with labor disputes. If you hold off that pressure, I will mediate actively, and we’ll get the strike settled.” The president hung in, we got the strike settled in a few weeks, and we sent a big, important message to the process of collective bargaining. This was an important lesson in public life for me: what I learned in the world of ideas would work in the world of action.

### A Feel for Strategy

But not everything worked out so well. One of the things you learn from the study of economics is the importance of having a strategy—a sense of long-term consequences. Sound economic policies work, but most often with a lag. Politicians are impatient people, so economists have a problem in persuading people to wait a little while for results. In other words, an economist’s lag is a politician’s nightmare.

As Director of the Budget in the early 1970s, I fought and lost a battle involving lags. Inflation was a problem. We had the budget under control with sensible monetary policy in place. I argued, in a speech titled “Steady as You Go,” that these policies would bring inflation under control. I lost to impatience. Wage and price controls, through a contentious process, were imposed. The immediate result seemed terrific, but, as any economist could predict, the long-term results were disastrous distortions in the economy. This was a frustrating case where I was not able to implement what I had learned in the world of ideas. In the end, a re-imposition of wage and price controls led to my resignation as Secretary of the Treasury.

### Representation

A lot of what you do in the world of work is negotiate and, of course, we in the field of labor relations spent a lot of our time studying this subject and practicing this high art. Here are some of the things I have learned—and which I have applied.

---

**Strength and diplomacy are not alternatives; rather, they complement one another.**

First of all, the parties at the negotiating table are the tip of the iceberg. They represent varying constituencies, and if you are not aware of that, you cannot be a good negotiator. Often, the most difficult negotiations are within constituencies. I used this insight to my advantage a number of times. In January 1985, as Secretary of State, I went to Geneva to negotiate the resumption of arms control talks with the Soviet Union. To the consternation of a number of my advisors, I took with me a large delegation so that all of the agencies of government with a strong, legitimate interest were ably represented. A bit cumbersome, yes, but in the end, everyone was part of the process. I kept everyone informed, and when we settled, everyone was on board. Constituencies matter.

Of course, you are always asking yourself about whether the guy sitting on the other side of the negotiating table has his constituency under control. If he or she does not, you are heading for trouble. I was dealing with a new foreign minister of the Soviet Union, Eduard Shevardnadze, and I wondered about his relationship with his boss, Mikhail Gorbachev. We were again in Geneva at a summit meeting of President Reagan and General Secretary Gorbachev. The first dinner, attended by some of us on each side, took place in the Soviet Embassy. Gorbachev had railed against the excessive consumption of vodka in the Soviet Union. He campaigned against excessive drinking and made it difficult

to obtain vodka in Moscow and elsewhere. I was surprised as they poured vodka in shot glasses and served ample quantities of caviar. Shevardnadze stood up, raised his shot glass, and, addressing President Reagan, said, “Mr. President, I had to come all the way to Geneva to get vodka.” He then drank down his vodka in one happy gulp. Gorbachev laughed, and I said to myself: I can deal with Shevardnadze; he is on the same page with the guy he represents.

### Understand the Needs of the Other Side

Another example of recognizing the importance of understanding the other side’s needs is when, as Secretary of State, I was working hard on human rights issues with the Soviet Union. Foreign Minister Shevardnadze said to me at one point, “George, we might do some of the things you want, but not to please you. We’ll only do them if they are to our advantage.” I thought long and carefully about that remark. I developed a position paper basically arguing in the mid-1980s that an Information Age was in the process of sweeping the world, and in such an environment a closed and compartmented society would fall behind. The Soviet Union should loosen up its own interest, I argued. How much impact that

argument had, I cannot say for sure, but subsequently we saw a huge change in the Soviet attitudes toward, for example, immigration.

### Strength and Diplomacy Go Together

We all know that if you go to the negotiating table with no strength, you’re going to have your head handed to you. Strength and diplomacy are not alternatives; rather, they complement one another. Have you ever noticed the Great Seal of the Republic? It shows an eagle that holds in one talon an olive branch and in the other, thirteen arrows. President Tru-

man, after the end of World War II, saw a variation of the seal in the White House in which the eagle was looking at the arrows. He decreed in an executive order that henceforth the eagle would always look at the olive branch to show that the United States will always seek peace, but also will hold on to the arrows to show that the United States understands that if you are going to be effective in seeking peace, you must be strong. So, yes, we will engage, we will negotiate—but only from a position of strength.

### Trust Is the Coin of the Realm

You also learn from the study of negotiations the importance of being good to your word. This was one of Ronald Reagan’s traits that made an impact. Our first deal with the Soviet Union was a human rights deal. A group of Pentecostals had rushed into our Moscow embassy during the Carter administration, and they were still there. It was an uncomfortable situation on all sides. After a careful and quiet period of negotiations, we urged that they be allowed to emigrate, and they finally were allowed to leave, along with their families. President Reagan had emphasized that all he wanted was to help the Pentecostals, and he would not say a word. The deal was, in effect, “We’ll let them out if you don’t crow.”



Despite intense political temptation, he never said a word. The Soviets must have been impressed. Maybe they thought, *We can deal with this guy because he keeps his word, even under pressure.*

I saw this point once again dramatically on a presidential visit to a cemetery in Germany. I recall vividly how, in a session in the Oval Office, the Chancellor of West Germany, Helmut Kohl, invited President Reagan to visit a cemetery in Germany where American and German soldiers were buried. He had done that to good effect with President Mitterrand of France. The visit would symbolize the reconciliation between our countries. President Reagan readily agreed. The Germans then let us know that they had selected the Bitburg cemetery for the visit. A storm broke when the press uncovered the fact that many of the German graves were those of SS officers. Images of the Holocaust came vividly to the fore. We wanted to change to a different cemetery, but for reasons that were unfathomable to us, Helmut Kohl insisted on Bitburg. President Reagan had given his word, so we went. Some leaders of other countries said to me afterward that they were amazed that he followed through. He paid a political price, but they all said to me, “We can see that he keeps his word under pressure.”

### **How Important Is “The Relationship”?**

Then there is the question of the *relationship* between labor and management. When these relationships deteriorate, the reason always is the same: the parties came to value the relationship too much. “We’ve got a great thing going here; don’t rock the boat.” Pretty soon, the relationship was not serving the interests of the people in it, and so it deteriorated.

When I took office, I found that our relationship with China was strained. As I dug in, it seemed to me that the problem resembled one I had seen before. The old China hands dominated the

picture, and they were preoccupied with the relationship. The result was that we were not paying enough attention to the substantive issues involved. I talked this over with President Reagan and gave him my labor relations example. He had been president of the Screen Actors Guild and negotiated on behalf of the union. He saw the point right away, and we set about changing our approach. As it turned out, the Chinese responded well. The relationship became constructive because it was serving the interests of both countries.

### **Civil Rights**

I had some riveting experiences in the civil rights area, particularly in my work as co-chairman with Clark Kerr of the Armour Automation Committee. This committee was put together by the unions and management of the Armour Meat Packing Company to address issues largely of plant closures as the industry was restructuring.

I remember going to Fort Worth, Texas, after the announcement of a plant shutdown there. Our team consisted of me; my associate, Arnie Weber; a management representative; and a labor representative, who was black. We went to the hotel to register, and they very politely gave me a nice suite. Then the management representative and Arnie were given their rooms. When the labor representative tried to register, he was told there were no rooms available. He produced something none of us had: a confirmation slip. The clerk took it to some higher authority. He came out and said, “We have no more rooms.” By this time, my blood was rising. I said, with a tone of finality, “You gave me a suite with two rooms in it, so you have a room. Put an extra bed in one of them.” The clerk was flustered, so he did what I had practically

ordered him to do. I had just witnessed discrimination firsthand. It is one thing to read about it and acknowledge it intellectually. It is something else to experience the process and realize in your gut how unacceptable it is. I also learned that firmness can pay off.

Later, Clark and I, in our mediator-arbitrator role with the committee, helped them find their way to a bumping agreement, whereby workers with enough seniority in a plant that was being closed could bump junior workers in another plant in a different location if they chose to do so. Not long after that, the company started building a plant in a small town in Minnesota. The town fathers had given concessions to the company to get those good jobs in their town. As the plant was being completed, the company’s old large meat-packing plant in Kansas City was closed. We could suddenly see the opportunities for bumping into the new plant. Most of the Kansas City workers were black, and we discovered that there were no blacks at all in the Minnesota town. This was in the mid-1960s, when tensions were rising, particularly in urban areas. What to do? We worked with people on both ends. The blacks sent scouting parties from Kansas City to see what the town was like. The town fathers, it turned out, had a lot of civic pride. Big cities do not know how to handle human problems, but we do, they said. Then the churches found out that the potential new residents

were known to tithe, so a competition started among the town’s churches. In the end, a fair number of black workers came from Kansas City and, miraculously, the whole thing worked.

I had these examples in my mind as chair of a committee to manage the end of segregation in the schools of seven Southern states. President Nixon had decided that when the school year

---

**Ideas are the compass for action. And our field of work is filled with both ideas and action.**

started in the fall of 1970, the system of legal segregation would end. My job was to figure out how to manage the transition, so that the quality of education could be maintained and violence avoided. My earlier experiences taught me a lot as I worked with Pat Moynihan and Len Garment on the problem. We recruited biracial committees in each state. We determined not to have any inquiry about the political affiliations of anybody. We wanted strong people who were respected in their communities. We brought them to the White House, one group at a time. I remembered my lesson from mediation: when people are arguing about matters of principle, you have a hard time finding a compromise, but if you can get them to address problems, then you have a chance to find solutions. I also remembered that firmness can pay off. So, in our meetings, I let them get the statements of principle off their chests, but then told them, "The argument you have been having about principle, about desirability, is irrelevant. The schools will open on an integrated basis; that has been decided. What you really have on your hands are operational problems. How are you going to manage it when

the schools open? You all have a stake in the quality of education in your communities." Gradually, they pitched in. As schools opened, there were some tense moments, but in the end, there was no violence. The biracial committees worked the issues skillfully in their communities. Once again, ideas from my experience in the labor relations area paid off.

So, you can see how much I learned from my experiences in the field of labor economics and industrial relations and how important these ideas were as I confronted a huge variety of problems. Ideas are the compass for action. And our field of work is filled with both ideas and action. That is why we all learn so much from our efforts and why I am so thankful for my own formative exposure to the study of labor and employment relations.

---

#### NOTES

Based on a speech delivered on January 3, 2009, at the annual meeting of the Labor and Employment Relations Association in San Francisco. The author wishes to thank John Cogan, a Hoover colleague, who has given helpful comments on this address.



**George P. Shultz**

---

*George P. Shultz is the Thomas W. and Susan B. Ford Distinguished Fellow, Hoover Institution, Stanford University, and former Secretary of Labor, Director of the Office of Management and Budget, Secretary of the Treasury, and Secretary of State.*