

Presidential Address, 1976: American Business and American Life: A Bicentennial Appraisal

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Some years ago -- it must have been in the early or middle 1960s -- several of us who thought that business history is worth the candle undertook a labor of love. We set out to raise a substantial sum -- I am embarrassed to say how much -- in order to finance a multivolume history of American business. We had tremendous enthusiasm, a brilliant brochure, an impeccable list of firms and their foundations for solicitation -- and we got next to nothing. On reflection, I suspect that part of our problem was an unduly ambitious desire to sharpen our perception of change in American business when we already knew enough to fill our projected four volumes and more. Yet fundamentally we failed because, despite our purpose to show the vast influence of business on the whole of American life, our proposal suggested a diffusion of analysis that would leave no single firm (or industry) sufficiently glorified to merit financial support. Nor do I think for one moment that, did we make a comparable attempt today, we should have any more success. Alas!

It is a curious and interesting fact that the American business community has never managed an eloquent, nay, an adequate, statement of its massive contribution to humankind, at home and in the rest of the world. The reason, I suppose, is not hard to find. Being men of action, business types, with exceptions that only prove the rule, are not likely to have much interest in history. On rare occasion, to be sure, a company will decide to set forth the exploits of its founders in a volume suitable for Christmas giving. Occasionally we see some results of the often pallid research being done in business history, with the consequence that a generation largely ignorant of the great achievements of business is modestly enlightened. For the most part, though, Americans have the vague impression that the good things of life have been vouchsafed by an eccentric bunch of men and women vaguely known as "inventors," who intuitively recognized human needs, and prodded by necessity, mothered innovations that were more or less inevitable. How strange, and how incredibly far from the truth!

Actually, for 200 years and more (if we care to go back to our European forebears), a large part of what we consider the creature comforts of life and a substantial part of what we think of as spiritual comforts, are possible only because of the vulgar profit motive. Our wealth, our health, our only hope of redemption from poverty for two-thirds of the world depend largely upon what business has accomplished and will accomplish in the never-ceasing, age-old effort of man to wrest from scarce resources a kind of optimal satisfaction of what are, after all, insatiable human wants. These wants are by no means entirely economic. Yet an astonishingly large proportion of them are.

Not long ago, a "special report" of now defunct *Life* appeared on the newsstands. Under the imposing title "The 100 Events That Shaped America," this bicentennial issue contained the collective judgment of certain *Time* editors about the forces that forged this great country of ours. If we may judge from their magazine's recent editorial policy, *Time*'s editors cannot be accused of pro-business bias. Yet no less than 40 of *Life*'s "shaping events" were the direct and immediate consequence of business activity in the United States.

That so large a proportion of these events should be related to business is in part accounted for by the fact that major innovation is impossible without an organization of resources, often formidably large, to translate invention into useful products. As the late A. P. Usher insisted, it is characteristic of innovation in general that much groundwork must be laid before some person makes the "strategic" invention, the one that is commercially successful. It has been typical of American innovation that inventors have themselves established their own firms or been closely associated in a managerial capacity with the initiating company.

An encyclopedic listing would be required to provide just the major examples. Let us pick a few in areas that critics of American business would like to overlook. In food production, who started the rapid increase in productivity that marked the emergence of agriculture from ancient and medieval methods? Cyrus McCormick with the mechanical reaper! John Deere with the steel plow! Both made the strategic (decisive) invention that was commercially successful and that their own firms put into production. They and the other great implement makers of the 19th century carried on in this tradition until the rest of the business world began to introduce the inputs that further increased the productivity of the farm sector. Commercial fertilizer and rudimentary herbicides and pesticides became progressively more important after the turn of the 20th century. Yet when I was a boy in Kansas in the early 1920s, corn yields remained in the 25- to 30-bushel-per-acre range, not much higher than they were just after the Civil War. By the mid-1970s these yields had trebled, and no one in 1975 really bragged about his corn unless he was

getting 180 bushels and more to the acre. Yields of the other food and feed grains were showing similar gains. These tremendous increases in output per acre and output per man-hour were in part the result of research by both academic and government personnel. But the final applications and the quantity manufacture of hybrid seeds, preemergence herbicides, plant growth regulators, modern fertilizers, and antibiotics necessary to health protection and weight gain of poultry and meat animals have been possible only through the technical and production facilities of firms in the chemical and pharmaceutical industries.

The "events" that shaped contemporary life would certainly include the introduction of electric power and telecommunications. School children are taught to think of Thomas Alva Edison and Alexander Graham Bell as the slightly dotty inventors of the incandescent light bulb and the first telephone capable of practical use. As nearly as we can unravel the twisted strands of innovative work in the fields of electric power transmission and telecommunications, these men emerge as towering figures. Edison was a genius in the history of technological change, with more than a thousand patents to his credit. Yet Edison's place in history is firmly based on his acumen as businessman -- as entrepreneur -- rather than as inventor, for he conceived the notion of a central power station and initiated the venture that would equip it. It was Bell's vision of a nationwide telephone network, undertaken and brought to fruition by associates such as Thomas Saunders, Gardiner G. Hubbard, and Theodore N. Vail, that led to a telecommunications system far superior to any other in the world. Indeed, the American telephone system is still the best in the world.

These past 200 years business has made no more noble contribution to human weal than in its participation in the ages-long fight against disease. The firm of Eli Lilly and Company came to world preminence when within less than two years it translated the scientific discovery of Banting and Best into quantity production of insulin to relieve mankind of the horrors of diabetes mellitus. The introduction of antibiotics on a large scale, particularly of the cephalosporins, would have been impossible without cooperation among academic and drug company scientists and the production capabilities of the pharmaceutical industry. However grateful we may be to Jonas Salk, the development and mass production of poliomyelitis vaccine by the pharmaceutical industry was absolutely essential to the eradication of the disease.

Considerations such as the foregoing remind us that we could make a literally endless list of "events" in which business has played major role. And because such events are not discrete, like potatoes in a sack, we follow the will-o'-the-wisp of their complex interrelationships only to be disappointed at our failure to assess quantitatively the specific contribution of business enterprisers. The frustration fades when we focus attention on what was by 1855 universally known as the "American System."

The prerequisites of the system were interchangeable parts and continuous process manufacture. The legend of Eli Whitney notwithstanding, it took two full generations before parts were truly interchangeable in the production of firearms, clocks and watches, sewing machines, and agricultural implements. Meantime, Francis Cabot Lowell and his associates had organized the Boston Manufacturing Company at Waltham, which brought all four stages of the manufacture of cotton cloth within one establishment and created executive posts that kept key managers aloof from actual production to plan marketing and financial strategies. In the 1850s companies manufacturing carriages and wagons as well as farm implements actually used conveyor belts to assemble in sequence the parts of major subassemblies, thus adumbrating "mass production" techniques of the early 20th century. Henry Ford's adaption of the moving assembly to automobile production and Frederick W. Taylor's contributions to "scientific" management essentially completed the development of the American System.

In little more than half a century the rest of the world would learn to make cars efficiently. Meanwhile, advances in electronics and the manufacture of the digital computer would mark the beginning of a new American System. American firms would take the international lead in the production of increasingly sophisticated computer applications, xerography, heavy machinery, telecommunications systems, and the like, maintaining the comparative US advantage in high-technology output while the rest of the world made shoes, stereo equipment, motorbikes, and small automobiles in this time of alleged energy shortages.

These reflections may have a chauvinist ring, but the fact remains that a disproportionate number of innovations that make life bearable have had their first practical applications in the United States. Moreover, ever more vocal elements in society complain that the American business system depends upon and fosters the ignoble parts of human nature, and that the social benefits of business are too easily reckoned in crassly material ways and expressed in terms of some crude "bathtub" index. To this latter complaint we can rejoin that the livelihoods of a vast majority of Americans, despite the proliferation of employment in the professions and in government at all levels, depend on the performance of business.

But it is not enough to assess the contribution of the American business system in economic terms alone. For example, the sociological dimensions of US society have been largely determined by two immigrant flows over the past 200 years. The first was from the Old World to the New. Agriculture had its attraction for those who first came to this country, but the great influx of immigrants began only as burgeoning industrial and commercial activity opened the hope of a livelihood and the possibility of escape from poverty. Immigration rose and fell with the business cycle, peak inflows lagging the onset of economic downturns by a few months and troughs following upturns in the cycle.

Immigration from abroad was accompanied by and finally surpassed by migration from the countryside to the city. In 1790 more than 90 percent of the population worked and lived on the land; today less than 5 percent of the population live on farms. Business, as we have seen, has exerted a push from the land by providing massive substitution of capital inputs for labor inputs; simultaneously, it has provided an inexorable pull, as jobs in the city have beckoned the unemployed and the underemployed in farming. Whether this change has been in some sense good or bad is largely a matter for subjective evaluation; the process of change from a rural to an urban society is plainly the result of forces set in motion by American business, as the ethnic mix of America was similarly motivated.

No less important has been the stability imparted to US politics by the possibility of upward mobility afforded by American business, small and large. I have written elsewhere that success in small business, as distinguished from the mere purchase of a job, depends on more than hard work and virtue and luck [1]. It depends in part on the mastery of techniques, on skills that schools of business effectively profess. But in small business and large the ultimate success is achieved by men and women who have special talent, the talent for undertaking ventures. This talent cannot be taught. Those who have it are the gifted few who do more than the humdrum chores of administration. There are and always will be only a few who can achieve remarkable success in the business world. But so long as the *possibility* of success remains, those who just may make it will support the American business system in preference to the lackluster alternative offered by the socialist countries.

When we come right down to it, this may be the great contribution of business to American life these past two centuries. A little fun in our lives! An escape from the puritanical spirit of government bureaucracies and the incivilities of bureaucrats.

In these few minutes I have tried to express the view that the American business system does not foster the ignoble aspects of human nature. As I observe the system, it provides food for us and a good part of the rest of the world. When I was a child, at least one of my classmates died each year of a mastoid infection or a gangrenous appendix, and each year one of my parents' friends died of pneumonia "in the prime of life," as Mother used to say, which meant on the sunny side of 40. We lived in boredom. (or if our parents were educated and we encountered the right teachers, we read books) until the radio opened a way to the world outside that was hitherto reserved for the well-to-do who lived in the cities. The energy revolution came to fruition as the petroleum industry did, and so we acquired what may be the greatest blessing of all -- mobility. Or at least we did after American financial institutions made it possible for us to acquire automobiles -- along with the appliances that let us economize the most precious

commodity, life itself. I hope that I make my point clear! When God was an Englishman and the king could have Mozart to order, the very wealthy could command anything except health for a child laid low with diphtheria. The American business system has released most of us -- even those below the threshold of poverty as presently defined -- from the bondage of boredom and premature illness and death.

Yet for all its vast accomplishments the system is not likely to last much longer under the stresses presently imposed by the heavy hand of government. I am sure that it will last as long as I will -- the only consolation I have when I reflect on the absurdly short lives we live -- but, perhaps not nearly as long as you, my young friends, will live. For the system is now being subverted, not by anarchists or communists or fascists or any of the other evil ideologues we imagined when I was young, but by well-intentioned Americans who have everything that we in this country have had for nearly four centuries except one -- courage. We have become the pusillanimous society who cannot as people address ourselves to any economic problem without demanding solutions in terms of absolutes.

Who are the contemporary subversives? They are largely members of the Sierra Club and the Audubon Society and bureaucrats who man the Environmental Protection Agency. Because they wish to protect polar bears and killer whales or because they want clean air and pure water? Of course not! They subvert the system because they refuse to weigh benefits against costs, as anyone with any sense of what economics is about would do. As Kenneth Boulding has remarked, any productive system produces goods and bads, and the absolute reduction of bads to zero imposes intolerable costs on both the private and public sectors. When 50 years ago people insisted that the stygian blackness of St. Louis and Pittsburgh be lightened, they did just that -- after weighing benefits and costs.

Perhaps more harmful than the environmentalists, at least in the long run, are the consumerists, who are presently led by people I consider to be self-serving publicity seekers. Now anyone who reflects on the matter for even a few moments must realize that we are all producers as well as consumers, unless we are drones, in which case we should have no voice in the matter. At what point do we draw the line in protecting the consumer interest in order to assure the producer interest a continued livelihood? I am not here concerned with trivia. If an agency of government finds in its wisdom that parents too stupid to keep medicines away from children should be protected at the expense of the aged and arthritic who cannot open their medicine bottles, I can dismiss the problem as the questionable value judgment of a bureaucrat. But when the consumerist lobby pressures Congress into outlawing variable-rate mortgages so that savers and the financial intermediaries must bear the interest-rate risk of a mortgage --

instead of sharing it with the beneficiary of the borrowed funds -- the resulting harm to the homebuilding industry and to borrowers who cannot find fixed-rate mortgage money is anything but trivial. Nor would the proposed Agency for Consumer Protection, that monstrous intrusion on our rights as both consumers and producers proposed by Ralph Nader and his associates, have any concrete result but drastic increases in the costs and so the prices of products about which there is no complaint. (For example, according to the Stanford Research Institute, Consumers Union proposals for making power lawnmowers safer would increase the average price of the cheapest mowers presently made from \$110 to \$154, an increase of 40 percent. The question is, you see, not "do we want safer lawnmowers?" but "do we assess the benefits of certain safety improvements to be worth \$44 a unit?")

I am deeply concerned about the reverence with which otherwise bright Americans regard the antitrust mythology that is now more than a century old in this country. The United States leads the world in productivity-increasing computer applications. Yet the lawyers in the antitrust division of the Department of Justice, apparently unaware of the economic concept of the firm of optimum size, persist in their crude and vulgar theory of "slice 'em and dice 'em," aiming their shafts at the efficiencies of AT&T, IBM, and the like. Only the attorneys on the FTC staff cause more mischief. If any processors in the world turn out an incredible variety of cheap food, it is the US breakfast cereal industry. The great food chains are bulwarks against high prices. Yet the Federal Trade Commission lodges complaints against the cereal companies for oligopolistic pricing and against Safeway and Kroger for "overcharging." One seriously questions both the motivation and the competence of such an agency.

We have long since opted for a humane society in these United States. I suspect that it is possible to have a humane society and maintain a vigorous middle class, though welfare payments in ever growing amounts will be required to keep above the officially designated level of poverty those who cannot make a living under any system. The disadvantaged must be relieved of at least some of their burden. It is my observation, however, that the environmentalists, the consumerists, and the antitrusters are the affluent who wish to do good at other people's expense. Unfortunately, they could destroy the middle class and its aspirations because they are afraid of life and its processes. They would like to reduce life's risks to zero at the expense of the poor and the indigent. For the evidence we have suggests that it is the poor who pay disproportionately for super-clean water and super-clean air and the protection of vanishing species and all the other amenities that rich folks prize so highly. The requirement that fuels of unnecessarily high quality be burned, plus the requirement that antipollution devices of questionable effectiveness and zero additions and output be installed, have drastically increased the

cost and so the price of electricity. The result is a cruel, regressive tax on the poor for which business, not the pusillanimous in our society, is asked to take the blame.

I have argued that for the past two centuries the American business system through the market mechanism has given us, as nearly as we can articulate our desires, what we want. Government, as nearly as I can tell, gives us nothing that is new and fresh and exciting, but only redistributes what the private sector produces. It is the shining achievement of democratic decisions, working through markets, that we remain protected from the value judgments that anyone, a monarch or a commissar or the best-intentioned contemporary puritan, would impose upon us.

REFERENCE

1. Ross M. Robertson, "The Small Business Ethic in America," in Deane Carson, ed., *The Vital Majority* (Washington: US Government Printing Office, 1973), pp. 27-36.