

Mr. Kaiser Goes to Washington: Saga of a Government Entrepreneur

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In the spring of 1934, Will Rogers wrote in his newspaper column about a dinner of the United States Chamber of Commerce he attended with Jesse Jones, head of the federal government's Reconstruction Finance Corporation (RFC). A succession of industrialists and financiers spoke on the common theme of "keep government out of business." As each speaker stood up, Jones wrote something on the back of his menu. Finally, the last speaker rose, Jones scribbled on his menu one last time and the speaker lobbied once more to keep the government out of business. Rogers wryly noted that Jones had been writing what each of them had borrowed from the RFC [1].

Businessmen are traditionally mute about opportunities government presents to them. At the same time, they loudly bemoan restrictions on their activities, such as those accompanying the federal government's rapid growth since the 1930's. This larger government could impinge on business in many ways--through regulation, taxation and antitrust--and it is analyses of these restrictions which have dominated the literature of business/government relations. All the attention historians have paid to government's controlling aspects--and private sector complaints about them--has overshadowed the entrepreneurial opportunities presented by the growth of the administrative state.

My dissertation explores the proliferation of such opportunities at mid-century, focusing on the enterprises of Henry J. Kaiser. Kaiser's empire provided his generation's most telling evidence of the role governmental relations can play in American entrepreneurial success. His enterprises represent a case study in a form of entrepreneurship--which I dub "government entrepreneurship"--that has become a crucial factor since the 1930's in shaping America's economy.

In defining government entrepreneurship, I adapt Joseph Schumpeter's definition of entrepreneurship: the carrying out of a new combination of materials and forces through the use of government capital, for the government as customer or under the auspices of government regulation [4]. Defined in this way, the "creative destruction" accompanying Henry Kaiser's rise was almost exclusively governmental.

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Was Kaiser's experience simply a mid-century aberration? I think not. He was one of many entrepreneurs responding to the opportunities presented by the expansion of government at all levels. Between Henry Kaiser's 1921 arrival in Oakland and his 1954 "retirement" to Hawaii, U.S. government spending as a percentage of GNP rose from less than 5% to more than 15% (at the apex of Kaiser's career, during World War II, the percentage spiked considerably higher) [3]. The public sector now comprises about one-third of America's economy.

Until 1940, government entrepreneurship primarily meant the construction of railroads and public works projects. Such "infrastructure entrepreneurship"--mainly at the state and local level until the 1920's--represented the sorts of projects undertaken by Henry J. Kaiser early in his career. During the West's golden age of public works projects--the 1920's and 1930's--his company built highways and dams with government funds.

Kaiser's 1939 entry into cement production and his subsequent enterprises in primary metals and shipbuilding--all with the encouragement and guidance of government officials--mark his transformation from construction man to industrialist. His transformation coincides with the "coming of age" of government entrepreneurship: government involvement in sustained industrial enterprise on an unprecedented scale. Henry Kaiser, then, looms as a significant figure in American business history because of the extent of his involvement with the federal government at a time when distinctions between the public and private sectors were rapidly becoming blurred.

The principal source for my dissertation was the papers of Henry Kaiser, especially those which deal with goings-on in Washington. That sort of material appears in abundance for the years beginning in 1940. This coincides with Kaiser's dispatching Charles F. "Chad" Calhoun to Washington to obtain war work. Calhoun was the point man who cultivated administration insiders, from the head of the federal reserve, to the president's chief economic advisor, to the Secretary of the Interior. Calhoun was quite diligent at reporting to Kaiser what he had learned, sending as many as three long (3-5 page) memos a day to Oakland headquarters. Calhoun's letters from Washington provide unusually rich detail regarding the crucial point of contact between decision-makers from the private and public sectors [2]. As Kaiser's "eyes and ears in Washington," Calhoun was the one who sniffed out entrepreneurial opportunities presented by an activist government.

Calhoun's memos also show that although Kaiser got a lot of mileage from portraying himself as in conflict with the bureaucracy, he did not fit the Progressive model of businessmen fighting against the government. Nor was Kaiser out to "capture" government agencies with which he dealt, as New Left history might suggest. Even Henry Kaiser, one of the most powerful businessmen in the West, could not have achieved his success in shipbuilding, steel, dambuilding, and aluminum without sympathetic ears in the executive branch. Above all, the Kaiser story was neither of battle nor capture, but rather a process of continuous, cooperative negotiation.

Kaiser's influence peaked during Franklin Roosevelt's presidency, when he came at times to represent an industrial extension of administration economic policy. New Dealers were the "first movers" with a broad-gauged agenda of economic change, but they had been frustrated in their attempts to find

industrialists they thought had the energy and social vision necessary to implement that agenda. At various times in its many incarnations, the New Deal pushed for regional planning and economic self-sufficiency, antitrust, and conciliatory labor relations. In each case, Kaiser became a symbol of New Deal industrial hopes, as he was nimble enough to seize the opportunities presented by an activist government. Kaiser's tremendous energy and vision were a godsend to the administration; his enterprises represented a confluence of New Deal policies and entrepreneurial zeal.

This is illustrated by Kaiser's cement enterprise, which was encouraged by New Dealers who wished to attack the industry's "administered" pricing. The government's position as a principal purchaser--for public works projects--made New Dealers acutely aware of artificially high prices, and put them in a unique position to do something about it. Newcomer Kaiser was supported by the Secretary of Treasury, whose department handled government procurement, and the Secretary of the Interior, whose department was responsible for the great dam projects. The result: Kaiser secured a contract to provide cement for Shasta Dam, jewel of the federal government's Central Valley Project in California.

In the primary metals of magnesium and steel, Kaiser received similar support. The administration was attempting to break Dow Chemical's magnesium monopoly and to overcome the price control exercised by Big Steel. Assisted by the head of the Federal Reserve, the president's economic advisor, the head of government pricing policy, and the Secretary of the Interior, Kaiser successfully launched enterprises in two industries with among the stiffest barriers to entry.

During his heyday in the 1940's, Kaiser had such an appetite for enterprise that he started companies representing virtually all sectors of the economy, from construction to real estate, to mining, to production of primary metals, to broadcasting. Because of his continuous relations with the government--which provided him both capital and markets--his empire became an appropriate symbol of government entrepreneurship.

Kaiser personifies the expansion of possibilities for government entrepreneurs at mid-century, as he moved from infrastructure contracting to industrial enterprise. While his industrial enterprises have declined in recent years, Kaiser remains a pivotal figure in the history of business/government relations. The type of entrepreneurship in which Kaiser engaged has continued in subsequent years and different institutional settings. Kaiser's history is an important reminder of the explosive, creative energy unleashed when an activist government and venturesome entrepreneurs come together.

References

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2. Henry J. Kaiser Papers, Bancroft Library, University of California, Berkeley: especially cartons 127 and 316.
3. Simon Kuznets, *Modern Economic Growth* (New Haven, 1972), 236-37.
4. Joseph Schumpeter, *The Theory of Economic Development* (New York, 1974), 65-66.