

# PRESIDENTIAL ADDRESS

## Ideas, Policies, and Outcomes in Business History

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Tonight I want to talk about three things, and I intend to be brief about each one. The first is about manners; the second about the substance of business history--specifically ideas, policies, and outcomes--the third about my own education and career in this field. Let me begin with manners.

This is really in the realm of tongue-in-cheek advice, since as your president I ought to impart some admonitions during my tenure at the head of this organization. I think all presidents should do it, and I hope to begin a tradition tonight that will be followed by Bill Lazonick, Lou Galambos, and other eminences to come. As Lyndon Johnson used to say, "I shpeak too-nite as yore Prezddint [sic]."

My advice comes directly from two of the Founding Fathers, Benjamin Franklin and George Washington, and you've probably heard much of it before. Here are some lines from Franklin's pamphlet *Advice to a Young Tradesman*, written when Franklin himself was a young printer:

Remember that time is money. . . . Remember that credit is money. . . . The most trifling actions that affect a man's credit are to be regarded. The sound of your hammer at five in the morning, or nine at night, heard by a creditor, makes him easy six months longer. But if he sees you at a billiard table, or hears your voice in a tavern, when you should be at work, he sends for his money the next day.

As president of the Business History Conference, I want you to remember those lines. In fact, I'm thinking of asking Will Hausman, our secretary-treasurer, why we haven't been hearing his hammer at five in the morning or nine at night. What has he been doing with the vast billions in our treasury? Does anybody really know?

My second bit of advice is of a more personal nature and comes from some items George Washington learned and internalized as a teenager in colonial Virginia. These maxims appeared in a book called *Youth's*

*Behavior or Decencie in Conversation Amongst Men.* They reflect the deliberate cultivation of manners by someone who aspired to be genteel, which Washington did and which I think all of us in this organization should do. Here they are:

1. In the presence of others, sing not to yourself with a humming noise, nor drum with your fingers or feet.
2. Show nothing to your friend that may affright him.
3. When you see a crime punished, you may be inwardly pleased, but always show pity to the suffering offender.
4. Shake not the head, feet or legs, rowl not the eyes, lift not one eyebrow higher than the other, wry not the mouth, and bedew no man's face with your spittle, by approaching too near him when you speak.
5. When in company, put not your hands to any part of the body not usually discovered.

I say, as yore Prezdzint, that if everyone in the Business History Conference will follow these simple rules, our organization will become a more high-toned outfit.

Now a brief word about my own work in our field, which really *is* serious, at least to me.

I am in the early stages of writing a book about the relationships among ideas, policies, and outcomes in the history of business competition. The time period is the last 150 years. I am interested in both the public sector and the private, and when I say "policies" I mean both business and public policies.

By "outcomes," I mean the structure and performance of representative industries and companies. I intend to organize the book around three industries: steel, retail distribution, and newspapers. Each of the three exemplifies a different type of competition and industry structure, and thus permits a comparative analysis.

Chronologically, each one represents an epoch in business history. The first, steel, is a good example of early manufacturing in a basic heavy industry. The second, retail distribution, encompasses the era of the consumer and of the service economy. It's a very important sector of the economy, but in the writing of business history, it hasn't yet caught up with manufacturing, and I think we need more emphasis on it.

My third industry, newspapers, represents the information age in which we are now supposed to be living. Newspapers also have a kind of double appeal in a study of competition. On the one hand, there's the market for the papers themselves and on the other, the internal market within the paper for advertising space. In addition, newspapers as a topic permit one to study both the business of publishing and the changing editorial position of a particular paper.

This industry, like the other two, also raises some nice antitrust questions, and that's an advantage in business history because all those antitrust decisions and case files constitute one of our best categories of source material. In the case of newspapers, one runs up against questions

such as this: if two competing papers, even with different editorial positions, one liberal, one conservative, decide to pool their production facilities in one printing plant, is this a violation of the antitrust laws? At times, the courts in America have said yes, at times no.

In addition to cross-industry comparisons, I'm also interested in cross-national ones, in particular of the United States and Japan. The American approach to competition, as you all know, differs from the Japanese along each of the three dimensions I'm studying: ideas, policies, and outcomes; and certainly in the three industries, especially the second and third, retail distribution and newspapers. These differences are readily observable, and they can be illustrated with plentiful evidence.

With respect to the roots of these national differences, one overarching theme suggests itself, although I haven't developed it very thoroughly: in the United States, a few pervasive principles lie at the root of ideas about competition. Economists and public officials tend to reason forward from these principles to certain ideas, and finally to the policies the ideas imply. Economic outcomes are then accepted as legitimized by the ideas and policies. In Japan, almost no such principles exist. Yet the desired economic outcomes remain very clear. Japanese policymakers tend to reason backward from these outcomes, to the policies that will promote them, and finally to the ideas that will justify the chosen policies. Whereas Americans seem obsessed with process, Japanese are more preoccupied with results. While Americans emphasize means, Japanese tend to focus on ends. Whereas the United States exalts a government of laws, Japan follows a more flexible, and more hazardous system of custom and a government of men.

I am speaking here not in absolutes, of course, but in the relative sense of one country measured against the other. And I say it primarily as a result of my experience in spending three weeks every summer in Japan throughout the 1980s. I also co-authored and edited the book, *America Versus Japan* (1986) along with ten of my Harvard Business School colleagues and three other scholars.

That was a terribly stimulating project, by the way, and not only because of the many trips to Japan and the intellectual challenge of comparing the two countries. It was exciting as well because five different academic disciplines were represented among the authors: history, economics, political science, business administration, and East Asian Studies. All of us knew each other pretty well beforehand, and we managed to work together and learn a tremendous amount from each other. I wish I had more time to describe that experience, but I don't. Nor am I going to go much further into a description of my current project. In fact, I don't want to say any more about it at all because its shape is certain to change in the next few years, and I don't want to be held completely responsible in 1995, for what I say tonight in 1990.

What I do want to say pertains to how I arrived at this kind of research design and why I think business history is the best, and perhaps the only, base or sub-discipline from which to mount a study of this nature--a study that focuses on ideas, policies, and outcomes all at the same time. Business history as it now stands has been superb on two of these

three dimensions. We examine organizational policies and strategies in the public and private sector in almost all of our writing. We do it with outcomes as well. Most of our work starts with outcomes and then explains how things got to be the way they are. We are good at that. We are also good at figuring out policies, whether they are public policies, corporate strategies, or the interaction between the two.

We are less good, I think, on the third topic, ideas. This is what we were trained in graduate school to think of as intellectual history, and thus far it hasn't been a particular strength of business history. There have been, of course, a few very good books that fall into this category. I think of Tom Cochran's pathbreaking book of 1953, *Railroad Leaders*, of Edward Chase Kirkland's *Dream and Thought in the Business Community* (1956), and of Lou Galambos' quantitative study published in 1975, *The Public Image of Big Business in America, 1880-1940*.

I could give a few other examples but that's not necessary. The fact is that there hasn't been much explicitly intellectual history in our field, except for some excellent biographies of individual businesspeople. That's a rich source in itself, and I'd be the last person to urge that the biographical approach be neglected, since I've used it so much in my own writing. But it's not precisely intellectual history in the way I'm speaking of tonight.

Most of our leading practitioners, apart from the ones I've mentioned, just haven't focused on intellectual history. Alfred Chandler, for example, is much more interested in processes and outcomes than in ideas in themselves. On the other hand, Al's whole approach throughout his career has hinged on two powerful ideas: strategy and structure. The idea of corporate strategy has a clearly identifiable intellectual history. So does the idea of structure. And the two together derive in large measure from the structural-functionalism associated with Talcott Parsons and other sociologists with whom Al himself studied.

Yet Al doesn't write about these ideas directly, and he doesn't make much of the explicit connection between ideas on the one hand and policies on the other. This isn't a shortcoming of his work, it's just the result of his having other fish to fry.

For people like me who have studied public policy as well as business history, the connection between ideas and policies, and between policies and outcomes, has been of more particular interest. This has required a slightly more formal approach to the problem of intellectual history.

Now, it's true, as all of us know, that the connection between ideas and policies is sometimes tenuous, and between policies and outcomes often perverse, with an outcome opposite what the policy intended. Occasionally no relationship at all can be established. Frequently the question seems to be of the chicken-egg variety.

Among both historians and economists, substantial disagreement exists over whether ideas usually drive policies or vice versa. Consider these comments from two of the twentieth century's most influential economists:

*J.M. Keynes:* "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back."

*Paul Samuelson:* "Keynes did not specify what academic scribblers he had in mind, and I am not sure how easy it would have been for him to so do. . . . The leaders of this world may seem to be led around through the nose by their economist advisers. But who is pulling and who is pushing? And note this: he who picks his doctor from an array of competing doctors is in a real sense his own doctor. The Prince often gets to hear what he wants to hear."

So we see Keynes and Samuelson disagreeing on whether ideas or practical people are the prime movers in human affairs.

Such a difference of views can never be settled in any general way. Historians would characteristically approach the argument by saying "Well, sometimes ideas were the driving force, sometimes practical people. Please tell me more about the specific situation and then perhaps I can render a judgment on how the two interacted."

No good historian would ever assert that ideas have no importance or that practical people never control the outcome in policymaking. For my own purposes tonight, it is sufficient to stipulate that ideas are important, and that ideas about competition have obvious relevance to the development of competition policies and often to business outcomes as well.

I also think we ought to study ideas more carefully so that we might become a little more self-conscious about what we're doing. As Joseph Schumpeter once wrote, "Modern problems, methods and results [in economics] cannot be fully understood without some knowledge of how economists have come to reason as they do." The same thing is true of history. We ought to know better how we have come to reason as we do. We ought to strive toward better self-understanding.

Now let me switch gears for a moment and take up the subject of self-understanding directly. It's our custom on occasions like this to be a bit autobiographical, and I am going to talk briefly about my own background, how I became a business historian.

I was born in the 1940s, but I'm really a child of the 1930s because of the powerful effect that the Great Depression had on my parents. In 1933, my father left his home in Florida to go to Norris, Tennessee, to work on the dam and model town being built by the Tennessee Valley Authority, a new federal agency. His salary in 1933 was \$75 per month. He worked on this Norris project for a couple of years, then moved to a new town and a new project.

In fact, during their forty years with the TVA, my parents moved on the average about once every two or three years. So my brother and I attended many different schools, all of them in small towns located in Tennessee, Kentucky, and Alabama. Most of these schools were pretty

awful, but there were one or two exceptions, and sometimes that's all it takes to bring one alive intellectually.

During one unusual four-year period, for example, I attended a tiny Catholic school in the mountains of East Tennessee, run by three very talented nuns. It was like a mission school in an underdeveloped country. When I say this school was tiny, I mean that in twelve grades there were about sixty students. This meant that we were necessarily organized in what later came to be called the open classroom. In my four years at this school, I never graduated from one room to the next, only from one row to the next in the same room. But all of us in that room worked at whatever level our abilities permitted, and this was a huge advantage. It offset the problems of small size and isolation from urban areas, especially because the three nuns who ran the school were so intelligent. There was a fair amount of knuckle-rapping with yardsticks, of course, and all of us had to line up and go to confession every Friday, whether we needed to or not. (Usually we did need to, having had so many impure thoughts during the week since the previous Friday.) But the main thing was that these three nuns were very smart and dedicated women. So, Sister Bernadelle, Sister Cecelia, Sister Grace, wherever you are, thanks for a marvelous education.

This was the only really excellent school I attended until I reached the University of Wisconsin many years later as a graduate student. But in the meantime I was getting another kind of good education. I speak here of the Tennessee Valley Authority, the TVA itself as an institution, as a great and vibrant organization. I'm afraid it's not that way now, but it certainly was then, and, looking back on it, I can see that I grew up in the middle of an American epic. Certainly what I witnessed first-hand in the TVA affected my gravitation toward the study of business history.

My father was a civil engineer, and the people he worked with were engineers and construction workers. The TVA often rotated its crews as units, so that a single team of engineers would move every two or three years, building now a dam, then an electric power plant, then a new lock for an existing dam. The TVA in those days was a big organization, with about 40,000 construction workers, and my father moved up slowly through the ranks. Still, by the time he was the age I am now, he was the construction superintendent in charge of building what was then the largest coal-fired power plant in the world. This was in the 1950s, the era when, in electric power circles, the words megawatt and gigawatt began to be heard. After that job was finished my father was put in charge of building the highest single-lift lock in the world. This was over Wilson Dam in Alabama at Muscle Shoals, a lock 600 feet long and over 100 feet high. I remember, quite vividly, going down into the huge hole that was dug for this lock, looking up at the sides as the concrete was being poured, and simply being overwhelmed with the scale of it all.

These TVA projects were very big operations, employing thousands of workers each. Most of the people were of a pretty rough sort, and most of my friends were the sons and daughters of ironworkers, boilermakers, carpenters, millwrights, steamfitters, pipefitters, brickmasons, and so on. It was not a genteel group, but for me it was a valuable education. Just to

give you a little flavor of this kind of background, I'll say that while I was still in high school several of my classmates went out and got themselves tattooed.

But that isn't the point. The point is that a background like this was almost sure to give a child certain prejudices. One of mine, for example, was that labor unions were a good thing. All of TVA's craftsmen were organized into unions, all were well paid, and most of them were really committed to the job. The second prejudice was that the federal government, through this public corporation, the TVA, could do things very well, in fact better than the private sector. My father and his teams often brought in these big projects under budget, and they cut no corners. These jobs were very well done indeed.

Until environmental problems began to appear in the 1960s, the whole TVA, and especially its construction crew, was regarded all over the world as an elite organization, capable of doing almost any kind of construction project better than, say Brown and Root or Morrison Knudsen or even Bechtel could do it. There was a powerful spirit in the TVA, a sense of preeminent organizational capability, and often a contempt for the finance-oriented private utility sector, with its huge salaries and its failure to serve the public, especially the rural public.

So growing up inside the TVA gave me these powerful prejudices: the New Deal was good, organized labor was good, the public sector was good, big organizations were good, big projects were good. On the other hand, the privately-owned electric power industry was bad. In fact, the whole private sector was bad because it was so money-grubbing. Also, the Republican Party was bad, because it wanted to get rid of the TVA.

I recall feeling, as a child, the panic in our house when Dwight Eisenhower was elected president in 1952. This was almost 20 years after TVA's creation, yet the organization had not yet had to cope with a Republican president. We had no idea what might happen. I remember my father and his friends saying as we watched the election returns on black and white television (for them it really was all a matter of black and white): "Look at that Goddamned Ike, look at those fatcat Republican bastards." After the election, none of us knew what Ike would do, but we knew it wouldn't be good. As it turned out, there was no catastrophe. Eisenhower appointed to the TVA chairmanship a very capable general from the Army Corps of Engineers. This man, Herbert Vogel, came to TVA headquarters in Knoxville and quickly became coopted, in part because he saw what a remarkable organization TVA was. He went native, and everybody stopped worrying.

Anyway, all of my prejudices by the age of about twelve, and then later on past the age of twenty and then thirty, were as I have described them. How, then, did someone like this--not exactly a Bolshevik or a radical, but certainly a dyed-in-the-wool New Deal Democrat--ever arrive at the Harvard Business School?

Well, the answer lies in the seductive power of organization as a topic of study. As a graduate student at the University of Wisconsin, I wrote two small books on the TVA, one of which started out as an MA thesis, the other as a dissertation. The real theme of both books was

government-business relations. In writing them, I was fortunate to have three superb teachers, and it was from their influence, as well as from that of Alfred Chandler later on, that I developed an interest in organizations and in the interaction of ideas, policies, and outcomes. These three teachers were Paul Glad, a wonderful adviser who kept insisting that I make more rigorous connections between ideas and policies; Paul Conkin, a powerful and intimidating intellectual historian who had come from even farther back in the Tennessee woods than I myself had; and Willard Hurst, who was the greatest legal historian in America at the time and probably the greatest ever. Willard Hurst is the Alfred Chandler of legal history, and he's the only person I know who ever turned down the offer of a chair at the Harvard Law School and the deanship at Yale. He wanted to stay in Wisconsin because that's where his research materials are, and I've always been affected by his example: you go where your research takes you. Willard Hurst as a young man had been one of the last law clerks of Justice Brandeis on the Supreme Court. When I wrote about Brandeis later on, Hurst was enormously helpful in reassuring me that I was right in my heretical interpretation of Brandeis's thinking about economic matters.

Well, in doing the research for my two TVA books, both of which are about battles between the public and private sectors, I was lucky to find plentiful source material on the public side--the FDR Library in Hyde Park, the National Archives, the Manuscript Division of the Library of Congress, and the TVA's own copious records in Knoxville. By contrast, on the private side--the business side of business-government relations--the sources were extremely thin. I did dive into trade publications and annual reports, and I spent some time foraging around at the Edison Electric Institute. Beyond that, the sources on the private side hardly existed. All of this I found extremely frustrating.

After leaving Wisconsin, in my early work as an assistant professor at the University of Texas, I continued to be frustrated by this asymmetry in source material. It became a really serious problem when I began to study economic regulation.

So, after several very nice years at Texas, where I had the sobering experience of teaching a thousand students every year, I went to the Harvard Business School, first as a post-doctoral fellow, then as a professor. I went primarily to gain a more balanced perspective on business-government relations and to study regulatory agencies as organizations.

Also, of course, I went to study with Alfred Chandler, who was at that time and still is today the most insightful student of organizations in America, in any discipline. Public sector or private, it was the organization, the institution, that was the real subject--for Al, for me, and I know for many of you as well. At that time, for me, the institution to study was the regulatory agency, and I began the work that eventually led to the book, *Prophets of Regulation* (1984).

This book is about people, but more importantly it's about the strategy of regulatory agencies. It's also about regulated industries and business-government relations in general. The book contains, within its unorthodox structure, this ideas-policies-outcomes pattern I described to you a minute ago, although I managed to conceal that structure by making the

book seem to be a series of biographies. What I tried to do in *Prophets of Regulation* was to place a very intelligent person inside a regulatory agency, confront that person with a series of problems that demanded innovative policies, and then see what outcomes followed. For me the most difficult problem was not the choice of topic, or how to do the research. Instead it was an artistic problem: how to design the book in such a way that it would contain all of these themes, yet still be intelligible to a non-technical audience. Here I was lucky to have discovered the four people whose lives carry the narrative thread of the book: Charles Francis Adams, Louis Brandeis, James Landis, and Alfred Kahn--a hundred years of fascinating people, all intellectuals, all copious writers, all concerned with ideas, policies, and outcomes.

In closing, I want to say that one of the reasons I had the temerity to write a book like *Prophets of Regulation*, and later to put together the collection *America Versus Japan*, and still later to contemplate writing a book on the ideas, policies, and outcomes connected with competition in America and Japan, has been the setting of the Harvard Business School and the example of Chandler. All of us who are at Soldiers Field now or have been there as Newcomen Fellows or as visitors or as researchers know how lucky we are. So tonight I end by thanking Al and Fay Chandler, Dick Viotor, Richard Tedlow, and all my other colleagues at the Harvard Business School, for their wonderful help through the years. In my education, they rank with the great teachers I had at Wisconsin, with the engineers in the TVA, and maybe even with Sisters Bernadelle, Cecelia, and Grace in the little school in Tennessee.