The Business of America is Business

A Kit Kat Essay by Robert L. Shook
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My essay's title is a Calvin Coolidge quote: "The Business of America is Business." A man of few words, our 31st president was referred to as "Silent Cal," a good-natured nickname considering what today's politicians are called.

An attractive young lady once seated next to President Coolidge at a dinner told him that she had bet a friend that she could make him say at least three words. Coolidge replied, "You lose."

When Dorothy Parker was told in 1933 that Calvin Coolidge had just died, "the witty and on occasion mean-spirited journalist replied, "How could you tell?"

A point of interest that is that my daughter Carrie is married to Peter Jefferson Coolidge, a great, great, great grand nephew of President Coolidge. Peter is also a great, great,

great, etc. grandson Thomas Jefferson. None of this family stuff has anything to do with my essay.

The premise of my essay is how much American business is intertwined with our nation's history. I propose that it is our free enterprise system that has propelled the United States to its dominant leadership position in the world militarily, scientifically and culturally. This remarkable leadership role is possible only because the American economy makes it so. Certainly I am aware of the flaws that exist in our free enterprise system—I acknowledge that there is a wide disparity between the super rich and the poor; our health care system is broken, students graduate college with enormous debt—etc., etc. To paraphrase Winston Churchill, "Our free enterprise system is the worst form of government—except for all the other forms of government."

I totally disagree that the super rich are inherently selfish and greedy. I say this knowing many poor and middle-class people who are also selfish and greedy.

I love my topic so much that my daughter Carrie Coolidge and I are now writing a book with the same title, *The Business of America is Business.* We are nearly finished. When done, our book will have an estimated 1,000 pages.

Tonight I will wander through a bit of American history to illustrate some examples of how business is so deeply intertwined with our history. I promise you I will not cover 1,000 pages of history tonight.

And I apologize in advance—I have no photographs, charts, music or singing.

Let's start back in 1492 when Spain's King Ferdinand and Queen Isabella sent Christopher Columbus to sail West on a business trip to the Far East to bring back gold and spices. By the way, educated people back then knew the world was round and not flat. They understood that you could sail West to get to the Far East. At age 41, Columbus was an entrepreneur—he was a risk taker and a good salesman who convinced Spain's royalty to finance his voyage. Yes, Columbus discovered the Americas by accident. Many great things were accidental throughout history.

In 1606, King James I of England gave a charter to the Virginia Company of London to establish Jamestown. You all know the tragic story of Jamestown—the deaths and sufferings of those first colonists. The colony was a business, and it was financed by a group of investors back in England anticipating big returns. There was precedent. Other voyages to the East Indies had annual returns as high as 3,000%. After 200,000 pounds had been invested in Jamestown, the King revoked the charter in 1624 and Jamestown ceased to be a company and became a colony.

The 1620s were a period of political and religious turmoil in England. In 1628, a group of distinguished Puritan businessmen formed the Massachusetts Bay Company, an enterprise initially conceived as a profit-making endeavor in the New World. Founded under the guise of a commercial venture, its governor, John Winthrop, set up a self-governing settlement in the New England wilderness. Winthrop was more motivated in establishing a colony for religious reasons than for profits. New England didn't have a cash crop comparable to tobacco. These colonists generated revenues for the British Crown as seamen, fishermen and shipbuilders.

Between 1500 and 1866, slave traders forced 12.5 million Africans to board transatlantic slave vessels. Before 1820, four enslaved Africans crossed the Atlantic for every one European. It should be noted that throughout history slavery was practiced around the world. In America, where there was so much land and building to be done—and an enormous shortage of manpower—employing indentured servants and slaves were viewed a solution to the labor problem.

I will jump ahead to 1760 when a majority of the colonists were descendants of British immigrants, and they had never set a foot on Great Britain soil. Nonetheless, they considered themselves British and they took pride in their English heritage. Everything from the way they dressed, decorated their homes, and even the nursery rhymes they told their children were British. They named many of their hamlets and towns after those in England. They celebrated British holidays. They had British values, and they considered themselves British. It wasn't until King George III took over—he was not only arrogant, but he surrounded himself with second-raters and creatures of his own making, mere court-favorites, or men whose sole merit was an ability to manage a corrupt House of Commons. Had King George been a considerate fellow and treated the colonists with respect and dignity, we might very well be British-American citizens today.

It was business issues that lead the colonists to revolt against the British. In economic matters, Parliament assumed the right to legislate for all the British Empire, and typically its acts favored the motherland at the expense of the colonies. Its aim was to make America a source of articles not readily produced in England, and a market for British manufactured goods. It discouraged the growth of colonial industries that would compete with England's.

Restrictive penalties were placed American merchants. They could ship goods only via British vessels; they could sell many of their goods such as cotton and tobacco only to British dominions; they could import goods from the European Continent only after these goods had first been sent to England, had paid a port duty, and only then would these goods be transferred to British vessels. There were many acts passed to tax the colonists, and in turn, generate revenue for the British—these included the Sugar Act, the Stamp Act, and the Whiskey Act, etc, etc. The British needed revenue from the colonies because they were engaged in the Seven Years War (1756 to 1763) in Europe, and it was a very expensive war—Indeed, it was really the first world war!

Interestingly, the Boston Tea Party resulted when the British lowered the tax on tea that was imported to the colonies from the East India Company. The British lowered the import duties because the colonists bought it from smugglers at an even lower price. Incidentally, one noted smuggler was none other than John Hancock.

Again jumping ahead, this time, to 1803, when Thomas Jefferson made Louisiana Purchase, which involved 828,000 sq. miles of land that France sold to the U.S. That would be 529 million acres, at 4 cents an acre. Undoubtedly the greatest real estate deal ever made. To pay France, the U.S. borrowed $15 million from British, Dutch and French banks.

Another real estate deal happened in 1859 when Russia made an offer to the U.S. for us to buy Alaska. The Russians sold the land to avoid their biggest rival, Great Britain, from snatching it. Secretary of State William Seward convinced President Andrew Jackson to pay 2 cents an acre, and skeptics thought we paid too much. At the time, it was known as "Seward's Folly."

I will skip ahead to the Civil War.

To be sure, slavery has been acknowledged as the cause of the civil war. The Confederacy was pro-slavery and the Union was not. Slave labor was the foundation of a prosperous economic system in the South. But there is far more to it. The underlying cause of the war was the economic specialization of the South in the export of cotton to the textile mills of industrial England. Southerners felt strongly about state rights; they believed that the powers of states overruled those of the federal government. This attitude was not unusual and had precedent. Throughout America's early history, there was opposition to a federal government.

The North possessed 70% of the country's wealth and 80% of its banking assets. The North invested in labor-saving devices, in both agriculture and industry. The South invested in slaves. The North invested heavily in its human capital; New England was probably the most educated society on earth—95% of New Englanders could read and write and 75% of the 5-to 19-year olds were educated in school—and the rest of the North was not far behind. No wonder 90% of the 4 million Europeans who immigrated to America from 1815 to 1860 chose to live in the North.

From the start of the civil war, the odds were stacked against the South. The southern states paid an enormous price for their specialization in export agriculture. Furthermore, the Union's population was 19 million versus the Confederacy's 9 million of which a full third were slaves. Northern industry produced 10 times more the South. The North had 38 times as much coal, 15 times as much iron, and 10 times as much factory production. To compete with the new efficient production of the Northern states, the Southern states became increasingly dependent upon sources of cheap labor. Where slave labor had been tolerated before, it now became an economic necessity. Failure to compete in the marketplace meant economic collapse. The South was literally fighting for its life. The Civil War was fought more over economics than ideology.

Due to a limit of time, I won't go into the innovation of thousands of American inventors ranging to Eli Whitney's cotton gin to Samuel Morse's telegraph, not to mention Thomas Edison's inventions--Edison owned 1,093 patents. But I will talk about one very interesting invention—barbed wire. Barbed wire truly changed the West. In the late 1860s, Joseph Glidden, a farmer in Illinois, used his wife's large wire hairpins that he attached to a fence to keep livestock out of her garden. By 1888, 8 million acres of land were enclosed with barbed wire. This seemingly simple invention opened the doors to farming and sheep herding in the plains. Homesteaders were able to grow crops and not have them destroyed by cattle drives. Many plots of wonderful cowboy movies were based on this colorful era of American history.

In 1903, the Spindletop well in Beaumont, Texas hit paydirt. Big time! Previously, oil was believed to exist in places like Pennsylvania, Ohio and West Virginia, however never out west. Standard Oil's chairman was so sure there was no oil to be found, he declared, "I'll drink any drop of oil west of the

Mississippi." Soon the first of many Spindletop gushers was producing 100,000 barrels of oil a day, or about 60% of the total U.S. oil production. Two of Spindletop wells out-produced all of Standard Oil's 37,000 oil wells in operation back east.

I will skip ahead to WWII.

Two years prior to the Japanese attack on Pearl Harbor, the U.S. had the 12th largest army in the world—behind Brazil. There were 32 tanks in the U.S. inventory. This compares to the nearly 6,000 German and Allied tanks that were involved in the May 1940 Battle of France. The U.S. air force was the 18th largest in the world.

After Pearl Harbor was attacked, when FDR asked Congress for 50,000 planes a year, Hermann Goring, head of the German Luftwaffe laughed, "No one can build 50,000 planes a year. That's pure propaganda," He declared. In 1944, the U.S. would build nearly 100,000 airplanes. By the end of the war, the total number of American-made airplanes was 297,000. Plus 86,000 tanks and 12,000 ships. FDR declared, "We will make the U.S. the 'Arsenal of Democracy.'"

Roosevelt said, "We cannot outright our enemies unless, at the same time, we outproduce our enemies. It is not enough to turn out just a few more planes, a few more tanks, a few more guns, and a few more ships that can be turned out by our enemies. We must outproduce them overwhelmingly, so that there can be no question of our ability to provide a crushing superiority of equipment in any theater of the world war. Hitler thought it would take the U.S. four years to mobilize, and by that time, Germany would have won the war.

When Roosevelt called on American industry to outproduce the enemy, he set staggering goals. Corporate America responded in spades. By 1943, America was outproducing all the Axis powers combined. For every naval vessel produced in Japan, the United States constructed 16.

At the Tehran conference in 1943, Joseph Stalin, of all people, offered a toast: “To the American production, without which this war would have been lost.”

At the time of Pearl Harbor, General Motors had dwarfed every other corporation in the world—by far. And by the end of the war, GM had become the largest military contractor in the world, responsible for more than $12 billion in war production. No other business enterprise, anywhere on earth, at any time in history, ever did more to win a war.

Ford Motor Company, America’s second largest automaker, opened its Willow Run plant in early 1942 and it produced the B-24 Liberators. Willow Run was the world’s largest industrial structure under one roof.

Converting an auto plant to make B-24s on a mass assembly line was truly a remarkable feat. When construction of the Willow Run plant began in early 1941, its objective was to apply auto-making mass-production principles to build a 56,000-pound bomber with the capacity to fly 300+ miles per hour. The company turned out a total of about 9,000 B-24s. The plant went from making just one plane a month to nearly 500 a month by June 1944, or one aircraft every 63 minutesIn 1944 alone, Willow Run produced nearly as many aircraft as the entire nation of Japan. Keep in mind Boeing and Curtis Wright were also very big producers of warplanes.

When the war ended, the U.S. was the only major nation that not only came out of the war unscathed, but economically stronger—much stronger than at the start of the war. The other major powers engaged in the war, Germany, Japan, Great Britain, France, Italy, Hungry, Poland, India, and China—all suffered unprecedented economic damage. America, untouched by enemy bombs or plundering armies, stood in stark contrast to Europe's receding power. War-torn countries were in ruins. Factories, office buildings, schools, hospitals, everything were obliterated. Infrastructures of towns and cities were nearly or totally demolished and their governments and citizens lacked funds to rebuild them. When the war was over, more than half of all industrial production in the world was in the United States.

In the World War II experience, the things we revere about capitalism--the parts that spur energy, efficiency, and entrepreneurial skill were all in place. What the war did was tap that energy, not constrain it.

Hence, the stage was set for the U.S. to be the most dominant economic power on the planet for the rest of the 20th century and into the next millennia.

Europe was in such shambles that we instituted the Marshall Plan. Yes, it was a humanitarian act. But weary of another depression, the U.S. needed trading partners to buy American products so we could have jobs for our soldiers when they came home after the war.

After the war, the American people were starved for new cars and appliances, and new homes and their furnishings. Converting factories to civilian production was a smooth transition and sufficiently profitable to match wartime earnings. After the Korean War in the early 1950s, however, a somewhat similar conversion back to civilian production was not as lucrative. Consequently, the manufacture of automobiles and electronics shifted partly or wholly overseas. So did the production of other civilian products—leaving behind weapons bought by the Defense Department as an even bigger share of the nation's factory output.

Moreover as weapons became highly technical, consumer-product manufacturers encountered difficulty converting their plants in comparison to the relative ease following WWII. While GM was able to go from cars to jeeps, going from cars to missiles was more complex.

The U.S. had never had a big peacetime defense industry before the Eisenhower administration. Eisenhower's military spending claimed 52% of the federal budget.

Due to the technological complexity of modern weapons, fewer companies competed for military contracts. Concurrently, the U.S. military had to rely on its weapons manufacturers to be financially staple to assure that the nation could maintain its vast military advantage. With less competition, and because the budgeting process is often political, to avoid jeopardizing the nation's safety, the government was willing to pay excessive prices that would not occur in a competitive marketplace. Likewise, when weapon factories become obsolete, local communities are prone to lobby to keep them in operation. I.E. our Columbus Depot.

In the 50s, the American automobile industry was booming. With millions of American car owners, millions of homes were built in the suburbs. Consequently, shopping centers sprung up, and a new lifestyle of suburban living was introduced. At the same time, Eisenhower built our Interstate System—which for a while was the world's greatest highway system. It was a time when there wasn't all those orange barrels that we now see everywhere—and will for the rest of our lives. Eisenhower's prime objective for building the interstate highway system was a military decision. Ike wanted Americans to be able to evacuate large metropolitan areas in the event of an enemy attack. Of course, the Interstate system provided American industry with a cheaper and quicker way to move goods. However, it was a major setback to the railroad industry.

At one time, Sears Roebuck was the biggest retailer in the world. In 1900, 20 million Americans received its catalog—the country's population was 70 million. One advantage Sears enjoyed was with the Free Delivery Act of 1896—the post office didn't charge for the packages Catalog Companies shipped to its customers in rural areas.   Sears exited the catalog business in 1987. At its peak, it was the dominating retailer in America—the Wal-Mart of its day. This past October, Sears filed for bankruptcy. The Sears Catalog was the Amazon of its day! Today Amazon is an electronic catalog.

Ironically, just as the Sears catalog put so many small retailers out of business in the early and mid-1900s, today's Internet shopping has done the same thing to traditional bricks and mortar stores. As they say, "History repeats itself."

I could go on and on, but due to time, I must stop here. My daughter's and my work-in-progress, THE BUSINESS OF AMERICA IS BUSINESS, when completed will be around 1,000 pages. To date, we have written nearly 800 pages. We are on schedule to complete our first draft within the next three months. So may I conclude by saying, "To be continued… "

Thank you. Your comments and questions are welcome.