

*Cases and Readings
in Business Ethics*

Stephen Hicks, Ph.D.
Rockford College

Philosophy 325

Cases and Readings in Business Ethics

Stephen R. C. Hicks, Ph.D.

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Business & Economic Ethics

Philosophy 325

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Of all the endeavors that have contributed to the quality of human life, business ranks with science, art, and education. Yet like all human endeavors, business raises its share of difficult ethical questions and problems. Our task this semester will be to explore those questions and problems.

We will divide our time equally between theory and practice. We will discuss crucial theoretical issues such as the debates over egoism, altruism, and predation; over capitalism, socialism, and the mixed economy; competing accounts of rights, justice, profits, and competition; and the nature of employer-employee and business-consumer relations. We will discuss the practical implications of the theoretical issues through numerous real-life case studies.

Course Readings

- David R. Henderson, editor. *The Concise Encyclopedia of Economics*. Free online at <http://www.econlib.org/library/cee.html>.
- Stephen Hicks, *Readings and Cases in Business Ethics*.
- *Kaizen* interviews with leading entrepreneurs. Also available free online at <http://www.ethicsandentrepreneurship.org/kaizen/>.
- Ayn Rand, *Atlas Shrugged*.

Assignments and Grading

▪ Test 1 (Feb 14)	10
▪ Test 2 (Apr 3)	15
▪ Essay (Apr 24)	15
▪ Exam (May 7, 8 a.m.)	30
▪ Socratic Seminar participation	<u>30</u>
	100

On the Essay

- Topic: “The best things in life are free”—True or False?
- Length: 1000 words.
- Due: Tuesday, April 24.
- Center for Ethics and Entrepreneurship \$250 prize for the best essay in Business Ethics.

A copy of this syllabus and schedule can also be found online at www.StephenHicks.org.
For Honor Code and Disability issues, consult the College’s website.

Schedule and Readings

[CEE] = *Concise Encyclopedia of Economics* [SH] = *Readings and Cases in Business Ethics*

Week	Tuesday	Thursday
1 Jan 17	Introduction: Business, wealth, and modern ethical debates.	Reading: Cyrus McCormick , from <i>Forbes Greatest Business Stories</i> [SH]
2 Jan 24	Ethics and moral principles: egoism versus altruism versus predation. Reading: S. Hicks, “What Business Ethics Can Learn from Entrepreneurship” [SH]	Reading: John D. Rockefeller, from <i>Forbes</i> [SH]
3 Jan 31	Ethics and economics: productivity, trade, property, profit, and competition. Reading: Robert Lawson “ Economic Freedom ” [CEE]	Reading: John H. Johnson , from <i>Forbes</i> [SH]
4 Feb 7	Ethics and politics: free markets versus socialism. Reading: Garrett Hardin, “The Tragedy of the Commons” [CEE]	Reading: Mary Kay Ash , from <i>Forbes</i> [SH]
5 Feb 14	First test.	Reading: Rand, <i>Atlas Shrugged</i> , Chapter 1
6 Feb 21	Case: Rent control. Reading: Walter Block, “Rent Control” [CEE]	Reading: <i>Atlas</i> , Chapter 2

7 Feb 28	Case: Minimum wages. Reading: Linda Gorman, “Minimum wages” [CEE]	Reading: <i>Atlas</i> , Chapters 3 and 4
8 Mar 6	Spring Break	Spring Break
9 Mar 13	Case: Laetrile—choice or ban? Reading: Tom Beauchamp, “Manufacture and Regulation of Laetrile” [SH]	Reading: <i>Atlas</i> , Chapters 5 and 6
10 Mar 20	Case: The FCC’s “Fairness Doctrine.” Reading: Tom Beauchamp, “The FCC’s ‘Fairness Doctrine’” [SH]	Reading: <i>Atlas</i> , Chapters 7 and 8
11 Mar 27	Ethics in mixed political economies. Reading: “ Regulation ” and “ Unintended Consequences ” [CEE]	Reading: <i>Atlas</i> , Chapters 9 and 10 [SH travel]
12 Apr 3	Second test. [SH travel]	Reading: “The Francesco Clark Interview,” <i>Kaizen</i> 18.
13 Apr 10	Ethics in mixed economies, continued. Reading: “ Rent Seeking ” and “ Public Choice ” [CEE]	Viewing: “Greed” video (ABC News Special). [SH travel]
14 Apr 17	Guest speaker: Tara Smith, Philosophy, University of Texas. Reading: Tara Smith, “Money <i>Can</i> Buy Happiness” [monograph]	Reading: “The Chan Luu Interview,” <i>Kaizen</i> 19.
15 Apr 24	Essay due.	Reading: “The John Allison Interview,” <i>Kaizen</i> 17.
16 May 1	Progress or decline? Reading: “ Innovation ” [CEE] and “Evolution of the Mixed Economy flowchart” [SH]	Conclusions and wrap-up
17 May 7	Final exam: Monday, May 7, 8 a.m.	

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StephenHicks.org](http://www.StephenHicks.org).

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“Your work is going to fill a large part of your life, and the only way to be truly satisfied is to do what you believe is great work. And the only way to do great work is to love what you do. If you haven't found it yet, keep looking. Don't settle. As with all matters of the heart, you'll know when you find it. And, like any great relationship, it just gets better and better as the years roll on. So keep looking until you find it. Don't settle.”

(Steve Jobs, CEO of Apple)

What Business Ethics Can Learn from Entrepreneurship, *The Journal of Private Enterprise* 24(2), 2009, 49-57

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Abstract

Entrepreneurship is increasingly studied as a fundamental and foundational economic phenomenon. It has, however, received less attention as an ethical phenomenon. Much contemporary business ethics assumes its core application purposes to be (1) to stop *predatory* business practices and (2) to encourage *philanthropy* and *charity* by business. Certainly predation is immoral and charity has a place in ethics, neither should be the *first* concerns of ethics. Instead, business ethics should make fundamental from the values and virtues of entrepreneurs—i.e., those self-responsible and productive individuals who *create* value and *trade* with others to win-win advantage.

JEL Codes: A12, A13, L26

Keywords: Entrepreneurship, Ethics, Virtue Ethics

I. Three Character Types: Carly, Tonya, and Jane

Entrepreneurship is increasingly studied as a fundamental and foundational economic phenomenon. Schumpeter (1950) and Kirzner (1978) were pioneers, and their successors have generated a sizeable literature. Yet entrepreneurship has received less attention a moral phenomenon and, correspondingly, less attention in the business ethics literature.

Consider the moral status of the entrepreneur by contrast to two other types.

1. *Carly*: As a student, Carly worked hard and received good grades. Upon graduation she took a job, but at the same time saved money and worked on her business plan. When she was ready, she took the entrepreneurial plunge and started her own business, which she developed successfully, and then, a few years later, sold for \$10 million. She is now living the good life of travel, building her dream home, raising her family, and managing her portfolio of investments.

2. *Tonya*: Tonya also worked hard in college and, upon graduation, took a job in a financial institution. She discovered a flaw in its funds-routing procedures, which enabled her anonymously to divert \$10 million to an offshore bank, from which it was quickly re-routed through several Caribbean and Swiss banks, ending up in account known only to Tonya. One year later, Tonya resigned her position at the financial institution and is now living in discreet luxury somewhere in Europe.

3. *Jane*. While in college, Jane studied liberal arts and graduated with a good degree. Unfortunately, the summer after her graduation Jane's parents died suddenly.

Fortunately, they left her \$10 million in their wills, of which Jane immediately donated \$9.9 million to charities devoted to the homeless, victims of floods, and to the planting trees in the Brazilian rainforest. Jane invested the remaining \$100,000 in a certificate of deposit earning 8% annually, the proceeds enabling her to live frugally and without too much discomfort.

Let us now ask the ethics question: Which of the three is the most moral? Whom should we uphold as the ideal? Should we teach our children and students to admire and strive to be like Carly, Tonya, or Jane? All three require strength: It is not easy to build a successful business. It is not easy to figure out a con and get away with it. And it is not easy to give away all of one's money.

Tonya is representative of a predatory ethic: she harms others and uses the proceeds to benefit herself. She is representative of the zero-sum, gain-at-the-expense-of-others practices widely condemned in the business ethics literature.

Jane is representative of an altruistic ethic: she is selfless, and she places what she has at the disposal of others in society, keeping only the minimum for herself. She is representative of the "social justice" practices widely praised in the business ethics literature.

Carly is the prototypical entrepreneur and is representative of a self-realization, egoistic ethic. She creates value, trades with others, and lives her dream life. Yet she is not discussed in the business ethics literature. She is the invisible woman.

Yet the character traits and value-producing activities of entrepreneurs at least implicitly inform an ethic. To make this ethic explicit, let us begin with a standard description of the entrepreneur.

II. The Entrepreneurial Process

The entrepreneurial process begins with an *informed and creative idea* for a new product or service. The entrepreneur is *ambitious* and *gutsy* and takes the *initiative* in developing the idea into a new enterprise. Through much *perseverance* and *trial and error*, the entrepreneur *produces* something of value. He or she takes on a *leadership* role in showing consumers the value of the new product and in showing new employees how to make it. The entrepreneur *trades* with those customers and employees to *win-win* results. He or she thus achieves *success* and then *enjoys* the fruits of his or her accomplishment.

To expand upon each of the italicized elements in this description:

Entrepreneurs generate business ideas and decide which ones are worth pursuing. In the process of coming up with *informed, creative ideas*, entrepreneurs speak of vision, "thinking outside the box," imagination, active-ness of mind, and "lightbulb moments." Having generated ideas, they speak of exercising judgment: Which ideas are actually good ones? Can the product or service be developed technically? Will it sell? What does the market research show? Entrepreneurs exhibit a commitment to cognitive achievement—intellectual playfulness, research, experimentation, and analysis.

Ambition is the drive to achieve one's goals, to be successful, to improve oneself, to be better off, to be the best that one can be. Entrepreneurs feel more than the often-abstracted and idle wishing—"Wouldn't it be nice if I were rich and independent?"—that many people experience. Ambitious individuals feel strongly the *need* to achieve their goals.

Entrepreneurship requires *initiative*. It's one thing to have a good business plan; it's another to turn the plan into reality. Entrepreneurs are self-starters who make the commitment to bring their good ideas into existence.

A new enterprise involves venturing into the unknown, a willingness to take on obstacles—including the possibility of disapproval and mockery—and the possibility of failure. Consequently, entrepreneurial activity takes *guts*—a willingness to take calculated risks, to be aware of possible downsides while not letting the fear of failure or disapproval dominate one's decision-making.

Entrepreneurial success is almost never easy and overnight; success is a result of sticking with it through the difficulties and over the longer term. That is to say, *perseverance* is essential. Entrepreneurs must persevere through the technical obstacles in product development, in the face of the naysayers who declare that it can't be done or who are otherwise obstructionist, and in the face of their own self-doubts. Entrepreneurs must be good at short-term discipline and at keeping their long-term motivations present in their thinking.

The development process is almost always a *trial and error* process, requiring that the entrepreneur make adjustments based on experience. Successful entrepreneurs adjust to real-world feedback, which means being able to admit mistakes and incorporating newly-discovered facts, rather than pig-headedly ignoring anything that is a threat to their pet ideas.

Productivity: The development process hopefully culminates in a working product. If so, the entrepreneur has added value to the world by creating a new good or service, making it work consistently, producing it in quantity, and continuing to improve the quality.

Those who transact with the entrepreneur, whether as customers, employees, or venture capitalists, engage in *win-win trade*, exchanging value for value. Socially, trade is a process of dealing with others on a peaceful basis according to productive merit. It requires protecting one's own interests and respecting the other party's doing the same, exercising one's skills of negotiation, diplomacy, and, when necessary, toughness in order to achieve a mutually beneficial result. Entrepreneurs also add value by bringing *leadership* to the trade. Entrepreneurs are creating something new, so they are the first to go down a new path. Those who go first set an example for others to follow and, especially in the case of a new product and service, they must show new customers the value of the new product and service and must teach new employees how to produce the new product or service. Accordingly, entrepreneurs must exhibit leadership in showing others the new way, encouraging them through the learning process,

and in marketing the new. Part of the trade, then, is that the customer or employee is shown a new opportunity and is enabled to take advantage of it, and the entrepreneur receives compensation for doing so.

Finally, the entrepreneur experiences *success* and the *enjoyment* of success. Entrepreneurial success yields both material and psychic rewards—both the goods that financial success can bring and the experience of financial independence and security that go with it. And of course there is the psychological reward of achievement: experiencing enhanced self-respect and the sense of accomplishment in what one has created.

III. Entrepreneurship and Virtue Ethics

So far I have sketched the entrepreneurial process in terms of the traits and actions that lead to entrepreneurial success. What does this have to do with morality?

One major approach to ethics is through virtue. Virtues are action-guiding character traits that aim at good results. The ethics literature is populated with many competing accounts of what the good results should be and, consequently, with competing accounts of what virtues we should uphold. Some virtue ethicists make the claim that a character has priority in ethical evaluation over rules or principles, actions, and consequences. Setting aside the issue of whether virtue has priority, my concern here is to connect entrepreneurial success traits to virtues.

If we cash out the above entrepreneurial character traits in terms of *virtues*—i.e., in terms of character traits and commitments that enable and constitute good action—then we make the following connections:

The entrepreneur's generating and evaluating informed and creative ideas connects to the virtue of *rationality*. Rationality is the commitment to the full exercise of one's reason. The entrepreneur's initial active and creative thinking are functions of reason, as is the exercise of evaluative judgment in determining which business ideas are actually good ones.

The entrepreneur's ambition and drive for success connect to the virtue of *pride*. Pride has forward-looking and backward-looking aspects (e.g., taking pride in what one *has* accomplished); it is the forward-looking aspect that is relevant here. Taking pride in oneself means wanting the best for one's life, which implies a felt commitment to achieving the best in one's life. For example, taking pride in one's appearance means wanting to look one's best, which implies a commitment to health, hygiene, and style. The entrepreneur's drive for success is a consequence of taking pride in the business part of his or her life.

The entrepreneur's showing initiative by being a self-starter and committing to bring the business plan into existence connects to the virtue of *integrity*. Integrity is the policy of acting on the basis of what one believes to be true and good. It is translating thought into practice. That is, one's thoughts are integrated with one's actions; or one's beliefs about what would be good are integrated with one's actions to bring that good into existence from planning.

The entrepreneur’s commitment to action, despite the fear that comes from being aware of the risks, connects to the virtue of *courage*. Courage is the virtue of committing to an action that one judges to be right while being aware, both intellectually and emotionally, of the possibilities of failure.

The entrepreneur’s perseverance through difficulties, disapproval, and other temporary doubts connects with the virtue of *independence*. Independence is the virtue of trusting one’s own judgment and acting on the basis of one’s best judgment despite short-term frustrations or the contrary opinions of others.

The entrepreneur’s working through the trial-and-error process of product development connects to the virtue of *objectivity*. Objectivity is the policy of guiding one’s thoughts by one’s best awareness of the facts, of being open to new facts; or, to put it negatively, not wearing intellectual blinders and avoiding uncomfortable feedback from reality. A constituent element of objectivity is the virtue of *honesty*, the policy of not pretending to oneself or others that facts aren’t facts.

The entrepreneur’s productivity connects to the virtue of *productiveness*. Productiveness is a commitment to the creation of value, to being self-responsible for bringing into existence that which one needs and wants.

The entrepreneur’s trading value for value with customers and employees connects to the virtue of *justice*. Justice is a commitment to evaluating and interacting with individuals according to their merit, and a correlative commitment to being *oneself* evaluated and interacted with on the basis of one’s own merit. Justice applied to business trades means that trades are entered into voluntarily, that is, on the basis of each party’s independent judgment, and that the terms of the trade are established by each party’s independent judgment of the merits of the trade.

And, finally, the entrepreneur’s achieving success, including the financial and psychological rewards of creating a flourishing business, connect to the general moral values of *flourishing*, *happiness*, and *fulfillment*. Flourishing, or happiness, is the state successful living. As one’s business life is a component of one’s overall life, the entrepreneur’s engaging in the actions that lead to flourishing in business is a component of an overall flourishing life. The entrepreneur’s actions both constitute and lead to a life that is fully realized.

Summarizing all of the above in a table, we get the following:

**Table 1:
Entrepreneurial Character Traits and Related Moral Virtues**

Entrepreneurial Trait:	Moral Virtue:
Knowledge and Creativity	Rationality
Ambition	Pride
Guts	Courage
Initiative	Integrity
Perseverance	Independence
Trial and error	Objectivity (including Honesty)

Productivity	Productiveness
Trade value for value	Justice

Entrepreneurial Consequence:	Moral Value:
Experiencing and enjoying success	Self-esteem, Pride, Flourishing

IV. An Entrepreneurial Code of Ethics

The virtues and values listed in the right column of the table together constitute *an entrepreneurial code for business ethics*. That set of virtues is an abstraction on a description of entrepreneurial activity. The thoughts and actions of entrepreneurs are particulars of a general set of success traits. Those success traits of entrepreneurs are particulars of a general set of virtues.

In historical context, the list of virtues is very Aristotelian (Aristotle, 1984; see especially Aristotle’s discussions of courage in Book III, pride as the “crown” of the virtues, truthfulness, and liberality with respect to money in Book IV, justice in Book V, and *phronesis* or practical wisdom in Book VI of *Nicomachean Ethics*) and very Objectivist (Rand, 1964).

One important implication of the above is that an entrepreneurial ethic contrasts strongly to the ethics codes prevalent in the traditional and current business ethics literature. An assumption of much of the literature is that that success according to business criteria and success according to ethical criteria are different things. A consequence of that view is that business is amoral and ethics is something that has to be imported into or grafted onto it—or, in more extreme views, that business is inherently immoral and the purpose of ethics is rein in or restrain business.

By contrast, the above entrepreneurial code of virtues connects business to ethics positively. It sets a foundation for a business-friendly ethic based on the assumption that successful business practice has *within* it the resources to develop an ethic. Entrepreneurs are individuals who are oriented toward practical success. The commitments and traits that enable them to achieve the good, i.e., success in life, are virtues. And virtues are the subject matter of morality and ethics. Entrepreneurship is a particular vehicle for moral activity.

Or to put the point another way: When we teach the skills for practical business success, the list on the left side of the table is what we teach. When we teach moral virtue, the list on the right is what we teach. And they come to the same thing—the moral is the practical.

Another implication of the above involves making the full case for the free society. The ethicist must be an ally of the economist and the political scientist in making that argument. Economists work out the commercial mechanisms of a free society, and political scientists work out its constitutional and limited government

requirements. Yet while the economists and political scientists of the free society have done excellent work, less has been accomplished in articulating, advocating, and defending a free society's ethic, including its business ethic.

James Buchanan made the following observation:

“We true liberals are failing to save the soul of classical liberalism. Books and ideas are necessary, but they are not sufficient to insure the viability of our philosophy. No, the problem lies in presenting the ideal. My larger thesis is that classical liberalism cannot secure sufficient public acceptability when its vocal advocates are limited to ‘does it work?’ pragmatists. ... A vision, an ideal, is necessary. People need something to yearn and struggle for. If the liberal ideal is not there, there will be a vacuum and other ideas will supplant it. Classical liberals have failed in their understanding of this dynamic” (Buchanan, 2002).

Entrepreneurial success is not the whole of ethics, but it is a good start for business ethics. Ethical codes matter *socially*: We develop political and economic systems to produce and protect what we think is the good, and what we think is good depends on our moral code. And moral codes are crucial *personally*: one's moral code is one's spiritual drive—it is that which one thinks best, highest, and most noble that says who one is and which brings out one's best. We need a moral code that idealizes the Carlys—not one that urges us to be Janes or that is limited to attacking the Tonyas.

The key thesis of an entrepreneurial code of ethics is that business ethics should focus first on creativity, productivity, and trade. Creative, productive traders are highly-realized moral individuals. That is to say that business ethics should take entrepreneurship seriously and foundationally as a moral phenomenon.

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Entrepreneur Success & Character Grid: McCormick

Name	McCormick, Cyrus (1809-1884)
Business and sector	Agricultural Machinery
Key dates	Robert, his father, famer and sometime inventor
	1831 demonstrates reaper (age 22) in Virginia
	1839 re-start marketing reaper after failure of iron smelting
	1844: licensing of manufactures in other parts of the country
	1847: move to Chicago.
	1851: demonstration and gold medal at World's Fair in London
	After his death, International Harvester is formed by his son via merger with three other companies.
Major achievements	Use of patent protection starting 1834
	Marketed successfully an innovative product: overcoming farmers' skepticism, use of free trials, money-back guarantees, installment financing,
	Reaper's capability: takes six people a day to reap two acres; reaper takes two people a day to reap ten acres (Productivity up 15x.)
	Wins direct competition against Hussey's reaper (17 to 2 acres)
	Licensing and franchising of mfg.
	Quadrupling of production from 51-59. US wheat production up 73 million bushels per year. 1847-84: wheat production goes from 4 to 10 bushels per capita.
	1860: a millionaire
	After 1965: outsourcing of innovation. Purchase patents from other inventors.
	After 1875: major expansion into foreign markets
Biggest challenges	Challenge: how spread the word to distant farmers. Solution?
	Challenge: how to sell such an expensive item. Solution?

	Challenge: financing when in debt and struggling with other commercial ventures. Solution?
	Challenge: overcoming the failure of the iron enterprise. Solution?
	Challenge: correcting the reaper's initial flaws. Solution: continuous improvement
	Challenge: shipping big reapers when poor transportation network. Solution: licensing and franchising.
	Challenge: supplying the demand. Solution: move to Chicago and enlarge.
Failures?	Early iron mining and smelting. Big debts.
Character traits	Innovative
	Persistence over years
	Coming back from failures in other businesses
	Ability to focus totally on a single project
	Commitment to adapting and improving product
Controversial issues?	Effect of the reaper on ending slavery. Benefit to the North freeing up labor for soldiering. Makes slavery less economically efficient.
	Effect of the reaper on freeing up labor for other jobs—versus the reaper throws farm laborers out of work.

Entrepreneur Success and Character Grid

Name	
Business and sector	
Key dates	
Major achievements	

Biggest challenges	
Failures?	
Character traits	
Controversial issues?	

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Name	
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Cyrus McCormick's Reaper and the Industrialization of Farming

from *Forbes Greatest Business Stories of All Time* by Daniel Gross, et al.



In the summer of 1831 an audience of several dozen gentleman farmers, hired laborers, and slaves gathered in a wheat field on John Steele's farm in Rockbridge County, Virginia, to watch a horse-drawn wood-and-iron device mow down the golden crop in waves. The impresario behind this show was twenty-two-year-old Cyrus McCormick. Born in 1809, the same year as Abraham Lincoln, McCormick proved an emancipator of a different sort. The reaper, invented by his father, liberated hundreds of thousands of Americans from agrarian drudgery. The process of industrialization, which turned the nation's economy into the world's most productive force, could not have been complete without the mechanization of farming. And as the historian William Hutchinson noted, "Of all the inventions during the first half of the nineteenth

century which revolutionized agriculture, the reaper was probably the most important."

The McCormicks weren't the only ones to devise a reaper. Many other companies and individuals had developed similar technology. But, as the historian Herbert Casson wrote, Cyrus "invented the business of making Reapers and selling them to the farmers of America and foreign countries." His genius was to gain and protect patents for the technology, and then turn his invention—one that skeptical farmers were prone to brand a "humbug"—into a commercial necessity. By traveling throughout farm country in the 1840s and staging theatrical demonstrations, McCormick established the reaper as a commercially viable product. He also pioneered tactics that businessmen have used ever since: free trials, money-back guarantees, installment buying, and a fixed price for his machines. McCormick eventually moved his young enterprise from rural Virginia to Chicago, where he built a factory that grew into an industrial powerhouse and the company we know today as International Harvester.

A Young Man Receives a Gift of Technology from his Father

Cyrus McCormick was the oldest of eight children born to Polly and Robert McCormick, a descendant of Scotch-Irish Calvinist immigrants who had arrived in the colonies in 1734. A prosperous farmer, Robert McCormick owned several hundred acres on a sprawling estate that included a grist and saw mill at Walnut Grove, Virginia. Walnut Grove lay in the fertile Virginia Valley between the Blue Ridge and Allegheny Mountains, a region untouched by the industrial revolution that was then gathering steam in England and the Northeastern United States. In rural areas, farmers harvested wheat in much the same way as their predecessors had done in the fourth century, that is, on foot, felling the shafts with a sickle and tying the cut grain in bundles.

Although he lacked formal schooling, Robert McCormick was a polymath and a gifted mechanic. “My father was both mechanical and inventive, and could and did at that time use the tools of his shops in making any piece of machinery he wanted,” Cyrus McCormick later wrote. In the early nineteenth century Robert McCormick experimented with a variety of mechanical devices to make farming easier and less labor intensive. He developed a plow for hillside fields, a machine for breaking down hemp, and, most notably, a horse-drawn device for reaping wheat. In a remarkably productive period from 1830 to 1831, he obtained several patents, even one for “an improvement in teaching the art of performing on the violin.”

But Robert McCormick’s inventive talents did not extend to financial matters and, as Cyrus noted, “most of his inventions dropped into disuse after the lapse of some years.” Fortunately, Cyrus McCormick supplemented his father’s technical genius with a penchant for and interest in making money. He later recalled a time when he was out horseback riding while still a teenager: “My reflections were upon the thought of the possibility of realizing a million . . . at the same time feeling that the thought was enormous, and that it seemed like a dream or like dwelling in the clouds, so remote, so unattainable, so exalting, but so visionary.” The dream became more attainable when Cyrus was given the means through which he would realize a million dollars and more. As the eldest son Cyrus stood to inherit the bulk of his father’s estate. In 1830, when Cyrus turned twenty-one, Robert McCormick essentially deeded the reaper to him and with it future ownership of the tool and the technology behind it.

Gaining Publicity Through Public Demonstrations

In 1831, when an estimated 70 percent of America’s workforce, including 1.18 million slaves, tilled the soil, six people took an entire day to harvest two acres of wheat. McCormick’s reaper could bring in ten acres in that time with two people. The need was clear, and the product existed to fill the need. The challenge was

to find a way to bring that product to its market in an era that lacked any form of mass medium through which to reach potential customers.

Dramatic public demonstrations were the only truly convincing marketing techniques. And the spectacle Cyrus McCormick staged on John Steele's farm in 1831 was but the first of the reaper's many public trials. The following year he put on a second production in the nearby town of Lexington. This time, the reaper fared poorly on the hilly land. But an audience member, William Taylor, offered to let McCormick try the machine in his adjacent, more level fields. After the reaper churned through six acres, McCormick dragged the device into the Lexington courthouse square, where a local teacher is said to have pronounced, "This machine is worth a hundred thousand dollars."

Still, the McCormicks didn't rush to make the reaper widely available. The family believed that another of Robert's devices, the hemp break, had more immediate commercial potential. Cyrus assumed the role of chief promoter of this machine as well. But while he traveled to Kentucky to peddle and demonstrate the hemp break, the reaper was never far from his mind. He wrote home to propose building a few reaping machines in Kentucky. Robert McCormick proved reluctant to press ahead. "I think the building of a grain machine in that country might be attended with difficulty," he responded, summoning Cyrus home, "as it will require a good deal of new modeling which when done at home is free from the watchful and jealous eye of strangers."

Many farmers, having seen demonstrations or read articles about machines being developed in England and in the United States, were building their own reaping devices. Truth be told, no one person can really lay claim to having invented the first reaper. As Cyrus McCormick Jr. later said, "In the case of a simple farm tool of this kind, it might have been as well to have used the word 'constructed' instead of 'invented.'" In fact, the Ohio-based inventor Obed Hussey demonstrated and patented his own reaper in 1833. It is likely that, after learning of Hussey's machine, Cyrus McCormick applied for a patent on the machine he and his father had built in 1831. For a \$30 fee, the twenty-five-year-old in 1834 received a fourteen-year patent, signed by President Andrew Jackson.

At that time, a patent was more than a legal necessity. As a seal of approval and originality, it represented a potent marketing tool. In 1834 Cyrus McCormick wrote a letter to the editor of *Mechanics' Magazine* charging that his competitor's design "is a part of the principle of my machine, and was invented by me, and operated on wheat and oats in July, 1831. . . . I would warn all persons against the use of the aforesaid principle, as I regard and treat the use of it, in any way, as an infringement of my right."

Writing letters to tiny newspapers was not, however, an efficient mode of spreading the word. In order to make the dispersed farming public aware of his father's invention, McCormick still had to show it to skeptical farmers. This challenge was especially difficult because McCormick had no reaper to sell. Like a producer unwilling to open his show until every last kink has been worked out, Cyrus was reluctant to press ahead. "Since the first experiment was made of the performance a few of my machine, I have, for the mutual interests of the public and myself, been laboring to bring it to as much perfection as the principle admitted of, before offering it to the public," he wrote in 1834.

The reaper's further development was inhibited by the family's involvement with other commercial ventures. In 1836, Robert and Cyrus McCormick set up an iron mining and smelting operation they called Cotopaxi. But the new business quickly faltered when iron prices collapsed, leaving the McCormicks to face a crowd of angry debtors. ". . . I have since felt [this] to be one of the best lessons of my business experience," Cyrus wrote in 1874. "If I had succeeded in the iron enterprise I would perhaps never have had sufficient determination and perseverance in the pursuit of my reaper enterprise to have brought it to the present stage of success."

As they gradually freed themselves from their Cotopaxi obligations, Robert and Cyrus McCormick, joined by his younger brothers Leander and William, began to refocus their creative and commercial efforts on the reaper. In the summer of 1839, Cyrus re-instituted his public demonstrations, and again the machine received rave notices. ". . . To say that we were pleased with its operation would but poorly express the gratification we experienced," exulted the Staunton (Virginia) *Spectator*. "It is certainly an admirable invention." In an effort to magnify the effect of such impartial opinions, Cyrus McCormick used the reviews as advertisements, buying space and running them in other newspapers.

Nonetheless, the reaper was slow to catch on. In 1840, when it still took thirty-seven hours of backbreaking labor to harvest an acre of wheat by hand, Cyrus McCormick sold two homemade machines for about \$110 each, but they both broke down. After correcting the flaws in the Walnut Grove shop, the family sold seven reapers in 1841. Cyrus recalled that "they all gave satisfaction, allowance being made for defects which I had afterward to correct." Unlike his father, Cyrus McCormick showed an ability to focus completely on a single product. "His whole soul was wrapped up in his Reaper," one neighbor said.

An Itinerant Salesman Signs up Far-flung Licensees

Attention to detail was crucial because the McCormick reaper faced competition; Obed Hussey's machines had garnered favorable reviews as well. And as farmers proved willing to have the competitors plow their fields in demonstrations, the

inventors squared off in public. Planters in Virginia staged a competition between the two rivals in 1843. As a board of judges watched, the McCormick machine mowed down seventeen acres, while Hussey's smaller reaper completed just two.

By the harvest of 1844, Cyrus and his family members had sold fifty machines for about \$100 each from their base in Walnut Grove. Forty-two were sold in Virginia. Since no farmer would purchase such an expensive product without first seeing it perform, the reaper's market was by definition local. And even if a farmer in central Pennsylvania wanted to acquire a McCormick reaper, he would have had great difficulty taking delivery. Since no railroad or major waterway served Walnut Grove, shipping the reapers was prohibitively expensive.

McCormick reasoned that this dilemma could be solved if reapers were manufactured closer to their far-flung customers. In October 1843 he placed an advertisement in the Richmond *Semi-Weekly Whig*: "As it is not at all probable that I can always manufacture the reaper to supply the wants of the country, I propose to form partnerships for their manufacture and also to sell patent rights." Several entrepreneurs jumped at the offer, but virtually all of them were in neighboring Virginia counties. The total production of reapers rose to seventy-five in 1844, with fifty made by the McCormicks at Walnut Grove and twenty-five by licensees.

After arranging to have a few machines sent by freight to distant cities like Cincinnati and St. Louis, McCormick lugged a reaper over the back roads west of the Alleghenies, where the land was more level, grain cultivation more prevalent, and labor more scarce than in Virginia. He demonstrated the reaper at agricultural fairs, on private farms, and in cities to manufacturers who might be interested in buying licenses.

Among the first licensees to sign on was Backus, Fitch & Company, of Brockport, in upstate New York, in 1845. On a lengthy swing through what was then called the West, he enlisted licensees in Missouri, Ohio, and Illinois. While each deal was different, most licensees paid McCormick \$20 for each reaper they made and sold. Others paid what was in effect a franchising fee in exchange for exclusive rights to a particular area. In an effort to expand the reach of the reaper, Cyrus enlisted a cousin, J. B. McCormick, as a traveling agent responsible for Tennessee and Missouri.

Despite its obvious labor-saving benefits, the reaper remained a hard sell, largely due to its \$100 price. In his pitches, Cyrus McCormick appealed to farmers on economic grounds, arguing that the machine could pay for itself with saved labor.

While Cyrus took the reaper on the road, his brothers and father worked to improve its performance. The main deficiency was that the reaper still required

a person to walk alongside and rake the felled wheat off the platform. But in 1845 the McCormicks added a special seat on which the raker could sit. “I can now warrant the raking of the wheat from the machine to be accomplished with ease and completeness by a man comfortably seated upon it,” he wrote in the Mount Morris (New York) *Spectator*. This design, which became known as “Old Reliable,” would prove the Model T of reapers—and the company’s main product for nearly two decades.

As demand grew steadily, McCormick encountered a quality control problem. His licensees were irksome and unreliable. Some simply couldn’t produce machines quickly enough to meet the market’s demand. Others balked at adding improvements such as the raker seat. “You will be surprised when you read that not the first motion was made by the growing Backus, Fitch and Co. to build a machine!” McCormick wrote home during one of his perpetual tours. “Without anything like a reasonable excuse . . . B.F. and Co. just neglected the business.”

Meanwhile, increased demand overwhelmed the small Walnut Grove facility where the McCormicks drew on their own stock of timber, purchased finished steel from a local man, and employed a few laborers. But while they built seventy-five reapers in 1846, the output was nowhere near sufficient to fill all the orders that came in. With eager customers ranging from upstate New York to the far side of the Mississippi River, making reapers was no longer a cottage industry. The family realized that its business would suffer if it didn’t relocate its manufacturing headquarters closer to the new customers in the burgeoning West. As William McCormick wrote in 1857: “Much as I love old Virginia, we should have starved in our business had we remained there.” This bold move played a pivotal role in the firm’s ensuing success.

Pulling up Stakes and Building a Factory in Chicago

While Cyrus was away on business, Robert McCormick died on July 4, 1846. His death was traumatic, but it served as the impetus for his sons to leave Virginia and explore the new Western markets. By virtue of its victory in the Mexican-American War, the United States would gain vast tracts of land in the West. As the government opened up new areas to homesteading, immigrants and Easterners flooded into the great plains and prairies. Many of them sowed the freshly plowed fields with sturdy grain seeds.

Cyrus McCormick ultimately chose to relocate to Chicago in 1847, where he struck a manufacturing partnership with a prior licensee called Gray and Warner. The frontier town, then a far cry from Carl Sandburg’s “city of big shoulders” had just 17,000 souls and few paved streets. But the growing city stood at the center of the nation’s shifting center of gravity. Moreover, Chicago’s

location on the shores of Lake Michigan afforded the company crucial access to rivers and canals. The new partnership built nearly 500 reapers for the 1848 harvest.

McCormick and Gray feuded over nuts-and-bolts financial details. To avoid litigation Gray sold his stake to William Ogden and William Jones, wealthy Chicago investors who were content to take a passive role in the business. The following year, for reasons that are still unclear, Ogden and Jones agreed to sell out to McCormick for \$65,000, making Cyrus McCormick the sole proprietor. That year—1849—the company’s 123 employees made 1,500 reapers.

Freed from his partners, McCormick engineered a rapid expansion of the plant on the banks of the Chicago River. By the time he was finished in the early 1850s, the factory covered 7,600 square feet on two stories. River frontage allowed workers to load the completed machines, weighing about a half ton each, directly onto barges and boats. After 1851, when the last of the early licensing agreements expired, all machines were made in the Chicago plant under the supervision of Leander McCormick, who had moved West to work with his brother. Stung by their early reliance on outside suppliers, the McCormicks sought to make their factory self-sufficient. For a time they continued to purchase sickles from a company in Massachusetts, and guard fingers, which held the grain in place to be cut, from a New Jersey firm. Soon, however, they dismissed all outside vendors and built an iron foundry to forge their own components.

As output rose dramatically, McCormick developed a rudimentary distribution system. The methods he devised to market the larger products resulted in several business innovations: The company hired sales agents who had responsibility for entire states or groups of states. In one of the first examples of such a system, agents set up shop, received sample machines, and took commissions on sales. In another innovation, farmers were allowed to buy the reaper on the installment plan, with payments stretched between harvests. “It is better that I should wait for the money than that you should wait for the machine that you need,” McCormick said. Finally, in an early example of the customer service that would come to characterize American business, he offered free trials and money-back guarantees.

Efficiently produced and widely distributed, the reaper came to be hailed as a revolutionary device. In August 1854 the *Pennsylvania Farm Journal* noted: “The age of scythe and cradles may now be said to have passed very much away, and to be among the things that were.” Just as the Ford Model T became an icon of American technological prowess in the early decades of the twentieth century, the McCormick reaper symbolized the country’s agricultural mechanization and self-determination. McCormick took his machine to the first world’s fair in London, in 1851, where the reaper was displayed in the famed Crystal Palace and

churned through fields in exhibitions. Besting Hussey's machine and the local competition in field trials, the reaper won a gold medal. "The Reaping machine is worth the whole cost of the exposition," the *London Times* reported.

Having at last reached a wide consumer market with their reaper, the McCormicks' production quadrupled between 1851 and 1859, from 1,004 to 4,119 reapers. Meanwhile, economies of scale combined with savings on materials reduced the manufacturing cost per machine, from \$56.92 in 1853 to \$46.58 in 1859. Since McCormick kept the price relatively stable, the reaper soon became affordable for most potential customers. By 1860, Western farmers brought in about 70 percent of the nation's wheat harvest with the reaper. With the help of this machine, U.S. wheat production soared from 100 million bushels in 1849 to 173 million bushels in 1859. True to its promise, the reaper allowed fewer farmers to do more work, and in 1860, 59 percent of the active workforce labored in agriculture, down from 70 percent in 1830.

With the boom in the wheat market, McCormick's company had become a major enterprise, and by 1860 Cyrus was the millionaire he had dreamed of becoming. He started to play an active role in the Democratic Party and in the affairs of the Presbyterian Church. And it was at church one Sunday that he met Nancy Fowler, the daughter of a storekeeper from upstate New York, who was visiting friends in Chicago. McCormick proposed to her by mail, and the two were married on January 26, 1858. Over the next seventeen years they had five children. Cyrus Jr., the eldest, born in 1859, would later fill his namesake's position at the firm.

The Reaper Creates an Industrial Powerhouse

By providing an effective way to harvest wheat rapidly, the reaper had already helped affect the flow of economic history. But in the 1860s it would influence the outcome of the most pivotal event in the nation's history. Although devised by a slave owner from Virginia, the reaper proved to be a key asset for the Union cause in the Civil War. When the war started in 1861, there were enough harvesting machines in the Northern wheat fields to do the work of a million slaves. "The reaper is to the North what slavery is to the South," War Secretary Edwin Stanton wrote to McCormick. "By taking the place of regiments of young men in the western harvest fields, it released them to do battle for the Union at the front and at the same time keeps up the supply of bread for the nation and the Nation's armies."

Even as the guns sounded at Fort Sumter, McCormick and his agents were peddling a new, improved reaper. The self-rake machine featured a mechanism that automatically swept the grain off the platform onto the ground in neat piles, thus eliminating the need for a raker to ride on board. By 1864, two-thirds of the reapers made by McCormick had this feature.

As the war continued to devastate the nation, McCormick realized there would be little domestic business. So, in 1862, he went to England and spent the next two years abroad with his family, taking the self-raking mower on a grand tour of Europe. The machine won prizes in Germany and performed well in tests in Belgium, Russia, and Italy. In the winter of 1863-64, McCormick wrote home to a colleague: "I've been working hard & hope to accomplish something but time is required to effect the general & extensive introduction of a new implement in Europe." In spite of the successful trials and positive publicity it generated, the reaper didn't find a market on the Continent because local manufacturers were scarce and transoceanic transport was difficult to arrange. And in many areas of Europe, landowners weren't interested in investing in machinery that would ease the labors of their tenants.

When the Civil War ended, the company resumed its U.S. growth and continued to build more efficient machines—until disaster struck. The Great Fire of Chicago on October 8 and 9, 1871, laid waste to 3.5 square miles of the city and left nearly 100,000 people homeless. Among the \$188 million worth of property destroyed was McCormick's factory, in which he had invested some \$2 million over the years and which had produced a staggering 10,000 reapers during the previous year. "I at once determined to proceed with the work of rebuilding," McCormick wrote. Abandoning the old factory site, he purchased 160 acres along a branch of the Chicago River and spent \$619,000, to build a massive factory with a main plant measuring 200 by 360 feet (ten times the size of the 1848 original), a 440,000-square-foot warehouse, and a foundry and blacksmith shop along 1,300 feet of river frontage. It opened in February 1873 and quickly began to produce reapers. In 1875, the rebuilt company had sold 13,031 machines.

Staying Ahead of Competition by Acquiring New Technology

In the post-Civil War years, McCormick & Co. took a different approach to toward developing new products. With the clout of a big industrial plant, an internationally recognized brand name, and a dominant domestic sales network, McCormick no longer had to develop his own technology. Rather, the company was content to let hungry entrepreneurs develop new inventions and prove their field-worthiness. After watching successful, small-scale debuts, the company would then acquire the patents and incorporate them into their new products. As William Hutchinson wrote of the firm in the 1870s: "Invention became the tool, and the inventor the employee of the manufacturer."

In 1860, for example, Charles and William Marsh developed the harvester, which conveyed the grain from the reaper's platform into a bin for binding. Farmers could bind the grain while riding the machine, thus doing as much in a day as three or four binders could before. In 1873, McCormick bought the Marsh patents. To observers, the new wrinkle represented yet another step forward in the march of

human progress. “Of the ten or twelve sweating drudges who toiled in the harvest-field, all were now to be set free—the sickles, the cradlers, rakers, binders—every one except the driver, and he (or she) was to have the glory of riding on the triumphal chariot of a machine that did all the work itself,” wrote the historian Herbert Casson.

The Formation of International Harvester

Upon Cyrus McCormick’s death, his twenty-five-year-old son, Cyrus Jr., took over the business. By 1902 the Chicago plant—the company’s sole manufacturing facility—accounted for 35 percent of the country’s farm machinery. McCormick still faced competition from other implement makers and from the growing challenge of new companies making farm machines powered by gas and steam.

Concerned about potentially destructive competition, Cyrus McCormick Jr. did what so many other businessmen of the era did: he paid a call on the offices of J. P. Morgan in New York. With Morgan partner George Perkins, the McCormick executives concocted a plan to merge their company with three other leading companies. The plan was for the newly formed company to purchase the assets of the other companies for \$60 million. Augmented by \$50 million in accounts and receivables and \$10 million from Morgan, the International Harvester Company was capitalized at \$120 million. Morgan himself suggested adding the name International to the company. At its creation, the trust, with Cyrus McCormick Jr. as its president, held 85 percent of the country’s farm machinery market.

Like most other large enterprises, International Harvester came under antitrust scrutiny in the 1900s and 1910s. But the government didn’t break up the company. For despite its size the company faced robust competition, first, from veteran implement makers like John Deere and, later, from automobile companies like Ford, whose gas-powered tractors quickly gained market share in the 1910s.

That triumphal chariot rode proudly through the fields of the Northern and Western United States for decades. And in the late 1870s, in large part due to improved transoceanic shipping and greater production capacity, the world market that Cyrus McCormick had been seeking finally materialized after nearly two decades. Between 1875 and 1885, the McCormick company pushed into Canada, Australia, New Zealand, and Argentina. In July 1878 alone, the firm sent 550 machines to New Zealand. “By 1880 the sun never set upon McCormick machines,” Hutchinson wrote.

In his seventies, McCormick continued to accompany his machines on their world tours. In an age before television and video, seeing still preceded believing. “Dear Papa, who has fought so many battles of the reapers, looks at the coming struggle, and quite naturally is eager to be in the midst of it,” wrote Nancy McCormick to one of her sons in 1878. “He feels that this may be his last great international fight, and he wants a fair field and no favor. I sometimes think that success will depend on his presence.” That year, when the U.S. grain crop totaled 429 million bushels, McCormick traveled to France,

where he received the rank of Officer of the Legion of Honor and an award from the French Academy of Sciences for having “done more than any other living man for the cause of agriculture in the world.”

Still, the firm remained very much a family business. In 1879, when it produced nearly 20,000 machines and earned \$722,000, the partnership was transformed into McCormick Harvesting Machine Company, with Cyrus controlling three-fourths and Leander owning the remaining quarter. Upon his graduation from Princeton, Cyrus Jr. was inducted into the family business. Much like his father, Cyrus Jr. was enterprising and ambitious. He set about modernizing and expanding the factory in the early 1880s, adding electric lights and boosting production: in 1884, 1,400 workers built 55,000 implements, compared with 20,000 in 1880, and they made virtually every part of the machinery at the Chicago factory. Cyrus McCormick Sr. remained involved well into his seventies. “If I had given up business, I would have been dead long ago,” he said in 1884. Indeed, he worked up until his death, just a few weeks later.

Cyrus McCormick left behind an American landscape visibly altered by his invention. Wheat sprung from the soil in Eastern mountain valleys, the great plains of the Midwest, and newly settled parts of California. With the help of tools like the reaper, U.S. wheat production had increased from four bushels per capita in 1847 to ten at the time of Cyrus McCormick’s death. The effect on the American workforce was nearly as dramatic. When McCormick first demonstrated the reaper, almost three-fourths of the population worked on farms. But over the next several decades, freed or displaced American farm workers moved to the cities and took up work in the growing fields of industry and infrastructure.

Of course, the industrialization of agriculture was not complete in 1884; not until the 1950s did the number of tractors in America’s fields first surpass the number of horses. But the long-term trends McCormick helped set into motion in the mid-nineteenth century continued to alter the American economy. In 1961, when the vast, technologically obsolete McCormick Works in Chicago were finally leveled, fewer than 9 percent of all Americans worked in agriculture. And they grew enough food to feed the nation’s population several times over. While the reaper was not single-handedly responsible for urbanization and the industrialization of agriculture, the history of these trends couldn’t be written without mention of Cyrus McCormick and his reaper.

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John D. Rockefeller and the Modern Corporation

from *Forbes Greatest Business Stories of All Time* by Daniel Gross, et al.



John D. Rockefeller, founder of Standard Oil, in 1884.

Had the *Forbes 400* existed at the turn of the twentieth century, John Davison Rockefeller would have reigned at the top of the list. Living for nearly a century, and surviving decades of competition in the Darwinian oil industry he helped to create, Rockefeller amassed a fortune of \$900 million in 1913 and provided the basis for one of America's greatest philanthropic foundations.

In its infancy, oil was a chaotic, haphazard business. Wildcatters could drill a crude oil well or build a refinery with a small capital outlay. Rockefeller was among the first to set up refineries in Cleveland, which lay at the terminus of the railroad lines leading out of the Oil Regions of Pennsylvania. U.S. oil production soared from 2,000 barrels during 1859 to 450,000 a year later, and by 1862, it had gushed to three million barrels. With each successive year, Rockefeller's fortune grew. In the mid-1860s, when the end of the Civil War signalled a period of unprecedented economic expansion, Rockefeller brought in new interests, recapitalized his firm, and began to buy out the competition. By 1870, when he formed the Standard Oil Company of Ohio, Rockefeller owned all of the refineries in his home base. He would ultimately own nearly all of the nation's oil industry.

Rockefeller recognized that refining oil would not insure his firm's survival, as refining capacity was outpacing demand for its product. In an effort to control the oil's means of transportation to market, Standard established terminal warehouses, pipeline networks, and even barrel factories. Most significantly, Rockefeller muscled rebates from the railroads, whereby he would receive enormous price reductions for a guaranteed cargo. For a time he even forced the railroads to pay him rebates on oil shipped by his competitors.

Many of Rockefeller's practices were subsequently—and infamously—deemed illegal under antitrust legislation. And the integrated system of production and distribution he established was not entirely unprecedented. His most lasting contribution lay in the systems of professional management he developed that integrated the many aspects of his business. In the words of the great business historian Alfred D. Chandler, “An understanding of the history of the Standard Oil Company is essential to the understanding of the rise of the large corporation in the American economy.”

A Bookkeeper Becomes a Force in the Early Oil Refining Industry

John D. Rockefeller was born in 1839 on a small farm in upstate New York during the presidency of Martin Van Buren. In 1853, his father, William Avery Rockefeller, an occasional farmer, small-time entrepreneur, and scam artist, moved from upstate New York to Cleveland with his deeply pious wife and five children. Growing up in the booming industrial city on the shores of Lake Erie, John took less after his father than his somber mother, from whom he learned the value of thrift. “How well I remembered then, as I remember now, the words of my dear mother,” he recalled much later in life. ““Willful waste makes woeful want!””

Rockefeller put this adage to practice when, upon completing secondary school and a few business courses at Folsom's Commercial College, he found work as a \$4-a-week bookkeeper for a Cleveland dry goods merchant. As he detailed the company's operations in a ledger book, he first grasped the intricacies of commercial enterprise. “John D. seemed to have no inner life unconnected with numbers,” as his sympathetic biographer David Freeman Hawke wrote. This job, Rockefeller later said, “formed a large part of the foundation of my business career.” Obsessed with attaining professional and financial independence, John scrimped and borrowed for three years, until he had enough—\$1,800—to set up shop in 1859 as a dry-goods trader with Maurice Clark, a British immigrant. The business thrived, especially after the outbreak of the Civil War in 1861, when the army bought huge quantities of grain, pork, and other staples.

Meanwhile, a few hundred miles to the East, adventurers were beginning to deal in a far more precious commodity: oil. In the 1850s, kerosene extracted from coal and shale began to replace whale oil as a safer and more reliable source of energy. Researchers soon realized they could refine kerosene from the vast fields of petroleum lying just under the surface of Midwestern valleys and mountains. The U.S. oil industry boomed after August 27, 1859 when “Colonel” Edwin Drake plunged his salt-mining rig into an Allegheny Mountain valley near the tiny lumber town of Titusville, Pennsylvania. Prospectors thronged into what became known as the “Oil Regions,” as the industry flourished, and public demand for the new fuel grew rapidly. They poured the crude oil into barrels, trundled them onto barges, and floated them down creeks and rivers to railroad junctions heading east and west. Many of the barrels wound up

on the rails of the Atlantic & Great Western Railroad, and the western terminus of that line, Cleveland, emerged as a small refining center. The chemistry behind refining—heating crude oil with steam power to distill gasoline and kerosene—was relatively cheap and simple. By 1863, the 20 small factories huddled along the banks of the Cayuhoga River produced about 100,000 barrels of refined oil each month.

Rockefeller watched as Cleveland-area businessmen made quick fortunes in oil refining, and he too was caught up in the heady excitement. In 1863, he and Clark invested \$4,000 with an acquaintance, Samuel Andrews, to build and operate a refinery. Although it bore a noble name, the Excelsior Works, the enterprise was really a humble collection of wooden sheds. While Andrews devised ways to improve the efficiency of the refining process, Rockefeller handled other aspects of the business, insisting in particular that all profits should go right back into the company. “I wanted to go in the army and do my part,” Rockefeller later said, explaining why he didn’t fight in the Civil War. “But it was simply out of the question. There was no one to take my place. We were in a new business, and if I had not stayed it must have stopped.”

At a time when Charles Darwin’s theories on evolution were first gaining wide currency, the oil industry seemed to hew to the scientist’s new creed. The only businesses able to survive the competition were those able to adapt to rapidly shifting circumstances. Because of the unexpected rise in production, the price of crude fluctuated wildly—plunging from \$10 a barrel to fifty cents a barrel between January and June of 1861. In 1864, the price per barrel ranged between \$4 and \$12.13. The price swings were further aggravated by transportation problems: a few railroads held a stranglehold on the delivery of oil. As profit margins shrank amidst heightened competition, many speculative operators perished.

A Small Proprietorship Develops into a Primitive Company

Unable to control the price of vital raw materials, Rockefeller focused his attention on the costs of the industrial commodities that he could control. Barrels, which cost about \$2.50 apiece, were one of the Excelsior’s main expenses. In 1864 Rockefeller used some of his reinvested capital to set up a barrel-making operation on the refinery’s property, reducing the per-barrel cost to about 96 cents. Determining that the best way to boost his profits was to raise production, he borrowed money to open a second refinery, the Standard Works. But he ran into conflict with his partners who were unwilling to go further into debt to finance expansion. In February, 1865, he bought them out for \$72,500. He later reflected, “I look back on that day in 1865 and it seems to me one of the most important in my life. It was the day that determined my career.” Weeks after the transaction, Rockefeller dissolved the dry-goods company and focused all his energies on oil.

The company’s early success was due to Rockefeller’s extraordinary drive and legendary attention to detail. “I shall never forget how hungry I was in

those days,” he later recalled. “I stayed out of doors day and night; I ran up and down the tops of freight cars when necessary.” By 1865, the Excelsior Works had become one of the largest Cleveland refineries, producing about 505 barrels each day. From the outset, the U.S. oil industry sent much of its refined output to Europe, where oil products were in high demand as illuminants and lubricants. In 1866 alone, exports boomed from 600,000 barrels to 1.5 million. In a farsighted move, Rockefeller enlisted his younger brother, William, to open a New York office where he would promote kerosene exports. With this action, Standard became one of the first refiners to expand its scope of operations. And as William made contact with foreign buyers, the company established an independent distribution channel for its products.

In a second step toward the division of executive labor, Rockefeller brought in Henry Flagler as a partner in 1867. Flagler, who had built a small fortune as a liquor and grain wholesaler, used his expertise in transport to negotiate and cut deals with the railroad operators. Insuring an affordable and reliable means for delivering the product assumed greater importance as output for Standard Works increased to 1,500 barrels a day by 1869. And here the economies of scale began to kick in. “While unit costs for a refinery with a 500 barrel daily throughput was around six cents a gallon, those in the refinery with a 1,500 barrel throughput dropped to three cents a gallon and probably less,” wrote Alfred Chandler, quoting the oil historians Harold F. Williamson & Arnold Daum. Greater production enhanced Standard’s leverage with producers and suppliers. “Paint. Glue. We bought ours far lower than anyone else could, since ours was a steady demand for the largest quantities. . . ,” Rockefeller later said. In a further effort to insulate his enterprise from the predations of suppliers and vendors, he acquired his own fleet of wagons, storage depots near railroads, and warehouses in New York Harbor.

In the post-Civil War years, oversupply and overcapacity wreaked havoc in the refining industry. As prices for refined kerosene fell more than 50 percent between 1865 and 1870, most refiners’ per-gallon margins shrank from 19.5 cents in 1865 to 7.9 cents in 1869. Standard also suffered, with its profit margins shrinking from 43 cents per gallon in 1865 to 17 cents in 1870. Rockefeller’s margins were higher than the industry average because of Flagler’s shrewd negotiations with the railroads. In 1870, he cut a deal with the Lake Shore Railroad, a subsidiary of the New York Central: Standard would guarantee to ship sixty carloads of refined oil a day over Lake Shore’s tracks from Cleveland to New York, if the railroad would grant Standard a rate of \$1.30 a barrel—35 percent off the published rate of \$2 a barrel. Rebates like this one were a common practice between railroads and their major customers, and while it provided large firms with unfair advantages over rivals, it was perfectly legal.

Consolidating the Cleveland Refining Complex

The railroad deals confirmed what Rockefeller had long suspected: size begets advantage. Surveying the refining business in 1870, the 31-year-old began to think about expanding further. Despite the oil industry's chaos, Rockefeller had a clear vision of where it was going, and the key role his company could play in it. Following his instincts, he and his associates set out to combine all of Cleveland's refineries into a single firm in order to gain still greater leverage over railroads and crude oil producers. And since corporations could borrow and issue stock much more easily than could partnerships, Rockefeller merged the two partnerships that ran the Excelsior Works and Standard Works refineries into The Standard Oil Company. Capitalized at \$1 million, Standard Oil would eventually grow into a multibillion-dollar enterprise. "None of us ever dreamed of the magnitude of what proved to be the later expansion," he recalled.

Once Standard Oil was established, Rockefeller approached weaker competitors with a simple proposition: join us or face the ravages of heightened competition. "We will undertake to save you from the wrecks of the refining business and give you a return on the capital which you have in the plant and land; or, if you prefer we will take the business off your hands," he said simply. When making his pitch, Rockefeller was the picture of somber propriety. Having inherited a deep religious faith from his mother, he was a regular at the Euclid Avenue Baptist Church in Cleveland, and served as the Sunday School's superintendent. Devoid of bluster or emotional display, Rockefeller measured his words carefully, and appraised adversaries with piercing blue eyes. But those who resisted his initial overtures would receive a concise, matter-of-fact follow-up. "You can never make any more money, in my judgment. You can't compete with Standard," he told one reluctant refiner. "We have all the large refineries now. If you refuse to sell, it will end in your being crushed."

Given their shrinking profit margins and difficulties in dealing with the railroads, many refiners found Rockefeller's offer impossible to refuse. Among the biggest and first to enlist in his campaign was Clark, Payne & Company, the largest local rival. After this merger, smaller firms quickly fell into line. Within two years Rockefeller had bought twenty-three companies, eighteen of which were refineries, with all but one of them located in Cleveland.

By the end of 1872, Standard had boosted its capacity sixfold and was refining 10,000 barrels a day. With 80 percent of Cleveland's refining industry under its roof, the company already stood as the nation's largest refining complex, and some businessmen thought Rockefeller had grown too big too quickly. "It has no future," said Robert Hanna, a Cleveland refiner. "The organization will fall by its own weight." But in this age, heft was a prerequisite for survival, and Standard fed on its competitors like a bear bulking up for winter.

Rockefeller began to seek points of leverage against potential prey. In 1872, he joined the South Improvement Company, a shell corporation erected by refiners to formalize rebate agreements between railroads and oil firms. Under the compact, members of the company would receive 40 percent to 50 percent rebates for crude oil and 25 percent to 50 percent for refined oil from a group of railroads in exchange for supplying a guaranteed cargo. The Pennsylvania Railroad would receive 45 percent of the members' cargo, with the New York Central and Erie railroads, each receiving 27.5 percent. In addition, Standard—and Standard alone—would receive a percentage of the full cargo fare paid by rival refiners. The scheme, which appeared corrupt even by the loose mores of the day, quickly collapsed after enraged crude oil producers led protests in the Oil Regions. Undaunted, Rockefeller sought a different means of organization. In August 1872, he gathered members of the oil industry to form the National Refiners' Association (naming himself president) to negotiate terms with producers on behalf of all refineries. When it, too, fell apart (due to a depression that began in 1873), he characteristically rationalized his anti-competitive efforts as an attempt to bring order to a chaotic sector of the economy. "Among so many men untrained in business there were many who could not be relied upon to aid in solving a problem so difficult as the reformation which my associates and I sought to bring about in this industry," he said later.

Seeking Stability Through Horizontal and Vertical Integration

Despite the lack of a refiners' association, Standard's size alone left it in a position to swallow up its weaker competitors. As the oil fields in Pennsylvania boomed, U.S. production rose from 5.3 million barrels in 1871 to 9.85 million two years later. But after the onset of a five-year-long depression in 1873, crude oil prices started tumbling, dropping from \$4.40 a barrel in 1871 to \$1.15 in 1874.

Having consolidated the Cleveland-area refineries into one large industrial enterprise, Rockefeller moved simultaneously in two directions: horizontally and vertically. Operating out of five rooms in an office building in downtown Cleveland, he and his partners acquired refineries in other parts of the country. Chief among these were Jacob Jay Vandergrift's Imperial Refining Company, based in the Oil Regions, and Charles Pratt & Company, which had refineries in New York, Philadelphia, and Pittsburgh.

Standard also bought interests in a new mode of transporting crude oil: pipelines. The first of these, a modest 5-mile affair, had been built in 1865. Control of these pipelines could enable Standard Oil to circumvent the railroads. In the 1870s, Rockefeller began snapping up pipeline companies, soon owning most of them. In 1873, after he outbid Commodore William Vanderbilt for control of a pipeline concern, Vanderbilt remarked: "That Rockefeller. He will be the richest man in the country!"

As Rockefeller added satellite refineries and pipelines, creating a nationwide factory, he encountered a new management problem. In the nineteenth century, corporations were generally prohibited from owning or controlling companies in states other than their home state. So in theory, the original Standard Oil Company couldn't operate outside of Ohio. Rockefeller had skirted this legal unpleasantness through a subtle sleight of hand. He would instruct any out-of-state company he acquired to turn over its stock to a Standard officer as a trustee, and continue to operate as an ostensibly independent concern. In the 1870s, for example, when Standard bought Jabez Bostwick & Company, Rockefeller allowed Bostwick to run the business under his own name—but only on paper.

As Rockefeller built his empire, the division of executive labor, begun in the 1860s, became even more important. The historian Allan Nevins noted: "Never had any corporation faced a situation comparable in magnitude and confused variety with that of the Standard in the fall of 1877." To compound the problem, there was no established management model to help Rockefeller. The concept of corporate business management didn't exist in the 1870s. Rockefeller's task was made even more difficult because the men he had to work with were strong-willed entrepreneurs who were accustomed to ruling their own outfits. But he offered a financial incentive to cooperate. Whenever possible, he brought the management of companies he acquired into the Standard fold. He also paid for acquisitions in Standard stock, which was not publicly traded, giving the sellers immediate stakes in the success of the larger venture. "His greatest contribution, beyond the concept of the Standard Oil combination itself, was the persuasion of strong men to join the alliance and to work together effectively in its management," wrote the Standard historians Ralph and Muriel Hidy.

While the home office in Cleveland set overall policy, the heads of the previously independent companies remained semi-autonomous. Jacob Jay Vandergrift, who joined the firm as a director when Standard acquired his refining concern, was in charge of the pipelines; Jabez Bostwick handled the purchasing of crude oil in the Oil Regions; Flagler continued to work out favorable deals with the perpetually hostile railroads; and longtime Standard lawyer Samuel Dodd came on as chief counsel. With these arrangements, Standard began to take on the appearance of what we would recognize today as a modern corporation. While Rockefeller remained the ultimate authority, he had laid the groundwork for a division of professional management. In 1879, according to one subordinate, Rockefeller described his governing philosophy of delegating responsibilities as: "It is this; nobody does anything if he can get anybody else to do it."

Rockefeller and his colleagues realized that they could not keep on top of every aspect of the company's holdings, since they had grown so large and complex. To supervise its operations, Standard Oil began to develop committees,

which met at the company's New York offices. Since data was required to monitor the performance of units, the New York-based directors decreed that managers responsible for different business units should file quarterly reports to the board. In an effort to be close to its new headquarters, Rockefeller moved his wife, Laura, and their four children to New York, where they took up residence in a four-story brownstone on 54th Street, just off 5th Avenue. (The family also kept a large estate in Westchester County called Pocantico Hills, complete with its own 12-hole golf course.)

Rockefeller Forms a Trust to Manage an Unwieldy Enterprise

By 1877, the historian Albert Carr noted, “no one could ship oil in quantity anywhere in America without the approval of Standard Oil.” Such power brought the company a great deal of unwanted attention, from competitors, politicians, and various legal authorities. In 1879, for example, the New York State Assemblyman Alonzo Hepburn opened a public investigation into Standard's relationships with the railroads. But Rockefeller and his officials generally got off lightly—in part because they engaged in the then-common practice of bribing key state legislators—and Rockefeller continued to increase his sphere of influence.

By the 1880s, international demand for petroleum and its byproducts boomed as industrial machines and combustion engines required ever-increasing quantities of fuel. This led to a race to slake the world's thirst for oil. Despite its dominant position in the American market, Standard now faced external competitive problems. Massive oil reserves had just been discovered in the Russian Caucasus, and they became active wells. A railroad from the Baku oil fields to the Black Sea was slated for completion in 1883. Such competition meant that American oil firms faced pressure to reduce their prices, pressure that even the mighty Standard Oil could not ignore.

Standard's managers found a solution: The formation of a trust would streamline the growing company by enabling it to control costs, increase profits and improve management. In 1881, Samuel Dodd drew up the agreement in which shareholders in the dozens of companies controlled by Standard would trade their shares in the companies for shares in the newly created trust. Rockefeller owned about 28 percent of this new stock. In exchange, control of the enterprises would revert to a group of nine trustees, including the Rockefeller brothers, Flagler, Bostwick, and a few other key executives. An arrangement of this magnitude was unprecedented in American business. When it became effective on January 2, 1882, the trust already controlled 80 percent of the nation's refining business, 90 percent of the nation's pipelines, and held dominant positions in related areas such as tank cars, petroleum byproducts, and barrel making.

But the trust posed new management challenges. Initially, the trustees allowed the managers of subsidiaries to run the units, while reserving the right to approve any appropriation over \$5,000. The trustees' Executive Committee—whoever happened to be at 26 Broadway in New York—met every day at lunch. “Our general rule was to take no important action till all of us were convinced of its wisdom,” said Rockefeller. Consensus was necessary, for the Trust was now an assemblage of interrelated and interdependent companies. The smooth functioning of the whole was predicated on the reliable performance of every constituent unit. Thus, while granting the subsidiaries a degree of autonomy, the central administration imposed substantial requirements on them. Each Standard unit was expected to show a profit on its own, for example. And George Vilas, a salaried trustee, began to visit different units and impose uniform financial reporting requirements on them.

With this new division of executive labor, the trust began to work through committees consisting primarily of senior executives from its large constituent units, aided by a permanent staff at the New York office. Separate committees dealt with transportation, exports, manufacturing, cases and cans, cooperage, lubricating oil, domestic marketing, and production. The trust's executives expanded the industrial powerhouse in new directions. They spearheaded a drive into marketing, establishing a network of retail stations that would insure a steady flow of quality-controlled refined product to the public. This drive boosted the number of company-owned kerosene and gas stations from 130 in 1882 to 3,500 in 1906. The process of vertical integration was complete when Standard finally began drawing crude oil from the ground. In 1881, after prospectors hit major veins in the flats near Lima, Ohio, the company began to snap up oil fields near its historic base. By 1891, Standard drew 5 percent of all the American crude that was taken from the ground, by 1895, crude extraction accounted for 14 percent of the economy's earnings.

Standard Oil Company now embodied the principle of a twentieth century factory—it facilitated a continuous flow of raw materials through various links in a production chain until it emerged as a finished consumer product. Rockefeller could control every movement of a drop of oil, from the time it was pumped to the earth's surface in Pennsylvania to the time a California farmer purchased a gallon of kerosene at a local Standard station.

In the 1890s, Rockefeller, though only in his fifties, essentially removed himself from the daily affairs of the Standard Oil Company, in large part on the orders of his doctor, who warned of an impending physical breakdown if he continued to work. In the ultimate expression of the new distinction between management and ownership that Rockefeller had pioneered, he and his entire generation of associates gradually left the business in the hands of a younger group of salaried executives with proven managerial mettle.

Rockefeller devoted much of the rest of his life to charity. He endowed the University of Chicago in 1892, and set up a foundation that dispensed millions to educational and health efforts around the world. These activities did little to assuage a public resentful of his wealth, power, and control over a commodity as vital as oil. Crusading journalists and the popular press viewed him as predatory and hopelessly corrupt. In 1888, the New York *World* dubbed Rockefeller “the father of trusts, the king of monopolists, the czar of the oil business.” The muckraking journalist Ida Tarbell, wrote, “There was something altogether indescribably repulsive about him,” after seeing him in church.

Re-engineering Refining

Soon after the formation of the Standard Oil trust in 1882, the committees set about rationalizing and consolidating Standard’s far-flung and occasionally disparate parts in search of greater economies of scale and operating efficiencies. Cutting costs was the only way to maintain profit margins in an era when the supply of oil was rising rapidly. An obvious place to start was Standard’s large number of refineries acquired over the years.

Between 1882 and 1885, the trust slashed its roster of refineries from fifty-three to twenty-two, mothballing obsolete facilities while enhancing the productive capacity of those that remained. And by 1885, three Standard refineries, in Bayonne (New Jersey), Philadelphia, and Cleveland—the three largest in the world—produced nearly 40 percent of Standard’s total output of 17.7 million barrels. That year, total U.S. production stood at 21.5 million barrels.

This consolidation further boosted Standard’s advantage over the few remaining independents. By the mid-1880s the most efficient independent refiners had cut average costs to 1.5 cents per gallon. Meanwhile, Standard’s average per gallon cost dropped from .543 cents in 1882 to .452 cents in 1885. In the same period, its profit margin nearly doubled, rising from .53 cents per gallon in 1882 to one cent per gallon in 1885.

A Long Retirement Disturbed by Anti-Trust Prosecutions

Following the example of the immensely successful Standard trust, large firms in other industries imitated Standard’s mode of organization. Soon only a small cluster of enterprises held a strangle-hold over crucial industries like tobacco, steel, and telephones. In response to such unfair monopolies, President Theodore Roosevelt’s administration launched a series of attacks on Standard and other large corporate combinations. As the most visible and powerful of the trusts, Standard garnered special attention. In June 1906, Herbert Hadley, Attorney General of Missouri, announced that he intended to prosecute the trust based on a Bureau of Corporations report that described in detail Standard’s immense size and power, including the complex network of 88,000 miles of pipe line and the 68.2 million barrels of crude that entered its refineries annually.

In the new era of reform-minded government, Standard couldn’t make the troubles disappear through graft, and the legal battles

began to take their toll. In the summer of 1907 a Federal court ruled against Standard's Indiana unit for its longstanding practice of taking rebates from railroads, and assessed a \$29 million penalty. Although Standard's legal team successfully appealed that ruling and won a new trial ordered by the appeals court, in May 1908, Frank Kellogg, a special prosecutor appointed by Roosevelt, called for the break up of Standard of New Jersey, as the trust's corporate parent was known. While Standard's lawyers challenged the case all the way to the Supreme Court, the high court, led by Chief Justice White, ruled against the trust on May 15, 1911. In a 20,000-word opinion, the Supreme Court found that Standard was an "unreasonable" trust and ordered it to divest its thirty-eight subsidiaries by transferring back to stockholders of the original companies all the stock they had exchanged for shares in the trust.

Ironically, the trustbusting had the effect of further enriching Rockefeller, who owned 244,500 of the 983,383 trust shares. As an original shareholder in many of the companies that had banded together to form Standard, Rockefeller suddenly found himself in possession of a diversified portfolio of stocks in various oil-related businesses. Weaned from their parent, many of the liberated Standard units continued to thrive. The shares of many former trust components found public markets, and investors clamored for stock in the well-managed companies. The rising tide lifted Rockefeller, too. Allan Nevins, the indefatigable biographer, estimated Rockefeller's fortune at \$900 million in 1913.

Rockefeller outlived the trust, as he did nearly all his contemporaries and competitors. No longer able to participate in the management of the nation's largest industrial enterprise, he spent much of his final two decades at Pocantico Hills and at The Casements, his home in Ormond, Florida, playing golf and tending to his gardens. He died in 1937 at the age of 97.

* * *

John H. Johnson: Finding the Black Consumer

from *Forbes Greatest Business Stories of All Time* by Daniel Gross, et al.



John H. Johnson and his daughter Linda Johnson Rice.

In 1995, *Ebony* magazine turned fifty years old. While its founder isn't as well known as other civil rights pioneers, perhaps he should be. With nothing more tangible than raw business talent, a tenacious belief in his own ideas, and the power of persistence, John H. Johnson pulled himself up from poverty in segregated Arkansas to a coveted spot on the *Forbes 400*. In 1942, at the age of twenty-four, Johnson published *Negro Digest*, the first successful consumer magazine to reach a mass audience of African Americans. From there, this great-grandson of slaves proceeded to forge an immense and varied enterprise focused upon the needs of black America. His complex of holdings, which includes *Ebony* and *Jet* magazines and two cosmetics companies is as significant for hundreds of black professionals it employs as it is for the services and products it offers to black consumers.

Through his business achievements, he demonstrated the moral and economic benefits of reaching out to all races.

Long before experts spoke about the glories of niche marketing, Johnson recognized the economic potential of the black American market. Corporate America was skeptical. It took Johnson nearly three decades to convince the business establishment that there was a viable market for his and their firms' products.

Discovering a Market within a Market

In November 1965 a glamorous crowd of 800, including chief executives and political figures, gathered for lunch at the Waldorf-Astoria's Starlight Roof to celebrate *Ebony* magazine's twentieth anniversary. Among those assembled were a galaxy of stars from the realms of politics, entertainment, and sports: Jackie Robinson, Lena Home, Ossie Davis, then-U.S. Solicitor General Thurgood Marshall, the newspaper

columnist Carl Rowan, the halfback James Brown, Muhammad Ali, Duke Ellington, and Sammy Davis, Jr. As a reporter commented: “The men and women in the room seemed to symbolize the progress Negroes had made in areas of American life once closed to them.”

The nation’s black aristocracy had gathered to celebrate the twentieth anniversary of a monthly magazine that covered a part of America that had largely been ignored by the mainstream national press. *Ebony*, adhering to its founding mission, “expressed the brighter side of Negro life and highlighted Negro achievement,” Johnson boasted. But the world had changed. “Achievement in the old era was measured, to a great extent, by material things. . . . Today achievement is measured in terms of whatever a man sets out to do.”

By either measure, John Johnson had already reached great heights. The Waldorf-Astoria was a long way from the tin-roofed house in Arkansas City, Arkansas, where he was born in 1918. His father, Leroy, died in 1926 in a sawmill accident, leaving his mother, Gertrude Johnson, to support her son and daughter as a cook and washerwoman.

The future was bleak for African Americans in the Depression-era Deep South. Arkansas City didn’t fund a black high school, and there were few jobs outside of menial labor open to African Americans. Like millions of her peers throughout the South, Gertrude Johnson looked to the North for redemption from the hopelessness of her situation. After years of skimping and saving, she trundled her son and her belongings on a Chicago-bound train in 1933. “Chicago,” John Johnson later wrote in his autobiography, *Succeeding Against the Odds*, “was to the Southern blacks of my generation what Mecca was to the Moslems and what Jerusalem was to the Jews: a place of magic and mirrors and dreams.” The African-American migration had already transformed the South Side of Chicago into a segregated but fully functioning black metropolis—home to the nation’s largest black-owned bank, to black-owned insurance companies, newspapers, and nightclubs, and to black-run political clubs. “Black Chicago, then and now, was a city within a city,” Johnson wrote in 1986.

He thrived at the all-black DuSable High School, where he joined the yearbook staff and became editor in chief of the school paper. At night he pored over such self-improvement books as Dale Carnegie’s *How to Win Friends and Influence People*.

At an assembly for honors students, Johnson drew up the courage to introduce himself to one of the speakers: Harry H. Pace, the president of Supreme Liberty Life Insurance Company, the most prominent black-owned business in the North. “I want to go to college,” Johnson said, “but I don’t have enough money.” Pace told him to show up at his office the following September. With characteristic confidence, Johnson did just that, without an appointment, and announced: “The president is expecting me.” Pace hired Johnson as an office assistant in 1936, Johnson worked part-time while attending the University of Chicago.

At Supreme Life, surrounded by well-dressed professional blacks, Johnson found a new home and further inspiration. Here was a rare company whose entire customer base and staff was black. “Until that moment, the height and color of my dream had been set by the ceiling and color of the Black preachers, teachers, and lawyers I’d seen,” he said. “Now, suddenly, I was surrounded by Black clerks, salesmen, and money managers.”

By 1939 Johnson was promoted to editor of the company’s in-house monthly magazine, *The Guardian*. This was a compendium of articles about blacks culled from national publications of the day. Clipping articles at his desk, Johnson recognized his destiny. “It occurred to me that I was looking at a black gold mine,” he said. Black America needed a magazine of its own. While local black newspapers thrived in virtually every major city, there was no national black consumer magazine. Johnson decided to found a black *Reader’s Digest* entitled *Negro Digest*, a serious, national, text-based magazine that would run articles from prominent black and white writers on topics of interest to African Americans.

Unconventional Tactics

With World War II raging, it was not an optimal moment for a twenty-four-year-old with little experience, black or white, to start a new magazine. The nation had only just emerged from the Depression. Johnson, having married Eunice Walker in 1941, had a wife to support. Nonetheless, he went to New York to seek the advice and blessing of Roy Wilkins, the editor of the National Association for the Advancement of Colored People’s respected nonprofit magazine, *The Crisis*. Wilkins dismissed his idea. “Save your money, young man,” he said. “Save your energy. Save yourself a lot of disappointment.”

Johnson ignored Wilkins’s warning. He believed that his magazine would succeed because it would meet a sizable demand. “In 1942, black men and women were struggling all over America for the right to be called ‘Mr.’ and ‘Mrs.’ In that year, we couldn’t try on hats in department stores in Baltimore, and we couldn’t try on shoes and dresses in Atlanta,” Johnson said. “It was a world where the primary need, almost as demanding as oxygen, was recognition and respect.” Johnson knew that his magazine could supply that vital air.

Harry Pace had offered to give Johnson access to Supreme Life’s mailing list, a roster of 20,000 black consumers, Johnson anticipated that a few thousand of them would front the annual two-dollar subscription fee, which would provide the necessary start-up funds. But he quickly ran into his first roadblock—20,000 letters would cost \$500 in postage. When Johnson applied for a loan, an officer at the First National Bank of Chicago laughed at him. “Boy, we don’t make any loans to colored people,” the man said. Johnson finally found a willing lender in the white-owned Citizens Loan Corporation, but it insisted on some collateral. The only security he could offer was his mother’s furniture, but she first had to

agree to it. “For three or four days, we prayed together and cried together,” John Johnson recalled. Finally Gertrude said, “I think the Lord wants me to do it.” From this point, there was no turning back. Johnson saw *Negro Digest* as more than a publication; it was his future. “I’m saying that I had decided once and for all. I was going to make it, or die,” he wrote. He mailed out his 20,000 letters.

The mass mailing elicited some 3,000 founding subscribers, bringing in \$6,000, enough to print an inaugural issue. Working in an office in the Supreme Life building, Johnson cobbled together the debut issue of *Negro Digest*, subtitled “A Magazine of Negro Comment,” and brought it to market on November 1, 1942. The premiere issue included reprinted articles by such luminaries as Carl Sandburg and the NAACP director Walter White, along with a smattering of original pieces.

Soon after publication, Johnson pulled off the first of many marketing coups. Having printed 5,000 magazines, he was stuck with 2,000 extra copies. Most newsstands wouldn’t carry them, “because colored books don’t sell,” the distributor Joseph Levy told him. Johnson devised a clever strategy to achieve his goal. He enlisted friends to ask repeatedly for *Negro Digest* at Levy’s Chicago-area outlets. Responding to the grassroots demand, Levy bought two thousand copies. Johnson then used these funds to reimburse his friends who had bought the magazine at Levy’s newsstands.

Within eight months, *Negro Digest* had a national circulation of 50,000, mostly in Chicago and other cities with large black populations. Readers liked the magazine because its articles elevated blacks’ self-image and because Johnson openly confronted racism, a topic rarely addressed in black or white publications. Johnson ran a regular feature entitled, “If I Were a Negro,” in which prominent whites were asked to offer their thoughts on racial issues. Johnson eventually persuaded Eleanor Roosevelt to write one of these columns. “If I were Negro, I would have great bitterness,” she wrote in an October, 1943 cover story that garnered national attention and helped boost *Negro Digest’s* circulation to 100,000.

Expanding Within the Black Market

With *Negro Digest* bringing in profits during its first year, Johnson sought to expand. After buying a street-level storefront on the South Side for \$4,000 in 1943 to serve as his office, he began searching for new opportunities. When the artist/cartoonist Jay Jackson and the writer Ben Burns approached him with the idea of starting a black-oriented entertainment magazine, Johnson was intrigued and agreed to fund the venture. Just as *Negro Digest* was modeled after *Reader’s Digest*, Johnson would now create a magazine in the image of Henry Luce’s hugely successful *Life*. Less concerned with politics and topical issues than *Negro Digest*, this new magazine would offer intimate glimpses into the lives of black achievers and celebrities. “We wanted to emphasize the positive aspects of Black life. We wanted to highlight achievements and make Blacks proud of themselves,” Johnson said. “From the beginning, I considered the company as a vehicle for building and projecting the im-

age of Black people in America, an image that had been distorted by media oriented primarily to nonblacks.”

The first issue of *Ebony* (his wife, Eunice, came up with the name) appeared on newsstands on November 1, 1945, and it had a 25,000-copy press run. Within hours those copies were sold and Johnson printed another 25,000 copies. Relying on writers he had met through *Negro Digest*, Johnson ran a mix of features. The cover story was a first-person account by a New York pastor who took Harlem kids to Vermont farms. There was also a profile on the writer Richard Wright. Johnson delighted in putting the images of beautiful black women on *Ebony*'s cover. In March 1946, the first four-color cover featured Lena Home; it sold 275,000 copies. The following year *Ebony* became the first black magazine tracked by the Audit Bureau of Circulation, and it registered a circulation of 309,715.

Reaching White Advertisers

While subscriptions provided a solid financial foundation, *Ebony*, like all magazines, needed advertising revenue to sustain itself. Johnson refused to compromise quality, insisting on the same standards that white audiences might find in *Life*; but slick paper, high-quality presses, and lots of photographs made *Ebony* an expensive proposition. And since Johnson ran it at a loss, the bigger the magazine grew, the more money he lost. “My problem was not the editorial content of the magazine—the readers were yelling for more. My problem was not circulation—I couldn’t print enough copies. My problem was advertising or, to come right out with it, the lack of advertising.”

Just as blacks were largely prohibited from conducting business with white companies—indeed, were generally barred from other aspects of white life—white advertisers did not buy space in black magazines. The legal and social segregation of mid-century America made it more difficult for Johnson to obtain the basic goods and services that any business requires to function. Amenities other business people took for granted, such as lodging, weren’t always available to him. On a business trip to Washington, Johnson was denied a room at the Shoreham Hotel. (To this day, he refuses to stay there.) He had problems acquiring office space as well. When he realized the building owner wouldn’t sell to a black man, Johnson posed as the janitor for an alleged white purchaser, and inspected the building dressed in overalls. (He later bought the building through an intermediary.)

While the publisher continually butted his head against the wall of racial prejudice, he refused to limit his ambitions. “When I see a barrier, I cry and I curse, and then I get a ladder and climb over it,” he said. As *Forbes* observed: “Such an attitude can make for a tenacious salesman.” Putting Dale Carnegie’s lessons to use, Johnson tried to sell executives from various companies on the idea that their advertising dollars would be well spent in *Ebony*.

When Fairfax Cone, the head of the powerful Chicago advertising agency Foote, Cone & Belding, declined to see him, Johnson learned from a sympathetic secretary that Cone would be riding a particular train from Chicago to New York. Johnson made sure he was on that train, and he cornered Cone in the club car. Before the train pulled into New York, Johnson had himself a customer—and an important long-term relationship.

Johnson reasoned that since most blacks owned radios, and since Zenith, a leading manufacturer, had its headquarters in Chicago, *Ebony* would be a natural outlet for Zenith advertising. But before he approached Commander Eugene McDonald, the company's chairman, Johnson laid some necessary groundwork. Learning that McDonald had trekked to the North Pole, Johnson tracked down Matthew Henson, an African-American explorer who had actually beaten the pioneering American explorer Commodore Robert Peary to the Pole. Johnson had Henson inscribe a copy of a book Henson had written and also ran a four-page article on the explorer in *Ebony*'s July 1947 issue. At Zenith, Johnson steered the conversation to polar exploration, which wasn't hard, since McDonald displayed on his wall a pair of snowshoes given him by Matt Henson. "Young man," said McDonald as if on cue, "if you were putting out any kind of a magazine you would have something on Matt Henson." Johnson then showed him the published article. "I don't see why we shouldn't be advertising in this magazine," McDonald concluded.

Johnson's confidence in the potential of the black consumer market paid off. He demonstrated to prospective corporate clients that African Americans bought more U.S. goods than Canadians did, and that they were an economic force that deserved attention. With each success, Johnson proved that profit motive was stronger than racism. By early 1948 he had enlisted Pepsi-Cola, Colgate, Beech-Nut, Seagram, and Remington Rand as advertisers for the magazine.

However, selling advertisements to one executive at a time was far too time-consuming and inefficient. The publisher realized that the long-term viability of his operations hinged on his ability to attract advertisers en masse. So he used mass media to inform large numbers of corporate decision-makers about the commercial possibilities in the undiscovered Negro consumer market. To that end, Johnson began to write occasional pieces in his own magazine and trade publications. As early as 1947 he wrote in *Ebony*, "big advertisers of consumer items fail to recognize the immensity of the Negro market." In 1952 he wrote in *Advertising Age* that the black consumer market, \$15 billion strong, was "ripe and ready."

After its early success, *Negro Digest* began to lose money and Johnson recognized that the magazine must give way to more dynamic and original publications. He shut it down in 1951. At the same time, he raided the staffs of black newspapers to start *Hue*, a pocket-sized feature magazine, and *Jet*, a news magazine. The cover of the first *Jet* on November 1, 1951, featured Edna Robinson, the wife of Sugar Ray Robinson. Within six months its circulation grew to 300,000 copies a week.

As the business grew, the Johnson Publishing Company evolved from a one-man shop into a publishing enterprise with offices in Chicago, New York, and Washington D.C. A vast majority of the more than one hundred employees were black. By November 1955, when his magazines had a combined circulation of 2.6 million, the publisher had become a real force in black America. Johnson was appointed to the boards of the Tuskegee Institute and the National Urban League. In 1957 after buying 1,000 shares of the life insurance stock, he accepted an invitation to join the board of directors of Supreme Liberty Life Insurance, the company that had given him his first job. Over the next several years, Johnson regularly purchased stock in the company, and by 1964 he was the largest shareholder.

Joining the Mainstream in Turbulent Times

Johnson had shrewdly positioned his products in the marketplace in the 1950s, and his foresight paid off handsomely in the 1960s. Rather than use the personal appeals and trade magazine articles of the past, the Johnson Publishing Company began to adopt more sophisticated tactics to convince white corporations of the promise of the African-American market. With the help of Fairfax Cone, who had become a crucial business partner, *Ebony* produced two promotional films—*There's Gold in Your Backyard* and *The Secret of Selling the Negro*—that served as how-to guides for potential advertisers. Dr. Frank Davis, hired by Johnson to serve as research director, released numbers to the press showing that black purchasing power would top \$20 billion in 1961, and that the black population in the United States was rising at 3 percent a year, compared with the 2 percent growth rate for whites. As blacks continued to stream from low-paying jobs in the South to higher wages in northern urban centers, their incomes grew. The average family income for Southern blacks was less than \$2,000 a year in 1960, compared with nearly \$4,000 for their Northern counterparts.

Blacks' sense of empowerment was rising along with their incomes. And Johnson's magazines rode the crest of the burgeoning civil rights movement and the swelling wave of black power. In the 1950s he endured criticism from blacks who said he wasn't sufficiently militant on the crucial issues of the day. However, both *Ebony* and *Jet* had consistently covered civil rights issues, from Little Rock in 1957 to the March on Washington in 1963, and Martin Luther King, Jr. was a contributor to both magazines. Johnson walked a tightrope: he balanced the need to report the news of radical change with the desire to appeal to his subscribers who were drawn largely from the more moderate, affluent segments of black America. A 1967 survey showed *Ebony* families had a median income of \$6,648, placing them near the top 20 percent of black families.

Over the course of the 1960s, however, Johnson and his magazines came to reflect the changes sweeping through their audiences. "We were moderate when the Negro population was moderate, and we became militant when our readers became more militant," he said. In 1966, *Ebony* ran a piece entitled, "The White Problem in

America,” which laid much of the blame for black America’s problems at the feet of the white majority. Another provocative piece, written by the magazine’s senior editor Lerone Bennett, Jr. in 1968, asked the question: “Was Abraham Lincoln a White Supremacist?” While running such articles posed the risk of alienating hard-won white advertisers, Johnson didn’t flinch. “It’s no good carrying advertising unless we have the confidence of our readers.” And the readers continued to express their confidence. *Ebony*’s circulation, which stood at 623,000 in 1960, first passed the one-million mark in October 1967, helping push the company’s revenues to the \$10-million mark.

Furthermore, Johnson’s aggressive editorial stance did not, in fact, alienate his colleagues in corporate America. As the moral strength of Dr. King’s message was increasingly embraced by political leaders, white executives began opening up to the idea of an integrated nation. “I don’t want to destroy the system—I want to get into it,” he said. As the nation’s leading African-American businessman and a major publisher, Johnson rubbed shoulders with presidents, including John F. Kennedy and Richard Nixon, and even posed for a photograph with Lyndon Johnson holding an issue of *Jet*. John Johnson joined the corporate boards of high-profile companies, such as Zenith and 20th Century Fox, and bought a house on a mountaintop in the celebrity haven of Palm Springs. By 1968, eighty of the nation’s top 100 advertisers could be found on *Ebony*’s client roster. After three decades of relentlessly serving and promoting the powerful black community, Johnson had gained the recognition of the white establishment.

By virtually any measure, the man who had been laughed out of a loan office in 1942 was by 1970 a member of the nation’s elite. The most visible manifestation of Johnson’s arrival was an \$11-million, eleven-story headquarters building built in 1972 for the firm’s several hundred employees. While it featured black American and African art, a cafeteria, and a 15,000-volume library, the building’s most notable feature was its address: 820 South Michigan Avenue. Squarely within the confines of Chicago’s blue-chip business district, Johnson’s headquarters were, as UPI noted, “the first Chicago Loop building exclusively designed and constructed by a black-owned corporation.”

Niche Marketing in an Integrated Society

Even as he gained acceptance and recognition in white America, Johnson remained unapologetically focused on the African-American market. He knew that any legislative reforms would not immediately alter the social reality that had informed his original business plan. “We are moving in a crisis of identity,” he said in 1973. “Everyone wants to identify with his own.” And so when Johnson Publishing Company diversified in the 1970s, it sought to provide new services and products for its core market. Johnson bought two radio stations with black music formats, started *Ebony Jr!* in 1973, and sponsored television shows like the *Ebony Music Awards* and the *American Black Achievement Awards*. In 1974 he also gained complete control of Supreme Liberty Life Insurance and folded that company into his publishing

corporation. Though the Johnson Publishing Company now a diversified powerhouse, *Ebony* and *Jet* remained the pillars of its prosperity. In 1983 when, by *Forbes*'s estimation, "Johnson's magazines reach nearly half the U.S. adult black population," the \$118-million company unseated Motown Industries to become the top of *Black Enterprise* magazine's list of black-owned corporations.

Throughout the years, Johnson resisted the temptation to cash out his holdings by selling shares in the company to the public. Rather, he relied on the cash flow from the magazines and from Supreme Life to finance expansion. As the sole owner and proprietor of the booming company, John Johnson reaped the windfall. Continuing to break the race barrier, in 1982 he became the first black man to land on the *Forbes 400*.

The founder continued to run the company as the stem father of a growing family, albeit with the aide of his daughter and designated heir, Linda Johnson Rice.

Supreme Liberty Life: From Office Boy to Chairman of the Board

"I don't invest in anything can't control" is one of John Johnson's favorite maxims, one reflected in his relationship with Supreme Liberty Life Insurance Company, the black-owned insurance firm where Johnson went to work as an office assistant in 1936.

In the 1950s, as Johnson's magazines began to generate profits, he invested excess cash in the privately held Supreme Liberty Life. When he purchased 1,000 shares for \$30,000 in 1957, Johnson was named to the board of directors. As *Ebony* and *Jet* grew, Johnson continued to increase his holdings. By 1964 he was the largest shareholder, and in 1974, having invested a total of about \$2.5 million, Johnson was elected chairman and chief executive officer of the firm.

Johnson's control of Supreme Liberty Life has enabled him to maintain sole ownership of his publishing empire. Rather than sell shares or bonds to the public to raise funds, Johnson used the insurance company's consistent cash flow to finance new ventures, ranging from a cosmetics company to radio stations. In the early 1990s, he sold Supreme Liberty to another insurance company, United of America.

Upon receiving her MBA from Northwestern's Kellogg School, she was named president and chief operating officer at the age of twenty-nine.

The man whom *Forbes* called "perhaps the richest and certainly the most powerful black businessman in the country" is still intensely aware of the reasons for his success: the ability to connect with black consumers. "I'm at the top, but not a day goes by without someone reminding me in some way that I am black," he wrote in *Succeeding Against the Odds*. When Johnson started in business, his race was a tremendous liability. His genius has been to turn that liability into a profitable advantage.

* * *

Mary Kay Ash and Her Corporate Culture for Women

from *Forbes Greatest Business Stories of All Time* by Daniel Gross, et al.



Mary Kay Ash, founder of Mary Kay Cosmetics.

Keenly conscious of its symbolism, Mary Kay Ash wears a diamond lapel pin shaped like a bumblebee. “Aerodynamics have proven that the bumblebee cannot fly,” she says. “The body is too heavy and the wings are too weak, But the bumblebee doesn’t know that, and it goes right on flying, miraculously.”

In 1963, when she was forty-five and when most American women did not hold full-time jobs, Mary Kay (as she is universally referred to) launched a direct-sales cosmetics company run by women. From modest origins in a Dallas storefront, Mary Kay Cosmetics grew into a vertically integrated corporation with annual sales of over \$950 million. In 1976 it became the first company chaired by a woman to be listed on the New York Stock Exchange. Just how did this bumblebee soar so high?

Mary Kay’s success is based upon sound business practices combined with tenacity and original thinking—about the marketplace, about corporate structure, and about women themselves. Mary Kay built a new corporate culture based on the education, participation, and empowerment of women. Her company’s entrepreneurial structure inspired hundreds of thousands of Mary Kay saleswomen to become, in effect, small-business operators. With a home-spun management style, she boosted their self-esteem and confidence through constant positive reinforcement and material rewards. By harnessing the American woman’s economic and productive power, she forged an economic liberation movement and flew through the glass ceiling two decades before that phrase even existed.

Birth of a Saleswoman

Born in 1918 to parents who ran a hotel and restaurant in Hot Wells, Texas, Mary Kathlyn Wagner recognized at an unusually young age that women could hold a viable role in the workforce. In the 1920s, when her father became an invalid after being stricken with tuberculosis, her mother, Lulu, landed a job as a restaurant manager in Houston, twenty-five miles away. “For all those years, my mother was the sole support of our family,” said Mary Kay, who took on the responsibility of caring for her father and running the family’s meager household. While these roles placed a heavy burden on the young girl, they offered her an unusual degree of independence. “For instance, if I needed new clothing, I had to go by myself to downtown Houston,” she recalled. “I took these Saturday trips alone, because my best friend was not allowed to travel on the streetcar without an adult. After all, we were just seven years old.”

Although she earned straight A’s and finished high school in three years, Mary Kay could not afford to go to college immediately. Dreams of higher education were further deferred when, at seventeen, she married Ben Rogers, a local musician and radio personality. The young couple had three children within seven years: Ben, Marylyn, and Richard. Following in her mother’s footsteps, Mary Kay Rogers pitched in to support the young family, but as a mother with a high school education in Depression-era Texas, her options were severely limited. “. . . I had to have a good-paying job with flexible hours. The flexibility was essential, because I knew that I wanted to spend time with my children when they needed me,” she said.

In the mid-1930s, a woman appeared on the Rogers’s stoop peddling children’s books. The saleswoman offered to give her a free set if she could sell ten, and Mary Kay started calling friends from the Tabernacle Baptist Church. She sold ten sets in less than two days. “I didn’t have books to show them—all I had was my enthusiasm,” she said. In the next nine months, Mary Kay sold \$25,000 worth of books.

Having discovered a natural ability for sales, she enlisted with Stanley Home Products, a direct-sales housewares company. While Mary Kay enjoyed staging “shows” in friends’ homes and relished earning commissions, direct sales mainly appealed to the same innate drive that led her to complete high school a year early. “. . . Nothing excited me quite as much as company contests. It was just that old competitive spirit of mine,” she said. In 1937, Mary Kay attended Stanley’s convention in Dallas, where she watched F. Stanley Beveridge, the company president, crown a Queen of Sales and present her with an alligator handbag. After the ceremony, Mary Kay worked up the temerity to introduce herself to Beveridge and announced that she would be a sales queen the next year. And so she was.

Her talent for selling proved fortunate. Upon her husband’s return from service in World War II, Ben Rogers requested a divorce. Mary Kay was left as the sole financial support for her three children. “I had developed a sense of worth for

my abilities as a wife and mother, and yet on that day I felt like a complete and total failure,” she wrote. For the next seventeen years, she raised her children as a single mother while recruiting and managing dozens of salespeople, first, for Stanley Home Products, and, starting in 1959, for the World Gift Company.

The children pitched in, with son Richard often spending Saturdays packing orders. As they grew up, Mary Kay’s children pursued their own interests. Ben, the oldest, married and moved to Houston, where he worked for a welding company. Marylyn got married and started a family. Richard sold life insurance for the Prudential Life Insurance Company. Meanwhile, Mary Kay’s life took a turn in 1960, when she married George Hallenbeck, a Dallas businessman.

Mary Kay ultimately rose to the rank of director of national training at World Gift. However, in mid-1963 she returned from a business trip to find that her male assistant had been promoted to a position above her. The slight was the worst in a series she had encountered at the company. “I was constantly being told, ‘Oh, Mary Kay, you’re thinking female.’ And inevitably, no matter how hard I tried, no matter how well I did my job, I still found myself reaching the golden door only to find it marked Men Only.” She promptly quit. Forty-five, jobless, and without children to look after, Mary Kay had lost the two roles that had defined her life for nearly twenty-seven years. She slipped into deep depression. “I have never spent a more miserable time in my life,” she said. “I just felt my life was over. I lived across the street from a mortuary, and I almost called them.”

To fight the emotional malaise, Mary Kay started jotting down lists of things she had done well and obstacles she had overcome. As she did, she hit upon the idea of writing a book on management. In it, she would distill twenty-five years worth of direct-sales wisdom. As part of the outline, she drafted a roster of factors that would define the “dream company.” And then a bigger idea sprang to mind: “Why are you theorizing about a dream company?” she asked herself. “Why don’t you just start one?”

Building a New Company Geared Toward Women

Mary Kay decided to form her own direct-sales company—a company mindful of the lessons learned from decades of working as a single mother in male corporate cultures. Its structure would offer flexibility to part-time workers and allow women to maintain their commitments to family while earning extra cash. Although she wanted to make money, Mary Kay had a higher social goal in mind. “I wasn’t interested in the dollars-and-cents part of business; my interest in 1963 was in offering women opportunities that didn’t exist anywhere else,” she later wrote.

Having sketched the outlines of a dream company, she still needed a product, and she found one in her own medicine cabinet. Back in the early 1950s, while running a Stanley Home Products demonstration party in suburban Dallas, Mary Kay had

noticed that all the attendees had wonderful complexions. It turned out that the hostess sold jars of private label facial cream to her friends. The woman's father, a tanner, had used his expertise in tenderizing animal hides to create a balm that softened women's faces and hands. After trying the cream, Mary Kay became a loyal customer. "I knew that the products were special, so in 1963, I bought the original formulas from the tanner's heirs," she said.

However, her choice of products put Mary Kay up against Avon, a giant with seventy-seven years' experience in the direct-sales cosmetics market. Mary Kay found two kinks in the giant's armor. First, Avon's focus seemed to ignore skin-care products, a lucky break since she had a good one. Second, she concluded that Avon's trademark door-to-door approach was a dated sales method. Woman, she felt, had grown too sophisticated in their buying to respond to "Avon calling."

Mary Kay's sales force, or "consultants," would demonstrate the products at intimate parties, called "Mary Kay Beauty Shows," with no more than five or six guests per show. "I saw this situation as a wonderful opportunity to teach women about total skin care," she said. Mindful of working mothers' needs, she would permit consultants to stage as few or as many demonstrations per week as they wanted. If women knew enough about the products, she reasoned, and if the products were good, they would essentially sell themselves.

In response to her negative experiences at other direct-sales firms, Mary Kay's company would not sell franchises or grant salespeople exclusive territories. Consultants would drum up new recruits from their circle of acquaintances. When Mary Kay worked for Stanley Products, the company had transferred her from Houston to Dallas to develop a new market. But this move forced her to forego commissions on sales by the women she had already recruited in Dallas. "I thought that was patently unfair," she said. Mary Kay vowed that no employee of hers would suffer the same fate.

Mary Kay and her husband George scraped together \$5,000 in savings to produce a small inventory and lease a cramped 500-square-foot storefront in Exchange Park, an office complex in Dallas. Then Mary Kay set about recruiting an initial crop of consultants, while George handled the finances. Together, they filled boxes with jars and plastered labels on them that read: "Beauty by Mary Kay."

The couple's plans tragically fell apart a month before the scheduled opening of the firm. While poring over business papers, George Hallenbeck suffered cardiac arrest and died at the breakfast table. Alone again, Mary Kay avoided despair by throwing herself into her work. "To me, work and growth were the same. And without my work, I found that I had no reason to get out of bed each morning," she said. Ignoring the advice of her attorney, who showed the widow a brochure documenting the high failure rate of cosmetics companies, Mary Kay decided to forge ahead with the venture.

Her son, Ben Rogers kicked in \$4,500 from his savings account, and Richard Rogers quit his job to work by his mother's side. "I worshipped the ground she walked on," Richard said.

Mary Kay didn't need much more start-up capital because she had devised a shrewd business strategy. First, she recruited nine consultants, who paid 50 percent of the retail price for packages consisting of five products: Cleansing Cream, Magic Masque, Skin Freshener, Night Cream, and Day Radiance foundation. She required that women pay for the packages up front. "This is not a lack of trust; it is simply our absolute belief in the wisdom expressed in our American system of cash-and-carry capitalism," Mary Kay said. Requiring consultants to pay in advance would let the fledgling company operate without taking on debt. Having worked in the field for twenty-five years, Mary Kay knew bad debts from salespeople often caused direct-sales companies to fail.

Beauty by Mary Kay (later Mary Kay Cosmetics) began sales on an inauspicious day: Friday, September 13, 1963. Defying all negative omens, the products gradually caught on in the Dallas area. Mary Kay wrote a five-page consultants' guide, produced a newsletter, and encouraged consultants to spread the word about the company. Richard filled orders, dashing between the storefront and a storage area two blocks away. Ben temporarily left his job to pitch in. ". . . Richard, Ben, and I put in sixteen and eighteen-hour workdays as we struggled to do anything that had to be done," Mary Kay said. The company survived the crucial first months and began to grow and prosper.

To celebrate the close of its first year of business, in which sales totaled \$198,000, the company threw a party. On September 13, 1964, the firm's 200 employees convened in the warehouse of a new facility at 1220 Majesty Drive in Dallas. Mary Kay made enough chicken and Jell-O salad to feed the crowd, and awarded wigs to top salespeople.

This celebration marked the beginning of Mary Kay's policy to provide inspiration, enthusiasm, and material rewards that would motivate women to sell ever greater quantities of skin cream. "Women generally lack confidence," she said. "When a woman joins our company, we immediately begin to instill confidence in her." The primary means for this were positive reinforcement and recognition for even the smallest achievements. "Giving praise where it is due has become a working philosophy in every aspect of our work at Mary Kay Cosmetics."

As the company grew throughout the 1960s, the annual sales meeting—or "seminar"—grew from humble homemade chicken and Jell-O beginnings into an increasingly lavish extravaganza. Each year, hundreds, and then thousands, of women convened in Dallas to attend classes and hear motivational speakers. The highlight was awards night, when the company recognized consultants who attained prescribed

sales levels, thus ascending Mary Kay's "Ladder of Success." Each rung brought a new badge of honor. Women started with ribbons, and aspired to sashes, badges, lapel bars, diamond bracelets, bumblebee pins, and, the ultimate symbols of Mary Kay success, pink Cadillacs.

Although Mary Kay started her firm amid the first stirrings of the tumultuous 1960s, her views did not mirror the politics of the era. One newsweekly later noted that "Mary Kay has liberated more women than Gloria Steinem." But she shrank from such comparisons, embracing instead a distinctly nonpolitical brand of feminism. While Mary Kay conceived of her company as "a real women's liberation operation," its ethos was more Betty Crocker than Betty Friedan. "God, first; family, second; career, third," was one maxim Mary Kay regularly dispensed to her charges.

While the company never took a formal stance on political issues like the Equal Rights Amendment, Mary Kay was a feminist by almost any definition. Her life's experiences taught her that women couldn't rely on men to be the sole providers. She likewise knew that women were capable of producing in the workplace and grew frustrated by the failure of corporate America to recognize this fact. "I can't believe that God intended for a woman's work to receive only fifty cents on the dollar," she often said. Mary Kay—the company and the woman—believed women's liberation meant economic liberation, pure and simple.

Mary Kay's nurturing company gave women the emotional support many families didn't provide. Acting as a surrogate mother, Mary Kay made a practice of sending personally addressed birthday cards to thousands of consultants and calling to inquire after sick family members. She believed these gestures had a large impact, just as she believed her small products had an endless appeal to women of all classes. "When times are bad, a woman may not be able to afford a new dress, but she can still get a lift by buying a new lip color. In fact, buying new cosmetics can often do as much for your spirits as going out for a fancy lunch," she said.

This emphasis on personal support attracted more and more representatives. Women were eager to sign on as Mary Kay consultants where the financial incentives were plentiful. The 50 percent markup compared favorably with the 30 to 40 percent commissions offered by other direct-sales firms. In addition, Mary Kay consultants could earn commissions from the gross product orders of women they recruited. The company rewarded productivity. Women who signed up a sufficient number of consultants were made sales directors, and, ultimately, national sales directors.

The Company Spread Its Wings

The year 1966 proved to be an auspicious one for Mary Kay and her cosmetics company. Despite the chaos of getting the enterprise off the ground, Mary Kay had managed to rebuild her personal life. She married Mel Ash, a businessman whom she

had met on a blind date. Having attained a critical mass with sales of \$1.3 million, the company began to mature and Mary Kay undertook, with Richard Rogers, to pilot her company to national prominence.

Mary Kay Cosmetics became more defined in 1968, when it raised \$2.34 million by selling 195,000 shares to the public. The proceeds of the offering were used to buy control of the manufacturing process. Mary Kay built a 275,000-square-foot facility in Dallas, which allowed the company to make virtually all its own products. It also expanded its market. Relying on word of mouth, the company had spread throughout Texas and into neighboring Louisiana, Oklahoma, Arkansas, and New Mexico. In 1970, consultants in these five states accounted for 90 percent of Mary Kay's sales. Encouraged by this success, the company embarked upon an ambitious expansion program, building distribution centers in California, Georgia, New Jersey, and Illinois, which also served as facilities where regional directors could train new recruits by the dozen.

With several thousand employees and \$18 million in sales in 1972, Mary Kay Cosmetics was one of the nation's largest private employers of women. Mary Kay publicized her company by using pink trucks to ferry products from the Dallas factory across interstate highways to the regional centers, by awarding more and more pink Cadillacs, and by buying a spanking new office building. True to its tradition, the company paid cash when it bought the eight-story, \$7-million glimmering glass building in Dallas in 1977. The building housed a growing central administration, which was run by Richard Rogers. He installed a sophisticated computer system to keep track of the activities of consultants operating throughout the United States.

Between 1963 and 1978 (a year in which Mary Kay's more than 46,000 consultants peddled over \$50 million of product), sales grew at a 28 percent average annual rate. But the company's fundamentally sound business formula hardly changed. It still required cash up front for inventory. "There are no accounts payable and no accounts receivable," Richard Rogers said. And sixteen years after the company's founding, the five basic skin-care products still accounted for fully half of the company's sales.

Although Mary Kay slowly detached herself from the firm's day-today operations in the 1970s, she continued to blaze new trails. When her company switched its stock's listing to the New York Stock Exchange in 1976, it became the first NYSE-listed firm chaired by a woman. And Mary Kay remained a crucial and effective leader. Widowed when Mel Ash died in 1980, she spent much of her time meeting and training groups of consultants. She invited new consultants to her house, and, over homemade cookies, told her inspiring personal story over and over again. She eventually wrote it down, and it was published in her autobiography, *Mary Kay* (1981). She took top sales producers on trips to London and the Caribbean, and traveled around the country, making contact with as many consultants as she could. "I

believe in the personal touch, because it makes every human being feel appreciated,” she wrote.

In the 1980s, however, the company that had created so many opportunities for women became a victim of its own success. The percentage of women participating in the labor force rose steadily from 38.3 percent in 1963, when Mary Kay Cosmetics opened its doors, to 53.6 percent in 1984. As other corporations and industries gradually opened up to females, women found positions in professions like law, journalism, and real estate. But some of those flocking into new careers continued to sell Mary Kay products. In 1984, one-third of the company’s 192,000 consultants had other jobs. Even so, observers believed the demographic formula responsible for Mary Kay’s success was unraveling. “Red ink was flowing in Mary Kay’s kingdom,” *Forbes* wrote. “Mary Kay’s main problem was that many of the commission-only saleswomen Mary Kay had relied on to peddle the firm’s cosmetics had entered the workforce.”

This argument gained credence when sales fell from \$323 million in 1983 to \$260 million in 1985. As the market punished the company’s shares, Mary Kay Ash and Richard Rogers saw an opportunity. Overcoming their long-standing aversion to debt, mother and son borrowed heavily to buy the 70 percent of the company’s shares they didn’t already own in a \$315-million leveraged buyout. While some analysts believed too much was paid for total control, the faith the mother-son combination had in their brainchild was rewarded. Under Richard Rogers’s direction, the company offered higher commissions and bonuses and focused greater attention on overseas expansion. Mary Kay Cosmetics quickly rebounded; by 1991 the company’s 220,000 salespeople tallied \$487 million in sales.

Entering its fourth decade, the company has managed to maintain a youthful enthusiasm among its sales force. And nowhere was the Mary Kay enthusiasm more evident than at the company’s thirtieth annual seminar in the summer of 1994. Almost 40,000 women and a few dozen men (2,000 of Mary Kay’s more than 425,000 consultants worldwide are male) convened at the Dallas Convention Center. They came to celebrate another record-breaking year, one in which sales totaled \$850 million.

Consultants made the pilgrimage from Oregon, Oklahoma, and Ontario; from New York City and small towns in Nebraska; from Russia, Japan, and the other twenty-one countries where Mary Kay consultants operate. Housewives rubbed shoulders with Harvard MBAs and other professionals—about two-thirds of Mary Kay consultants hold full-time jobs. New recruits who had earned \$5,000 in commissions sat next to national sales directors whose incomes topped \$500,000. In between the sessions on bookkeeping and leadership, the awards ceremony and motivational speakers, the conventioners could take a bus to the corporate headquarters and visit the new Mary Kay Museum. Presiding over the entire affair was the company’s legendary chairman emeritus, now a seventy-six-year-old. As usual, Mary Kay helped dole out \$6 million worth of prizes and awards and personally crowned four sales queens with rhinestone tiaras.

Regaining Control of the Company

In 1985, when Mary Kay Ash and Richard Rogers took Mary Kay Cosmetics private in a leveraged buyout (LBO), they employed a financing technique that became increasingly popular as the decade wore on. The idea behind the LBO is relatively simple: a company's management borrows heavily to purchase its shares back from the public, and then pays down the debt either with cash flow or with proceeds raised from selling assets.

As the company's stock languished in the low teens in 1985, Mary Kay and Rogers, in May of that year, offered to buy 70 percent of the outstanding shares they didn't already own for about \$315 million. "We decided it would be in the best interest of our people and our customers if we got out of the stock market," Mary Kay said. After the company's board of directors rejected the offer, the mother-son duo raised their bid in July. In December the board finally approved the transaction.

The deal called for shareholders to receive \$11 cash and a fifteen-year debenture with a face value of \$8.25 for each of the 21 million common shares they held. Holders of the debenture would receive no interest for the first five years, but would reap 15 percent annual interest payments thereafter. Since analysts assigned these bonds a present value of \$3.50 to \$4.00, the bid was valued at between \$14.50 and \$15.00 a share, or between \$304 million and \$315 million.

The debentures raised between \$73 million and \$84 million. But the company needed \$231 million to pay for the cash portion of the buyout. And while Mary Kay Ash loathed debt, borrowing was the only way to conduct a transaction of this size. So with the help of their financial advisers, Mary Kay and Richard Rogers came up with a financing package. It consisted of an \$81-million loan from a syndicate of banks, \$60 million raised by selling senior notes to institutional buyers, and \$90 million from the company's existing cash balance and credit lines.

The move made Mary Kay Ash and Richard Rogers largely independent managers of their company, and it also meant the value of their holdings would no longer be affected by the whims of the moment. "Most important, we are not adversely affected as investors buy and sell in an ever-fluctuating stock market," she said.

Even though the convention center stood just a few miles from the warehouse where Mary Kay held its first awards ceremony, the distance could hardly have been greater. Mary Kay Cosmetics is no longer a tiny dream company. It's a sophisticated, integrated firm that controls 10 percent of the U.S. facial skin-care market and 8.5 percent of the facial color cosmetics market. In 1993, a Texas magazine estimated the combined net worth of Mary Kay Ash and Richard Rogers at \$320 million. Mary Kay's lengthy flight—that of the woman and the company with which she is inextricably linked—has been turbulent, with many bumps. As *Forbes* noted: "Occasionally the bumblebee goes in circles. But so far, it has always found a way to right itself."

* * *

Study questions for Ayn Rand's *Atlas Shrugged*
(Random House, 1957)

Stephen Hicks

Part One NON-CONTRADICTION

Chapter I The Theme

1. Eddie Willers confronts Jim Taggart with the problem of the late order from Boyle's steel company. How does Jim deal with it?
2. Dagny Taggart is confronted with the problem of the stopped train. How does she deal with it?
3. Overall, how do Jim's and Dagny's leadership styles compare?
4. What point is Rand making by having Jim and Dagny be brother and sister?
5. Why is Eddie so troubled by the oak tree's destruction?
6. Why do Jim and Eddie have such opposing evaluations of Ellis Wyatt?

7. Why does Jim seem so intensely opposed to Dagny's ordering from Rearden Steel?

8. Dagny's order is for the new Rearden Metal. Why does she evaluate it positively, and why does Jim evaluate it negatively?

Chapter 2 The Chain

1. What does the bracelet mean to Rearden?

2. What is the significance of Lillian Rearden's first words, given her husband's profession?

3. Why is Rearden's mother upset that he missed supper that evening?

4. How does Lillian accept the gift of the bracelet from her husband?

5. Why does Rearden's mother criticize his gift of the bracelet to Lillian?

6. Why does Rearden give his brother the gift of money for the Friends of Global Progress?

7. How does Phillip accept the gift of money from his?

8. What is the disagreement between Paul Larkin and Hank about the importance (or not) of public opinion and Rearden's "Washington man"?

9. Why is this chapter titled "The Chain"?

Manufacture and Regulation of Laetrile

By Tom Beauchamp

It has been estimated that consumers waste \$500 million a year on medical quackery and another \$500 million annually on some “health foods” which have no beneficial effect. Unnecessary deaths, injuries and financial loss can be expected to continue until the law requires adequate testing for safety and efficacy of products and devices before they are made available to consumers. (President John F. Kennedy in a message to Congress)

Let me choose the way I want to die. It is not your prerogative to tell me how. (Glenn Rutherford, cancer patient and Laetrile supporter at FDA hearing)

These quotations express the essence of an acrimonious conflict that raged over the better part of the 1970s in the scientific and popular press, in courtrooms and hearing rooms, in prestigious research institutions, and among drug manufacturers. This debate emerged over the regulation, manufacturing, and marketing of Laetrile, a drug said to be a cure for cancer by its supporters but denounced as worthless by much of the scientific community.

The U.S. Food and Drug Administration (FDA) has a responsibility to determine both the *safety* and the *efficacy* of a drug before allowing it to be marketed in the United States. The FDA's responsibility for drug licensing dates from the passage of the 1906 Pure Food and Drug Act, which primarily addressed safety abuses among patent medicine purveyors. In 1962 new laws were passed (partly in response to the Thalidomide tragedy involving malformed fetuses) that required the FDA to assess a drug's efficacy as well as its safety before the drug could be approved for marketing.

The FDA examined Laetrile for safety and found no significant problems. However, the FDA could not find evidence of the drug's effectiveness and became convinced that Laetrile was worthless for the treatment of cancer. Consequently the drug was banned from the U.S. market.

Laetrile supporters reacted with fury to the drug ban. Cancer victims demanded the right to use it. Over 20 state legislatures that opposed the FDA's decision legalized it for intrastate marketing and consumption. Others felt the FDA was denying the American people their Constitutional right to freedom of choice. Many argued that since the drug had not been proven unsafe, people should be allowed to use it pending further tests. But many in the medical and scientific communities opposed this laissez-faire attitude. They argued that patients were drawn toward an inexpensive, painless cure for their disease but failed to

realize its ineffectiveness. Critics claimed that numerous deaths had resulted from Laetrile use and that some of these people could have been helped by legitimate alternative forms of treatment.

The debate's ferocity was new, but Laetrile was not. According to Dr. Charles Moertel of the Mayo Clinic, "Amygdalin had many centuries of use for medical purposes. Usually administered in the form of bitter almonds, it was a common ingredient of herbal prescriptions for a variety of illnesses, and by liberal interpretation of ancient pharmacopeias one might conclude that it was used for the treatment of cancer." German physicians briefly used amygdalin in cancer treatment in 1892, but they discarded the extract as ineffective and toxic.

Modern proponents of Laetrile therapy attribute the beginning of the Laetrile movement to Ernst Krebs, who began experimenting with the extract of apricot pits in the 1920s, and to his son, Ernst Krebs, Jr., who refined the extract to produce Laetrile in 1949 for use in the treatment of disorders of intestinal fermentation cancer. Since then pro-Laetrile researchers have experimented with a variety of methods and techniques for using Laetrile in cancer treatment, and they claim that Laetrile is in fact effective. According to Krebs, Laetrile is effective because cyanide, which is an active ingredient, attacks the cancerous cells while an enzyme called rhodanese protects the normal cells.

Initially Krebs's supporters claimed that Laetrile not only cured or controlled existing cancers but could also prevent cancers from forming. They based their claims of Laetrile's efficacy primarily on patients' case histories (some published in a volume called *Laetrile Case Histories*) and on personal testimonials of "cured" cancer patients. However, many in the medical and scientific communities were not impressed with this form of proof. They considered the reported case histories too sketchy and the follow-up times too short to support the claims. Moreover, few patients took Laetrile without first undergoing more traditional forms of cancer therapy. Under these conditions it is virtually impossible to determine which treatment or treatments should receive credit for improvements. Also, the natural history of cancer is not totally understood, and spontaneous remissions can and do occur.

In 1962 the FDA charged Krebs with violating the Federal Food, Drug and Cosmetic Act, on grounds that he could not prove his drug's effectiveness. In 1963 Laetrile was banned because it was not found to be an effective treatment of cancer or any other health problem. Since then, Laetrile proponents have revised their claims. They no longer proclaim Laetrile an independent cure for cancer instead emphasizing its role in the prevention and control of the disease. Laetrile supporters also maintain that the standards of proof for Laetrile research have been higher than for other cancer drugs and that pro-Laetrile results have been obtained but suppressed.

The controversy surrounding Laetrile turned largely on the drug's efficacy and on one's right to *manufacture*, *market*, and *purchase* the product. During the 1970s the FDA suffered criticisms that it was a paternalistic agency after it attempted to ban the manufacturing and marketing of the popular artificial sweetener saccharin. The Laetrile

problem immediately followed this unpopular FDA policy. By mid-1977 FDA head Donald Kennedy said his agency found increasing evidence of Laetrile's inefficacy. However, criticism of the FDA was also increasing and efforts were mounted either to allow free choice of the drug or to test for efficacy in a public trial using human subjects. Some state legislatures and judges called the FDA's findings into question. Some states had legalized its manufacture and sale, and some courts had criticized the FDA record and policies. Even prestigious physicians and newspapers such as *The New York Times* endorsed the right of individuals to choose to use a possibly inefficacious drug.

Responding to the demands for a Laetrile efficacy trial with human subjects the National Cancer Institute sponsored a 1981 clinical trial with 178 terminal cancer patients. The trial results dispelled any lingering doubts in the medical and scientific communities over Laetrile's alleged ability to destroy cancer cells. Of the 178 trial subjects, only one demonstrated a partial positive response to Laetrile treatment. His gastric carcinoma showed a 10-week retardation period. However the cancer progressed, and the patient died 37 weeks after Laetrile therapy. In their conclusion, the trial doctors commented, "No substantive benefit was observed in the terms of cure, improvement or stabilization of cancer." According to the study, several patients displayed symptoms of cyanide toxicity and blood cyanide levels approaching the lethal range. The report concluded Amygdalin (Laetrile) is a toxic drug that is not effective as a cancer treatment." In response, Laetrile manufacturers sued the NCI in three lawsuits, claiming the study had drastically reduced demand for Laetrile, thereby inflicting financial damage on the manufacturers. All three suits were dismissed in the courts.

According to proregulation partisans, it is desirable and necessary to protect uneducated risk takers who are vulnerable to unsubstantiated medicinal claims: "The absolute freedom to choose an effective drug is properly surrendered in exchange for the freedom from danger to each person's health and well-being from the sale and use of worthless drugs." From this perspective, regulation is not irreconcilable with freedom of choice. If a regulation promotes situations under which more informed and deliberative choices are made, it does not constrict freedom; and a choice cannot be free if the product is a fraud.

By contrast, freedom-of-choice advocates claim that the simple restriction of Laetrile violates the individual's right to autonomous choice and the manufacturers' rights to market a product. Supporters of this view resent the characterization of cancer patients as people who are incapable of making rational or free decisions because of the stress of illness. They believe that most of these individuals are able to make well-founded personal decisions and should be allowed to do so.

The economic implications of banning Laetrile have also introduced a significant controversy. Each side has accused the other of economic exploitation of cancer victims. Laetrile proponents say that traditional cancer treatments represent an enormous and profitable industry and claim that a cost savings for patients would be achieved if Laetrile were legally marketed in the United States. They note that the American Cancer Society estimated that as early as 1972 the direct costs of cancer treatment totaled over \$3 billion (for

hospital care nursing home care, physicians' and nurses' fees, drugs and other treatments, and research). By comparison, Laetrile supporters claim that legalized Laetrile would cost a fraction of conventional cancer therapies.

Laetrile has been primarily manufactured and marketed in Mexico. In one study it was estimated that in 1977 alone, approximately 7,000 patients were treated in two Mexican clinics at an average cost of \$350 per day. The United States represents a large potential market for a legalized, over-the-counter Laetrile. However, due to FDA restrictions, one may neither import amygdalin from foreign countries nor ship it across state lines. Although the FDA does not control *intrastate* commerce, it would not be profitable for any one state to manufacture Laetrile in all its stages—that is, from the farming of apricot trees to the laboratory synthesis of the finished drug. Furthermore, the FDA has issued an import alert ban on amygdalin and all corresponding brand names, including Laetrile and vitamin B-17. The FDA refuses to permit importation of Laetrile on the grounds that “it appears to be a new drug without an effective new drug application (NDA).” The FDA also classifies the Laetrile issue as a health fraud case. As a senior scientist at the AMA commented, “People took Laetrile, ignored other, more , conventional cancer treatment, and died.” Although NDAs for Laetrile have been submitted to the FDA, none has been approved. Consequently, the FDA currently proscribes all importation and interstate transportation and marketing of amygdalin under any brand name.

However, one may still obtain amygdalin quickly and easily within the United States. VitaChem International/Genesis West in Redwood City, California, offers 50 tablets of “Laevalin, a naturally occurring amygdalin” for \$47.50. Mexican-based Vita Inc. will ship 100 Laetrile tablets to a United States address for \$65.00. To circumvent FDA regulations, U.S. Laetrile marketers have changed the brand name but continue to market amygdalin openly, in violation of the FDA import and interstate commerce ban.

The courts as well as the press have provided the arena for the conflict over the rights of a patient to choose a treatment and the rights of manufacturers to market a product. Although it was not the intent of Congress to impose such restrictions on choice, the patient's choice is in fact restricted by the 1962 drug amendments. Because these amendments restrict the market to industry-tested and FDA-approved products, treatment by and manufacturing of alternatives are inevitably constricted.

A series of lawsuits have challenged the FDA restrictions, and a number of states have passed laws legalizing its use. In early 1977 U.S. District Court Judge Luther Bohanon (U.S. District Court for the Western District of Oklahoma) issued a ruling permitting Laetrile's importation under a physician's affidavit for terminally ill cancer patients. Although overturned by an appeals court in December 1986, Bohanon's ruling allowed Laetrile treatment for terminal patients. Despite the opportunity to convince the FDA of the drug's efficacy, Laetrile proponents did not obtain an NDA approval for amygdalin. The judicial and legislative challenges are not, however, without opponents. Lawyer William Curran, for instance, has deplored the action of certain courts in allowing the use of Laetrile for the terminally ill:

It is understandable that judges have had trouble dealing objectively with the legal pleas of plaintiffs who are dying a painful death and whose only wish is to indulge in a harmless, although ineffective, gesture of hope. The courts have tried to dispense mercy. Their error has been in abandoning the protection of law for these patients.

As the arguments have developed, the issues of choice and fraudulent representation by business have moved to the forefront. Franz Ingelfinger, the distinguished former editor of the *New England Journal of Medicine* and himself a cancer victim, was convinced that Laetrile was useless. In 1977 he wrote, "I would not take Laetrile myself under any circumstances. If any member of my family had cancer, I would counsel them against it. If I were still in practice, I would not recommend it to my patients." On the other hand, he said, "Perhaps there are some situations in which rational medical science should yield and make some concessions. If any patient had what I thought was hopelessly advanced cancer, and if he asked for Laetrile, I should like to be able to give the substance to him to assuage his mental anguish, just as I would give him morphine to relieve his physical suffering." Ingelfinger did not view truthful marketing of the drug as involving a fraudulent mis-representation.

In January 1987 a Laetrile bill was introduced into the U.S. House of Representatives. H.R. 651 provided that the controversial efficacy requirements of the Food, Drug, and Cosmetics Act would not be applied to Laetrile if a patient were under a physician's care (see Exhibit 1). The bill's sponsor, Rep. Bill Goodling (R-PA) asserted that "the legislation does not state that Laetrile is a cure for pain or a pain reducer." The bill died in the Health and Environment Subcommittee of the House Energy and Commerce Committee.

The National Institutes of Health and most other health care institutions still discourage the use of Laetrile, preferring conventional methods of cancer treatment. The National Cancer Institute's official policy is to encourage conventional methods with the explanation that testing has always shown "evidence of Laetrile's failure as a cancer treatment." The American Cancer Society holds the position that "Laetrile is not effective in the prevention or treatment of cancer in human beings." Despite the medical evidence and the FDA's past efforts to restrict the drug's marketing, one may still today purchase amygdalin by dialing a toll-free number.

Exhibit 1

H.R. 651: To provide that the effectiveness requirements of the Federal Food, Drug, and Cosmetic Act shall not apply to Laetrile in certain cases, be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in the administration of section 505 of the Federal Food, Drug, and Cosmetic Act, the effectiveness requirement of such section shall not be applicable to Laetrile when used under the direction of a physician for the treatment of pain.

* * *

The FCC's Fairness Doctrine

By Tom L. Beauchamp

(Revised by John Cuddihy, Joanne L. Jurmu, and Anna Pinedo)

Government intervention in the publication and dissemination of news is inconsistent with the notion of a free press. However, the government has a responsibility to ensure fairness in the dissemination of information on matters of community interest. These two obligations often conflict. Until recently, a U.S. government mechanism of media accountability known as the Fairness Doctrine existed. The doctrine attempted to mediate between broadcasters' First Amendment rights and those of the public by requiring broadcasters to provide balanced coverage of important public issues.

The Fairness Doctrine originated in congressional and Federal Communications Commission (FCC) legislation. The FCC's 1949 "Report on Editorializing by Broadcasters" outlined the doctrine and stressed the importance of the development, through broadcasting, of an informed public opinion in a democracy. It affirmed the "right of the public in a free society to be informed and to have presented to it for acceptance or rejection the different attitudes and viewpoints concerning these vital and often controversial issues." In 1959 Congress amended the Communications Act of 1934 to impose, in section 315(a), a statutory "obligation upon [broadcasters] to operate in the public interest and to afford reasonable opportunity for the discussion of conflicting views on issues of public importance."

The Fairness Doctrine did not require broadcasters to give equal time to contrasting views. However, if "during the presentation of views on a controversial issue, an attack [was] made upon the honesty, character, integrity, or like personal qualities of an identified person or group," that person or group had to be given an opportunity to respond on the air. The broadcasting company had to bear all presentation costs.

The policy was traditionally confined to broadcast rather than print media, based on a principle of scarce resource allocation. There is a relative scarcity of broadcasting possibilities, because the number of people who want to broadcast exceeds the number of available broadcast licenses. The government allocates this limited resource through a licensing system, designed to protect the public interest through the enforcement of various regulations.

In 1969 the U.S. Supreme Court held the Fairness Doctrine to be constitutional and consistent with the First Amendment's intent in *Red Lion Broadcasting Co. v. Federal Communications Commission*. The Court ruled that the scarcity of available frequencies justifies the imposition of a government regulatory system intended to ensure that broadcasters, as fiduciaries, act in the public interest. The Court declared the public's First Amendment rights to hear differing viewpoints "paramount" to broadcasters' rights. Justice Byron White expressed the Court's opinion as follows:

Where there are substantially more individuals who want to broadcast than there are frequencies to allocate, it is idle to posit an unbridgeable First Amendment right to broadcast comparable to the right of every individual to speak, write or publish. ...A license permits broadcasting, but the licensee has no constitutional right to be the one who holds the license or to monopolize a radio frequency to the exclusion of his fellow citizens. There is nothing in the First Amendment which prevents the Government from requiring a licensee to share his frequency with others and to conduct himself as a proxy or fiduciary with obligations to present those views and voices which are representative of his community and which would otherwise, by necessity, be barred from the airwaves.

The Court reaffirmed the scarcity of the radio airwaves and the responsibility of broadcasters as public trustees in subsequent cases. Similar reasoning served to justify the Fairness Doctrine's application to cable programming.

The Fairness Doctrine was neither strictly enforced nor widely applied. From January 1980 through August 1987, the FCC received over 50,000 complaints of alleged Fairness Doctrine violations. The FCC dismissed the vast majority of the charges. The Fairness Doctrine was primarily invoked to restrict virulent racism and other use of the airwaves to intimidate and attack persons and institutions. The FCC also used the doctrine in 1967 to require broadcasters to give significant time to antismoking messages. It was almost never used to enforce accountability for claims made in documentaries, no matter how hard-hitting or speculative. Although the National Association of Broadcasters (NAB) has reported several cases in which documentaries were accused of violating the Fairness Doctrine, the FCC upheld only one complaint, later overturned in federal court.

The doctrine was usually applied to ensure that the licensed station owners' political preferences would not control the presentation of candidates for public office. However, these regulations were also loosened over the years. For example, the FCC held that any station endorsing or criticizing a candidate on the air had to give the opposing or criticized candidate air time to respond. In 1983 FCC Chairman Mark Fowler revised the commission's policy on televised political debates. He announced that broadcasters could schedule political debates with the candidates of their choice without being required to provide air time to excluded candidates. Broadcasters could cover debates as bona fide news events without having to make time available to those who did not participate.

THE CURRENT LEGAL SITUATION

The Fairness Doctrine has come under fire from both sides of the political spectrum. Conservatives oppose it as an expendable form of government intervention, while some liberals support it as a means of intimidating or even silencing journalists. In October 1981 the FCC recommended that the Fairness Doctrine be repealed. The commission issued a detailed study of the doctrine in 1985. It concluded that the doctrine was "an unnecessary and detrimental regulatory mechanism [that] disserves the public interest." The FCC did not at that point repeal the doctrine because it believed that Congress had already codified it. However a September 1986 ruling by the U.S. Court of Appeals held that the Fairness Doctrine was not a statutory requirement. According to the ruling, written by Judge Robert

Bork and supported by then Appeals Court Judge Antonin Scalia, Congress had merely ratified the doctrine in amending section 315(a) of the 1934 Communications Act. The decision permitted the FCC to modify or to abolish the doctrine. The commission then did abolish the doctrine's chief measures in August 1987 claiming that they violated First Amendment rights and stifled controversial programming.

The court of appeals ruling spurred controversy in Congress, where some members have consistently voiced support for the doctrine. There have been several legislative proposals to codify the doctrine and make it an explicit requirement of the Communications Act. Rep. John Dingell (D-MI), chairman of the House Committee on Energy and Commerce introduced an amendment to the Communications Act that would "require expressly that licensees of broadcast stations present discussion of conflicting views on issues of public importance." President Reagan vetoed the measure, and Congress lacked the two-thirds majority needed to override the veto. In November 1987 Sen. Ernest Hollings (D-SC) chairman of the Senate Commerce Committee, deftly steered a bill through the committee that would have restored the Fairness Doctrine. Although Hollings argued vigorously for the bill, congressional deficit-reduction negotiations eliminated it. Still more recent bills introduced by Senator Hollings and Representative Dingell have either failed to clear their respective committees or died on chamber floors.

THE CURRENT DEBATE

On August 4, 1987, the FCC voted unanimously to eliminate the Fairness Doctrine. In a letter to Representative Dingell, then FCC Chairman Dennis Patrick emphasized that although the FCC had abolished the doctrine's major clauses, several of the doctrine's regulations remained in force: the political editorial rule, the personal attack rule, the Zapple Doctrine, and the "application of the Fairness Doctrine to ballot issues."

As stated by the FCC, "The rules on political editorials and personal attacks do not forbid the broadcast of either. Instead, they require broadcasters who carry such editorials or attacks to offer the persons adversely affected by them a chance to state their side of the case in person or through a spokesman." The political editorial clause currently mandates that TV and radio stations offer political candidates whose opponents have been endorsed by the involved station "a reasonable opportunity to respond" on air to the endorsement. The FCC requires that the opposing candidate be furnished with an editorial transcript within 24 hours of a broadcast. If a station broadcasts a political editorial within three days of the election, the station must provide the transcript and a response-time offer prior to the editorial's airing.

Personal attacks also require response time. However, attacks "occurring during uses by legally qualified candidates" are not covered by the Fairness Doctrine. Attacks made on "foreign groups or foreign public figures" are also immune from the doctrine's "personal attack" claims.

Like the political editorial clause, the Zapple Doctrine also involves political campaigning. Should a TV or radio station run an advertisement during a formal campaign period in which political supporters endorse a candidate, an opponent's supporters have the

right to a reasonable opportunity to respond. The Zapple Doctrine may only apply to legally qualified candidates during formal campaign periods. The restrictions “reflect the intent of Congress to confine special treatment of political discussion to distinct, identifiable periods.”

The ballot-issue exception requires broadcasters to permit opposing sides equal air time to discuss and advertise for or against ballot propositions. However, “The [Federal Communications] Commission will not intervene in cases alleging false and misleading statements regarding controversial issues of public importance.”

Although these clauses remain in force, an FCC employee declared that these exceptions “are not vigorously enforced” and have not seen frequent use in recent years. Overall, the FCC has moved away from even the spirit of the Fairness Doctrine, firm in the belief that the doctrine stifled rather than promoted discussion and debate on public issues.

Doctrine opponents have challenged the Supreme Court’s *Red Lion* decision, claiming that it is based on the mistaken premise of airwaves scarcity and need for improved communication of information, which are no longer valid. From this perspective, the Fairness Doctrine is now an unfair restraint on free market trade; technological advances since the *Red Lion* case have eliminated the former scarcity. The 1985 FCC report noted a dramatic increase to more than 10,000 radio and television broadcasting stations, a 400 percent growth since 1949. Commercial broadcasters opposed to the doctrine point out that in many cities listeners and viewers can pick up dozens of radio and television stations and have access to only one significant newspaper. The FCC also observed that the growth of cable television, satellite television, and new telecommunications services offer an almost unlimited number of broadcast options.

The 1985 FCC report noted that the “fairness doctrine in operation thwarts the laudatory purpose it is designed to promote. Instead of furthering the discussion of public issues, the fairness doctrine inhibits broadcasters from presenting controversial issues of public importance.” Broadcasters some-times hesitate to air controversial materials for fear that they will be forced to use expensive air time to present another side of the issue. For some broadcasters, the loss of advertising time alone prevents them from making room in their broadcast schedule for these materials. For example, there may be as many as 15 candidates running in a presidential primary, which makes the provision of equal time burdensome for many stations.

Doctrine supporters claim that the relative scarcity of usable airwaves persists. The “scarcity of frequencies should not be measured by the number of stations allowed to broadcast, but by the number of individuals or groups who wish to use the facilities, or would use them if they were more readily available.” They point to the economic value of government licenses as a measure of the relative demand. Independent VHF licenses have sold for as much as \$700 million in New York. Also, the number of stations has not increased in isolation, but in proportion to the nation’s population growth. The broadcast medium continues to be more inaccessible to the private citizen than the print medium because the government must allocate the use of airwaves. Finally, the increase in stations does not necessarily correspond to any local increase in availability of diverse views on issues.

The Fairness Doctrine has been the only significant mechanism of control. The House Committee on Energy and Commerce Report on the Fairness Doctrine points out that “numerous case histories demonstrate that the Fairness Doctrine promotes carriage of views that would otherwise not be available to the American public.” Former FCC Chairman Charles Ferris testified before the Subcommittee on Telecommunications and Finance that “in 1979, during [his] watch, the Commission explicitly found that the Fairness Doctrine enhanced, not reduced, speech.” The congressional committee questioned the authority of the 1985 FCC report because it relied solely on broadcasters’ accounts of the doctrine’s effects.

Opponents argue that the Fairness Doctrine violates constitutional principles by allowing the government to intervene and to define how freedom of expression is to be used and practiced. The doctrine, they say, provides a dangerous potential for government abuse. They point to the FCC’s statement that federal law permits government agencies to file Fairness Doctrine complaints against the media. This ruling (in July 1985) resulted in a complaint filed by the CIA charging that ABC’s “World News Tonight” had three times distorted the news in broadcasting allegations that the CIA had tried to arrange the assassination of Ronald Rewald, a Honolulu businessman who was under indictment for several crimes. These CIA complaints would reverse past precedents and require greater accountability of the media to the government.

Fairness Doctrine supporters face an uphill battle in the judiciary and Congress. A Media Action Project (a DC public interest law firm) employee said that when the Supreme Court declined in 1989 to review the 1986 DC Court of Appeals ruling, a legal review of the case became “extremely difficult.” If the firm decides to re-file a Fairness Doctrine case, it will certainly “seek a more sympathetic court.”

Legislative attempts to codify the Fairness Doctrine appear equally unlikely. Although Congressman Dingell and Senator Hollings have repeatedly introduced bills in Congress to resurrect the doctrine, they have all failed. A House legislative aide maintains that “hearings on [Representative Dingell’s bill] aren’t even likely to be held in this congressional session.” Although chairs of powerful House and Senate committees, neither Dingell nor Hollings has yet managed to convince their colleagues to codify the Fairness Doctrine. Furthermore, the executive branch publicly supports the doctrine’s abolition. If Congress did attempt to override a presidential veto of any doctrine measure, it probably could not muster the two-thirds support needed for legislative approval.

U.S. citizens continue to be wary of government intervention in the private sector. But the Fairness Doctrine has, until recently, been considered a justified exception. Although it is a measure that often intrudes upon broadcasters’ freedoms, the doctrine was traditionally designed to protect the individual’s moral and political right to the presentation of differing views on important issues.

* * *

Greed

John Stossel, ABC News Special (1999)

Theme: What is “greed”?

- Introduction at Vanderbilt mansion. Financier Milken, hotel magnate Helmsley, dictators Marcos and Duvalier, evangelist Bakker.
- Ted Turner: private property and competition are good.
- Contrast rich business person and rich sports figure or actor. Why are rich business people often vilified while rich actors or athletes aren't?
- Compare art, sports, etc. Greedy to create, greedy to win, greedy to learn.
- Psychologist Julian Edney money-in-bowl experiment: Greed means short-range self-interested grasping?
- Are rich people “Robber Barons”?

Theme: Zero-sum or win-win?

- Philosopher David Kelley: Zero-sum is a child's view. In fact, producers create wealth, and the pie gets bigger. Most of the 19th century entrepreneurs started with nothing. They didn't steal: they innovated and produced things people voluntarily traded for.
- Example: Bill Gates got rich by creating value for trade. He persuaded customers. Win-win.
- Contrast example: Baby Doc and other government dictators get rich by taking from others by force. They created no value. Zero-sum.
- Example: buy a quart of milk at convenience store. Both parties say “Thank you.”
- Cheaters? E.g., solar-powered clothes drier. Rarely get rich.
- Vanderbilt's achievement in ship transportation and Rockefeller's achievement in oil: lower prices and higher quality. Luxuries become standard fare. Win-win.
- Complaints about Vanderbilt and Rockefeller mostly from competitors who weren't as productive. Lobbied the government for controls on V and R.

Theme: Motivation of greed versus selflessness and helping others

- Example: Red Cross non-profit lifeguards versus Jeff Ellis's for-profit lifeguard company.
- Ellis's lifeguards: Better service, innovations, and lower price.
- Complacency of the established non-profit.
- Walter Williams: contrast results of caring versus results of self interest: grocery store, computers, FedEx, schools, post office, trash, police services
- Profit motive as additional motive to serve others' needs.

Theme: Cooperation and self interest.

- Supermarket and steak. Iowa ranch. Propane, packaging, trucking, and the hundreds of other functions involved in getting the steak from Iowa to New York. Do all of those people work hard and efficiently because they care about you, or do they work hard out of self interest?
- Revisit bowl-in-money experiment: self interest and the profit motive leads people to learn how to cooperate.

Theme: Education and business education

- Example: Steve Mariotti as high school teacher at a traditionally weak school.
- What motivates the students? Prepare for business: see money-making possibilities, entrepreneurial ideas.
- Former students who are now successful: sports store owner, hot dog stands, music business.
- Kelley: Capitalism is the great equalizer: The poor need capitalism most. They need the opportunities that capitalism generates. They need the freedom from stifling regulations.

Theme: Executive pay and inequality

- Workers lost jobs because of high executive salaries? Aren't large inequalities and disparities unseemly? Should we put limits on profits and salaries?
- Excerpt from movie, "Wall Street." Hollywood villains.
- Example: T. J. Rodgers and Cypress Semiconductor: started a one-man operation and was in debt and created a \$1.5 billion company. "I earned it." "I created value." "I am a good guy." "The world is better off when I make a buck."
- Michael Eisner's take home pay. Under Eisner's tenure as CEO, Disney's worth went from \$2 billion to \$53 billion. Eisner received one-half billion dollars (equals about one percent).
- Ben and Jerry's ice cream: CEO pay experiment. Pay CEO only six times as much as line worker. Had to fire and hire another CEO at ten times. Same thing again.
- Union rally on Wall Street: Union leader John Sweeney. Ever turn down a raise?
- Counter-examples. CEOs who are paid much even when their companies are doing poorly.

Theme: "Giving back"—Philanthropy and charity

- Vanderbilt University
- Turner: billionaire Warren Buffet is a Scrooge because he doesn't give more of his money away.
- Rodgers: Turner is saying something stupid: Business professionals are good at making money, and their making money helps those less well off by creating jobs. So to help others most, we should encourage successful businessmen invest their money rather than give it away.
- Kelley: making money is harder than giving away. He respects Turner more for his building CNN than he does for his donating money to the UN. Business is more humane than charity: it treats people as self-supporting instead of treating them as helpless mouths that need a handout.
- Who did more for the world: Michael Milken or Mother Teresa? Both helped people, but Milken helped more people and he helped them become self-supporting rather than as charity cases. Teresa suffered and was selfless; Milken got rich and was self-interested. But suffering is not the point; the point is to create value.

Summary:

- Greed as good *versus* greed as evil
- Self interest *versus* selflessness

- Private property *versus* public
- Competition *versus* regulation
- Win-win *versus* zero-sum
- Liberty as primary *versus* equality as primary
- Productivity *versus* charity

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Quotations on Money

“No one can earn a million dollars honestly.” (William Jennings Bryan)

“The rich are the scum of the earth in every country.” (G. K. Chesterton)

“Behind every great fortune there is a crime.” (Balzac)

“The love of money is the root of all evil.” (I Timothy 6:8-10)

“The lack of money is the root of all evil.” (Mark Twain)

“The universal regard for money is the one hopeful fact in our civilization, the one sound spot in our social conscience. Money is the most important thing in the world. It represents health, strength, honour, generosity, and beauty as conspicuously and undeniably as the want of it represents illness, weakness, disgrace, meanness and ugliness. Not the least of its virtues is that it destroys base people as certainly as it fortifies and dignifies noble people.” (George Bernard Shaw, *Major Barbara*)

“If a man runs after money, he’s money-mad, if he keeps it, he’s a capitalist; if he spends it, he’s a playboy; if he doesn’t get it, he’s a ne’er-do-well; if he doesn’t try to get it, he lacks ambition. If he gets it without working for it, he’s a parasite; and if he accumulates it after a lifetime of hard work, people call him a fool who never got anything out of life.” (Vic Oliver)

“A neighbor not long ago told me that her husband was one of eighteen nephews and nieces of a man who at his death had left a trust that gave each of them, when they turned twenty-one, an annual income of \$60,000 each. Apart from her husband, who went on to medical school, not one of these legatees finished college. The result of their uncle’s generous benefaction was to breed a set of drug addicts, full-time beach bums, ne’er-do-wells, and other human disasters.” (Joseph Epstein, “Money is Funny,” p. 311)

“It is a socialist idea that making profits is a vice; I consider the real vice is making losses.” (Winston Churchill)

“Economic efficiency consists in making things that are worth more than they cost.” (J. M. Clark)

Martin Luther: “There is on earth no greater enemy of man, after the Devil, than a gripe-money and usurer, for he wants to be God over all men Usury is a great, huge monster, like a werewolf ... And since we break on the wheel and behead highwaymen, murderers, and housebreakers, how much more ought we to break on the wheel and kill ... hunt down, curse, and behead all usurers!”

“There is no money in poetry, but then there is no poetry in money, either.”
(Robert Graves)

“Why doesn’t someone write a poem on money? Nobody does any-thing but abuse it. There’s hardly a good word for money to be found in literature. The poets and writers have been needy devils and thought to brave out their beggary by pretending to despise it.” (John Jay Chapman)

But please do not think that I am not fond of banks,
Because I think they deserve our appreciation and thanks,
Because they perform a valuable public service ie in eliminating
the jackasses who go around saying that health and happiness are
everything and money isn’t essential,
Because as soon as they have to borrow some unimportant money
to maintain their health and happiness they starve to death so they
can’t go around any more sneering at good old money, which is
nothing short of providential.
(Ogden Nash, “Bankers are just like anybody else, except richer”)

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Quotations on Politicized Business

1. “In general, the art of government consists in taking as much money as possible from one party of the citizens to give to the other.” (Voltaire, 1764)
2. “I expect all the bad consequences from the chambers of Commerce and manufacturers establishing in different parts of this country, which your Grace seems to foresee. . . . The regulations of Commerce are commonly dictated by those who are most interested to deceive and impose upon the Public.” (Adam Smith, 1785 letter. In E. C. Mossner and I. S. Ross, editors, *The Correspondence of Adam Smith* (Indianapolis: Liberty Press, 1987), p. 286)
3. Farm subsidies are “a temporary solution to deal with an emergency.” (Henry Wallace, president Roosevelt’s secretary of agriculture in 1933 when the US introduced farm subsidies.)
4. “There is nothing so permanent in Washington as a temporary government program.” (Milton Friedman, Nobel Prize in Economics, 1976)
5. “Many key businessmen articulated a conscious policy favoring the intervention of the national government into the economy. Important businessmen did not, on the whole, regard politics as a necessary evil, but as an important part of their larger position in society.” (Gabriel Kolko, *The Triumph of Conservatism*. New York: The Free Press, 1963, p. 5)
6. “Government’s view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.” (Ronald Reagan, 1986)
7. James Bovard, *The Farm Fiasco* (1990):
 - “This year [1990] the USDA is rewarding farmers for not planting on 78 million acres of farmland—equivalent to the entire states of Indiana, Ohio, and most of Illinois.”
 - “With the \$160 billion that the government and consumers have spent on farm subsidies since 1980, Uncle Sam could have bought every farm, barn, and tractor in thirty states.”
 - “Farm subsidies—roughly \$25 billion a year in handouts, plus \$10 billion in higher food prices—are the equivalent of giving every full-time subsidized farmer two new Mercedes each year.”
8. “Capitalism’s biggest political enemies are not the firebrand trade unionists spewing vitriol against the system but the executives in pin-striped suits extolling the virtues of competitive markets with every breath while attempting to extinguish them with every action.” (Raghuram Rajan and Luigi Zingales, *Saving Capitalism from the Capitalists*. New York: Crown, 2003, 276)
9. “When buying and selling are controlled by the legislature, the first thing to be bought and sold is legislators.” (P. J. O’Rourke, political humorist)

10. Andrew P. Morriss letter to the *Wall Street Journal* (2008): ‘Sirs, Your story “Hedge Funds Coming of Age Politically” (April 19) reports that hedge funds are beginning to form PACs and engage in political activity to protect themselves from threatened regulation. It is no coincidence that this is happening at the same time that politicians are considering regulatory measures that could prove costly for hedge funds. Northwestern Univ. Law Prof. Fred McChesney’s “money for nothing” theory of regulation explains exactly this behavior. Politicians target an unorganized but wealthy industry by holding hearings, calling for regulatory action, proposing legislation, and so forth. Alarmed, the industry organizes interest groups and begins making contributions to the politicians. Miraculously, most of the threatened regulations then vanish from the agenda, leaving the politicians richer and the industry poorer but wiser. Whenever a new round of contributions is needed, another round of hearings on the latest issue can be scheduled.’

Politicized business and the Kennedys http://www.boston.com/business/healthcare/articles/2009/09/01/programs_have_unsure_future_without_kennedy_to_champion/

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Mixed Economy Dysfunctionalities

