

THE MASTERS OF ENTERPRISE:

AMERICAN BUSINESS HISTORY AND
THE PEOPLE WHO MADE IT
COURSE GUIDE



Professor H.W. Brands
TEXAS A&M UNIVERSITY

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Course Syllabus
Introduction to American Business History
American Business History: The People Who Made It

The Masters of Enterprise:

American Business History and the
People Who Made It

Professor H.W. Brands
Texas A&M University



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Course Syllabus

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About Your Professor — H.W. Brands

Professor H.W. Brands of Austin, Texas, a prolific and award-winning writer, is currently Distinguished Professor of History and holder of the Melbern G. Glasscock Chair in American History at Texas A&M in College Station, Texas.

Brands was born in Portland, Oregon. He attended Stanford University, receiving a B.A. in history in 1975. He was a traveling salesman for a year before taking up teaching at Jesuit High School in Portland, where he taught history and mathematics for five years.

Meanwhile, Brands earned graduate degrees from Reed College (M.A. in liberal studies, 1978) and Portland State University (M.S. in mathematics, 1981). In 1981 he relocated to Austin, Texas, where he received a Ph.D. in history from the University of Texas in 1985.

He worked as an oral historian at the University of Texas Law School for a year, then became a visiting assistant professor of history at Vanderbilt University in Nashville, Tennessee. In 1987 he joined the history faculty at Texas A&M University in College Station, where he has been ever since, with the exception of a semester as a visiting professor at the University of Texas at Austin.

In addition to teaching, Brands coordinates the History of the Americas Research Program at Texas A&M University and is the editor of the *Series in Foreign Relations* at Texas A&M Press and associate editor of *Presidential Studies Quarterly*.

Brands is the author of seventeen books, has edited four others, and has published dozens of articles and scores of reviews.

His most recent works include *Woodrow Wilson 1913-1921: The American Presidents Series* (Times Books), now available in bookstores, and *The Age of Gold* (Doubleday), also available in bookstores.

Other books include *The Strange Death of American Liberalism*, *The First American*, *TR: The Last Romantic*, *What America Owes the World*, *The Reckless Decade*, and *The Devil We Knew*.

Brands is a contributor to *The New York Times*, *The Wall Street Journal*, *The Washington Post*, the *International Herald Tribune*, the *Boston Globe*, the *National Interest*, the *American Historical Review*, the *Journal of American History*, the *Political Science Quarterly*, and *American History*.

He has also written for the *Oxford Companion to the Second World War*, *Oxford Companion to Military History*, *Encyclopedia of U.S. Foreign Relations*, and the *American Heritage Encyclopedia of American History*.

Brands is frequently interviewed by the American and foreign press, including PBS, ABC, MSNBC, A&E/History Channel, BBC, NPR, Australian Broadcasting Company, the *Wall Street Journal*, *USA Today*, and the *Philadelphia Inquirer*.

The First American was a finalist for the Pulitzer Prize and the *Los Angeles Times* Prize, as well as a *New York Times* bestseller. *What America Owes the World* was a finalist for the Lionel Gelber Prize.



Introduction

Since the formation of the American Republic the principles of free enterprise and equal opportunity have been at the very core of economic philosophy. During the revolution, colonists fought not only for intangibles like "liberty" and "justice," but also for the promises of a free market that provided everyone with the opportunity to pursue economic advancement regardless of social position and unsubjected to a crown. America quickly became a society in which an individual's success would be measured not by birthright, but rather by determination. In this atmosphere, men and women have sought fortune limited only by their own abilities, their willingness to work hard, and their courage in the face of unknown dangers. In this course, we'll examine the lives and careers of successful men and women who seized the opportunities offered by the vibrant and open economy that has ensued. We'll examine how each of these individuals found the necessary resources—both economic and personal—to achieve greatness in the business arena. In doing so, we hope not only to arrive at a better understanding of American business history in general, but also to commune with its greatest visionaries—its Masters of Enterprise.

Lecture 1: The Business of America

Before beginning this lecture you may want to . . .

Read Adam Smith's *The Wealth of Nations*.

Introduction:

This lecture introduces the history of American business and provides an overview of the upcoming lectures.

Consider this . . .

1. Historically speaking, has the relationship between the U.S. government and business been an amiable one?
2. In what ways did Colonial America establish a business model for the nation?

I. Overview of *The Masters of Enterprise*

- A. According to Calvin Coolidge, the business of America is business. Coolidge was partly right and partly wrong.
- B. This course will feature sketches of important figures in the history of American business.
- C. The following are the main themes of this course:
 1. American history can be examined in terms of its politics, military, and social or cultural history. However, another way of looking at American history is through its business history.
 2. Business history (business, enterprises, firms) and economic history (larger terms of employment, production, relationship of one industry to another) are interrelated.
 3. Entrepreneurs, who represent independent, individual enterprise, are not the only important figures in American business history, especially in the last half century, during which corporations have risen.
- D. Although not an American, one important figure in American business is Karl Marx. He believed that people make their history, but not in circumstances of their own choosing.
 1. It is ironic that Marx is quoted in a course on American business history, but he was an acute observer of capitalism and business.
 2. Individual enterprise has had to adjust to the terms of American economy and politics over the course of the past two centuries. There are great differences between the entrepreneurs of the 18th and early 19th centuries and those of the 20th and 21st centuries.

E. The role of government in American business history is evident in two historic documents of 1776.

1. The *Declaration of Independence* gave birth to democratic government in America and was one of the first documents to show the role of government in American business.
2. Scottish thinker Adam Smith's *The Wealth of Nations* gave birth to modern capitalism and was also one of the first documents to show the role of government in American business.
3. The interplay between these two documents is interesting.
 - a. The *Declaration* declares that all men are created equal, whereas *The Wealth of Nations* posits the idea that it is inequality that drives capitalism and business.
 - b. Sometimes, they work well together, but what happens when the values expressed in these two documents come into conflict?

II. Overview of the Whole Course

- A. Colonial America established a business model for the nation, as well as the role religion would play in the future.
- B. During the American Revolution, American businesses were a strong voice in opposing the British Crown's taxation without representation and other regulations that constrained their productivity.
 1. The Navigation Acts prevented American manufacturers from producing iron and steel.
 2. British laws forbade American exploitation and land speculation further West.



ADAM SMITH

The Wealth of Nations

Adam Smith was a Scottish philosopher and political economist whose ideas form the basis of modern economics. His book *The Wealth of Nations* (1776) was very influential in the development of Western capitalism. It professed a doctrine called *laissez-faire*, which states that governments should not interfere with market economies and that free trade between nations increases wealth. Smith argued in favor of an economic system in which individual self-interest, guided by an "invisible hand," would ultimately lead to the greatest social good for all. He also asserted that economic growth is sustained by a division of labor, thus his ideas foreshadowed some of the mass production techniques of the early 20th century. Though it is often regarded as the cornerstone work of capitalistic ideas, Smith's *The Wealth of Nations* was also critical of uncontrolled free enterprise and monopolies.

Smith was the son of a customs official and studied at the University of Glasgow and Oxford. In 1751, he was appointed to the Glasgow faculty and taught logic and philosophy. A close lifelong friend of Scottish philosopher David Hume (1711-1776), he consorted with the premier thinkers of his time. Toward the end of his life, he was appointed commissioner of customs for Scotland (1777) and rector of the University of Glasgow (1787).



USS Constitution in Action with HMS Guerriere, 19 August, 1812 by Michele Felice Corne

- a. The outrage of the speculators was a primary motive in the Americans' outrage at the British.
 - b. American businesses were key in pushing for a more centralized federal government to combat the chaos of the *Articles of Confederation* and state-controlled sovereignty.
 - c. Businesses in this era looked at government as their ally, which would change by the 1820s when they desired a smaller government.
- C. Protection and the security of merchants were important.
1. The most important businesses in the early days dealt with agriculture and overseas trade.
 2. Businesses needed protection for their ships in foreign waters where they were at the mercy of the Barbary Pirates, the British, and the French.
 - a. The British tried to prevent Americans from trading with the French and vice-versa depending on the ongoing hostilities between the European powers.
 - b. Not until after the War of 1812 and the defeat of Napoleon was there relative calm and safety for American merchant ships overseas.
 3. The early mainstay of American commerce was agriculture. Agriculture was important for the development of American business in two ways: farmers provided the essential food for the country and drove land speculation.
- D. Trade in slaves, although often overlooked for obvious reasons, was a major component of American commerce until the beginning of the 19th century.
1. The U.S. Congress banned the overseas import of slaves in 1808.

2. However, the slave trade between states was an important industry up until the Civil War.
- E. Globalization existed from early on as American traders dealt with markets all over the world.
- F. The Age of Commerce (commercial capitalism) existed in America from the beginning of its independence to 1820.
- G. The Age of Industry (industrial capitalism) began in the 1820s and lasted until the 1890s. The first phase began chiefly with the cotton and textile industries.
1. Eli Whitney's invention of the cotton gin was important in the first phase of the industry.
 2. The Industrial Revolution as a worldwide event began in England in the late 1700s and continued as a gradual revolution over the following decades.
- H. The second phase dealt mostly with transportation and the invention of the steam engine.
1. The steam engine transformed waterways into two-way routes of commerce with steamboats.
 2. With the inception of railroads, the Industrial Revolution bloomed as land travel became much easier and cities no longer had to be built near the water.
- I. The Civil War was a terrific impetus to the industrialization of American business and led to the third age of American business: finance.
- J. The Age of Finance (finance capitalism) dealt with the need to fund all of the major industry enterprises.
1. Up to this point, most enterprises were operated by family partnerships.



Loggers pose beside a "walking donkey," a steam engine for pulling logs down railroad tracks, Mason County, Washington, ca. 1901.



Modern Bureau of Engraving and Printing in Washington, D.C.

2. New means were sought to find investors to raise huge sums of money for industrial development. A prime example of this system—in the person of J.P. Morgan—is discussed in Lecture 6.
- K. The Age of Government Intervention and Cooperation came to an end with the end of the Civil War.
1. The power of institutions of capitalism grew at a faster rate than the power of government institutions after the war.
 2. American voters at the turn of the 20th century felt it was necessary to reign in the excesses of capitalist power. This initiated a delicate dance between government and business as both had to learn to accommodate the other.
 3. The 20th century spawned the idea that business is perhaps over-regulated by government.
 4. Technological innovation became a constant theme of the American economy in the 20th century.
 5. The consumer became the driving force of the American economy in the 20th century.
 6. The trend of “boom and bust” in American business over the last two hundred years will also be addressed.

Conclusion:

In this section, the history of American business was introduced and a preview of upcoming lectures was provided.

FOR GREATER UNDERSTANDING



Consider

1. What forces have defined the stages of business in U.S. history?
2. How has the relationship between business and government changed since the nation's founding?
3. How might capitalism be at odds with the nation's core values?

Suggested Reading

- Heilbroner, Robert L. *The Worldly Philosophers: The Lives, Times and Ideas of the Great Economic Thinkers*. 7th ed. Revised. New York: Touchstone, 1999.
- Marx, Karl. *Capital: A Critique of Political Economy*. Vol. I. Ben Fowkes. (trans.) New York: Penguin Classics, 1992.
- Smith, Adam. *The Wealth of Nations*. New York: Bantam, 2003.

Other Books of Interest

- Heilbroner, Robert L., Lester C. Thurow. *Economics Explained: Everything You Need to Know About How the Economy Works and Where It's Going*. New York: Simon & Schuster Adult Publishing Group, 1998.
- Josephson, Matthew. *The Robber Barons: The Great American Capitalists, 1861-1901*. San Diego: Harcourt, 1976.

Websites to Visit

1. U-S-History.Com, presented by Online Highways, LLC - <http://www.u-s-history.com>
2. Digital History, presented by the University of Houston - <http://www.digitalhistory.uh.edu/>
3. Marx & Engels Internet Archive - <http://www.marxists.org/archive/marx/>

Recorded Books

- Kyne, Peter B. and Alan Axelrod. *The Go-Getter*. UNABRIDGED Recorded Books. Narrated by Arthur Morey. (2 CDs/1.5 hours)

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Lecture 2: John Jacob Astor From Furs to Real Estate

Before beginning this lecture you may want to . . .

Read Axel Madsen's *John Jacob Astor: America's First Multimillionaire*.

Introduction:

This lecture focuses on the life and times of John Jacob Astor and the role he played in American business. This discussion will include the Panic of 1837 and its effect on the American economy.

Consider this . . .

1. What made New York a prime location for business in the 19th century?
2. Why was it John Jacob Astor who had the success?

I. John Jacob Astor

A. In January 1789, the United States was just beginning operation of its new federal government.

B. John Jacob Astor was just starting his own business selling furs and pianos.

C. He became the most successful businessman of his age.

1. Astor became one of the towering figures in this first commercial phase of American business history.

2. Astor's tenure demonstrates how American business required military protection.

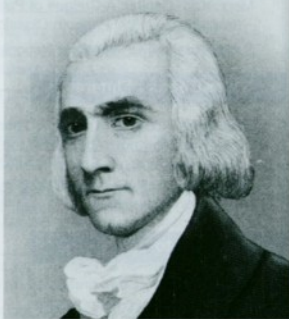
3. The War of 1812 was a watershed moment for Astor and turned him toward land speculation.

4. He lived until 1848 and was the wealthiest man in America. His life is revealing of this period of American business history.

D. John Jacob Astor spent his early years in Germany.

1. Astor was born in Waldorf, Germany.

2. Astor and his brothers decided not to follow in their father's footsteps and scattered throughout Europe.



John Jacob Astor (1763-1848)



"The Beginning of a Great Fortune – Astor's First Trip for Furs." John Jacob Astor standing on the shore of a lake with rifle and his foot on a punt buying furs from Indians in western New York.

E. Astor left for London to find his fortune and intended to continue on to America, but the Revolutionary War made the situation too tumultuous for him to travel. As will be demonstrated time and time again, wars disrupt trade and immigration.

F. On board the ship to America, with musical instruments in tow, he struck up a conversation with his fellow passengers, who introduced him to the fur trade.

1. The fur trade was not a business for the faint of heart, but it could be lucrative.

2. He discovered quickly that the market for furs was much better than the market for musical instruments. Americans were a practical people who, at this time, did not have much time for artistic pursuits.

G. Astor settled in New York, which had become the business capital of the young nation.

1. New York had the best harbor and access to the Hudson River. Later it was connected to the Erie Canal.

2. Astor decided that he would travel up the Hudson River to upstate New York and then on to the Canadian wilderness, where he encountered native Indian tribes.

- a. The fur trade required a set of social skills that he had not anticipated, as he had to deal with the Indians, who were the chief fur trappers at this time.

- b. In this period the Indians engaged in frequent trade with Americans for tools.

3. Astor was a canny trader, quickly learning the ins and outs of the fur trading business.

SARAH TODD ASTOR

As one story has it, at the age of twenty-two, John Jacob Astor fell in love with the daughter of his landlord, Sarah Todd, age eighteen. They met in his shop on Water St. where she had come to buy furs to make a coat.

Sarah Todd's mother came from a well-established New York family. The Brevoorts and Todds were considered a "cut above" Astor. Sarah's family connections with sea captains and others of considerable standing and influence in New York, along with her expert ability to judge furs and make them up, had won the heart of the young fur dealer. After a requisite courtship, they were married in the German Reformed Church.

Their marriage was a business partnership as well as marital. Sarah had keen business sense, and was willing and very able to help. The Astors tended mostly to business. They lived frugally and devoted themselves to making money. Sarah's dowry of \$300 and \$200 John Jacob had saved from his import/export business gave them the initial funds for Astor to trade directly for animal furs. Five children were also born of the marriage.

The Astor family dynasty owes much to Sarah Todd for her business acumen as well as her eye for raw talent.



Advertisement 1890s

- H. John Jacob Astor married into a successful business family. Sarah Todd Astor, who was considered a master appraiser of furs, recognized her own talent and asked for \$500 per hour for her expertise, which she was granted. Family businesses reigned during this period and were financed from within without equity or outside investment.
- I. Astor was extremely ambitious, as were most of the successful titans of business covered in this course.
1. He began sending his agents westward to expand his fur-trapping capabilities. At the same time, Astor began looking for bigger markets, including expansion into the Chinese market.
 - a. China provided silk, jade, tea, and other fine goods to the United States, but the Chinese were not buying much from the Pacific coast. Astor began making a profit in his trade business both ways.
 - b. He also joined the British in selling opium to the Chinese.
 - c. It is quite interesting that one of America's most distinguished early businessmen made a great deal of money in the illegal drug trade.
 2. His wealth greatly increased with trade from the Pacific seaboard to China.
 - a. Problems developed as the Chinese government started curtailing imports, and then the situation was further complicated by the advent of the War of 1812.
 - b. A major trading post for Astor's business, Astoria on the Oregon coast at the mouth of the Columbia River, was at the mercy of the British Navy.
 - c. There was no U.S. Navy to speak of and no ships in the Pacific Ocean to help control the shipping lanes.

3. This led to the end of Astor's long-running success in the fur trade.
 - a. Another cause of Astor's problems in the fur trade was the increasing shortage of fur, beaver pelts in particular.
 - b. There was also a major shift in fashion in both Europe and New York. Pelt hats made from beaver were no longer considered fashionable.
4. Both the supply and the demand for his furs collapsed.
 - a. By 1834, he had sold off his complete fur trade business.
 - b. At this point, he turned his attention to land speculation.
 - c. His earliest land ventures in upstate New York did not turn out well.
 - d. Despite this early failure, he began purchasing plots in New York City in Greenwich Village and Midtown.
 - e. An associate of Astor left an account for him to buy land on the outskirts of the ever-expanding city.
 - f. Astor was a shrewd calculator of the future with an uncanny sense for the way land value increases.

II. The Panic of 1837

- A. Those who can ride out the bust are the ones who make the most money during the boom.
- B. Dire accounts of the financial calamity did not phase Astor.
 1. He continued investing in cheap land uptown, and by 1840, he was the wealthiest man in the city and possibly the nation.
 2. His wealth gave rise to the Astor Hotel (1936), the most magnificent hotel in its day. The hotel featured bathrooms with running water.
 3. The Astor Library was a contribution to the intellectual life of New York.

III. John Jacob Astor Died in 1848

- A. When asked what he would do if he could do things over again, he said he would buy up every foot of land on the island of Manhattan.
- B. The lesson learned by Astor over his long life was that it would never be a mistake to bet on the future of America. This is a theme that will come up again and again.
- C. We will investigate if this wisdom still applies in later centuries.

Conclusion:

John Jacob Astor was one of the wealthiest men of his time. He began selling furs, pianos, and opium to make his money, but ended up investing in real estate. The next lecture focuses on Cyrus McCormick and the business of agriculture.



Consider

1. What impetus did John Jacob Astor have for starting each of his businesses?
2. How did John Jacob Astor use the west coast of North America to his advantage?
3. How did entrepreneurs typically finance their business ventures in Astor's time?

Suggested Reading

- Chittenden, Hiram Martin. *The American Fur Trade of the Far West*, Vols. I and II. Lincoln, Nebraska: University of Nebraska Press, 1989.
- Hanes, William Travis, Frank Sanello. *Opium Wars: The Addiction of One Empire and the Corruption of Another*. Naperville, Illinois: Sourcebooks, Inc., 2002.
- Madsen, Axel. *John Jacob Astor: America's First Multimillionaire*. Hoboken, New Jersey: John Wiley & Sons, Incorporated, 2001.

Other Books of Interest

- Burrows, Edwin G., Mike Wallace. *Gotham: A History of New York City to 1898*. New York: Oxford University Press, 2000.

Websites to Visit

1. The Astors' Beechwood Historic Mansion in Newport, Rhode Island - <http://www.astorsbeechwood.com/JohnJacobAstor.html>
2. John Jacob Astor - Wikipedia - http://en.wikipedia.org/wiki/John_Jacob_Astor
3. John Jacob Astor - <http://history.sandiego.edu/gen/st/~kalenius/john.htm>

Lecture 3: Cyrus McCormick
The Business of Agriculture

Before beginning this lecture you may want to . . .

Read Herbert Casson's *Cyrus Hall McCormick: His Life and Work*.

Introduction:

Cyrus McCormick invented the mechanical reaper, which revolutionized the agricultural industry. This lecture focuses on the man behind the invention and the role agriculture played in the American business industry. The lecture also addresses the difference in the North's and South's agricultural business.

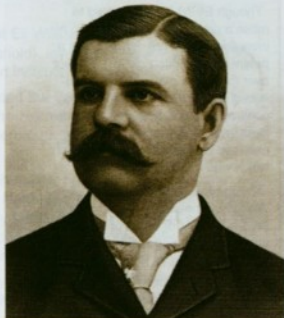
Consider this . . .

1. Why is the idea of the family farm romanticized in American history?
2. How has agricultural technology continued to develop? How has this impacted the American family farm?

I. Cyrus McCormick

A. No American industry is as closely tied to the American imagination as the American family farm.

1. The idea of farming as somehow essential to the American identity is sacrosanct.
2. There is good reason for this as agriculture is considered the mother of all industries.
 - a. People have to eat, and there will always be that constant demand.
 - b. Agriculture also provided the springboard for other types of success through rising land values.



Cyrus McCormick (1809-1884)

B. The mythology of the family farm is not the only myth.

1. There is the myth of the self-sufficient farm carved out of the wilderness by a single family or a yeoman farmer.
2. One of the basic tenets of Jeffersonian belief is based on the independent yeoman farmer.
 - a. According to Jefferson, individuals can be politically independent only if they are economically independent.

ELI WHITNEY AND THE COTTON GIN

Eli Whitney was born in Westboro, Massachusetts on December 8, 1765. Industrious from an early age, he was educated as an engineer at Yale College and within one year of his graduation designed and constructed the machine that would make him famous—the cotton gin. Whitney's cotton gin—short for cotton engine—quickly and easily separated cottonseed from cotton fibers. It was capable of outputting 50 pounds of cleaned cotton every day, compared to just a few pounds cleaned and separated by a person. The machine was revolutionary. For the first time, cotton became a profitable export crop.

Though Eli Whitney expected to make a great deal of money from his invention, he did not. He received a patent for the cotton gin in 1794, but over the years, many imitators produced similar machines. Whitney's cotton gin company went out of business in 1797. Dismayed, he never patented his later inventions, one of which was a milling machine.

Though the cotton gin made Eli Whitney famous, he is also considered a pioneer of mass production and manufacturing methods. Fearing war with France in 1798, the U.S. government awarded Whitney a contract of \$134,000 to produce 10,000 muskets. In fulfilling his obligation, Whitney demonstrated that workers need not be blacksmiths to produce guns. At his factory in New Haven, Connecticut, he developed a production system using semi- or unskilled workers on an assembly line. The workers simply produced standardized parts according to exact specifications; the parts were then assembled into guns.

- b. Eighty percent of the population was either living on farms or closely dependent on them.
 - c. Relatively few worked for somebody else for a wage or salary.
3. The idea that farmers were self-sufficient was a myth.
 - a. They were always closely connected to the rest of the country and the economy.
 - b. American agriculture was an industry, not just a livelihood.
 4. A fundamental fact about economic and business life is found in the ratio between land and labor or natural resources and population.
 - a. In Europe, the ratio of land to population was small, so there was an abundance of labor.
 - b. Just the opposite was true in America, all the way up to the mid 20th century, which made labor more expensive and led to the development of technology to compensate for this effect.
 5. The ratio of land to population affects the value of labor elsewhere in the world. It also encourages immigration to a large extent.
 6. Agriculture was the fundamental industry in early America, affecting four-fifths of the population, but this changed.
 7. Technology made new business enterprises possible, freeing up a good portion of the population to pursue things not related to food.

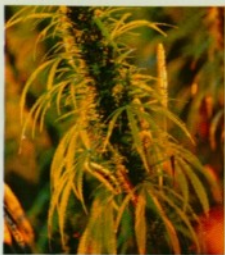
II. Mechanical Reaper

- A. This was not the first piece of machinery to change American culture, nor the most important, nor the last.
- B. Yet it was characteristic of the changes happening in the agriculture industry, and McCormick was a brilliant success at making money from this innovation.



Early Threshing Machine

- C. A common theme in this course is "There is a big difference between inventing something and actually putting that invention into practice." Plenty of inventors never make money from their inventions.
- D. McCormick got the idea for his invention from Eli Whitney, who invented the cotton gin.
 1. One of the ironies of history is that Eli Whitney, a man from Connecticut (an abolitionist stronghold), invented a device in the 1790s that helped establish slavery as an institution in the South.
 2. Suppose no one had ever invented the cotton gin? Slavery had just begun to die out, especially in the Northern states, but the application of this new technology made cotton production and thus slaves more profitable.
 3. Slavery was abolished in the North mainly because it did not make business sense. The crops in the North, like wheat, were not as labor intensive the whole year; they only needed labor four weeks out of the year. The crops in the South needed constant attention all year round, and thus, the slaves were useful in this sense.
 4. The moral impetus later claimed by the abolitionists was not as strong as they claimed, and in fact, most Northern slaves had been sold to the South rather than freed before the abolition deadlines went into effect.
- E. Cyrus McCormick was a Virginian who always strove to find success with an invention.
 1. He soon came up with an invention that facilitated the production of fiber crops.
 2. Hemp was becoming a popular crop at this time because it was used in the making of rope.
 3. McCormick invented a hemp-breaking machine to help separate the useful fibers from the rest of the plant.
 - a. This machine was supported by Henry Clay of Kentucky, who had presidential aspirations. He hoped that hemp was going to be his



HEMP PRODUCTION

Native to Asia but cultivated elsewhere as well, hemp is an herb that can be used to make many different products. Its fibrous inner bark can be used to make ropes and cloth, while oil from its seeds is used in soap and paint. The plant's long, smooth, hollow fibers make it very strong, durable, and resistant to mold and mildew. Some strains of the plant, generally known as cannabis, are used to produce marijuana and hashish.

Hemp was brought to America by colonists who grew the plant to weave cloth, make ropes, and produce caulk for ship's hulls. But it was outlawed in 1937 by the federal Marijuana Tax Stamp Act, which prohibited the use, sale, and cultivation of marijuana in the United States. Although they contain different levels of tetrahydrocannabinol (THC), an element that creates psychoactive effects, industrial hemp and marijuana are still classified as the same type of plant by the U.S. government. Both are illegal. An exception to the federal law was made during World War II, when industrial hemp was grown by American farmers under the "Hemp for Victory" program to create fiber and rope for the war effort.

border state what cotton was to the deep South.

- b. This never happened because the machine never worked very well, and the market for hemp dried up.
 - c. Of course, hemp came back on the black market during the mid to late 20th century.
- F. McCormick decided to turn his attention to wheat, another fiber crop.
1. The wheat cycle involved a couple of phases of intense labor. It was crucial to harvest quickly before bad weather ruined a crop.
 2. The problem of labor in this case was unique. A man had to hire enough labor hands to do the work or multiply the power of those hands through technology.
 3. The limited period of time was supposed to encourage more invention by those looking to be competitive.
 4. It also prevented a permanent monopoly, which was guaranteed by the government for only fourteen years.
 5. Other inventors developed other mechanical reaper-type devices independently that did not infringe upon McCormick's patent.
- G. At the same time of McCormick's invention, the interior of the country was expanding at a great rate.

1. The Erie Canal was built in 1825.
 - a. It allowed commercial agriculture to flourish throughout the Ohio Valley and into the eastern portion of the Mississippi Valley.
 - b. Railroads began to develop in the eastern half of the United States in 1830 to 1840.
 - c. Farmers could go as far as the transportation network could take them.
 - d. They had to get their crops to the market.
 2. People in the Great Plains knew that land value would go up as transportation developed westward.
- H. McCormick moved his business to Chicago, the great metropolis of the U.S. interior where the lake traffic met the railroad traffic.
1. He developed a factory and sent out agents to sell his invention across the nation to farmers.
 2. He also was one of the first to sell his reaper on credit.
 - a. The Civil War could easily be considered a conflict between wheat and cotton.
 - b. The British were even more dependent on Northern wheat than Southern cotton; so, the British could not side with the South in the war.
 3. Northern agriculture thrived during the war.
 4. In mechanizing Northern agriculture, McCormick's invention made the industrial revolution possible, which decreased the amount of men needed to work the farmland.

Conclusion:

This lecture addressed Cyrus McCormick and his invention of the cotton gin, the agricultural needs in the North and the South, slavery, and the reasoning behind the manpower needed in the South to tend to the crops. The next lecture will look at Cornelius Vanderbilt and Jay Gould and the role of speculation in American business history.



FOR GREATER UNDERSTANDING



Consider

1. How does the ratio between land and labor affect a region's economy?
2. Why didn't slavery in the South end at the beginning of the 19th century?
3. How did Cyrus McCormick take advantage of westward expansion to sell his reaper?

Suggested Reading

Casson, Herbert N. *Cyrus Hall McCormick: His Life and Work*. New York: Beard Books, Inc., 2001.

Headlee, Sue R. *The Political Economy of the Family Farm: The Agrarian Roots of American Capitalism*. Westport, Connecticut: Greenwood Publishing Group, Incorporated, 1991.

Other Books of Interest

Bagwell, Tyler E. *The Jekyll Island Club* (Images of America Series). Charleston, South Carolina: Arcadia Publishing SC, 1998.

Websites to Visit

1. McCormick Farm – Shenandoah Valley Agricultural Research & Extension Center, Virginia Agricultural Experiment Station - <http://www.vaes.vt.edu/steeles/mccormick/mccormick.html>
2. National Inventors Hall of Fame – Cyrus McCormick - http://www.invent.org/hall_of_fame/101.html

Lecture 4: Cornelius Vanderbilt and Jay Gould Speculating on America

Before beginning this lecture you may want to . . .

Read Maury Klein's *The Life and Legend of Jay Gould*.

Introduction:

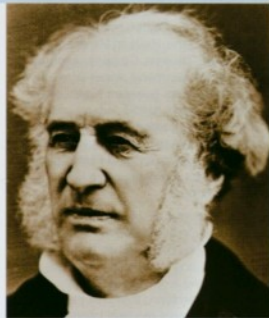
Cornelius Vanderbilt and Jay Gould, two notorious businessmen of two different generations, were brought together in a spectacular way in the 1860s.

Consider this . . .

1. How do entrepreneurial rivalries promote American business?
2. How did the California Gold Rush impact Vanderbilt's wealth?

I. Cornelius Vanderbilt: From Staten Island to Manhattan

- A. Vanderbilt was born in 1794 on Staten Island at a time when water was the main method of transport.
1. It is no coincidence that the first American cities were established on the Eastern Seaboard and then on the major rivers. For many years, Philadelphia was the largest city because of its status as a sea and river port.
 2. Until the spread of railroads in the 1840s, American cities were essentially constrained to locations on the water.
 3. Though building a canal was an expensive operation, the benefits of water transportation over the use of wagons made it worthwhile.
- B. Vanderbilt was so anxious to get off the family farm that he threatened to run away before he was sixteen. His parents gave him some start-up money for a river ferrying business in Manhattan harbor.
- C. Vanderbilt was exceedingly ambitious and an indefatigable worker who would often settle his conflicts with the competition by coming to fistcuffs—he was very combative by nature. In early American capitalism, the battle metaphors of business were often more than mere metaphors.
- D. He left home in 1810 and went into business with a small sailboat, which he sailed around the Manhattan harbor.



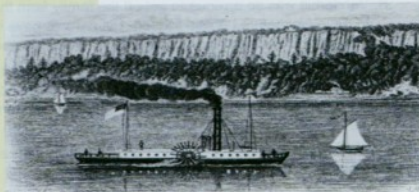
Cornelius Vanderbilt (1794-1877)

GIBBONS v. OGDEN (1824)

Gibbons v. Ogden (1824) was a pivotal case in the history of American industry and was a major milestone in the federal government's expansion of power. It resulted from a disagreement between steamboat companies vying for market share on the Hudson River.

According to legislation passed by the New York State Legislature in 1808, steamboat operators Robert R. Livingston and Robert Fulton had a monopoly to operate steamboats on all of the state's waters. Under a license granted by Livingston and Fulton, Aaron Ogden ran a steamboat line in the Hudson River. However, Thomas Gibbons, another steamboat company owner who operated boats between New Jersey and New York, held a federal coasting license, granted under a 1793 Act of Congress, that competed with Ogden's. Livingston and Fulton sued Gibbons for infringing upon their legal monopoly.

In the famous 1824 decision, the Supreme Court nullified the navigation monopoly New York State had granted Fulton and Livingston. The decision marked a change in federal power by declaring that only the federal government regulate interstate commerce. As a result of the decision, Thomas Gibbons and his employee Cornelius Vanderbilt gained control of much of the shipping business along the Hudson River and made a fortune.



E. His first big break was during the War of 1812. While the war was destructive for John Jacob Astor, it was constructive for Cornelius Vanderbilt.

1. The U.S. Army needed the New York ferrying industry to help them move supplies and men around the area.
2. He also seized on the opportunity presented to smaller ships which took the place of the larger ships that had been stopped by the British naval blockade.
3. He was doing quite well as a single entrepreneur who had expanded to the ferry trade business.

F. He suddenly decided to sell his sailboats and lost his independence by going to work for somebody else. His new boss was operating steamboats, and Vanderbilt dropped everything to learn all he could about the new technology.

1. Before steamboats, goods could only be sent one way: downriver; it was prohibitively expensive to send things by land upriver. Vanderbilt had enough presence of mind to understand that steamboats were the wave of the future.
2. He found himself caught up in the landmark legal case *Gibbons v. Ogden*, which established the law that states cannot set up monopolies in violation of the federal Constitution.

G. Vanderbilt went into full-fledged business as a steamboat operator in a very cutthroat business, and he developed into a kingpin of the steamboat industry.

II. The Gold Rush

- A. In 1848, gold was discovered in California which drove the seafaring transportation industry from fast clipper ships to efficient steam-powered sea vessels.
- B. Hundreds of thousands of people wanted to travel by steamship to Nicaragua, by train across Nicaragua, and then up the west coast by steamship again to the gold mines of California.
- C. Vanderbilt went on vacation during which dishonest business associates in the States attempted to swindle him out of his Latin American steamship business. He wrote a famously succinct letter to them: "Gentlemen, you have undertaken to cheat me. I won't sue you for the law is too slow. I'll ruin you."
- D. Vanderbilt proceeded to do just that and took over the steamship business down to Latin America and up to California.

III. The Rise of the Railroads

- A. About this time, Vanderbilt decided to invest in railroads and expand their relatively modest Eastern infrastructure.
 1. Railroad corporations had been selling stock to finance their expansion.
 2. "Railroad Wars" were wars for ownership of the railroads in which a majority of public stock was bought by one individual in an attempt to control a railroad. Vanderbilt engaged in these wars and often won.
- B. At this point, Vanderbilt's life intersected with Jay Gould.

THE CALIFORNIA GOLD RUSH

On January 24, 1848, a contractor named James W. Marshall was camping with his work crew on the American River at Coloma near Sacramento. The team was building a saw mill for John Sutter, a farmer who owned 50,000 acres in the Sacramento Valley. On that cold morning, Marshall found a few tiny gold nuggets, which he showed to Sutter, who swiftly recognized them as real gold of fine quality.

In March, the "California" of San Francisco ran a story about Marshall's find. Shortly thereafter, General John Bidwell discovered gold in the Feather River and Major Pearson B. Reading found gold in the Trinity River. In December of that year, President John Polk, in a speech to Congress, confirmed the accounts of gold being found in the western territory. Soon, people began flocking to California by the thousands in the hope of striking it rich. The Gold Rush was in full swing by 1849.

California's early residents were largely missionaries and Native Americans. But following the discovery of gold, the population swelled to include farmers, ranchers, store owners, and other business people. In just four years, the area's population grew from 15,000 to nearly 300,000. As a result, California developed a rich economy sustained by agriculture, industry, and commerce.

In 1850, California became a state, and in 1852, that state's gold production reached its Gold Rush zenith at \$81 million. In the following seven years, gold became scarce, even as mining techniques improved. In 1859, silver was discovered in Nevada, and the Gold Rush ended.

IV. Jay Gould and Speculation

A. Jay Gould is as different from Vanderbilt as a person could be.

1. He was a shy, slight young man who came from a family afflicted with an unusually high frequency of tuberculosis.
2. He was bookish and did not command attention the way the imposing Vanderbilt did.
3. He took to studying public corporations and finance to figure out how one might make money in manipulating stock ownership.

B. One of Jay Gould's lawyer friend's descriptions of Gould contrasted sharply with Vanderbilt's assertive forthrightness.

C. The mid 19th century and the entrance of Jay Gould coincided with the emergence of finance capitalism, but where other people built up enterprises and corporations, Jay Gould figured out how control of these companies could be seized and even dismantled (through hostile takeover).

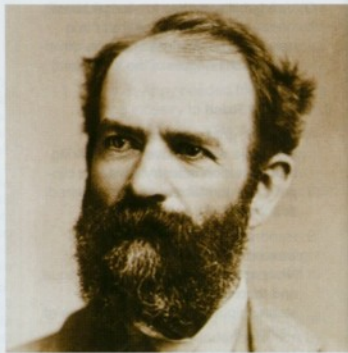
D. Drew, Gould, and Fiske took on Vanderbilt in an attempt to control the Erie Railroads.

1. Daniel Drew was a master manipulator of the public stock of the Erie Railroad.
2. At this time there was virtually no one regulating the stock market.
3. Drew, Gould, and Fiske began forging counterfeit stock shares.

E. When Vanderbilt attempted to have them arrested, they fled with all of their stock across the Hudson to New Jersey. After bribing a number of public officials, they were successful at stealing the Erie Railroad.

F. Jay Gould and Jim Fiske attempted to seize control of the vast majority of the American gold supply.

1. They bribed officials in the Grant administration to keep the U.S. Treasury's large supply of gold off the market to control the price of the rest of it.
2. They were successful in their gold conspiracy until the very last minute, when U.S. Grant, alarmed at rising gold prices, intervened.



Jay Gould (1836-1892)

© PHOTOFEST/CONTOUR

V. Black Friday (September 24, 1869)

- A. As the U.S. Treasury put its large reserve of gold on the market, the gold price plummeted in a matter of hours, and all types of speculators were ruined.
- B. Jay Gould had to run for his life from the investors on Wall Street, and his name became associated with corruption for all time.
- C. What role do people like Jay Gould, hostile traders who bet on the fall in prices, play in the American economy?
1. Gould would say, in his defense, that such people are necessary to keep things from becoming overvalued.
 2. Thus, this betting against America keeps the economy balanced.
 3. This principle still applies in today's economy.

Conclusion:

Vanderbilt proved that flexibility is vital for maintaining wealth. The next lecture focuses on Andrew Carnegie and John D. Rockefeller.

BLACK FRIDAY (SEPTEMBER 24, 1869)

During the Civil War, the U.S. government issued "greenbacks"—money backed by nothing but credit. When the war ended, people commonly believed that the government would buy back the greenbacks with gold. Taking advantage of this belief, financiers James Fisk and Jay Gould tried to corner the gold market in the United States in 1869. They began by befriending President Ulysses S. Grant's brother-in-law, Abel Corbin. Corbin convinced the President to appoint General Daniel Butterfield as the nation's assistant treasurer. Butterfield collaborated with Corbin, Fisk, and Gould to tip them off when the government planned to sell its gold.

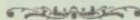
Fisk and Gould began to hoard gold in mid September, 1869, in order to drive up its price. They hoped that an increased price for gold would in turn increase the price of wheat and encourage western farmers to sell their wheat to easterners, who would then require additional freight business from the Erie Railroad, which Fisk and Gould owned. However, President Grant unearthed the plot to corner the gold market when he became suspicious of Corbin. He ordered the sale of \$4 million of U.S. gold. When the government gold hit the U.S. market on September 24, 1869, the price of gold plummeted and many investors were ruined.



© COURTESY

WALL STREET—THE BURN OF TYPING GOLD WITH HORRORS!

FOR GREATER UNDERSTANDING



Consider

1. Which historical events contributed to Cornelius Vanderbilt's success?
2. How did Jay Gould contribute to the idea that capitalists are greedy?
3. How were the Railroad Wars fought and who ultimately won?

Suggested Reading

Ackerman, Kenneth D. *The Gold Ring: Jim Fisk, Jay Gould, and Black Friday, 1869*. Pensacola, Florida: Ballinger Publishing Co., 1990.

Butler, John A. *Atlantic Kingdom: America's Contest with Cunard in the Age of Sail and Steam*. Dulles, Virginia: Brassey's, Inc., 2002.

Gordon, John Steele. *Scarlet Woman of Wall Street: Jay Gould, Jim Fisk, Cornelius Vanderbilt, the Erie Railway Wars and the Birth of Wall Street*. New York: Grove/Atlantic, Inc., 1988.

Kessner, Thomas. *Capital City*. New York: Simon & Schuster Adult Publishing Group, 2003.

Klein, Maury. *The Life and Legend of Jay Gould*. Baltimore: Johns Hopkins University Press, 1986.

Other Books of Interest

Carey, Bill. *Chancellors, Commodores, and Coeds: A History of Vanderbilt University*. New York: Clearbrook Press, 2003.

Elias, Stephen. *Alexander T. Stewart: The Forgotten Merchant Prince*. Westport, Connecticut: Greenwood Publishing Group, Incorporated, 1992.

Websites to Visit

1. Railroads: The First Big Business – Course Overview and Biography of Cornelius Vanderbilt by Kenneth T. Poole, Carnegie-Mellon University - <http://voteview.uh.edu/railroad.htm> ; <http://voteview.uh.edu/vanderb2.htm>
2. Jay Gould Page – Houghton Mifflin, The Reader's Companion to American History - http://college.hmco.com/history/readerscomp/rcah/html/ah_037600_gouldjay.htm

Lecture 5: Andrew Carnegie and John D. Rockefeller An Obsession for Efficiency

Before beginning this lecture you may want to . . .

Read Harold Livesay's *Andrew Carnegie and the Rise of Big Business*.

Introduction:

This lecture focuses on Andrew Carnegie and how he became successful in the steel industry. The lecture also looks at his contemporary, John D. Rockefeller, and the oil industry.

Consider this . . .

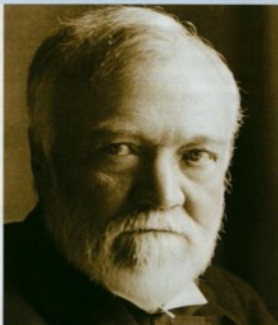
1. Technology aside, how has the nature of business changed in the last 150 years?
2. How were Carnegie's and Rockefeller's business strategies similar?

I. Steam Engine

- A. The second novel application of steam power was in transportation, namely steamboats and railroads.
- B. The Industrial Revolution leaped the Atlantic Ocean from Great Britain to the United States.

II. Andrew Carnegie

- A. Andrew Carnegie represents the classic case of a rags-to-riches immigrant who found success in America.
- B. Carnegie's father, a manual textile worker, lost his job when his factory became automated as part of the Industrial Revolution.
- C. The Carnegies moved to America somewhere just outside Pittsburgh, where at age twelve Andrew dropped out of school to support his family.
- D. Carnegie's first job was as a bobbin boy, which involved him dipping materials into an oil bath to clean off the metal filings.
 1. He often had nightmares about the boiler under his care exploding. This is a reminder of how harsh the early Industrial Age factories could be for the workers.
 2. Carnegie found more suitable work as a messenger boy for a telegraph company that worked with the Pennsylvania Railroad.



Andrew Carnegie (1835-1919)

THE INDUSTRIAL REVOLUTION

The Industrial Revolution refers to a period of profound economic change that occurred in Western Europe and the United States in the late 18th and early 19th centuries. It was driven largely by the invention of the steam engine. Before steam, manufacturing relied upon human or animal labor, water or wind mills for power. But as steam became the primary means of power, factories were built in a wider variety of location and jobs that were previously done by hand became mechanized. Every industry from textile production to the milling of grain was affected and revolutionized as production increased dramatically. Steam engines soon found their way into locomotives and ships, dramatically altering the speed at which goods could be transferred from one location to another. Consequently, production and distribution of materials became more predictable and mechanized, opening the doors for the mass production techniques still used the world over today.

3. He got a break and became an assistant (right-hand man) for Tom Scott, a top executive at the Pennsylvania Railroad.
- E. Carnegie began investing money with an express company that did business with the railroad. He made his first \$600 from these investments.
- F. Carnegie became engaged in insider trading, and it was a clear conflict-of-interest. Yet at this time, there was nothing illegal about it. This was perfectly appropriate in those days and ambitious, quick-witted investors could be successful.
- G. Carnegie reaped another financial windfall from more insider-trading within the Pennsylvania Railroad.
- H. He decided to go into business for himself in iron and steel construction.
1. Carnegie bought into a large corporation that built steel bridges including the first bridge to span the Mississippi and the famous Brooklyn Bridge.
 2. Then, he realized that there was more money to be made in the raw materials



Carnegie Steel Works, Braddock, Pennsylvania, ca. 1905.

business upon which many companies were dependent.

- I. Carnegie purchased what came to be called the Carnegie Steel Company.
1. His secret of success for manufacturers was, in short: "Put all your eggs in one basket and watch them closely."
 2. To be the Master of Steel, one had to focus everything on that one enterprise, unlike the age in which John Jacob Astor lived.
 3. Carnegie's philosophy of efficient business production was, drive your costs down and the profits will take care of themselves. He became one of the wealthiest men in America and demonstrated the great opportunity and wealth to be had by those clever enough to realize the full potential of the Industrial Age.

III. John D. Rockefeller

- A. Not until the 1850s was there any sort of systematic petroleum production.
1. Rockefeller got in on the ground level and decided that the real opportunity was in the refinery business.
 2. His great wealth was earned from kerosene, which was used as a lubricant in those days, and not from gasoline, because automobiles had not been invented yet.
- B. Rockefeller's specialty was attention to detail, which resulted in supreme efficiency and kept production costs low. By 1870, Standard Oil controlled 90 percent of the oil refining industry, a chokehold that was not illegal at the time.
- C. He engaged in what quite typically would be thought of today as cutthroat, illegal tactics.
1. Rockefeller sold his oil below cost in certain areas where there was competition.



Two Women Cross in Front of Pennsylvania Railroad Train, ca. 1895.

2. He would offer to buy out his competitors, and then if they refused, he would drive them out of business.
 3. Rockefeller had such control over the market that he could force his train shippers to give him shipping rebates, which would be seen as an unfair advantage today.
 4. His actions resulted in lower kerosene prices for the consumer even as his former competitors pled their case before Congress.
 5. John D. Rockefeller is Exhibit A when one talks about the great captains of industry and robber barons of the day.
- D. In 1890, Congress passed the Sherman Anti-Trust Act, which didn't have much teeth but was a start.
- E. A few years later, Teddy Roosevelt's government won an anti-trust suit against Standard Oil in the Supreme Court. This ruling broke up the monopoly.
1. Rockefeller recognized that Standard Oil might indeed be worth more broken up as individual companies.
 2. The year 1911 marked the end of the great industrial era of American business with the break up of Standard Oil.

Conclusion:

In the late 19th century and early 20th century, government decided it had to step in and take action against industrial behemoths. It is ironic that capitalists, who often use competition to justify their business practices, are quick to limit competition when it serves their self-interest. Rockefeller, one of the most successful American capitalists of all time, adhered to a philosophy utterly contradictory to the idea of capitalism itself. Similar tensions will surface with Bill Gates in a later lecture. The next lecture will look at the man who came out above both Carnegie and Rockefeller—J.P. Morgan.



Corporate greed octopus gobbles up freight for Great Railroad while unemployed handlers look on. Cartoon ca.1882.

FOR GREATER UNDERSTANDING



Consider

1. What business strategies did the industrialists use to become rich?
2. How was John D. Rockefeller's business philosophy at odds with the ideas of Adam Smith?
3. Would Carnegie's and Rockefeller's business tactics be acceptable today?

Suggested Reading

- Carnegie, Andrew. *Autobiography of Andrew Carnegie*. New York: Reprint Services Corp., 1993.
- Chernow, Ron. *Titan: The Life of John D. Rockefeller, Sr.* New York: Knopf Publishing Group, 1999.
- Josephson, Matthew. *The Robber Barons*. Fort Washington, Pennsylvania: Harvest Books, 1962.
- Krass, Peter. *Carnegie*. Hoboken, New Jersey: John Wiley & Sons, Incorporated, 2002.
- Livesay, Harold C. *Andrew Carnegie and the Rise of Big Business*. 2nd ed. Reading, Massachusetts: Addison-Wesley Publishing Company, 1999.
- Wall, Joseph Frazier. *Andrew Carnegie*. New York: Oxford University Press, 1970.

Other Books of Interest

- Smith, George David, Frederick Dalzell. *Wisdom from the Robber Barons: Enduring Business Lessons from Rockefeller, Morgan, and the First Industrialists*. New York: Castle, 2002.

Websites to Visit

1. The Rockefeller University - Biography of John D. Rockefeller - <http://www.rockefeller.edu/archive.ctr/jdrsrbio.html>
2. Carnegie Corporation of New York - Biography of Andrew Carnegie - <http://www.carnegie.org/sub/about/biography.html>

Lecture 6: J.P. Morgan The Triumph of the Money Man

Before beginning this lecture you may want to . . .

Read Ron Chernow's *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance*.

Introduction:

This lecture examines the railroad industry and the role J.P. Morgan played in this industry and the American economy. The lecture also focuses on the Panic of 1895.

Consider this . . .

1. How does the stock market fuel capitalism?
2. What made America's national market so successful?

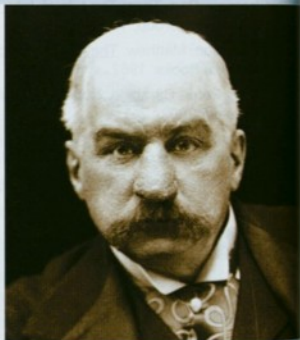
I. J.P. Morgan

A. The practice of selling shares in American business was institutionalized to fuel capitalism.

1. The practice of selling shares began to develop more fully with the rise of the railroads.
2. The center of the new finance activity came to be located on Wall Street in New York City.
3. The battle for control of the Erie Railroad demonstrated that some only wanted to speculate in a company's stock with no real interest in actually running the company.
4. By the 1850s, there were individuals who were coming to the fore in this business.

B. J.P. Morgan inherited an aptitude for business from his father, a commodities broker.

1. J.P. Morgan spent much of his young life overseas, where his father had various offices.
2. He attended the top schools and universities and was even offered an instructor position.



J.P. Morgan (1837-1913)

3. Morgan went back to America to enter the American finance industry just as the Civil War was beginning.
4. As has been demonstrated, war can provide many opportunities.

C. By 1864, he was making \$64,000 a year.

1. For the first time, people had to report their income to the government for tax purposes.

2. The wealth of persons before this time can only be estimated.

3. Morgan made a lot of money from government contracts during the war.

D. J.P. Morgan had an important role in the latter stages of the transcontinental railroad.

1. The railroad was the last great piece of transportation infrastructure in the country after steamships.

2. The discovery of gold in California helped to push the railroad along, providing much cheaper transport.

3. Previously, most railroads had been financed by public shares and some state government funds.

4. The solution was for the federal government to get involved, but there was no precedence.

E. The Civil War happened, however, and led to the building of the transcontinental railroad.

1. There had been talk of California becoming its own country until Unionists within the state convinced the federal government to build the railroad.

2. The railroad allowed for a single, unified national market, which was far larger than the market available to any other country. For example, a French steel mill could only make enough steel for France's relatively small market.

THE DOW JONES

Charles H. Dow (1851-1902) was a journalist who covered Wall Street in the late 19th century. At that time, investors favored bonds because they were backed by hard assets such as real machinery and factories. Investors were having a hard time, however, feeling secure about stocks, because ownership shares had no specific claims on a company's property.

In trying to analyze the daily movements of stock prices for his readers, Dow devised a system for averaging a number of stocks to give a general impression of the market's movement. He began in 1884 using eleven stocks, most of which were in railroads. He later modified his stock selections to reflect a variety of industries.

In 1882, Charles Dow and Edward D. Jones (1856-1920) formed Dow Jones & Co. It began publishing the *Wall Street Journal* in 1889 and computing a daily industrial average in 1897. Though modern investors can rely on many different indicators to let them know how the market is doing on a given day, the Dow Jones Industrial Average is still considered a leading indicator. It is based on the share prices of thirty leading companies on the New York Stock Exchange. Dow Jones & Co. also publishes composite averages of stocks in transportation, utilities, and industry, as well as several bond averages.





Elevated trains roll over busy streets in Manhattan's Bowery neighborhood.

3. The American economy now had a huge physical market to satisfy.

II. The Secret of American Success

- A. The secret of American success was not that America had great inventors or more resources. The secret of America's success was a single, unified national market.
- B. The Constitution says interstate commerce shall be free, and the physical construction of the transcontinental railroad meant that, physically speaking, the shipment of goods was relatively cheap and efficient.

III. The Entrance of J.P. Morgan

- A. The railroads were overbuilt at this point and were verging on bankruptcy. Something had to be done because railroads were crucial to the country's transportation and because investors were losing great sums of money.
- B. Wall Street turned to J.P. Morgan for assistance. He was already a major stakeholder in many of the railroads, and he was a respected financier.
- C. At this point, many of the railroad industry's woes were due to extreme competition and cutthroat rate wars.
 1. Morgan commanded respect from investors.
 2. One example of the respect Morgan commanded is the story of him settling a dispute between railroads during a river trip on his yacht, leading to the Corsair Compact. This encouraged collusion would be considered illegal today.
- D. Morgan's power as an economic savior was cemented during the Panic of 1895.

1. Gold had been flowing at an alarming rate out of the U.S. Treasury to the U.S. government's creditors.
2. Morgan was approached by Grover Cleveland to see if he could stanch the bleeding.
3. Morgan lined up European financiers and temporarily assumed control of the U.S. Treasury, thereby guaranteeing liquidity and making handsome profits from the deal.
4. This showed just how powerful private finance had become, J.P. Morgan, himself, in particular.
5. It was established that there needed to be a central financial reserve system answerable to the public.
6. In 1913, Congress passed the Federal Reserve Act, which initiated a new phase in the relationship between business and government.

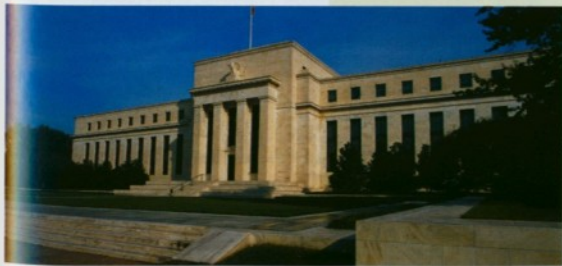
Conclusion:

This lecture looked at J.P. Morgan and his importance to the railroad system, the Panic of 1835, and the impact Morgan had on American business. There is no one quite like J.P. Morgan today. The next lecture, will examine the rise of the American automobile industry, as well as Henry Ford and Alfred P. Sloan.

THE FEDERAL RESERVE

The Federal Reserve, which serves as the U.S. banking authority, was established by an act of Congress, the Federal Reserve Act of 1913. The Fed is responsible for controlling the nation's monetary policy and for supervising the regulation and management of banking institutions. It was designed to provide the nation with a more secure, elastic, and stable economic and financial structure.

The Federal Reserve is governed by a Board of Governors who are appointed by the President and confirmed by the Senate to serve 14-year terms. The Board's primary responsibility is to regulate the amount of money circulating in the economy by setting interest rates and reserve requirements. However, the Board also has a number of regulatory and supervisory responsibilities. It oversees banks that are members of the Reserve System, bank holding companies, international banking facilities within the United States, and other banking institutions; it has the power to set margin requirements, which restrict the use of credit to purchase or hold securities; it ensures the smooth functioning of the national wire transfer system; and it develops regulations concerning consumer credit.



The Federal Reserve Building is located at 20th Street and Constitution Avenue, Washington, DC.

FOR GREATER UNDERSTANDING



Consider

1. How did a unified national market contribute to success for American entrepreneurs?
2. What happened during the Panic of 1895?
3. What was the significance of the Federal Reserve Act?

Suggested Reading

Auchincloss, Louis. *J.P. Morgan: The Financier as Collector*. New York: Harry N. Abrams, Inc., 1990.

Chernow, Ron. *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance*. Reprint. New York: Touchstone Books, 1991.

Other Books of Interest

Friedman, Milton. *Money Mischief: Episodes in Monetary History*. Fort Washington, Pennsylvania: Harvest Books, 1994.

Meltzer, Allan H., *Alan Greenspan, History of the Federal Reserve: Volume 1: 1913-1951*. Chicago, Illinois: University of Chicago Press, 2002.

Websites to Visit

J.P. Morgan Chase – History Timeline
<http://www.jpmorganchase.com/cm/cs?pagename=Chase&href&urlname=jpmc/about/history/milestones>

Recorded Books

Strouse, Jean. *Morgan*. Parts 1 & 2. UNBRIDGED Recorded Books. (29 cassettes/42.25 hours)

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Audiobooks available for purchase or rental by mail.

Lecture 7: Henry Ford and Alfred P. Sloan Capturing the Dream

Before beginning this lecture you may want to . . .

Read Douglas Brinkley's *Wheels for the World: Henry Ford, His Company, and a Century of Progress, 1903-2003*.

Introduction:

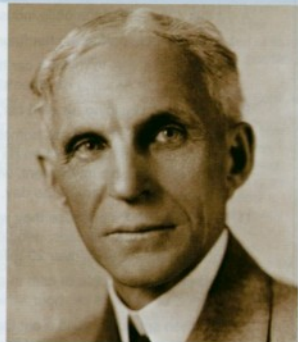
In addition to the the Industrial Revolution, the Automobile Revolution had a major effect on American business. This lecture examines two individuals who played key roles in the Automobile Revolution: Henry Ford and Alfred P. Sloan.

Consider this . . .

1. How does the standardization of a product contribute to its affordability?
2. What impact did assembly lines have on American business?

I. Henry Ford—A Visionary and a Revolutionary

- A. Ford envisioned a world where Americans had great mobility.
- B. He didn't actually invent the automobile. It had been around since the late 1880s.
 1. When steam engines did not work out, inventors turned to internal combustion engines to make automobiles possible.
 2. Ford saw automobiles as a young child and decided he would turn his attention to them as he got older.
- C. Ford had always been a tinkerer who worked with different kinds of machines.
 1. He was not formally educated and possessed a kind of anti-intellectual strain.
 2. He believed that Americans were overeducated and distrusted engineers and theories.
- D. Ford brought an abiding sense of democracy to the automobile industry.
- E. His vision was not to take on J.P. Morgan and the like, or enter American politics, but to launch a democratic revolution in American business.



Henry Ford (1863-1947)



A new Model T Ford, Albany, Minnesota, 1923.

II. Ford's First Automobile in 1904

- A. At this point, the automobile industry was targeted at the rich.
 1. If you couldn't afford a chauffeur, you couldn't afford a car.
 2. Ford's idea was to make a car that ordinary people could buy. He was going to put America on wheels.
- B. He began by building his own car, which was a novel concept.
- C. His first car was a hit in his hometown of Dearborn, Michigan. He knew he was on to something when he was able to sell his car for only \$200 and make back his investment, which was far below the thousands charged for other cars of the day.
- D. People liked cars because they were fast, relatively speaking. In the early days of the railroads, people thought that the human body could not withstand speeds over 20 miles per hour.
- E. Ford entered a couple of cars in a speed race. One of the cars reached a speed of 60 miles per hour, which was quite impressive for the period.
- F. Ford then set out to build a car that would be affordable for the common man and enable him to "enjoy hours of pleasure in God's great open spaces."
 1. In the United States, geography has always been closely linked with the American identity. Americans cherish the kind of freedom made possible by the automobile.
 2. The automobile was Henry Ford's *Declaration of Independence*.
- G. Once Ford had decided on his philosophy, he needed to figure out his tactics to put it into practice.
 1. He spoke of making each of his cars uniform.

2. He followed the example of the pin factory and division of labor trumpeted by Adam Smith.
3. Eli Whitney also had been a proponent of interchangeable parts in a specified machine.

III. Henry Ford's Vision: Cars Could Be Offered If They Were All Made the Same

- A. Ford's Model T cars began pouring out of his factory at a rate made possible by his long production facility and his pioneering use of the moving assembly line.
- B. His cars moved along a conveyor belt and his workers remained stationary.
- C. The first Model T cars sold for around \$800, which he thought was still too expensive.
- D. He continued to build the same car and made the famous quote: "Anyone can have a car with any color he'd like as long as it's black."
- E. Ford's insight was this: If you produce the same thing over and over again, then you can lower the cost and increase the market.

IV. In 1914, Ford went completely against the grain and increased the wages of his workers. He asked the question: What if we pay the workers enough to buy the products they're making?

- A. Doubling the workers' wages raised the ire of his fellow industrialists.
- B. Ford's insight: The workers have to have the resources to be consumers.
 1. This was a truly revolutionary thought, but by 1920, his plans had hit a snag.
 2. Ford discovered that once people bought his well-built cars, they didn't need to buy new ones, and the market became saturated.

FORD'S ASSEMBLY LINE

Henry Ford went into business with Alexander Malcomson in 1903. Together, as well as with other investors, they formed the Ford Motor Company. When the company began, mechanics built the cars at different work stations. The parts for the cars were purchased separately, and the mechanics used the parts to assemble cars. Ford's vision for his company was to design a car that was affordable.

For two years, Ford worked on designing the Model T. On October 1, 1908, the Model T was put on the market. Over ten thousand were sold in the first year. Model T's were in such demand that Ford had to create and implement a new system of producing cars. In 1910, Ford's new factory opened. It was over sixty-two acres and consisted of four levels. It was known as the "industrial miracle of the age."

With this new factory, Henry Ford introduced the assembly line. Assembly began on the fourth floor and went all the way down to the first floor with different parts being added and different tasks being executed at each level. By the time it reached the first floor, it was ready to drive out of the factory. The assembly line was remarkable. Production increased by 100% in the first three years. Despite these remarkable results, Ford continued to search for ways to improve the assembly line.

In 1914, Ford created the ongoing conveyor belt process and implemented the idea of all belts and parts being located at waist level. With the conveyor belt and the parts at waist level, the employees could stand still and not have to move their feet at all. Under this new system, 260,720 cars were built in 1914.

V. Alfred P. Sloan

- A. While Ford was the pioneering force of the automobile industry, Sloan represented the mature business.
- B. The chairman of General Motors was a chief competitor of Ford.
1. He knew people had to be given a reason to buy their second car.
 2. Sloan realized that there were other, less practical incentives for buying cars.
- C. He looked at women and their tendency to buy new, fashionable dresses and applied this thinking to automobiles. He realized that people could come to identify themselves in some way with their cars.
1. With a car, people could make statements about their position in life. Successful people could flaunt their success with a new car.
 2. With the Model T, which all looked the same, they couldn't achieve the image they desired.
- D. General Motors introduced a new yearly change in models. Car dealers introduced the idea of buying the next year's model in the summer of the current year.
- E. Sloan's insight was that cars were more than just utilitarian devices.
1. He pioneered many of the other innovations that became identified with the automobile industry.
 2. Sloan created the General Motors acceptance agency.
 3. General Motors loaned customers money to buy cars.

VI. By the 1930s, General Motors Had Surpassed Ford as the Leading Automobile Manufacturer

- A. Ford survived but experienced some rocky years.
- B. Some economists at the time felt the creative destruction of capitalism was embodied in the American automobile industry.

Conclusion:

The next lecture focuses on Walt Disney and the empire he built on a mouse.



Alfred P. Sloan (1875-1976)

Photo: © Ken Cedeno/Corbis

FOR GREATER UNDERSTANDING



Consider

1. What was unique about Ford's vision for producing automobiles?
2. Which methods of production did Ford pioneer?
3. How did Alfred P. Sloan's ideas change the auto industry?

Suggested Reading

- Banham, Russ, and Paul Newman. The Ford Century: Ford Motor Company and the Innovations That Shaped the World. Muskogee, Oklahoma: Artisan Sales, 2002.
- Brinkley, Douglas. Wheels for the World: Henry Ford, His Company, and a Century of Progress, 1903-2003. New York: Viking Press, 2003.
- Farber, David R. Sloan Rules: Alfred P. Sloan and the Triumph of General Motors. Chicago, Illinois: University of Chicago Press, 2002.
- Sloan, Alfred P. My Years with General Motors. New York: Doubleday, 1996.

Other Books of Interest

- Newton, James D. Uncommon Friends: Life with Thomas Edison, Henry Ford, Harvey Firestone, Alexis Carrel and Charles Lindbergh. San Diego: Harcourt, 1989.

Websites to Visit

1. TIME 100 Builders & Titans: Henry Ford
<http://www.time.com/time/time100/builder/profile/ford.html>
2. The Great Idea Finder – Henry Ford
<http://www.ideafinder.com/history/inventors/ford.htm>
3. Alfred P. Sloan Foundation – Biography of Alfred P. Sloan
<http://www.sloan.org/sloanbio.shtml>

Lecture 8: Walt Disney The Business of Fantasy

Before beginning this lecture you may want to . . .

Read Thomas Connellan's *Inside the Magic Kingdom: Seven Keys to Disney's Success*.

Introduction:

Before the Industrial Revolution there were seventy-two hour work weeks, and workers spent long hours in the factories. Leisure time and retirement were foreign concepts. The standard of living was low enough that the notion of spending money on leisure time did not exist. During the age of Henry Ford and Alfred P. Sloan, workers organized and began to form unions. By the 1930s, the work day was down to eight hours. People had more leisure time, including weekends. This left room for an enterprising business person to pursue his dream.

Consider this . . .

1. How did the 20th century differ from the 19th century in terms of time spent in leisurely pursuits? Why?
2. What made Walt Disney so successful?

I. The Rise of the Leisure Industry and Walt Disney

- A. Disney became the most successful entrepreneur at peddling leisure and fantasy. He was skilled at helping people escape their humdrum existences.
- B. The technology of mass communication rapidly improved and proved a boon for this industry.

II. A Brief History of Mass Communication in the United States

- A. The advent of the telegraph, invented by Samuel Morse, radically changed communication.
- B. No longer was communication reliant on the transportation of physical correspondence.
- C. The telegraph allowed nearly instantaneous communication over long distances.



Walt Disney (1901-1966)

- D. The telephone was the next huge breakthrough, allowing person-to-person communication.
- E. Thomas Edison produced his kinetoscope in the late 19th century.
 1. A movie played a movie on a little, one-person viewfinder.
 2. The kinetoscope eventually led to the projection of silent movies onto a screen. This technology dominated the first two decades of the 20th century.
- F. Movies and radio were the first true forms of mass communication entertainment. Early radio broadcasts featured news, sports, and music concerts.
- G. Television arrived next and came into its own around 1950. Television proved to be the last major innovation in the technology of the era.

III. Walt Disney

- A. Walt Disney grew up in Kansas City. He learned to draw well and wanted to make a living doing it.
- B. He survived World War II and then began working for a commercial illustration advertising company.

MICKEY GETS HIS START AS STEAMBOAT WILLIE

It was on a train ride from Los Angeles to New York City that Walt Disney created Mickey Mouse. Walt wanted to name the mouse character "Mortimer," but his wife, Lilly, didn't like that name and suggested "Mickey Mouse."

Mickey Mouse made his public debut in a film named "Steamboat Willie" on November 19, 1928, at the Colony Theatre in New York. This film also featured the first appearance of Minnie Mouse, as well as the world's first use of fully synchronized sound in cartoons.

Mickey and Minnie were an instant success. In fact, Mickey Mouse was so popular that over a million children joined the original Mickey Mouse Club between 1929 and 1932.

The "Mickey Mouse Club" later became a popular children's television series that aired on ABC from 1955 to 1959. The show featured talented kids called Mouseketeers who sang, danced, performed skits, and introduced special guests and Disney cartoons.





Postcard of Hollywood studio 1920-29.

- C. He realized that he needed to move to California.
1. Los Angeles was the center of the movie industry.
 2. Hollywood was where movies were made.
 3. There were eight major studios controlled by the industry, but Disney was ignorant of this and audaciously jumped in headfirst, attempting to create his own company.
- D. Drawing on his animation experience, he began to create humorous animated shorts to be shown before, during, and after films.
- E. Soon, audiences began to go just to see Disney's animated shorts.
- F. He convinced his brother to help him by handling his business finances, while he drew the animation.
- G. He wanted to begin making features, but he lost his character Alice when it became apparent that he did not own the copyright.

IV. Disney Created Mickey Mouse

- A. He designed Mickey Mouse in a simple fashion because of the sheer enormity of the process.
- B. Mickey Mouse became hugely popular and one of the most beloved characters in American entertainment history.
1. The movie industry grew rapidly during the Depression.
 2. Disney was successful partly because he never moralized or tried to teach; he simply helped people escape reality.
 3. Air-conditioning became prevalent in movie theaters, and this added to their appeal.

- C. Disney followed up the Mickey Mouse phenomenon with the full-length feature *Snow White and the Seven Dwarves*.
1. He proved that one can make money despite the labor-intensive production process involved in animation.
 2. *Pinocchio* and *Fantasia* followed and were very successful.
 3. His characters became some of the most valuable pieces of intellectual property ever.
- D. Disney then branched out into television. The Mouseketeers were some of the earliest television stars that baby boomers watched.
- E. He went on to produce more family-oriented movies, and finally, even theme parks.

V. The Idea of Synergy

- A. His cartoons influenced his movies; his movies influenced his theme parks and inspired toys.
- B. He re-released his films approximately every twenty years to capture a new generation of children.
- C. He created an entire world of fantasy for American consumers of the 1970s and 1980s.
- D. Disney thought the question of whether his work was art was misguided. He maintained that he made art for the audience and not for the critics.

Conclusion:

This lecture discussed Walt Disney and his popular creation—Mickey Mouse. Disney became a successful business entrepreneur. The next lecture will look at Coca-Cola and the man who made it successful.



New attraction at Disneyworld in Florida.

FOR GREATER UNDERSTANDING



Consider

1. How did the labor movement contribute to the rise of the entertainment industry?
2. Which technologies were integral to Walt Disney's success?
3. How did Walt Disney take advantage of the concept of synergy?

Suggested Reading

Connellan, Thomas K., Tom Connellan. *Inside the Magic Kingdom: Seven Keys to Disney's Success*. Texas: Bard Press, 1997.

Finch, Charles S., Christopher Robin Finch. *Walt Disney: The Art of Walt Disney: From Mickey Mouse to the Magic Kingdoms*. New York: Harry N. Abrams, Inc., 1995.

Miller, D.M. *What Would Walt Do?: An Insider's Story about the Design and Construction of Walt Disney World*. Lincoln, Nebraska: iUniverse, Inc., 2001.

Other Books of Interest

Disney, Walt, with Dave Smith. *Quotable Walt Disney*. New York: Disney Press, 2001.

Website to Visit

Disney Online-<http://disney.go.com/home/today/index.html>

Lecture 9: Robert Woodruff As American as Coke

Before beginning this lecture you may want to . . .

Read Frederick Allen's *Secret Formula: How Brilliant Marketing and Relentless Salesmanship Made Coca-Cola the Best*.

Introduction:

Coca-Cola is an American icon, and Robert Woodruff was the driving force behind this. This lecture will discuss the power of advertising and the effect it has on consumers.

Consider this . . .

1. How do consumers create a need for products?
2. What is the psychology of advertisement and how strongly can it affect consumers?

I. Age of Consumerism

- A. News reports from 1945 demonstrate how closely some industries had become linked to the United States.
- B. The 20th century could be best characterized as the Consumer Century.
- C. There was a shift from the Age of Production to the Age of Consumption.
 1. American producers were producing more than enough to match America's level of consumption.
 2. Production was no longer the issue; the money was to be made by increasing the consumption.
- D. Americans were never seen as consumers until the early 20th century.
- E. After World War I, Americans began to turn inward and became more concerned with consumerism.
 1. There was an attempt to return to normalcy.
 2. Woodrow Wilson's League of Nations was rejected by the U.S. Congress.



Robert Woodruff (1890-1985)



A 1900 advertisement shows a woman drinking Coca-Cola. The company's logo read—at that time—"Good to the last drop."

COCA-COLA CONTAINED WHAT?

In May 1886, a pharmacist named Dr. John Pemberton from Atlanta, Georgia created "Coca-Cola." A three-legged brass kettle in Pemberton's backyard was the birthplace of this now famous beverage.

Pemberton's product was named for its "medicinal" ingredients: extract of coca leaves and kola nuts. It also contained alcohol, but its growing popularity was due to its almost 9 milligrams of cocaine per glass. These ingredients were dissolved in a caramel-colored, sugar-flavored syrup to counteract the harsh flavors in the recipe. It cured aches and pains, and tasted great, too!

After Congress passed the Pure Food and Drugs Law in 1906, manufacturers were required to list all ingredients in their products. The debate then began over the negative aspects of cocaine, and fear grew that use of this product might lead to "cocainism" or the "cocaine habit." The cocaine ingredient was cut down to a negligible amount.

By 1902 the amount of cocaine used was as little as 1/400 of a grain of cocaine per ounce of syrup—then the recipe for Coca-Cola became completely cocaine-free in 1929.

F. During the war, Americans produced more hardware than ever before, and American car factories ratcheted up their production to full potential.

II. The Age of Advertising

A. Ads from the previous two centuries consisted mostly of classified-type notices and small-scale ads in the back of magazines.

B. Advertising took off in the 20th century, especially in the 1920s.

1. Radio began to be used heavily for advertising.
2. The increase in advertising rose alongside the idea that workers as consumers were a crucial part of the economy.
 - a. Workers began to actually create the need and taste for products.
 - b. At present, consumers are used to being bombarded with advertisements from television, radio, and print sources.

III. Coca-Cola

A. This is a product whose overwhelming success is almost entirely due to advertising. Coca-Cola, or Coke, is the second-most-recognized word after "okay."

B. Robert Woodruff is the son of the founder of Coca-Cola.

1. His father purchased the recipe from the inventor of Coca-Cola, Doc Pemberton.
 2. Some kitchen creations, so-called snake oils, could be quite potent.
- C. Coca-Cola was originally made up of cocaine extract and the cocoa bean, which had a lot of caffeine.
- D. American regulators started to regulate the cocaine portion of the drink and eventually banned it.

E. Coca-Cola, based in Atlanta, had a large regional following in the American South.

F. Ernest Woodruff did fairly well but wondered about the future of the company after his retirement.

1. Unlike the offspring of many inventors, Robert Woodruff, proved to be even more successful than his forebears.
2. Woodruff had started his own successful truck company and was hoping to strike out on his own, but he began to see that leading the Coca-Cola company would be a real challenge.

G. He decided to make Coca-Cola a product that no American could do without.

1. He realized that the American economy was getting larger, and people were traveling all across the country.
2. He had an epiphany when he saw that people were drinking Coca-Cola in Canada in the dead of winter.

H. Woodruff's key insight was to promote Coca-Cola as something that went along with a good time. He created the Coca-Cola moment—someone sipping a Coke during a moment of triumph.

IV. There Is Something Paradoxical About This

A. Most producers are constantly trying to improve their product, doing something so they can say it is new and improved.

B. Woodruff's approach was to talk about how Coca-Cola would never change. Coca-Cola's secret formula was carefully guarded for effect.

C. Pepsi-Cola, its chief competitor, tried a different approach to entice consumers. Woodruff replied that Coke must be twice as good.

D. Pepsi routinely did better in taste tests, yet there was something about Coca-Cola that captured the imagination of Americans.

1. Dwight D. Eisenhower even gave Coke a plug during the war.
2. Woodruff and his company capitalized on this special identification with the American experience in the promotion of Coca-Cola during the war.



- E. The war threatened both companies because sugar had to be rationed.
1. Robert Woodruff very carefully made the case that Coca-Cola was so important to soldiers that it might hurt their morale to cut its production.
 2. Woodruff announced that every GI would have a Coke during the war.
 3. This helped the product both abroad and back home; Coca-Cola developed a booming international business.
- F. Coca-Cola began to sign up sports heroes to pitch its product.

V. The Impact of Coca-Cola

- A. Journalist William Allen White stated that Coca-Cola was the sublimated essence of America.
- B. Coke is undeniably a real part of the American zeitgeist.
- C. After Woodruff died, Coke revamped their product and launch "New Coke."
1. It flopped despite thorough research and blind taste tests that favored the new soft drink.
 2. It appeared that people were comfortable with the old product and resisted the change. The Coca-Cola label had a powerful effect.
- D. After protests by outraged consumers, the old Coke was brought back and called Coca-Cola Classic. Some felt it was actually a conspiratorial attempt to generate a groundswell of support for the original Coke.

Conclusion:

Although Woodruff did not invent modern advertising, he practiced it as well as anyone. The next lecture will look at another American icon and its founder, Ray Kroc.



World of Coke, Underground, Atlanta

FOR GREATER UNDERSTANDING



Consider

1. What inspired the rise of American consumerism after World War I?
2. How was Robert Woodruff's approach to selling Coke inventive?
3. What is the "American zeitgeist" and how does Coke fit into that vision?

Suggested Reading

- Allen, Frederick. *Secret Formula: How Brilliant Marketing and Relentless Salesmanship Made Coca-Cola the Best*. New York: HarperBusiness, 1995.
- Pendergrast, Mark. *For God, Country and Coca-Cola: The Definitive History of the Great American Soft Drink and the Company That Makes It*. New York: Basic Books, 2000.
- Wynn-Witzel, Gyvel, and Michael Karl Witzel. *The Sparkling Story of Coca-Cola: An Entertaining History Including Collectibles, Coke Lore, and Calendar Girls*. Stillwater, Minnesota: Voyageur Press, 2002.

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- Greising, David. *I'd Like the World to Buy a Coke: The Life and Leadership of Roberto Goizueta*. Hoboken, New Jersey: John Wiley & Sons, Incorporated, 1999.
- Wynn, V. Dennis. *Coke Goes to War*. Missoula, Montana: Pictorial Histories Publishing Company, Inc., 1996.

Websites to Visit

1. The History of Coca-Cola
<http://www.geocities.com/Heartland/4269/history.html>
2. The Robert W. Woodruff Foundation
<http://www.woodruff.org/biography.html>

Recorded Books

- Ogilvy, David. *Confessions of an Ad Man*. UNABRIDGED Recorded Books. Narrated by Ray Atherton. (3 cassettes/4.75 hours)

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Lecture 10: Ray Kroc The Industrialization of Eating

Before beginning this lecture you may want to . . .

Read John Love's *McDonald's: Behind the Arches*.

Introduction:

Just as popular as the word Coke in the American vocabulary, is the word McDonald's. This lecture will address McDonald's and the highway system and the shift in American society with the introduction of these two.

Consider this . . .

1. How did the automobile contribute to the growth of consumerism in the United States?
2. Does advertising play a role in the consumer's love or need of McDonald's products?

I. Ray Kroc

- A. Ray Kroc is associated with the Age of Consumerism, advertising, and fast food. He was a direct product of the automobile culture.
- B. After the postwar period the country became truly identified with the automobile.
- C. The train, both for passengers and for freight, was still the primary form of transportation up until the 1950s. Air travel did not catch on in a big way until the late 1950s.



Ray Kroc (1902-1984)

II. The Interstate Highway System

- A. The highway system was built under Eisenhower and allowed much quicker travel across the country.
- B. This created a whole new niche economy.
 1. Motels sprang up outside of towns near the highway and competed with the more traditional hotels in the center of town.
 2. Fast food restaurants also sprang up, drive-ins in particular.
 3. Fast food diners and drive-in movies provided a new place for teenagers to hang out.



McDonald's Museum

The McDonald's Museum is a replica of the first corporate McDonald's restaurant, opened in April 15, 1955, after the franchise was acquired by Ray Kroc.

C. The idea of convenience became popular.

1. There were no chain restaurants at this point.
2. Most restaurants were still regional, local, or family-owned.

III. Ray Kroc in the Military

A. He served in the war and then came back and became a milk shake multi-mixer salesman.

1. One day, he received an order for eight multi-mixers from a restaurant in San Bernardino, CA.
2. His interest was piqued by the successful restaurant owned by the McDonald brothers.

B. Kroc decided to investigate what made the McDonald's restaurant so popular.

1. His insight, which would lead to the success of the chains after he assumed ownership, was the importance given to the french fries.
2. He described the process of making french fries in great detail. He clearly loved french fries and took them seriously.

C. Kroc knew enough about the restaurant business to propose that the McDonald brothers expand and take their formula on the road.

1. Kroc struck a partnership with the brothers and began to franchise their restaurant.
 2. Things were going well until Kroc realized the brothers were reluctant empire builders.
- D. Kroc bought out the McDonald brothers at a price that seemed exorbitant at the time.



MCDONALD'S FRENCH FRIES

One of McDonald's keys to success was the standardization of its french fries. Ray Kroc sought to make sure fries at each of his restaurants would taste the same—from California to New York. To make this happen, Kroc realized that he needed to approach the fry-making process like a "...ritual to be followed religiously." Although french fries are not unique to McDonald's restaurants, McDonald's french fries are legendary in the fast food world and are renowned for their appetizing taste. They routinely beat the french fries of other fast food chains in taste tests. Why do they taste so good? The original recipe did not change until the 1960s, when McDonald's sought to cut costs and began to use frozen potatoes. Over the ensuing decades, the recipe changed little: 93% beef tallow and 7% cottonseed oil. But in the 1990s, the recipe was changed to meet customer demands for fries with lower levels of potentially harmful saturated fats. The current process of making McDonald's french fries begins with Russet Burbank potatoes. At large processing plants, the potatoes are washed, steam-peeled, blanched, dried, and par-fried with beef extract flavoring added. From there, the fries are frozen and shipped to distributors and then to the restaurants themselves, where they are re-cooked in vats of partially-hydrogenated soybean oil. Mmmm...delicious!

tant at the time.

1. Kroc discovered that nationalization of the restaurant was more difficult than he thought.
2. He was puzzled by the french fries he was making in Chicago, which did not turn out nearly as well as the original ones in San Bernardino.
3. A representative from the Potato & Onion Association realized that the original fries in California had been inadvertently cured by the desert wind. Kroc artificially created the same conditions.

IV. Kroc Standardizes McDonald's

- A. He opened Hamburger University to teach franchise owners how to make the same kind of hamburger and fries at every store. Ray Kroc took all of this very seriously and wrote eloquently about hamburgers and how to make them the same.
- B. As he expanded the McDonald's empire, he began to understand that there was more to selling food than the food itself.
 1. McDonald's franchises were owned by individuals who paid a fee to the company to use the name and receive the uniform company plan. The owners of the franchise would only share the profits with the parent company.
 2. Kroc was able to align the interests of the franchise owners with the parent company almost by accident.
 3. McDonalds made most of its money by leasing land and buildings to the franchise. The lease was tied to the profits made by that particular restaurant.
 4. Besides selling burgers, McDonald's had become a large player in real estate.



Fast food giant McDonald's (Japan) president, Den Fujita (R), bites into a Big Mac as the company's stock is listed on the Jasdq over-the-counter market in Tokyo, 26 July 2001.

particular customer base. These innovations could then be mimicked by the other stores.

1. The Big Mac was invented by a restaurant in Pittsburgh that catered the larger sandwich to steel workers getting off long shifts.
2. The Egg McMuffin was developed in San Diego for early morning commuters.
- D. Kroc was known as a tough boss, which is not unusual in the world of hard-driving entrepreneurs. He would visit his various franchises in disguise.
- E. By 1970, there were 200 McDonald's in the country. By the 1990s, there were thousands, and they began to go global.

V. McDonald's: More Aligned with American Identity Than Coca-Cola

- A. A McDonald's restaurant was trashed in Paris because it represented American hegemony and ruthless globalization. Strangely enough, Americans often like to eat at McDonald's more overseas when they are traveling than when they are at home.
- B. Political science theory maintains that countries with a McDonald's do not go to war. The *Economist* magazine has the Big Mac index, which measures what a Big Mac costs in hundreds of countries around the world to compare currency valuations.

Conclusion:

Though many gourmets look down their noses at fast food, Kroc has built an enviable empire. Novelist and social critic, Tom Robbins, said "Despite what you might think, Kroc is still a man who can cut the mustard." The next lecture examines the rise of Wal-Mart and Sam Walton.

FOR GREATER UNDERSTANDING



Consider

1. How did McDonald's restaurants fill consumers' needs?
2. How did McDonald's simultaneously grow as a company while also dramatically increasing its profits?
3. Why has McDonald's become a magnet for political theorists?

Suggested Reading

- Love, John F. *McDonald's: Behind the Arches*. New York: Bantam, 1995.
- Kincheloe, Joe L. *The Sign of the Burger: McDonald's and the Culture of Power (Labor in Crisis)*. Philadelphia: Temple University Press, 2002.
- Kroc, Ray, Robert Anderson. *Grinding It Out: The Making of McDonald's*. New York: St. Martin's Press, 1990.

Other Books of Interest

- Friedman, Thomas L. *The Lexus and the Olive Tree: Understanding Globalization*. New York: Anchor, 2000.

Websites to Visit

1. TIME 100 Builders & Titans: Ray Kroc
<http://www.time.com/time/time100/builder/profile/kroc.html>
2. McDonald's Corporate Information – History
<http://www.mcdonalds.com/corporate/info/history/>

Lecture 11: Sam Walton Will the Real Uncle Sam Please Stand Up?

Before beginning this lecture you may want to . . .

Read Roy Scott and Sandra Vance's *Wal-Mart: A History of Sam Walton's Retail Phenomenon*.

Introduction:

This lecture focuses on Sam Walton, how his idea of a small town general store grew into a national phenomenon, and the controversy that surrounds Wal-Mart because it put many small town general stores out of business.

Consider this . . .

1. Should fair trade laws protect small business owners, even if consumers prefer to shop at larger businesses?
2. Is it ironic that Wal-Mart is designed like a smalltown general store, but it is really a large corporation?

I. Sam Walton and Wal-Mart

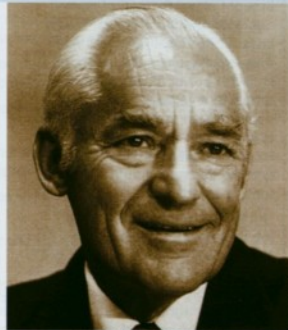
A. At the beginning of the 21st century, the largest corporation in America was Wal-Mart.

1. This is astounding, because Wal-Mart is a direct descendant of the small town general store.
2. General store owners often got their merchandise from traveling salesmen and acted as middlemen between sellers and customers.
3. General stores became an essential part of community life and a place for people to gather and talk.

B. By the time Wal-Mart evolved into one of the largest corporations of the 21st century, people were saying it undermined the small town life it was ostensibly modeled on.

II. The Great Depression

- A. During the Great Depression, overproduction and underconsumption ruled the day.
- B. There had never been such a prolonged economic drought, and many people took serious issue with the American system of capitalism.



Sam Walton (1918-1992)

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THE DEMISE OF FAIR TRADE LAWS

By the mid-1950s the American retail business environment was rapidly changing. Large quantities of consumer goods were being manufactured to meet a pent-up post-World War II demand and an expanding population. Retailers who had struggled for years during the 1940s to find basic consumer products such as meat and nails now had to cope with a buyers' market.

The discount store movement—along with increasing foreign competition from former enemies Japan and Germany—brought about the end of numerous state and federal Fair Trade laws. These laws had fixed minimum pricing since the 1920s to curb the power of large, mostly urban chain stores. These acts had provided manufacturers the ability to set agreements with leading retailers to fix prices and enforce these minimum prices among all retailers.

In 1951 a Supreme Court ruling on minimum price agreements marked the beginning of the end to Fair Trade laws. Time and again, state and federal courts agreed with the discounters who argued that the price-fixing practices stifled competition and monopolized distribution. The demise of the Fair Trade laws endangered many independent retailers in small cities and towns across America and gave rise to Wal-Mart, K-Mart and malls.

C. State governments and even the federal government began to regulate the market more.

1. Many businessmen felt that free trade led to the loss of jobs and predatory competition.
 2. Fair trade laws were passed that applied to local merchants and restricted price competition.
- D. These fair trade laws lasted up until the 1950s, when merchants began chafing under these regulations. In the 1950s and 1960s, various states began to loosen their fair trade laws.

E. The government's war spending helped to pull the country out of the Depression.

1. Many feared that after the war was over the economy would slip back into depression.
 - a. The postwar economy was robust due to a number of factors.
 - b. There was pent-up demand and a decent amount of disposable income, which had been saved up due to war rationing.
 - c. The Baby Boom also contributed to continued prosperity.
 2. The huge housing boom was also a large stimulus for the economy. A key tenet of American economics is that as the population grows, so does the economy.
- F. The advent of the modern discount industry began in the early 1960s when America saw a boom in large discount stores such as K-Mart, Woolworth, and Wal-Mart, which were all selling good value for the money.

III. Sam Walton

- A. Walton grew up in Oklahoma and went to college at the University of Missouri.
 1. He became involved in student poli-



tics and was elected student president. He felt the secret of success was to speak to people before they spoke to you.

2. The greeters at today's Wal-Marts demonstrate his philosophy of dealing with people. Wal-Mart greeters helped to distinguish Wal-Mart from its competitors.
- B. After college, he borrowed money and bought a franchise of the Ben Franklin general store, a classic five-and-dime store in Arkansas.
1. He worked day and night and was successful, but after a year, he had to give up because he did not actually own the lease.
 2. He took what he learned and applied it to a new store called Walton's Five and Dime Store.
 3. He brought his unique smarts and energy to the enterprise and was constantly thinking of ways to improve business.
 4. He would often go on buying trips to New York to secure hard-to-obtain goods.
 - a. There is a story from a former clerk about flip-flops, and they sold like hotcakes at cheap prices.
 - b. He created a buzz that brought people into the store.
- C. Walton then opened up new stores and hosted the grand openings with a carnival-like atmosphere. He remained committed to the principle that low prices and good selection were the key to success.
1. He would only mark up his goods 30 percent. This was a hard and fast rule.
 2. His motto was "Price 'em cheap, stack 'em high, and sell 'em fast."
 3. He only opened his stores in small towns, typically on the edge of town, where property was cheaper, and he could have a great big parking lot, so people could drive in from surrounding area. There were no frills, just a big box store.

- Sam Walton presented an interesting paradox in that he had reverted to an old general store-type operation but kept track of his inventory on a computer network linked by satellite, which he had invented himself.
- D. Walton gave his owners a personal stake of the corporation and was a pioneer in profit-sharing.
- Sam Walton made many of his ordinary employees rich from stock increases, which gave them an emotional bond with the company's well-being.
 - Walton never let success go to his head. He still lived in his original house and drove the same old beat-up truck, even in the 1990s when he was the richest living American.
- E. Criticism began to be directed toward Wal-Mart as the small town main street general stores started to close because they could not compete with Wal-Mart.
- Walton always felt that it was his customers who were making the choice to go to Wal-Mart.
 - Is there a modern role for fair trade laws?
 - Many would contend that something is lost when there is no place for smaller, locally owned stores.

Conclusion:

Sam Walton, the founder of Wal-Mart, achieved great success by expanding the model of the general store and implementing innovative practices for customer service. The next lecture looks at Mary Kay Ash, the founder and CEO of Mary Kay Cosmetics.



The German head of the U.S. supermarket chain Wal-Mart, Ron Tiags welcomes shoppers at the opening of the first Wal-Mart in the country in Dortmund 31 August 1999.

FOR GREATER UNDERSTANDING



Consider

- Which factors contributed to the robust post-war economy of the 1950s?
- What was Sam Walton's business philosophy?
- What is profit-sharing and how do employees reap the benefits of this practice?

Suggested Reading

- Walton, Sam, John Huey. *Sam Walton: Made in America: My Story*. New York: Bantam Books, 1993.
- Scott, Roy V., and Sandra S. Vance. *Wal-Mart: A History of Sam Walton's Retail Phenomenon*. New York: Twayne, 1994.
- Slater, Robert. *The Wal-Mart Decade: How a New Generation of Leaders Turned Sam Walton's Legacy into the World's #1 Company*. Portfolio, 2003.
- Smith, Roy C. *Wealth Creators*. New York: St. Martin's Press, 2001.

Other Books of Interest

- Norman, Al. *Slam-Dunking Wal-Mart*. Raphael Marketing, 1999.

Websites to Visit

- TIME 100 Builders & Titans: Sam Walton
<http://www.time.com/time/time100/builder/profile/walton.html>
- "The Model Manager of Wal-Mart" by Kelly Fitzgerald, University of St. Francis <http://www.stfrancis.edu/ba/ghkickul/stuwebs/bbios/biograph/walton1.htm>

Recorded Books

- Collins, Jim and Jerry I. Porras. *Built to Last*. UNABRIDGED Recorded Books. Narrated by Rick Rohan. (8 cds/9.75 hours)

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Lecture 12: Mary Kay Ash What Do Women Want?

Before beginning this lecture you may want to . . .

Read Mary Kay Ash's *Mary Kay: You Can Have it All : Lifetime Wisdom from America's Foremost Woman Entrepreneur*.

Introduction:

Mary Kay Ash was one of the most successful entrepreneurs of the 21st century, and she still continues to be a driving force in the American economy. This lecture will discuss how Mary Kay cosmetics started and her keys to success.

Consider this . . .

1. How did direct sales companies create new opportunities for women?
2. What makes Mary Kay's cosmetics so appealing?

I. Mary Kay

- A. Up to this point, the American businesses covered in this course have been overwhelmingly owned by men.
- B. Why haven't there been more women?
- C. Can American business operate solely as a meritocracy? Or are profits ultimately most important?
- D. What is it that makes entrepreneurs work so hard?
- E. One thing worth noting is that really successful entrepreneurs earn so much money that wealth is not their greatest motivating factor, which brings into question some of the fundamental assumptions of the American capitalist system.



Mary Kay Ash

II. Mary Kay's Beginnings

- A. She grew up in Houston and married young.
- B. Mary Kay had assumed her husband would take care of her, and she looked forward to being a homemaker.
- C. Her life changed forever when her husband walked out on her.
- D. Mary Kay realized that she had to make it on her own.

1. She had limited experience with direct sales at a company called Stanley Home Products.
 2. These products were often sold at customer parties hosted among friends.
- E. The idea was to sell the product without going through a middleman.
- F. Another advantage was that sales were built on personal relationships.

III. Mary Kay Raises Fundamental Questions about How to Get Customers

- A. Wal-Mart stockpiles products in a big store and lets people come to them.
- B. In direct selling, products are displayed to customers in their homes. This approach gives the individual agent a good deal of autonomy and is flexible with an agent's schedule.
- C. Mary Kay Ash was one of the most ambitious Stanley Home Products salespersons and was motivated by more than just money.
 1. This motivation was on display at annual company-wide sales meetings.
 - a. Mary Kay's first three-day sales meeting astounded her and changed her life.
 - b. The top salesperson was crowned Queen of Stanley Home Products. Mary Kay Ash responded to these kinds of incentives.
 - c. She would adopt these same kinds of sales meetings later on in her own business.
 2. Mary Kay's secret of success: Pretend that every person you meet has a sign around his or her neck that says, "Make me feel important."



JINGER HEATH

Jinger Heath is chairperson and founder of BeautiControl™, a multi-million dollar business that is a lot like Mary Kay Cosmetics. Jinger Heath's philosophy also sounds much like Mary Kay's: she wants to enable women to "make positive choices, live their dreams and achieve a life of fulfillment." (www.beauticontrol.com)

BeautiControl trains independent sales agents to give home parties and demonstrations of its cosmetics. Incentives such as cars, trips, jewelry, and other bonuses are offered to the top achievers. Promising a flexible schedule and the potential to earn "unlimited income," Jinger Heath's company outlines a career track that appeals to women who are mothers and homemakers.

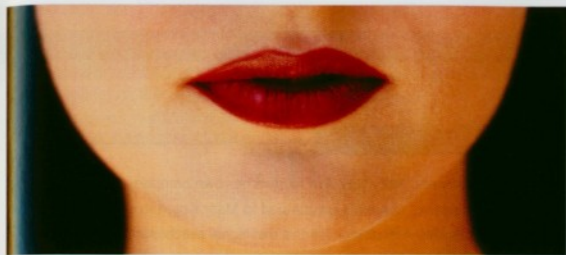
Living Jinger Heath's dream, however, involves buying into it. For an initial fee, the potential BeautiControl consultant receives a stock of products and promotional materials. She is trained for a day, given a certificate, and encouraged to make as many contacts as possible, both in person and via email.

With a company image and a website that is just as polished as Mary Kay's, it is no wonder that there is intense rivalry between the two companies. As to which one provides the best chances for a consultant to gain financial success, that's anyone's guess.

On a final note, Jinger Heath also matches Mary Kay in her zeal for public service. She founded the WHO[®] Foundation, a non-profit charitable organization dedicated to helping women and children. She has served on scores of charitable and philanthropic foundations. For her extensive achievements, she was named one of the Ten Most Outstanding Young Working Women in America by *Glamour* magazine.

IV. Mary Kay Forms Her Own Company

- A. Mary Kay hit a glass ceiling at Stanley Home Products when her male boss stole her idea and presented it as his own.
- B. She was irked that men were paid more than single women because they had families to support.
- C. Fed up, she used her \$5,000 savings to start her own company, Mary Kay Cosmetics. She sold a skin-care formula she had acquired from a taxidermist, who had developed a lotion from tanning deer hides.
- D. Her organization was modeled on Stanley Home Products.
 1. She had various levels of agents or representatives who earned a certain percentage of sales on commission.
 2. The structure was modeled on a pyramid. Those at the top could become quite wealthy.
 3. The top sellers were recognized at the annual sales meetings in Dallas, which were attended by 20,000 of the sales agents.
 - a. The top sellers were treated like royalty in elaborate ceremonies.
 - b. Ordinary women could be queens for a day. For many, recognition was at least as important as money.
 - c. The top sellers were also given a distinct pink Cadillac by Mary Kay herself.
 4. Mary Kay literally became a household name.
 - a. There were those who thought she was a feminist in one way and a traditional reactionary in another.
 - b. Ultimately, she was a capitalist.
 - c. Mary Kay proved that a woman could stand up for women's rights and be a successful businesswoman at the same time.



© Jinger Heath

- E. She believed in three main priorities for modern women: God, family, career.
 1. Her values clearly reflected Christian and family values. She believed that you can have all three.
 2. Mary Kay felt that women could organize their Mary Kay parties around the family schedule.
- F. A competitor sprung up for a new generation of cosmetic buyers.
 1. Jinger Heath essentially imitates the style of Mary Kay's business and cuts into her profits.
 2. The competition became quite heated when both sides started stealing each company's agents and chemists.
 - a. This competition was parodied in a gay pride parade where two men dressed up in drag as Mary Kay and Jinger Heath, and called each other "bitch" as they marched down the streets.
 - b. The television show *60 Minutes* called Mary Kay a "pink panther" and a skilled businesswoman.
 3. The obsession to be somebody proved to be a driving force in Mary Kay's business ambition.

Conclusion:

This lecture focused on Mary Kay and the rise of her cosmetics empire. The next lecture focuses on two titans of the computer industry: Andrew Grove and Bill Gates.

FOR GREATER UNDERSTANDING



Consider

1. What motivated Mary Kay Ash to start her own company?
2. Which business concepts contributed to Mary Kay Ash's success?
3. Was Mary Kay Ash a feminist or a traditional reactionary?

Suggested Reading

Ash, Mary Kay. *Miracles Happen: The Life and Timeless Principles of the Founder of Mary Kay Inc.* New York: HarperCollins Publishers, 2003.

Ash, Mary Kay. *Mary Kay: You Can Have It All: Lifetime Wisdom from America's Foremost Woman Entrepreneur.* New York: Prima Lifestyles, 1995.

Other Books of Interest

Collins, James C., and Jerry I. Porras. *Built to Last: Successful Habits of Visionary Companies.* New York: HarperCollins Publishers, 2002.

Websites to Visit

1. Mary Kay Tribute <http://www.marykaytribute.com/>
2. Capitalism Magazine, "Mary Kay Ash: One of America's Great Entrepreneurs" by James K. Glassman <http://capmag.com/article.asp?ID=1241>
3. Famous Texans — Mary Kay Ash <http://www.famoustexans.com/MaryKayAsh.htm>

Recorded Books

Ash, Mary Kay. *Mary Kay: On People Management.* UNABRIDGED Recorded Books. Narrated by Rita Knox. (4 cassettes/5.5 hours)

Underwood, Jim. *More Than a Pink Cadillac.* UNABRIDGED Recorded Books. Narrated by Joel Leffert. (6 cds/7.25 hours)

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Lecture 13: Andrew Grove and Bill Gates Intel (and Microsoft) Inside

Before beginning this lecture you may want to . . .

Read James Wallace and James Erickson's *Hard Drive: Bill Gates and the Making of the Microsoft Empire.*

Introduction:

Computers have made fundamental advances in our society, and two of the most successful entrepreneurs in this field were Andrew Grove and Bill Gates. This lecture discusses these two men and their contributions to the computer industry.

Consider this . . .

1. Who or what drives the constant development of faster computers?
2. Most people are aware of the advantages computers have brought to society, but what are some of the disadvantages?

I. Andrew Grove and Bill Gates

A. The first computer businesses were launched after WWII and consisted of huge corporations like IBM.

1. At first, computers were huge mainframes that took up entire rooms and were pitifully weak by today's standards.
2. They were extremely expensive machines and tended to break down often. They were designed to process large amounts of data.
3. Subsequent models were more powerful but still extremely expensive and only built for a few big corporations.

B. The first major innovation took place in the 1950s with the advent of transistors and computer chips.

1. Processing chips were the brains of the computer, and memory chips stored the data.
2. A technology revolution began in the 1940s and has continued to the present.
 - a. An early prediction maintained that the computing power of chips would double approximately every eighteen months.



Andrew Grove



Andrew Grove sits on an enlarged diagram of Intel's microprocessor.

- b. This prediction came to be known as Moore's Law, and it has held true, over the decades.

II. Andrew Grove

- A. Grove grew up in Hungary and was a Jew hiding from the Nazis during World War II.
- After the war, he was forced to hide from the pro-Communist government, which had taken over Hungary.
 - He fled the country in the late 1950s and landed in California.
 - He was intelligent and managed to enter the University of California at Berkeley.
 - Higher education was important in the development of the American economy.
 - There is a greater connection between higher education and the business community in the 20th century.
- B. It was no accident that the electronics industry grew up around San Francisco and Boston.
- There were many highly rated universities in these areas (Harvard and MIT in Boston, Berkeley and Stanford in San Francisco).
 - Grove graduated from Berkeley and went to work at Fairchild Electronics, a big corporation.
 - He met a cluster of people who felt that they could do better on their own, which is a common theme among successful entrepreneurs.
 - Grove and a few others struck out on their own and founded Intel Corp. He established this business in Silicon Valley, where there was a large talent and knowledge base.
- C. Intel produced both RAM memory chips and CPU processors.

- There was a great deal of competition in the industry of memory chips, especially from Japan, where companies had perfected the art of production.
 - In the late sixties, it looked like Japan was going to corner the market in memory chips, so Intel put all of its resources into developing better processor chips.
 - Intel became very successful in making better chips in each successive generation.
- D. The nature of the computer industry, however, is that it is a fast-moving business climate, and the product cycle is no longer than a year or two before a better chip is made.
- E. The approach of the computer industry can be compared and contrasted to that of Henry Ford.
- F. There is extreme competition in this high-tech industry.
- G. Intel rolled out the Pentium chip with great fanfare.
- A flaw in the Pentium chip (though minor) caused great embarrassment to the company and hurt its reputation and bottom line.
 - Intel became the butt of jokes in the computer industry.
 - Eventually, Intel recovered and regained its position as the top processor maker in the country.

III. The Other Member of the Gold Dust Twins, Bill Gates

- A. Bill Gates was the son of a well-to-do family in Seattle.
- B. He attended Harvard and seemed destined for great things.
- C. Gates started building his own computers while still in high school.
- D. He entered the computer business as a hobbyist tinkering with the idea of a personal computer.



Bill Gates



Steve Jobs

BILL GATES AND STEVE JOBS

While a freshman at Harvard University, Bill Gates developed a version of the BASIC programming language for the first microcomputer. Leaving Harvard during his junior year, Gates threw his energies into his new company, Microsoft.

When IBM needed an operating system for their new personal computers, Microsoft bought the rights to QDOS from Seattle Computer Products for \$50,000. Inspired by QDOS, Microsoft developed MS-DOS, which became the industry standard operating system and earned the company a fortune.

Yet personal computers still lacked warmth. Thus began the race to develop a GUI, or graphical user interface, which would allow users to interact with their computers via screen icons, pointers, menus and other visual elements.

Xerox developed the first GUI. Steve Jobs, co-founder of Apple Computers, had already begun work on Apple's GUI when he drew inspiration from Xerox's ideas. Job's work eventually led to the development of the Macintosh.

After Microsoft created Windows 1.0, Jobs filed a lawsuit claiming that Windows stole too much of its look and feel from the Macintosh. Gates quipped, "Hey, we both got it from Xerox." The lawsuit ended when Microsoft agreed not to use Macintosh ideas as part of Windows 1.0, but the door was left open for subsequent incarnations of Windows, causing Apple to lose exclusive rights to critical elements of Macintosh technology.

1. Gates and childhood friend Paul Allen developed basic computer programs and code for the earliest personal computers.

2. They sold the code to fellow hobbyists.

3. Gates and Allen won a contract for their small company, Microsoft, to write the code for IBM's first attempt at a personal computer. It was significant that IBM had shifted a significant portion of its development budget from mainframe systems.

E. They sold IBM a non-exclusive license for MS-DOS, their new programming code.

1. This left them the option to sell it to other computer makers.

2. They had licensed it to IBM for a fairly low price, hoping that IBM would help popularize the MS-DOS code and other IBM clones would pick it up.

3. Microsoft essentially piggybacked on IBM, which proved to be the beginning of Microsoft's success.

F. Over the next twenty years, Microsoft's operating system evolved into the wildly successful Windows program.



Bill Gates

1. What ensued was an interesting collaboration between Intel and Microsoft to keep their particular products compatible.

a. This sort of tag-team collaboration between Gates and Grove was referred to as Wintel.

b. The need for standards in the computer industry enabled the success of Microsoft and Intel.

2. These standards, almost by default, are set by those two companies.

3. Microsoft is seen as marketing its standards even more than its product, which demonstrates the way large corporations attempt to create laws or standards of their own in certain niches of the free market system.

Conclusion:

The success stories of Andrew Grove and Bill Gates are good examples of how the market and the law interact. The next lecture is a further examination of the relationship between the market and the law.

FOR GREATER UNDERSTANDING

Consider

1. How did technology in the 1950s and 1960s set the pace for later developments in the computer industry?
2. What are the advantages and disadvantages of non-exclusive licenses on products?
3. Why did the collaboration between Intel and Microsoft work so effectively?

Suggested Reading

Gates, Bill. *Business @ the Speed of Thought: Succeeding in the Digital Economy*. New York: Warner Books, 2000.

Gates, Bill. *The Road Ahead*. New York: Penguin USA, 1996.

Grove, Andrew S. *High-Output Management*. New York: Random House, 1983.

Other Books of Interest

Heilemann, John. *Pride Before the Fall: The Trials of Bill Gates and the End of the Microsoft Era*. New York: HarperCollins Publishers, 2002.

Jackson, Tim. *Inside Intel: Andy Grove and the Rise of the World's Most Powerful Chip Company*. New York: EP Dutton, 1997.

Websites to Visit

1. Intel – Biography of Andrew Grove
<http://www.intel.com/pressroom/kits/bios/grove.htm>
2. Microsoft – Biography of Bill Gates
<http://www.microsoft.com/billgates/bio.asp>

Recorded Books

Gates, Bill. *Business @ the Speed of Thought*. ABRIDGED Recorded Books. Narrated by Roger Steffens.

Gates, Bill. *The Road Ahead*. UNABRIDGED Recorded Books. Narrated by Richard M. Davidson. (9 cassettes/12.5 hours)

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Lecture 14: The Past and Future of American Business

Before beginning this lecture you may want to . . .

Read Robert Sobel's *The Entrepreneurs: Exploration Within the American Business Tradition*.

Introduction:

An entrepreneur is a unique contributor to the American market. Entrepreneurship is essentially what keeps the economy growing and continuously creates competitiveness. This course has discussed some of the greatest entrepreneurs of our time. This discussion will summarize these successful entrepreneurs and discuss the future for entrepreneurship.

Consider this . . .

1. What inspires an entrepreneur?
2. What makes an entrepreneur successful and have longevity?

I. The Theme of Entrepreneurship

- A. Entrepreneurship is a distinct phenomenon of American business experience.
- B. What is it about the American political and economic culture that encourages entrepreneurship?
- C. There are certain elements in our society, such as the hungry immigrant, that help to tell this story.
- D. John Jacob Astor, Andrew Carnegie, and Andrew Grove proved the relevance of the hungry immigrant idea.
- E. The fact that, for the most part, our country has been so welcoming to immigrants is a big factor.
 1. Immigrants, by their nature, are willing to take risks and are not satisfied with their condition.
 2. For instance, Japanese business is not driven by entrepreneurship, which is not a part of Japanese culture.
- F. The alternative of entrepreneurs are large businesses guided by corporate organizations.
 1. It is much easier for an individual to have a radical idea and really push for its implementation than it is for a large corporation.
 2. Many entrepreneurs mentioned in this course started young, which meant their horizons were not already limited. This gave them time to adjust.



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II. The Willingness and Ability to Innovate

- Cyrus McCormick developed a new reaper.
- Cornelius Vanderbilt's displayed a penchant for re-invention in his career.
- Ray Kroc improved on an idea.
- Sam Walton had innovations regarding the general store.

III. Why Do These Entrepreneurs Continue to Work?

- In every case, these people stay in the business for more than the money.
- Bill Gates, for instance, remained closely identified with his business after accumulating great wealth and also became the country's largest philanthropist.
 - In the anti-trust suit against Microsoft by the government in the late 1990s, Gates refused to settle because he felt it was an attack not only on Microsoft, but on his character, as well.
 - Entrepreneurs see a great value in leaving their mark on the world.
- Again, the question comes up, why so few female entrepreneurs? There are many possible answers.

IV. The Role of Technology in American Business

- A driving force of business is the necessity to move people and goods in an increasingly efficient manner.
- Communication was revolutionized by the telegraph, the telephone, the radio, the television, and then, finally, the Internet, which was inconceivable a few decades ago.
- Science becomes technology. Technology becomes a part of modern life. New applications are given life by enterprising business.

V. The Technology of Production

- The practice of using interchangeable parts found its full potential in Henry Ford's assembly line.
- Productivity is not simply a matter of factory production; it is extremely important in agriculture, the essential American industry. Better productivity in agriculture has led to overall economic success.
- The first Pentium chips were more valuable than gold.
- Examples of the technology of consumerism are Astor's beaver caps and Ford's cars.

VI. Booms and Busts

- The American economy grows in fits and starts, and though growth is more impressive now than ever, it still is not uniform.
- There is a new economy bust of the 1990s computer boom.
 - The economy will surely revive, but there are important lessons to be learned from history.
 - People were swept up in the rhetoric of the technology boom.
- There was not another Great Depression after this latest bust because of the effective stabilizing force of the Federal Reserve Bank. Increased intrusion of the government was used to help regulate the market.

VII. The Role of Government

- American capitalism plays by its own rules.
 - Americans, by and large, have embraced the idea of a free market, private property, and individual freedoms in business decisions.
 - However, this has not always played out in a uniform fashion.



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- B. There was a learning curve for the government, but progress has been made.
1. Jay Gould and John D. Rockefeller took advantage of an early lack of regulation.
 2. Often, the American people asked the government to step in to prevent these kinds of market abuses.
 3. The idea of the government protecting consumers grew in the 20th century. Before that, the rule was "buyer beware."
- C. Today, the U.S. government participates far more in the economic life of the country.
1. This has also included the promotion of American products overseas.
 2. The government has also helped to launch a number of new technologies with public money.

Conclusion:

Without entrepreneurship our society and economy would not grow. The role of government plays a major part in contributing to entrepreneurship. Without a government that fosters a free market and private ownership, entrepreneurs would not be as able to fulfill their dreams. Fortunately, America's government has continually provided the opportunity to allow entrepreneurship to flourish.



FOR GREATER UNDERSTANDING

Consider

1. Why is entrepreneurship such a large part of the American way of life?
2. What lessons has the United States learned from the 1990s computer boom?
3. In what ways does the U.S. government promote capitalism?

Suggested Reading

- Hughes, Jonathan R.T. The Vital Few: The Entrepreneur and American Economic Progress. New York: Oxford University Press, 1986.
- Klein, Maury. The Change Makers: How the Great Entrepreneurs from Carnegie to Gates Transformed Ideas into Industries. New York: Henry Holt & Company, Incorporated, 2003.
- Tedlow, Richard S. Giants of Enterprise: Seven Business Innovators and the Empires They Built. New York: HarperBusiness, 2001.

Other Books of Interest

- Porter, Michael E. Competitive Strategy: Techniques for Analyzing Industries and Competitors. New York: Free Press, 1998.

Websites to Visit

1. Encyclopedia.Com <http://www.encyclopedia.com/>
2. Encyclopedia Britannica <http://www.britannica.com/>
3. Wikipedia Encyclopedia <http://en.wikipedia.org/>

Recorded Books

- Tichy, Noel M. and Sherman Stratford. Control Your Destiny or Someone Else Will. UNABRIDGED Recorded Books. Narrated by Stratford Sherman. (4 cassettes/6 hours)

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COURSE MATERIALS

Suggested Readings:

- Ash, Mary Kay. *Miracles Happen: The Life and Timeless Principles of the Founder of Mary Kay Inc.* New York: HarperCollins Publishers, 2003.
- Carnegie, Andrew. *Autobiography of Andrew Carnegie.* New York: Reprint Services Corp., 1993.
- Gates, Bill. *Business @ the Speed of Thought: Succeeding in the Digital Economy.* New York: Warner Books, 2000.
- Gates, Bill. *The Road Ahead.* New York: Penguin USA, 1996.
- Grove, Andrew S. *High-Output Management.* New York: Random House, 1983.
- Kroc, Ray, Robert Anderson. *Grinding It Out: The Making of McDonald's.* New York: St. Martin's Press, 1990.
- Sloan, Alfred P. *My Years With General Motors.* New York: Doubleday, 1996.
- Wallace, James and James Erickson. *Hard Drive: Bill Gates and the Making of the Microsoft Empire.* New York: Harper Business, 1993.
- Walton, Sam, John Huey. *Sam Walton. Made in America: My Story.* New York: Bantam Books, 1993.

Recorded Books:

- Collins, Jim and Jerry I. Porras. *Built to Last.* UNABRIDGED Recorded Books. Narrated by Rick Rohan. (8 cds/9.75 hours)
- Gates, Bill. *Business @ the Speed of Thought.* ABRIDGED Recorded Books. Narrated by Roger Steffens.
- Gates, Bill. *The Road Ahead.* UNABRIDGED Recorded Books. Narrated by Richard M. Davidson. (9 cassettes/12.5 hours)
- Ash, Mary Kay. *Mary Kay: On People Management.* UNABRIDGED Recorded Books. Narrated by Rita Knox. (4 cassettes/5.5 hours)
- Kyne, Peter B. and Alan Axelrod. *The Go-Getter.* UNABRIDGED Recorded Books. Narrated by Arthur Morey. (2 cds/1.5 hours)
- Ogilvy, David. *Confessions of an Ad Man.* UNABRIDGED Recorded Books. Narrated by Ray Atherton. (3 cassettes/4.75 hours)
- Strouse, Jean. *Morgan.* Parts 1 & 2. UNBRIDGED Recorded Books. (29 cassettes/42.25 hours)
- Tichy, Noel M. and Stratford Sherman. *Control Your Destiny or Someone Else Will.* UNABRIDGED Recorded Books. Narrated by Stratford Sherman. (4 cassettes/6 hours)
- Underwood, Jim. *More Than a Pink Cadillac.* UNABRIDGED Recorded Books. Narrated by Joel Leffert. (6 cds/7.25 hours)

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ABOUT THE COURSE

Since the formation of the American Republic, the principles of free enterprise and equal opportunity have been at the very core of economic philosophy. During the revolution, colonists fought not only for intangibles like "liberty" and "justice," but also for the promises of a free market that provided everyone with the opportunity to pursue economic advancement regardless of social position and unsubjected to a crown. America quickly became a society in which an individual's success would be measured not by birthright, but rather by determination. In this atmosphere, men and women have sought fortune limited only by their own abilities, their willingness to work hard, and their courage in the face of unknown dangers. In this course, we'll examine the lives and careers of successful men and women who seized the opportunities offered by the vibrant and open economy that has ensued. We'll examine how each of these individuals found the necessary resources—both economic and personal—to achieve greatness in the business arena. In doing so, we hope not only to arrive at a better understanding of American business history in general, but also to learn from its greatest visionaries—its Masters of Enterprise.

COURSE SYLLABUS:

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- Lecture 2 John Jacob Astor: From Furs to Real Estate
- Lecture 3 Cyrus McCormick: The Business of Agriculture
- Lecture 4 Cornelius Vanderbilt and Jay Gould: Speculating on America
- Lecture 5 Andrew Carnegie and John D. Rockefeller: An Obsession for Efficiency
- Lecture 6 J.P. Morgan: The Triumph of the Money Man
- Lecture 7 Henry Ford and Alfred P. Sloan: Capturing the Dream
- Lecture 8 Walt Disney: The Business of Fantasy
- Lecture 9 Robert Woodruff: As American as Coke
- Lecture 10 Ray Kroc: The Industrialization of Eating
- Lecture 11 Sam Walton: Will the Real Uncle Sam Please Stand Up?
- Lecture 12 Mary Kay Ash: What Do Women Want?
- Lecture 13 Andrew Grove and Bill Gates: Intel (and Microsoft) Inside
- Lecture 14 The Past and Future of American Business

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H.W. BRANDS is currently Distinguished Professor of History and holder of the Melburn G. Glascock Chair in American History at Texas A&M. He attended Stanford University, receiving a B.A. in history in 1975, then earned his Ph.D. in 1985. Brands is the author of 17 books, has edited four others, and has published dozens of articles and scores of reviews. His *New York Times* best-selling book *The First American* was a finalist for the Pulitzer Prize and the *Los Angeles Times* Prize. *What America Owe the World* was a finalist for the Lionel Gelber Prize. He is frequently interviewed by the American and foreign press, including PBS, ABC, MSNBC, A&E/History Channel, BBC, NPR, Australian Broadcasting Company, the *Wall Street Journal*, *USA Today*, and the *Philadelphia Inquirer*.

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