

What Makes America Great?

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The average American today lives better than a king in 1851. He enjoys greater comfort and a wider variety of food, clothing, and shelter. He takes for granted marvelous systems of transportation, communication, and other things that could not be bought with any amount of money a century ago. Even compared with most people in the rest of the world today, he has far more comforts and material things of life. What accounts for this remarkable achievement? Three keys to economic progress have been used to bring about our high standard of living. Capital, energy, and freedom are the secret to progress at all times and anywhere.

Capital

Productive capital is the first key to economic progress. In the form of machines, it is the magic multiplier of man's efforts to produce goods.

With such simple tools as an ax and a wheel, primitive man first began the upward climb along the path of progress. For many centuries man was limited to tools which he could operate by himself or with the use of animals. Then, within the past two hundred years, by applying mechanical power to productive machines, vast new possibilities were opened up. One new machine suggested others. Invention followed invention.

The development of mass production machines and techniques was a landmark in human progress. It resulted in production of such quantities and at such low cost that goods and comforts undreamed of before became available to the great mass of people.

Mass production requires an enormous amount of capital. In some industries the equipment required for the average worker costs more than \$100,000, and for all manufacturing the cost of productive tools now approaches \$10,000 per worker. How is an average worker to be provided with these tools which cost from three to thirty times as much as he can produce in a year? Unless means exist to encourage creation of this capital equipment, to replace it as it wears out, and to add new equipment constantly, our productive capacity will decline.

Capital has been created in the Western world by individuals rather than by government. It has been created under the incentive of the profit motive. The individual who wanted to improve his standard of living devoted part of his effort to creating productive equipment which would enable him to have more in the future. Families worked hard to give their children an opportunity to start out with a better education and more resources than their parents had. Without planning or central direction, these efforts led to the creation of more machines. As these machines increased production and raised standards of living, it became easier for people to spare part of current production to make more tools.

The widespread use of machines raises an important question: How should production be divided between those who provide capital equipment and those who run that equipment? The worker believes his contribution is the greater because machines could not produce without him. On the other hand, without the machines the worker could not produce enough to pay his wages. But since machines already exist, cannot workers gain by appropriating for themselves all of the production made possible by the machines? The answer to this is an emphatic “No,” even though it might appear that a gain could be made temporarily. It is the continuous creation of new capital which brings about economic progress, not merely the use of the capital existing today. Regardless of ownership, there must be enough incentive for someone to do without something today so that work may be applied to building new machines which will support future productive capacity. That incentive is the price paid for the use of capital in the form of interest and profits, for without that price future capital would not be forthcoming. Actually, the price paid to the creators of capital is a very small one, especially when we consider the additional production made possible by that capital.

For economic progress, we must have productive capital and the incentive to create more of it.

Mechanical Energy

The productive machines of the modern world are not operated by human energy. They would stand idle but for the availability of enormous quantities of mechanical energy at low cost. Machines and energy together really turn out the goods of the world today. Our second key to economic progress is mechanical energy.

Mechanical energy is a modern Aladdin’s Lamp. It literally performs miracles. It carries us through the air faster and more comfortably than any magic carpet. It transports people and goods all over the face of the world. It freezes and cooks our foods, cools us in the summer, and warms us in the winter. It powers the machines which make parts, and runs the assembly lines on which those parts are made into the millions of products we use. It drives our automobiles, lawn mowers, electric razors, and hundreds of other gadgets from clocks to washing machines.

Our standard of living is peculiarly dependent upon mechanical power. The more machines we have, the more power we need to operate them. The more power and machines, the less work individuals have to do. Thus, we can enjoy today both a much higher standard of living than did our fathers and grandfathers in 1900 and more leisure. This is truly the age of energy. We must have increasing supplies of such energy at reasonable cost if we are to continue our economic progress.

Energy consumption at a high rate is especially characteristic of the United States. In this country we use ten times as much mechanical energy per capita as the people of the rest of the world. Motors with ten horsepower would be required per person, operating constantly every minute of the day and night, everyday of the year, to equal the energy we use. It would take fifty servants of every man, woman, and child in the United States to produce that much energy! Even if we could hire and support that many servants, they would not be able to do some work that mechanical energy can do, such as lighting, heating, and cooling our homes and offices.

By what good fortune does the United States enjoy such an abundance of fuels to provide this mechanical energy? First, the fact that our country was well endowed and natural resources of coal, oil, and gas certainly have been important in our economic progress. But these resources were merely inert substances until man exercised initiative in discovering them and converting them to useful ends. Our enterprise has developed potential resources more effectively in the United States than elsewhere in the world.

Our advantage in energy over the rest of the world has come particularly from a great development of oil and gas production under a system of competitive search. There has been found to date as much oil in the United States as in the rest of the world, and the United States has produced to date about two-thirds of all the oil produced in the world, although the potential resources here are much less than those in the rest of the world. The availability of liquid fuel in large quantities has been a major factor in the revolution brought about in American living by widespread use of the automobile. We have become a nation on wheels dependent for the transportation of goods as well as ourselves to a large extent on the internal combustion engine, including the Diesel locomotive.

Many of us think of power largely in the terms of electricity because that is so widely used in our homes and factories, but basically petroleum and coal really supply the power used in this country. Hydroelectric power actually accounts for only about five per cent of the total energy used in the United States. Most of the electric power we use is generated from coal, oil, and gas. In recent years, oil and gas have come to supply much more energy than coal.

Can we continue to have enough energy or are we doomed to a falling standard of living when we exhaust our natural resources of mineral fuels? The prophets of gloom are convinced that we will run out of oil soon and all mineral energy eventually, with the result that our production based on machines will decrease. There is little basis for such fears so long as we encourage technological progress. Our entire experience demonstrates the enormous potentialities of new technology. We would have run out of oil long ago if we had depended merely on the technology available at the beginning of the twentieth century. It is the invention of new and better methods of searching for oil, of drilling, and of producing oil which has supplied us with such vast quantities of liquid fuels at low cost. Similarly, the pressure of competition from oil has led to improvements in use of coal and better machinery for mining coal. Our technology is not static. On the contrary, it is highly dynamic, always improving. Under the spur of competition, it is bound to advance still further. In that case, we can count on improvement in technology to provide the mechanical energy we need for an expanding economy.

The known resources, proved and potential, of oil, gas, and coal are sufficient to last for a very long time in the future. How many years such supplies will last cannot be predicted with certainty. It is reasonable to say, however, that these supplies will last long enough for technology to open up new sources of power and energy. Power from the rays of the sun, or from nuclear fission, may ultimately supplant power from coal and oil and gas as the prime mover in our productive effort.

Human Freedom

Productive machines and mechanical energy are the prime movers in economic progress, but their effective development depends upon a proper climate of ideas. Ideas are ultimately man's distinguishing characteristic and most powerful force. Of man's ideas, human freedom stands out as the third key to economic progress.

The traditional, customary relations of people in the Middle Ages were a chain to the past and a barrier to progress. So long as an individual's occupation and status in life depended on his birth, regardless of ability, there was little opportunity or incentive for improvement. Only when such traditional bonds were broken by the concept of individual quality and freedom did society begin to advance rapidly.

Modern concepts of a free society were formulated less than two hundred years ago. Economically, they were expressed by Adam Smith in his famous "inquiry into the Nature and Causes of the Wealth of Nations" published in 1776. Politically, their clearest expression was in the Declaration of Independence of the same year. The founders of this country held these truths to be self-evident: "That all men are created equal; that they are endowed by their Creator with certain unalienable rights; that among these are life, liberty, and the pursuit of happiness." The history of the United States represents the logical development of this simple, fundamental thesis.

There is great significance in the use of the phrase, "the pursuit of happiness," in the Declaration of Independence. Happiness itself was not listed as an unalienable right. Instead, our right is to work and search for happiness. In that pursuit, our predecessors conquered a continent and built a nation.

Because individuals are free to enjoy the results of their effort, they have been encouraged to increase production and to create capital equipment. In the pursuit of happiness they have added enormously to the prosperity of the entire population. Some few have made fortunes as a result of their inventions and enterprise, but the principal benefits have been for all of us in the form of automobiles, plumbing, central heating, electricity, and countless conveniences unknown in 1850. Thus, freedom has contributed to prosperity and happiness for all.

Freedom is the crucial issue in the world today. Every economic system must use productive capital and mechanical energy if it is to be successful, so the basic distinction between systems is whether they accept or reject freedom as a principle for organizing human activity. The only alternative to free choice is compulsory force. In our system, the individual decides what he wants to do or buy and the government helps maintain the greatest freedom for all of us. The alternative is for government to force people to do what it wishes. One system takes advantage of all the ideas developed by a free people in a competitive society under the stimulus of private enterprise; the other subjects everyone to the ideas of a few men in charge of planning.

Progress Through Education

Man's future advance depends upon capital, energy, and freedom. But only education can teach the world to know and use the keys to economic progress. Education throughout the world, as well as in this country, is needed to create an understanding of these factors in raising standards of living.

Education has been a catalyst in economic progress. Education has taught us to understand and use productive capital, mechanical energy, and freedom. In schools and through experience we have learned how to build and operate machines, how to develop energy resources, and how to organize human activity to best advantage. We have learned not merely to apply what we are taught, but to develop new ideas, machines, and processes.

Education has also contributed profoundly to equality of opportunity. Such equality is essentially that contemplated in the Declaration of Independence, for the differences between individuals are too great to believe that the phrase “all men are created equal” was intended to mean that all men are equal in a literal sense. Opportunity to progress as far as ability and effort permit has inspired the people of this country to self-improvement on a remarkable scale. It has led to a rapid economic advance that allows each new generation to start at a higher level than the one before.

In science and material progress we have used education to great advantage, but in helping us to find happiness, we have not used it quite so well. Education increases our knowledge and wants so much that sometimes we are more inclined to look at the things we want but do not have rather than at all the goods we do enjoy. By such strange reasoning we can make ourselves unhappy even in the midst of great economic prosperity. Even the keys to economic progress will fail to make us happy unless we learn that there are other values in life beyond material goods.

Our economic system cannot be transplanted successfully in its material aspects alone. If it is to thrive elsewhere, freedom and education must go with it. Machines and energy are the material resources basic to production, but it takes free men of intelligence, education, and good will to create from these resources a dynamic economy capable of further progress. Therein lies one of the greatest problems in improving economic conditions abroad, for it is not enough merely to provide others with machines and fuels. With these commodities must go the principles of a free society. For millions of people of this world who have never known real freedom, it will not be easy to grasp or apply the essentials of economic progress. Still, we must strive to help them understand what it takes to improve their lot, for if we fail they may pull us down along with them.

U. S. Economy: Model

The standard of living delivered by our economy in 1951 is as far superior to that of 1900 as is the automobile of today to the first gasoline buggy. In terms of output, quality, and price the achievements of the twentieth century are convincing proof of the efficiency of a free economy. Why, then, should there be any debate over the best system for achieving economic progress? Why should anyone seek to change our 1951 model of the free economy?

Characteristically, Americans seek better things, no matter how good the “current model” may be. We are not satisfied that this year’s automobiles are better than those preceding them but instead look forward with impatience for next year’s models which will be better. The same attitude prevails with respect to our economy: We know it is good, but we would like to make it still better.

Only a free economy can achieve economic progress without coercion and central direction. The capital and energy which make the United States prosperous have been created by individual initiative and private enterprise, not by government action. A democratic government cannot be a successful creator of productive capital because the majority of the voters prefer to have tax money spent for present benefits rather than for projects productive only in the future. For a government to be a major factor in building capital equipment, it must be a dictatorship indifferent to the wishes of the people, but then there are lost the individual initiative and private enterprise most effective in developing the productive capacities of people. A free economy provides the greatest development of machines and fuels, and no other system can remotely approach it.

In the process of improving our economic system, many changes have been made from the free economy visualized in the classical economic theory. Some of these changes have involved government regulation of economic activity, largely in the form of definition of the rules of fair play. Some controls of this kind can contribute to the effective functioning of an economy without destroying its fundamental principle, but that does not mean that an indefinite extension of economic regulation or planning by government would be good. Beyond a certain point government action hinders rather than helps production. There is a vast difference between maintaining freedom and competition and smothering them in excess regulation. Laws which go beyond the principles of a free economy into the field of government direction or operation of business destroy freedom and decrease production.

Business leaders of the United States have devoted their energies so fully to creating a technically productive system that they have not always given enough attention to the human aspects which must be taken into account if the system is actually to operate efficiently. Experience proves, however, that social maladjustments can act as limiting factors on technical progress. Therefore, business men must evaluate anew their role in production as involving social as well as economic aspects. Then they will again have a positive program for progress to offer. Businessmen must provide such a program if they are to receive popular support; for leadership must be positive and can never be merely negative.

Let us plan to improve the 1951 model of the free economy, but let us not make the fatal mistake of forgetting the fundamental forces of that system as we design the new model.

Toward a Better World

The marvelous economic progress of the Western World has been built upon productive capital, mechanical energy, and human freedom with the assistance of education. The system has been so successful that it has aroused the envy of the rest of the world. Millions of people on the edge of starvation in other countries are eager to improve their life and to attain even part of what we have. They would like overnight to achieve more than they have in two thousand years, as much as the United States has accomplished in a century of amazing progress. Since they do not understand how we have reached our present position, it is not strange that they fall victim to Communist doctrines which offer them the promise of sharing all that we have created. For most of these people, these empty promises outweigh fears of dictatorship, for few of them have known freedom such as we enjoy. The tragic error

is that we have not made the rest of the world see that freedom promotes economic progress, in addition to being a priceless right in itself.

It is the task of Western civilization to demonstrate to the rest of the world that the road to economic progress is not one of dividing existing wealth, but rather of creating more new wealth by the processes of a free economy. Our great asset is our ability to produce more and better goods, not our present possessions. We have a responsibility to help the rest of the world improve its standards of living by means of an understanding of the basic forces of a productive economy. If we can make clear that machines, energy, and freedom are the indispensable ingredients necessary for economic progress, then we will have done all we can to lead the world along the road to future prosperity and peace.

The world is confronted with a choice between rival economic systems. The appeal of our rival is necessarily emotional, for its system has not proved as productive as ours. Emotion frequently is more appealing than logic, but it does not solve practical economic problems. Our superb economic system offers the practical advantage of superior productions, which is of primary concern to the rest of the world. As a bonus of the greatest value, it also provides freedom. Surely, any good American salesman should be able to sell such a system on practical or emotional grounds. Perhaps our trouble is that we have been too busy improving our system at home to bother about exporting it to foreign markets! It is essential, however, that we concern ourselves with the relation between the progress of the rest of the world and our own, for failure to do so may destroy us. A positive role of leadership on our part must surely convince other people that they too can enjoy economic progress and freedom together.

If we have the understanding and courage to use the keys to economic progress which have brought us so far and so fast in man's upward climb, we can--and will--build a better world than we can dream of today.