

THE CHARACTERISTICS OF AMERICAN BUSINESS

1 It is essential to become familiar with two words in order to understand the meaning of *business* to Americans: They are *private* and *profit*. Businesses are directly or indirectly owned and operated by private individuals (or groups of individuals) in order to make a profit. In contrast to these privately owned, for-profit businesses, there are also (1) public, government-owned-and-operated institutions, and (2) nonprofit organizations, such as churches, charities, and educational institutions. These organizations and institutions should not be confused with businesses. However, in recent years a new type of business called “for purpose” or “for benefit” has appeared, a form of for-profit charity. We will discuss these new benefit corporations later in the chapter.

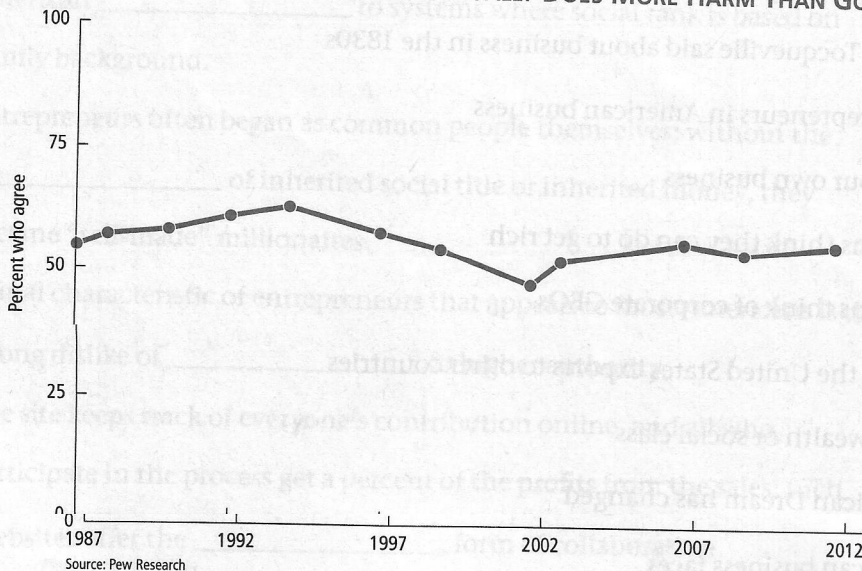
How Business Competition Reinforces Other Values

2 The statement by President Coolidge in the 1920s, “The business of America is business,” still points to an important truth today—that business institutions are

at the heart of the American way of life. One reason for this is that Americans view business as being more firmly based on the ideal of competition than most other institutions in society. Since competition is seen as the major source of progress and prosperity by most Americans, competitive business institutions have traditionally been respected. Competition is seen not only as a value itself; it is also the means by which other basic American values such as individual freedom, self-reliance, equality of opportunity, and hard work are protected.

3 Competition protects the freedom of the individual by ensuring that there is no monopoly of power. In contrast to one all-powerful government, many businesses compete against each other for profits. Theoretically, if one business tries to take unfair advantage of its customers, it will lose to a competing business that treats its customers more fairly. Where many businesses compete for the customers, they cannot afford to give them inferior products or poor service.

GOVERNMENT REGULATION OF BUSINESS USUALLY DOES MORE HARM THAN GOOD



4 A contrast is often made between business, which is competitive, and government, which is a monopoly. Because business is competitive, many Americans believe that it may be even more supportive of freedom than government, even though government leaders are elected by the people and business leaders are not. Many Americans believe that competition is vitally important to preserving freedom. So closely is competitive business associated with freedom in the minds of most Americans that the term *free enterprise*, rather than the term *capitalism*, is most often used to describe the American business system.

5 Competition in business is also believed to strengthen the ideal of equality of opportunity. Americans compare business competition to a race open to all, where success and status go to the swiftest¹ person, regardless of social class. Gaining success and status through competition is often seen as the American alternative to systems where social rank is based on family background. Business is therefore viewed as an expression of the idea of equality of opportunity rather than the aristocratic idea of inherited privilege.

6 Business competition is also seen by most Americans as encouraging the value of hard work. If two businesspeople are competing against each other, the one who works harder is likely to win. The one who spends less time and effort is likely to lose. Because businesspeople must continually compete against each other, they must develop the habit of hard work in order not to fail.

7 Americans are aware that business institutions often do not live up to the ideals of competition and the support of freedom, self-reliance, equality of

opportunity, and hard work. Americans sometimes distrust the motives of businesspeople, believing that they are capable of putting profit before product safety or a cleaner environment. Therefore, most Americans believe businesses need some government regulation, although they may disagree on how much. Even with these flaws,² however, most Americans believe that business comes closer than other institutions to encouraging competition and other basic values in daily practice.

The Dream of Getting Rich

8 There is a second reason why business institutions have traditionally received respect in the United States. One aspect of the great American Dream is to rise from poverty or modest wealth to great wealth. In the United States, this has usually been accomplished through successful business careers. Most of the great private fortunes in the nation have been built by people who were successful in business, many of whom started life with very little. Indeed, today about 35 percent of the Forbes 400 (the 400 wealthiest Americans) were raised poor or middle class. Careers in business still offer the best opportunity for the ambitious individual to become wealthy, although many of the wealthiest Americans have inherited fortunes from their family.

9 Alexis de Tocqueville observed the great attractiveness of business careers for Americans as early as the 1830s. He wrote that Americans strongly preferred business to farming because business offered the opportunity to get rich more quickly. Even those who were farmers were possessed with a strong business spirit. They often ran small businesses to add to the money they made from farming. Tocqueville also

¹ *swiftest*: quickest and fastest

² *flaws*: mistakes, marks, or defects



Longwood Mansion, Natchez, Mississippi, is an example of the opulent lifestyle many Americans hope to have.

noticed that American farmers were often more interested in buying and selling land for a profit than in farming it. Thus, even in Tocqueville's day, when most Americans were still farmers, the seeds of a business civilization had already been planted.

- 10 Not only is business seen as the easiest way for individuals to become rich, it is also seen as generally benefiting the entire nation. Through competition, more people gain wealth and the nation prospers. By contrast, a government-run system of production and distribution of goods is seen as inferior. It is distrusted because of the monopoly of power held by the government, which eliminates competition. Most Americans would probably prefer to limit government's control over businesses and let the free enterprise system, or the free market, work on its own. However, there is a great debate about the role of the government

vs. business in providing services such as health care and retirement benefits. The United States is one of the few industrialized countries in the world that does not have universal health care guaranteed and managed by the government. Health care in the United States has been tied to employment since the 1940s, although the government's role has been increasing in the 2000s. The Affordable Care Act (passed in 2009 and implemented 2010-2015) has the goal of enabling all Americans to have access to affordable health insurance. However, this plan (known as Obama Care) has been controversial from the start, with opposition from many business leaders and conservative politicians.

- 11 As for retirement, since the 1980s most businesses have switched from offering pensions to retired workers to offering them 401K retirement accounts for

saving and investment. This has allowed employees access to their retirement funds while still working, and it has resulted in many workers spending this money and not saving enough for their retirement. This is a growing problem in the United States. In the future, as these workers face retirement without adequate savings, the government retirement benefits may also be reduced. Both individuals and companies now contribute money into the government Social Security System (and Medicare, the government health care system for retirees), but there is serious concern that as the aging population grows, there will not be enough money to fund these benefits. We will examine this problem more in the next chapter on government.

The Entrepreneur as Business Hero

- 12 Because of the many beliefs that connect business to the wealth and the traditional values of the United States, people who are successful in business have sometimes become heroes to the American people. Entrepreneurs provide examples of traditional American values in their purest form for a number of reasons. The first reason is that they succeed in building something great out of nothing. The people who, more than 100 years ago, built up the nation's great industries, such as steel, railroads, and oil refining, were usually entrepreneurs. They started with very little money or power and ended up as the heads of huge companies that earned enormous fortunes.
- 13 The fact that these early entrepreneurs built great industries out of very little made them seem to millions of Americans like the heroes of the early frontier days, who went into the vast wilderness of the United States and turned forests into farms, villages, and small cities. The entrepreneur, like the earlier hero

of the frontier, was seen as a rugged individualist who reinforced the values of freedom, self-reliance, and hard work. The nineteenth-century entrepreneurs often began as common people themselves; without the aid of inherited social title or inherited money, they became "self-made" millionaires. They were thus perfect examples of the American idea of equality of opportunity in action.

- 14 The strong influence of the success stories of the early entrepreneurs can be found in the great popularity of the novels of Horatio Alger, which were published in late-nineteenth and early-twentieth-century America. About 17 million copies of these books were sold to the American public. The central theme of Alger's novels is that in the United States a poor city boy or a poor farm boy can become a wealthy and successful businessman if he works hard and relies on himself rather than others. This is because the United States is a land of equality of opportunity where everyone has a chance to succeed.
- 15 In Alger's first published novel, *Ragged Dick*, a poor city boy who shines shoes for a living becomes Richard Hunter, a successful and wealthy businessman. The hero rises "from rags to riches" and fulfills the American Dream. Dick succeeds only partly because he lives in a land of equality of opportunity. His success is also due to the fact that he practices the American virtues of self-reliance and hard work. According to Alger, Dick "knew that he had only himself to depend upon, and he determined to make the most of himself . . . which is the secret of success in nine cases out of ten." Dick was also a hardworking shoe-shine boy, "energetic and on the alert for business." This quality marked him for success, explained Alger, because in all professions, "energy and industry are rewarded."



The Corporate CEO/CFO

16 Although few Americans today read Horatio Alger's stories, they continue to be inspired by the idea of earning wealth and success as entrepreneurs who "make it on their own." A final characteristic of entrepreneurs that appeals to most Americans is their strong dislike of submitting to higher authority. Throughout their history, Americans have admired entrepreneurs who conduct their business and their lives without taking orders from anyone above them. Americans have great respect for those who can say, "I am my own boss." Many American workers still dream of one day having their own business and being their own boss.

17 In contrast to business entrepreneurs who are seen as creating something new, there are the leaders of existing large business corporations—the CEO (Chief Executive Officer) and the CFO (Chief Financial Officer) who manage the businesses. The great entrepreneurs of the late nineteenth century built huge business organizations that needed new generations of business leaders to run them in the twentieth century. These leaders, sometimes referred to as "organizational men or women," now run large American corporations. They are powerful and often acquire great personal wealth, but they do not usually have the hero image of entrepreneurs because they are managing businesses that someone else started. Although most Americans admire the earning power of entrepreneurs and would probably not want to put a limit on their income, they are less generous in their view

of CEOs. Indeed, many highly paid CEOs have come under severe attack for their multi-million-dollar-a-year salaries and their self-serving management decisions.

18 In her book *Pigs at the Trough: How Corporate Greed and Political Corruption Are Undermining America*, Arianna Huffington details how certain CEOs took huge sums of money from the corporations they were managing and spent it on themselves. She describes how John Rigas, the CEO of Adelphia, a large cable company, borrowed \$3.1 billion from the company when it was in financial trouble and spent it outrageously:

He spent \$13 million to build a golf course in his backyard, \$150 million to buy the Buffalo Sabres hockey team, \$65 million to fund a venture capital³ group run by his son-in-law, thousands to maintain his three private jets, and \$700,000 for a country-club membership.

- 19 It is not just the greed of some corporate leaders; it is the effect their decisions have had on the employees of their companies, their stockholders, and the society at large. The early 2000s saw a number of other corporate scandals, when CEOs and other corporate officers received huge sums of money from companies that were failing. One of the worst examples was the Enron Corporation, which left thousands of employees out of work and destroyed their retirement savings. What angered Americans was not only the outrageous greed of the corporate executives, but also their lies to the stockholders, their criminal mismanagement of the business, and their cruel treatment of their own employees.
- 20 For most of the twentieth century, there were many good-paying manufacturing jobs. Many of these factory jobs did not require a college degree, and large numbers of average Americans could earn enough money to have a comfortable middle class existence. However, the realities of the global economy caused some American businesses to make significant changes. In order to make products that were cheap enough to compete in the global market, many companies moved their factories overseas. Companies could no longer afford to pay Americans those high wages. Second, some companies downsized to become more competitive. Old, giant corporations such

as IBM laid off thousands of workers, downsizing to become more efficient, as well as more competitive. Third, some companies reduced the number of full-time employees and replaced them with part-time workers so they did not have to pay health insurance or retirement benefits. Finally, some companies started outsourcing⁴ work to other countries. Telephone customer support is a good example of outsourcing. Today, when an American calls about a problem with a product or to inquire about the status of an order, the person answering the call may be in India or the Philippines, rather than the United States.

- 21 In the twenty-first century, in addition to watching CEOs send their good-paying jobs overseas, Americans were hit by an economic recession. Most of the wealth held by the middle class was in the homes they owned. The value of their homes had increased dramatically in the late 1990s and the 2000s creating a "housing bubble."⁵ When the bubble burst, middle class homeowners were devastated. Suddenly their homes were worth half of what they had been, and at the same time, many people lost their jobs. To make matters worse, American financial institutions went into a crisis. The banking system was in danger of collapsing⁶ and the government had to loan them money so they would not fail. The government also gave loans to two American automobile companies, Chrysler and General Motors, to keep them from collapsing. The decision was made that some companies were simply "too big to fail."

³ *venture capital: money that is lent to people so that they can start a new business*

⁴ *outsourcing: hiring employees in another country instead of using workers where the business is located*

⁵ *bubble: a successful or happy time, especially in business*

⁶ *collapsing: suddenly failing to work*

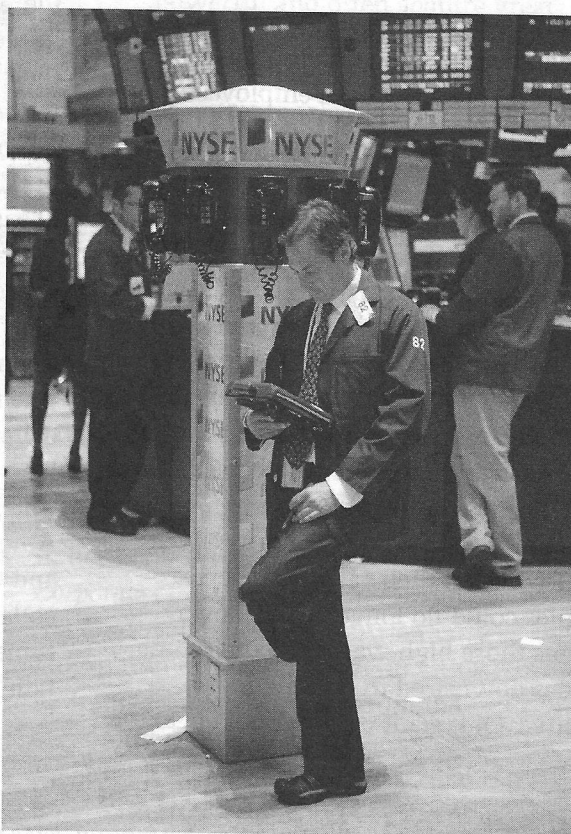
The Middle Class vs. the One Percent

22 By 2010, many middle-class Americans were really angry. Their incomes had remained the same (adjusted for inflation) for 25 years. They were discouraged about finding a good job and paying the mortgage⁷ on their home. Many people took money out of their retirement accounts to survive. And they learned that what they had left in their investment retirement accounts had declined along with the stock market fall of 2008. The Huffington Post reported that their Real Misery Index was the highest it had ever been. The Misery Index combines data on unemployment, credit card debt, and inflation of essentials such as gas, food, medical costs, and housing. In some locations, large numbers of homes went into foreclosure because the owners could no longer afford the mortgage payments, and the banks took back the houses.

23 But not all Americans were miserable. The gap between the very rich and the rest of the population had been growing since the late 1980s. Now it was clear that the very rich one percent had gotten even richer during the economic crisis. Some corporate CEOs had made fortunes downsizing companies and buying others that were in financial trouble. Banks and other financial institutions were selling financial products that few people understood. It seemed to some that the business institutions that had brought America jobs and new products and services were now just making money off of money. And people suddenly realized that because of the tax structure, investment income was taxed at a lower rate than earned income. Warren Buffet, one of the richest Americans, said that his secretary paid a higher tax rate than he did. This became an issue in the 2012 presidential election because Mitt Romney, the Republican candidate, had

made a fortune with his corporation that downsized American companies. Also, most of his income came from investments that were taxed at the lower rate, and much of his money was in off-shore bank accounts, outside the United States.

24 Then the economy started to improve. As the stock market recovered and rose higher and higher, so did the anger of the working class Americans. In the fall of 2011, some people started a movement called Occupy Wall Street, demanding that the rich pay “their fair share” of taxes. They camped out in the park near the Wall Street stock exchange in New York City, and the demonstrations spread to other cities. Eventually cold weather and other factors put a stop to most demonstrations, but the anger continued.



More and more business on the New York Stock Exchange is done electronically.

⁷ mortgage: money borrowed from a bank to buy a house and paid back over a number of years

25 It was not just the working class Americans who were disturbed. News commentators began asking if the American Dream was dead, and books about how to save or restore the American Dream appeared. Huffington sounded the alarm in her book *Third World America: How Our Politicians Are Abandoning the Middle Class and Betraying the American Dream*. Huffington, herself an immigrant from Greece, said she wrote the book as a warning about what could happen. In 1980, when she came to the United States to find “a better life,” that was the phrase everyone associated with America—a better life. “Upward mobility has always been at the center of the American Dream—a promise that if you work hard and play by the rules, you’ll do well, and your children will have the chance to do even better.” But in the last few years, Huffington said she saw that the middle class was “getting the short end of the stick.” Washington had rushed to the rescue of Wall Street but had forgotten about Main Street. Our political system is broken, she observed, and our economic system “has been reduced to recurring episodes of Corporations Gone Wild.”

26 Americans’ respect for their business institutions rises and falls in cycles, going back to the Industrial Revolution of the 1800s. At times, business leaders are seen as greedy and corrupt villains; at other times, they are hailed as heroes. This is not the first time that Americans have questioned the motives of business leaders. In the late 1800s, for example, some business leaders were known as “robber barons” because of their corrupt practices and their disregard for others. This caused the government to pass laws to regulate business practices. Now, when there are business scandals, the government

responds with more rules and regulations. Traditionally, Republicans have been in favor of a laissez-faire, or hands-off policy, and Democrats have favored more regulation and safeguards. The one factor that does not change is the strong belief in the value and importance of the American Dream.

Redefining the American Dream

27 Why does the American Dream of a better life persist in a bad economy or in the midst of other troubles? And why does it seem to encourage and inspire many Americans instead of discouraging and depressing them? Huffington says that, when writing her book *Third World America*, she was again and again struck by the resilience,⁸ creativity, and acts of compassion⁹ that she discovered taking place all over America.

28 First, many Americans truly are resilient. Perhaps part of this trait comes from their frontier heritage, where people believed they could pull themselves up by their bootstraps in times of trouble. The strong belief in self-reliance and individual freedom has led many Americans to redefine the American Dream for themselves. MetLife, a large American company that provides insurance, annuities, and employee benefits, has been doing an annual study of the American Dream for more than five years. Their most recent study shows a significant shift in priorities. It reveals the rise of what they call the “Do-It-Yourself” (DIY) American Dream and a portrayal of Americans as “resilient and adaptive.” Faced with economic hardship, Americans now say that having close relationships with their friends and family is more important than acquiring additional material possessions. They are more content with what they

⁸resilience: the ability to quickly become strong, healthy, or happy after a difficult situation

⁹compassion: sympathy for people who are suffering and a desire to help them

- already have, and they are seeking a better balance between their work and their personal lives. The study concludes that for most Americans now, "Achieving a sense of personal fulfillment is more important toward realizing the American Dream than accumulating material wealth."
- 29 Second, creativity is highly valued in American society. Gary Shapiro, president and CEO of the Consumer Electronics Association (which is responsible for the world's largest annual technology trade show), believes that innovation in business is critical. In *The Comeback: How Innovation Will Restore the American Dream*, Shapiro says that throughout history, our great innovators have been the real drivers of American economic success. American innovation is what creates new jobs and even whole new industries that never existed before. "Most importantly," Shapiro concludes, "innovation moves us forward as a nation, pushing us to succeed and strive for a better tomorrow. In short, innovation is the American Dream."
- 30 Richard Florida, author of *The Rise of the Creative Class*, believes that the role of innovation and creativity is rising in the United States today, and not just in the field of technology. Based on his analysis of census data, Florida estimates that nearly one-third of the American workforce now belong to "the creative class." They either create new ideas, technology, or content in fields such as science, education, design, the arts, and entertainment, or they engage in solving complex problems, in fields such as business, law, finance, and health care. These creative workers tend to cluster on the east and west coasts, in high-tech centers, and near major research universities and institutions. They have a strong, positive impact on the economic future of these areas.
- 31 Third, the compassionate nature of Americans and their search for meaning are a part of the redefinition of the American Dream. In *Abundance: The Future Is Better than You Think*, Peter Diamandis and Steven Kotler talk about the DIY (Do-It-Yourself) innovator. They say that the marriage of self-reliance and technology has helped shape the DIY innovator into a force for spreading abundance and a force for good. DIY innovators now have the technical tools to turn their visions of a better world into real businesses that can solve real problems. For example, Chris Anderson, the editor in chief of *Wired* magazine leads a nonprofit online community called DIY Drones. Using crowdsourcing techniques, his group of DIY innovators learned to build drones¹⁰ for about \$300.00 apiece, instead of the military's price of \$35,000 to \$250,000. Now they are looking at using drones to carry supplies into places where monsoons wash out roads, or areas with no roads at all. Another company, part of what Diamandis and Kotler call the Maker Movement, has a network of drones and recharging stations housed in shipping containers and spread throughout Africa. Smartphones are used to place orders in villages that are in remote locations, and then drones deliver the orders. Drones such as the Quad Copter can carry everything from medicine to replacement parts for farm machinery at a cost less than six cents per kilogram-kilometre.
- 32 Ebay's first president Jeff Skoll, Facebook founder Mark Zuckerberg, and Pay Pal founder Elon Musk are part of a new group of billionaires that Diamandis and Kotler call the *technophilanthropists*. They have made their fortunes in new fields of technology and now they are changing the face of philanthropy in the United States. Traditionally, philanthropists have

¹⁰ drone: an airplane or piece of equipment that does not have a person inside it, but is operated by radio

started giving their money to charity toward the end of their lives. However, many of these technophilanthropists were billionaires before the age of 30, and they turned to philanthropy right afterward. Skoll says that they are full of the energy and confidence “that come from building global businesses at such a young age. They want to tackle audacious goals like nuclear proliferation¹¹ or pandemics¹² or water.” They think big and believe that they can find solutions to “impossible” problems such as providing clean, safe drinking water to everyone on the planet. Because of their young age, they think they can really make a difference in their lifetime, solving enormous social problems.

- 33 A number of the technophilanthropists are DIY social entrepreneurs. Diamandis and Kotler say these are individuals who “combine the pragmatic, results-oriented methods of a business entrepreneur with the goals of a social reformer.” Some social entrepreneurs start benefit corporations where profits are spent bringing about social change. These benefit corporations are established to solve particular social problems; they raise profits but use the money for projects often done by nonprofit organizations. The Center for Association Leadership says that the newly emerging benefit corporations are blurring the traditional line between for-profit corporations and nonprofit organizations. Benefit corporations must commit to providing social or environmental benefits, “while still showing a healthy bottom line.” They are “devoted to what is known in the business community as the triple bottom line: people, planet, and profit,” and they must publicly report on their social and environmental performance. They are also a potential source of financial support for nonprofit organizations, and their profit

structure allows benefit corporations to continue their work without constantly having to look for outside funding.

- 34 Jeff Skoll, the first president of eBay, says social entrepreneurs are intensely enthusiastic people who are anxious to reach their goals. They go beyond what charities usually do to bring about change. He describes social entrepreneurs this way:

By nature, entrepreneurs aren't satisfied until they do change the world, and let nothing get in their way. Charities may give people food. But social entrepreneurs don't just teach people to grow food—they're not happy until they've taught a farmer how to grow food, make money, pour the profits back into the business, hire ten other people, and in the process, transform the entire industry.

The Future of American Business

- 35 In good economic times and bad, a number of Americans still try to start their own business. Many of these hopeful entrepreneurs have regular jobs, and they run their business venture on the side, in their spare time. The government encourages small business start-ups through the Small Business Administration (SBA), because they are the creators of most new jobs in the United States and employ more than half of all American workers. The SBA defines a small business as one that employs fewer than 500 people, but the vast majority of them (over three-quarters) have no employees at all—only the self-employed owner. About half of all small businesses are home-based, and the Internet plays an important role. Surprisingly, more than 99 percent of all American firms *with* employees are small businesses, with half of them employing 10–99 people. In the United States, there are over 23,000,000 small businesses and

¹¹ nuclear proliferation: the spread of nuclear weapons

¹² pandemic: an illness or disease that affects the population of a very large area

only about 18,500 large firms employing more than 500 workers.

- 36 The Internet has given individuals the tools to collaborate on almost everything, and many Americans who have business ideas find support there. Sites such as www.quirky.com will even help you develop an idea for a new invention. You submit an idea, and they ask their online crowd of people to vote on whether they think it's an invention worth bringing to life. If your idea is chosen, you participate in a crowdsourcing process of designing, engineering, financing, manufacturing, and then distributing your product. The quirky site keeps track of everyone's contribution online, and all who participate in the process get a percentage of the profits from the sales, even a fraction of a percent. Such websites offer the ultimate form of collaboration.
- 37 The Internet provides the global connections that allow businesses, large and small, to interact with potential customers everywhere, at any time. The United States remains one of the largest markets in the world, and it will undoubtedly continue to be a major player in the global economy. The World Bank ranks the United States fourth in the world for ease of doing business, behind Singapore, Hong Kong, and New Zealand. And the diverse multicultural American workforce will continue to be an asset in coming years.
- 38 Some American businesses that had moved their operations overseas are now returning, and manufacturing is coming back. However, much of the new manufacturing uses robotics¹³ and requires fewer workers, and the workers must have higher-level skills. American education systems and business communities are trying to collaborate to help provide workers with the new skills necessary for future employment. Significant changes will be necessary.
- 39 Although the institution of American business has certainly undergone enormous changes in recent decades, it has remained one of the most important institutions in the United States. In many ways, the business of America is still business.

¹³robotics: the study of how robots (machines that do the work of a person) are made and used