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Obama And Teddy Roosevelt: Both Progressives, Both Clueless About The Economy


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President Obama is a smart man who believes great wealth is a social problem, and ordinary people would be better off if wealth were substantially taxed away. Recently he drew inspiration from Theodore Roosevelt, another smart man who had a similar view, completely misinterpreted what was happening in the economy, and actively disrupted it.

Theodore Roosevelt was the man who, in 1906, encouraged progressives to promote a federal income tax after it was struck down by the Supreme Court and given up for dead. He declared that "too much cannot be said against the men of great wealth." He vowed to "punish certain malefactors of great wealth."

Perhaps TR's view was rooted in an earlier era when the greatest fortunes were made by providing luxuries for kings, like fine furniture, tapestries, porcelains and works of silver, gold and jewels. Since the rise of industrial capitalism, however, the greatest fortunes generally have been made by serving millions of ordinary people. One thinks of the Wrigley chewing gum fortune, the Heinz pickle fortune, the Havemeyer sugar fortune, the Shields shaving cream fortune, the Colgate toothpaste fortune, the Ford automobile fortune and, more recently, the Jobs Apple fortune. TR inherited money from his family's glass-importing and banking businesses, and maybe his hostility to capitalist wealth was driven by guilt.

Like Obama, TR was a passionate believer in big government – actually the first president to promote it since the Civil War. He said, "I believe in power…I did greatly broaden the use of executive power…The biggest matters I managed without consultation with anyone, for when a matter is of capital importance, it is well to have it handled by one man only …I don't think that any harm comes from the concentration of power in one man's hands."

Also like Obama, TR was almost entirely focused on politics – personalities, speeches, publicity and so on. He seemed to be concerned about an economic issue only when it became a big problem, particularly if it was big enough to affect the next election. There wasn't much evidence of long-term thinking beyond the next election. Certainly there was no evident awareness of unintended consequences.

One of TR's mistakes was anecdotal reasoning. He was quick to form impressions that didn't accurately represent what was going on. He saw big businesses develop and concluded they must be monopolies. He had the impression that the American economy was swarming with monopolies and that a powerful government was needed to stop them. He was proud to be called a "trust buster."

In this view, TR confused the size of businesses with the size of markets. Many businesses were big, but markets were bigger, they were growing faster, and even the biggest businesses were losing market share.

Far from being monopolistic, the American economy of TR's time was intensely competitive. It was lifting millions of people, including penniless immigrants, out of poverty. The unemployment rate got down to 1.7 percent (1906). Yet TR believed his mission was to disrupt the economy. He never seemed to consider how his actions might affect ordinary people. Fortunately, he didn't get much economic legislation passed, but he began a trend that accelerated later, especially during the administrations of Woodrow Wilson, Franklin Delano Roosevelt (TR's fifth cousin), Harry Truman, Lyndon Johnson, Richard Nixon and Obama himself, with consequences all too evident today.

If the American economy really was swarming with monopolies, they would have restricted output to force up prices. That's what monopolies do, a major reason why people don't like them. Well, in Theodore Roosevelt's America, output was expanding, and prices were falling: the opposite of what one would expect if monopolies were pervasive.

For example, steel production soared from 1.3 million tons in 1880 to 11.2 million tons in 1900, the year United States Steel Corporation was established. Steel output was 28.3 million tons a decade later.

Thanks in part to John D. Rockefeller's efforts, production of crude petroleum soared from 152 trillion British thermal units in 1880 to 369 trillion in 1900 and 1,215 trillion in 1910, the year before the U.S. Supreme Court ordered his Standard Oil Company broken up.

Although sugar refining was reported to be in the hands of monopolists, output expanded from 1.9 billion pounds in 1880 to 4.8 billion pounds in 1900 and 7.3 billion pounds in 1910.

A Census Bureau index for the value of food output advanced from 1,679.4 in 1880 to 3,333 in 1900 and 6,129.6 in 1910. The Census Bureau's index for clothing went from 358.2 in 1880 to 817.4 in 1900 and 1,408.3 in 1910.

If monopolies were pervasive, one would expect there to have been fewer and fewer businesses, as survivors swallowed up competitors and grew bigger and bigger.

But the Bureau of the Census reported that the number of commercial and industrial firms in the United States increased from 1.11 million in 1890 to 1.17 million in 1900 and 1.51 million in 1910. The business failure rate among commercial and industrial firms, and the average liability per failure, actually declined between 1890 and 1910.

Prices went down, down, down – again, the opposite of what one would expect if monopolies were pervasive. As the economist Stanley Lebergott pointed out, "Crude oil sold for $12 to $16 a barrel in 1860, but for less than $1 in each year from 1879 to 1900." John D. Rockefeller cut the price of his principal product, kerosene, from 80 cents per gallon to 3 cents. He was the most successful discounter, the Wal-Mart of his time.

The cost of shipping goods by rivers, canals, wagons and railroads declined, too. Nobel Laureate George J. Stigler reported that "average railroad freight charges per ton mile had fallen by 1887 to 54 percent of the 1873 level, with all lines in both the eastern and western regions showing similar declines." Similarly, the costs of shipping goods overseas fell dramatically, thanks to more powerful steamships. As a consequence, producers could enter distant markets, undermining local monopolies.

While prices declined, the quality of goods improved. Companies prospered by establishing brand names, because people naturally favored products they had confidence in. It was much cheaper to satisfy a customer and get easy repeat business than to lose dissatisfied customers and incur the high cost of replacing them just to maintain sales. Hence, the success of brands that began appearing in the late 1800s, like Borden's condensed milk, Van Camp's beans, Campbell's soup, Kelloggs' cereal, Swift meats and Royal baking powder.

Department stores such as Macy's (New York), Wanamaker's (Philadelphia) and Marshall Field's (Chicago) prospered by establishing themselves as respected merchants. Customers who had a good experience were likely to be back.

Chain stores similarly competed by offering more value for a customer's money. The first major chain, the Atlantic & Pacific Tea Company, began business in 1859, and by 1870 it had become a chain of grocery stores. Nine years later, Frank W. Woolworth pioneered "5 and 10 cent" stores offering a wide range of inexpensive items.

Sears Roebuck, Montgomery Ward and other mail order businesses competed by offering more choices for people who lived in small towns with few stores. Mail order merchants found that consumers were willing to place orders with people they never met only if there was a believable money back guarantee. Since it was costly to handle returned goods, mail order businesses had incentives to stock good quality products that were seldom returned.

Businesses based on old technologies were challenged by businesses with new technologies that made possible more capabilities, better quality and lower costs. The number of patents issued annually by the U.S. Patent Office increased from 12,903 in 1880 to 24,644 in 1900 and 35,141 in 1910, the year the one millionth U.S patent was issued. Theodore Roosevelt lived during the heyday of prolific inventors like Thomas Alva Edison, Alexander Graham Bell, George Westinghouse, Gottlieb Daimler, George Eastman, Lee De Forest, George Washington Carver, Charles Steinmetz, and Orville and Wilbur Wright.

Traditional manufacturing and financial centers in the Northeast faced competition in the Midwest and West. Great fortunes were made in the West, providing further competition with the East. Merchants Mark Hopkins, Collis P. Huntington and Charles Crocker joined lawyer-politician Leland Stanford and made their fortunes with railroads and other business ventures. The Irish-born entrepreneur John William Mackay made his fortune in Nevada silver mines, which he used to start the Bank of Nevada and finance the laying of transatlantic cables. George Hearst amassed wealth from silver mining in Nevada and Utah, gold mining in South Dakota, and copper mining in Montana.

Wall Street firms faced plenty of competition. The capital needed for westward business expansion came overwhelmingly from retained corporate earnings and from local sources. Many Midwestern manufacturers established banks that became regional powerhouses. Chicago and St. Louis bank clearing houses grew four times faster than Wall Street firms.

So, overwhelming evidence suggests that despite class warfare by Theodore Roosevelt and other progressives, monopoly was an illusion. Ida M. Tarbell, the muckraking journalist who became John D. Rockefeller's most famous foe, seemed to represent the views of higher-cost producers — like her brother William Walter Tarbell at Pure Oil Company — frustrated by Rockefeller's ability to undersell them. For sure, neither Tarbell nor other muckrakers ever appeared to solicit consumer views about the capitalists who were improving their living standards.

In any event, TR's antitrust case against Standard Oil didn't live up to its billing. Rockefeller's best efforts couldn't prevent new competitors from arising, in part because they were quicker to take advantage of newly-discovered oil fields. Among the competitors were Tide-Water Pipeline Company (c. 1880), Sun Oil (1890), Union Oil Company of California (1890), Pure Oil (1895), Associated Oil of California (1901), Texaco (1902) and Gulf Oil (1907).

As Standard Oil expanded abroad, it encountered more competitors with deep pockets. During the 1870s, the Nobel brothers from Sweden and the Rothschilds from England began developing the rich Russian oil fields in Baku. Marcus Samuel, who started his career selling sea shells in London, conceived of building tankers that could ship Russian oil safely through the Suez Canal to Bangkok and Singapore, undercutting Standard Oil. Later he helped take advantage of oil discoveries in Sumatra – he built the Shell Oil Company. Sumatran oil also helped launch the Royal Dutch oil company. Standard Oil lost market share internationally as well as domestically.

TR's antitrust case was filed in 1906, and the Supreme Court issued its decision in 1911, after he had left the White House. The justices didn't portray Standard Oil as a monopolist exploiting the people by charging high prices, since even Tarbell had acknowledged that the company was a discounter. It was to be broken up because subsidiaries didn't compete with each other, but the subsidiaries and the Rockefeller family continued to prosper.

Since then, a number of studies have failed to find evidence of any trend toward monopoly in the United States. In the automobile, steel, textile, fashion, energy, telecommunications, computer, consumer electronics and so many other industries, leading firms have lost their dominance as markets expanded, consumer tastes changed, new technologies developed and foreign suppliers entered the market. These days, one is far more likely to hear complaints about globalization – foreign competition – than about monopoly. Now the most common type of antitrust action is a private case, commonly brought by higher-cost firms that are struggling in the marketplace and hope to extort profitable settlements from lower-cost rivals.

Perhaps because Theodore Roosevelt came of age during one of America's most prosperous periods, he took it for granted. He demonized successful investors and entrepreneurs, imagining there wouldn't be any adverse consequences. That's a luxury Obama doesn't have, since the economy has worsened under his stewardship. Yet he seems to believe that nothing bad is his fault, a progressive affectation he shares with TR.

It would be more prudent to recognize that a prosperous economy is the best bet for improving people's lives, and an economy can take a limited number of political blows before serious problems become evident.

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I'm a Senior Fellow at the Cato Institute and have written for a wide range of newspapers, magazines and websites. My books include "FDR's Folly," "Bully Boy," "Wilson's War," "Greatest Emancipations," "Risk, Ruin & Riches," "Gnomes of Tokyo" and "The Triumph of Liberty."