

# The Free Market

February 1985 • The Ludwig von Mises Institute

## Competition at Work: Xerox at 25

by Murray N. Rothbard

A little over twenty-five years ago a revolutionary event occurred in the world of business and in American society generally. It was a revolution accomplished without bloodshed and without anyone being executed. The Xerox 914, the world's first fully-automated plain-paper copier, was exhibited to the press in New York City.

Before then copiers existed, but they were clumsy and complex, they took a long time, and the final product was a fuzzy mess imprinted on special, unattractive pink paper. The advent of Xerox ushered in the photocopying age, and was successful to such an extent that within a decade the word "xerox" was in danger of slipping out of trademark and becoming a generic term in the public domain.

Many people, and even some economists, believe that large, highly capitalized firms can always outcompete small ones. Nothing could be further from the truth. In the pre-Xerox age, the photography industry was dominated, at least in the United States, by one giant, Eastman Kodak. And yet it was not Kodak or any other giant business or massive research facility that invented or even developed the Xerox process. It was invented, instead, by one man, Chester Carlson, a New York City patent attorney, who did the initial experiments in the kitchen of his apartment home in 1938. Carlson then looked around for a firm that would develop a commercial product from his invention. He first thought of Eastman Kodak, but Kodak told him it would never work, that it was too complex, would be too costly to develop, and, most remarkably of all, would have only a small potential market! The same answer was given to Carlson by twenty-one other large firms such as IBM. They were the "experts"; how could they all be wrong?

Finally, one small firm in Rochester took a gamble on the Xerox project. Haloid Co., a photographic paper manufacturer with annual sales of less than \$7 million, bought the rights to the process from Carlson in 1947, and spent \$20 million and twelve years before the mighty Xerox 914 came on the market in the fateful fall of 1959. Horace

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Samford Hall, Auburn University



U.S. Capitol

## The Mises Institute Expands in Auburn and Washington

In 1985 the Mises Institute will be expanding at Auburn University and in Washington, D.C., to better accomplish its educational work.

"In recognition of the Institute's rapid growth and its contribution to Auburn," said Professor Robert F. Hebert, Head of the Economics Department, "the University has allocated a separate building to the Institute."

"This building, located near the School of Business, will give the Institute its own identity on campus," said Dr. Hebert, "and, along with its rooms in Thach Hall, mean a substantial increase in office, student, and work space."

The Institute's academic work with faculty and graduate students, visiting scholars, publications, and such teaching programs as the Austrian Economics Colloquium will be headquartered in our new building on the Auburn campus. Policy analysis from an Austrian economics viewpoint, conferences, outreach publications, public and membership affairs, and our Congressional economics briefing series will be expanded in Washington at new and larger offices.

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### Inside

#### My Years With Ludwig von Mises

by Margit von Mises

## LETTERS

### From the British West Indies

"Please send me literature regarding...the 'Austrian School' of economic thought.... I think your work offers more potential than alternatives seen in my lifetime."

### From a foundation president

"We take pleasure again in supporting the work of the Institute on behalf of free markets and a broadening of personal freedoms."

### From a New York business consultant

"I have organized a group of ten people interested in studying the ideas of Ludwig von Mises and other Austrian economists.... One way that the ideas of Austrian economics can become more widely accepted is to allow more people access to those ideas.

"If you know of a PhD or PhD student who might serve as a possible instructor for our group, I would very much appreciate your advice."\*

### From a college student in Minnesota

"I...have found in the 'Austrian' approach to economics a system of thought that not only is the best economic defense of a free society but is also, and this is...rare in the usually aptly named 'dismal science,' intelligible.

"For this reason, I was overjoyed to find that there is an institute bearing the name of the greatest economist of all time, Ludwig von Mises.

"I am considering a career in economics because I believe that a thorough grounding in capitalism...is indispensable for anyone who wishes to defend freedom, which is my goal. Please send me information about where I can pursue Austrian economics..., scholarship opportunities, and publications you offer.

"(May) your institute...aid in obtaining for von Mises the exalted position he deserved while alive but never received."\*\*

\*The Mises Institute can recommend an instructor, provide teaching materials, and advise on the structure of the program. We have been able to help a number of similar efforts, in informal settings as well as in educational institutions, and we are interested in doing so in the future as well.

\*\*This is the kind of student the Mises Institute seeks to aid with the generous support of its Members.

### From the President

## My Years With Ludwig von Mises by Margit von Mises

by Llewellyn H. Rockwell, Jr.

Ludwig von Mises was the greatest economist and champion of liberty in our time. Those who know Margit von Mises realize that he had a partner worthy of him and his achievements.

Her magnificent and moving memoir, *My Years With Ludwig von Mises*, was first published in 1976. Now it is available in a revised and enlarged edition.

*My Years* combines biography, autobiography, and historical and economic analysis with aspects of a thriller, and the result is a superbly rewarding book.

After describing her youth and her successful career as a stage actress and translator of plays, Mrs. Mises introduces us to her future husband. They met at a Viennese dinner party in 1925, and although she enjoyed his company, she was shocked to discover the next day that "he was considered the greatest living mind in Austria.... He seemed so unpretentious and simple, so easy to talk to." (It was a quality his students saw as well -- one that helped make Ludwig von Mises the great teacher, as well as the great scholar, that he was.)

Their love story sweeps through the economic turmoil of the Great Depression -- which Mises had predicted with startling accuracy -- and the political turmoil of Austria in the Thirties after Hitler's rise to power.

It is also, of course, a story of exciting ideas, and one particularly valuable aspect of the new edition is its coverage

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Mrs. Ludwig von Mises speaks about her husband at the Institute dinner in her honor.

**Ludwig von Mises**...continued from page 2

of Mises' famous Vienna seminar, where so many great economists -- including Nobel-prize winner F.A. Hayek -- were trained.

The story moves to Geneva, where Mises taught, and then to New York in 1940, the city that was his home until his death in 1973 at the age of 92, and that is still home to his widow.

The book is full of invaluable insights into the struggles that Mises faced. He had taught at the University of Vienna, and published many seminal works including *Socialism* and *The Theory of Money and Credit*. But he soon found that academic positions in the U.S. then were open only to socialists and their allies.

He began a new career in a new country and a new language at almost the age of 60, with very little money, yet -- typically -- responded not with bitterness or resentment, but with courage and hard work. The result was 33 years of magnificent creativity, and the firm establishment of the "Austrian" school of economics in the country he believed most receptive to it.

Eventually -- with the help of such good friends as Henry Hazlitt and Lawrence Fertig -- he did get a chance to continue his seminar at New York University, although he never received a regular faculty position. Nor did he ever earn much money. But, as Mises had warned his fiancée many years before, "If you want a rich man, don't marry me. I am not interested in earning money. I am *writing* about money, but will never have much of my own." She didn't need to answer, of course, as she tells us, because "He knew how I felt. It was only him I wanted."

Neither academic opposition nor lack of money prevented Mises from inspiring generations of students and businesspeople, who crowded his lectures, nor from producing many other immensely influential books, including his crowning work, *Human Action*.

*My Years* tells the story of that book, how it was written, how it was published, and how the infamous second edition was botched by Yale University Press, almost -- it seemed -- deliberately.

Many famous people appear in the book, in quick, telling descriptions or longer evaluations. We see -- along with Hayek, Hazlitt, and Fertig -- Ayn Rand, Rebecca West, William F. Buckley, Jr., Leonard Read, Israel Kirzner, Fritz Machlup, Murray Rothbard, and many others.



Congressman Bob Livingston discusses the gold standard with the Hon. Ron Paul at a Mises Institute conference in Washington, D.C.

We also see the poignancy of his last years, and -- in an essay worth the price of the book itself -- the importance and influence of Ludwig von Mises.

A personal note: I met Professor Mises only once, when Leonard Read invited me to dinner at his Foundation for Economic Education. As I came into the dining room, I was amazed to see an open place across from Dr. and Mrs. Mises. As I walked across the room, I knew my good luck would mean one of the great experiences of my life.

For more than an hour, I experienced firsthand the gentle strength and brilliance, the patience and love of scholarship, that emanated from him -- and from his wife.

Many years later, when I approached Margit von Mises for her permission to start the Mises Institute, I found all those same qualities, and I realized again that one of the most fulfilling parts of working with the Institute would be the chance to know her better.

In character, in intelligence, in courage, in determination, and in scholarly mind, she was the ideal partner for Ludwig von Mises. How wonderful that that Viennese dinner party took place 60 years ago, and that Margit von Mises has written about it and all that followed.

For anyone interested in the history of our times; in our greatest scholar and fighter for the free market; in human courage, endurance, and love; and in a great story, *My Years With Ludwig von Mises* is perfect: a worthy tribute to the great man in its title, and to the great woman who wrote it. ■

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*Note: My Years With Ludwig von Mises and the other books mentioned are available from the Institute at discount. A catalog listing all our publications is free on request.*

## Competition at Work...continued from page 1

Becker, who was chief engineer on the Xerox 914, explains that "technically, it did not look like a winner.... That which we did, a big company could not have afforded to do. We really shot the dice, because it didn't make any difference." Small businesses can outcompete, and outinnovate, the giants.

Haloid Co., then Haloid Xerox Co., and finally Xerox, became one of the great business and stock-market success stories of the 1960s. By the early 1970s, it had captured almost all of the new, huge photocopier markets, and its 1983 revenues totaled \$8.5 billion. But by the mid 1970s, Xerox, too, was getting big, bureaucratic, and sluggish, and Japan invaded the photocopy market with the successful Savin copier. As competition by new originally small firms accelerated, Xerox's share of the market fell to 75 percent in 1975, 47 percent in 1980, and less than 40 percent in 1982. As one investment analyst commented, "They had an aging product line. They were caught off guard."

In the world of business, no firm, even a giant, can stand still for long. In trouble, Xerox fought back with its new and improved 10 Series of "Marathon" copiers, and in 1983 the company increased its share of the photocopy market for the first time since 1970; and its record considerably improved in 1984.

So, Happy Birthday Xerox! The Xerox success story is a monument to what a brilliant and determined lone inventor can accomplish. It is a living testimony of how a small firm can innovate and outcompete giant firms, and of how a small firm, become a giant, can rethink and retool in order to keep up with a host of new competitors. But above all, the Xerox story is a tribute to what free competition and free enterprise can accomplish, in short, what people can do if they are allowed to think and work and invest and employ their energies in freedom. Human progress and human freedom go hand in hand. ■

*Dr. Murray N. Rothbard is editor of the Mises Institute's forthcoming Journal of Austrian Economics.*

## Mises Institute Expansion...continued from page 1

Located just blocks from the U.S. Capitol, the new offices at 322 Massachusetts Avenue, N.E., will enable the Institute to be even more effective in its policy work. ■

## The Ludwig von Mises Institute

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