David Packard (seated) and William Hewlett launched their first product, an audio oscillator, in a Palo Alto garage in 1938. Their working capital was $538, most of which was spent on a used Sears drill press.

respectively, at the Haas School of Business at the University of California, Berkeley. But far more important than the number of garage-style start-ups is the misunderstanding of their character. The myth of lone-wolf entrepreneurs casting aside all connections to the corporate establishment on their way to glory obscures the vital "social" dimension of these success stories. The entrepreneurs often "acquire the psychological and social resources necessary to form new companies through prior experiences at existing organizations in related industries." In one study, 70 percent of 890 founders of new businesses had had such experiences.

Take William Hewlett and David Packard. Before they began building custom electronic devices in that Addison Avenue garage, Packard had worked at General Electric, and with an inventor at Litton Engineering Laboratories. The pair had met as students at Stanford University, where both took a graduate course in radio engineering from Frederick Terman, the authors note. "Terman was instrumental in introducing the two to potential customers and suppliers and in arranging for fellowships and jobs to pay for the cofounders' living expenses. Litton provided space and equipment for the production of many of Hewlett and Packard's early orders." From his courses at Stanford and his work at GE, Packard had "gained confidence in his ability to handle the legal and business matters of the young company." HP's first "real product" was an audio oscillator Hewlett had developed in Terman's lab.

> The Walt Disney Company, Apple Computer, and Mattel all have garages in their pasts.

After about a year, Hewlett and Packard moved out of the garage. It certainly had played a role in their success, but hardly the starring one that legend assigns it.

ECONOMICS, LABOR & BUSINESS

The Case for Cheap Gasoline

THE SOURCE: "The Uneasy Case for Higher Gasoline Taxes" by Ian W. H. Parry, in ***The Milken Institute Review***, 2005: No. 4.

The logic of increasing taxes on gasoline seems a no-brainer to many people who worry about America's dependence on foreign oil, global warming, and traffic congestion. At an average of 40 cents per gallon, federal and state taxes on gas are about the same, in inflation-adjusted terms, as they were in 1960, and they are a fraction of taxes paid in Europe. Yet raising gas taxes wouldn't be the most effective way to address these problems, argues Ian W. H. Parry, a senior fellow at Resources for the Future, a Washington-based think tank.

Consider the costs of oil dependence. America currently gets 56 percent of its oil from abroad, and that percentage is expected to grow. This dependence leaves Americans vulnerable to oil price–related disruptions; also, since Americans are the world's largest consumers of oil, their purchases may drive up the world price. Taking those risks into account, economists estimate the costs of oil dependence at no more (and perhaps much less) than about 30 cents a gallon—in other words, less than the average taxes already imposed.

The geopolitical costs of oil dependence—that it might undermine U.S. foreign policy or national security—are virtually impossible to quantify, Parry notes, but upping fuel taxes would be unlikely to

affect them much. Doubling the current federal tax of 18.4 cents per gallon, for instance, might reduce U.S. oil demand by 500,000 barrels a day—a drop in the bucket in a world that consumes 85 million barrels a day.

What about global warming? It's hard to put a price tag on future damage, but Parry thinks the best estimate is Yale economist William Nordhaus's $15 per ton of carbon emitted today. However, gasoline is not very rich in carbon; imposing a carbon tax equivalent to $15 per ton of carbon would translate into a gas tax of less than 4 cents per gallon. Coal and other fuels release much more carbon.

"Broader-based taxes that cover all fuel uses—electricity generation, in particular—would make more sense" than a gas tax, says Parry. "By the same token, extending fuel taxation to other petroleum products (jet fuel, heating oil, petrochemicals, etc.) would be a more logical first step to reducing oil use than raising gasoline taxes."

Targeting traffic congestion raises another set of complications. In theory, the costs of traffic congestion are large enough to justify a gas tax of between 60 cents and $1 per gallon. But if such a tax were imposed, many drivers would switch to more fuel-efficient vehicles. That's a good thing, of course, but it would have a perverse effect on congestion. By keeping the cost of driving down, fuel efficiency would wash out more than half the positive effects of the higher tax.

Parry has a better idea: Tax driving directly, not fuel. He thinks that new electronic metering systems like those coming into use in the United Kingdom offer a superior path. (Britain already has the highest fuel prices *and* the worst congestion in Europe.) Metering would make it possible to charge people "according to where and when the vehicles are in use." People who insisted on driving in gridlocked cities during rush hour would pay a premium price per mile, while those zipping along on empty rural roads would pay a fraction of that sum. Add a carbon tax to attack global warming and a push to develop fuel cells and other alternatives to the internal-combustion engine, and America would be on the road to rational management of its energy problems.

SOCIETY

Health Care's Continuing Crisis

A SURVEY OF RECENT ARTICLES

President George W. Bush's low-key call in his State of the Union speech for an expansion of health savings accounts has momentarily put America's simmering health care problems back in the spotlight. At last count, in 2004, more than 45 million Americans had no health insurance—an increase of six million since 2000, caused mainly by the erosion of employer-sponsored health benefits. At the same time, the cost of health care has continued to rise rapidly.

Several articles by noted specialists in ***Boston Review*** (Nov.–Dec. 2005) offer a good overview of the current state of the debate in the field. John Geyman, a professor emeritus of family medicine at the University of Washington, Seattle, argues that after all the failed reform efforts of the last 30 years—from managed care to health maintenance organizations to preferred provider organizations and consumer-directed health care—the time has come for national health insurance.

Under such a plan, every American would be covered for "all medically necessary services." There would be no copayments or deductibles. Though insurance would be publicly financed, perhaps by a payroll tax, health care delivery would remain private, and individuals would be free to choose their own physicians and other providers. Hospitals and other institutions would negotiate their compensation with the government. Bulk purchases of prescription medicines alone would save $50 billion annually. In essence, says Geyman, establishing a national health insurance system would be equivalent to extending the Medicare program for the elderly to all Americans. With 41 million highly satisfied customers and administrative