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George Langelett

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What Caused the Tucker Automobile Corporation to Fail?

George Langelett

South Dakota State University

Abstract

The mystery surrounding the rise and fall of the Tucker automobile company remains a fascinating piece of U.S. automotive history for both historians and economists. Francis Ford Coppola's 1988 movie *Tucker: The Man and His Dream* brought to life the difficulties Preston Tucker faced as he tried to start producing a car years ahead of its time. The movie is captivating because it attributes the collapse of the Tucker Corporation to public choice theory. Despite the movie's portrayal of an alliance between the automobile industry and the S.E.C. to bring down the Tucker Company, historians have found no evidence of a conspiracy. Rather, the collapse of the Tucker Corporation can be attributed to two problems. First, lack of financial planning and refusal to utilize conventional loans scared away venture capital. Second, the S.E.C.'s determination that pre-selling car features was illegal left the Tucker Corporation financially bankrupt.

JEL Codes: M13, Z11

Keywords: Economic history, Entrepreneurship, Business economics

I. Introduction

The rise and fall of the Tucker Corporation remains an enigma of U.S. automotive history. The 1948 Tucker automobile was heralded as the car of tomorrow, and by performance standards, the car was years ahead of its time. Inspired by Indianapolis 500 racecars, the Tucker '48 "Torpedo" had disc breaks, fuel injection, a rear engine, and a top speed of 120 miles per hour. For safety, the car featured seat belts, pop-out windshields, and a middle light that turned with the steering wheel. Only 51 Tucker '48 cars were produced before the company failed. But, as a testament to the Tucker Corporation, today forty-seven Tucker Torpedoes are still road-worthy; as museum pieces, each is currently valued at more than \$250,000 (Tucker Club). This creates an intriguing question for private enterprise economists: If innovation is the source of economic growth in free enterprise,

why did the Tucker Corporation, with a superior new design to the American automobile, go bankrupt? The purpose of this educational note is to answer this question by examining the historical evidence.

Francis Ford Coppola's 1988 movie, *Tucker: The Man and His Dream* © Lucasfilms Ltd., is based on the rise and fall of the Tucker Corporation. The film is captivating because it attributes the collapse of the Tucker Corporation to public choice theory.¹ The movie depicts Preston Tucker as a dynamic inventor and an optimistic and charismatic salesman. The film begins with Tucker's vision to build a "car of tomorrow." After convincing several deal-making individuals to join his effort, Tucker pre-advertises the car and sells dealerships to raise money to build a prototype of the Tucker '48. As work on the prototype begins, the movie reveals Tucker's naiveté to the greater political forces at work to prevent the Tucker '48 from being produced. Responsible for Tucker's demise are a conglomerate of the "big three" automobile manufacturers, which are threatened by the car's innovations, and corrupt politicians who are controlled by the automobile industry.

The film's antagonist, U.S. Senator Homer Ferguson of Michigan, the head of the War Assets Administration, needed backing from the automobile industry to be re-elected. So, it was in the Senator's own interest to oversee the demise of Tucker Corporation. The film portrays an alliance between the powerful automotive industry, the U.S. senate, and the Securities and Exchange Commission (SEC). In 1946 the commissioner of the SEC was Senator Ferguson's friend, Harry McDonald, also from Detroit, Michigan (Rehmke, 1988). The film alleges political pressure from the automobile industry to investigate Tucker's business dealings.² The SEC investigation leads to a criminal trial for Preston Tucker and the other Tucker Corporation executives. In spite of being acquitted at the SEC trial, the Tucker Corporation was financially bankrupt. Although the film depicts a captivating hypothesis for the failure of the Tucker Corporation, artistic liberties were taken to enhance the plot and condense six years of problems into a 110 minute movie. To date,

¹ Public choice theory is the idea that the government is an organization. Like all organizations, the government has its own agenda and acts on behalf of its own self-interest.

² Economists call this the capture theory of regulation. Even a well meaning regulatory agency over time becomes "captured" by the industry it was created to regulate.

historians have found no direct evidence that the automotive industry was involved in the demise of the Tucker Corporation (Rehmke, 1988). Understanding that *Tucker: The Man and His Dream* was a dramatization, I turn to the historical facts to better understand the collapse of the Tucker Corporation.

II. History of the Tucker Corporation

Preston Tucker (1903-1956) was born September 21, 1903, in Capac, Michigan. While growing up, Tucker spent his time after school in garages during the formative years of the automobile industry. Upon graduation, Tucker went to work for Studebaker as a sales person. By 1930 he had become a regional sales manager for the Pierce-Arrow Corporation (Ford, 1995). At the Indianapolis 500 Preston met the legendary engine designer Harry Miller, and in 1935 they formed the Miller-Tucker Corporation. The company built high-performance engines for the Ford Racing Team at Indianapolis. In 1943 Miller died, and the Miller-Tucker Corporation could not meet the engine performance needed to win at Indianapolis, so Henry Ford cancelled the contract, and the company folded (Tucker Club).

At the onset of World War II, Tucker moved to California and started a company to design and build a “combat car” for the army. The car was an armored narrow-wheelbase vehicle with a machine gun turret on top. Ironically, with a top speed of more than 115 mph, the army rejected the car because it was deemed “too fast” for combat (Tucker Club). But the U.S. Navy ordered the car’s gun turret for use in P.T. boats as well as B-17 and B-29 bombers. As the war came to a close, orders for the gun turret stopped, and Tucker started working on new car designs.

During World War II Detroit’s automobile factories were converted into military equipment production facilities. While the war raged in Europe and the Pacific, Preston Tucker had ambitions to build the “Car of Tomorrow” in both performance and safety.

In 1945 World War II ended, and Tucker began the Tucker Automotive Corporation in his barn with only a few thousand dollars. But the U.S. military had large factories to build planes, tanks, and ships that were no longer needed. The War Assets Administration (WAA) was set up to oversee the liquidation of these military installations, including an old Dodge plant in Cicero, IL. Tucker won the lease as the only bidder on the plant. By signing the lease in July of 1946, Tucker was allowed to move into the Dodge

plant and agreed to pay \$1 million by October 1, 1946, for two years rent and \$2.4 million a year thereafter. After failing to make the rent payment, the WAA agreed to extend his rent payment date to March 1, 1947. When Tucker again failed to make a payment, the WAA gave Tucker an ultimatum date of July 1, 1947. Also, they insisted that the Tucker Corporation must have \$15 million in an escrow account in order to renew the lease (Time 1947).

To raise the money for the lease, Tucker initially decided to get a bank loan, but for \$15 million, banks required control of the Tucker Corporation. So, Tucker decided instead to sell car dealerships to raise the money. With no working prototype, the Securities and Exchange Commission (SEC) started investigating the sale of Tucker dealerships or franchises. Tucker argued that although his business needed permission from the SEC to sell stock or securities, a business does not need permission to sell dealerships or franchises. The SEC disagreed and required the Tucker Corporation to amend all dealer contracts to state that there was a significant risk of bankruptcy. With this amendment in place, the Tucker Corporation was only able to sell \$6 million worth of dealerships, rather than the goal of \$15 million (Ford, 1995).

After signing the lease on the Dodge plant, Tucker faced a second major hurdle in November 1946 when the National Housing Agency (NHA) ordered the WAA to terminate Tucker's lease. The lease for the factory was to be given to the Lustron Corporation to start building prefabricated housing (Rehmke, 1988). The NHA based this decision on the perception that houses were more important than cars in the post-war economy. So from November 1946 until February 1947, the WAA (headed by Senator Homer Ferguson from Detroit Michigan) tried to break Tucker's lease. Tucker spent these four months fighting this breach of contract in court. In February 1947 the federal court sided with Tucker. The Tucker Corporation was allowed to keep the plant and the verdict extended the deadline for the first lease payment to July 1, 1947.

Facing a lease requirement of \$15 million due July 1, Tucker still was short \$9 million. To raise the money, Tucker decided to sell stock. He proposed to SEC an initial public stock offering of \$20 million. The SEC agreed to the stock sale conditional on Tucker first building a working prototype. On June 19, 1947, the prototype nicknamed the "Tin Goose" was finished. The public presentation of the Tin Goose created excitement in automotive world, and SEC

cleared the way for a July 15th initial public offering of Tucker Corporation stock (Ford, 1995).

In the fall of 1947 things appeared to be going better for the Tucker Corporation. The company had built the '48 prototype and was converting the former Dodge plant for its first production run. But by the spring of 1948, problems were again mounting. The initial public offering of the stock had only raised \$15 million, rather than the expected \$20 million. Production had not yet started even though the company had hired 1,600 new employees. The Tucker Corporation company had no source of revenue and needed money for steel and car parts. The company also needed \$2.4 million for its 1948 lease payment. So Tucker decided to set up a pre-purchase plan for the Tucker '48. According to the plan, customers would pre-pay for their car's accessories. Upon payment customers could pre-order the features they wanted, including a radio, seat covers, and car color before each Tucker '48 was assembled. In early 1948 the Tucker Corporation raised \$2 million by pre-selling accessories (Ford, 1995).

On May 28, 1948, an SEC investigation determined that pre-selling accessories was not only illegal, but also fraudulent. The SEC ordered production of cars stopped and the factory shut down for its ongoing investigation. On June 15, 1948, Preston Tucker responded to the allegations against him in an open letter published in newspapers across the United States (Tucker, 1948). But in January 1949 the plant was closed, and the Tucker Corporation was bankrupt. October 5, 1949, the SEC brought Preston Tucker and his board of directors to trial on charges of fraud (Ford, 1995). On January 22, 1950, a grand jury found the defendants not guilty. But the Tucker Corporation was liquidated, the WAA confiscated the factory for failure to make the lease payment, and all of the assets of the Tucker Corporation, including the fifty-one cars, were sold for 18 cents on the dollar. The WAA then leased the building to the Lustron Corporation for pre-fabricated housing.

After being acquitted, Preston Tucker decided to try building cars again. In 1951 he moved to Brazil and started a new car company. He designed the "Carioca" sports car, but unfortunately, Preston Tucker was diagnosed with lung cancer before production could begin. He continued working on the "Carioca" until his death December 26, 1956 (Ford, 1995).

III. Conclusion

Despite the portrayal of an alliance between the automotive industry and the SEC to bring down the Tucker Corporation in the 1988 movie *Tucker: The Man and His Dream*, historians have found no evidence of a conspiracy. Rather, historical evidence suggests that the demise of the Tucker Corporation was the result of two problems. First, the company's lack of financial planning led to continual crises. Tucker's refusal to utilize conventional bank loans combined with the company's attempt to sell dealerships and stock before building a car prototype scared away normal venture capital. Second, unable to sell additional stock or dealerships, the Tucker Corporation needed money to start producing cars. With no inventory to sell and the SEC's determination that pre-selling car features was illegal, the Tucker Corporation was financially bankrupt.

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