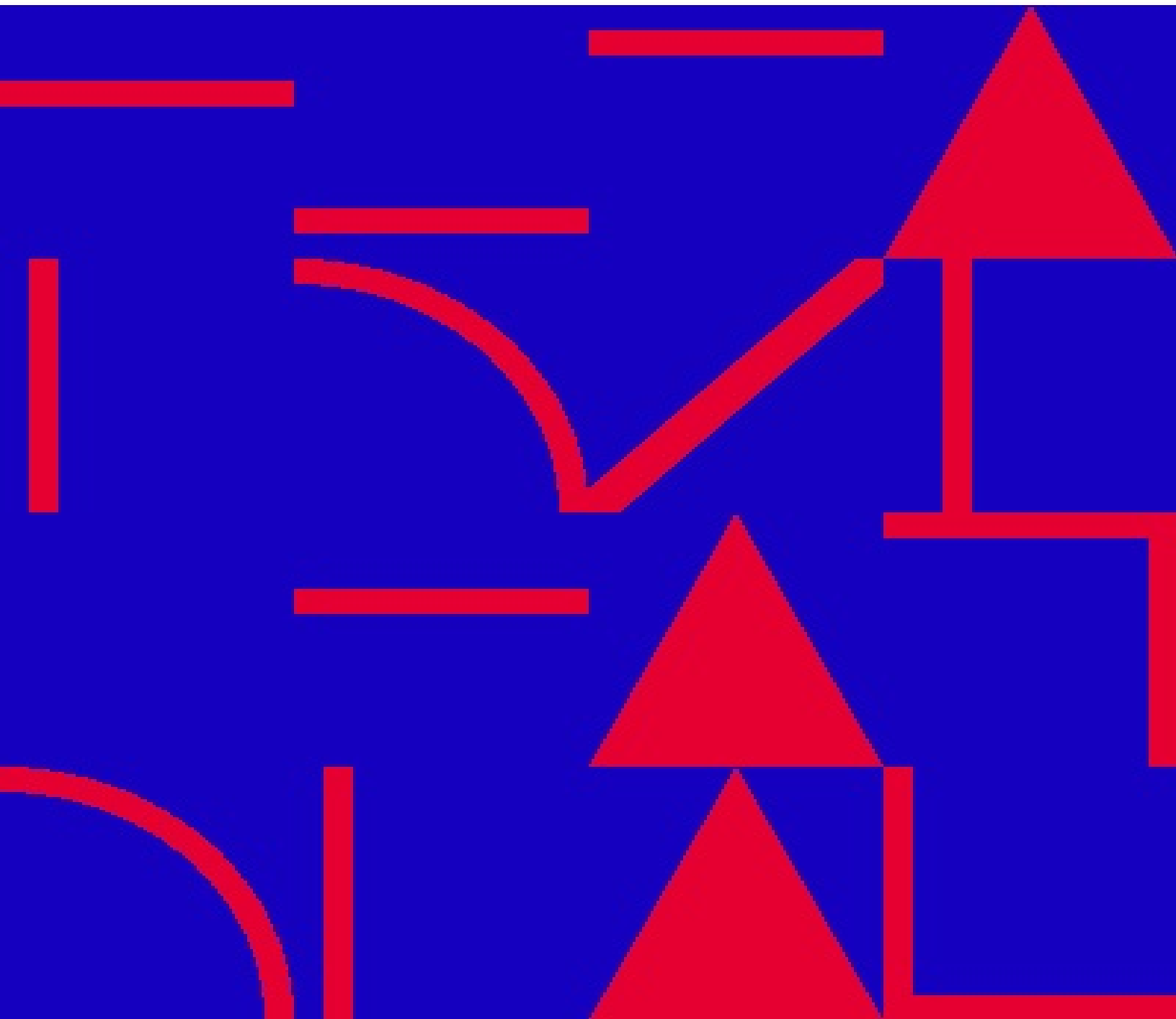


Creating Capital

Money-making as an aim in business

Frederick L. (Frederic Lockwood) Lipman



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By

FREDERICK L. LIPMAN



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BARBARA WEINSTOCK
LECTURES ON THE MORALS OF TRADE

This series will contain essays by representative scholars and men of affairs dealing with the various phases of the moral law in its bearing on business life under the new economic order, first delivered at the University of California on the Weinstock foundation.

CREATING CAPITAL

MONEY-MAKING AS AN AIM IN BUSINESS

THE object of this paper is to discuss money-making; to examine its prevalence as an aim among people generally and the moral standards which obtain among those who consciously seek to make money.

The desire to make money is common to most men. Stronger or weaker, in some degree it is present in the mind of nearly every one. Now, how far does this desire grow to be an aim or object in our lives, and to what extent is such an aim a worthy one?

The typical money-maker as commonly pictured in our imagination is a narrow, grasping, selfish individual who has chosen to follow lower rather than higher ideals and who often is tempted, and always may be tempted, to employ illegitimate means for the attainment of his ends. The aims he has adopted are made to stand in opposition to the practice of certain virtues. Thus we contrast profits and patriotism; enriching one's self and philanthropy; getting all the law allows and justice; taking advantage of the other fellow and honesty; becoming engrossed in acquisition and love of family. Now, such contrasts obviously prove nothing more than that money-making is and would be a vicious aim if pursued regardless of these virtues, and it could well be replied that consideration of patriotism, philanthropy, love of family, etc., must in themselves impel one to earn and to save. "The love of money is the root of all evil" implies an exclusive devotion to acquisition that may well be criticized. But aside from this there is no doubt that amid the confused ideas held on the subject, aiming to make money is commonly regarded as in some sort of antagonism to the social virtues.

That there are other sides to the picture is recognized, however, even by the loose thought of the day. The man who earns his living, for instance, it views as one who in so far is performing a fundamental duty. Indeed, the world scorns him who cannot or will not support himself and his family. But this is only to say that one must work to-day to meet the expenditures of to-day. Is this the limit? Is it a virtue for him to work in order to spend, but a vice for him to work in order to save? What are the considerations to be observed by a man in deciding whether or not he should adopt money-making—that is, the acquisition of a surplus beyond his current needs—as one of his definite aims in life?

One consideration relates to our country. The United States is now understood to be spending about \$25,000,000 per day in carrying on the war. In the last analysis this amount must be paid out of the past savings and the savings from current earnings of the people of the United States. The wealth of the nation consists mainly of the sum of the wealth of its citizens. We are therefore told to seek increased earnings and to economize in our expenditures in order to enhance the national wealth. The duty here is perfectly clear, but even if we did not have war conditions to teach us as a patriotic responsibility the necessity of earning and saving a surplus, the obligation would still be there. We owe a similar debt to our state and to

our city or district. And nearer still comes the duty to one's family and to one's own future, the duty of providing for the rainy day, for old age. And it will be observed that money-making in this sense is directed to the acquisition of *net* income, it relates to that portion of one's earnings which is saved from current expenditure and becomes capital. Then we must also consider the duty to society. As we look out upon the surrounding evidences of civilization—buildings and railroads and highly cultivated fields, the machinery of production and distribution, the shops full of useful commodities—and then cast our thought backward to a time not very many years ago when all this country was a natural wilderness, we may begin to realize the magnitude of the wealth, the capital, that has come into being since then, every particle of which is due to the earnings and savings of somebody, to the surplus not consumed by the workers of the past, their unexpended and unwasted net balances year by year. Universities, churches, libraries, parks, are included in the wealth thus handed down to us. Our lives to-day may be richer and broader through this inheritance created by the industry and abstinence of our forefathers. Their business careers, now closed, we regard as the more successful in that they earned and saved a surplus, that they had a *net* income to show as the result of their work.

But these savings of the past were accumulated, after all, by comparatively few of the workers; not by the many, who lived from hand to mouth, happy-go-lucky, spending and enjoying in time of abundance, suffering in time of poverty and stress, making no provision even for their own future, still less recognizing any duty to their country or to posterity to produce economically and regulate their expenditure wisely so as to carry forward a surplus. As far as this majority is concerned we might yet be living among rocks and trees, without shelter, lacking sure supplies of food, with fig leaves to cover our nakedness. And to-day the same conditions obtain. How many persons are to be found among one's acquaintance who feel and act upon any responsibility for doing their "bit" in the creation of capital? Very few. Rather than exert himself to work with this in view, on the one hand, and to abstain from unnecessary consumption, on the other hand, the ordinary man will make to himself every excuse. He will condemn money-making as a sordid aim, readily exaggerating itself into a vice; he will dwell upon the obligations and other considerations of a higher life, this being defined as something generous and noble, a something compared with which money-making cannot be regarded as a worthy object but must be included in the class of unpleasant necessities, not to say indecencies, which ought to be relegated to the background of life; he will summon up pictures of extreme poverty, where any money received must be expended forthwith to meet urgent needs, as justifying that which in his case is the gratification of shiftless indulgence. Above all, this typical individual will not accept and act upon the idea that his affairs, his small income and expenditure, have any bearing upon the prosperity and progress of his country. The most he will keep before him is that he should pay his bills, and perhaps in some few cases, will extend the notion to the future to include provision for the bills and possible emergencies then to be met by himself and his family. Nor is this improvident attitude confined to the young, to the professional and the other non-business classes. In the business world we see it all around us; among those who "work for a living," among clerks and employees and among the so-called laboring classes it appears to be the normal attitude. People who work for salaries or wages seem characteristically to use up all their earnings in their current expenditure, to live up to their incomes without any serious attempt to save. If they pride themselves upon trying to keep out of debt, it is as much as they expect of themselves, and among them the man who attempts to go beyond this in his money affairs is certainly the exception.

One of the effects of a world-wide war is an enormously increased demand for labor at high and

advancing wages, a condition that we might suppose would be greatly to the advantage of the laborer. But that will depend upon his own attitude and policy. From England, and from American towns here and there, we hear stories of the wage-earner on whom increasing income has had the effect of lessening the effort to work; who stops during the week when the higher wage scale has paid him the amount he is accustomed to regard as a week's earnings. Now, would it not seem natural to expect that any man encountering improved market conditions for his output, whether of commodity or service, would seek to turn the situation to advantage by increasing that output as largely as lay in his power? If, for instance, I can manufacture shoes to sell for \$4.00 a pair and a change in market conditions is such that I can obtain \$5.00 a pair, I would endeavor to produce more shoes in order to profit by the favorable market; and if thereafter the price should rise to \$6.00 and \$7.00 and \$8.00 a pair, at each increment my efforts would be still further intensified. That, indeed, is the normal economic attitude. Fluctuations in the price level due to changes in the demand for a commodity are expected to affect, and do affect, the market supply. At a higher price, production is stimulated and more units of the commodity are brought to the market, both from new sources and from old sources. Under falling prices, on the other hand, the supply offered in the market would become automatically diminished.

This is an elementary commonplace in economics, yet the laborer to whom we have just referred does not seem to recognize it. He may find that he can earn in, say four days, an amount equal to his former earnings in six days and, therefore, at the end of the fourth day he quits work for the week. Now, obviously under such increasing wage scale, he might do one of three things:

He could quit at the end of the fourth day, having received a week's income.

He could continue working for the six days and use his surplus earnings for comforts, pleasures, and luxuries which previously he had been unable to afford.

He might work for the six days and save as much as possible of his excess earnings.

Now, what is the wise choice for the laborer? Leaving out of account special cases where he has a large family, or sickness at home, or is under some other disability which in his individual case would reduce his earning power or increase his minimum expenses, ought he not to work for the six days, putting aside all he could of the excess as savings for the future? It will be generally conceded that this is self-evident. If, viewing the narrow conditions under which the workman ordinarily lives, it should be claimed that during a period of unusual earnings self-gratification would be not only natural but measurably justifiable, the reply could be made that this is merely specious, involving assumption not in accord with the facts. Excuses of this kind we often make for ourselves in the endeavor to justify our indulgence in present pleasure rather than perform the irksome duty of self-restraint. The laborer whose ideals are such that he quits at the end of the fourth day is not the type of man who is going to spend the two holidays in pursuing higher aims in life; he is going to pass them in inaction, quite likely at the grog-shop. The man who fails to take advantage of the security for the future offered him and his family through the opportunity of saving from extraordinary earnings is one who is adding to the abnormal demand for such things as phonographs, jewelry, spirits, and tobacco. And this helps to explain the tremendous market for luxuries during wartime. Doubtless there are many workmen who follow a more rational course, who are reaping and storing the harvest for the comfort and security of themselves and their families during the winter of life. Could any one think that this policy involved an aim that was sordid, tending to draw them down, and

away from higher considerations of life? Certainly a course of careful planning in one's affairs would be in so far a better course and on a higher plane than indulgence in idleness or shiftless expenditure of surplus for present luxuries, regardless of future need.

This case of the workmen under conditions of abnormal wages seems exceptional; yet the choice so presented to him is not very different fundamentally from the choice normally presented to all the rest of us.

The young man starting out in life may be as negligent of his opportunities as the workman who quits at the end of the fourth day. Or if he devotes himself properly to his vocation he may consume his earnings in current self-gratification. If, however, he will both concentrate on his work and practice self-restraint with the purpose of creating a saved surplus, all will agree in considering him as so far headed on the road towards success. In the case of the beginner this seems clear enough, but, after all, the same considerations apply to everybody else, whether in business or profession, beginners or experienced, young or old; to all of us is the same choice presented daily, and at our peril we must make it wisely. The physician, for instance, although he cannot afford to pay more attention to money-making than to the welfare of his patients, to his studies, to his professional ideals, must not, on the other hand, leave out of account these business duties and considerations which belong to him as an economic member of society. He must produce and must consume with his family, reasonably, decently and thriftily. He must aim at a surplus to store away for the future. These aims are, as a matter of course, secondary to his professional ideals, but there need be no conflict of duty. The point is that there exists a department of his activity devoted, and to be devoted, by him to his business affairs. In any event, as a man, a husband, a father, a citizen, he cannot escape from the responsibility of these business affairs. They must be conducted in some way. Shall it be well or ill? If he fails herein it may involve failure in any or all these relations—as a man, husband, father, citizen. And obviously these same considerations apply to all other men and women, whatever may be their professions, occupations, or major interests in life. Why do so many allow themselves to be dragged along, living from hand-to-mouth, in fear of the knock of the bill collector at the door? Why do we associate money questions with that which is unhappy, unfortunate, down-at-the-heel, with fear and misery? Barring mere accidents, it is because we are careless, shiftless; because we do not face the problem manfully, practice reasonable self-restraint, consider the subject in its complexity and decide upon, and carry out, a constructive programme. Even if one happens to possess wealth, he is not exempt. Indeed, large wealth involves still greater necessity for care in the conduct of one's pecuniary affairs. The rich man is said to have perplexities and responsibilities which are unknown to those in moderate circumstances. In fine, everyone must face these money questions or be driven by them.

Those who live on fixed incomes, whether from salary or investment, may find it impossible to make any direct attempt to make money; for them the problem is to be confronted and mastered on its other side, the side of spending and saving, that the income may be apportioned as wisely as possible for the purposes of living. But during the last few years a new factor has entered into the money problems of the individual, often adding to his trials, often adding to his self-made excuses, and especially burdensome to the man on fixed income. We refer to the high cost of living. Here it is, however, that the wage earner can do something in self-protection, for the level of prices may be in some measure affected by his policy in handling his earnings.

A period of high wages is accompanied by and is in some sense an incident of a high level of prices. Now we recognize high wages, considered in itself, as beneficial to the community, for it gives opportunity, at least, for comforts in life and a provision for the future that otherwise would be lacking. But if prices have advanced as much as wages, the apparent improvement to the laborer is merely in nominal wages, while that which alone can benefit him is higher real wages. Now let us see what the workman could do to advance real wages as contrasted with nominal wages.

What will be the effect on prices of the use of surplus earnings during a period of high wages?

If the surplus earnings are expended, they will be used either in meeting the higher prices of customary commodities, or in meeting these advanced prices and also in purchasing additional commodities. The first case will occur only if, and when, the advance in price equals the advance in wages, for only in that event will the new wages just cover the new cost of customary commodities. Then this expenditure of the entire income in customary commodities tends to keep up the price level and any benefit from higher wages disappears.

In the second case, so far as the worker spends his surplus earnings in meeting advanced prices for customary commodities, he tends to maintain prices at the higher level, and so far as he buys additional commodities, he increases the demand for them and tends further to advance the price level.

If, on the other hand, the worker will save from his surplus earnings, he will increase the community's capital, and this will tend, directly or indirectly, to cause the production of further commodities, so increasing the supply of commodities and therefore tending to reduce prices.

In any case, the worker should save as much as possible, as this tends to reduce the price level and so to better his condition. Or, putting it more simply, in time of high wages the worker ought to produce as much as possible and consume as little as possible, both influences tending to increase the stock of commodities for his ultimate gain and for that of the community.

In fact, a high level of prices may be due measurably to some wasting of the world's capital—as in war, for instance—and then the only antidote is to restore the capital, a movement that would doubtless occur anyway in time but which could be greatly accelerated through a general adoption of habits of thrift and saving throughout a community.

This then, though small, is something definite that we can contribute to the material advancement of mankind and, like the duty in this connection to our nation, to our families and ourselves, it consists in creating capital; that is, earning as much as we can and, in any event, even if our earnings are fixed, managing the income thriftily, and carrying forward as large a net result as possible.

We turn now from the mass of mankind, on the whole so singularly neglectful of these responsibilities, to the few in number who constitute the creators of capital, to whom are due so much of the comforts, the conveniences, and the material advantages that go to make civilized life possible. Now these few are found in every rank in life. They may be rich or poor, professional or business men, employer or employee, old or young, male or female. The characteristic is their habit of thrift, of definitely adopting money-making as an aim, of spending less than they earn. It is astonishing what a small percentage of mankind they are. The Income Tax returns in the United States for 1916 showed that out of a population of

104,000,000 people those with taxable incomes aggregated only 336,652, about one in three hundred. But whatever be the rank of the individual practicing this thrift he is headed in the right direction and he tends to reach the point of relative competence, of independence in his pecuniary affairs.

Preëminent in the class of the thrifty we think of the man of affairs; the business enterprise indeed is supposed to be the money-maker, *par excellence*. Money-making is in fact considered as its *raison d'être*; it is as a money-maker that the business man is contemned by some and envied by many.

Now money-making and money values occupy a special place in business enterprise, due to the fact that on economic principles such money value becomes the best test—perhaps the only true test—of the workableness and success of business efforts. In the complicated activities of the world's work, where each man, each undertaking, each business unit, respectively, is striving primarily for its own advantage, how is it, among all this pulling and pushing, this competition, that the social income is distributed so nearly in accordance with the individual contribution? Even if we admit that many persons fail to get a fair share, that there is gross inequality here and there, still after all, a student of mankind's activities in production, distribution, and consumption must marvel at the extent to which the rewards approximate the value of contribution. Now this is made possible by money considered as a measure of relative values, by the standard or test of fitness embodied in the thought, Will it pay, and to what extent will it pay? If I have in mind some new invention that will perhaps confer benefits on mankind, the best test of its practicability and utility will be, Will it pay, will people buy it, pay money for it? If an improvement in process is proposed, the question is, Will it pay? If the young man starts out in life with high ideals and a reasonably good opinion of his own abilities, an opinion fostered perhaps by fond parents and admiring friends, the question is, Will these abilities fit in with the world's needs? Will they supply a real demand, will they be serviceable? The best means of ascertaining this, although it may be only a rough estimate and although errors occasionally creep in is, will they pay? Can he sell these services for real money? This criterion is practically omnipresent in the world of affairs. It is based on economic necessity, and although here and there it may be charged with cruelties, with serious blunders, it is, on the whole, a remarkably accurate standard. We see this more clearly where we attempt to substitute some other criterion for ranking the soldiers in the battle of life. We can note, for instance, the inferior type and character, generally speaking, of men elected to office by the suffrages of their fellow citizens, compared with men who reach positions of authority in business and other enterprises through the pressure of these economic principles. Again, consider the nation that has attempted to improve on economic distribution of power by evolving a government which places the power in the hands of those best fitted to govern, a ruling class which aims directly at efficiency, a select class but necessarily self-selected, thus supplanting an economic régime by a military régime—successful truly in certain forms of economic efficiency through a more rigid and compact organization, but destructive of the initiative, the evolutionary growth, the fundamental development, the liberties of the people. Contrast this with the freedom, happiness, and progress of a nation of shop-keepers. Now this economic régime, with its individual instances of cruelty, like the cruelties of nature, does on the whole tend to develop men, to require their best efforts, to make them come forward and upward. Thus, in this interplay of economic forces, wealth, or money, or profits stands out as a primary object of attainment, and becomes the incentive to the complex efforts which tend to benefit the individual, the community, and the nation.

The business enterprise then directs its attention to profits, because, from mere economic necessity,

profits are the criterion of the true success of the enterprise, that is, its serviceability to mankind. Here we distinguish between the shortsighted man, who aims at immediate returns, and the farsighted man, whose eye is fixed on the future, who verily desires the profits, but desires them in the long run. But this is only a manifestation of human nature as we find it in every field. We always note a deficiency in the man whose life is lived for the present, for immediate enjoyment: in him we see the typical pleasure-seeker, peculiarly prone to temptation, to break the rules of life, to indulge himself at the expense of others or of his own future. He is characteristically the weakling, the wrongdoer. And we contrast him with the man of character, who stands superior to an immediate environment, who will not disregard the distant future, the absent neighbor, the invisible God. And so in the economic world it is the whole life period which is to be regarded when aims are chosen. Profits as a goal for the long run do not antagonize moral principles. "Honesty is the best policy" and "Do unto others as you would have others do unto you" are maxims of good business; and that economic principles do not conflict with them is shown by the fact that they tend towards profits in the long run. This is not to assert that mankind in business is perfect. In every period of economic advance into a new environment, men try new experiments, as during the development of the great modern corporation in the period following the Civil War in this country and, earlier than that, in the era of railroad building. They have tried new experiments in ethics as they have in physics, in chemistry, in economics. They have attempted to replace honesty by camouflage, the golden rule by self-aggrandizement. But these attempts are not successful and so they become discredited; they do not work because inherently they cannot last, and inability to endure is fatal to the purposes of any economic undertaking. We are emphasizing the fact that business is necessarily conducted for the long run, the very nature of success implying permanence. A man may take some criminal advantage of an opportunity: he may abscond with money entrusted to him; he may abuse the confidence reposed in him by an employer, by a customer; he may obtain an immediate profit by misrepresentation. But no one could expect such things to last; he could not possibly be building an enduring structure; such a course could not in the end promise him profits, or any other kind of success. A properly conducted business enterprise then is concerned with making profits in the long run; that is to say, in accordance with accepted notions of business conduct; in short, according to rules of the game, and this involves conformity with a standard, a standard of giving good value for what one gets.

We must next distinguish between gross profits and net profits. The merchant or manufacturer naturally desires to do a large business, he points with pride to the increase in his sales this year over last year. The larger his turnover the smaller the proportionate amount of his overhead expenses that must be borne per unit of product, and other economies follow large-scale production or distribution. He may occasionally be desirous of increasing his output even when it entails a disproportionate increase in his expenditures, with the idea that he can later occupy himself with reducing these expenses and in the meanwhile the goodwill of his enterprise will have gained from the larger circle of customers. Such is the case with a new enterprise that often starts out with the expectation of little or no profits during its early years, when it is gathering a clientèle and learning to distribute its product with economy. All these, however, are special cases. The normal situation is that the business enterprise is aiming at net profits, having an interest in large sales, heavy transactions and gross profits only so far as these are expected to lead finally to net profits, the real goal. Now these net profits are, of course, the remainder of earnings left on hand after providing for all costs and expenses, for depreciation and every other factor causing loss, destruction, and deterioration during the business period under consideration. In short, the business

capital as it was at the beginning of the period is first fully restored and made intact at the end of the period before a net profit emerges. This net profit therefore becomes in a true sense a creation of new capital and may indeed be retained in the business as an addition to capital funds. Even when it is paid out in dividends, partly or wholly, it becomes new capital in the hands of the individual stockholders who then in their private capacity may of course spend it, but by proper investment may keep it permanently stored as capital. It is the creation of capital then, that is in reality the ultimate money-making aim of the business enterprise.

We can now summarize the attitude and policy of the typical business man in his money-making aim as follows:

In seeking profits he is actuated by economic necessity.

His goal is profits in the long run, which involves conformity with economic and ethical standards, and net profits, which implies the creation of capital.

The creation of capital we cannot fail to recognize as a worthy aim. It has given mankind much of all that mankind possesses and constitutes the foundation upon which civilization largely rests. The advancement in the arts and sciences has been in no small degree stimulated by the demands of business enterprise for new methods of creating capital and we may believe that should the time arrive when this motive should fail, when men should grow to be indifferent in their attitude towards profits, the ensuing stagnation would affect every department of human endeavor. Of this we may be assured even when we remember that money-making, and what goes with it, is not the only aim in life.

After cataloguing so much that is virtuous in the pursuit of money-making the suggestion is inevitable that there must be some other side to it, that the common views of the rapacity of the money-maker cannot be wholly unfounded. What then are the vices of the money-making aim? In examining this question we shall first brush aside some things to which we have already referred. The pathological cases of mere crime, of sharp practice, of taking advantage of others, while mounting up into distressingly high figures considered absolutely, are much less important relatively; that is, they are infrequent and scarce enough to avoid obscuring the rule which they violate, the rule that honesty is indispensable in economics as well as in ethics. What we must now investigate is any vicious tendencies that may be found in the money-making aim when followed normally and according to its own accepted principles. Of such degenerative tendencies we seem to find two: first, the tendency to that excess which becomes a vice; and second, the tendency to a disregard of other considerations in life through too exclusive a devotion to acquisitiveness. But upon further thought we must see that these two tendencies flow together and become one, for too much devotion to money-getting and too little attention to the other purposes of life are, after all, expressions of the same thing. Perhaps a man may err in excessive devotion to any object of life but we must admit that in the pursuit of gain the evil tendency to exaggerated absorption in the one aim is promoted through a coöperation with his natural selfishness. Of all the fields of human endeavor, here is one that peculiarly fits in with self-seeking, with disregard for others, which may drag a man downward, making him small and mean, unhappy and uncharitable, while apparently attaining the goal at which he has aimed. Not every man, while concentrating upon money-making, is consciously seeking his country's welfare, the amelioration of life for the many, the uplift of posterity, even if he rigidly adheres to the accepted rules of the game, to the code of business honor. This brings us back to the popular picture of the

money-maker, grasping, sordid, narrow-minded. There are such people. I believe them to be rare, but whether there are many of them to-day or not, it is a type tending to disappear in the environment of modern business which offers its inducements and rewards to him who does, who becomes, who renders service, not to the sordid seeker for gain. Barring an occasional exception, such an exclusive aim is not that of the man of large affairs, the business leader, the conspicuously successful man. It is not Harriman, nor Edison, nor Weinstock, nor Marshall Field, nor Peabody, nor is it the heads of our big corporations of to-day. Such men are money-makers, creators of capital, builders of large enterprise, but their aim at profits while genuine is only incidental to their main purpose of doing, of becoming better able to achieve, of rendering service. When the beginner in business approaches an experienced friend for advice, he is told to work as hard and as faithfully as possible, to study his business, to seek to improve himself—in other words, to concentrate his whole strength on the giving of service, for his wages or salary will take care of itself. The experienced man knows well that this holds just as truly for all ranks in the business world and that the higher one ascends in responsibilities, the more he must give and do; indeed the leading positions in the business world are occupied by men who produce tremendously, whose value to themselves and others lies in what they accomplish, and this—not what they get—is the criterion of success among men of experience, among those in charge of enterprises, who are on the lookout for leaders of this type.

Here we have the remedy for the tendency backed by natural selfishness towards undue devotion to gain: such narrowness simply does not work, it is crowded out by competition with the superior efficiency of broader motives. And while, here and there, the type continues to exist, its development in new cases is discouraged by every instance illustrating the relative success—in all senses—attained by those who make it their chief aim to produce, to render service. Just as the physician bestows his first thought upon his patient, these superior business men give first consideration to their profession, for so they regard it, and this tends to assure their success, just as it does that of the physician, and to become the standardized ideal for lesser men.

It is indeed clearly self-evident that on many accounts the man in business must give attention primarily to the service he is trying to render. The clerk in the store must devote himself mainly to his customers, to his merchandise, to his other duties, not to his salary. And so with the department manager, and so with the general manager, whether of a store, a railroad company, or other activity; the immediate daily problem for all lies in the rendering of a service, the producing of a commodity, or the doing of the thing for which the business enterprise exists. This concentration upon output is furthermore required by competition which whips the producer into line and often makes it a matter of business life and death that one should make progress in method and quality. That his shoes wear is a matter of pride to the shoe manufacturer. "Blank tires are good tires" is not to be regarded as merely a boastful advertisement. If it was it would not pay the advertising cost.

Money-making as an aim thus becomes subsidiary to the characteristic activities of the enterprise, it is in a sense a by-product. But the money-making aim is there, although perhaps in the background. It is furnishing the power under which the enterprise operates. More than that, it is the gauge indicating the prosperity or lack of prosperity of the enterprise, its progress, its fitting in with the needs of life. In short, the money-making aim spurs on the business enterprise, just as the weekly or monthly pay spurs on the humble worker; but in each case the main attention is given, and necessarily given, to the work to be

performed.

Let us now consider some of the implications of this concentration on rendering service. The directed effort of each man to the production of the utility characteristic of his business, tends to result in his learning to conduct that specific activity with a high degree of skill, and with an increasingly valuable fund of experience. So highly specialized does he become that it will be quite impossible for any one hitherto a stranger in that sphere to conduct it as well. Therefore in an age of coördinated effort the more a man has of accumulated knowledge and facility in handling a certain kind of affair and the better fitted, therefore, he is to continue and to progress along that line, the less relatively he is able to undertake the affairs of some other kind with which he is not familiar. We commonly feel free to criticize a railroad, a newspaper, a large business house, perhaps a university, with which we may have casual contact, but the fact is there are few competent critics outside of the ranks of the enterprise itself or of those carrying on activities that are directly similar. In a word, through this focusing of attention, a man will come to be exhaustively familiar with his own occupation, while possessing a merely superficial acquaintance with the theories, customs, and responsibilities of those of others. The wise man therefore argues the necessity of confining himself to the field in which he has become expert and will avoid taking chances in some outside direction wherein he is not familiar. One of the most common and disheartening experiences in the money-making and money-saving of the thrifty is that after having both worked hard and practiced self-restraint, the resultant savings are often put into some enterprise that turns out badly, and the whole effort is thus thrown away. Generally this happens because he has violated the rule we have just stated; he has ventured his savings in unfamiliar fields, ignorantly he has rushed in where the better informed would have feared to tread. Such so-called investments are in reality highly speculative. They involve risks which are unknown and altogether to be avoided. Now no one speculates in his own legitimate business, for there he is acquainted with the hazards which, he has learned, require the best of knowledge and the greatest of prudence. It is the allurements of the unknown that tempts him to seek unearned profits through speculation in outside regions where, in the nature of the case, the chances must be against him. Now speculation has its proper place in business: there are certain inherent hazards that must be undertaken, mainly to be found in the risk of the seasons in the production of crops, and the risk of the future in undeveloped enterprise. These risks must be carried by somebody, but clearly they constitute an activity for specialists who study conditions, becoming relatively expert in determining how and when to act. These specialists are drawn principally from two classes: First, the professional speculator, who knows his markets and makes a business of buying and selling future risks; such men perform a great service in handling our seasonal crops and in other directions, and are entitled to a reasonable profit. Second, the man of wealth who may use part of his surplus in the risks of undeveloped enterprise; although it is probable that in the end his losses and expenses will outweigh his gains, he can afford to take chances of such experiments in the hope that success will follow in some of them; furthermore, he can regard the outlay as a contribution to the advancement of mankind. For the rest of us, however, outside of these two classes, it is our business to keep away from speculation whether in oil wells, flying machines, in new factories, or in real estate: in the long run, we cannot get something for nothing and money-making efforts that are ethically valid thus coincide with those that are selfishly desirable, namely, the efforts to obtain the payment, the profit, that arises from a valuable service performed or commodity produced. Too often men who follow this rule in their regular occupation depart from it in the use of their saved surplus funds. They feel that their savings ought to make them money, as they say.

Now savings can be employed in one of three ways: They may be used as capital by the owner; or they may be put out in investments—that is, used or utilized as capital in the business of another; or, third, they may be wasted in gambling or speculation. As a matter of course, the employment as additional capital in one's own enterprise is generally the most desirable wherever applicable, but this is a use of limited scope, relating to but few of the people engaged in productive activity who earn and save a surplus. The main resource for such accumulations is in safe investments, in the bonds and securities of our own country and those of well established enterprises. Not many among our embryo capitalists possess the experience or skill requisite for the safe and proper investment of their funds, they must rely upon the advice of others. But whom can they trust? The demand for investment advice has not failed to call forth a supply of advisers, and elaborate are the schemes designed to lure the unwary. But, generally speaking, the man who falls into the clutches of these birds of prey has himself to blame, for the reason that the temptations they offer are appeals to the illegitimate desire to get something for nothing or to the foolish notion that one can get-rich-quick in some way whispered about by a stranger, and out of sheer benevolence. The fact is that the wise man will dismiss all thought of making money out of his investments; he will seek only the moderate return which alone is consistent with safety; and with this policy, will turn a deaf ear to any so-called opportunity which promises big profits. We can summarize the matter by saying that concentration upon one's business and service implies that one should not attempt to make money elsewhere.

This concentration on one's affairs therefore grows into a sort of practical system in which each member of the business community is looking after some function or activity to the exclusion of other things. And so the world's work is carried on to the best advantage, each function being filled by those particular men who have become relatively expert therein. From this system arises a business habit or method not always understood by the young and inexperienced, by the non-business person. We refer to the practice in trade of leaving to each individual, to each enterprise, to each organization, the responsibility for looking out for its own interests when having dealings with others. *Caveat emptor*—let the buyer beware—expresses an extreme development of this, and in its common signification, that each side is to be permitted and expected to take any advantage of the other side that it may be able to secure, it describes a state of warfare rather than of business. In buying and selling, in aiming to obtain the most favorable terms for each line of his activity, in meeting conditions of competition, in all these relations, the business man is endeavoring to better himself and may doubtless be tempted here and there to forget the interests of the other party to the transaction. But to yield to such temptation would merely be to abuse a principle which on the whole is sanctioned by the requirements of economic efficiency. This principle is that the nearest approximation to effective justice in business transactions is reached when on each side the parties devote themselves to their respective interests and points of view. If *A* has a house for sale and *B* is a prospective buyer, the essence of the possible transaction between the two is that *A*'s idea of the value of the property is different from *B*'s idea of that value; or at any rate that *A* sees less value in it to him than does *B* to *B*. This is of course typical of all business transactions—the seller desires the money above the commodity, the buyer prefers the commodity to the money. The seller and the buyer each dwells naturally upon his own idea of value. This is altogether desirable, not to say indispensable, and is characteristic of every relation of business, wherever two men buy and sell, employ one another, or have other dealings together. The situation is somewhat the same as in a law suit where the duty of the attorney for the plaintiff is to make every point that fairly can be made for the plaintiff, while the attorney on the other side must

correspondingly make every point that can properly be made for the defendant. Each side is supposed to look after the interest of that side. Similarly, in a business organization, say a railroad, when some new project is under consideration it will be submitted to the engineer, to the chemist, to the attorney, to the practical transportation man, and in each of these departments it is expected that the wisdom born of experience in the particular function will be brought to bear. The engineer speaks with authority on engineering questions, the lawyer on legal questions, the transportation man on the practical working out of the project; and, normally, the criticisms and contribution of each are confined to his own function. In short, the régime of economic self-interest results in leaving to each the responsibility which he is most competent to assume, that in which he is most expert, which thereby receives the best attention that generally speaking it could have. Nor are correctives lacking for the abuses which may enter in through an overdevelopment of self-interest. *Caveat emptor* becomes discredited as an unmodified basis of human action. The golden rule is increasingly seen to constitute a foundation demanded by economics as well as by ethics. The trend to-day is away from indifference to the interests of those with whom we deal. The successful merchant will not attempt to make a profit through sales which he knows would not benefit the purchaser, for that would not measure up to the test, Will it pay? The value of a business depends largely on its goodwill and too much money and effort are spent in advertising and other means of building up a clientèle to make men conceive it to be to their interest to deal sharply with their customers.

In the efforts of scientists to seek out and establish new methods, new principles, the success of an experiment is to be determined, I suppose, by the test, Will it work? Does it yield effective results? Similarly, in economics, the science of mankind in its production, distribution and consumption of material things, the test of utility and efficiency is, Will it pay? that being the standard of workableness in the application of that science.

We have attempted, therefore, in this analysis of money-making to apply this test, because the practice or habit or influence that pays is that which is in accord so far with the principles underlying this branch of social science. We have seen, according to this standard, that it is the duty of all to adopt money-making as a conscious aim; that the money is to be economically used, the final object being net profit, that balance or remainder which is carried forward as created capital. Inability to increase a fixed income does not absolve one from the duty of doing one's part in the creation of capital through thrift and saving. The business enterprise, moreover, is required by economic necessity to aim at money-making—meaning, however, profits in the long run rather than immediate or temporary gains. Such permanent returns can only be sought through adherence to ethical principles and although this aim at profits becomes the power plant which drives the business machine, the latter gives its energies and attention more directly to the rendering of service.

Concentration upon service tends to make a man relatively efficient therein, but argues a relative unfamiliarity with the field of others, from which we infer the advisability of confining one's activity to the thing he has learned to do best. As an example of this, he should avoid placing his surplus capital or savings in outside enterprises where they will partake of risks that are unknown to him, nor should he attempt to employ his savings at all with the purpose of making money, unless, indeed, he can use them as capital in his own business. The focusing of attention on one's own function also implies and explains the custom of placing upon participants in a business transaction the responsibility each for his own side, a custom which is economically justified but which must be kept within proper limits, as is fully recognized

by the business men who are successful and who therefore become models or examples for the guidance of other men, influencing the latter towards high ideals.

We have found, on the other hand, that apart from men in charge of business enterprise, the burden of providing thus for man's welfare and development is assumed by very few, the vast majority, whether in professional or business employment, treating it with neglect and contempt. They think, perhaps, that they are aiming at higher things, or that their efforts would not sufficiently count, or they do not give the matter any sturdy thought; while the underlying motive, often unconscious, is simply an unwillingness to practice self-restraint. It is self-indulgence, we must conclude, that is to be overcome if we are to meet this responsibility in a manly way, visualizing it with sufficient clearness to see that thrift, the creation of capital for one's self and for the race, comes into no necessary conflict with any other proper aim in life, but on the contrary constitutes a fundamental duty to society, to the state, to one's family, to his own future, to his self-respect.

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