
The Entrepreneur

The Belden Center for Private Enterprise
Education

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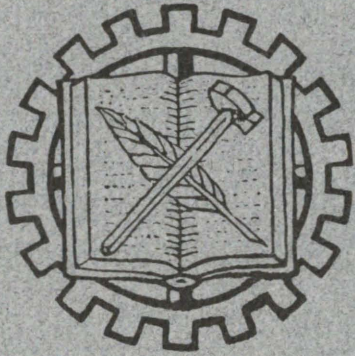
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HARDING
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The Entrepreneur*

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A Newsletter of The Center for Private Enterprise Education
Harding College Department of Business and Economics

AMERICAN ECONOMICS FOUNDATION CITES HARDING'S CENTER

[The following is a quote from the new Annual report of the American Economic Foundation in New York.]

"... This year, the single most comprehensive use of our book *HOW WE LIVE*, in adapting its text and visual-verbal techniques for popular communications materials, was by the Harding College Center for Private Enterprise Education.

Under the direction of Dr. D. P. Diffine, the Center created a 20-minute slide film based on *HOW WE LIVE*'s famous "Ten Pillars of Economic Wisdom," made widespread distribution of the "Ten Pillars" in mini-pamphlet form, and has *HOW WE LIVE*'s Formula for Man's Material Welfare extensively reprinted, even on the milk cartons of a company that sells 400,000 units every three weeks.

The Harding College Center also used the uniquely clear, simplified language of *HOW WE LIVE* in its new newsletter, in letters to the editor, posters, bumper stickers, talks by members of their Speaker's Bureau, plant tours and radio spot announcements.

Through the Center For Private Enterprise Education, Harding College is probably doing more than any other college to develop mass communications techniques to explain free enterprise."

"Talking About Business: Why, Who, When"

by H. E. Markley

Markley was elected President of The Timken Company in 1968, having begun his career with the Company in 1938 as an Accountant Trainee. He has been a Director of the Company since 1959.

He is a member of the Board of Trust Advisors of The Timken Company Charitable Trust and the Board of Trustees of Case Western Reserve University. He is Chairman of the Case Associates, a member of The Conference Board, a member of the Advisory Council on

Japan-United States Economic Relations of the Chamber of Commerce of the United States, and a member of the Board of Directors of the Firestone Tire and Rubber Company.

In this address, Markley expresses his concern that the general public does not understand and is critical of free enterprise, particularly the function of profits in our economic system.

He asks all business executives to join him in his crusade of talking about business to students, teachers, employees, legislators, and those who are vocally against business.

I would like to talk about something that is of monumental concern to me, something about which I have been crusading for a number of years. I am going to ask that you join me in this crusade.

I have been crusading because I have recognized a problem that is facing business today: the citizens in this country do not understand business. Our radical left neighbors are looking for a target, and business fits their ideas of what that target should be. The politicians need a whipping boy, and business fills that need.

Other groups with their own special interests are directing their assaults toward business and making business the adversary. Unfortunately, businessmen have been indifferent to the public relations side of business. We haven't said very clearly what business is.

I would like to talk primarily about the solution to the problem — this lack of understanding of business. If we had the time, we could examine some of the indications of the problem. Let me give you one little inkling of what is happening.

Why Talk About Business?

About a week ago, the Assistant Dean of the School of Management of Purdue University was in my office. Most of the students in this school are master's degree candidates, although there are some undergraduates. The Dean said that polls were taken of the students to see what they knew about business — and particularly about profits. Amazingly, people who are preparing

* The acting, organizing enterpriser in the world of commerce.

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themselves for a livelihood in business miss the mark by a wide margin.

They didn't do as badly as those in a national poll taken some years ago. The results indicated that most people in the street believed that business makes a profit well up in the order of 50 to 60 per cent. When asked what they believed was an acceptable profit, one that business should make, they thought it should be 10 per cent after taxes.

Of course, all of you know that rarely does business make as much as 6 per cent after taxes. But there exists a lack of understanding of profits among people who should know. That is why we have a problem.

As for the solution: First of all, we must understand business ourselves. Let's start with the fact that none of us, no one here, or anyone in the country could live a week without business. It is that involved in our life. Then why are we gambling so much? We need to understand that it's a necessary part of our lives, and we ought to embrace it. In fact, business is the very lifeblood upon which we depend for our sustenance.

Secondly, a corporation is the best device that has yet been developed to accomplish the mission of business. This mission is to take whatever resources are appropriate and to change them, or move them or mold them into a form needed or wanted by our citizens.

I said that people have taken pot shots at corporations and that they do not understand exactly what a corporation does. But there has yet to be devised in the history of man a system that supplies our needs as well as a corporation can.

The Misunderstood Function of Profits

In carrying on this mission of business, which is to provide goods and services to the citizens of the society, the corporation needs to collect capital; it needs to collect resources. We are talking primarily about money, but as you all know, capital includes machines, buildings, land, and many other things.

There are a number of ways to collect capital. You can sell common shares to people who are willing to invest in the enterprise. You can borrow money, up to a point, and issue industrial bonds or some other kind of preferred security. In other words, the corporation uses other people's money. And as an agency, as a legal entity, the corporation has to pay for the use of those people's money.

In the case of the money that is borrowed, however it's done, interest is paid. And in the case of the money that is collected from people who buy common shares, it is expected that some return will be made to them in the form of dividends.

But dividends and interest payments can be paid only after a business' costs have been met. Included in these costs are taxes. People are all for higher taxes for corporations. They don't understand that corporations do not pay taxes. Only people pay taxes.

Taxes, as a cost, are included in the price of a product. If competition is such that it is not possible to cover all costs, a businessman must reduce his profit margin. This is money that should have belonged to the shareholders. Either the consumer paying for the product or service, or the shareholder pays for the taxes. Taxes are paid by people.

So, when you hear the suggestion that the way to end all of our problems is to tax the corporations, please understand that what is being said is: "tax the people." In most cases, it's taxing people who probably are not as able to pay as the people asking for corporations to be taxed.

"Profits" has become a bad word. Part of the reason is that the label is wrong. To my way of thinking, what we normally call profit is really a cost of capital. It is paid to the people who furnish the capital to give the enterprise its initial start. Unless the profit becomes excessive, becomes an amount that is greater than you would have to pay for money in the open market, it in no way can be called profit. One day, if we understand that it is really a cost of capital, some of the solution will be on its way.

Talking to the Public

And we in business are the ones who must clear up these misunderstandings. We must tell the world, especially those who don't understand it or don't want to understand it, what business really is. This is the public relations side I feel we have been ignoring.

If we want people to understand business, we definitely should start with the children. I've been told by any number of college professors that it is unfair to blame them for some of the ideas that the students are bringing out of the colleges. They tell me that the young people had these ideas before they got as far as college. Examine some of the material being used in our elementary systems, and you will find that these ideas are indeed beginning to be shaped at the lower levels.

But having talked with students and teachers, we must continue with our "public relations" efforts. We have to talk with employees, people we know. Amazingly, a great many of our employees do not understand what goes on in their own company. Some of it may be our own fault, because we have tended to be secretive. Now is not the time to be secretive with our employees.

We should explain, for instance, what happens to a dollar that comes in from a sale. Explain, for instance, how much of it they get. I don't know what is true in your

company, but I can tell you that in our own company employees receive 47½ cents out of every dollar we take in.

We need to take a bold step in talking with anti-business people. We tend to talk to ourselves a great deal. Much of that action must be in talking to the people who are inclined to attack business. We must explain to them how vital business is to our way of life. We must show them that most of what they believe to be fact just isn't.

Talking to the Government

Another crucial action we must take is to talk with our legislators. I haven't been very complimentary to our Congress in recent years. Part of my quarrel comes because Congress years ago stopped making the laws in this country.

Congress now passes enabling legislation and, as part of that, usually provides for the establishment of a commission, a bureau, or an agency. It gives that bureau or agency the right to make rules and regulations. There's where our laws are being made today. They are not made by people we have elected.

Now, in a more charitable mood toward legislators, one of the reasons they make legislation unfavorable to business is because they don't know very much about business. Rather than being too critical, let's take positive action and try to help them. Explain to them what happens when a particular problem comes to the surface.

Try to explain to them what it does, not to a company as a company — because that's going to raise a red flag right away — but talk about what it's going to do to the employees, what it's going to do to their families and all the people in that community who depend upon those payrolls to carry on their businesses.

We will be talking to them about votes, and that's one thing that legislators understand. Only after we explain to them what business is all about can we expect legislators to make more thoughtful decisions.

The next thing to do is to press for responsible government. Emphasize, as I have suggested, that it's the citizen who pays all the taxes, either in direct taxes or in prices or, in some ways, inflation. We have to begin to make it clear that freeloaders are a burden on all of us. It is not a single segment of our society that is paying the taxes to support them.

In this period in our history, with a bicentennial year approaching, we are thinking a good deal about our freedoms. I certainly subscribe to the fact that we need to renew our understanding of and renew our faith in freedoms. But where are we heading today?

Talking About Business Today — for Tomorrow

We need to remember that this country is actually a republic, not a democracy. What some people are claiming as rightful conduct in a democracy does not apply to our country. I challenge their history, if nothing more.

We need to remember that any society can exist only so long as there is discipline, whether that society is a family, whether it's a town, whether it's a state or country or a corporation. We need to get down to some basics and to think about these freedoms that get all the attention. We need to begin to translate them into our modern life.

We need to remember that merit must be rewarded, and that we cannot remain great if we insist on making mediocrity our god. We need to remember that the free marketplace is our best assurance of freedom.

The best agency to achieve the affirmative is our modern business. I know somebody is going to point to the newspapers and accuse business of getting away with very unscrupulous activities. Unpleasant incidents have happened; "dirty business" has existed. I don't like what some businessmen are doing. I don't subscribe to it and insist they should be punished.

I'm a great follower of football. In football you have to play according to the rules. Every so often some player does something he shouldn't do and he is penalized for it. Sometimes he gets away with it. The same thing is true in business.

We have rules to observe, too. I wouldn't for a minute want anyone to leave here believing I am suggesting that business is sacrosanct. We have some improvements to make. That doesn't change the truth of the situation, which is that we have to have business in this country. We have to have business in our society.

Now, if this all sounds as if I have been a little pessimistic, that's not really my nature. I think we have a problem, and I think we need to be pragmatic about solving it. Actually, I think we have a pretty bright future. We have acquired some of our problems as a result of technology, but we are going to solve them through technology. There is virtually no problem that can't be solved at least in part, if we apply the resources and ingenuity and the brilliance — the brains — that we have in this country.

So, I'm not of a mind that we are at the end — I think there remains a lot we can do. I think the Spirit of '76 is still with us, and I think that we can make it even brighter and more effective if all of us can, in our own way, wherever we have association with other people, speak up for business when we have an opportunity.

Ten Pillars of Economic Wisdom

A BLUEPRINT FOR UNDERSTANDING

1. Nothing in our material world can come from nowhere or go nowhere, nor can it be free: everything in our economic life has a source, a destination and a cost that must be paid.
2. Government is never a source of goods. Everything produced is produced by the people, and everything that government gives to the people, it must first take from the people.
3. The only valuable money that government has to spend is that money taxed or borrowed out of the people's earnings. When government decides to spend more than it has thus received, that extra, unearned money is created out of thin air, through the banks, and, when spent, takes on value only by reducing the value of all money, savings and insurance.
4. In our modern exchange economy, all payroll and employment come from customers, and the only worthwhile job security is customer security; if there are no customers, there can be no payroll and no jobs.
5. Customer security can be achieved by the worker only when he cooperates with management in doing the things that win and hold customers. Job security, therefore, is a partnership problem that can be solved only in a spirit of understanding and cooperation.
6. Because wages are the principal cost of everything, widespread wage increases, without corresponding increases in production, simply increase the cost of everybody's living.
7. The greatest good for the greatest number means, in its material sense, the greatest goods for the greatest number which, in turn, means the greatest productivity per worker.
8. All productivity is based on three factors: 1) natural resources, whose form, place and condition are changed by the expenditure of 2) human energy (both muscular and mental), with the aid of 3) tools.
9. Tools are the only one of these three factors that man can increase without limit, and tools come into being in a free society only when there is a reward for the temporary self-denial that people must practice in order to channel part of their earnings away from purchases that produce immediate comfort and pleasure, and into new tools of production. Proper payment for the use of tools is essential to their creation.
10. The productivity of the tools — that is, the efficiency of the human energy applied in connection with their use — has always been highest in a competitive society in which the economic decisions are made by millions of progress-seeking individuals, rather than in a state-planned society in which those decisions are made by a handful of all-powerful people, regardless of how well-meaning, unselfish, sincere and intelligent those people may be.

(Courtesy of the American Economic Foundation, New York.)



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