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The entrepreneur

A Newsletter of The Center for Private Enterprise Education
Harding College Division of Business

Harding's "Capitalism Corps" Receives National Honors and Cash Prize

The Harding College Economics Team has gained national prominence and a $3,000 cash prize as a result of three days of judging at the first National Finals of the Free Enterprise Intercollegiate competition conducted Aug. 27-30 in Dallas, Texas.

This climaxed a competition which began a year ago with 160 colleges and universities from around the country. Of those 160 institutions, Harding's own "Capitalism Corps," three-time regional winners, captured a very impressive 2nd place. This, next to a Pennsylvania-based Business College.

Entitled "Free Enterprise: Let's Keep it in Business," the Harding entry included a report with a 200 page annotated supplement that elaborates in alphabetical order a variety of 80 programs which have been presented before civic, professional and educational groups in the Mid-South.

The Economics Team is composed of members Doug Sanders of Antioch, Tennessee; Marsha Bender of Dallas, Texas; Daniel Holt of Effingham, Illinois; Ted Thompson of Norfolk, Virginia and Jake Jensen of Milwaukee, Wisconsin. Faculty sponsor is Dr. Don Diffiné, Associate Professor of Economics and Director of the student-staffed Center for Private Enterprise Education.

Through the only volunteer Student-Staffed Center for Private Enterprise Education in the country, the Economics Team works to support a system in which one is "free" to be anything he wants, if he has the "enterprise" to do it. The competition results firmly establishes Harding's Center as one of the premier organizations in the country that is effectively promoting economic enlightenment.

A Free Market Solution For Everyone's Benefit

American prosperity was built on a free market, but that system has been radically altered. Exactly what is the free market economy? It is the system based on the private ownership *and control* of the means of production, and the *voluntary* exchange of goods and services in the marketplace. This means exchange free from interference, by government or any other institution, with the operation of the market processes which generate prices, profits, wage rates, interest rates and even the quantity of money. All are determined in the free market rates and even the quantity of money. All are determined in the free market economy by the actual conditions of supply and demand.

In such an economy, government — the social apparatus of coercion and compulsion — has a limited role: it preserves market processes while protecting peaceful, law-abiding participants from those who resort to the threat — or use — of force or fraud.

Consider how the market regulates every aspect of the economy for everybody's benefit.

1. **How the Market Regulates Wages.** No business can operate without workers. Companies always try to expand production — thus they seek *more* workers. To be successful in the marketplace, companies must have *superior* workers and workers with *special skills.*

This increases the demand for employees, which increases wage rates. In a free market, there is usually "full employment" and competition for all kinds of workers. With increased investment and mounting demand for labor, wage rates rise.

When products grow in popularity with customers, companies that produce them need more workers, and pay higher wages to get them. If customers for a product diminish, wages of those who make it will tend to fall. Some employees will take other jobs, which makes the rate of fall more gradual. Lowering the wages of the

This issue courtesy of Mr. Ned Martin, Martin-Tomlinson Roofing Co., Inc., Dallas, Texas.

remaining work force allows firms to retain many employees, even though company income — the only permanent source of payroll — is down.

In America today, we no longer enjoy the free market's wage flexibility: between minimum wage laws, union pressures and the force of misguided custom, wage rates have become rigid on the downside. Wages go up but are not permitted to go down. Thus when companies lose customers, they do not have the option of keeping employees and gradually lowering wages. They are obliged to retrict or even close down the business, and to fire people en masse, creating mass unemployment.

The combination of minimum wage, union pressures, inflated notions of individuals as to their worth as workers, and availability of generous government payments to the unemployed, puts a higher price tag on millions of potential employees than consumers can afford. Result: massive unemployment.

2. **How The Market Regulates Prices.** If somebody makes a product so appealing that customers demand more of it than he can make, the price will go up. But, as long as the market is free, there will be competition. On discovering the product's popularity, other entrepreneurs will make similar products, increasing the supply, and the price will go down.

If demand for anything exceeds supply, the price will rise. The profit potential inherent in the higher price will increase production of the desired things. In turn, the shortage will be relieved and prices will fall.

By the same token, if manufacturers produce more of certain products than people will buy at or above the cost of production, prices will fall.

To both consumers and businessmen, prices indicate which things are most profitable to buy or not to buy. They indicate supply and demand of all services, raw materials and finished goods.

As a long-term trend in a free market, total production tends to increase and prices go down. Because there is a personal reward, people are motivated to invent — and invest in — more and better tools and methods of production. Thus, they increase the quantity of available goods; and increasing the supply lowers prices.

In America today, we interfere with free market pricing first by interfering with wage rates (cost of human energy, mental and physical, is the chief cost component of all goods and services). This interference always pushes prices up.

We also interfere with market prices whenever our government *subsidizes* production of any commodity (which raises the price and creates surpluses) or "controls" the price (which lowers the price and creates shortages).

A corporation that seeks to pay stockholders significantly more than other firms making and promoting similar products can do so only by increasing its efficiency, or the price of its products. Raising prices will cause that company to lose customers and sales, which in turn will force it to lower the percent of income paid to stockholders.

3. **How The Market Regulates Quantity of Money.** In a true free market economy, it is not only wages, prices and profits that are determined by the marketplace but the money supply and interest rates. Historically, free market economies have used precious metals — or honest paper money redeemable in such metals — as their medium of exchange.

Increasingly, gold was chosen not only because it is valued in and of itself but because it is expensive to greatly increase the quantity of gold. Also, the total quantity of gold-backed money is determined by market forces only. While the quantity of money will fluctuate (because of the quantity of gold varies), it cannot be greatly changed by political manipulation. Government cannot, simply by its own mandate, "increase the money supply."

Thus, the Gold Standard helps prevent inflation. But America gradually abandoned the Gold Standard over the past half century, and under political pressures our Federal Reserve System has continually increased the quantity of paper money, the root cause of inflation.

4. **How The Market Regulates Interest Rates.** In a free market, interest rates — the cost of borrowing money — are regulated just the way prices are: by supply and demand. Applicants for loans patronize those who ask a lower rate of interest, while lenders seek customers who will pay higher interest rates; but the rate must always reflect the actual amount of savings available for lending. In a free market, you can't *borrow* money unless someone else has first *saved* it.

But the way our government has intervened, this is no longer the case. Under the misguided notion that government must keep interest rates low, the Federal Reserve System manipulates interest rates downward. This artificially increases the demand for loans; and to enable member banks to meet this demand, the Federal Reserve permits them to loan money that hasn't been saved in the first place. The resulting "easy money" causes an unnatural expansion called a boom, which is always followed by a bust or recession, when government stops increasing the quantity of money at an ever-faster rate.

Thus, we see how remarkably self-adjusting the free market is — how through the impartial, non-political operation of supply and demand, it determines wage rates, prices, profits and losses, even the quantity of money and rate of interest, *for everybody's mutual benefit*; and how political intervention leads to unemployment, inflation and recession — the key economic problems of our time.

Every attempt at "economic education" that fails to explain these facts will fail the American people, for the prime requirement of economic literacy in a free country is an understanding of the free market.

Are We Defending Free Enterprise With The Wrong Weapons?

A former Harvard professor, Paul H. Weaver, developed an exceedingly interesting article — a mixture of creative insights and questionable conclusions — in a recent issue of *FORTUNE*.

Titled "Corporations Are Defending Themselves With the Wrong Weapon," the piece is illustrated with an ominous-looking revolver, out of which pops a harmless little flag labeled "Economic Education" — a takeoff on the gag gun which shoots out a banner marked BANG!

The professor's contention is that "teaching economics isn't going to turn the anti-business tide" because it rests on "the basic misconception that Americans are economically illiterate." He maintains that opinion polls, such as the massive Compton study, do not reveal any general "economic illiteracy."

Evidence of Misunderstanding

But examination of the Compton research reveals that the American people have a very poor understanding of their economic system.

There is no research evidence that the American people can define the system clearly enough to know when it is being violated. They know their system is called free enterprise, but they do not realize that to function properly, it must be based on a free market. They do not understand that to maintain free enterprise, government must be limited, and no institution allowed to interfere with voluntary process which determine prices, wages and interest rates. On the contrary, the Compton study shows that, by a two-to-one margin, the public believes there must be *more* government regulation.

Asked what is wrong with our system, the biggest group points to inflation and unemployment, blames these on free enterprise, and asks for more government intervention, not realizing these conditions are *results* of such intervention.

The Compton research also reveals that only 2 per cent of the general public can give specific functional descriptions of "Business," "labor," the "consumer" and the "investor"; 37 per cent cannot think of any way their personal lives are affected by the general profit level; 24 per cent say they don't know what "private enterprise" means.

Thus, research findings contradict Weaver's assertion that there is no major problem of economic ignorance. Even more, these findings suggest that economic ignorance is a *cause* of the growing notion that, to use Weaver's words, businessmen are "greedy" and "rapacious."

How Opposition Diminishes

Opposition to the profit motive diminishes when people realize that profits provide the tools which multiply human energies and boost our living standard. Opposition lessens again as people recognize that the desire to profit (i.e., to gain, to achieve satisfaction or success) is universal; and that the only practical alternative to the *private* profit system is a *government* profit system — under which the money needed for the tools of production is taken from the people by *coercion*.

Opposition to profit shrinks further when persons discover that the average manufacturer does not make 33 cents profit per dollar of sales, but only about 5 cents, and that out of every available dollar of corporate income owners do not get 75 cents compared to the workers' 25 cents, but only 10 cents compared to the workers' 90 cents.

Objection to free enterprise on the grounds that it does not provide job security lessens once people comprehend that our unemployment is due primarily to forcing wage rates above free market levels. Resentment diminishes further once people perceive that the only arrangement that *can* guarantee job security is an authoritarian system that takes away personal freedom.

Weaver's Sound Insights

Even though Weaver underestimates the extent of economic ignorance, and the value of economic education, he makes some excellent points. He is right when he says that economic education, in and of itself, "isn't a complete and coherent defense of business," and that many powerful arguments can be made that are not being made.

He is sound when he says that we must tackle such problems as the image of the businessman as a profit-obsessed bad guy, a "bully" indifferent to the human consequences of his actions. And he makes sense when he contends that industry must develop "coherent political positions" on the wide range of issues affecting business — and that these must embody a clear notion of the public interest, a concern with improving the well-being of the people.

But just because economic education is not a total defense does not mean it should be abandoned. Since the problems that business and free enterprise face are many — the result both of ignorance and aggressive attacks — the defense requires a variety of weapons.

We urge those involved in selecting the arsenal not to discount economic education — not to reduce it to the level of a gag gun shooting out a little flag marked BANG! — but to develop it into a powerful educational instrument, and combine it with other communication weapons to create "the complete and coherent defense" that American business and a free economy deserve, and desperately need.

Basic Laws of Economic Progress

1. **The Law of Freedom:** Of all God's creations man, alone, was endowed with free will. For this reason man does his best work in an atmosphere of freedom, freedom to choose his labor and to freely use the fruits thereof. Only freedom releases all of man's potential energies.

2. **The Law of Cooperation:** Man cannot prosper alone in a modern economy because he performs only a part of the production process. His work is done as a member of a team, and, unless the team prospers, no member can prosper.

3. **The Law of Compromise:** Prosperity requires harmony among men. Harmony requires compromise based on good faith and the Golden Rule. Without compromise man is confronted either with anarchy or government force.

4. **The Law of Compensation:** Men being unequal in ability, their potential economic contributions are unequal and there must, therefore, be inequality of reward. The natural way to arrive at the monetary value of any particular ability is through the law of supply and demand: *let the free market decide.* Perfect "fairness" is impossible, but the free market method is the closest that man has found.

5. **The Law of Responsible Authority:** Responsibility without authority generates timidity, indecision, and caution to the point of inactivity. Authority without responsibility generates carelessness, arrogance, favoritism, and potentially disastrous decisions. Responsibility *with* authority generates balanced judgment, respect for the opinions of others, justice in personal decisions, and prudent planning.

6. **The Law of Predictable Money:** Prosperity requires long-range planning. In a modern economy the results of long-range planning frequently depend upon the future value of money. *Unpredictable money is a major obstacle to economic progress.*

7. **The Law of Enforceable Contract:** Economic planning in a modern society requires basing one's actions on actions that other people have contracted to take. Because honor among men is still far from perfect there must be legal enforcement of contracts when violations occur.

8. **The Law of Private Property:** Private property is a natural extension of God's law of freedom. The natural desire for personal possessions is, aside from hunger and privation, man's greatest incentive to do his best work. Any society whose laws do not release the power of this incentive will never get maximum productivity from its members.

9. **The Law of Production:** Man produces goods and services by changing the form, condition and place of natural resources by applying to them his muscular and mental energy aided by tools. Tools being the only one of these factors that man has the power to increase, his progress in productivity depends upon his progress in tools.

10. **The Law of Distribution:** When anything is produced, sooner of later it must be sold, even as junk, if need be. The *normal* selling price of a product is the total of the costs shown below:
    Cost of Outside Goods and Services
    Cost of Human Energy (Payroll, benefits, etc.)
    Cost of Taxes
    Cost of Tools Wearing Out (Depreciation, etc.)
    Cost of Using the Tools (Profit)
    This is the amount management *expects* to collect from the customer. If, however, events make the customer *willing to pay more* or *determined to pay less,* the selling price will change. *The customer always has the final word in distribution.*

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