

CREATING CAPITAL



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Creating Capital, by Frederick L. Lipman

Revised edition

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MONEY-MAKING AS AN AIM IN BUSINESS

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, is viewed 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 unexpanded 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 feasibility 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

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