

TOOLS and PROFITS (The Basis for a Successful Company)

How the Way For the Enterprise of Free Men was Achieved

Success is strongly affected by timing, and the birth of North America could not have been better timed. The American Revolution ended just as the Industrial Revolution in England was just starting.

Without access to the wonder tools that followed the invention of the steam engine, we could have never overcome the handicap of our pitifully small work force. Power tools are the magic multipliers of human energy and North Americans had the thrift, determination, and *the system* to acquire them. Our profit system furnished the incentive because the use of profits to buy better tools creates better profits. Our social system under which *anybody* could save, invest, and improve their lot in like instead of being contented with the station in life to which they were born made it everybody's ball game.

How America Demonstrated Responsible Freedom

When the 13 colonies became a free nation, the economic experts in Europe took a very dim view of its future. How could a handful of ordinary people with very little capital hope to carve a good living from a hostile wilderness? But the experts overlooked a few things that Americans had going for them. They were the world's first people with complete economic freedom and they were ambitious. They lived under what was called the Christian Ethic, which made it a sin to loaf, lie, steal, or be a spendthrift.

The first dramatic demonstration of the American character occurred during the ratification of the Constitution. The new government might have defaulted its \$77 million war debt and started with a fresh financial slate but to the amazement of the civilized world, all of the 13 States agree that every penny should be repaid, no matter what sacrifices it entailed.

This public display of integrity had far-reaching effects. Almost overnight, wealthy Europeans were convinced the new nation was a good place to invest capital. With a single act of good faith, America had established a reputation of national honor and reaped the credit standing it needed to buy tools that were absolutely necessary.

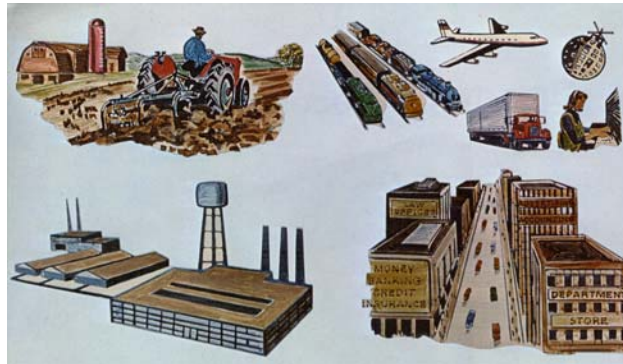
As a result, a wealth of managerial talent emerged from the common people. Power tools created a huge invisible work force, and production increased at a rate never before known in history. By the year 1900, some of the youngest nations on earth had become the industrial

leaders of an astonished world. Today, each of the millions of workers employed in manufacturing and transportation has an average of 200 robot helpers who do more than 95% of the work in exchange for less than 10% of the proceeds.

Our greatest danger is that it looks *so easy* we forget that constant attention is needed to keep the system in peak operating condition.

Tools We Don't Think of as Being Tools

In our modern economy, we must recognize that everything used in production and exchange is a tool. The purpose of a factory is to house power tools, but it is the land, buildings, and the apparently non-productive equipment that make the use of power tools possible. Everything owned by a corporation is a tool.



We must understand this before we can understand our profit system, because profit is the amount collected from the customer on behalf of the stockholder for the use of the tools-meaning all of the assets. The stockholders think of dividends as payment for the use of their invested savings, but this money has been transformed into tools, so it is simpler to think of profit as payment for the use of tool money.

If the stockholders had not anticipated getting paid for the use of their savings, they would not have made the investment - and there would have been no tools, no jobs, and no business. So it can be said that profit is the most important of all *business costs* - and becomes the most important part of the selling price.

Although it is tools that made North America great, it is the acceptance of the primacy of profits that caused these tools to be created.

How Great is Profit in North America?

Any discussion of the profit system inevitably brings up the question-how much does it cost the customer? Unfortunately for the public opinion of profit, most people don't know *how*

much, but they guess it to be much larger than it is. Many people even believe that profit exceeds payroll, but the workers get about nine times as much in payroll and benefits as the owners get in profit.

The Approximate Division of Corporate Income
(Average of five typical years)

Payroll and Benefits	63%
Taxes	18%
Tool Replacement	8%
Shareholders	7%
Miscellaneous	4%

There will never be perfect economic justice in our imperfect world, operated by imperfect human beings, but this comes pretty close.