

ORGANIZATION AND THE FACTORY SYSTEM

1. **Entrepreneur or Enterpriser.**—The man who directs modern industry, who has the responsibility of combining the three basic factors of production into an efficient unit, was formerly called the "entrepreneur," and more recently the "organizer." The word "organizer," however, does not quite convey the full idea, because a man of this type not only does the actual work of organization but also assumes the risks of industry. Perhaps the best word is "enterpriser." Since modern production is carried on, not by any one individual or factor, but by a combination of two or more factors and an indefinite number of individuals, some one must take the responsibility of bringing these forces together and of guaranteeing a degree of stability or permanence to the organization. This involves guaranteeing a certain fixed return to each of the factors involved.

Before the owner of a piece of land will intrust it to another to be used as a part of a productive plant, he must be assured of a certain return for it. This is termed "rent." Before a laborer will contribute his services to such an organization, he must be assured of his remuneration, which we call "wages." Before the owner of capital will permit his accumulated wealth to be used in such an undertaking, he must be assured of some compensation, which we call "interest." The enterpriser assumes all these obligations and binds himself to pay fixed amounts of rent, wages and interest for a stipulated time. He owns none of these factors, but

he does own the business as a whole, and he assumes the risks of loss along with the chances of gain. His only motive for undertaking such an enterprise is the hope that the net returns of the business will be a plus quantity—that after rent, wages and interest have been paid and all expenses for raw materials and the like, covered, a sufficient surplus will remain out of the total value of the product to compensate him for his time, his effort and his assumption of risk.

2. Nature of Profits.—A system of this kind necessarily assumes that the product of the enterprise belongs entirely to the enterpriser, just as the business as a unit belongs to him. The reward of the enterpriser for his distinctive services is what we call “profits.” Strictly speaking, profits do not include the total return to the enterpriser. There must be deducted from the total net gain a certain sum which represents the wages of the enterpriser himself as manager. It is not always possible to determine this sum definitely, but in general it is the equivalent of the amount which the given individual could earn if he were employed as manager of a similar business which did not belong to him and of which he assumed no risks.

Profits, therefore, are the compensation for the organization and ownership of business. The fact of ownership carries with it liability to losses as well as right to gains. In accordance with laws which will be discussed in the next chapter, rent, wages and interest tend to be fixed on a relatively stable basis. Profits are the fluctuating and uncertain type of remuneration. The enterpriser receives what is left after all the other factors have received their stipulated payment. This reward is frequently very large in comparison either with the other

payments, with the total volume of the business or with the amount of time expended by the enterpriser. In other cases it falls to zero or becomes actually a minus quantity. Because the progress of industry demands that some one should take risks in developing new enterprises, society has permitted especially large rewards. If there were not a chance of great gains, nobody would devote his energy to an unestablished and unsafe enterprise. The possibility of large profits has been the incentive to draw men of ability, initiative and daring into untried but promising fields of endeavor.

3. The Independent Producer.—In many cases the same individual furnishes all four factors of production. The small farmer or market gardener with his own little plot of land, cultivated by his own efforts with his own tools, furnishes the land, the labor, the capital and the organization. He owns the business and the product is his. The same is true of the push-cart man, the job printer with a little shop of his own, or the owner of a small grocery store.

In many respects, to be an independent producer of this sort is the most satisfactory economic situation, for there is a peculiar satisfaction in being the proprietor of one's own business. The opportunities for gain in an enterprise of this kind are never large. The amount of capital which one individual can both manage and supply with labor is too limited to turn out a large product. But neither is there likelihood of heavy loss. The first expansion in a business of this kind usually comes with the addition of one or more laborers. Then comes the borrowing of more capital or the renting of more land. In many of our great individual enterprises, the enterpriser supplies not only his own labor as manager but a

part of the land and capital. In the case of the small independent producer who supplies all the land, labor and capital as well as the organization, his total income should be apportioned as rent at the market rate, wages at the market rate, interest at the market rate and the balance as profits to himself as enterpriser.

4. Partnership.—With the expansion of business enterprise and the increase in size of a typical business unit, it became more and more unsatisfactory for the individual enterpriser to assume the entire risk of loss even when compensated by the possibility of large exclusive profits. Organization consequently has come to be carried on under forms of divided responsibility. The simplest case is that of a partnership where two or more individuals unite in the ownership of a business and in the assumption of risks. The characteristic feature of a partnership is that each partner is individually liable at law for the entire obligations of the firm. In one sense this makes the risk as great for each individual as if the business were owned entirely by himself, but in practice the actual losses are divided between the partners in accordance with the terms of the partnership.

Since in the ordinary partnership the capital is largely if not entirely supplied by the partners, the mistake is likely to be made of crediting the entire gains to profits. Correctly, only so much of the gains should be considered profits as remain after the partners have paid themselves interest on their capital at the current rate and have credited themselves as managers with salaries, amounting to whatever it would have been necessary to spend in employing persons of similar ability. A partnership may, of course, borrow capital and rent land just as it may hire labor.
