

ENTREPRENEUR'S CONTRIBUTION

It is normal to think of a manufacturing firm as having three key functions: production, sales, and finance.

Fundamental consideration shows that a fourth essential function is involved. A firm can't even get started until it has an objective—an idea toward which the resources are organized. It is the function of the entrepreneur to select the best ideas and maximize the efforts of the organization.

USEFUL IDEA

In seeking good ideas, the entrepreneur notes that man prefers to satisfy his wants with the least human effort and that there is such a thing as "human inertia"—that we all resist change. Accordingly, the entrepreneur seeks and applies ideas that improve efficiency enough to induce human change. Thus, an idea is a good one only if it is a better way to satisfy some human need. A new product, a new service, or a cheaper way to furnish an old product or service, is what is sought.

The increase in economic efficiency is the driving force that overcomes the consumer's inertia to change and causes him to buy the new product. The company that introduces a new product must share the saving with the customer. It is by offering the consumer a better bargain that a supplier earns that part of the profit that we have indicated as "entrepreneurial wage". The greater the improvement in efficiency, the larger this part of the profit may be. This is the reward that society (the customer) is willing to pay for an increase in overall efficiency in the satisfaction of his wants and needs. This portion of what is normally called "profit" disappears as soon as the new technology has become widely applied or a newer and still better product has become available.

If a company is innovating and servicing the customer with better products and/or lower costs, it can earn a better-than-average profit. The company that is not innovating will show a profit about equal to interest rates. The following table shows the profit for manufacturing corporations in the United States for a 10-year period. It also shows the average interest rate on good corporate bonds.

10-year average, 1957-66

	Percent
Profit as a percent of sales.....	¹ 4.92
Profit as a percent on capital.....	¹ 6.38
Average interest rate on corporate bonds: Aaa and Baa.....	² 4.67
Payment for risk insurance plus the wages for entrepreneurship: Income on equity capital less interest on rate on bonds.....	1.71

¹ Quarterly Financial Report for Manufacturing Corporations (Federal Trade Commission).

² Federal Reserve Bulletin.

This shows that, on the average, the "wages of efficiency" that corporations earn by their innovative efforts represent only 1¾% on capital invested. If, through dumping, prices or market position are eroded, it need affect the average profit only very little to cut deeply into the wages of efficiency.

The chemical industry has been a leader in innovative changes. This is not surprising, since it spends a higher percent of sales income on research than most other industries. It is, therefore, only natural that the chemical industry generally shows a higher rate of profit than the average for industry. If a profit criterion is applied as an injury test on the chemical industry, no injury would ever be found until profits had eroded to the point that research would be cut back and innovation stunted. Thus, criteria for dumping injury, other than loss of profits, are required if a healthy, growing, innovative chemical industry in the United States is to be maintained.

The genius of the free-market system is that it offers the possibility of large entrepreneurial rewards for very important and rapid innovation. The customer gets his wants satisfied with less money (less human effort) at the same time. To assume that a firm that is making average or better-than-average profits, even on a product that is affected by dumping, has not been injured by dumping is to confuse two independent factors. A better and more rational approach to the question of injury from dumping needs to be found.