

## Human Resource Associates

*HR Consultants to Management*

# ***PERSONNEL NOTEBOOK***

*For Your Most Important Resource*

## **“THE FORGOTTEN MAN”**

A farmer in Texas was visited by the state Department of Labor. It appeared, they said, that the farmer was not paying the proper wages to his help, and they were there to investigate. “I need a list of all your employees and how much they make,” demanded the agent.

“Well”, said the owner, “There are three hired hands, one has been with me for four years, the other for three. I pay each of them \$400.00 a week plus free room and board. The cook has been with me for 18 months. I pay her \$800.00 a month plus free room and board. Then there’s a half-wit that works about 18 hours a day. He usually takes home around \$200.00 a week but I buy him a bottle of bourbon on Fridays,” replied the farmer. “That’s the guy I want to talk to,” said the agent, “that half-wit.”

“That would be me,” replied the farmer.

That farmer may represent today’s truly “Forgotten Man”, the small business owner. As the primary provider of jobs, income, benefits, paid time off and job, career and skill training for the nation, you would think that we would do all in our power to multiply their kind. If small business owners were horses, we would

be grooming and nurturing them. But it often seems that we universally portray business owners, no matter the size of the business, as villains. Why do we tend to beat the horse so many of us are riding on? Let’s take a closer look at today’s small business owner and reconsider the term “The Forgotten Man”.

The term is attributed to the days of the Great depression of the 1930s. The politicians and leaders of the day used it to describe the needy citizens that they said had been forgotten. However, the term actually came from the 1920s and was coined by Yale professor and philosopher William Graham Sumner. The “Forgotten Man” that Sumner was referring to was actually not the needy one, whom he felt everyone was trying to speak for and represent. He was referring to the man who produced the goods, performed the services and provided the taxes. He was commenting on the universal overemphasis and numerous laws that focused on the government providing for the needy at the expense of those that did the work and paid the taxes that provided for the needy. These were the people he considered forgotten.

In her best-selling 2007 book, *The Forgotten Man*, author Amity Shlaes also describes that same person as forgotten in the 1930s depression. According to Shlaes, had the government focused on supporting and aiding businesses instead of demonizing, taxing and burdening them, millions of jobs might have been created and the Great Depression might have lasted two to three years instead of the ten years it did last up until the start of World War II.

Today, one issue with this term is that at the time, “man” was the accepted term for all workers because men were, and had always been considered the primary members of the workforce. Now, however, such words as “manpower” and “man-hours” seem dated as women are opening more businesses than men. A more accurate title for our small business owners might be “The Forgotten American” and that’s how we will refer to them in this issue of *Personnel Notebook*.

### **The Forgotten American, our small business owner.**

Small businesses, defined by the federal government as those with less than 500 employees:

- Make up 97% of all the businesses in America!
- Employ just over 50% of all U.S. workers.
- Pay 44% of the entire U.S. private payroll.
- Have created 64% of all new jobs for the last 15 years.
- Hire 40% of all high tech workers (such as scientists, engineers and computer programmers)
- Are 52% home based and 2% franchises.
- Produce 13 times more patents per employee than large

patenting firms, and these patents are twice as likely to be used as those of large firms.

The risks taken and the money and time invested make the small business owner our great adventurer and the front-line charger for our economy. Daniel Goleman, Ph.D., author, consultant and Harvard business scholar comments: “What special talents allow some people to build a flourishing business from nothing, while others, though given every advantage of background and preparation at the best business schools, run a business into the ground? What abilities allow one person to take a mediocre company and transform it into an industry leader, while others turn great companies into mediocre ones? And what qualities allow one company to flourish year after year while competitors flounder?”

“The answer must lie not in luck, breeding or education. Rather there seems to be a certain knack, a preternatural intelligence at play. One that makes some people naturally talented at the complex demands of business, just as others are natural at music, math or soccer. This same ability displays itself at the group level in superlative teams and at the organizational level in the large great companies.”

I recall observing a discussion between two friends. The first commented that all business owners should make no more than 10% above their highest paid employee. The second mentioned a famous singer who made \$100 million that year and asked if that policy should also be applied to that entertainer. “Oh no,” said the first. “That entertainer has talent”. Said the second “Most business owners have to know how to write a business plan, find the capital, find and

acquire a location, acquire the materials and equipment, hire the right people (not too many or not too few); set the wages and benefits, get everyone trained, locate and develop good managers, set up proper and effective safety systems, assure that everyone is paid properly and on time, monitor and assure that all the thousands of business and employment laws are followed as well as the environmental, local, state and federal regulations, assure that employees do not harass each other, that the products and services are made and delivered efficiently, properly and profitably and that all the taxes are paid on time. They must constantly assure that they have the right product, at the right price and that they are targeting the right market. And they must be capable of competing with another business owner that is just as smart, dedicated and hard working. How much talent do you think that takes?" he asked. Friend No.1replied, "I always thought of business owners just giving orders and watching the big money roll in. Maybe it's the singer who's paid too much".

Consider that 30% of all business owners go out of business within two years and only 50% make it through five years. But some of them go on to become big businesses hiring even more people. 65% of them get their money from local commercial banks and many of them start and run their businesses on their credit cards.

Women own almost 30% of all small businesses while another 10% of small businesses are jointly owned by a man and a woman. Minorities own almost 20% of all small businesses and 14% of all owners are military veterans.

### **Are small businesses truly The Forgotten Americans?**

As more economists and the public are becoming aware that the primary provider of our economy is not the government but the small business owner, more of the following issues are being recognized:

- Federal regulations impact small businesses more than large business by a margin of 45% overall. Small business owners spend four and a half times as much per employee to comply with federal regulations than do large companies and they pay 67% more per employee for tax compliance than do their larger counterparts.
- Firms with fewer than 20 employees spend over \$8,000 per year to comply with federal regulations.
- Benefits cost the average private employer \$8.02 per hour. Paid leave alone costs \$1.85 per hour on top of all other benefits and wages.
- Framers of projected new tax laws aimed at those earning \$250,000 or above fail to recognize that the primarily target is the small business owner. Even though most small business owners file their business taxes with their own private tax return (such as in a Subchapter S corporation), If they bring in \$500,000 that money isn't just going into their pocket. They almost always have to re-invest much of those earnings back into the business to expand their market, increase their sales, create more marketing studies do more advertising, build new offices and hire and train more people. Sure, owners may get that back on their next tax filing, but first they have to use it to take those gambles. If the money is already taken in increased taxes, it won't be there to invest. There will be no expansion, no new sales, and no

new hires. The owners, just like their employees, intend to survive. When the squeeze gets tight enough, employees must be laid off.

- Many old and new laws are so stringent that they hurt businesses. And, employment entitlements are so costly as to discourage employers from hiring. Owners are facing rules they don't understand because the people who wrote them didn't understand them either.

- More of today's Americans think "profit" is a dirty word. And the media, movies, TV shows and newscasters treat it just that way. Fewer people see profit as an acceptable motive for a business. It's as if they imagine that the money just goes quietly into the owner's pockets at night. They don't realize that 46% of business profits go to taxes or stop to consider that everyone goes to work for the profit in it. No one charges wages merely to be reimbursed for their costs that day. Everyone wants to profit from their labor. And few people take on as much labor, stress, responsibility and risk as the small business owner.

Today's business owner must assure fairness in all things. Every employment applicant comes with a full set of laws, regulations, rules and risks. The life, health, fair and equal treatment of all employees including their interaction with each other, is becoming the lawful responsibility of the business owner. Where would we be without the people who have the dreams, ambitions, courage, and tenacity to take on the challenge that provides us and this country with the work we want and need?

Every country on the planet wants more businesses to open and to hire and to be successful. Businesses, like individuals, need reasonable regulation and controls. But let's not kill the horse we're riding to town on. The more we restrict business, the less successful we are as individuals and as a country.

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