

## Lecture Notes 9:

### Making a Profit Off It

Why are we in business?

- To make a profit?
- Or to carry on an activity that fulfils human needs in some broader sense?

There are businesses (such as hospitals and universities) whose main purpose is not to yield profit for their owners; but rather a profit for society in general that is not necessarily monetary.

We become so used to playing the money game that we forget that all money is Monopoly money in the sense that real wealth consists of things like healthy people, sound and beautiful buildings, cultural artifacts, healthy environment, etc. Money is a very useful device for keeping track of things, and it allows for credit and exchange; but it has become the main reality itself for many.

A student in this course a few years ago made a nice observation: profit is a sign of a healthy business; but it is not the main purpose of running a business.

Others would say that the pursuit of profit overrides all other considerations, even moral considerations; it is as if we have a duty as business people to be selfish! So there has been a curious inversion of the moral pyramid in neo-liberal thinking; those who advocate selfless activities (such as aiding the poor or funding education) are seen as morally questionable, while those who are selfish are placed on the ethical high ground!

There is also the duty-to-shareholders argument: as a business manager, my over-riding duty is to get at least an acceptable if not a maximum rate of return on my shareholders' investment, since they are the ones I am ultimately working for.

### **Questions:**

- Is the pursuit of profit ethically acceptable?
- Should the pursuit of profit over-ride all other obligations that you may feel as a business-person?
- At whose expense is the pursuit of profit? Profits are sometimes made in business by passing costs along to others -- the workers, society in general, future generations (as with depletion of environmental resources). Sometimes profits are made by cashing in or liquidating an asset that others have built up; the waves of "downsizing" in the 90s were mostly about this. (Companies laid off workers who were not needed for immediate operations and then run into the ground or sold as soon as the profit margin was sufficiently inflated.) Such moves were "efficient" because they cashed in their future.
- Does the pursuit of profit have to be a zero-sum game like football, where it is either win, lose, or tie, and there are only a certain number of points to be earned?

- Of course, people respond to incentives; both owners and workers will do more if they are rewarded. But we have to ask, what skills are being rewarded? Profit-seeking serves society if it rewards skills that are useful to society (such as, for instance, environmental protection); it might not serve society if it rewards skills that may be harmful to society (such as “drawing-down” of environmental resources, or creating massive unemployment).

### ***Some possible approaches:***

- Marxist: all profit is stealing from the workers who did the actual production, since the only value added to the raw materials is that provided by labour.
- Liberal economics: value can be added by design, management, entrepreneurship as well as by labour; there is a multiplication effect.
- “Environmentalist economics”: we also have to look at how that multiplication is taking place; businesses do not work in isolation from society or the environment. If they are drawing down resources, then no matter how profitable the business is to its owners it may be a net cost to society; on the other hand, some businesses might be a net gain to society even though they are only modestly profitable to their owners.
  - The need to produce a rate of return that will satisfy investors can lead business to neglect long-term priorities, or to carry out activities that are ultimately destructive to the resources that support them; this leads to the economics of extinction (to be discussed in Chapter 10).
  - You can have the best of both: thermal depolymerization is going to help the environment greatly, but also make a ton of money for its owners.

### ***Title, Introduction***

As usual, Tittle presents us with a barrage of questions; here are a few interesting points:

- Rich-poor gap: in 1998, the world’s 225 richest people have about as much wealth as the bottom half of the world’s population. (p. 305) Should we be concerned about this? Didn’t those people earn their wealth?
  - Fundamental rule of economics: those who have, get! (Because wealth generates economic opportunities.) As a student pointed out, some of those who have done so well may have enjoyed unusual luck, but then by the “fundamental law” their success becomes entrenched.
- Another question which lurks in the background of this discussion is fair taxation. See Linda McQuaig, *Behind Closed Doors: How the Rich Stole Canada’s Tax System*. See also October 2003 *Walrus*, on Paul Martin using offshore companies to shelter his company’s income and avoid having to pay Canadian-level wages; is this acceptable? He’s telling us to pay his taxes but on the other hand he uses a loophole that most Canadians have no access to; on the other

hand, it is probably impossible to run a shipping company without using these loopholes. What do you do?

**Jacobsen, “Economic Efficiency and the Quality of Life.”**

Wants to examine the claim (part of classical neo-liberal economics) that profit-seeking is the best way to benefit the general public good. Notion of the “invisible hand”; Jacobsen (308) cites the famous remark by Adam Smith about the “invisible hand”.

It is nice to keep in mind the following remark that was also made by Smith, but which does not as often get quoted by supporters of lassie faire capitalism:

People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise price.

Two views to consider:

- It is permissible to seek profit.
  - No one is suggesting that business owners should work for free. What is at issue is whether they are entitled to earnings above and beyond a “reasonable” working wage, whatever that is.
- It is obligatory to seek profit.
  - The notion here is that profit-seeking may be obligatory if we accept the “invisible hand” theory. This view has been advocated by economist Milton Friedman.

The claim is not that we should do nothing other than business, says Jacobsen; rather, it is that as business people the best thing we can do for society is seek private profit.

Jacobsen’s main purpose is to examine a thought experiment; would maximizing profit be acceptable in a world in which the “free market” works with ideal efficiency?

He makes distinction between quality of life and standard of living. The former is the gauge by which we measure a social policy, he feels. Standard of living, he says, is only a component of quality of life (312).

“Quality of life” is difficult to define, whereas standard of living can to some degree be quantified. Quality of life will include “intangibles” such as, perhaps, friendship or art.

He makes an interesting point: a certain standard of living is necessary to quality of life. But there will be diminishing returns; if I have ten bathrooms in my house, I will have less than five times the quality of life than if I have only two. Jacobsen distinguishes between sufficiency (having enough to cover basic human needs), affluence (having enough for some luxuries), and opulence (being able to buy a personal jet fighter with discretionary income, like Larry Ellison).

If we reached the point where the market system had provided something between sufficiency and modest affluence for almost everyone, there would be little point in pushing for opulence because “at some point further affluence will always become

superfluous in the pursuit of a better life” (312)

Hence, even if we accept Friedman’s views in their entirety, Jacobsen feels that we would still be forced to conclude that the unlimited pursuit of profit would not be sufficient to guarantee the maximization of human welfare in the genuine sense.