The Profit Motive

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Preface

This third Occasional Paper publishes the proceedings of the Centre's Inaugural Occasional Seminar held at its St Leonards office on August 11, 1980. The Paper by Professor Antony Flew of the University of Reading, deals with a topic of special interest to those concerned with issues critical to the workings of a market economy. Much of this Paper forms the basis for a chapter in a new book by Professor Flew, *The Politics of Procrustes.* We thank the publishers, Maurice Temple Smith of London for permission to use Professor Flew's address as Occasional Paper **3.**

In the first section of his Paper, Professor Flew discusses the notion that the profit motive is necessarily and uniquely selfish. If the pursuit of profit is selfish he argues, then why not the pursuit of wages, rents, fixed interest or whatever? He also feels that those who would criticise as selfish, an economic system which allows people to pursue their own interests, are making a fundamental error for it is not necessarily true that an interested action is also selfish.

In the second part of his address Professor Flew puts forward the proposition that the foundation of much antagonism to the concept of profit can be found in the writings of Aristotle. He believes that Aristotle was especially in error, as have been so many since his time, in believing that trade is in essence, exploitation. In other words, that in a trading arrangement, a gain by one is a loss by another. This error of thinking is so much an accepted view, that it is (and has been) a major source of economic ignorance. As Professor Flew so correctly states, 'trade is a reciprocal relationship[1]. In fact, **both** gain from the trade.

The third section of Professor Flew's Paper examines the role of the profit motive in wealth creation. He is especially critical of investment decisions made in the public sector; one of his main concerns being that those who make and carry out such decisions are generally too far removed from the consequences of the decision, whether for good or bad and are not subjected to any proportionate personal change of fortunes as a result of the action, except of course that politicians might lose their seats and governments might change. The modern democratic process provides a rather precarious means of making sound investment decisions. The government dinosaurs of the past litter our history books, but phoenix-like, they may be as topical as tomorrow's new railway project or dam.

This Paper is published as a contribution to the debate on economic and social issues and is a reminder that many of today's problems have their sources in the writings of the past. It is worth remembering once again the words of Keynes: 'Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist . . . Soon or late it is ideas, not vested interests which are dangerous for good or evil.'

In his discussion of an issue usually fraught with misunderstanding (and sometimes passion), Professor Flew presents some challenging insights. Nevertheless, his conclusions are his own and while the Centre for Independent Studies is pleased to be able to publish this Paper, the views of the author cannot be considered to be those of the Centre, its Advisers, Trustees, Directors or officers.

Greg Lindsay

The Author

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Professor Flew has written thirteen books including; *Sociology, Equality & Education; The Politics of Procrustes; God and Philosophy; Crime or Disease; Evolutionary Ethics;* and *An Introduction to Western Philosophy.* He has edited a further eight books and has published over 100 articles, comments, reviews etc. in learned journals and other publications worldwide.

The Profit Motive

Antony Flew

I. THE PROFIT MOTIVE AS NECESSARILY AND UNIQUELY SELFISH

Nowadays in Britain, and I expect in Australia also, it is constantly asserted and assumed that, in as much as (private) profit is an essential characteristic of anything approaching what Adam Smith called 'the obvious and simple system of natural liberty', therefore such economic arrangements must be more selfish than their actual or possible rivals. Thus, in the summer of '72, under the headline 'Waiting for a Sign from the Egoists', The Times of London reported that Arch-bishop Camara of Brazil had asked a meeting of members of both Houses of Parliament: 'Why do you not help to lay bare the serious distortions of socialism such as they exist in Russia and China? And why do you not denounce, once and for all, the intrinsic selfishness and callousness of capitalism?"

To the Archibishop's question the best first response is another: 'Why is it that we never hear of the rent motive or the wages motive?' Perhaps the classical distinction between profit and rent is obsolete. But, if it is proper to speak of a profit motive, it should be equally proper to speak of a wages motive. By parity of reasoning we shall then have to admit into our new economic psychology the fixed interest motive, the top price motive, and the best buy motive. And, of course, if it is proper to argue that those who are paid wages must be stirred by the wages motive; then it has to be not merely proper but positively refined to say that those whose wages are paid at longer intervals, and called a salary or even compensation, are inspired by, respectively, the salary motive and the compensation motive:

And, when folks understood their cant
They changed that for 'emolument';
Unwilling to be short or plain,
In any thing concerning gain . . .[2]

My immediate counter-question here raises two points against the Archbishop. The first is that it is misguided to insist on applying to psychology a system of categories originally developed in, and appropriate to, economics. To insist on doing this is rather like postulating a set of chess motives, distinguished one from another by reference to those similarities and differences which have been found relevant to the interests and purposes of chess theoreticians; and then labelling these factitious postulations with expressions drawn from the technical vocabulary of chess - the knight's move motive, the Fool's Mate motive, the queening motive, or what have you.

The second point is that, if you **are** going thus to introduce any member of some set of economic or chess concepts into your psychology, then it is irrational and arbitrary to introduce one only without the others; to speak of the knight's move motive without the queening motive, for instance or of the profit motive without the wages motive.

Strictly as an aside: it is entertaining to recall that in A *Treatise of Human Nature* David Hume makes that very methodological mistake which I have just noticed. Hume concludes: '. . . a man, who desires a thousand pound, has in reality a thousand or more desires, which, uniting together, seem to make only one passion; tho' the composition evidently betrays itself upon every alteration of the object, by the preference he gives to the larger number, if superior only by an unite'.[3]

Noticing that suggestive 'or more', one is tempted to go on to urge: that before decimalisation the desire for a thousand pounds was - 'in reality' - two hundred and forty thousand old penny desires; that now it has diminished to a mere hundred thousand new pence hankerings; and that a desire for a thousand piastre pounds must, by parity of reasoning, realiy be an American billion of almost indiscernible atomic yens. The mind boggles at the unfolding vista of possible implications of other currency differences and equivalences for the psychology of the notorious gnomes of Zurich and the infamous moneychangers of Beirut: But enough is enough to indicate the nature of the first general objection to the economic psychology implicit in all this loose talk about the profit motive.

My second line of response to the challenge presented by Archbishop Camara is to insist that no one - not even an Archbishop - has any business simply to assume that the desire to make a (private) profit is always and necessarily selfish and discreditable; notwithstanding that the corresponding desires to obtain a wage, or a salary, or a retirement income, are - apparently - not. No doubt all these various desires are interested; in the sense that those who are guided by any of them are - in the immortal words of Damon Runyon, the Balzac of Broadway - 'doing the best they can'. But, precisely because this does apply equally to all, we can find no ground here for condemning one and not the others.

This neglected fact is awkward for the denouncers. For no one, surely, is so starry-eyed as to believe that any kind of economic organisation can dispense with all such interested motives: 'Every economic system devised for ordinary human beings', we may read even in a Fabian Tract, 'must have self-interest as its driving force'.[4] If, therefore, one such system is upon this particular ground to be condemned as 'intrinsically selfish and heartless', then, by the same token, all must be. Yet that, of course, is precisely not what is wanted by those who thus denounce capitalism root and branch, and as such; while tolerantly discounting as more or less 'serious distortions' whatever faults they can, however reluctantly, bring themselves to recognise in the already fully socialist countries.

A further fundamental mistake here is to identify the interested with the selfish. This is wrong. For, though selfish actions are perhaps always interested, only some interested actions are also selfish. To say that a piece of conduct was selfish is to say more than that it was interested. The point is that selfishness is always and necessarily out of order. Interestedness is not, and scarcely could be.

For example: when two healthy children eagerly eat their dinners it would, presumably be correct to say that they are pursuing each their own interest; and, if there were any choices involved, no doubt the economist would describe them as thereby maximising their utilities. Yet this is no sufficient reason to start reproaching them. Time for that after brother has grabbed and eaten sister's dinner too, or perhaps in some less flagrant way refused duly to consider others and to respect their proper claims. Again, even when my success can be won only at the price of someone else's failure, it would be inordinately austere to insist that it is always and necessarily selfish for me to pursue my own interests. Is anyone prepared to say that rival candidates competing for some coveted position are culpably selfish in not all withdrawing in order to clear the way for the others?

The upshot, therefore, is that it will not wash to dismiss any one economic system as 'intrinsically selfish and heartless': simply because that system depends upon and engages interested motives; or even simply because it allows or encourages people to pursue their own interests in certain situations of zero sum conflict. If there is something peculiarly obnoxious about wanting to make a (private) profit, it will have to be something about making a (private) profit, rather than something about just wanting to acquire some economic good; or even about competing to acquire scarce economic goods in any zero sum conflict situation, as such.

II. THREE ARISTOTELIAN MISCONCEPTIONS

That it is indeed essentially scandalous to make a profit - and hence, presumably, correspondingly scandalous to wish to do so - is an idea both as old as the Classical Greek philosophers and as topical as tomorrow's party political broadcasts. Consider what was said by the one who has had, and albeit mainly through Aquinas and Hegel continues to have, by far the greatest influence.

Paradoxically, the economic thought of Aristotle is found mainly in the *Politics*. One characteristic is that he accepts as normative whatever he believes to be, as it were, the intention of nature. For those inclined to follow this lead it should be salutory to discover where it took Aristotle: 'Now if Nature makes nothing purposeless or in vain, all animals must have been made by nature for the sake of men. It also follows that the art of war is in some sense a natural mode of acquisition. Hunting is a part of that art; and hunting ought to be practised, not only against wild animals, but also against those human beings who are intended by nature to be ruled by others and refuse to obey that intention. War of this kind is naturally just.'[5]

No one after reading this will be surprised to find that, when Aristotle thinks of an ideal universal provider, this is

Nature, and not, as it would be today, the state. His pronouncement is oddly reminiscent of 'the original position' as stipulated by Rawls: 'On a general view, as we have already noticed, a supply of property should be ready to hand. It is the business of nature to furnish subsistence for each being brought into the world; and this is shown by the fact that the offspring of animals always gets nourishment from the residuum of the matter that gives it its birth.'[6]

(i) It is significant that, after this high-minded Classical formulation of the shabby familiar doctrine that the world owes us a living, Aristotle, like Rawls, emphasises acquisition rather than production: 'The natural form, therefore, of the art of acquisition is always, and in all cases, acquisition from fruits and animals. That art . . . has two forms: one which is connected with . . . trade, and another which is connected with the management of the household. Of these two forms, the latter is necessary and laudable; the former is a method of exchange which is justly censured, because the gain in which it results is not naturally made, but is made at the expense of other men.'[7]

Aristotle's point is that trade is in essence exploitation. The acquisitions of the trader must, Aristotle thinks, be made at the expense of that trader's trading partner; whereas the only creditable acquisitions are those achieved from non-human nature direct. Shorn of these notions of what is and is not in accord with the intentions of Nature, Aristotle's is the same thesis - and the same misconception - as we find in John Ruskin's book, Unto this Last: 'Whenever material gain follows exchange, for every plus there is a precisely equal minus'.[8]

It has for centuries been, and still remains, a most popular misconception; perhaps now especially in a form referring particularly to all trade in labour (power). For instance: the author of a recent book on Social Justice, who reveals no other Marxist cloven hoof, tosses off, as if this were the most uncontentious of truisms, the remark that 'the mystique of capitalism . . . disguises the transfer of benefits from worker to employer under the form of an equal exchange of values, through the device of a free contract of employment'.[9] This first Aristotelian misconception nevertheless provides a happy occasion to quote from A.E. Housman's Juvenal a blistering rebuke to a rival scholar's lapse: 'Three minutes' thought would suffice to find this out; but thought is irksome and three minutes is a long time'.[10]

The crux is that trade is a reciprocal relationship. If I am trading with you it follows necessarily that you are trading with me. Trade is also, for both parties, necessarily voluntary. Nothing which you may succeed in seizing from me by force can, by that token, be either acquired or relinquished in trade. So, if any possible advantage of trade to the trader could be gained only at the expense of some corresponding disadvantage to his trading partner, it would appear that in any commercial exchange at least one party must be either a fool, or a masochist, or a gambler.

But of course, as all must recognise when not either by theory or by passion distracted, the truth is that the seller sells because, in his actual situation, he would rather receive the price than retain the goods, while the buyer buys because, in his actual situation, he would rather pay the price than be without the goods. Ruskin was, therefore, diametrically wrong. It is of the essence of trade; not that any advantage for one party can be achieved only at the expense of the other; but that no deal is made at all unless, whether rightly or wrongly, both parties believe that they stand to gain thereby - or at least both prefer the deal actually made to any available alternative deal, and to no deal at all.

Certainly one of the trading partners, or even both, may be mistaken or in some other way misguided in his decision to deal. Certainly too the actual situation of either party, the situation in which it seems better to him to make the deal than not, may be in many ways unfair or unfortunate. But all this is contingent, and hence to the present question irrelevant. This question is: 'What is and is not essential to the very idea of trade?' Mutually satisfactory sex is a better model here than poker played for money. For in the former the satisfactions of each depend reciprocally upon those of the other; whereas the latter really is a zero sum game in which your winnings precisely equal, because they are, my losses.

One temptation to conclude that trade necessarily involves a zero sum confrontation lies in the fact that both buyers and sellers would often, if they had to, pay more or accept less than they do. Obviously it is in such a situation possible to regard either the more which might have been got or the less which might have been given as an advantage forfeited by one trading partner to the other. But this, which is perhaps often the case, certainly is not so always. And both buyer and seller may be, and I imagine typically are, simultaneously in similar situations with regard to such forfeited possible advantages. So it cannot be correct to infer, as a general conclusion, that all the gains of trade must always be achieved by one trading partner at the expense of the other.

Another less intellectual but in practice more powerful temptation lies in the unappealing human inclination rather to attend with eager jealousy to the gains of others than to find a modest contentment in one's own; to forget that the deal was to your advantage in order to resent that it was to his also. Surely he would not - as you so ungraciously insist - 'have made his profits out of you', had it not also been the case that you saw some advantage to yourself in your dealings with him? Yet how true it is that 'Few men can be persuaded that they get too much by those they sell to, how extraordinary soever their gains are; when at the same time there is hardly a profit so inconsiderable, but they'll grudge it to those they buy from'.[11]

In general, and it is a reflection which has a wide relevance, economic arrangements are best judged by results. Concentrate on the price and quality of the product. Do not officiously probe the producer's purity of heart. If, nevertheless, we are to consider motives, then this jealousy which resents that others too should gain, and maybe gain more than us, must be accounted much nastier than any supposed intrinsic selfishness of straight self-interest. Some might even discern the hand of Providence at work when it appears that, for thus putting the resentment-of-profit motive first, 'the envious society' of the United Kingdom pays a heavy price in forfeited economic growth.[12]

The second such reflection is that the most minimally prudent persons must always hope, and try to ensure, that their suppliers have some interest in supplying them to their satisfaction; and this quite irrespective of whether or not these interests provide the main or sole operative motives of the suppliers. You do not need to be the total cynic to feel anxious about the quality and reliability of supply where the suppliers have no interest in giving satisfaction, and their clients have to depend on the universal presence and strength of 'the motive of community service'. The author of *The Wealth of Nations* was, as usual, both dignified and realistic when he wrote: 'It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard for their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow citizens'.'[3]

(ii) Aristotle's next contribution is equally unfortunate, and has been equally important. Immediately after the last passage quoted earlier he continues: 'The trade of the usurer is hated most, and with most reason . . . Currency came into existence merely as a means of exchange; usury tries to make it increase. This is the reason why interest is called by the word we commonly use [the word *tokos*, which in Greek also means offspring]; for as the offspring resembles its parent, so the interest bred by money is like the principal which breeds it, and it may be called "currency the son of currency". Hence we can understand why, of all modes of acquisition, usury is the most unnatural'. [14]

'Usury' is now, thanks first to Aristotle and still more to his medieval successors, such a bad word that we may at first fail to realise to what he is objecting. It is not only to those very high rates of fixed interest which would nowadays be condemned as usurious. Nor even is it only to all fixed interest as such; which, as we shall soon see, was the prime target of those medieval successors. No, Aristotle's objection here is to any money return upon any money investment. It is, he thinks, against nature for money to breed money.

The moment Aristotle's point is appreciated, it becomes quite clear that both his objection and his supporting reason are superstitious and muddled. For a sum of money is the convertible equivalent of any of the goods or collections of goods which it might buy. There can, therefore, be nothing obnoxiously unnatural about receiving a money return upon an investment in money, unless it would be equally obnoxious and unnatural to ask for some return either in money or in kind for the use of the goods themselves.

There are three corollaries to draw from this explication of the essence of money. First, it must be psychologically unilluminating to speak of any money motive; and, by the same token, still more unilluminating to try to develop a complete economic psychology upon a basis of a series of economic distinctions between various mercenary motives. For that someone wants to make a profit or to earn a wage tells us nothing of what he wants the money for. Almost any desire can take the form of a desire for money. It is obvious that this is a necessary consequence of the essential nature of money as a conventional instrument of exchange. Aristotle himself elsewhere makes this point about the nature of money. But he misses its present application.

Second, it must be wrong to hope that the abolition of money, or a reduction of the range of goods which money can buy, might by itself reduce greed and competition. Certainly it is tautologically true that the profit motive, the fixed interest motive, the wages motive, and all the other factitious motives listed or suggested in the previous Section, are mercenary. All, that is, may be defined in terms of the acquisition of money. So it might seem that totally to abolish money, or to reduce its importance as a means of acquisition, must be to abolish, or at least to weaken, all mercenary motives.

In an appropriately empty sense this no doubt is true. Yet, unless these changes happened to be accompanied by something quite different, an enormous transformation of present human nature, people would presumably continue to pursue, and to compete for, whatever it was which they had always wanted, but which money could not now buy. In a word: if cars are not on sale for money, but are available as a perquisite of public office, then this will by itself tend only to increase the competition for such privileged official places. The abolition of money must make us vacuously less mercenary. But by itself it could not so much as begin to make us less materialistic or less competitive.

Third, money, and the extension of the range of goods and services which money can buy, are sovereign instruments of choice; 'If all rewards, instead of being offered in money, were offered in the form of public distinctions or privileges, positions of power over other men, or better housing, or better food, opportunities for travel or education, this would ... mean that the recipient would no longer be allowed to choose, and that, whoever fixed the reward, determined not only its size but also the particular form in which it should be enjoyed'.[15]

It is worth noticing that the medieval condemnation of usury proscribed all and only loans at fixed rates of interest. As a student of *Religion and the Rise of Capitalism* the prophet of *Equality* had said: 'Medieval opinion, which has no objection to rent or profits, provided that they are reasonable - for is not everyone in a small way a profit-maker? - has no mercy for the debenture-holder. His crime is that he takes a payment for money which is fixed and certain, and such a payment is usury'.[16]

But Tawney also shares responsibility for spreading the notion that the leading Scholastics believed the just price for any good or service to be one to be determined by some committee of official wise men. It now appears that this is as wrong as that other great popular misconception about the Scholastics - that they were devoted to a full-time flat-out debate about the possible angelic population of a pinhead. From Albertus Magnus onwards, with the exception of a handful of Scotist holdouts, all the leading figures seem to have defined the just as the normal free market price. They were very hot too on the point that an authentic free market must exclude both all fraud and all coercive monopolies; which latter specifically included - what are today by far the most powerful and least tractable - labour monopolies.[17]

(iii) Aristotle's third unfortunate contribution is a tricky and precarious distinction between two forms of the art of acquistion, acquisition for household use and acquisition for financial gain. This must surely be the first forefather of the evergreen antithesis: between, on the one hand, production for (private) profit; and, on the other hand, production for use or for the satisfaction of human needs. Though evergreen, a moment's thought will show it to be false. No producer for a market can expect to make any profit at all save in so far as others are able and willing to purchase his products. Presumably those others - we ourselves - propose in some way to use whatever we buy, judging that it is needed to satisfy some of our wants. The true antithesis, of course, is between a market and a command economy. In the former, producers produce what they believe they can find people able and willing to buy. In the latter, what is produced is whatever the actual power elite commands shall be produced - which is likely to be some combination of what they want for themselves with what they determine that the rest of us need.

III. THE PROFIT MOTIVE IN WEALTH-CREATION

In the previous second part of this lecture I made two policy recommendations: first, that we should attend, in assessing economic arrangements, to actual public effects rather than to private purity of heart; and, second, that we should try to secure that anyone serving or supplying us has some recognised interest in serving or supplying us well. The present, shortest and final part applies these recommendations to the most crucial case. In a word: it is of the last importance that whoever makes investment decisions should have the strongest personal interest in ensuring that these decisions are maximally wealth-creating.

As usual the best way to show how very important it is to do this is to point to what happens when you do not. So consider those many diagnoses of the British sickness which, by eschewing any employment of the abominated word 'profit', contrive to conclude: that the main trouble is under investment; and that the only solution is still more massive capital expenditure by government. Hugh Scanlon, for instance, as President of the Amalgamated Union of Engineering Workers got very fond of denouncing what he loved to call 'an investment strike by the capitalists', and of urging that this anti-working class strike was one which should be broken by massive outpourings of new-printed public money.

By never so much as uttering the distasteful word 'profit' in this context, Scanlon, like the rest of our socialist diagnosticians, diminishes the danger of embarrassment from challenging questions. It would be awkward for him as a trades union boss to be pressed: either about what successive inflationary wage settlements have done to the general level of profitability; or about these numerous and notorious and it seems mainly public investments which have been going wholly or partly to waste, either because of inter-union disputes about manning, or because of agreed all-union insistence upon overmanning. It would be awkward too for a leading socialist and one of the casters of the big bloc votes which determine Labour Party policy to be asked about the impact on profitability and on enterprise incentives of socialist fiscal, educational and social policies. Above all Scanlon and his like urgently require to escape the central, fundamental challenge: 'How to ensure that the investment decisions made are maximally wealth-creating?' For, and this is the point which, at least in my own miserably declining country, has to be made again and again, investment - unless it is to be just still more precious scarce resources down the drain - has to be wealth-creating; and hence, whether publicly or privately profitable.

This is not the place, nor do I now have the time, to review the black record of recent state investments in Britain. It must suffice simply to mention: the financial and environmental catastrophe of the Concorde SST; the forced formation and ruinous rescues of British Leyland; the still more gigantic endowment poured into the massively unproductive pit of British Steel, currently losing over half a billion pounds a year; and the general fact that 'In 1975 the British public corporations needed loans or subsidies of 58 pence for every pound's worth of net output they produced'.[18]

What is crucially and immediately relevant and necessary is to point to reports from the Centre for Policy Studies and elsewhere on how these disastrous public investment decisions were actually made - what pressures and incentives actually were effective upon the politicians, civil servants, and other persons involved in their making.[19] What comes out with inescapable clarity from every study of the practical mechanics of these investments, and indeed of public choice generally, is that all the supposed agents of the public interest are, being equally human, no more yet no less inclined than either capitalist or the rest of us to do the best they can for themselves and for the organisations with which they are identified. To put it more stuffily, they too try to maximise their own utilities.

The trouble is that there is no direct and necessary connection between these utilities and the choice of those investments promising to create most wealth. For, while great care is taken to ensure that our politicians and civil servants should not have any individual financial stake in the investments which they direct, their other personal utilities are often in fact such as to encourage not wealth-creation but wealth-destruction. For instance, large and long-established unions must, in the nature of the case, possess more political clout than others perhaps still unformed in industries not yet born. This makes politicians understandably eager to squander resources, that are not theirs, where these resources will be - and where those old and powerful unions will often help to make them - unprofitable.[20] Again, and equally understandably, civil servants are apt to identify the particular interests of their own empires and sub-empires with the general public interest. And so on.

The final moral is both old and true, it is one which we have all, I hope, long since taken to our hearts and minds from the Master, Adam Smith. If what we want is the most rapid increase of the nation's wealth, then we absolutely must ensure that those who make investment decisions have proportionate individual interests in the resulting gains and losses; interests big enough, relative to their own other interests, to be of major concern for them. Precisely that is, just about as well as is humanly possible, in fact secured by what Smith used to call 'the obvious and simple system of natural liberty.'

NOTES

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