CHAPTER XVII

JUST PROFITS IN CONDITIONS OF COMPETITION

WE have seen that profits are that share of the product of industry which goes to the business man. They comprise that residual portion which he finds in his hands after he has made all expenditures and allowances for wages, salaries, interest at the prevailing rate on both his own and the borrowed capital, and all other proper charges. They constitute his compensation for his labor of direction, and for the risks of his enterprise and capital.

In the opinion of most Socialists, profits are immoral because they are an essential element of an unjust industrial system, and because they are not entirely based upon labor. Under Socialism the organizing and directing functions that are now performed by the business man, would be allotted to salaried superintendents and managers. Their compensation would include no payment for the risks of capital, and it would be fixed instead of indeterminate. Hence it would differ considerably from present-day profits.

To the assertion that profits are immoral a sufficient reply at this time is that Socialism has already been shown to be impracticable and inequitable. Consequently the system of private industry is essentially just, and profits, being a necessary element of the system, are essentially legitimate. The question of their morality is one of degree; not of kind. It will be considered under two principal heads: the right of the business man to obtain indefinitely large profits; and his right to a certain minimum of profits.

The Question of Indefinitely Large Profits

As a general rule, business men who face conditions of active competition have a right to all the profits that they can get, so long as they use fair business methods. This means not merely fair and honest conduct toward competitors, and buyers and sellers, but also just and humane treatment of labor in all the conditions of employment, especially in the matter of wages. When these conditions are fulfilled, the freedom to take indefinitely large profits is justified by the canon of human welfare. The great majority of business men in competitive industries do not receive incomes in excess of their reasonable needs. Their profits do not notably exceed the salaries that they could command as hired managers, and generally are not more than sufficient to reimburse them for the cost of education and business training, and to enable them to live in reasonable conformity with the standard of living to which they have become accustomed.

Efforts and sacrifices are reflected to some extent in the different amounts of profits received by different business men. When all due allowance is made for chance, productivity, and scarcity, a considerable proportion of profits is attributable to harder labor, greater risk and worry, and larger sacrifices. Like the principle of needs, that of efforts and sacrifices is a partial justification of the business man's remuneration.

Those profits which cannot be justified by either of the titles just mentioned are ethically warranted by the principles of productivity and scarcity. This is particularly true of those exceptionally large profits which can be traced specifically to that unusual ability which is exemplified in the invention and adoption of new methods and processes in progressive industries. The receivers of these large rewards have produced them in competition with less efficient business men. While the title of productivity does not entirely satisfy the seeker for decisive ethical sanctions, it is stronger morally than any opposing considerations that can be invoked. It is probably as strong as some other principles that we have to accept as the best attainable in the field of industrial ethics. It enjoys at least presumptive justification.

Nevertheless, it would seem that those business men who obtain exceptionally large profits could be reasonably required to transfer part of their gains to their employees in the form of higher wages, or to the consumers in the form of lower prices. Both of these methods have been followed by Henry Ford, the automobile manufacturer. Neither of them is certainly demanded by the principles of strict justice; they rest upon the feebler and less decisive principle of general equity or fairness.[1] This concept is less definite than those of charity and justice, and stands midway between them. It comes into operation when an action is obligatory on stricter grounds than those of charity, and yet cannot with certainty be required on grounds of justice. Notwithstanding its vagueness, it is sufficiently strong to make the average conscientious man feel uncomfortable if he neglects its prescriptions entirely. It has, therefore, sufficient practical value to deserve a place in the ethics of distribution. And it seems to have sufficient application to the problem before us to justify the statement that the receivers of exceptionally large profits are bound in equity to share them with those persons who have coöperated in producing and providing them, namely, wage earners and consumers.

In the field of profits the canon of human welfare is not only sound ethically but expedient socially. It permits the great majority of business men to obtain, if they can, sufficient remuneration to meet their reasonable needs. Whether it requires society to *guarantee* at least this amount of profit-income is a question that we shall examine presently. It encourages efforts, and makes for the maximum social product by permitting business men to

[1] Cf. pp. 212, 213 of Castelein's "Philosophia Moralis et Socialis."

retain all the profits that they can get in conditions of fair competition. Does it forbid any attempt by society to limit exceptionally large profit-incomes? If the limit were placed very high, say at $50,000 per year, it would not apparently check the productive efforts of the great majority of business men, since they never hope to pass that figure. Whether it would have a seriously discouraging effect upon the activity and ambition of those who do hope to reach, and of those who have already reached that level, is uncertain. Among business men who are approaching or who have passed the $50,000 annual profit-income mark, the desire to possess more money is frequently weaker as a motive to business activity than the longing for power and the driving force of habit. At any rate, the question is not very practical. Any sustained attempt to limit profits by law would require such extensive and minute supervision of business that the policy would prove to be socially intolerable and unprofitable. The espionage involved in the policy would provoke general resentment, and the amount of profits that could be diverted either to the State or to private persons would be relatively insignificant.

Thus far we have been considering the independent business man and business firm, not the joint-stock company or corporation. In the latter form of organization the labor of direction is remunerated by fixed salaries to the executive officers, while the risks of enterprise and capital are covered by the regular dividends received by the whole body of stockholders. Consequently the only revenues comparable to profits are the surplus gains that remain after wages, salaries, interest, dividends, rent, and all other expenses and charges have been met. These are apportioned through one process or another among the stockholders. On what ethical principle can they be thus distributed? The general principle of productivity, or superior productivity, is the only one available.

A corporation which, with fair methods of competition, obtains surplus gains is evidently more efficient than its competitors. Instead of awarding the fruits of this superior efficienecy to the stockholders, it would be more economic and more scientific to distribute them among the active workers, from the president of the concern down to the humblest day laborer. This arrangement would return the surplus to those who had created it and would prove a powerful stimulus to sustained and increased efficiency. The stockholders, as such, do not produce the surplus. If they receive guaranteed and cumulative dividends, they have sufficient incentive to place and keep their money in the business. To pay them more than is necessary to attain these ends, is unprofitable and socially wasteful. It is contrary to the canon of human welfare. Of course, those stockholders who are also workers, whether they be officers of the corporation or ordinary employees, would and should share in the surplus; but in their capacity as workers, not as owners. Special rewards should be related to special efforts and productivity, not to mere proprietorship which is already sufficiently compensated. Until this obviously sensible plan is adopted, however, the division of surplus gains among the stockholders cannot be pronounced unjust.

The Question of Minimum Profits

Has the business man a strict right to a minimum living profit? In other words, have all business men a right to a sufficient volume of sales at sufficiently high prices to provide them with living profits or a decent livelihood? Such a right would imply a corresponding obligation upon the consumers, or upon society, to furnish the requisite amount of demand at the required prices. Is there such a right, and such an obligation?

No industrial right is absolute. They are all conditioned by the possibilities of the industrial system, and by the desires, capacities, and actions of the persons who enter into industrial relations with one another. As we shall see later, this statement is true even of the right to a living wage. When the industrial resources are adequate, all persons of average ability who contribute a reasonable amount of labor to the productive process have a right to a decent livelihood on two conditions: first, that such labor is their only means of sustenance; and, second, that their labor is economically indispensable to those who utilize it or its product. "Economically indispensable" means that the beneficiary of the labor would rather give the equivalent of a decent livelihood for it than go without it. While both these conditions are apparently fulfilled in the case of the great majority of wage earners, they are only rarely realized with regard to business men. In most instances the business man who is unable to make living profits could become an employee, and thus convert his right to a decent livelihood into a right to a living wage. Even when no such alternative is open to him, he cannot claim a strict right to living profits, for the second condition stated above remains unfulfilled. The consuming public does not regard the business function of such men as economically indispensable. Rather than pay the higher prices necessary to provide living profits for the inefficient business men, consumers will transfer their patronage to the efficient competitors. Should the retail grocer, for example, raise his prices in the effort to get living profits, his sales would fall off to such an extent as to reduce his profits still lower. While the consumers may be willing to fulfil their obligation of furnishing living profits for all necessary grocers, they are not willing, nor are they morally bound, to do so in the case of grocers whose inability to command sufficient patronage at remunerative prices shows that they are not necessary to the community. The consuming public does not want to employ such business men at such a cost.

Nor is the State under obligation to insure living profits for all business men. To carry out such a policy, either by enforcing a sufficiently high level of prices, or by subsidizing those who fail to obtain living profits, would be to compel the public to support inefficiency.

In the foregoing paragraphs we have assumed that the inability of the business men under consideration to get living profits is due to their own lack of capacity as compared with their more efficient competitors. When, however, their competitors are not more efficient, but are enabled to undersell through the use of unfair methods, such as adulteration of goods and oppression of labor, a different moral situation is presented. Honest and humane business men undoubtedly have a claim upon society to protection against such unfair competition. And the consumers are under obligation to make reasonable efforts to withhold their patronage from those business men who practice dishonesty and extortion.

The Question of Superfluous Business Men

Although we have rejected as impractical the proposal to set a legal limit to profit-incomes, we have to admit that many of the abler business men would continue to do their best work even if the profits that they could hope to obtain were considerably smaller in volume. These men hold a strategic position in industry, inasmuch as they are not subject to the same degree of constant competition as the other agents of production.[1] Were the supply of superior business capacity more plentiful, their rewards would be automatically reduced, and the burden of profits resting upon society would be to that extent diminished. On the other hand, the number of mediocre business men, especially in the distributive industries, is much larger than is necessary to supply the wants of the community. This constitutes a second unnecessary volume of payments under the head of profits. Is there no way by which these wastes can be reduced?

The volume of exceptionally large profits could be diminished by an extension of the facilities of technical and

[1] Cf. Hobson, "The Industrial System," chapter on "Ability."

industrial education. Thus the number of persons qualifying as superior business men would be gradually increased, competition among this class of men would be intensified, and their rewards correspondingly diminished.

The profits that go to superfluous business men, especially in the class known as middlemen, can be largely eliminated through combination and coöperation. The tendency to unite into a single concern a large number of small and inefficient enterprises should be encouraged up to the point at which the combination threatens to become a monopoly. That this process is capable of effecting a considerable saving in business profits as well as in capital, has been amply demonstrated in several different lines of enterprise. As we have seen in a preceding chapter, the coöperative movement, whether in banking, agriculture, or stores, has been distinctly successful in reducing profits. Millions of dollars are thus diverted every year from unnecessary profit-receivers to laborers, consumers, and to the man of small resources generally. Yet the coöperative movement is only in its infancy. It contains the possibility of eliminating entirely the superfluous business man, and even of diminishing considerably the excessive profits of the exceptionally able business man.