

PLAIN TALK *by Jerome Joachim*

The word *profit* is one of the most misunderstood words in the American economy. Large industrial concerns run full page ads frequently describing it variously as a reward for risk-taking, as a necessary incentive to management and various other interpretations. Economists have defined profits as the sums left over after wages, interest and economic rent have been paid.

It would seem that even a little analysis would show that it is not, as implied, a thing apart. If a workman works a little harder, a little more intelligently and a little more effectively than he might have done, his production increases. To say that his usual effort results in wages and his better than usual effort is profit is purely contradictory. All that results from his effort is wages. If it is given to him as such and not appropriated by another he will have every reason for working diligently, efficiently and capably. Even giving him part of this extra produce often encourages him to work more effectively. Systems which give him part of this extra production are called incentive systems. But if he is forced to give up a portion of this extra production, he will not work as well as if he receives it all.

If the wise investment of capital results in greater production, there appears to be little reason to call the normal return from investment *interest* and the additional return *profit*. If part of what results from the investment of capital is called *interest*, there should be no change of terms merely because some capital is invested more effectively than other capital.

The return which goes to individuals who have control of natural resources or who have government granted or tolerated privileges is often called economic rent.

Its increase is usually the result of changes in general economic trends. Economic rent does not increase because of the actions of the privileged owner. It results from the actions of the social group.

To illustrate: Suppose "A" buys a choice corner in a city. Later the people in the community make great improvements in the vicinity of this corner. Greater activity, sponsored by the group, now makes this corner extremely valuable. Soon someone wishes to use that corner to build a store or a factory to serve these people.

He naturally pays a higher price for the corner than he would have paid if the community had not made these improvements. The gain, which "A" now has, he calls profit. Actually it is capitalized economic rent. He may even decide to lease the corner rather than sell it, in which case he could command a much higher rent than he could had the community not made these improvements. For the sake of illustration let us say this gain was \$10,000.

Without having helped to increase production in any way, he is now able to share in what that community produces to the extent of

\$10,000. Because he is able to command \$10,000 worth of the group's produce, those who did aid in its production must take \$10,000 less than they would if somehow he could have been prevented from appropriating this gain. Nothing he did helped the community increase its production. He merely placed himself in a position where he could demand \$10,000 for getting out of the producer's path. Perhaps the word *profit* could be used for this type of gain but it also is often called economic rent.

Socialists claim that the owner of capital gets a similar return and feel that the group should appropriate this sum. But the machines, the tools and other items called capital did aid in the production of wealth.

Suppose that during the life of these machines or capital items their owner was given \$10,000 worth of the goods which the community produced. He would be given this amount only if the use of his machines increased the total production of the community by at least \$10,000. Such an owner would help—as any other worker might—in the production of goods—but instead of applying his labor directly to the goods, he would apply it to the making of tools to be used on the job. Failure to pay for the use of capital would be a refusal to pay a laborer who had done his part of the work away from the job.

If such a laborer is extremely capable and makes tools that increase production rapidly, he may receive much more than he could have received by working directly on the job. Many want to label this extra gain as *profit*. Obviously it is merely the reward for more effective

work and represents additional wages. Actually there is no such thing as *interest*. What is called *interest* is the reward which goes to those who use their effort to create tools which they believe will be needed to do certain jobs in the future. If they make the kind of tools that will be desired and needed they will be rewarded much more than if they direct their efforts to making something which will not be needed or which has already been made in sufficient quantity or with less effort.

Until our industrial leaders, our labor leaders and our political leaders have a better realization that *profits* are really the additional produce which results from energetic, effective effort—we will continue to wrangle about them as if they were something different from *wages* and *interest*. The only possible "profits" that can exist in our society are those unearned increments collected by people who place themselves in the paths which producers must take and who have to be "bribed" or "bought out."

Until we properly distinguish between those who produce and those who exact tribute we will continue in a path which will ultimately equalize us all at a level where no one will have much of anything.