

ABCEconomy - "P" as in "Profit"

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Blessed be profit (if it's not the goal)

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Luigino Bruni's dictionary continues: a guide to re-reading key words in economic behavior, after breaking down the myths and bursting a few bubbles. Last week, ABCEconomy began with the word "Happiness".

The nature of profit was always at the center of classic economic theory. For Smith, profit was the compensation of capital; for Marx, it was exploitation; and in the 1900s, for Schumpeter, it was the award for innovation. There is no longer today any trace of these ancient debates in economy handbooks. In fact, if we open them up, we read about the "goal" of business in the first pages - the maximization of profit - profit is considered self-evident, expected, undiscussed. Profit became, therefore, the goal of an entrepreneur's action under various constraints (unions, ethics, taxes, etc.).

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Then, in some (actually, few) of these manuals, we read (often in the footnotes) that other "non-profit" businesses exist which have other goals, different than profit. I am convinced that such a vision, typical of the United States tradition, and distant from the Italian one and in a certain sense from the European tradition, is one of the most astray, dangerous and mistaken of current economic thought.

Economy books from a few decades ago affirmed that if profit was someone's goal, he was not an entrepreneur at all but something else: a speculator. It is the speculator that carries out certain instrumental economy activity with the goal of making a profit. For such a person, producing shoes, tomatoes, violins or books is all irrelevant. What's important is that they bring in money. Instead, (as Luigi Einaudi among others said) an entrepreneur's goal is not profit, but a project, a business.

For the entrepreneur, profit is essentially a sign that the business, its project, is growing well. In fact, profit is only the tip of the iceberg of wealth or of the added value created by an entrepreneur. Goods, services and jobs are co-essential components of the wealth produced by a business. Profit then, and good economic theory still says so, tends to cancel itself out if the market functions well. Of course, businesses that do not produce wealth or added value do not contribute to the common good. But, I repeat, profit is too little to be the goal of a business, because it is not enough to make it worth it spending one's life on such a project.

And when profit truly becomes the goal, it is the whole economy and society that is impoverished, as all economic activity becomes just an instrument without intrinsic value. I am convinced that an economy and an economic system that view the business as a machine for producing wealth tend to stunt the growth of common living because they reduce the space of human passion, of life (if one remembers that the economy is life).

History has taught us that civilizations advance when entrepreneurs prevail over speculators, and they regress when the opposite happens. Is this what the current crisis is perhaps telling us?

Next week, the third word: MARKET