

4. The 'Profit' Aberration

The astonishing thing about the socialist's antipathy to the concept of 'profit' is its utter illogic in the face of the universal tendency of all men to seek the highest possible advantage in any exchange, whether of commodities, services or of personal labour for wages, salary or other form of remuneration.

The failure to take due note of this simple fact can only be explained by the unscientific approach of the socialist to the study of the phenomenon of poverty in the midst of plenty, in which his emotional response has corrupted his ability to think objectively. His attitude is like that of the police zealot whose sole concern is the apprehension of a 'criminal', not the interests of justice and truth. The socialist long ago found the 'criminal', first in the person of the landlord and later, as the industrial revolution developed, in that of the 'capitalist'. It was all too easy a solution of the problem.

Because the idea of profit has for so long been associated with the actuality of power, it has been taken for granted that the relationship was causal, just as degrees of wealth, property and 'position' were concluded to be evidence of exploitation. What was overlooked was the essential ingredient in that relationship of *monopoly*, the result of the granting or seizure of *privilege*. Conversely, because the essential condition of true *freedom* has never been enjoyed (except in insignificant utopian experiments) it has not so far been possible to demonstrate that in such a condition exploitation is impossible. Yet the logic is self-evident.

The fundamental error of socialist philosophy is the failure to recognise this simple truth. As a consequence, the whole structure of socialism has been erected on the assumption that profit, the taking or receiving of an advantage in an exchange transaction, is a form of robbery, of taking or receiving more than was proper or 'morally right', involving the exploitation of someone else's weakness, inability or misfortune, leaving them with less than their due, with "the dirty end of the deal".

The fact that such exploitation has always been present in human relationships is, however, no proof that it is the direct consequence of the enjoyment of profit. The assumption that it is so has led socialists, who have always marched beneath the banner of 'Liberty', to arrive at the absurdity of declaring that profit is evil, the product of the darker side of human behaviour and, as such, to be suppressed, eliminated from human relationships, controlled out of existence by officials and 'authorities' until the market becomes anathema and the whole society the living expression of the Marxist slogan "from each according to his ability, to each according to

his need', the ultimate cynicism of which becomes clear in the economic disasters which have been a common feature of Soviet and kindred-type of societies, and where 'liberty' is a cry in the night from the labour camp or the 'rehabilitation' hospital.

Freedom is the essential condition for the proper functioning of the market, and profit is the advantage enjoyed by *each* party to a transaction, as the prospect of it is the incentive to enter the market in the first place. In its simplest form the profit may be no more than the satisfaction of a need, as in barter, the exchange of one's product for what one lacks, e.g., clothing, food or materials for creating shelter. In the situation common to modern 'marketing', profit is generally the *raison d'être* of business, the main reason for 'getting into the (production) act', the incentive to the entrepreneur and the organiser of capital. (There are those, such as Galbraith, who declare that 'maximisation of profit' is nowadays not so important to the big corporations as 'growth'; which, if true, could be simply a reflection of the need to offset inflation; more likely, of the lust for power in the directors and management whose ultimate aim is total monopoly — and is this not in essence the pursuit of 'maximisation of profit'?)

All activity in the market is firmly based on demand, the primal cause, the satisfaction of an existing need, despite the Galbraithian sophistry about 'artificially created demand'; and in the satisfaction of the need, the one in need, if not willing or capable of satisfying it by his own labour, will calculate whether the price is within his means and worth the expenditure of his own labour in production of other things to exchange for those he desires;² and the degree of profit to the supplier in the price asked is immaterial to him because he knows that what he needs would not otherwise be available to him. What does distort the operation of this natural process, the only thing that can do so, is the intervention of something which gives an abnormal advantage to either side of the transaction, which limits the freedom of choice by deliberate act — the creation of a privilege which enables its possessor to monopolise a source of supply, or a method of production, forcing the payment of a premium over and above the normal price. It is because of the toleration of such privileges in present-day commerce that the wasteful and inequitable practice of creating artificial incentives (export subsidies, tax concessions, etc.) arises.

This the socialist has observed but failed to understand in its full significance. The agricultural worker of 18th Century Europe was seen to be robbed of a large part of the reward of his labour by the existing system of landlordism. The Lord of the Manor, the owner-occupier of the chateau, controlled the very existence of the worker by being the only employer and the owner of the only available accommodation. Where, as in England, some degree of freedom existed in the ancient right of access to the 'common', this right was gradually removed by the iniquitous enclosure Acts, which left the labourer no choice but to seek work from the only

employer in order to survive and to accept the tied cottage that offered him shelter. His bondage was thus complete. He could not leave his employer without risking the loss of a roof over his family's head, except to accept the same conditions elsewhere. In certain European countries, such as Russia and Hungary, the labourers were serfs (literally slaves) transferable with the land they worked on and pursued with dogs and whips in the event of an attempt to escape from servitude.

With the rise of the Industrial Revolution (in England) the labourer was provided with the alternative of employment in a factory or a mine, and even a cottage in the grim towns built either by mill or mine owners themselves or by the speculative builders and developers of the time. His condition was little better for the change. Competition between the industrialist employer and the Lord of the Manor for his labour improved his actual wages at the expense of what degree of pleasure he had enjoyed in his work, or pride in his skill, or the environment in which he worked and lived. But the improvement was so small that the growth of movements aimed at his emancipation, such as that inspired by Robert Owen, was inevitable.

Unfortunately, Owen, anticipating Marx in this respect, evolved the theory that "Labour was the true source of value", and that therefore to Labour (meaning not Labour in the economic sense, but 'the worker') should go the entire product. And this became the foundation on which the philosophy of socialism was erected. Marx, of course, went on to develop the theory in his doctrine of 'surplus value', the falsity of which is obvious to anyone who accepts the validity of the concept that "man tends always to satisfy his desires with the least expenditure of energy through the function of the market", and, likewise, the concept that where the market is free, unhindered by the institution of privilege, his situation expresses the operation of natural law, and there is no possibility of 'surplus value'.³

What misled Marx and others was the failure to understand that 'value' in the economic sense was *exchange* value, having nothing to do with the cost of production of the thing desired but with the likely cost of *reproducing* it, that is the amount of labour required to be exerted to produce it in the future or, in other words, what must be given of one's own labour, or currency (either as saved labour or someone else's saved labour) to reproduce it. Obviously, a thing may have cost \$100 to produce but, in the face of competition in the (free) market, be worth less than \$10 to a potential purchaser for any one of a variety of reasons; and it is plainly absurd to say that the value of the object is \$100, because that is what it cost to produce, if someone can reproduce it for less or because it has been superseded in worth by some other object.

To talk of 'surplus value', therefore, as identifiable as the amount by which the labourer is robbed of his proper reward in the cost of producing an object is nonsense. The market will fix the value of the object from day to day in response to the demand for it, and that demand will be based solely on

the amount of toil and trouble the person desiring the object will go to in order to acquire it, or, expressed another way, what he is prepared to pay for it.

The ultimate absurdity of the socialist attitude is that, because of the failure of the theory of 'surplus value' to stand up in the face of fact, they threw out the concept of the market; which is like saying "if you don't agree with our theory we'll force its acceptance by declaring that natural law doesn't exist." Instead of seeking the reason why the market was not functioning as it should they decided to ignore it, describing it as an anachronism in the light of their theory. What they are attempting to do is to force mankind into a mode of living alien to his nature.

Hence arise the evils of over-government, economic confusion and fratricidal warfare between workers and employers, all of which now poison human relations as the socialist doctrine spreads because of the readiness of the desperate victims of the existing system to grasp at any idea presented, with superficially attractive packaging, as their salvation. Hence, also, the mystique developed by thinkers and writers like the contributors to *Australian Capitalism*, out of 'dialectical materialism' and other nostrums of the Marxist Polemic. And hence the groping towards common sense by the men of the 'New Left', by people like Marcuse who, dissatisfied with the tired cliches and patent falsities of the Marxist dialectic, seek a new approach to truth more in line with human instincts and in harmony with true liberty.

NOTES TO CHAPTER 4

1. ADAM SMITH: *The Wealth of Nations*, Vol. 1, Bk. 2, Chap. 1, p. 249: "In all countries where there is tolerable security, every man of common understanding will endeavour to employ whatever stock he can command in producing either present enjoyment or future profit."
2. Demand is effectuated by supply, or, as expressed in 'Say's Law': "What best favours the sale of one commodity is the production of another." (J. B. Say, French economist, 1767-1832: *Traite d'economie politique*, 1803; English edition, 1821, trans. C. R. Prinsep.)
3. The term 'surplus value' is an anachronism, as any economist worthy of the name knows. For the definitive exposition of 'Value' see HENRY GEORGE's *The Science of Political Economy*, Bk. II, Chapters 10-14, 1962 Schalkenbach edn. Also H. G. PEARCE's *Value, Normal and Morbid*, Standard edition, 1946.