



## Profits Are for People

First, let's get both the definition and magnitude of profits out of the way. Profits represent the residual claim earned by entrepreneurs. They're what are left after other production costs — such as wages, rent and interest — have been paid. Profits are the payment for risk taking, innovation and decision-making. As such, they are a cost of business just as are wages, rent and interest. If those payments are not made, labor, land and capital will not offer their services. Similarly, if profit is not paid, entrepreneurs won't offer theirs. Historically, corporate profits range between 5 and 8 cents of each dollar, and wages range between 50 and 60 cents of each dollar.

Far more important than simple statistics about the magnitude of profits is the role played by profits, namely that of forcing producers to cater to the wants and desires of the common man. When's the last time we've heard widespread complaints about our clothing stores, supermarkets, computer stores or appliance stores? We are far likelier to hear people complaining about services they receive from the post office, motor vehicle and police departments, boards of education and other government agencies. The fundamental difference between the areas of general satisfaction and dissatisfaction is the pursuit of profits is present in one and not the other.

The pursuit of profits forces producers to be attentive to the will of their customers, simply because the customer of, say, a supermarket can fire it on the spot by taking his business elsewhere. If a state motor vehicle department or post office provides unsatisfactory services, it's not so easy for dissatisfied customers to take action against it. If a private business had as many dissatisfied customers as our government schools have, it would have long ago been out of business.

Free market capitalism is unforgiving. Producers please customers, in a cost-minimizing fashion, and make a profit, or they face losses or go bankrupt. It's this market discipline that some businesses seek to avoid. That's why they descend upon Washington calling for crony capitalism — government bailouts, subsidies and special privileges. They wish to reduce the power of consumers and stockholders, who hold little sympathy for blunders and will give them the ax on a moment's notice.

Having Congress on their side means business can be less attentive to the will of consumers. Congress can keep them afloat with bailouts, as it did in the cases of General Motors and Chrysler, with the justification that such companies are "too big to fail." Nonsense! If General Motors and Chrysler had been allowed to go bankrupt, it wouldn't have meant that their productive assets, such as assembly lines and tools, would have gone poof and disappeared into thin air. Bankruptcy would have led to a change in ownership of those assets by someone who might have managed them better. The bailout enabled them to avoid the full consequences of their blunders.

By the way, we often hear people say, with a tone of saintliness, "We're a nonprofit organization," as if that alone translates into decency, objectivity and selflessness. They want us to think they're in it for the good of society and not for those "evil" profits. If we gave it just a little thought and asked what kind of organization throughout mankind's history has accounted for his greatest grief, the answer wouldn't be a free market, private, profit-making enterprise; it would be government, the largest nonprofit organization.

The Occupy Wall Street protesters are following the path predicted by the great philosopher-economist Frederic Bastiat, who said in *The Law* that "instead of rooting out the injustices found in society, they make these injustices general." In other words, the protesters don't want to end crony capitalism, with its handouts and government favoritism; they want to participate in it.



Written by [Walter E. Williams](#) on October 26, 2011

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