

[On Russell Brand's misunderstanding of profit](#) [1]

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The former Mr. Katy Perry took to Newsnight this week to display to all of us his ignorance [of economics](#) [3].

And after a few textbook political dodging of the question, Brand, 38, finally laid down his revolutionary manifesto which would create: 'a socialist egalitarian system based on the massive redistribution of wealth, heavy taxation of corporations and massive responsibilities for energy companies exploiting the environment.'

Hmm. I wonder whether we can manage it without starving 8 million Ukrainians this time. The fallacy at the heart of his prejudices though is this:

'David Cameron says profit isn't a dirty word, well I say profit is a filthy word,' the comedian passionately declared. 'I think the very concept of profit should be very much reduced because wherever there is profit there is also deficit. This system currently doesn't address these ideas.'

Ah, no. Entirely misunderstanding what is going on here.

Profit is simply the proof that value is being created. Leave aside for a moment who is getting that profit and consider what it actually is. We have the costs of our doing something: whatever those costs might be in labour, wages (no, not the same thing), raw materials, other inputs and for purists, the opportunity costs of doing something else with all of these things. We also have the income from having done this thing, whatever it is. All profit is is the acknowledgement that the income is higher than the costs of having done it. Thus value has been created.

And we like people creating value: it's really rather the point of having an economy at all, creating value. For if no value was being created then there wouldn't be any value for us human beings to consume.

Indeed, we can go further. The opposite of profits is losses: they being an acknowledgement that value is being destroyed. What is being produced from our process is less valuable than the things we are using to do the production. There is therefore less wealth to share around: people are all poorer therefore.

Losses are the destruction of economic wealth, profits the creation of that wealth.

Now, we can indeed mumble to ourselves over who gets these profits. We can even note that the consumer surplus (which is the profit accruing to consumers from that production with profit normally being defined as the value created flowing to the producers) is usually vastly higher than those "profits". But even as we shout about the distribution of profits we must all recall the most important point here. Which is that

we very much desire that profits be made. For they are, by definition, the proof that economic value is being created, that the value of output is higher than the value of inputs.

And that really is what we want in an economy, an increase in value creation.

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