Published on *Adam Smith Institute* (http://www.adamsmith.org)

Ten very good things 3: Profit [1]

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The third in my series is profits, much-maligned but essential for progress.

3. Profits

The role of profit is much misunderstood. Some denounce profits as if they represent money that rightfully belongs to others, but profits are the reason for the wealth-creation that has so benefited the world. We postpone consumption so that we can enjoy more of it later. There would be no reason to do so otherwise. By using wealth to create more wealth in the future we can have access to more choices and opportunities. The prospect of making a profit leads us to invest, and the investment creates new products and processes and new efficiencies. Profit is the difference between the cost of the inputs that go to create something and the price that others will freely pay for it.

Sometimes people are envious of high profits and think them somehow unfair. In fact the high profits encourage others to enter and start up in competition, which in turn benefits the consumer by increasing choice. Moreover high profits motivate others to start up new ventures in the hope of doing likewise. Thus profit is the incentive for increased economic output, as well as for the introduction of new products onto the market.

Profits do not represent wealth taken from others, but wealth created by added value and exchange. Without profits there would be no reason to forego present consumption by investing. Profits thus make us look to the future and what we might achieve in it, and lift our eyes above the present gratification that would prevail otherwise. Profits are the incentive which sets people on the road to economic expansion and the self-betterment which it makes possible.

Marxists erroneously suppose that profit represents exploitation, a price higher than the labour cost of producing goods. They err in supposing that value derives from labour costs. In fact it derives from demand, and is in the mind of the person contemplating the object, not in the object itself. It is because we value things differently that we trade. The investor hopes that people will value the goods produced more than the price that will be asked for them, and that this will be more than it costs to produce them. Profit benefits people rather than exploiting them, and it does so by making available new goods that they value and are willing to buy.

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