

ON PROFITS AND PROGRESS

All progress springs from the pursuit of profit. This may seem grossly untrue to that breed of social idealist who automatically equates the word "profit" with greed, selfishness, or evil. But where would men be without profit? How would men sustain themselves? After all, what is profit? It is merely gain, or reward, for expended energy--gain measurably larger than the energy which was necessary to obtain it. When a man puts a few seeds in the ground, cultivates it, and is rewarded with several bushels of potatoes, that is profit--profit which is an intrinsic part of nature and makes life possible. When a primitive hunter expends energy hunting and comes back with a week's supply of meat for his family, that is profit. When a man puts money--which is a storage for expended energy--in the bank and gets a dividend, that is profit.

If a man invents a product, hires people to help him produce it, and then sells it to consumers above the total cost of its production, the difference between that total cost of production and the price to the consumer is the profit. That difference is what makes all that expenditure of energy worthwhile. If nothing is to be gained, if no profit is to be realized, then why work--why expend the energy--at all? Without the possibility of profit, the producer would not have gathered the laborers to make the product, and the customers would not have had the product offered them.

In other words, the desire for profit, which is in essence the desire to survive, if even only on a primitive level, is the very wellspring of all civilization, of all human attainment, of all progress. It is the very meaning of human sustenance.

In a free market, the size of the possible obtainable profit depends on the producer's ability to increase the difference between the total cost of creating and selling the product and its price to the buyer. It would be senseless, even immoral, for a producer to sell his product for less than he could get for it, just as it would be senseless for a man to take a lower salary than he was offered. Manufacturers lower their prices in order to increase the volume of sales and thereby increase profits, not decrease them.

Much is said by the "idealists" about companies and owners who make enormous profits. This is supposed to be a terrible thing, for such profits are supposedly obtained at the expense of the consumer, who theoretically should have had to pay two cents less for whatever it was he bought, or at the expense of the workers who should have been paid more for their work. But had the manufacturer sustained a loss, would that same idealist then insist that the consumer pay two cents more for the product, or that the laborers receive lower salaries? No. One would simply chalk it up to bad management. Thus, in some people's peculiarly conditioned minds, bad management is responsible for business losses, but evil management is responsible for business profits. This frame of mind has spurred some idealists to suggest that the government impose a ceiling on corporation profits. They make no suggestion, however, that the government impose a ceiling on corporate losses. Thus, investors, producers and owners would be expected to take all of the risks of investment

but only a specified percentage of the reward.

American workingmen are generally not too harsh on corporate profits. They seem to understand that they too are working for a profit in the form of a salary. They too want to come out ahead. And if they have some intelligence, they usually understand the problems and headaches of management, which they have no desire to share.

Essentially, a laborer is a man selling a service. If he has nothing more to offer than his time and two hands, he will have a lot of competitors. Thus, the price he can charge for his services depends on the conditions of the labor market. It was natural, therefore, for laborers to form unions in order to increase their bargaining power with management. After all, management's natural propensity is to keep the costs of production, which include the cost of labor, as low as possible. A company cannot compete in the marketplace if its production costs are higher than those of its competitors. Unionization, however, forced a general increase in the cost of labor. This, of course, increased the final costs of production, but it also increased the purchasing power of a large number of people, thus expanding the market. In the meantime, management had to find other means -- primarily technological -- to reduce the total costs of the product.

And so, everyone -- labor and management -- is still coming out ahead. But the driving incentive is always profit -- higher profits for the laborer in terms of higher salaries and increased fringe benefits, higher profits for the manufacturer as a result of reducing costs and increasing volume. And the primary beneficiary of all of this is the American consumer, who includes managers and laborers as well as everyone else, and who now has more products to choose from than ever before in history.

Many Americans take for granted the continued technological progress of our system, the wealth of innovations generated by our industry, and the steady increase in our standard of living, which is a result of all of this. There are few who understand, however, that each innovation, each new style, each technological advance was justified in terms of increasing a corporation's power to make a profit. In fact, in that profit will be found the only justification for an investment to create something new, to make progress.

This becomes particularly evident if we look at two interesting phenomena of our system: the spectacular growth of consumer advertising and the rise and current growth of trade advertising. We all know that the purpose of consumer advertising is to increase the sales of consumer products, to introduce new products, create new markets, and thereby increase profits. But few people outside of industry understand the significance of trade advertising as a new and potent factor in helping corporations increase profits.

There are many corporations whose customers are, in the main, other corporations. Their products are not generally known to the public, yet these are products which corporations require in order to produce the products consumers are familiar with. In the past most of these industrial products were sold through catalogs or personal calls by salesmen. Today, through trade advertising, industry is applying the very same marketing techniques developed to push consumer products for now pushing industrial products. The result has been fantastic, and most of it has taken place only within the last twenty-five years.

During this period we have witnessed a veritable mushrooming of trade publications -- that is, publications and magazines not for the general reading

public, but for readers in various sectors of industry. Most of these magazines are not even available on well-stocked newsstands. Their circulations, in many instances, are restricted to special industrial or trade audiences who are not even required to subscribe in order to get the magazine each month. All a reader has to do, in this case, is be in a position in a particular industry to buy or recommend to management the products advertised in the magazine's pages. The magazine, of course, is a profit-making organization in itself, deriving all of its revenues from the advertisers, and none at all from the readers. The trade magazine offers its advertisers a specialized audience, and its success depends on its ability to reach the largest potential group of buyers of the advertisers' products. It is, in reality, a new sales tool.

There is, of course, editorial copy in these publications, and it is not too difficult to surmise what that editorial copy consists of. Yes, the magazine reports news about the industry it covers, but the largest portion of its copy is devoted to articles telling the reader how he can improve his business and make more profit. Improving his business generally means installing some new equipment or adopting a new technique or a technologically advanced system in the production or handling of his products. Basically, what the magazine actually sells to its readers is a very simple but compelling idea: improvement makes profits.

Everyone involved, the magazine writers and the editors, the advertisers, and the readers are all profit-oriented, profit-focussed, profit-motivated. The entire success of the advertisers depends on their ability to sell improvement -- or progress -- to their customers, and the trade publication aids in this endeavor by emphasizing through its editorial content the need for improving

the means of production and of doing business in order to cut costs and increase profits. Thus, a self-generating cycle is set in motion by the need to make money, which in turn makes improvement, which in turn makes more money.

The trade magazine is too new a phenomenon to be completely understood as an ideological influence in our culture. But trade publications have already done more than any other media to make people in industry aware of the most important equation of the capitalist system: profit equals progress, and progress equals profit.

--- Samuel L. Blumenfeld