
A Defence of Free Enterprise and the Profit Motive

By Eric D. Butler

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An Analysis of Professor Barker's Paper

"The Profit Motive—The 'For' and 'Against'"

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A Paper given by Mr. Eric D. Butler, Campaign Director of the Victorian League of Rights, to the Economics Committee of the Melbourne Junior Chamber of Commerce, Monday, June 30, 1947.



Propaganda of a certain type has been so successful that the mere mention of the term "Profit Motive" conjures up in the minds of many people something evil and anti-social. The term "Profit Motive" has unfortunately become a political swear term. Yet a little dispassionate thought should prove to all reasonable people that the actions of every person in this world are motivated by the desire for a profit of some description. There are only two ways of obtaining human activity in any sphere—inducement and compulsion. Surely no one will deny that all the best work in this world has been done under the stimulus of inducement, even if only the inducement of mental satisfaction. Profit of any description is inducement. Any person in this world who does something without some expectation of reward is a certifiable lunatic. It is interesting to note that those who are loudest and most violent in their denunciation of the "Profit Motive", are usually power-lusters who camouflage their desire to control their fellows by the use of such terms as "the common good". They want enormous profits without providing goods or services of any description. Many sincere people often confuse profit with exploitation. Exploitation can only take place when there is Monopoly, when the people have no genuine alternative to any

policy offered them. But there can be no Monopoly and exploitation when there is decentralisation of economic activities under a system of genuine free enterprise. We will examine this matter later.

Perhaps we can best define profit as the result which accrues to individuals when they make the proper associations. When we plant a seed in fertile soil, and there is sufficient sun and water, the unseen forces of nature operate, and for example, a fruit tree results, a tree from which we can take harvest every year. One grain of wheat produces a hundred grains. The difference between the cost of a man's effort and the ultimate result can be termed profit. Nature apparently doesn't recognise the wickedness of the "Profit Motive"!

When the proper associations are made in our system of production and distribution, a financial profit is made. It is the inducement of this financial profit which motivates the manufacturer to make the goods which he believes that consumers desire. Seizing on some of the abuses of a system of enterprise motivated for the desire for profit—abuses which are always associated with Monopoly—the anti-profit advocates tell us that the "Profit Motive" must be replaced by what they describe as the "Service Motive". Professor Barker subscribes to this view in the following words: ". . . until the 'profit motive' has been transformed into a 'service motive' and the interest in technique and staff welfare rendered dominant in industry, strikes and rumors of strikes will be the order of the day."

Now it is fallacious to say that there is an irreconcilable antagonism between profit and service. Nothing could be further from the truth. It is obvious that no service can be given unless a profit is made. For example, it is only when a farmer has gathered his profit in the form of his grains of wheat or other products that he can give service to the community. The manufacturer must produce goods before he can make a profit.

The best products of our civilization have been the result of the "Profit Motive." It is only under a system of profit inducement, profits obtained from services rendered, that that wonderful thing, individual initiative, can expand. As the opportunities to make profits are diminished, principally by the

actions of Governments, so is initiative stifled. This is exactly what is taking place in our community to-day. Anyone with first-hand experience of industry must know how wrong Professor Barker is when he says that "strikes and rumors of strikes" are the result of the "Profit Motive." Most of the recent strikes in this country have been fomented by the Communists, who exploit the grievances of the workers. The main legitimate grievance of the workers is the destruction of their purchasing power by a vicious policy of direct and indirect taxation which is crippling incentive in industry, resulting in shortages and black markets, and which is inflating prices. It is a well-known fact that one of the major causes of the shortage of black coal for Australian industry, is increased taxation on increased production by miners. Mr. Justice Davidson made that very clear in his Report on the Australian coal-mining industry. Perhaps those who condemn the "Profit Motive" will say that the miners should overlook the fact that for every extra ton of coal they hew above a certain figure they are increasingly penalised by increasing direct taxation, that the miners should be motivated by a desire to give service to the community and realise that the extra taxation paid is for that wonderful thing called the "common good." But the miners, like all human beings, are realists; they are only prepared to render increased services for increased individual benefits. No individual will voluntarily participate in any activity unless he believes that he will make some individual gain or profit.

Profit As An Economic Calculator

Financial profit in a system of free enterprise can be termed an economic calculator. To grasp this aspect of profit best, it is essential that we now examine what genuine free enterprise really means. What is free enterprise—or, as some call it, private enterprise—and what are its benefits? Professor Barker says "It must be evident to every capable thinker that the days of unrestricted private enterprise are over."

But is not private enterprise a system of production and distribution controlled by the consumer using his money vote

to indicate what programme of production he desires? How then can we agree that there has ever been "unrestricted private enterprise"? Now surely the major function of any production system is to supply goods and services when, where, and as required by consumers—in, of course, the most efficient manner. Under genuine free enterprise there is economic democracy. Just as the political vote is used, or could and should be used to control our political organisations, so the money vote permits consumers to control their economic organisations. The money system is the most marvellous voting system ever devised. It permits the individual consumer to "vote" for the goods and services he requires, whenever he likes. Under genuine free enterprise, the consumer with his money vote has economic sovereignty. Manufacturers, entrepreneurs and farmers are all servants of the consumer. We must, of course, stress the fact that sovereignty of the money vote can only be maintained where there is genuine free enterprise—where there is genuine competition between economic organisations all seeking to serve the consumers with better goods at the lowest possible cost. The consumer must have the freedom to disfranchise any economic organisation which cannot or will not give him the goods and services he requires. If he cannot get the type of shoes he needs at one store, he must be free to go to another. In other words, the consumer must have a genuine alternative. Where there is no genuine alternative, the consumer is at the mercy of Monopoly. And it is Monopoly of all kinds, Political, Economic and Financial, that is destroying the rights and freedom of the individual to-day.

Under a system of genuine free enterprise, the operators of which are motivated by the necessity to make a financial profit, it is obvious that the amount of profit made is an economic calculator indicating to all producers exactly what is required and in what priority. When the consumer controls the policy of industry—in other words has economic democracy—those operating industry will naturally have to develop the most efficient administration, or, of course, give way to those who can and will. By attacking the "Profit Motive," Free Enter-

prise, and the individual's right to use his money vote as he thinks fit, we attack the very basis of freedom and security for the individual.

It is interesting to note that most of the attacks against what we have termed economic democracy, are made by the manipulation of the political system. Those who oppose free enterprise governed by the profit motive, conveniently select certain abuses by Monopolies and use them to condemn free enterprise and to urge the necessity of more Government control. They are careful not to point out that practically all the abuses they mention are the result of Government policies. To take only one example, the present high taxation policy of the Federal Government, which is, in reality, the policy of the socialist economic advisers of the Government, is, in more ways than one, strengthening Big Business at the expense of medium and smaller sized business. Monopoly is being encouraged by Government policy. We have all noticed the remarkable manner in which many Monopolists all over the world are openly expressing themselves in favor of openly Socialistic legislation. Under Government control—that is, complete Monopoly of the most vicious type—they no doubt visualise themselves with enormous powers and no responsibilities whatever—no shareholders to worry about and the consumers possessing no effective instrument of control.

Another term of abuse used by those who attack the "Profit Motive," is "vested interest." The real meaning of the phrase "vested interest," is stability of tenure, and a little thought should indicate that we all spend most of our lives trying to obtain a vested interest in something. If there is one thing we should have learnt from our British history, it is that the more widespread the distribution of vested interests of every description, the greater the freedom and security of the individual, and the less chance of any group gaining a Monopoly of vested interests. But, of course, we are told that the "Profit Motive" leads inevitably to Monopoly. With consumers controlling industry by the free use of their money votes, the size of industry will be automatically governed by efficiency. In recent years we have been hearing a lot about the alleged efficiency of big economic units as compared with medium and

smaller sized units. This nonsense has been conclusively exposed in America, where exhaustive investigations have been made.

After an investigation of all types of industry in America, the Federal Trade Commission for the Temporary National Economic Committee of the American Senate on "Investigation of Concentration of Economic Power, found, amongst other interesting things, that workers in smaller and medium sized industries had a greater productive rate per worker than had large industries.

But, most significant of all, this American Commission reported on the growth of Monopoly as follows:—"In nearly every case in which monopoly persists, it will be found that artificial factors are involved."

The Political Vote

As it is Government that is being used to destroy economic democracy, it is essential that we briefly examine the function of the political vote. The political vote has very definite limitations. Whereas the money vote is a flexible device which permits the individual consumer to have an "election" about all kinds of detailed matters every five minutes of the day if he so desires, the political vote can obviously only be used to determine general rules and principles under which the individual members of the community should have the greatest freedom to look after their personal affairs. It is absurd nonsense to suggest, as is being suggested by all those people usually referred to as Planners, that the political vote is of the slightest use in controlling the production system. In theory it sounds superficially attractive to say that the Government ownership and control of industry would mean democratic control of industry by the electors through the ballot box. But how can it be seriously suggested that any Government economic planning Board or similar body could decide upon a programme of production which would meet the desires of consumers? Only the millions of individuals expressing their personal desires direct to industry by a money vote can decide what programme of production is really required. The more that Governments

interfere in industry, either directly or indirectly, the more of the individual's money they take by high taxation and spend as they think fit, the more they destroy the real substance of democracy, which is the economic vote. The more powerful and the more centralised Government becomes, the more corrupt are its activities. The great Lord Acton said that all power corrupts and absolute power corrupts absolutely.

Decentralised Power Essential

The British peoples have realised this and have always fought to safeguard the individual's right by decentralising all power as far as possible. It is only in small, local self-governing units that the political vote can be used effectively to insist that the function of government is not to interfere in the detailed every-day affairs of the citizen, but to ensure that general rules governing activities are not destroyed by power-lusting groups. It is when Government becomes highly centralised and corrupt that power-lusting groups of various types can use it to further their own ends. When all power is decentralised in the hands of all individual members of society, there can be little danger of Monopoly. While many realise the value of decentralised political power, how many realise that a system of free enterprise, controlled by the "Profit Motive" and the money votes of consumers, is not only a system that can increase materially our standard of living, but gives the individual freedom from economic domination. Free enterprise controlled by the money votes of the consumers is effective decentralisation of economic power.

We can now summarise as follows what we have been discussing:

(1) In a real democratic society the individual has the power to have his directions carried into effect, to get the results he desires—presuming, of course, that they are practical. Two different types of organisation are required for this: (a) political organisations, controlled by the political vote, and (b) economic organisations, controlled by the money vote.

(2) The political vote can only be effectively used to lay down general rules under which the economic organisations

shall function, to ensure that correct relationships are maintained between individuals and their economic organisations. To clarify this matter a little further by a simple example of what is meant, a Government can lay down a road system, traffic rules and erect sign posts. But it is not its function to tell motorists where and when to travel. Any Government which tried to decide what thousands of individual motorists desired, would inevitably impose tyranny.

(3) A system of free enterprise, motivated by the desire for Profit, and serving consumers who indicate by their money votes what they want, will give the individual the greatest material standard of living and the greatest personal freedom. Where industry is governed by Profit as an economic calculator, industry is organised on the most efficient basis. In the last analysis this results in the great majority of people entering that sphere of economic activity in which they are most genuinely interested.

The Menace of Government Control of Banking

We have now established a background against which we can examine several of the main points made by Professor Barker. His major point appears to be that Finance dominates industry—although it is not clear what this had to do with the "Profit Motive." Most of us will probably agree with Professor Barker that the creation of financial credit by the banking system, and the loaning of this credit to industry, does, to a very considerable extent, permit Finance to dominate Industry. But when Professor Barker says that "it is obvious that Government control of financial operations along modern reasonable lines is inevitable," he is suggesting a most dangerous policy. Government control of financial operations can only result in the complete centralisation of the financial system under the domination of totalitarian planners at Canberra, who would thus be able to plan production by extending or withholding credit as they thought fit. The well-known Socialist, Mr. G. D. H. Cole, aptly summed up the Socialist viewpoint when he said:

"With the banks in our hands, we can take over the other industries at our leisures."

In spite of much nonsense to the contrary, the fundamental nature of money is simply that of a token carrying the agreement to deliver over, on demand, the article to which the token refers. We must realise that the money system is a wonderful distributive system and is functioning correctly when it is distributing to the people what they are physically capable of producing. Bearing in mind that any form of money, coins, paper currency, or financial credit, is nothing more than a claim to wealth, it is interesting to recall that when money was first invented, the claim to wealth was issued by the producer of the wealth. Economic sovereignty resided in the producer of wealth. We can trace the evolution of the money system from this time, though the period when various types of wealth was deposited with the goldsmiths, whose receipts were soon adopted as negotiable bills of exchange, to the present time when practically all our money is created by the banking system in the form of financial credit. The credit system, operated by a very efficient banking system, has made possible our modern intricate system of production and distribution. There are undoubtedly good arguments in favor of modifying the present financial policy, which is not permitting free enterprise to function as it should, but under no circumstances should Government control of the financial system be permitted by a people who appreciate freedom. This is not the place to go into controversial details, but we can lay it down as a fundamental principle that the major function of the financial system is to serve adequately the consumer in order that he may obtain from his production system what is physically possible. But the totalitarian planners visualise the financial system, not as a means to providing the people with decentralised economic power which they can use to further their individual policies, but as an instrument of control which will effectively destroy the sovereignty of the money vote. The most important move to give Government control of financial operations such as Professor Barker advocates, was the banking legislation passed by the Federal Labor Government in 1945. Clause 27 of the Banking Bill is a clear indication of the real intent of this legislation. It states:

"(1) Where the Commonwealth Bank is satisfied that it is necessary or expedient to do so in the public interest, the Commonwealth Bank may determine the policy in relation to banks to be followed by banks and each bank shall follow the policy so determined.

"(2) Without limiting the generality of the last preceding sub-section the Commonwealth Bank may give directions as to the classes of purposes for which advances may or may not be made by banks and each bank shall comply with any direction given."

Instead of a competitive banking system, advancing credit to producers to produce what consumers have indicated by their money votes, we are to have bureaucratic planners at Canberra controlling production by a centralised credit system. Acting in the "public interest," of course, these planners shall decide how the total resources of the community shall be used. Hitler also did this and was thus able to pursue the policy so graphically described by Goering as guns before butter. When production is effectively controlled by totalitarians using the Government as the instrument to impose their policies on the people, even the money left to individuals after heavy taxation has been levied can only be used to buy what the Planners permit to be produced. The main characteristic of money as we now understand it is destroyed; it is little better than a coupon. But Professor Barker appears to be an advocate of the coupon system. He asks: "Why not distribute through the coupon and eliminate finance?" The coupon system is economic centralisation of the most vicious type and places the individual at the mercy of the bureaucracy which must control the coupon system. It only permits the individual to obtain what the Government decides shall be produced. And the individual can only get his coupons if he does as he is told. No doubt Professor Barker has no desire to see such totalitarianism introduced into Australia, but it is sincere and idealistic people such as himself who help advance ideas which favor the totalitarians in our midst. People who desire freedom must resist any attempts to destroy the value of that unique voting system, the money system, a system which permits the individual to decide what free enterprise, governed by the "Profit Motive," shall

produce. A free man is one who can accept or reject any proposition put before him. The money vote, free enterprise, and the "Profit Motive" are the basis of genuine freedom.

Government Powers Must Be Limited

So far from agreeing with Professor Barker's statement that Government control of finance has had to be accepted and that we shall merely ask what line this control shall take, a freedom-loving people should strenuously resist Government control of finance or anything else. Let us never forget Lord Acton's statement about power corrupting; also the famous remark by Lord Bryce, that the tendency of all Governments is to increase their power. A freedom-loving people should restrict the power of Government in every possible way, not increase it. It has been well said that all Governments are necessary evils. Government should merely be an instrument through which individuals can lay down the most effective rules under which the individual motivated by the desire for Profit of some kind can develop his own life in his own way.

The urge for individual Profit has been the mainspring of human progress. We must be realists and accept this fact. The very civilisation we have is a total Profit resulting from the efforts of countless millions in the past. When two individuals first learned that they could do more in association than they could do working as individuals, they created a Profit. The desire to increase and extend Profit has resulted in every invention, every improvement in production and distribution. Probably the most ridiculous statement made to-day, is the assertion that labor produces all wealth. The fact is, of course, that the modern productive system is based upon the application of solar energy to machinery. Human labor is a very small portion of the energy used in modern production. The efficiency of the modern production system is the result of the individual urge for Profit in the past. The knowledge of how to do things has been a continuous process of passing down from one generation to another—we term this the cultural heritage. In the physical sense, we are to-day investing the Profits from the past in the hope and belief that they shall yield us greater Profits

in the future. Rather than stifle the "Profit Motive," our main concern must be to ensure that we have a political, economic and financial system that will permit all individuals to increase their Profits, so long as these Profits are not obtained at the expense of other individuals. Free enterprise, governed by the "Profit Motive," can provide the individual with an increasing material standard of living and an environment in which he has the greatest power of self determination. The time has come when we must no longer be ashamed to say quite proudly that we believe in bigger profits for everyone—that every individual must be permitted to obtain increased Profits from increased efforts and more efficient methods of doing things. This in no way conflicts with the fact that we live in a co-operative Society. Is not all co-operation the desire to provide the individual with increased Profits of some description?

Nothing is more certain than the fact that any Society which restricts the individual's natural desire for Profit, will soon stagnate. There is only one alternative to the "Profit Motive," the stimulation of voluntary individual action by inducement, and that is compulsion. The terrible results of compulsion arising from increasing Government control of the individual's activities, can be seen on all sides to-day.

Professor Barker says that the development of Government activities towards "promoting throughout industry that interest in work well and duly performed" is the only hope for world stability. The individual is the best judge of the work he desires to do, the work which, while providing him with a Profit commensurate with goods and services rendered, also provides him with personal satisfaction. The function of Government is not to interfere in any way with individual policies, but to ensure that the general, political, economic and financial rules within which individuals can pursue their policies without interfering with other individuals, are not upset by Monopoly of any description.

We can conclude by saying that Professor Barker's proposals to eliminate the "Profit Motive" and to give Government control of financial and other policies, would result in complete Monopoly and the destruction of the most valuable vote the individual possesses, the economic vote.



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