

THE PURSUIT OF PROFIT MAXIMISATION

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Abstract—The review paper highlights the impact on socio-economic development parameters under different economic models (Capitalism, Socialism and hybrid models like China). Capitalism leads to greater focus on innovation and a self-perpetrating cycle of growth in income levels, wealth and quality of life, eventually culminating into overall improved country happiness scores as visible in studies. Socialism, on the other hand, leads to inefficient resource allocation and wealth inequality which is against its basic principle. However, the side-effects of capitalism cannot be ignored and thus hybrid development models could provide the desired output. The paper highlights various alternate growth models which are gaining prominence.

I. Introduction

Hope and relentless pursuit of profit maximisation is the bedrock of neo-classical economics which believes that firms chasing profits leads to supply and demand of goods at market equilibrium prices which is the

Figure 1: Profit maximization (MR=MC)

TR (Total revenue) = $P_i * Q_i$, where P_i is unit price of goods sold and Q_i is quantity of goods sold by a firm

TC (Total Costs) = $C_i * Q_i$, where C_i is unit cost of goods sold and Q_i is quantity of goods sold by a firm

Π (Profit) = $TR - TC = P_i Q_i - C_i Q_i$

Differentiating profit function with respect to quantity (Q_i) will give point of maximum profit,

$\Pi_{\max} = d(P_i Q_i - C_i Q_i)/d(Q_i) = 0, \Pi_{\max} - P_i - C_i = 0, P_i = C_i$

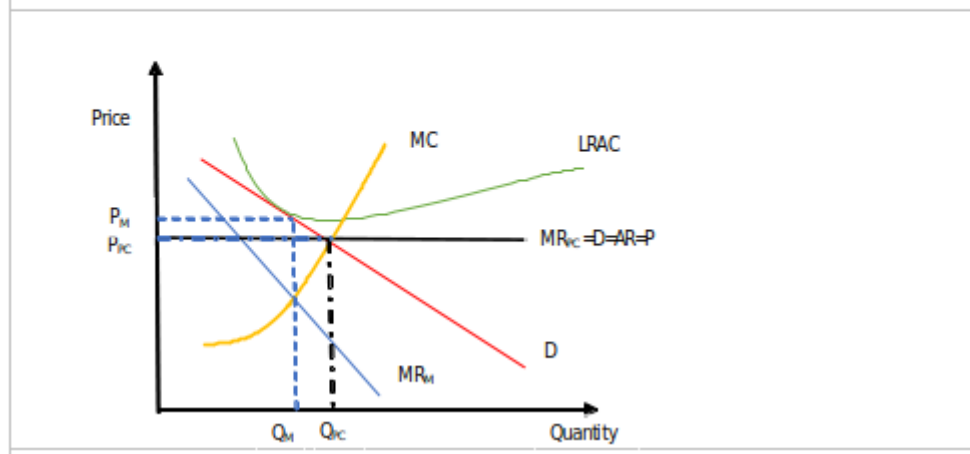
most efficient outcome for individuals, firms, and overall society. It relies on the concept of marginal revenue and the cost of producing a good and the point of maximum profit occurs at a quantity when marginal revenue equals marginal cost (Fig 1).

Thus, an enterprise will keep producing more till incremental revenue is higher than the incremental cost. A profit-seeking firm will always strive to maximise profit through either (or a combination of) a) higher price b) lower cost and c) higher quantity.

II. Analysis

The pursuit of profit works as an incentive for more entrepreneurs to come and results in a perfectly competitive market in economic parlance (one in which many small firms operate, and everybody is a price taker). As opposed to this, if charities or governments were operating in an industry without any profit incentive, it could lead to a monopolistic situation given the lack of incentive and participation from entrepreneurs. In a monopolistic system, fewer goods at higher prices will be produced leading to shortages (Fig 2).

Figure 2: As shown in the graph below, the equilibrium quantity supplied (Q_M) will always be lower while the price (P_M) will be higher in a monopolistic market vs a perfectly competitive market (Q_{PC} and P_{PC})



This profit-seeking ideology gave way to the rapid adoption and growth of capitalism in the 20th century with the USA and Western Europe leading by example. Many of the erstwhile socialist countries such as Hungary¹, Poland, USSR adopted capitalism (in varying degrees) by the end of the 20th century given the challenges they faced in terms of economic growth, shortages and overall standards of living². Capitalism believes in survival of the fittest and advocates the virtuous cycle of innovation by entrepreneurs to meet consumer needs and wants, perfect competition offering better prices and variety for consumers, entrepreneurs creating jobs and working class, which in turn feeds further demand, production and consequently higher economic growth and standards of living. Individual freedom and property rights are

¹ Kalleberg, Arne L., and David Stark. "Career strategies in capitalism and socialism: Work values and job rewards in the United States and Hungary." *Social Forces* 72.1 (1993): 181-198. <https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=276332266e41fc69b268ff799ed68b68b9044a36>

² Stanek, Łukasz. "Socialist worldmaking: The political economy of urban comparison in the Global Cold War." *Urban Studies* 59.8 (2022): 1575-1596. <https://journals.sagepub.com/doi/pdf/10.1177/00420980211050178>

also key features of an open market economy where government ownership and intervention are minimal to creating enablers such as strong regulatory, property rights and judicial frameworks for longer-term sustainable growth³. Wealth creation is a key attribute of a capitalistic society which is evident in the world's best-performing equity markets over the last century South Africa, Australia, the US, New Zealand, Sweden, and Canada which are all examples of capitalist or mixed economies⁴.

However, capitalism or profit motive comes with its perils and shortcomings. Chasing higher prices and quantity means an ever-increasing pressure and race to "grow" which leads to the exploitation of resources such as land, capital, and labour. The insatiable penchant to expand is causing interconnected environmental crises; a rapid decline in forest cover, degradation of water resources and soils, widespread pollution, increasing consumption of fossil fuels, and a climate emergency marked by escalating Earth's Energy Imbalance⁵. Stubborn unemployment is a built-in feature of capitalism given the owner's sole focus on driving efficiency using machinery and chasing automation⁶. Exploitation of labour, inequality of wealth and poverty creation are the common side-effects of capitalism⁷. Within the construct of efficient markets in capitalism, market failures⁸ are quite common in the form of information asymmetry, negative externalities, neglect or under-provisioning of public goods and abuse of market power. Capitalism is also believed to create greater volatility leading to economic cycles and instability, often leading to booms and busts⁹. With

³ Rubin, Paul H., and Tilman Klumpp. "Property rights and capitalism." *The Oxford Handbook of Capitalism* (2012): 204-19. <https://sites.ualberta.ca/~klumpp/docs/PropertyRightsFinal.pdf>

⁴ Dimson, Elroy, Paul Marsh, and Mike Staunton. "Credit Suisse global investment returns yearbook 2023 summary edition." *Credit Suisse Research Institute* (2023). https://ub-sachdokpdf.ub.unibas.ch/9963586200105504/9963586200105504_D2023_Yearbook%202023.pdf

⁵ Marques, Luiz. *Capitalism and environmental collapse*. Springer International Publishing, 2020. https://books.google.co.in/books?hl=en&lr=&id=jSn4DwAAQBAJ&oi=fnd&pg=PR5&ots=G5ZqsOeqP_&sig=4ZU44Y0kL3CV3p630LqluDzKb9E&redir_esc=y#v=onepage&q&f=false

⁶ Gatzia, Dimitria Electra. "The problem of unemployment." *Economics, Management, and Financial Markets* 7.2 (2012): 36-54. <https://philpapers.org/archive/GATTPO-4>

⁷ Harriss-White, Barbara. "Poverty and capitalism." *Economic and Political Weekly* (2006): 1241-1246. <https://mobile.rrojasdatabank.info/povertyandcapitalism2006.pdf>

⁸ Stiglitz, Joseph E. "Markets, market failures, and development." *The American economic review* 79.2 (1989): 197-203. <https://academiccommons.columbia.edu/doi/10.7916/D8057RVQ/download>

⁹ Altvater, Elmar. "Postneoliberalism or postcapitalism? The failure of neoliberalism in the financial market crisis." *Development Dialogue* 51.1 (2009): 73-88. https://www.researchgate.net/profile/Patrick-Bond/publication/253121808_Realistic_postneoliberalism_-_A_view_from_South_Africa/links/561002fd08ae0fc513ef5666/Realistic-postneoliberalism-A-view-from-South-Africa.pdf?origin=journalDetail&_tp=eyJwYWdlIjoiam91cm5hbERldGFpbCJ9#page=75

firms' sole target of maximising shareholders' wealth being acceptable (*Henry Ford vs Dodge case, Michigan 1919*), other stakeholders tend to get neglected¹⁰.

At the other end of the spectrum, if all enterprises were owned by charities or governments, akin to the concept of socialism, it should ideally lead to more emphasis on social welfare with equal access and privileges for essential goods and services (such as education, and healthcare). Social welfare schemes should lead to lower absolute and relative poverty¹¹. Health indicators (life expectancy, infant mortality) which are a measure of the development of a country have shown strong results under socialist regimes (e.g., Sweden, Norway, and Denmark between 1950-1980, Cuba post 1958 revolution and China)¹². Gender equality and women's advancement have been observed as welcome outcomes of this system as the government could direct greater women's participation in workforce¹³. Central command of the government could potentially lead to the laying down of a clear strategic roadmap and execution of the same over the long-term bringing growth and stability, as has been evident in the case of China as a successful example. "Chinism" is being touted as a viable alternative to the extremes of capitalism and socialism¹⁴. The argument that government enterprises are less efficient due to principal-agent problems or free-rider problems also applies to large private sector companies with dispersed ownership. There are enough examples of successful and well-run state-owned enterprises (SOEs) such as Singapore Airlines, South Korea's POSCO, Brazil's Embraer, Chinese banks, and Saudi Aramco. These serve as examples that if managed well through the right frameworks, SOEs can play a key role given their long-term focus and

¹⁰ Strine Jr, Leo E. "Our continuing struggle with the idea that for-profit corporations seek profit." *Wake Forest L. Rev.* 47 (2012): 135. https://wakeforestlawreview.com/wp-content/uploads/2014/10/Strine_LawReview_4.12.pdf

¹¹ Kenworthy, Lane. "Do social-welfare policies reduce poverty? A cross-national assessment." *Social Forces* 77.3 (1999): 1119-1139. <https://www.econstor.eu/bitstream/10419/160860/1/lis-wps-188.pdf>

¹² Navarro, Vicente. "Has socialism failed? An analysis of health indicators under capitalism and socialism." *Science & Society* (1993): 6-30. <https://static1.squarespace.com/static/5a372ca9f9a61ed6e86178a7/t/5d962d3528839219285b1072/1570123082688/Has+Socialism+Failed%3F++An+Analysis+of+Health+Indicators++Under+Capitalism+and+Socialism.pdf>

¹³ Ghodsee, Kristen, and Julia Mead. "What has socialism ever done for women." *Catalyst* 2.2 (2018): 101-133. https://scholar.harvard.edu/files/kristenghodsee/files/ghodsee_mead_2018.pdf

¹⁴ Kolodko, Grzegorz W. "Socialism, capitalism, or Chinism?" *Communist and Post-Communist Studies* 51.4 (2018): 285-298. https://tiger.edu.pl/CPCS_2018.pdf

target of broader societal benefit leading to the development of a nation as visible in the case of Singapore and Taiwan¹⁵.

While the above merits are noteworthy, socialism does bring in its own set of negatives. Income and wealth inequality should theoretically be much lower in this setup; however, studies have revealed this to not be the case given the concentration of power¹⁶. Perennial and systemic shortage of goods due to misallocation of resources has been a much talked about subject in socialist countries leading to coinage of the term, “Shortageflation,” causing price instability¹⁷. Centralised control and government ownership often lead to bureaucracy, red tape, and over-regulation which slows down the pace of economic activity. Work alienation (lack of involvement or fulfilment in a job), size of organization and public set-up are the key contributors to red-tapism¹⁸. Lack of innovation and entrepreneurship given no incentive structure for an individual will imply lower choices for workers and potential for stagnation given the absence of dynamism of a free market. A vibrant start-up ecosystem has been proven to be a self-perpetuating growth engine for any economy¹⁹.

Analysis in Fig 3 below shows that faster rising per capita GDP in capitalist countries coupled with a stable Gini coefficient indicates a better outcome for the majority²⁰.

¹⁵ Chang, Ha-Joon. "STATE-OWNED ENTERPRISE REFORM." <https://core.ac.uk/download/pdf/7189081.pdf>

¹⁶ Henderson, David R., Robert M. McNab, and Tamás Rózsás. "The hidden inequality in socialism." *The independent review* 9.3 (2005): 389-412. <https://calhoun.nps.edu/server/api/core/bitstreams/67f5e76c-c72c-4746-a8cc-7b6a74256037/content>

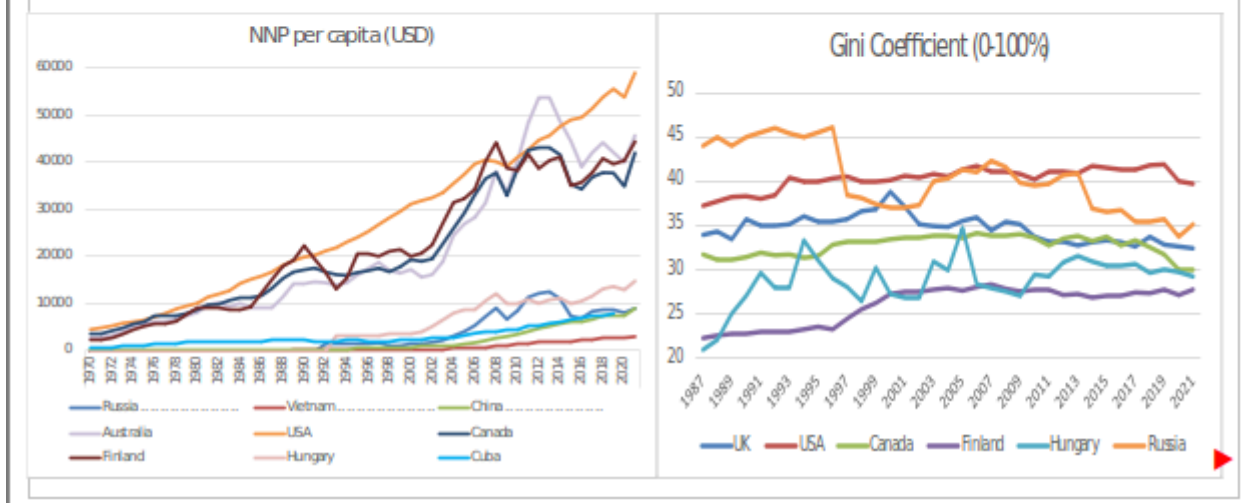
¹⁷ Kolodko, Grzegorz W., and Walter W. McMahon. "Stagflation and shortageflation: a comparative approach." *Kyklos* 40.2 (1987): 176-197. https://www.tiger.edu.pl/kolodko/artykuly/Stagflation_and_Shortageflation.pdf

¹⁸ Pandey, Sanjay K., and Gordon A. Kingsley. "Examining red tape in public and private organizations: Alternative explanations from a social psychological model." *Journal of Public Administration Research and Theory* 10.4 (2000): 779-800. <https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=7e8c6026859aea766d98d060f2292e273b52ae04>

¹⁹ Fritsch, Michael, and Pamela Mueller. "Effects of new business formation on regional development over time." *Regional Studies* 38.8 (2004): 961-975. <https://www.econstor.eu/bitstream/10419/48387/1/385036485.pdf>

²⁰ "World Development Indicators | DataBank." databank.worldbank.org. <https://databank.worldbank.org/Human-development-index/id/363d401b>.

Figure 3: In graphs below, a comparison of countries using per-capita income as a measure of economic progress of the society reveals that capitalist countries have fared better over the long term with the USA, Australia, and Canada being prime examples. China and Vietnam have done well among the economies with a more socialist bent. Hungary and Russia have improved post-transition from socialism to capitalism. A comparison of the Gini coefficient (a measure of dispersion to represent the income or wealth distribution of a country, with a value of 0 indicating perfect equality and 100 perfect inequality) does not seem to indicate a very significant difference between capitalist and socialist countries, except the US, which is a pure capitalist and thus moderately higher inequality.



Improvement in the Human Development Index (HDI) is a more holistic measure of the progress of a society than income alone. Studies of transition economies (economies that shifted away from socialism to capitalism during the 1990s) proved that while market reforms had positive impacts on HDI, institutional reforms, policy matters and policy packages are equally important²¹.

Life satisfaction and happiness must be key criteria when looking at a preference for one ownership system over another. A study hypothesizes that economic prosperity, equal social structures, a well-established welfare state, and political democracy are beneficial for life satisfaction and happiness²². As per global happiness studies, GDP per capita, social support and life expectancy are strong predictors of happiness,

²¹ Carvalho, Antonio, Rabindra Nepal, and Tooraj Jamasb. "Economic reforms and human development: evidence from transition economies." *Applied Economics* 48.14 (2016): 1330-1347. <https://ris.cdu.edu.au/ws/portalfiles/portal/26088114/5352875.pdf>

²² Haller, Max, and Markus Hadler. "How social relations and structures can produce happiness and unhappiness: An international comparative analysis." *Social indicators research* 75 (2006): 169-216. https://www.ssoar.info/ssoar/bitstream/handle/document/23523/ssoar-socialindiresearch-2006-2-haller_et_al-how_social_relations_and_structures.pdf?sequence=1

whereas freedom to make life choices, generosity and perception of corruption are also useful predictors²³. Most socialist countries rank low in the happiness studies while mixed economies (a capitalist mindset coupled with strong social support and freedom of choice ensured by the government) seem to be the utopian solution.

Given the shortcomings in the two extreme models of firms (profit-maximising private enterprise vs government-run welfare enterprise), multiple hybrid alternate economic models have been gaining popularity and prominence. Not-for-profit charities, For-profit charities, Benefit Corporations, Cooperativism, Social Entrepreneurship, Corporate Citizenship, Open Innovation Economic System, and Chinism are few of the solutions that try to blend in the positives of both while minimising the side effects. Not-for-profit charities try to fill in the gaps often created, but neglected by private corporations, and aim to improve social well-being for the less privileged. The Filer Commission coined the term "nonprofit sector" to describe a coherent "third" or "independent" sector vital to democracy²⁴. Given the tax benefit status only to the nonprofit sector and potential misuse of that, a concept of for-profit charities with better governance also seems an innovative idea with Google leading by example²⁵. Benefit corporations (hybrid organizational forms that aim to achieve both profits and social good) are a recent innovation in several US states²⁶. Cooperatives have been running successfully for over a century in various parts of the world which offer a real solution of growth along with distribution of profits among wider society at large²⁷. US agricultural cooperatives, Mondragon Spain, Emilian model Italy, Dutch and Indian dairy cooperatives are

²³ Brandy, Susan. "Mapping Global Joy: Descriptive Analytics of Subjective Well-Being from the World Happiness Report." *International Journal of Information Technology and Computer Science Applications* 2.1 (2024): 32-46. <https://pdfs.semanticscholar.org/e365/61a709e3abbade2c742d5d45817979e94600.pdf>

²⁴ Hall, Peter Dobkin. "A historical overview of philanthropy, voluntary associations, and nonprofit organizations in the United States, 1600-2000." *The nonprofit sector: A research handbook* 2 (2006): 32-65. https://www.nonprofitjourney.org/uploads/8/4/4/9/8449980/us_voluntary_associations_1600_to_2000_p._hall.pdf

²⁵ Malani, Anup, and Eric A. Posner. "The case for for-profit charities." *Virginia Law Review* (2007): 2017-2067. https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=1598&context=journal_articles

²⁶ Reiser, Dana Brakman. "Benefit corporations-a sustainable form of organization." *Wake Forest L. Rev.* 46 (2011): 591. <https://brooklynworks.brooklaw.edu/cgi/viewcontent.cgi?article=1071&context=faculty>

²⁷ Iliopoulos, Constantine, and Vladislav Valentinov. "Cooperative longevity: Why are so many cooperatives so successful?" *Sustainability* 10.10 (2018): 3449. <https://www.mdpi.com/2071-1050/10/10/3449>

the notable successful ones²⁸. Social entrepreneurship rests on three main pillars- prosocial motivation, innovation and profit-making, with studies showing that these attributes can co-exist and offer a more holistic form of entrepreneurship²⁹. Given the single-minded pursuit of profits has led to adverse socio-political and environmental consequences, a rethink of the corporate mandate is being debated. Concepts like corporate social responsibility (CSR), corporate citizenship, and corporate governance have become common, reflecting a growing understanding of the interconnectedness between companies and society³⁰.

Given the growth limits of capitalism which is showing up in stagnation of growth in many developed countries, a solution is being offered in the form of a dynamic model called the Open Innovation Economy System (OIES) which is a mix of three sub-systems; Open innovation economy (start-ups and small medium enterprises), Closed innovation economy (large enterprises) and social innovation economy (e.g. Airbnb, Uber, open-source communities and zero marginal cost society)³¹. For an economy to keep growing, it needs to keep moving from one system to another in a natural lifecycle and reallocating resources while all systems have a role to play.

The Chinese model of growth has also been acclaimed as a successful solution with proper synergy between market and state³². It notes significant growth of China's private sector, which by 1998 generated over two-thirds of GDP and 80% of jobs. However, the state-owned enterprise (SOE) sector retains substantial importance, with assets exceeding USD 23.1 trillion and significant R&D investment, indicating a deliberate policy to maintain state control for strategic goals.

²⁸ Franke, Richard W., and Barbara H. Chasin. "Cooperatives and Capitalism: Selected International Comparisons." *International Conference on Cooperatives in Transition in the Era of Globalization, Kozhikode*. 2013. <https://msuweb.montclair.edu/~franker/KeralaPapers/FrankeChasinulccsPAPER06August2013.pdf>

²⁹ Douglas, Evan, and Catherine Prentice. "Innovation and profit motivations for social entrepreneurship: A fuzzy-set analysis." *Journal of business research* 99 (2019): 69-79. <https://research-repository.griffith.edu.au/server/api/core/bitstreams/5155ea7d-5522-4c08-aa3e-7c54c051835f/content>

³⁰ Brueckner, Martin. "Profit maximization." *Encyclopedia of corporate social responsibility* 2 (2013). https://researchportal.murdoch.edu.au/esploro/outputs/bookChapter/Profit-maximization/991005542605807891?institution=61MUN_INST

³¹ Yun, JinHyo Joseph. "How do we conquer the growth limits of capitalism? Schumpeterian Dynamics of Open Innovation." *Journal of Open Innovation: Technology, Market, and Complexity* 1.2 (2015): 1-20. <https://core.ac.uk/download/pdf/81713204.pdf>

³² Kolodko, Grzegorz W. "Chinism and the Future of the World." *Communist and Post-Communist Studies* 53.4 (2020): 260-279. https://tiger.edu.pl/Kolodko_CPCS_2020_4.pdf

III. Conclusion

Overall, profit-seeking is more desirable as it fosters dynamism and pushes individuals to strive harder, which gives them a sense of fulfillment. The pace of inventions and innovations has kept rising in a more complex, efficient, and steerable capitalist system through shared knowledge and collaboration despite being driven by pluralism and rivalry³³. However, it's equally important to have a strong, transparent and resolute government framework that a) ensures fair and equal opportunities are provided to all b) mitigate the impact of societal harm being done in the growth process (environment degradation, poverty creation, exploitation of labour) through effective regulation c) prioritise the balance between economic growth and broader societal enrichment as different countries might require a varying degree of focus on the two given the stage of evolution.

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³³ Nelson, Richard R. "Capitalism as an engine of progress." *Research policy* 19.3 (1990): 193-214. <https://www.sciencedirect.com/science/article/pii/0048733390900366>

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