Are Corporate Profits Synonymous with Greed?

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There has been a rash of newspaper articles highlighting the threats that large corporations are under from government concerns that certain companies are too big and thus too powerful. Such claims have been levied against Amazon, Google and Facebook. Attacks are not only coming from our federal and state governments, but they are also being launched by foreign governments. The threats are real and take the form of millions, if not billions in fines and taxes as well as formal hearings to attempt to break up these companies. As consumers, we probably have benefited from the services these companies provide in a variety of ways but apparently size matters more than contributions to society, the economy and our standards of living. The charge that these companies don't pay their fair share of taxes has also been levied but proof that they are not flaunting the tax laws is non-existent.

In today's Wall Street Journal, Andy Kessler, a successful business entrepreneur, takes the side of business and capitalism in the debate over the importance of corporate profitability. Obviously, we take his side as we invest in businesses where profits are expected to grow and ultimately benefit shareholders. "Capitalism and competition create wealth; other systems slop existing wealth around" according to Andy. He goes on to say: "No, profits aren't greedy. They are a critical price signal—a measure of how well a company is deploying capital and creating value for society." Without a profit motive, how hard would people work to achieve a better life if there were no rewards through increasing wealth? Somehow this idea of stakeholder capitalism is trying to push aside the shareholder capitalism idea where just about everybody out there should benefit from the decisions that corporate executives make when running their companies.

Mr. Kessler refers to the work of William Nordhaus, a Nobel Prize winning economist. In a paper he wrote for the National Review of Economic Research in 2006, he determined that innovators were able to capture just 4% of the value they create, and all of society enjoys the rest. The difference — 96% of the value that innovators create — becomes a "social surplus." In other words, these are improvements that capitalism brings to common living standards. Yes, the entrepreneurs generate wealth for themselves—the billionaires like Jeff Bezos, Mark Zuckerberg and Elon Musk. Yet their successes have created multiple times that wealth that is shared by society repeatedly.

When governments step in to break up companies because they are too big or are making too much money, their actions will lead to the destruction of wealth and reduced standards of living for all. By successfully slowing entrepreneurs and their willingness to take chances, humanity loses the opportunity that innovators can bring to a free society. Finally, governments that throttle innovators by taxing them to the point where they are forced to leave states where they could create a better standard of living for everyone miss out on the benefits that come with capitalism.

Kessler summarizes capitalism accurately when he states, "Capitalism works by creating wealth. Equality comes best through the creation of ever cheaper goods and services, not handouts. The supercomputer in your pocket, same day delivery, heart stents, even perfect Costa Rican bananas in your ShopRite were all generated by reinvesting profits. Other "isms" typically fail because they eventually fritter away the wealth that capitalism had furiously created."

America did not invent capitalism but when you combine incentives and a free society as we have been able to do, the sky is the limit for all of us!

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