Profits Of Doom

You've been duped.

Couldn't find it in Wikipedia. Or any textbooks I've seen. Or media articles. You sure won't read about it in the *Financial Times* or the *Wall Street Journal*. Or hear about it at the hairdressers. Doubt it's on Facebook. It's not even a subject for graffiti.

Very few people, mostly economists, seem to be aware of it, but even they can't agree whether it's true.[1] Marx knew about it. And Keynes. And both thought they'd resolved it. Others aren't convinced they did. Some accept it, some think it can't be true and have worked out justifications for their disbelief, but I think they've missed the obvious: it *is* true, but its ramifications are too shocking and too demanding of change to make it easy to accept.

It's called the profit paradox: money distributed during production of goods – the payments made to do the producing – sums to less than the money required to buy those goods, because prices include a profit margin, an amount over and above the cost of producing the goods.[2]

So how then do producers profit?

Marx thought profits followed because of what he called *surplus product*. Keynes thought an even less obvious concept he called *user cost* did it. Explanations by both have been criticised as inadequate.

Other economists,[3] particularly 'Circuitists', conclude differently: they claim that the profits of all companies taken together will be balanced by the losses of others, meaning zero net aggregate profits. A zero-sum game.[4] Some Circuitists aren't sure about this though. It's what their equations tell them, but some can't believe it and therefore think their equations must be wrong.

Steve Keen, the Australian economist who warned about a credit-driven financial collapse years before the Great Recession, thinks Circuitists misunderstand stocks and flows, and that his model, full of differential equations representing monetary flows, shows how net profits can be positive. But I think he defines profit in an invalid way – as a proportion of net costs rather than of sales – which makes his model unrealistic and conclusions drawn from it unreliable.

On the other hand, Charlotte Bruun, a Danish economist, believes a zero-sum game can't be avoided if only monetary flows are considered. However, because she thinks producers wouldn't be motivated to pursue profits in a zero-sum game, she concludes that rising stock valuations must create positive net profits.

For me, though, it seems obvious that the profit paradox is no paradox at all. The Circuitists have it right – Keen's invalid equations don't prove them wrong, nor do Bruun's speculations. It really is a zero-sum game – in total. But producers are still motivated even so. They aren't academics fussing over arcane equations – most wouldn't have the foggiest idea about zero-sum games. They simply see *some* companies making profits, and compete to be one of them.

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[1] This is made clear by two papers, from which much of what follows is derived: Steve Keen, *Keynes's 'revolving fund of finance' and transactions in the Circuit* (http://www.debunkingeconomics.com/Papers/Money/KeenKeynesCircuit60YearAnniversary.pdf) & Charlotte Bruun and Carsten Heyn-Johnsen (2009). *The Paradox of Monetary Profits: An Obstacle to Understanding Financial and Economic Crisis?* Economics Discussion Papers, No 2009-52. (http://www.economics-ejournal.org/economics/discussionpapers/2009-52)

[2] Interest, by which lenders profit, works similarly. As Michael Rowbotham puts it: because of interest, "prices are being set which are higher, in total, than the wages and salaries being distributed for the purchase of those goods. … goods and services cannot be bought with the money being distributed for their purchase!" – Michael Rowbotham, *The Grip of Death: A study of modern money, debt slavery and destructive economics* (Jon Carpenter, Charlbury, 1998), p.39.

[3] See, for example, Gunnar Tomasson & Dirk J. Bezemer, "What is the Source of Profit and Interest? A Classical Conundrum Reconsidered" (University Library of Munich MPRA Paper #20320, 2010, available at http://ideas.repec.org/p/pra/mprapa/20320.html).

[4] Interest, like profit, also results in a zero-sum game. Bernard Lietaer explains it thus: "when you pay back interest on your loan, you are using up someone else's principal. … increased interest results automatically in a proportional number of increased bankruptcies in the near future." – Bernard Lietaer, *The Future of Money: A new way to create wealth, work, and a wiser world* (Century, London, 2001), p.52.

So we have a zero–sum game in *total*, but full of *individual* profits and *individual* losses balancing to zero overall. Winners *and* losers.[5]

You can't borrow your way out of this zero-sum game either, because loans have their own in-built profit margin – interest – which only augments the role played by profit. As economists Gunnar Tomasson and Dirk J. Bezemer put it: "profit earned by one capitalist *must* be at the expense of someone else—be it worker, other capitalist, or banker."[6] Rising consumer debt can postpone some losses and the inevitable day of reckoning – until it inevitably stops rising – but even so it does not change the zero-sum game.[7]

Yet if it's always winners *and* losers, then it *isn't* efficient. Every player could be equally efficient but, as long as profits are included in prices, some would *have* to lose the zero-sum game.

As I said, you've been duped. The ideal that anyone with an idea and perseverance can prosper sounds enticing, but does not accord with economic reality, which more resembles a lottery. You can do everything right but someone else might do it with more luck and you will fail simply because not all can win.

Furthermore, if some *have* to lose, then there can be no stability. Profit-driven growth incorporates loser-driven unemployment, bankruptcy and reduced spending – anti-growth. Hence, the business cycle: growth and anti-growth combined, inherently unstable, a constantly tweaked tightrope-walk teetering between crest and trough, roiling along, out of control.

We can do better than this. We can devise a system capable of stability, without guaranteed loss for some. Such a system can have no interest or profit. Turns out it *can* have a one-day working week. The affording of anything deemed appropriate. No more financial hardship, unemployment, job insecurity, mortgages, rent, corporate tyranny. Saving of work without fear of losing income. Competition subservient to cooperation. Local stewardship, environmental care, international security, unfettered aid, truly sustainable development, political self-determination, change… You know you want it.

Herman Royce is God Almighty's biographer and self-appointed spokesperson, inventor of A Free Lunch, and the first person in history to say "Now I've seen you naked, I could never eat turkey."

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[5] This seems consistent with http://www.businessweek.com/smallbiz/news/coladvice/ask/sa990930.htm, which though a decade old, mentions a study based on US Census Bureau data indicating that "over the lifetime of a business, 39% are profitable, 30% break even, and 30% lose money, with 1% falling in the 'unable to determine' category". Similarly, a simple web search found many varying statistics indicating that somewhere between 30% and 70% of all businesses close within five years, 10% to 70% of those closing because they were not making a profit.

[6] Tomasson & Bezemer, "What is the Source of Profit and Interest?", p.11

[7] Tomasson & Bezemer not only agree with my zero-sum game conclusion about profit, they also identify the reliance of net aggregate profits (and growth) on mounting consumer debt. But whereas they treat its "enormous risks" as something "[w]e must learn how to live with", I consider the risks not only too great but the entire strategy as misplaced and sure to fail sooner or later.