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What Kinds of Behaviour are Engendered by The Hope of Profit? Is Such Behaviour Better or Worse, on Balance, than The Behaviour We Should Expect If All Enterprises were Owned by Charities or Governments?

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ABSTRACT

This paper explores whether profit-driven enterprises are vital for economic efficiency and innovation or if charity and government organizations could suffice. It argues that profit motivation is essential for innovation and growth, but a solely profit-maximizing system, lacking regulatory oversight, can incur significant social costs. Using classical economic theory, particularly Adam Smith's "invisible hand" and Friedrich Hayek's price mechanism, the study shows how profit-seeking behavior achieves allocative efficiency and optimal resource allocation. Contemporary examples, like Netflix and Apple, highlight how profit incentives enhance innovation and productivity, in contrast to government-run enterprises, such as NASA's Space Launch System, which demonstrate performance limitations compared to SpaceX. The research notes the weaknesses of charity and government organizations, including bureaucratic inefficiencies and lack of market discipline. However, it acknowledges market failures that necessitate government intervention. Ultimately, the study advocates for a balanced approach combining private enterprise, government regulation, and nonprofit organizations, promoting both economic prosperity and social welfare. It concludes that a complementary relationship between these sectors is more effective than pure market capitalism or complete government control.

1. Introduction

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If charities or governments owned all enterprises, would firms still retain the incentive to innovate or pursue efficiency? Profit motivates firms to innovate and improve products that meet consumer demand (CEPR, 2023). Additionally, profit-seeking also increases worker efficiency by rewarding performance with bonuses and higher wages (CEPR, 2023). This can lead to higher efficiency because firms are more willing to seek profit by developing products that meet consumers' demands (Stockley, 2021) with the help of motivated employees.Therefore, this essay argues that the market will deteriorate if charities or governments have the power to regulate such enterprises. Conversely, a market composed solely of profit-maximizing firms without regulatory oversight or public sector involvement would lead to social harms, like environmental degradation, social inequality, and monopolistic behaviors (Pettinger, 2012; Ray, 2015).

2. Theoretical Framework

This study draws upon classical and contemporary economic theories to examine the role of profit-driven enterprises. Adam Smith's concept of the "invisible hand" (Smith, 1776; Scales, 2020) suggests that individuals pursuing their self-interest unintentionally promote societal welfare. John Locke’s labor theory of property (Munro, 2021) provides a moral foundation for profit-seeking, emphasizing value creation as a societal benefit.

Additionally, Friedrich Hayek’s insights on price signals and knowledge dissemination (Nag, 2022) underpin the study’s framework for market efficiency and resource allocation. Joseph Schumpeter’s theory of economic development (Tutor2u, 2023) highlights entrepreneurship and innovation as drivers of economic growth through “creative destruction.”

The research also integrates behavioral economics findings, such as the effects of financial incentives on performance (CEPR, 2023) and the overjustification effect (Cherry, 2023), to assess how profit motivations influence both organizational and individual behaviors. Finally, the study considers the limitations of charity and government organizations in achieving allocative efficiency and promoting innovation, forming a comparative lens for evaluating different economic actors (Shleifer, 1998; “Ownership versus Environment,” 2005).

This theoretical framework guides the analysis of profit-seeking behavior, market efficiency, innovation, and the complementary role of government and nonprofit sectors.

3. Moral Foundations of Profit Seeking Behaviours

People often see profit-seeking as selfish or even inequitable. However, in reality, such behavior is tightly connected to laissez-faire economics, human motivation, and innovations (Friedman, 2002; Stockley, 2021). Famous economist Adam Smith once said, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their interest" (Smith, 1776). Smith's observation reflects the idea that economic actors,

rather than working purely out of altruism, are typically motivated by the need to support themselves and their family (Scales, 2020). Critics of self-interest often overlook the theory of the 'Invisible Hand,' which posits that individuals pursuing their self-interest can unintentionally promote the overall good of society (Smith, 1776; Scales, 2020). This unintentional promotion occurs because the pursuit of profit leads to the production of goods and services that society needs and desires, thereby contributing to economic growth (Jewell, 2018).
Adam's thesis reflects an argument earlier advanced by John Locke. Locke believed that property is a natural right that results from labor (Munro, 2021), suggesting that when people create value, they provide others with something helpful or desirable for which they are willing to pay. In short, property exists because people create value. Economist Deirdre McCloskey argued that rewarding innovation benefits everyone (Jewell, 2018).

In Professor Thomas Piketty's *Capital in the Twenty-First Century*, he warns that when the rate of return on capital (r) exceeds the rate of economic growth (g), wealth naturally becomes more concentrated (Ray, 2015). These concerns reflect the need for balancing profit-driven mechanisms with corrective policy tools, rather than rejecting profit-seeking behaviors as inherently harmful. Instead, the government can mitigate inequality through necessary interventions and regulations such as welfare programs or income tax credits (Lumen Learning, n.d.).

Markets operate efficiently through decentralization guided by price signals. According to economist Friedrich Hayek, prices transmit knowledge across society and direct resources to where they are most needed (Nag, 2022). In a perfectly competitive market, firms aim to produce at a point where marginal benefit equals marginal cost (P=MC) to maximize their profit in the short run (Lumen Learning, 2022). When P = MC, the supply curve equals the demand curve, ensuring that all resources are fully utilized (Learn Economics Online, 2025). This further suggests that total welfare for society is maximized at this outcome.

The equilibrium depicted on the graph indicates that the market is operating at its efficient scale, also known as allocative efficiency (Tutor2u, 2025). Any movement away from this efficient scale will result in a deadweight loss, leading to suboptimal social production. Therefore, profit shouldn't be seen as just an incentive but rather as a tool to adjust the entire market to its socially optimal production point. Such a motive is not achieved for the public but rather for self-interest; however, the effect is ultimately in the interests of the whole society (see Fig.1). This further justifies that firms chasing profit are helping society avoid waste and fulfill people's demands, fostering overall economic growth (Nag, 2022).

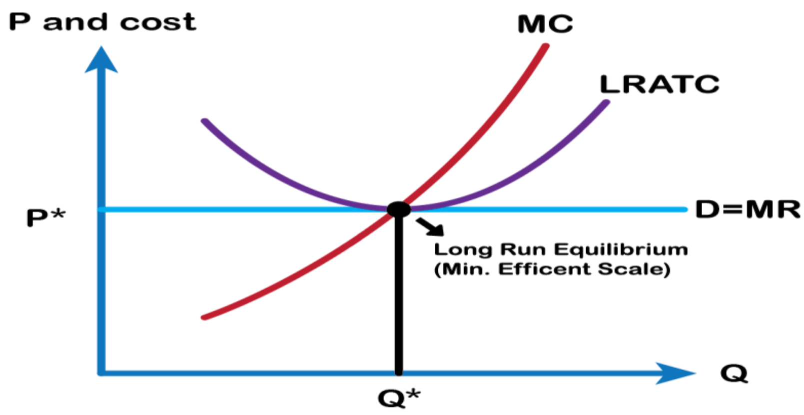

Figure 1 P=MC in LR Equilibrium showing Allocative Efficiency

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4. Profit as an Incentive for Innovation and Responsiveness

Not only is profit rewarding, but it also incentivizes firms to improve and innovate to meet consumer needs. Economist Joseph Schumpeter emphasized the role of entrepreneurship and innovation in fostering economic prosperity (Tutor2u, 2023). He proposed a theory of economic development based on the long wave of innovations, which focused on technological breakthroughs from the 18th century. His theory posits that such improvement sparks economic growth, which he refers to as "creative destruction." (see Fig.2)

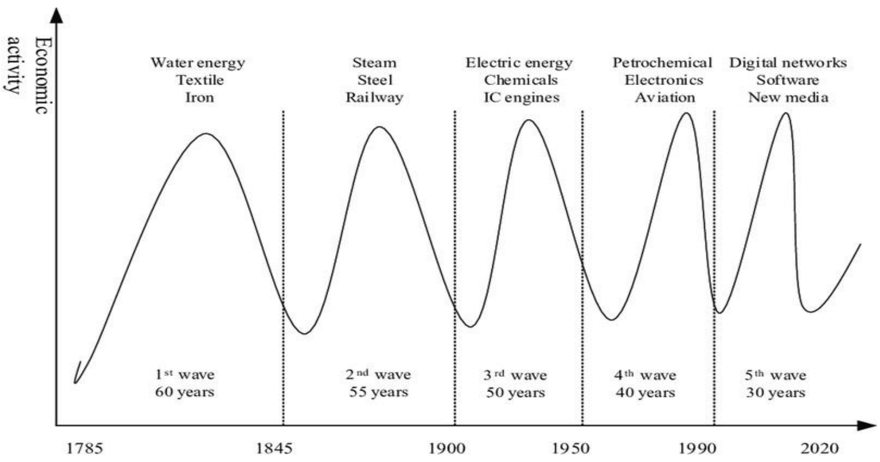

Figure 2: Schumpeter's long waves of innovation

These firms outpace rivals by adapting and innovating quickly. This is evidenced by the MIT Sloan Management Review, whose research found that firms who constantly invest in customer liking tend to receive higher profits (Minor, Brook, & Bernoff, 2017).

To illustrate this with a real-life example, consider Netflix. In 1997, Netflix was initially founded as a DVD rental company (Hosch & Ashburn, 2025). However, within just three years, it transformed into a personalized movie recommendation system that utilized an algorithm to predict a person's movie preferences based on their previous choices. This massive change would not be possible if it were a charity. Netflix utilized data to test and tailor its platform, thereby boosting both satisfaction and profits (Oxford Executive Institute, 2024). This emphasizes productive efficiency, where firms operate at their lowest point of the average total cost (ATC) (Pettinger, 2017a).

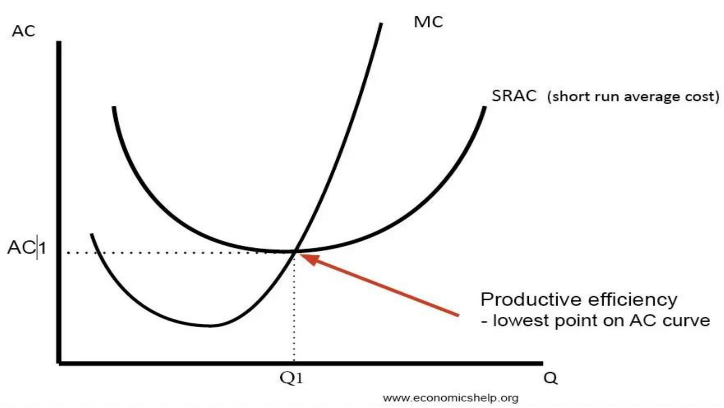

Figure 3: Society produced at a point with the lowest level of cost

Another example is Apple, a profit-driven firm that can cut costs while maintaining or even increasing worker productivity. Rather than resorting to mass layoffs like many of its competitors during economic downturns, Apple focused on productive efficiency, which strongly indicates streamlining supply chains, investing in custom silicon chips to reduce dependency on third-party manufacturers, and maximizing output per employee by automating routine tasks.

Moreover, Apple maintained strong employee performance by keeping work meaningful and engaging, giving teams autonomy to develop new products and rewarding innovation. According to data shared on Reddit and Digital Information World (Sullivan, 2011; Reddit, 2022; Ahmed, 2023), Apple consistently leads the tech industry in revenue per employee, suggesting not only lean operations but also high individual productivity. Unlike firms that cut costs through job cuts or wage suppression, Apple demonstrates how efficiency and employee satisfaction can coexist under a profit motive.

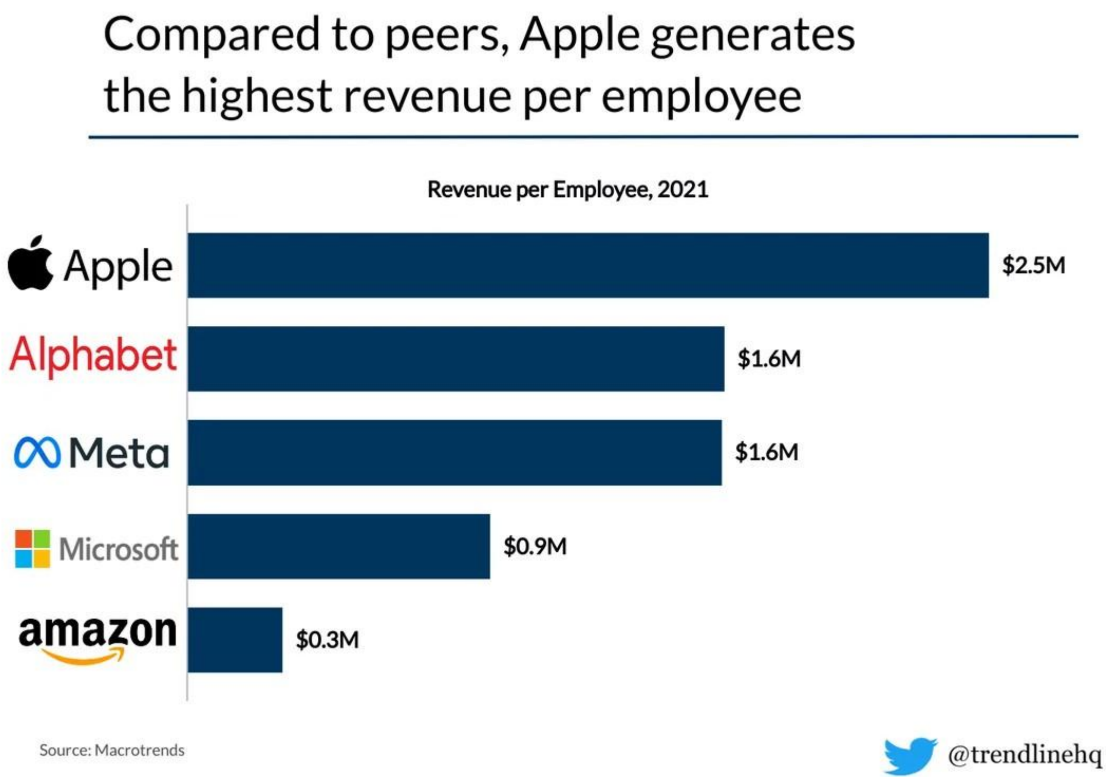

Figure 4: Apple makes higher revenue per employee compared to peers

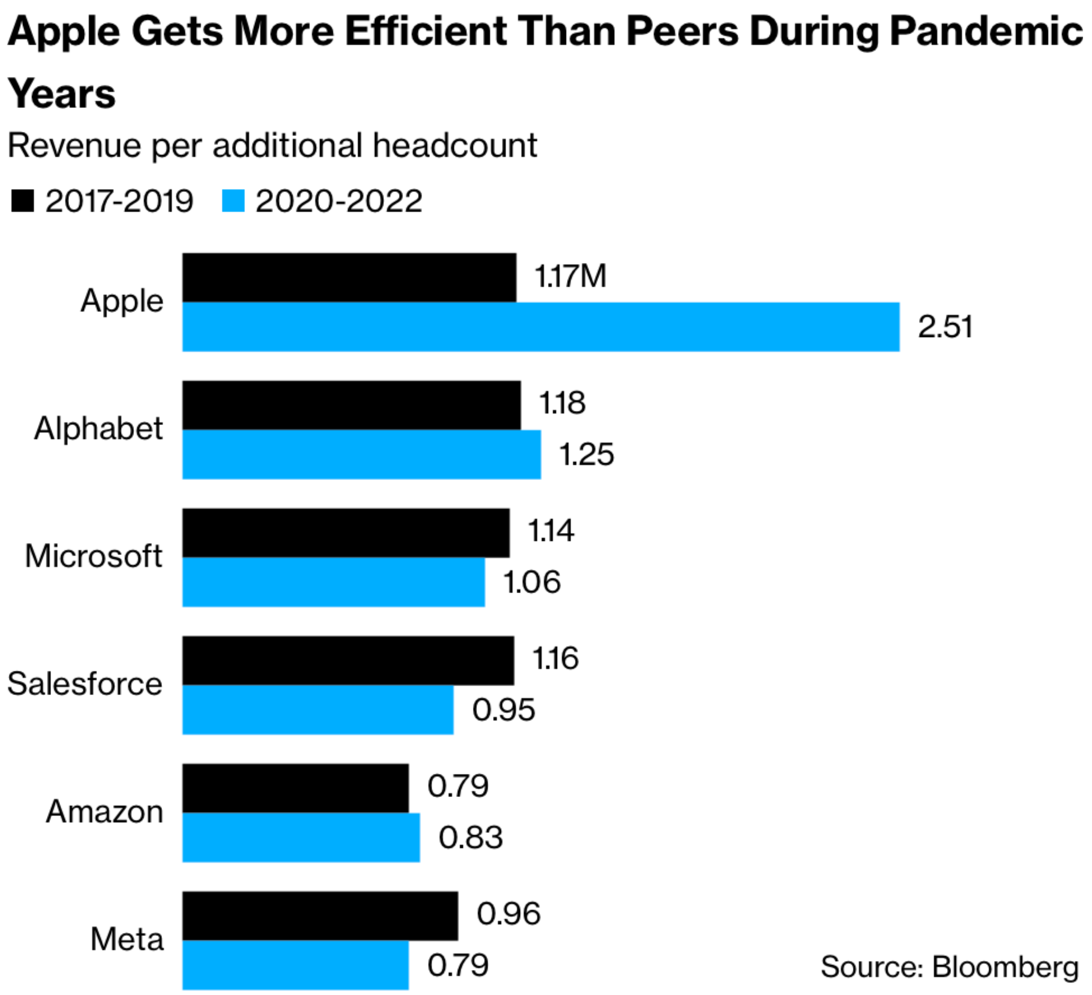

Figure 5: Apple manage to avoid cuts due to its efficiency and profitability

5. Weaknesses of Government and Charity-Run Enterprises

While private firms are driven by profit incentives that encourage innovation and cost-efficiency, public or charity-run enterprises often lack such mechanisms (Shleifer, 1998). As a result, they are less likely to operate at allocative efficiency, which occurs when the price equals marginal cost (P > MC) (Columbia Business School, 2005).

As discussed, private firms do not face market discipline. They operate with limited accountability and even attempt to influence or weaken the very government institutions meant to regulate them. For instance, SpaceX, operating in an oligopoly, continually innovates to reduce costs and enhance technologies. In contrast, government-funded projects, such as those led by NASA, often experience bureaucratic delays and funding issues from the United States government and international organizations (Fernholz, 2022). In a sense, private firms usually outperform government programs in terms of cost and innovation. NASA's Space Launch System (SLS) costs US$4 billion, took more than a decade to develop, and is not reusable (The Planetary Society, n.d.). On the other hand, SpaceX developed its StarShip in under 10 years with less than US$10 million per launch while being designed as fully reusable (Duffy, 2022). This exemplifies that while incentives push private firms towards innovation, government-led initiatives are sometimes not as effective due to regulatory/bureaucratic hurdles.

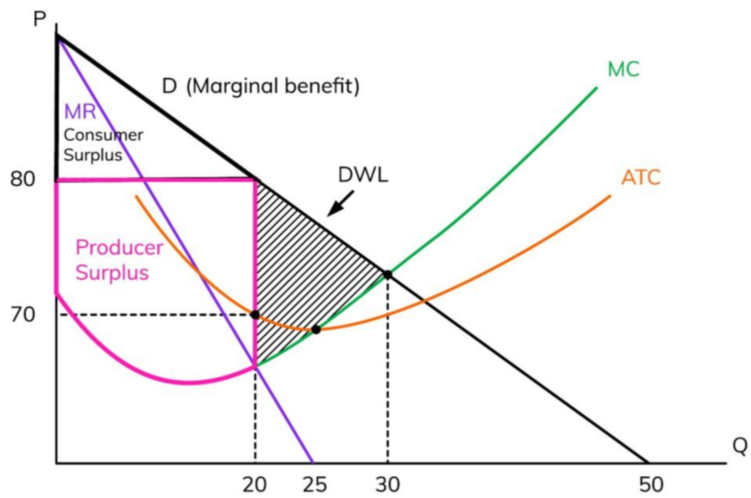

Figure 6: Public Firm with P > MC and Deadweight Loss

Moreover, charity-run enterprises such as the Goodwill Industry often encounter financial instability and leadership problems (Adelphi University, 2018). Goodwill relies on donations and grants from donors, governments, and corporations, which causes overreliance and funding gaps (Berber et al., 2011). Nevertheless, charities lack financial incentives, such as bonuses, which undermines the importance of profit motivation. According to the overjustification effect, when external rewards are removed, intrinsic motivation may decline, thereby impairing long-term engagement (Cherry, 2023).

These weaknesses underscore the importance of market structure. Private businesses in competitive markets must continually strive to minimize waste, innovate, and respond to consumer demand. Yet, in the public and nonprofit sectors, organizations can function as monopolies, leading to soft budget constraints and weak feedback loops. This leads to inefficiency and a lack of alternatives, causing a deadweight loss in the market. Without a pricing mechanism or profit constraint, the waste of resources in these industries was significant.

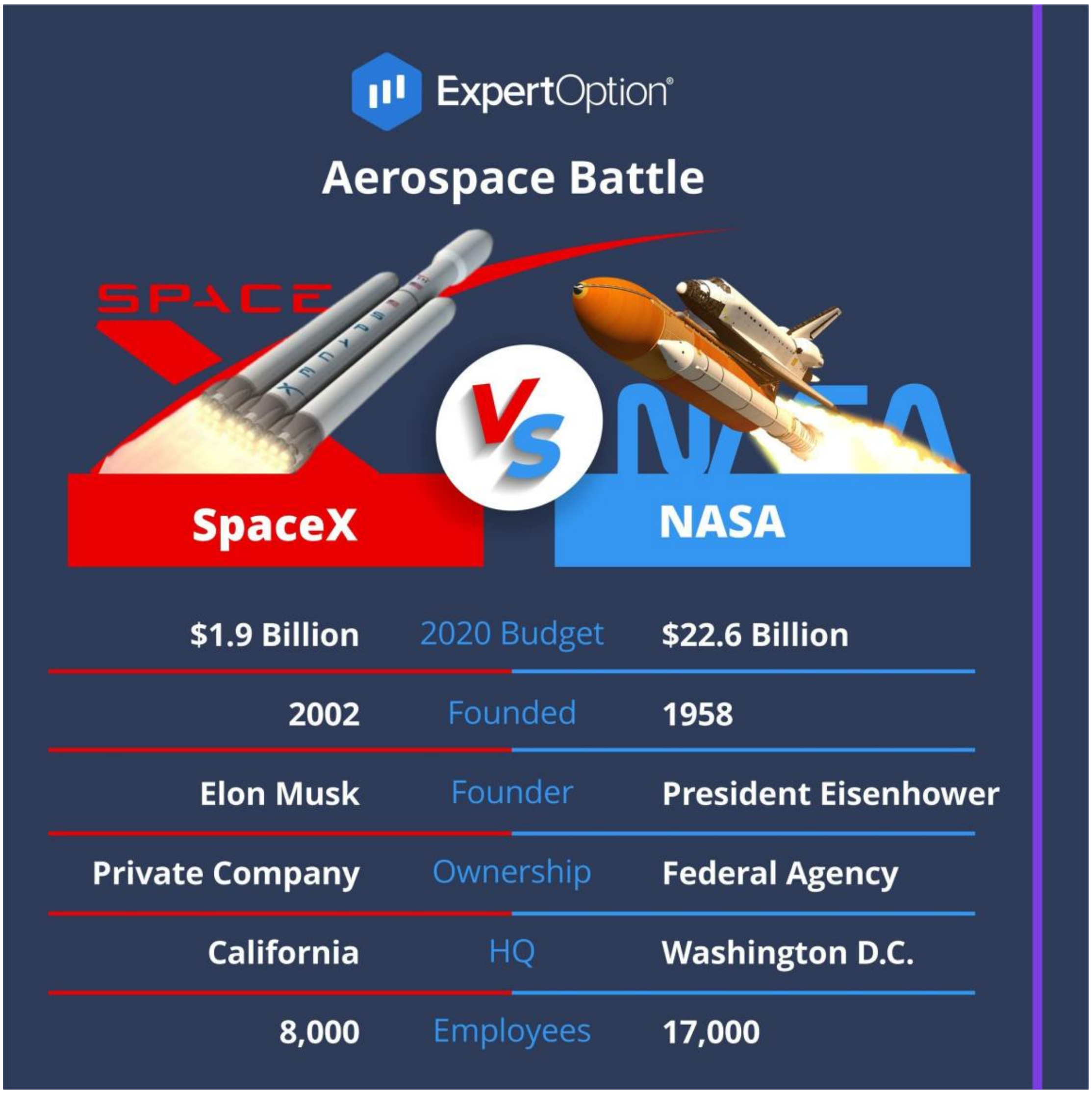

Figure 7: The Aerospace Battle between SpaceX and NASA

6. Market Failures, Inequality & The Government's Role of Regulation

Since the emergence of laissez-faire economics in the 18th century, individuals and firm owners have believed that unregulated markets produce the most efficient and profitable outcomes. Such a belief is often true and justified in many cases; for example, the price reflects consumer demand (Hayes, 2024), and firms innovate to maximize profits. However, markets are not perfect, and in some cases, they need interventions from the government. The role of the government here is not to replace the market but to step in and correct enterprises' obstruction.

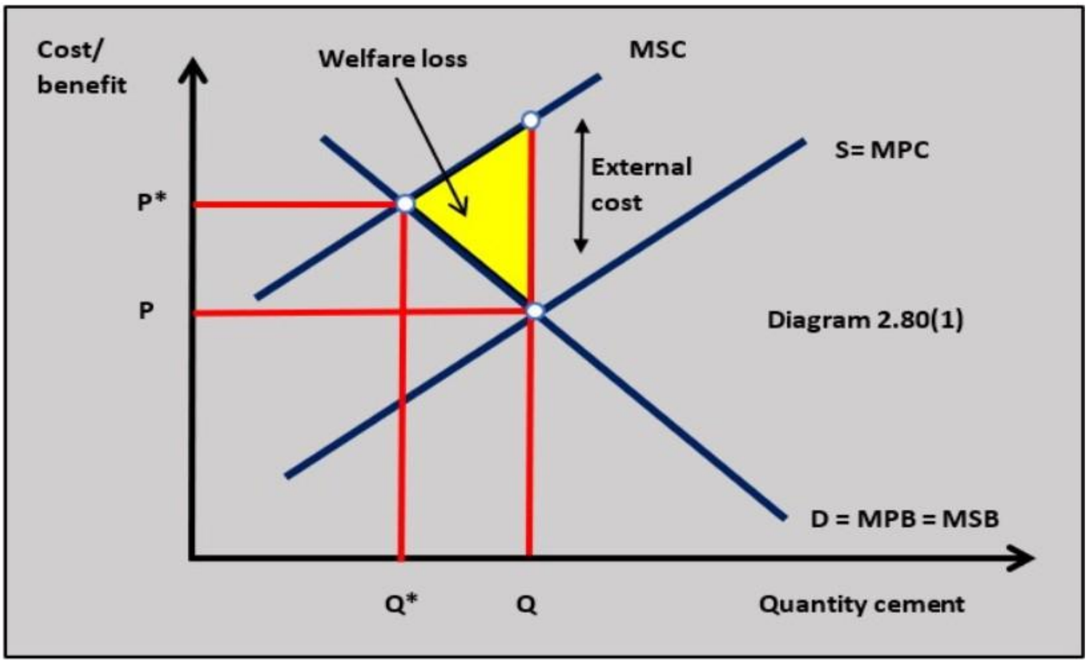

Figure 8: Overproduction and deadweight loss leading to negative externalities

In economics, this blind spot is referred to as an externality. For example, firms may discharge waste into rivers, causing negative externalities, as illustrated in Figure 8. These Spillover Costs are external burdens on society not reflected in market prices (Fiveable, 2024). Their existence means too much of the product is produced, and profit-driven firms lack the incentive to fix it. That's why the government steps in with regulations or tools like carbon taxes to restore social efficiency and protect the environment.

Nevertheless, markets usually do not recognize the importance of equity. Without some regulations in the market, prices can skyrocket for essential needs like housing and health insurance or even drop too low to compensate workers. In this case, the government sets price ceilings and price floors to combat these obstacles by adjusting the price for producers and consumers to pay where MB = MC (Econedlink, n.d.).

In the General Theory of Employment, Interest, and Money, economist John Maynard Keynes observed that during economic downturns, markets often suffer from low aggregate demand and high unemployment. Under such conditions, profit-seeking firms typically reduce investment due to pessimistic expectations and high interest rates. Their behavior, while rational from a business perspective, can further deepen the recession. In contrast, government agencies, unbound by the profit motive, are able to intervene through deficit-financed public spending to stimulate demand and stabilize the economy (Chappelow, 2024; Pettinger, 2017b).

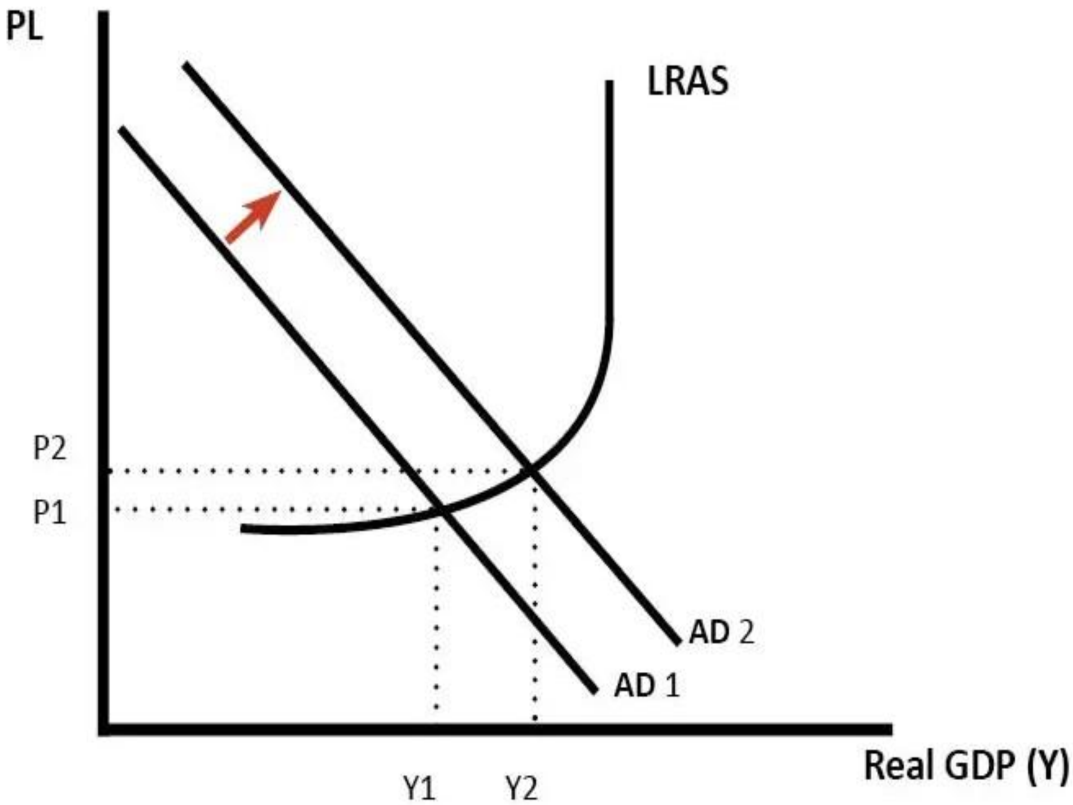

Figure 9: Expansionary Fiscal Policy, government increase spending pushing AD back to equilibrium eliminating recession

This contrast highlights a crucial point: while profit-driven behavior promotes innovation and efficiency during periods of stability, it may lack the capacity to respond effectively to systemic crises. Conversely, government action can compensate for these limitations by prioritizing social welfare and macroeconomic stability. Therefore, rather than positioning public and private enterprise in opposition, a resilient and equitable economy depends on their coexistence. It is through this complementary relationship that societies can balance innovation with inclusion, and efficiency with long-term stability.

7. Conclusion

Overall, a government or charity-run enterprise market would affect efficiency in the long run. At the same time, a system ruled only by profit-maximizing firms would exacerbate inequality and increase the risk of monopolies, fueling ongoing controversy. True economic prosperity arises when the private enterprise, government, and nonprofit sectors coexist and counterbalance each other, as stated in an SMK report, which refers to these collaborations as a "three-legged stool" (Sheila McKechnie Foundation, 2024). Each checks the others to promote innovation, fairness, and long-term social benefit, leading to economic prosperity.

Limitations: While this analysis demonstrates the general benefits of a balanced system, it may not fully account for variations across industries, regions, or unexpected economic shocks.

Future empirical research is needed to quantify how different sectors interact in practice and how these interactions impact efficiency and equity over time.

Future Outlook: Moving forward, policymakers and business leaders could explore hybrid models and public-private partnerships to optimize innovation while ensuring social welfare. These strategies may strengthen the resilience of economies and address both market inefficiencies and social inequities.

Conflict of interest declaration: The author declares that there are no known financial or personal relationships that could inappropriately influence or bias the content of this paper. The research, analysis, and conclusions presented are the author's own and were conducted independently of any external interests.

Author bibliography: Michael Chen is a student at the Dominican International School, his research interests focus on the intersection of market structures, innovation, and economic efficiency. He is particularly interested in how profit incentives, government policy, and nonprofit enterprises interact to shape long-term welfare and growth.

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