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?

Introduction

"Profit is the ignition system of our economic engine" - *Charles W. Sawyer*

It is a human tendency to seek reward for effort. All rational human behavior and action are fueled by the desire to achieve something equal to or greater than what is put in. In other words, everyone aims to make some form of gain or profit. This very desire, often referred to as the *hope of profit*, is what sparked early trade systems and became the cornerstone for the establishment of firms and enterprises, becoming the founding principle of modern economic systems.

As economies developed, however, other forms of ownership emerged that defy this rationale of personal gain and self-interest. For example, ownerships that are classified to be charities or government-owned enterprises direct their efforts to maximize social welfare over individual gain or corporate profit. Their actions focus on collective benefit, public service, and social good rather than only generating financial return. Therefore, the behaviour and decision-making process of these two types of ownership also differ vastly.

This essay will examine the types of behaviors that the pursuit of profit leads to and assess whether these behaviors, on balance, are better or worse than those found in enterprises owned by charities or governments.

Behaviors Engendered by the Hope of Profit

All firms are driven by the pursuit of profit, which in a competitive market, is only possible if one stands out. This requires originality, uniqueness, and a willingness to break from conventional methods, qualities that serve as catalysts for innovation. Schumpeter's theory of Creative Destruction explains this process well: the hope of profit compels entrepreneurs to abandon outdated systems in favor of newer, more efficient technologies and methods (Kopp, 2023). Many of today's most profitable companies exemplify this principle. Firms like Apple, Amazon, and Tesla did not merely enter existing markets; they redefined them using their unique methods and products, earning them a position among the world's most innovative companies (Torkington, 2021). Apple, for example, is known for its various inventions, particularly the iPhone, which marked a new era of smartphones by introducing fully touch screen technology (Quartz, 2024). To understand the impact of such breakthroughs on the economy, a Production Possibility Frontier (PPF) can be examined.

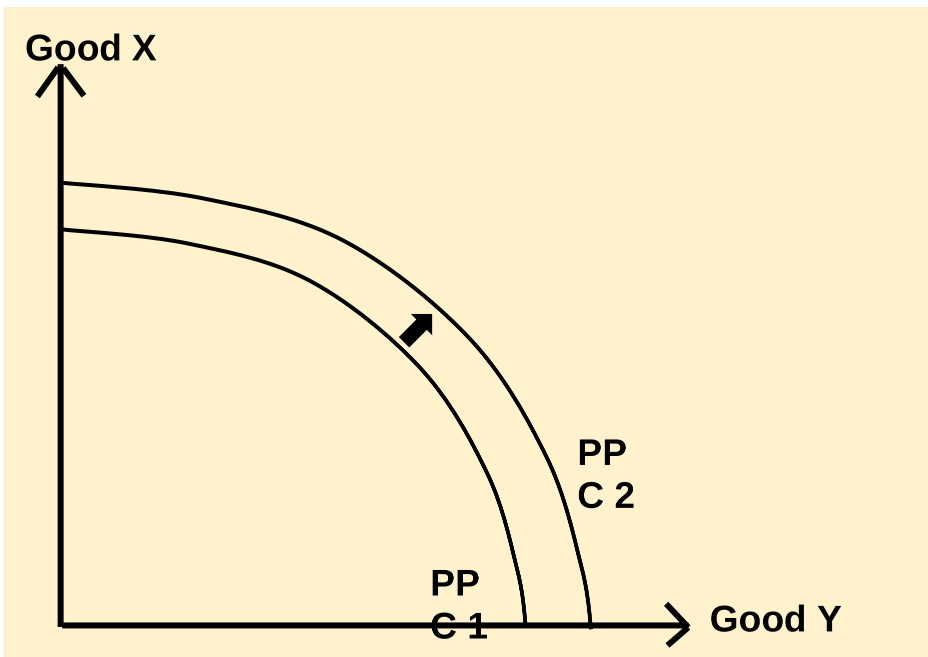

Figure 1: An outward shift in the PPF curve resulting from innovations

The PPF displays the maximum possible output between two goods that an economy can produce with the given resources. Due to increased innovation, driven by the pursuit of profit, factors of production can both increase in quantity and improve in quality, thereby expanding the total possible capacity of an economy and resulting in an outward shift of the production possibilities curve. This also has other consequential advantages, such as increased employment due to the increased demand for producing more goods.

Another advantage of profit-seeking behaviors is the allocative efficiency they enable. According to Adam Smith's Invisible Hand theory, when firms act in their own self-interest to earn profits, they inadvertently meet the needs of society by producing what is demanded, in the right quantities, and at the optimum prices (Heath, 2024). This alignment of private incentives with public betterment leads to markets that are dynamic and adaptive.

Despite these strengths, sometimes working in self-interest can also encourage behaviour that disregards societal well-being. This is particularly relevant in cases of negative externalities of production, where third parties, not involved in any purchase or sale of goods, are harmed by the production of goods. An example of this can be seen in cities like San Diego and San Francisco, where the rise of ride hailing services such as Uber and Lyft has generated negative externalities of increased traffic congestion, despite being promoted as a service that is a convenient and efficient alternative to traditional taxis. Research from institutions like the University of California, Davis, shows that the increased vehicle miles traveled (VMT) leads to congested roads, resulting in longer commute times, as well as higher emissions (Kerlin, 2024). Therefore, in cases like this, even when not directly involved, inhabitants of such cities have to face the aforementioned problems and incur costs. Here, the marginal social cost (MSC) to society exceeds the marginal private cost (MPC) to the firms, resulting in inefficient resource allocation and market failure, as illustrated by the deadweight loss to society highlighted by the shaded region in the diagram below.

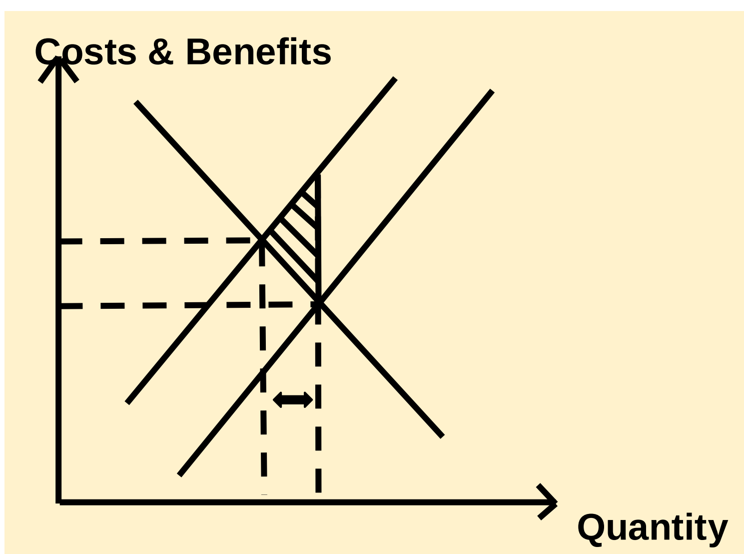

Figure 2: Welfare loss caused by negative externalities of production

Aside from this, profit-seeking behaviours may raise some ethical concerns as seen in the 2008 financial crisis. Driven by profit-maximising behaviour, there was an exponential increase in the number of subprime mortgages sold to borrowers with poor credit histories, often without adequate income or asset verification. This translated into a housing bubble in the US real estate market. However, as loans were not serviced, there were widespread foreclosures, which led to an economic meltdown, raising doubts about the ethics of profit pursuit (Duca, 2025).

Behaviors in Charity/Government-Owned Enterprises

In the case of enterprises being owned by governments and charities, the motive is to promote equitable societal welfare. This is why such organisations play a pivotal role in providing public goods and services that are non-excludable and non-rivalrous, meaning they are accessible to all without diminishing their availability to others. For example, free healthcare, education, public parks, and streetlights are not amenities for which anyone pays. Therefore, private firms are unlikely to engage in generating such services as there is minimal scope to generate profit. However, these goods are essential for any economy or society to function, displaying the importance of non-profit organisations.

This government ownership and the provision of public goods also play a vital role in promoting income equality within an economy. By ensuring access to essential services, such as healthcare, education, transportation, and clean water, governments help level the playing field for individuals regardless of their income level. These services alleviate the cost burden on low-income households, enabling them to participate more broadly in economic and social life. For instance, publicly funded education systems provide children from disadvantaged backgrounds with the opportunity to acquire skills and qualifications, thereby increasing their chances of earning a higher income. In this way, state provision not only promotes social welfare but also acts as a redistributive mechanism that narrows income disparities across society. This increase of income equity can be displayed by a leftward shift of the Lorenz curve, as the economy moves closer to perfect income equality, reducing the Gini coefficient (a measure of income inequity):

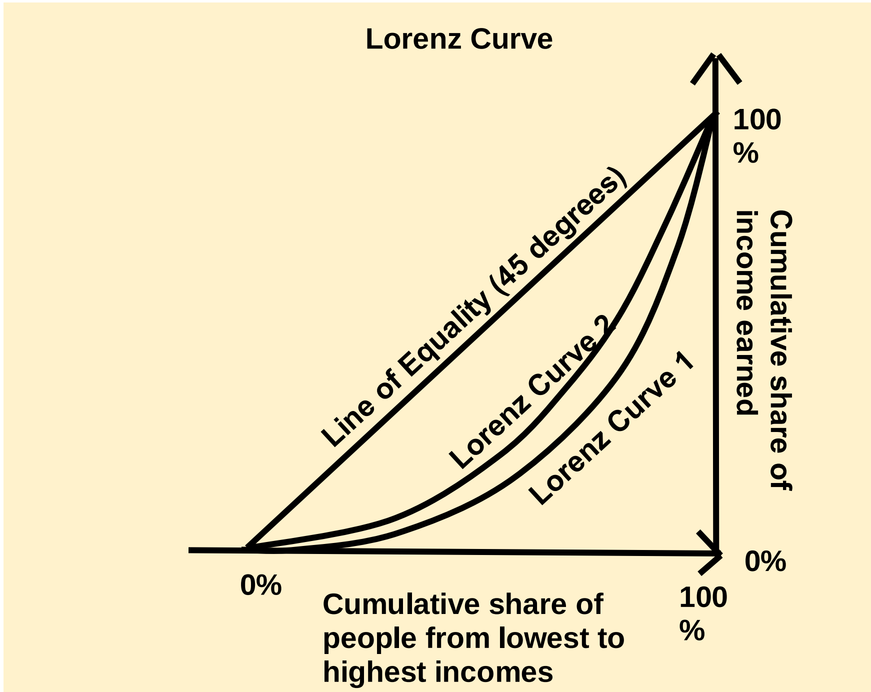

Figure 3: A leftward shift in the Lorenz Curve resulting from state provision

Moreover, enterprises owned by the governments often focus on long-term societal benefits, unlike private firms. Undertaking investments in infrastructure projects, such as dams, bridges, and public transportation systems, don't yield immediate financial returns but are critical for economic development. This is the same rationale underlying universal access to education, skill-building and vocational training programs, all of which are essential to enhance the quality of labor in an economy and promote equitable growth.

However, the advantages of such enterprises can be overshadowed by the negative aspects of their fundamental production components. Government-owned enterprises may suffer from X-inefficiency. Introduced by economist Harvey Leibenstein, this concept refers to a scenario when organizations operate below optimal efficiency levels due to a lack of competitive pressure, leading to higher production costs and resource wastage (Kenton, 2019). The absence of a profit incentive results in a lack of motivation for workers to perform at their highest productivity, leading to higher average costs. This is displayed in the following diagram:

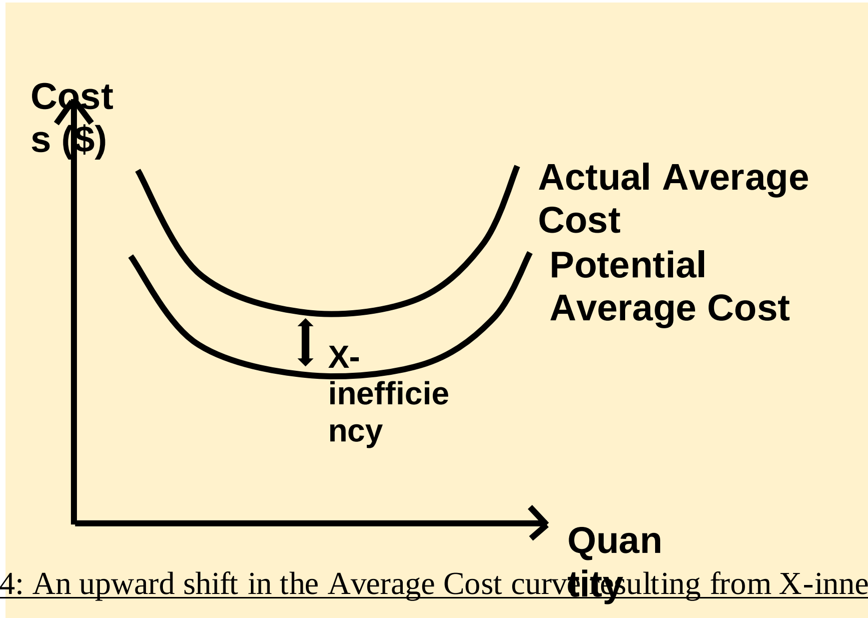

Figure 4: An upward shift in the Average Cost curve resulting from X-inneficiency

Here, the average cost is significantly higher than it would be if there were competition and motivation for workers to produce efficiently. This is the stark opposite of private, profit-seeking firms, where efficiency is a key objective.

While some might imagine that the lack of competition in non-profit seeking enterprises implies that investment in innovation and research is deemed unnecessary, slowing down long-term growth, in reality, innovation is not completely halted; it is just comparatively slower. For example, NASA, a government-owned agency, is renowned for its numerous innovations in space physics and moon landings. However, NASA's Space Launch System (SLS) has faced significant delays and cost overruns, with each launch estimated at around $2 billion (Ferguson, 2025). In contrast, private companies like SpaceX have developed more cost-effective and reusable launch systems, such as the Falcon 9, which have revolutionized space travel and significantly reduced costs (National Security Technology Accelerator, 2024). This disparity highlights how the absence of such competitive pressures in government agencies may lead to slower technological advancement.

The Argument for a Mixed Economy System

Although government or charity ownership can encourage equity and public benefit, if taken to the extreme of owning all enterprises, it presents significant economic and social risks. Excessive government ownership of economic activity can lead to inefficiency and a loss of economic freedom. These extreme consequences were evident in the Soviet Union, where market competition was eliminated, resulting in huge inefficiency and the misallocation of resources in the economy. Consumers faced shortages in basic consumer goods, and at the same time, innovation lagged significantly behind capitalist economies. In modern times, North Korea is an example of a country where the government controls, owns, and manages all industries, resulting in no room for profit-seeking firms. Here, too, we see that there is a hindrance to economic growth and a restriction of personal freedom and human rights.

Other than this, governments themselves depend heavily on the profit generated by private enterprises to fund their activities. A large portion of government revenue comes from income and corporate taxes, which are derived from the profits of businesses and the employment they generate. Without a profit-seeking private sector, these tax revenues would fall drastically, making it impossible for the government to finance the public goods, infrastructure, and education promised by them.

Similarly, charitable organizations are also fully dependent on the wealth created by the private sector. Most charities rely on donations, which are only made possible when individuals or companies generate enough profit to afford giving it away. For example, the Bill & Melinda Gates Foundation, one of the world's largest philanthropic organizations, is funded almost entirely through profits generated by Microsoft and other investments (Bill & Melinda Gates Foundation, 2023). If all enterprises were run charitably without regard for profit, the funds required for such donations would soon run out, rendering this model unsustainable in the long run.

Additionally, the existence of private firms does not always lead to harmful outcomes. Through taxation and regulation, governments can reduce the negative externalities of profit-driven behavior. For example, carbon taxes can be implemented to account for the environmental damage caused by industrial production, forcing firms to internalize their external costs and incentivizing switching to less polluting methods. Moreover, strict imposition of ethical regulations and laws, prevent activities like labour exploitation and abuse of monopoly power.

This demonstrates that the private and public sectors cannot exist independently. Instead, a mixed economic system, like most countries have adopted, where both profit-driven enterprises and public institutions coexist, is required for balance.

Conclusion

From maximizing efficiency and promoting innovation to causing negative externalities and unethical practices, the pursuit of profit gives rise to various behaviors. On the other hand, charitable organisations and governments display completely opposite behaviours, prioritising society and equity while lacking innovation and efficiency. While these behaviours tend to be more favorable from a social welfare perspective, adopting these models for all enterprises would be unsustainable in the long run. This is particularly true as the aforementioned enterprises are only able to provide such advantages due to their revenue from profit-making firms.

Ultimately, profit is the fuel, the ignition to the economy. Hence, on balance, behaviour engendered by the hope of profit is better than that if governments or charitable organisations owned all enterprises. However, without appropriate regulation, the pursuit of profit risks undermining its benefits to society.

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