

Dogma of Profit Maximization

A Sight to Open Secrets

Qamar uz Zaman

COMSATS Institute of Information Technology, Sahiwal, Pakistan
Email: qzmalik@gmail.com

Abstract

This essay is a philosophical enquiry into the dogma of profit maximization as one of the dogma premises of capitalism. Being attracted by the cyclical nature of financial crises as an existential challenge the case is argued to be biased and undemocratic in presence of profit maximization as a guiding principle. Philosophy as un-dogmatic procedure seems suitably sustained to keep the notion of maximization alive and leaves ground to draw valid arguments considering theory of greater good and justice. The epistemological approach to understand the efficiency argument as defended seems vague to establish justice, stability and economic democracies. Bottom up approach may resolve the issue using evident and biased ruling of interest tax deductibility under maximization approach and gain greater good and justice at all levels. According to reasonable judgment of consequences “equitable and sustainable wealth creation” tends to be more valid corporate guiding principle negating “maximization of profit”.

Keywords

Dogmatism, Profit Maximization, Greater Good, Justice, Equity and Sustainability

The Case

I remember a phrase from “The Great Debater (2007)” that St. Augustine once said that:

“An unjust law is not a law at all”

This philosophical dimension attracted my attention while going through a research of Iannuzzi and Berardi (2010) “global financial crisis: causes and perspectives”. This research concluded that there is dire need to revisit short term and self centered culture and notion of maximization of value. The prevailing corporate culture based on tragedy of maximization of self-interest, short term maximization of profit and shareholder’s

value have caused adverse effect on the global financial system (Howard, 1997). Inspiring goal of maximization of wealth have indulged the global financial, social, personal and political system on a wide spread crisis (Iannuzzi & Berardi, 2010). Maximization philosophy has widened the gap of wealth disparity neglecting the collective human interest (Goldstein, 2011). According to Global Economic Forum the risk of wealth disparity and environmental disaster is the most probable impactful global factor of next decade (Forum, 2014). Furthermore, every tale of recession better explains the obscene objectives of people in-charge (Landy, 2013). This situation gives birth to a dogmatic situation and need of collective thinking and questioning the much mentioned reason of worst ever human calamity. The philosophy as an un-dogmatic procedure is the way to better understand and solve the prevailing situation. While moving further a number of questions are to be entertained to understand and reach a probable solution. The questions arise about the reason of prevailing economic system advocating profit maximization. How the myth of maximization has contributed to economic, social and political catastrophe? Which collective wisdom favors this system? And what could be the rational and reasonable solution to make it a ground level playing field?

Dogma is a myth, a rule or an empirically unsupported theme. According to Oxford Dictionary it is defined as “*A principle or set of principles laid down by an authority as incontrovertibly true*” (Oxford University Press, 2014). According to my style of thought or philosophy they are highly controversial, excessively blurred and undemocratic establishing individual thoughts over collective epistemology. As a point of concern, the question of legitimate authority and its neutrality and suitability to decide and set principles for all others is arguably challengeable in dogma premises. The self-defeating nature of epistemological skepticism has intrinsically left room to philosophically argue dogmatic into un-dogmatic and vice versa. The case require conjoint role of philosophy of religion, beliefs, justice, economic democracy, ethics and greater good; potentially valid dimensions to elaborate philosophy as an un-dogmatic procedure. However, nothing seems to be definite and un-dogmatic under the centrally influential economic and political authorities. Modern world confronts a number of increasingly drastic existential challenges. Political and economic systems are considered to be two competing forces to gain and practice power and influence on global scenario. Seemingly, disputed role of economic and political forces has joined hands to gain global control leaving philosophical arguments aside.

Profit Maximization and Efficiency Argument

Philosophical and scientific advocacy defends profit maximization as a base of efficiency argument. According to economic perspective, efficiency gains from difference between cost and price of greater unit sales defining profit as criteria of success (Posner, 1985). The argument of economic democracy is also achieved by voting in favor of a product when consumers pay for what they want. So, cost efficient and better product serves the purpose of common good and democratic economic system (Jensen, 2002). The purpose of private and self-centered profit making is considered prime motivation to establish efficient and greater productivity. However, the roles of government and taxation regimes hinder the capitalistic objectives. The perspective of profit maximization later

emerged into the concept of wealth maximization at individual and economic levels. Arguing the legal perspective, Dworkin (1980) states that profit maximization is completely misperceived by critics and defines it as:

Wealth maximization is achieved when goods and other resources are in the hands of those who value them most, and someone values a good more only if he is both willing and able to pay more in money (or in the equivalent of money) to have it. An individual maximizes his own wealth when he increases the value of the resources he owns; whenever he is able, for example, to purchase something he values for any sum less than the most he would be willing to pay for it.

Further, Dworkin discusses the conceptual deficiencies to explain social and individual wealth maximization. He argues that social wealth maximization is inherently unstable. However, the social wealth will be determined by sum of total wealth in a society at its greatest level.

Later, Posner (1985) revisited his theory of wealth maximization differentiating the economic concept of utility from utilitarian point of view. He argued the propensity to have more wealth is based upon the risk taking of an individual, however, being safe would lead to a lower probability to have maximum wealth. He further posed that the concept of utility as happiness can be achieved by having more wealth as they are interconnected. Finalizing his arguments, he admitted the presence of individualism and utilitarianism in the notion of wealth maximization and accented the incapability of such economic dogma to be incapable to function the redistribution of wealth as required. He further stated that confusing ethical dimensions of political affairs with wealth maximization is not viable from judicial point of view. The discussion establishes that its impractical for law to practice such rules which may facilitate the redistribution function of wealth.

On the contrary, Dworkin (1980) and Kelman (1987) strongly opposed the efficiency based argument and argued that law and economics of wealth maximization is to favor advantaged over disadvantaged. The critic was replied by Acorn (1993) embraced the idea of serving advantaged according to law and economics. His devastating emphasis on efficiency and metaphor of big pie as a moral virtue to advantaged and productive seems irrational. According to efficiency argument of Posner that wealth maximization justifies itself on moral substance by favouring value entitlement to the advantaged.

Proponents of efficiency argument seems to have irrational behaviour towards the system of reward and entitlement. The efficiency argument is a myth based on the development of individual entitlement and maximization of wealth rather than the cumulative efficiency and wealth maximization. My opposition is based on replacing individual efficiency and entitlement with overall human efficiency and entitlement in the development of law and economics. The system of human economics and law will give birth to distribution function lacking in conventional efficiency hypothesis.

The Posner's early normative theory emerged at corporate level advocate and signifies the need of profit maximization for managers and corporations. It states that economically efficient organizations are ultimately welfare maximizing reinstating such efficiency as a moral virtue. It further considers less productive and inefficient to be well served by poverty is morally justified. Profit is the only moral virtue and is a measure of corporate welfare (Jensen, 2002). A clear understanding of these arguments reveal a rigid and selfcentered approach to an unjust judicial dogmatism. However, the element

of society and the use of unjustified means and development of subsequent laws is never of any importance to these philosophers and thinkers. Profit maximization is over emphasised on deriving moral welfare and common good rather than actual materialization of welfare. Jensen's efficiency argument is further criticised by the considering personal sphere into the law and economics (Hussain, 2012). According to Hussain (2012) welfare consequentialist perspective does not negate the generation of accounting profit, posing a question that whether such corporate motive will be sufficient enough to compensate the losses of personal sphere.

Being a proponent of his argument of shareholder's control as a default arrangement in corporate economics and law may be the robust derive for profit maximization. But, still disagreeing at a certain level to keep maximization as a deriving force and measure of success; would leave room for pursuing normative goals of efficiency. Visualizing the capitalistic institutional arrangement and formulation of economic and taxation laws are even absurd and are clearly biased and unjust to prove its unsuitability and sustainability in presence of economic crisis. The present global trend of corporate backed economies is maliciously exploiting the resources of disadvantaged to further give edge of efficiency to the advantaged.

Greater Good or Greater Greed

The prevailing capitalistic economic system is based on dogmatic principles of ignoring economic democracy, hazing economic efficiency, self-designed economic fairness, limiting freedom, raising social injustice and motivating consumption to improve standard of living. Furthermore, self-centered measures of success, and absence of virtue have generated a competitively greedy economic environment (Right of Assembly, 2014). Although, repeated financial turmoil, environmental destruction, economic disparities as loud results of this system, which are completely un-compostable in monetary terms. The system based on the principle of maximization of profit supported by market and efficient forces has overlooked elements of religion, ethics, equity and sustainability.

The paradigm of global economic system has vigorously shaped organizational system on its very origin of maximization of profit advocated by efficiency argument. Tactical use of friendly interface, cunning way of formalizing the rules, well-argued influence and general ignorance has introduced to helpless, pitiable, value diminished, and most disastrous existential challenges for human being. This economic and political system has moved from local to global; not to provide life but to capture markets. Getting global is not to respect freedom but to make it slave of their greed. It is not to make appropriation of wealth but to capture and concentrate global wealth. It is not to respect others culture and religion but to modify it in a corporate way. It is not to say that "think globally and act locally" but "a local thinking is getting global". It is not to make it crisis free but to establish it replete with crises. Hence, establishing vague concept of good greed over greater good and virtue originated from individualism and wealth maximization (Azevedo, 2011). But they say "everything is good". Yes, it is moving well but on a bad pattern.

Dogma of wealth maximization has proved itself a tragedy with the repeated global financial crisis and increased resource disparity. This economic and justice system has

introduced the individuals and organizations to extensive consumption and escalating demand function by making greed a part of justice. The system has promoted the notion of having maximum out of maximum leaving many to a disadvantage (Richman, 2012). From economic point of view, the wealth of the world is as it would be at the time of its creation and offers everything to everyone with equal rights. The notion of maximization with an inclined legal and political system has only resulted in shift of wealth from many to few. Modern world is paying much concentration towards improving the standard of life for few while worsening the standards for many. The desire to have robotic arms, ammunitions and advanced genetic discoveries neglecting the nature and self-destructive system, ignoring moral, ethical and social values has already played its role before coming into existence. The wish to achieve higher standard has molded the soul to a mechanic system which is always achieving without considering the lives and wish of others. There is not any greater good but greater greed.

This essay is to challenge the dogma of profit maximization, seeking help from theory of justice and theory of greater good in a reasonable way. Embarrassingly extreme taxation laws designed to favor and motivate profit maximization under the umbrella of capitalism will also be argued and discussed as evidence according to bottom up approach.

Equity and Sustainability Arguments

The efforts of re-conceptualizing the profit maximization has deserted the philosophy to be an un-dogmatic procedure. The prolonged thinking process has not been able to address the composition of maximization conjoint to individualism, role of government and taxation. Dogma of profit maximization has been excessively addressed, argued and criticised constantly strengthening its bases, creating un-compensatable and challenging existence in all sepheres of life.

In this politically fueled global economic market of the strongest and highly influential supper powers has clearly demonstrated the real meanings of efficiency and maximization. The emergence of overproduction, consumption and higher profits has created hollow moral fantasy by depriving many from their own, and by deterring opportunities for disadvantaged. Such so called, moral consideration of capitalism and profit oriented success has legalised exploitation, self subsidised rules, economic restrictions for weak, rule of the strongest and even prostitution to keep disadvantaged unmoved, rather worse. Does it mean that profit by any way must be maximized? Or there must be something else to begin with? Is there any economic democracy in profit maximization? Is there any greater good actually or its all imaginary? Does profitability moral fuel wars? Is it sustainable? Is it equitable? And so on.

My argument is primarily based upon greater good and justice. I do not oppose the production function or profit earning as a part of economic activity but to the destructive part of it. I think that greater good of “equal to everyone’s advantage” could be achieved by real justice resolving many of the existential challenges and moral hazards. The present economic system has proved it self illudively designed to favor advantaged by deriving cyclical financial turmoils. The approach of individualism with profit as a success criteria and greater greed of entitlement has proved not to be a rational approach to make this world a better living place. My argument is proponent to economic justice

and democracies. However, I have digged little deeper into the subsequent rules of profit maximization creating an unjust and quirk law adjustments to favour this system. Posing to efficiency argument for rewarding the productive units for its contribution seems comprehensively composed approach to understand the economic allocation and entitlement. However, the prime emphasis of profit as a measure of success, neglecting the provision of equal opportunity and misperceived economic outcomes contain no welfare. I emphasis on the development of such economic and organizational philosophy and structure earning reasonable profits with embedded equality and sustainability. The concept of equity, equality and sustainability is the prime need of global economic system.

Bottom Up Approach

Being a student of economics and finance my observation has explored imbalanced regulatory approach to reciprocate the benefit subsequent to notion of profit maximization. Capitalism considers tax and regulatory system as a restraining factor to its very purposes. The world is practicing an unjust regulatory system of subsidized taxation policy for debt with unreasonable silence. Wealth maximization umbrella covers tactical ways to gain affluence and capitalization on poverty. This bottom up approach is consummate to reveal unjust and undemocratic economic use of wealth maximization. According to taxation regime for debt financing, corporate world is given a cunning favor of tax deductibility on interest. This system establishes an unjust and undemocratic enforcement of law hindering equity and equality and distribution function. Interconnection of debt market and centrally controlled financial world seems to work collectively for greater greed.

Furthermore, pondering over the corporate philosophy and recognition of shareholding spirit is vague in presence of most likely debt financing backed by current taxation regime. The spirit of such law is obviously to harm equity and limitate shareholder's discretion. Such epistemological skepticism is self defeating and clearly violates the capitalistic assumption of free market and favours inefficient advantaged over efficient disadvantaged. The efficiency argument backs productivity but the cunning ways of achieving efficiency avoid structural morals and justice for greater good. So, reformulation of such rules ensuring "equality to everyone's advantage" would promote equity and equality and true spirit of productive efficiency and risk shifting to risk sharing.

Dogma premises of capitalism has failed to get stability and is proved scientifically contrary to its mythical and nebulous claims. Moving ahead to another existential challenge of economic war and rhythmic financial instability is argued to be stabilized by replacing individualism to collectivism and by advocating economic democracy over economic primacy. Enforcing selfcentered rules by political and economic mutiny has resulted in imbalanced approach to gain moral good by efficiency argument. Perfect argument to understand the gain of financial stability is to have world with equal regulatory structure at all economic spheres. Interest tax deductibility is one of the rules gaining efficiency for advantaged and presenting an biased and unstable ground reality. Seemingly, capitalistic system is intrinsically designed to be failed and purposefully skim profits and real wealth from competitive market forces. The role of interest tax

deductibility is base line to understand such structural mechanism and open secret. However, my proposal is to eliminate such advantages and bring all market forces to a ground level playing field to access the real market efficiency. Besides, the dogma of profit maximization is the top most factor giving raise to such unjust and undemocratic system promoting greed over greater good. Finally, I propose to replace the objective of corporate profit maximization with “equitable and sustainable wealth creation”. Coming up with such philosophical solution on this dimension may not be worthwhile enough to resolve the challenges, but to align the rest of the dogma premises of capitalism to moral, ethical and just dimensions would be a perfect solution to make this world a worth living place. Capitalistic system is perfectly explained by its industrial inclination where raw materials are used in expensive machinery to have economy, efficiency and maximum profit. Similarly, overall system is using the raw material of disadvantaged to increase entitlement, profit and wealth for the advantaged, hence proving them efficient to exploit.

The Judgment

Theory of dogmatism and capitalistic philosophy of profit maximization has proved itself to be reason rather solution of composite existential challenges. The greed of entitlement and undue influence of economic power arguably justify the moral significance of maximization. However, the experience of time has shown a rude picture and has opened the secret of tactical use and design of legal infrastructure negating justice and greater good. The subsequent law of tax favour to capitalistic niche has evidently falsified the normative theory of efficiency and profit maximization to be just. To resolve this dogmatic philosophical notion, the proposal is to replace the “wealth maximization” with “equitable and sustainable wealth creation” to have greater good and justice.

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