

sive; or (2) it can mean that only some profits are excessive. Those who accept the first interpretation are usually Marxists in fact, if not in name, because their argument rests on Marx's labor theory of value. According to it, the surplus of return over cost which constitutes profit comes from not paying the laborer what his labor time is "worth." To rebut the labor theory of value is far beyond the scope of this paper, and, more important, would be redundant given the classic refutations of Böhm-Bawerk (*Capital and Interest*) and von Mises (*Human Action, Socialism*). Besides, it is the second interpretation which is the more interesting because it is so much more common than the first.

How Much Is Too Much?

Anyone who holds the second interpretation—that some profits are excessive, others not—must determine the standard by which the excess can be measured. What might that be? One common suggestion is that it should be whatever is the average profit within the industry. Anything above that would be excess. A major problem with this is its vagueness: what is meant by "the industry"? Are the profits of our chair maker to be compared with those of all furniture makers, or with those who make only chairs, or with those who make only wooden chairs? How similar to the commod-

ity of the entrepreneur in question must be the commodities which constitute the standard class, i.e., "the industry"?

Since there are an unlimited number of possible standards for measuring alleged profit excesses, we cannot examine each of them. However, if we could show that they all shared a certain serious weakness, regardless of where exactly they drew the line for establishing excess, we would have reason for rejecting all of them. That, in fact, is the case.

Consider our chair maker. In order to stay in business, he must satisfy some demand. People must want his chairs. If there were some unit for measuring demand, and if it could be shown that by producing chairs more demand was being satisfied than if they were not produced, then, according to that standard, our chair maker would have increased the sum of social utility by increasing the amount of satisfied demand. He would, in other words, be justified in producing chairs.

There is such a measuring unit: the medium of exchange, money. Each dollar bid on a commodity is an indicator of demand. The more of a scarce resource offered for something, the more valuable, relative to that resource, the thing is. And, as we all know, money is indeed a scarce resource.

The costs our chair maker must

pay for his raw materials, labor, and capital constitute the measure of demand for those resources prior to their embodiment in his chairs. That is, had he never begun production, those resources would still be worth the cost he was forced to pay for them. But in fact they are transformed into his chairs. Since the chairs sell per unit at a price greater than their per unit cost, more demand (measured in dollar votes) is satisfied than if the economic resources constituting them had not been combined into chairs but simply allowed to remain as they were when they commanded the lower costs our entrepreneur paid for them.

A Measure of Efficiency

The overage between the price and cost—profit—is the measure of how much greater is the demand being satisfied by chairs than by the wood, labor, and tools, prior to their utilization by our producer. It attests to the entrepreneur's ingenuity and efficiency in adapting scarce and valuable resources to better serve willing customers. The more profits generated, the greater demand satisfied. Therefore, so long as we want our economic demands satisfied, no profits can be excessive.

With losses, the situation is re-

versed. If the price per chair is less than the per unit cost, then there was greater demand for the economic resources prior to their embodiment into chairs. In producing chairs, the entrepreneur has caused less demand to be satisfied than if he had produced nothing. Therefore, all losses are excessive because they are indicative of having introduced disutility in the form of less satisfaction of demands.

In short, profit signifies that a valuable social function has been performed, and the larger the profit the greater is the satisfaction of economic demand. We have offered an argument which proves that, *prima facie*, unlimited profit should be encouraged while any loss should be discouraged. Our argument places the burden of proof upon those who would restrict profits. They would have to show that restriction, despite its minimizing of demand satisfaction, would nevertheless be a good thing. To do this, they must meet the same standards of argument that we met: determine a criterion of value to replace ours of demand satisfaction, and then indicate their method for measuring the presence or absence of that criterion, as money bid in the marketplace measures ours. It's up to them.