

## **8. Society's Profit**

People are living in a society, because together we can achieve more than on our own. The benefits of living and working together is what I call Society's Profit.

Say a society consists of 3 persons, A, B and C. Initially these 3 do not work together. Each of them produces goods a, b and c by themselves. They then decide to start working together, by specialising in what they can do relatively best. In line with Ricardo's comparative advantage theory, they will all benefit from working together. Each individual person can benefit by specializing in the production of goods for which they have a relatively lower opportunity cost in production, even if they do not have an absolute advantage in the production of any particular good

The best way to improve the situation of people in society is to investing time and resources properly. Any investment is meant to improve people's situation in the future. As investor, you will get the investment return, but you will also benefit from the impact of the investment made. This impact can be a better product, a cheaper product or a production process with less pollution. This investment will also have a positive impact on other people in society.

### **Who benefits from investing?**

Investing in equity and bonds or private lending are examples of investing in our production structure. Because the future is uncertain, investors are entrepreneurs. Investors will ultimately make the best returns by best meeting society's future needs. Where the needs are highest and the demand the highest, prices will be highest as well. Profits can be realized by companies that have properly anticipated those relatively higher prices and by investors who invested in these companies.

In a capitalistic society, there are several groups involved in living and working together, Investors, Entrepreneurs/Managers, Consumers/Employees. Obviously, people are not confined to just 1 group. On the contrary, employees for instance are also consumers and are likely to invest as well.

- Investors invest their money in companies, via equity, bonds or otherwise. They will require a nominal interest rate compensation.
- Entrepreneurs and Managers are launching new ventures or are managing existing companies. They need money to invest in their activities, but do not have the resources themselves. If their business goes well they will realise a profit, maybe on top of a base salary. If things do not go well, for instance because there is a lack of demand for their products and services, they will realise a loss and their ventures or companies will disappear over time.
- Consumers will buy the end products or services produced by all the ventures and companies involved in the production structure. In a barter economy they would offer goods and services they are producing, in exchange for other goods. As employees they offer their labour to Entrepreneurs and Managers, in exchange of a monetary salary. They are rewarded based on how much they add to the productivity of the company.

Do consuming and working people in society require a profit as well? The answer is yes. It will be unacceptable to them if they were not to benefit, whereas the investor and the entrepreneur manager would benefit, thanks to them.

With every voluntarily transaction that takes place between 2 or more parties, all parties naturally stand to benefit. If person A buys from person B at a certain price, the use value of the product to person A is higher than the agreed upon payment. Person B on the other hand better appreciates the money than the fruits of the product sold. Person A and person B are both better off.

Nothing can be said about how much person A is better off and how much better person B is better off. The price at which the transaction occurred does not measure any value. Value cannot be measured. Both parties simply attached a different value to the product at the agreed upon price and hence, both benefit from the transaction.

### **Does everyone benefit?**

Going back to the simplified example of a society consisting of 3 persons, A, B and C. Suppose one of them decides to invest with a view to improve the efficiency of producing their good or with the aim to producing another good. Also with the transactions involved in this investment, all people in society would like to benefit. If the entrepreneur develops goods or services with higher quality, and sells these over time at a lower price, the consumer will stand to benefit if this person is willing to pay the offered price.

Can we think of scenarios under which some people will not benefit? In practice this may be possible but it would not make sense. Say A and B decide to more efficiently produce good c, a good so far produced by person C only. If C is only good at producing c, this person will have a challenge at hand. Maybe C could switch to producing product d, but only if there is a relative comparative advantage. If there is no comparative advantage, A and B would have better invested in product d. This way they would have better met with the highest needs in this small society.

In other words, if C does not benefit from this new situation, this person may be better off leaving society and to go back to the old days of producing a, b and c all alone. In this case, A and B will lose a customer, a potential employee or even a potential co-investor. They are better off making the best use of the comparative advantage of C and by adjusting their investment accordingly in order to realise the best returns for themselves.

Obviously, this is a hugely oversimplified example, merely aiming to illustrate the point that people in society are working together with the aim to improve their own situation. If these transactions are taking place voluntarily, they will likely achieve their aim.

### **The importance for society's profit**

By increasing the range of products and services in a world without money growth, prices will tend to fall over time. More supply results in lower prices. A general fall in prices, realized through efficient cooperation and by best applying innovations and technological progress, can be seen as a benefit to society. By properly investing, labour productivity goes up and with a higher value add there is an upward pressure on salaries. If prices fall, people can buy more even with the same salary and savings at hand.

To consume more can mean many things though. If the purchasing power of people stays the same, but people only need to work 3 days a week instead of 5 days week, this still implies an improvement of the situation of people in society. In addition to their usual consumption, they will be able to consuming more leisure. What matters to people is to improve their situation and in the end, nothing can be said how much their situation has improved, as this is based on subjective preferences. If people do not benefit from living and working together in society, they will not be happy and may step out of society if possible.