

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?

Ayana Sabharwal

Delhi Public School Saket, New Delhi

DOI: 10.46609/IJSSER.2025.v10i09.043 URL: <https://doi.org/10.46609/IJSSER.2025.v10i09.043>

Received: 11 September 2025 / Accepted: 26 September 2025 / Published: 30 September 2025

Introduction

The profit motive—the act of engaging in activities with the expectation of earning money—is fundamental to capitalist economies. Charities and government-run enterprises operate within the not-for-profit sector, aiming to fulfil their social missions rather than maximise returns. Would such profit-incentivised behaviour be deemed “better” for society than the scenario we could envision where every single business was run either as a charitable entity or by the state? This essay examines how profit affects efficiency and innovation, as well as equity and welfare outcomes, human behaviour, and incentives, tracing these ideas from post-war Britain to the Nordic economies and platform capitalism. The analysis reveals that profit-driven activity gives rise to both commendable and reprehensible behaviour. A pragmatic mixed model is preferred: one that harnesses the dynamism of profit but trusts public and charitable institutions and regulations to correct market failures.

Innovation and Efficiency

Profit motive impels efficient production and innovative activities. The hope of profit engenders creative destruction behaviour—entrepreneurs actively seek to disrupt existing industries for financial gain. Joseph Schumpeter observed that profit incentives drive this destructive-creative behaviour: “The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation” (Schumpeter, 1942)². This profit-seeking behaviour destroys old jobs and industries while creating new ones—Netflix’s profit motive led to behaviours that destroyed Blockbuster while creating its own streaming services.

The hope for profit generates dynamic efficiency behaviours of changing, adapting, innovating and improving over time—all because standing still means being outdone by competitors. Unlike

the static efficiency of producing at the lowest costs currently, profit incentives drive behaviours for long-term competitive advantage. Apple constantly redesigns products not only to reduce costs but also to create new demand. These behaviours explain the varying speed of adaptability in the market versus planned economies. Under managers faced with profit pressures, there is urgency and flexibility, whereas bureaucrats facing no such pressures lack these qualities.

Thus, a competitive market with many suppliers urges anyone seeking to make profits to minimise waste and costs and maximise customer satisfaction in order to meet tastes. The invisible hand theory of Adam Smith gives a basic justification of it: Smith maintained that “every individual... is led by an invisible hand to promote an end which was no part of his intention” - namely, the general good of society. Thus, the invisible hand converts individual greed into collective benefits through the market mechanism, whereby the very pursuit of profits turns out to serve the public interest.

Profit motives induce commercial efficiency. Businesses must provide better products at lower prices than their competitors to attract more customers. This creates two kinds of efficiency. Static efficiency refers to the optimal use of resources at a given point in time, also known as Pareto efficiency among economists. Dynamic efficiency refers to the concept that through innovation, technical change, and improved production methods, long-term improvements in economic productivity can be achieved.

The concepts of Pareto efficiency and Schumpeter’s creative destruction offer valuable frameworks for evaluating such profit-driven behaviours. Schumpeter argued that the pursuit of profit fuels a process of “creative destruction,” where innovative, more productive ones replace redundant industries and technologies.

While this process drives long-term economic growth and dynamism, it often disrupts existing jobs, businesses, and communities, creating winners and losers within the market. From a Pareto efficiency perspective, these changes are rarely Pareto improving as they make some individuals worse off while benefiting others. However, such shifts may still lead to a more efficient allocation of resources over time.

In contrast, government and charitable enterprises may avoid disruption, offering stability and equity, but at the cost of innovation and productivity. In contrast, government and charitable enterprises may avoid disruption, offering stability and equity, but at the cost of innovation and productivity. Enterprises run by state administration or charities generally suffer from bureaucratic inefficiencies. For example, before privatisation, British Telecom was Britain’s sole telephone provider, characterised by long wait times and poor service quality. Post-privatisation, however, wait times dropped from months to days, and service quality dramatically improved in

the newly competitive environment. Profit-driven competition introduced a new way of behaving: firms had to earn their customers, cut costs, and innovate or lose business.

Public choice economists, such as Buchanan and Tullock, suggest that bureaucrats seek to maximise their departments and avoid risks, leading to bloated operations absent the discipline of profit and competition.

Research from the National University of Singapore confirms these theoretical predictions, finding that “over-politicisation and bureaucracy lower operational efficiency” in Chinese state-owned enterprises, with both direct and indirect government ownership having measurable negative impacts on firm performance.

This empirical evidence demonstrates how the absence of profit discipline and competitive pressure allows bureaucratic pathologies to flourish, thereby validating public choice theory’s predictions about government enterprise behaviour.

However, profits do not always translate into Pareto-efficient behaviours. The profit motive often generates rent-seeking behaviours—the pursuit of gains through the redistribution of resources rather than the creation of value. Hope for profit can give rise to zero-sum competitive conduct rather than positive-sum wealth creation. Regulatory capture can occur when government agencies prioritise private interests over public ones.

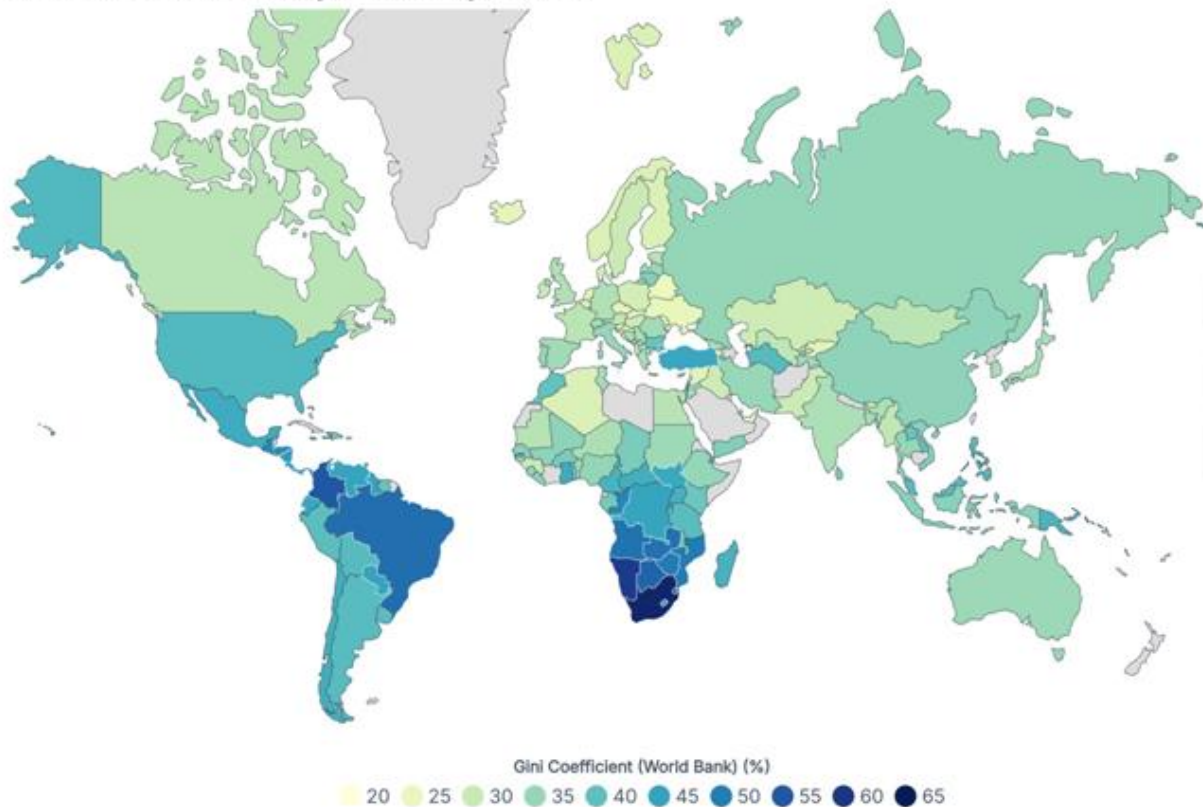
Equity and Welfare Outcomes

While profit incentives drive growth and efficiency, unfettered profit-seeking can produce unequal outcomes. Amartya Sen’s capability approach emphasises that development should focus on expanding people’s capabilities and freedoms, not just economic growth.⁵ Profit-driven markets may neglect the capabilities of those unable to pay, creating opportunity costs that result in society forgoing human potential. Markets reward those who succeed in generating goods others will pay for, leading to income and wealth disparities.

The relation between market orientation and income inequality becomes clear when examining Gini coefficient data worldwide. The Gini coefficient measures income distribution, with a value of 0 indicating perfect equality of income distribution and a value of 1 representing the most extreme inequality. In market economies, the United States has a Gini index of 0.41, which is relatively high and favours inequality. Countries with considerable state intervention have substantially lower inequality, as seen in Germany (0.32), France (0.32), and the United Kingdom (0.35). Nordic countries, with market-oriented policies accompanied by strong welfare states, offer the fairest outcomes, with Gini indices from 0.25 to 0.28⁶—almost half the inequality found in the United States.

Economics > Gini Coefficient by Country 2025

Gini Coefficient by Country 2025



World map of Gini coefficients by country in 2025: Darker shades represent higher income inequality, with countries such as South Africa and Brazil exhibiting the highest Gini values.

The hope of profit fosters behaviours that perpetuate inequality and create market failures in equity. When profit becomes the primary motivator, it leads to resource allocation behaviours serving only those who can pay premium prices while neglecting others.

Rawls claims that inequality is justified only to the extent that it benefits the worst-off in society. In pure-market economies, one cannot be certain that economic developments benefit people with low incomes. They may be unable to afford the basic necessities of life, such as healthcare and education.

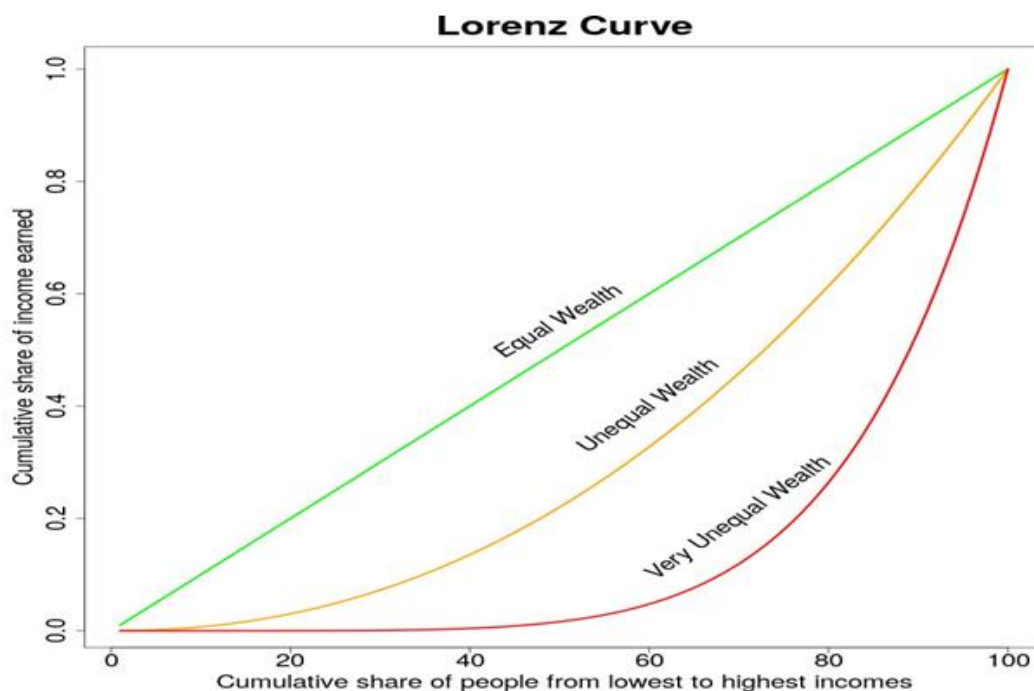
Amartya Sen offers a new approach known as the capability approach. He believes that real development should enhance what people can do and be rather than increase their incomes. Therefore, profit-making systems should be evaluated on whether they enhance human capabilities for everyone rather than just the wealthy.

A 1997 Stanford study of U.S. hospitals found that privatisation led to profitability improvements; however, willingness to treat poor patients declined drastically.⁷ The hope of profit led to patient selection behaviours—a 14% decrease in Medicaid patient admissions during the first three years after the takeover by profit-seeking owners, while patient revenue per bed rose 22%. This illustrates how behavioural changes induced by profit incentives can lead to market failures in essential services. The principal-agent problem arises when hospital managers prioritise shareholder profits over patient welfare, leading to discriminatory behaviours that serve financial rather than medical priorities.

From a Rawlsian justice perspective, this appears problematic. John Rawls stated that inequalities should benefit the least advantaged.⁸ In purely profit-oriented market economies, there is no guarantee that the worst-off would benefit, as they may lack access to basic needs if unable to pay.

Nevertheless, relying solely on government or charitable ownership has downsides. Public-choice theorists argue that government enterprises may be captured to serve the interests of bureaucrats or politically powerful groups rather than those of consumers or the poor. If government enterprises fail, costs are borne by the public through taxation or inferior services.

Charities often face limitations in scale and funding, which can lead them to select more manageable tasks or rely on volunteers for support.



Lorenz Curve illustrating income and wealth distribution: The green line represents perfect equality, the orange line shows moderate inequality, and the red line indicates very high inequality. The further the curve is from the line of equality, the greater the level of inequality depicted.

Nordic countries combine a strong public sector with a vibrant market economy to achieve very low inequality alongside very high living standards. These nations score lower in terms of inequality (Gini: 25 vs. 41 for the USA) in terms of life satisfaction, but they possess strong market economies.

The U.S. inequality trend data (1963-2023) reveals a concerning pattern: the U.S. Gini Index has steadily risen from approximately 37 in the 1960s to over 41 by 2023. This six-decade upward trajectory demonstrates how profit-driven economic systems have progressively concentrated wealth in the United States, validating concerns about market-generated inequality over time.

Inequality

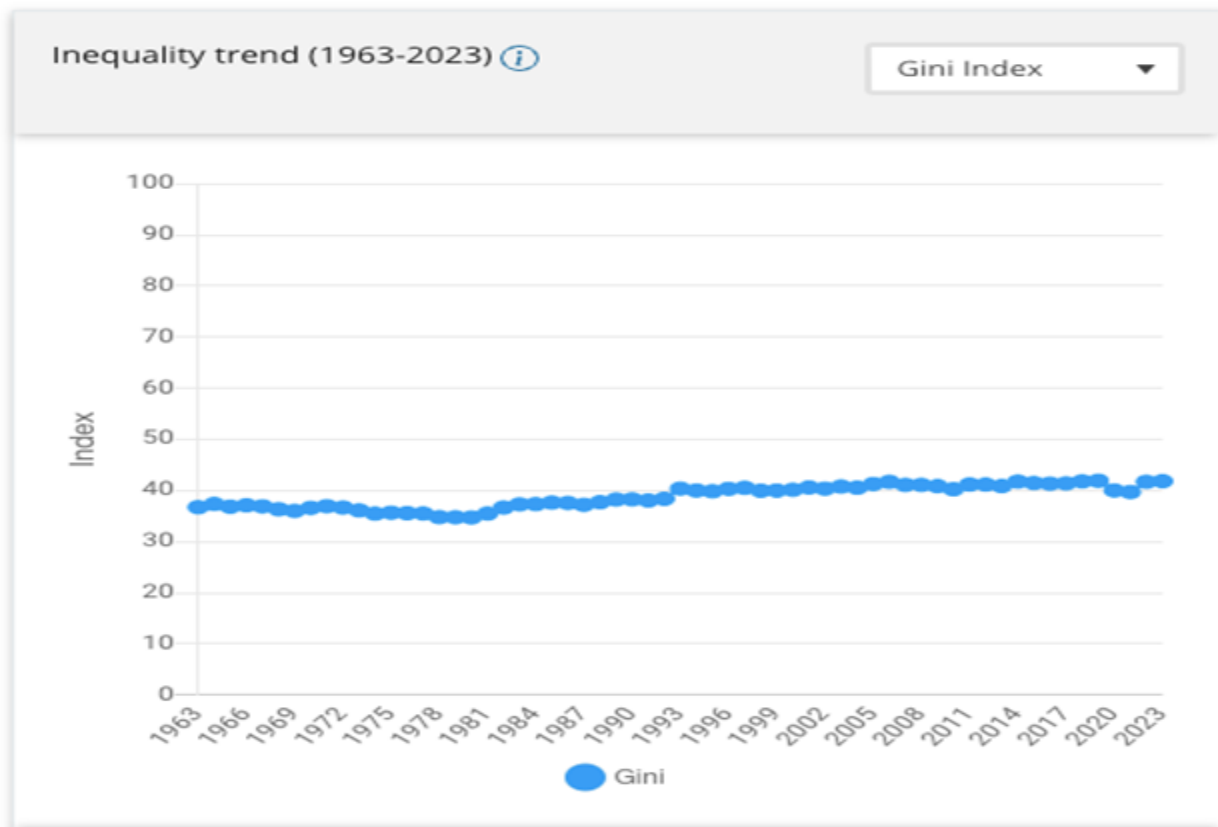


Figure: U.S. Inequality trend (1963-2023) showing Gini Index rise from approximately 37 to over 41. The steady upward trajectory demonstrates how profit-driven economic systems have

progressively concentrated wealth in the United States over six decades, validating concerns about market-generated inequality over time.

Human Behaviour and Incentives

Profit incentive becomes a practical behavioural guide because bounded rationality does not allow time to assess all alternatives. It helps decision-making through clear success metrics. However, it can create principal-agent conflicts where profit motivation causes agents—such as managers and employees—to pursue goals that conflict with those of principals—owners or shareholders.

They maximise short-term profits by undertaking activities such as cutting R&D expenditures to secure shareholders' approval and bonuses, yet this harms the company's long-term value. Depending on how effectively structures of incentives are aligned with broader social purposes, the profit motive can be steered towards either constructive behaviours (innovation, efficiency) or destructive behaviours (short-termism, rent-seeking).

Herding behaviour and overconfidence regarding intended profits are evident in the dot-com bubble, where prospects of internet profits led to irrational investment behaviour that ultimately destroyed wealth.

Real human behaviour is more complex than classical economics' homo economicus. Behavioural economics shows that individuals are not truly rational profit maximisers. People display bounded rationality, cognitive biases, and social preferences. For example, employees may refuse bonuses to work for mission-oriented nonprofits because they derive intrinsic satisfaction from helping others.

Historical and Institutional Outcomes

Post-World War II Britain provides a vivid example. The Labour government nationalised major industries (coal, steel, railroads, utilities), assuming public ownership would serve the public interest. Initially, industries stabilised services and ensured universal access. By the 1970s, they were considered inefficient and uncompetitive. Government failures became apparent, including bureaucratic inefficiencies, principal-agent problems where managers lacked profit incentives, and the opportunity costs of capital tied up in unproductive state enterprises.

Margaret Thatcher's privatisation agenda returned these industries to profit-seeking owners.⁹ Results were mixed: Some service industries (telecommunications, air travel) improved service and innovation while others (rail transport) suffered fragmentation and under-investment. Success often depended on regulatory frameworks: Telecom and energy regulators prevented

private monopolies from exploiting consumers.

Platform capitalism demonstrates how profit-driven hope has created both positive and negative behaviours simultaneously. It has brought about technological innovations through creative destruction, transforming communication, commerce, and work. Now that profit has sway over platform capitalism, it encourages actions like monopolistic behaviours.

Companies create algorithms designed to maximise engagement metrics and advertisement revenue rather than user welfare. Such propensities incite addiction, misinformation, and social division. Uber has involved itself in profit-seeking through transportation innovations, yet at the same time, it develops exploitative labour practices, such as categorising drivers as contractors to escape the obligation of providing certain benefits. Here, one motive offers good and evil.

Conclusion

The quest for profit instigates a wide range of human actions, from creative entrepreneurship to exploitative rent-seeking. Profit-seeking tends to stimulate efficiency, innovation, and responsiveness to consumer needs. However, at the same time, it fosters greed and short-termism, neglecting social welfare and thereby creating inequality and exclusion.

Neither pure profit motivation nor its complete absence engenders optimal behaviours. Government ownership eliminates profit discipline, leading to rent-seeking, regulatory capture, and bureaucratic behaviours that prioritise serving officials over citizens. A pure profit orientation fosters innovative yet potentially exploitative behaviours that serve only profitable market segments.

A pragmatic mixed model outperforms pure approaches. Good institutions will steer profit-seeking towards behaviours that are beneficial to society while suppressing those that are harmful. The hope of profits will influence human behaviour; the challenge would be to ensure that this colossal force engenders behaviours beneficial for both individual development and social well-being. The balance that harnesses profit's creative destruction while remedying its market failures promises the most extensive set of positive behavioural outcomes.

References

1. Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations*. W. Strahan and T. Cadell, 1776.
2. Schumpeter, Joseph A. *Capitalism, Socialism and Democracy*. Harper & Brothers, 1942.
3. Buchanan, James M., and Gordon Tullock. *The Calculus of Consent*. University of

Michigan Press, 1962.

4. National University of Singapore. Government Ownership and Firm Performance in China. NUS Business School, 2016.
5. Sen, Amartya. Development as Freedom. Oxford University Press, 1999.
6. World Bank. World Development Indicators: Gini Index (World Bank Estimate). World Bank DataBank, 2023. databank.worldbank.org.
7. Duggan, Mark, et al. "When Public Hospitals Go Private, Low-Income Patients Lose." SIEPR Research Summary, Stanford Institute for Economic Policy Research, 2023.
8. Rawls, John. A Theory of Justice. Revised ed., Harvard University Press, 1999.
9. Baker, Kenneth. Interview. PBS, Commanding Heights, 2002.