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Modern Interpretation of Essence of Profit As a Source For Forming Financial Resources

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The article is devoted to the characterization of the nature of profit, the sources of its occurrence, factors affecting the mechanism of profit generation, competition, which arises for the purpose of making a profit depending on the type of market structure. The nature of profit is considered from the point of view of a critical analysis of the theories of various economic schools, assessments of their weak and strong points.

Introduction

Profit, as you know, has a special place in a market economy. All forms of human activity, wherever it occurs, are subject to profit generation. The profit motive has been introduced into the consciousness of a person from the moment of his work. A special role in the formation of profits are called upon to play scientific works on economic theory. The purpose of this work is to give a concrete idea of profit, an idea of its nature and ways to achieve it. The authors who consider the problem of profit present it from the position of a neoclassical trend, which is characterized by a microeconomic level of research, i.e. the level of individual producers, firms, and not social production as a whole.

We turn first of all to the consideration of the problem of the essence of profit and its sources. Defending the interests of society, a number of authors either pass by the labor theory of value, as if not noticing its existence, and, accordingly, by creating a genuinely scientific theory of profit, or do not sufficiently substantiate the provisions of this theory. Thus, according to R. Miller [8] and P. Samuelson [13], the labor theory of value, interpreted from the perspective of A. Smith, cannot solve the paradox of the low price of some goods (for example, water) that have the first vital necessity, and high prices of other goods (for example, diamonds) with their relative futility. Only determining the price of a product, in accordance with its marginal utility, is capable, according to these authors, of solving the problem. R. Miller and P. Samuelson simply ignore the fact that the insoluble, from their point of view, within the framework of the labor theory of value, the paradox was completely resolved when two properties of the goods were distinguished - use value and value, this solved the issue of the price of the goods without any appeals to marginal utility. The latter suits economists, first of all, by hiding the real source of profit.

Of course, American authors note that there are two types of profit: economic, or net, and normal, or zero, profit. Economic profit, in their opinion, is the difference between total income and economic (full, full competitive) costs. In turn, the latter consist of explicit costs (cash costs for workers, the purchase of raw materials, etc.) and implicit costs, which include income from production factors owned by the owner of the company and used by him (implicit salary, implicit rent and implicit interest). Normal, or zero, profit is what is needed to maintain capital in a given industry. Some originality in terminological terms, but not the essence of the matter, is distinguished by the textbook of R. Lipsi and P. Steiner [5]. They distinguish gross profit as the difference between gross income and direct costs (costs of materials, wages, electricity, etc.); net profit as the difference between gross profit and indirect costs (depreciation, overhead,

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administration salary, etc.); economic profit as the difference between net profit and imputed costs of equity and risk bearing, which are equal to normal profit. For at the same time, they emphasize the quantitative aspect of determining profit, its analysis from a purely market side. Given this focus on the surface manifestations of profit (the difference between income and costs), the role of labor and production as a whole in creating profit is almost completely denied. In addition, the inclusion of normal profit in implicit costs obscures the difference between costs and income, masks the existence of added value, and represents profit as an element of production costs.

Theoritical background

The very designation of profit as “normal”, or “zero”, insistently holds the idea that it serves as a “fair” reward for entrepreneurs for their entrepreneurial activity and the risk associated with it.

The authors of this book present the following sources of economic, or net, profit: 1) innovations in engineering and technology; 2) the uncertainty of the future; 3) violation of market equilibrium; 4) the existence of imperfect competition and monopoly. It is stipulated that the net profit associated with the introduction of technical improvements that cause a reduction in production costs is temporary, as the "innovator" is caught up with competitors. Actual practice, of course, shows that, having a patent monopoly, corporations can make significant profits for a long time.

Western economists, denying the existence of a real source of net profit, give it out as technical and technological innovations.

In the view of these economists, the other source of net profit is the risk of entrepreneurial operations, which is increasing under the conditions of a modern dynamic, subject to cyclical fluctuations and structural changes in a market economy. A businessman, taking risks, may suffer losses, but he may also benefit. “When we average losses and profits, we find that on average there is a positive economic profit. According to the risk theory of profit, the reason for its existence is the reward of entrepreneurs for taking the risk of failure "[8, p.551]. A natural question arises: by whom and how is this “reward” created, in other words, where does it come from. These authors, like other economists, "do not see" this issue. And this is understandable, because the answer to it forces us to abandon the "risky" theory of profit and move towards recognizing it as a result of labor.

Table 1 . **Classification of sources of profit formation**

Schools , directions	Authors	Determining the source of profit formation	Literary source
1	Classical Political Economy	A.Amith.	“Return on capital is just another name for the reward of a special type of labor, namely labor on supervision and management. However, this profit is completely different from remuneration: it is established on completely different principles, and does not consist in any way with the quantity, severity or complexity of this ... labor ... the worker gets the value of the goods created by labor and determined by the amount of this labor in the form of wages boards are only a fraction. The rest of the value added by labor is the profit of the entrepreneurial capitalist. ”I understood by

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			profit the whole difference between the value added by labor and wages, and in these cases I meant the surplus value. In other cases, Smith meant by profit the remainder after paying rent, as well as interest, and then called profit, the entrepreneurial income of the capitalist.
2	Classical Political Economy	Miles J.S.	The same factors - abstinence, risk, hard work - require appropriate remuneration and must receive it from gross profit. The three parts into which profit can be considered divided can be represented as a percentage of capital, insurance premium, and management wages
3	Classical Political Economy	Senior N.U.	Profit is generated by the “abstinence” of the capitalist, who could spend his capital on consumption, but “refrains” from it.
4	Follower	Zheleznov V.Ya.	Entrepreneurial profit cannot be <...> opposed to interest on capital; both of these forms of income are branches originating from the same root — ownership of capital and rights to private disposal of capital, and therefore the conditions for their determination are generally uniform
5	classical political economy and some provisions of the economic theory of Marxism	Sey J.B.	"about that part of the entrepreneur’s profits that comes as a reward for his industrial abilities, for his talents, activity, the spirit of order and leadership." The interpretation of entrepreneurial profit was reduced to a management fee that did not differ fundamentally from the wages of workers. The size of entrepreneurial profit depends on the ratio of supply and demand on the labor market of entrepreneurs, and the high value of this product is explained by its insufficient supply.
6	Schumpeter J. A.	“They didn’t accumulate any definite benefits, did not create any primary means of production, but only in a different way, they used the existing ones more expediently and profitably. They made new combinations. They are entrepreneurs, and their profit, surplus over all obligations, is entrepreneurial	Sey J.B. A Treatise on Political Economy, p. 58.

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		profit "	
7	Lassalle F.	Remuneration for "the consistent introduction of technical, commercial and organizational innovations into the economic interest"	Schumpeter J. A. Theory of Economic Development. M., 1982, p. 281.
8	Samuelson P.	“Profit is abstinence fee”	
9	Connell M.	profit is the income of a special production factor - entrepreneurial ability, entrepreneurial talent	
10	Chicago school	Knight F.	after subtracting implicit income, what remains is net profit, which is a reward for making an investment with an undefined return.
11	Cambridge school	Marshall A.	“The first is the price of capital supply; the second is the offer price of entrepreneurial ability and energy; the third is the offer price of that organization that combines the proper entrepreneurial ability and the required capital ”
12	Representatives of modern economic thought	Sazhina M.A., Chibrikov G.G.	The result of uninsured risks arising from both cyclical and structural changes in the economy.
13	Representatives of modern economic thought	Nikitin S., Glazova E., Nikitin A.	“A flexible and adequate response to unpredictable risk and timely development of innovations in all crucial business sectors”
14	Representatives of modern economic thought	Selezneva N.N., Ionova A.F.	“Profit is the monetary net income of the entrepreneur on invested capital ...”

Table 1. ***Classification of sources of profit formation***

The mechanism of profit formation, from a methodological point of view, is interpreted differently. For, relying on neoclassical theory, they see their task in determining the conditions for a firm to achieve equilibrium, i.e. such conditions, the fulfillment of which makes it possible to maximize profits or minimize losses. The equilibrium state is analyzed by them in relation to the so-called "perfect competition", and then the obtained data are applied to other types of "market structures".

The competition is “perfect” or pure, characterized by the presence of a large number of independent producers in this industry, and each of them has production volumes so insignificant compared to industry-wide that they can have no effect on the price level. The latter is formed entirely under the influence of supply and demand and already in turn determines the volume of production of each commodity producer. In conditions of "perfect competition" there are no barriers to the penetration of new capital into the industry, firms produce completely identical goods and, therefore, fight among themselves only through prices.

The firm can achieve an equilibrium state over various time intervals: 1) instantly - so that it does not have time to respond to changes in demand by changing supply and price; 2) for a short time during which the production capacity of the company remains constant, but it can vary the volume of output using these capacities with greater or lesser intensity; 3) for a long time, during which the company is able to change the volume of resources used by it, new firms may be introduced into the industry, and some of the former may leave it.

The current state of equilibrium of the company is given in this economic literature from two sides: firstly, through the ratio of the price of the goods produced and the costs of its production (external equilibrium) and, secondly, through the optimal combination of production factors used by the company (internal equilibrium).

In the first case, over a long period, the state of equilibrium in conditions of "perfect competition" is achieved with such a volume of production, when the price of the goods produced is equal to the average and marginal costs of its production.

This argument is based on examples of combining easily perceived surface manifestations of economic processes. For example, it is beneficial to expand production until the associated increase in total income ceases to exceed the decrease in the share of net income in the price of production. Similar reasoning is illustrated with the help of graphic images and mathematical formulas. Here, the essential dependencies underlying the formation of profit are given using mathematical interpretation using the provisions of the theory of marginalism [3].

Of course, this approach suffers from serious theoretical flaws. The determination of the state of equilibrium of a company is based on the assumption accepted as an axiom that the curves of average and marginal costs are U-shaped, i.e. with the growth of production, costs first decrease, and then begin to increase. Firstly, with this approach, the dynamics of costs seems to depend only on changes in the volume of production. Other factors affecting costs, and, above all, scientific and technological progress, are virtually eliminated. Secondly, this axiom can be realized in conditions of full involvement of resources when they become rare. For it is real in industries in which the limited role of natural resources, such as mining and agriculture, plays a significant role. But in economic books there is no answer to the question of why this dependence is carried out, say, in science-intensive industries, for example, in production, where limited resources do not play a significant role. Studies conducted on the basis of indicators of various industries do not confirm the assumption regarding the U-shaped curve of the average cost. [4] If the condition for such dynamics of average and marginal costs is not fulfilled, the above aspect of the theory of equilibrium does not even have an elementary theoretical basis.

The state of equilibrium of the company in conditions of "perfect competition", on the other hand, is achieved with such a combination of factors of production, when the price of each factor of production equals the income from its marginal product. Otherwise, the company will stop acquiring a particular factor of production if the income from its marginal product becomes less than the price of this factor.

Of course, it should be noted that in the theory of factors of production, value is created by all factors of production, including material ones, and not exclusively by the labor of workers. At the same time, one has to proceed from the assumption that varying factors is the only way to maximize a firm's income. For at the same time, the possibility of increasing output as a result of scientific and technological progress is ignored, the presence of technological limitations when replacing one factor with another is ignored.

As the book “Economics” shows, in conditions of “perfect competition for a long period, the net or economic profit is zero and the company only reimburses costs (let's not forget that economists include“ normal ”or“ zero ”profit in costs) . This happens due to the fact that if demand for the products of this industry increases (the demand curve shifts up) and the price exceeds average costs (firms start to earn net profit), competitors will invade the industry, supply will increase (the supply curve will move down), and the price will drop and the equilibrium of a long period will be established with a different volume of production, but again at the point where the price is equal to the average cost and the net profit is equal to zero. A similar result will be obtained if demand decreases and prices fall below the average cost level. At the same time, the source of net profit is

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the violation of market equilibrium.

R. Miller and P. Samuelson see the reason for the migration of capital in an increase or decrease in demand for products in this industry. In our opinion, this reason is in the sphere of circulation, not production. The rate of return for capital invested in any industry should be equal to the rate of return of capital already operating in this industry [8, p. 390]. But why in this industry has developed just such, and not a different form of income? This issue is not paid attention to in their books. In addition, depicting the overflow of capital in the form of a free and unhindered process, they also do not answer the question of the existence of disproportionality in the economy and, as a consequence, of economic crises. The violation of market equilibrium may be the reason for individual firms to receive additional profit, but not its source.

The “perfect competition” laid down in the reasoning of the authors in question does not correspond to the real state of the market economy. These economists are looking for the reasons for this discrepancy and the transition to "imperfect competition." One of these reasons, in their opinion, is a decrease in the marginal cost curve of the firm. In this case, the company begins to expand its production, because the price of each additional unit of production will exceed the marginal cost. A company that has begun expanding production first will gain an advantage over its competitors, and this advantage will increase all the time, because, capturing the market, it will force competitors to reduce production and the marginal costs of the latter will increase. This statement contains the idea that “perfect competition” is aimed at ensuring the most efficient allocation of resources. The progress of science and technology leads to lower marginal costs. But in their writings the opinion of this is not directly expressed.

Results

The authors distinguish three types of market structures associated with "imperfect competition": 1) monopoly; 2) monopolistic competition; 3) oligopoly. Each of them is determined using the following characteristics: 1) the number of sellers in this industry; 2) the degree of product differentiation; 3) the possibility of price control by individual firms; 4) obstacles to entry of competitors into the industry; 5) conditions for price and non-price competition. C. McConnell identifies four factors that determine the penetration and existence of these types of markets in the structure of the economy: “1) legislation and government policy; 2) the policy and practice of firms; 3) technological considerations; 4) the natural laws and characteristics of capitalist ideology ... ”[20, p. 470].

Hence, they determine the structure of the economy, first of all, by factors that are either in the sphere of circulation or generally external to economic processes (legislation, ideology). At the same time, profound changes in the basis, first of all, increased concentration and centralization of capital, which leads to the emergence of a monopoly that grows from free competition and suppresses it, remain outside the analysis. In addition, one cannot but bear in mind that in reality the above market models practically do not exist in their pure form. Economists, reducing "imperfect competition" to the confrontation of equal opponents (or monopolies, or oligopolies, or monopolistic competitors), ignore the presence of other types of competition (in particular, between monopolies and non-monopolies) and do not study their influence on the process of formation and distribution of profits .

It follows from this that, considering various models of markets combining monopoly and competition, they do not see the existence of objective foundations of a monopoly structure in modern market relations. For the monopoly is interpreted by them as a company, which is the only seller of products in this industry, moreover, products that cannot be replaced by products of another industry. The monopoly has full control over the price of the goods it produces, and its existence depends on the strength of the obstacles to the penetration of competitors in this industry. Linking the existence of a monopoly with such severe restrictions has a clear ideological purpose: to create the impression of the exceptional rarity of a monopoly, which facilitates its apology.

Discussions

The authors reduce the source of net (monopoly) profit to the surface manifestations of monopoly in the market, and the very existence of profit is made dependent on demand. They constantly emphasize the possibility of the disappearance of net profit and even losses in the event that the monopoly price does not cover the average costs. This creates an opaque view of the true size of monopoly profits.

So, in the writings of the above economists there is also an element of criticism of monopoly. The main drawback of the latter is that the monopoly, with the goal of maximizing profits, keeps the monopoly price at a level exceeding marginal costs by limiting production. Moreover, the company does not receive the products it needs. It should be noted that in order to eliminate this lack of monopolies, it is proposed to introduce state regulation of monopoly prices and establish a regulated price at the average cost of the monopoly. This eliminates net profit and forces the monopoly to increase production, which is beneficial to society. But even in this case, the regulated price exceeds marginal costs, therefore, the distribution of resources will continue to be ineffective. Setting the price at the level of marginal costs will lead to the fact that it will reimburse its costs and the monopolies will need state subsidies to maintain prices at this level. The reason that the price, equal to marginal costs, does not cover average costs, according to economists, lies in the characteristics of production. Since the monopoly keeps a significant part of its equipment unloaded in order to be able to quickly increase production if necessary, the cost of production per unit is reduced.

In our opinion, the theory of regulated monopoly is based and based on the existence of monopoly high prices, since lower prices will lead to the fact that the monopoly will not reimburse its costs. Thus, an attempt to criticize monopoly in the book "Economics" did not find its sufficient development and justification.

Conclusions

An analysis of the other two cases of "imperfect competition" - oligopoly and monopolistic competition - does not introduce essentially new moments into the consideration of the problem of forming financial resources, in particular, profit. Both oligopoly and monopolistic competition are now interpreted as purely market situations. If the study of oligopoly emphasizes the problem of harmonizing pricing policies, then in the theory of monopolistic competition, it focuses on the struggle between monopolies in the field of product differentiation, advertising, etc. And here, reflecting some phenomena of a market economy, the problems considered do not connect them with the process of concentration and centralization of capital, they mask the actual source of profit.

The problem statement does not reveal the true nature of profit. At the same time, the analysis of modern views on the nature of profit shows that under market conditions in the economic literature the nature of profit does not justify at the level of sufficiency of financial resources, but emphasizes profit making and thereby withstanding competition.

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