Inhoud en grenzen van het winstbegrip
Straaten, Henricus Carolus van
THE CONCEPT OF PROFIT, ITS CONTENTS AND LIMITATIONS – SUMMARY

I

The aim of this study has been to try and arrive at a satisfactory solution of the problem of profit-determination. It does not occupy itself with the origin of profit, neither with its justification. The problem has been considered in the realm of business economics, the actual existence of profit being accepted. The crucial question to be answered was why and in what degree any increase in capital may be considered as profit. No attention whatever has been given to the fiscal aspect.

In particular the object of this study was to investigate the problems which arise from the determination of the amount of profit of the firm, in order to arrive at an appropriate conception of what is understood by profit. When thus stated the theory of profit is comparatively new. In consequence, apart from a brief survey of past history, the study did not go further than about 1920; as a matter of fact it started at the German literature on pseudo-profit. It has been the enormous depreciation of the currency in those years, which gave impetus to more serious thinking on profit, its nature and quantification. In this period tensions between the “substantialistic” and the “nominalistic” approach became manifest, tensions, which have been – and still are – among the main obstacles in the way of profit-analysis.

Nobody can say that the theory of profit has been neglected in business economics, at least not in Holland. Nevertheless no common opinion has been formed which goes further than a broad definition of profit as the gain of proceeds over cost; and these two elements, especially cost, are subject to many theoretical controversies.

II

During the collapse of the traditional ways of profit-determination in the years of the great inflation, people turned from an unchallenged nominalism to a more “substantialistic” view: maintenance of capital goods became aim and end of business policy. Only that surplus ought to be considered as profit, which remains after the means of production, expended in the course of manufacturing
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and selling have been replaced. In this way reproduction-value and replacement-value take the stage; not as the outcome of a theoretical analysis of value, but rather as an expedient for realising a particular program.

Substantialism as a term has been adopted in the economic language. Nevertheless when studying the German literature of the twenties it appears, that substantialists “tout court” have hardly existed. One may find substantialistic elements in connection with some other points of view, especially coupled with efforts to eliminate fluctuations in currency value. Such literature can hardly boast of clarity in stating the problem, neither of purity in analysis, nor of consistency in argument. However, it should be borne in mind that henceforth the emancipation of commercial doctrine up to scientific business economics as an adequate part of economic theory only begins. In this evolution Holland undeniably holds a prominent place. A pioneer in this field was the Amsterdam professor Th. Limperg. It is a pity that Limperg himself only published a few brief articles. His views and ideas have been circulated afterwards by his pupils, but few of their publications reached more than the Dutch reader. It must be regretted that hardly anything of what has developed in the theory of business economics in Holland has become known to foreign economists.

Substantialism is not without historical significance inasmuch as it ushered in a reaction to an undisputed way of profit computation by the bookkeeper. Nevertheless it could not bring a final solution, because the maintenance of capital goods in their present composition cannot be considered as an ultimately adequate aim of business policy. Such a technical standard is too rigid to suit the reality of economic dynamics.

When looking for a standard to attach the predicate profit to an increase in capital, it seemed more attractive to enter the sphere of income. This is because the object of getting an income is just what makes a producer take part in economic life. In essence, obtaining an income is the reason for “indirect” production. Thereby one may bear in mind either the income of the economic subjects “which lie behind” the firm, in casu the net-income of the factors of production, or one may choose the gross-conception, i.e. the income of the firm itself. Income of the firm is defined as the flow of purchasing power which enters the firm as a compensation for the goods and services it has produced and traded.

Limperg chose the consumable income to be considered as from capital, and not the producing factors of production, as certain results were to compress his substantialism into the more usual “economic subjects” which prevent an analysis of Limperg’s character from its starting point of maintaining doubtless prices however, in its connection with the idea of maintaining the doubtless presence of prices, however, in its connection with the idea of maintaining the doubtless presence of prices, however, in its connection with the idea of maintaining the doubtless presence of prices, however, in its connection with the idea of maintaining the doubtless presence of prices, however, in its connection with the idea of maintaining the doubtless presence of prices, however, in its connection with the idea of maintaining the doubtless presence of prices, however, in its connection with the idea of maintaining the doubtless presence of prices, however, in its connection with the idea of maintaining the doubtless presence of prices, however, in its connection with the idea of maintaining the doubtless presence of prices. However, in its connection with the idea of maintaining the doubtless presence of prices, however, in its connection with the idea of maintaining the doubtless presence of prices.

In attempting a substantialistic approach: arguing as from capital-income, A paradigm on one side and on the other, the problems were considered intact the production of. Furthermore at looking fixed capital above, the existing throughout the problems can from deduction from the starting point of the aspect, because it be regarded as a
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Limperg chose the former approach. He defines income as a
consumable increase in capital. Only such increases of capital must
be considered as profit that may be consumed without affecting
the producing firm as a permanent source of income for those
factors of production, whose level of income depends on the un-
certain results of manufacturing and trade. Limperg does not
compress his statement into a more concrete standard. This is all
the more unsatisfactory, as the incongruity of the interests of the
subjects “which lie behind” the firm with those of the firm itself
as an organism with a life of its own, induces particular tensions,
which prevent a univocal solution of the problem. But a profound
analysis of Limperg’s theory made clear that it has a different
character from what might have been expected from the chosen
starting point of the argument. It debouches in a twofold standard
of maintaining capital goods and capital value intact. Hence it
doubtless presents a safe directive for dividend-policy. It fails,
however, in its theoretical deduction through a lack of consistency
in connection with the premises stated explicitly. So Limperg’s
theory does not establish its pretension of general validity.

An ample description has been given of Limperg’s twofold
approach: arguing from the point of view of capital goods, as well
as from capital value. Considering the former, he develops the
“theorem of trunk and fruit”, the “fruit” representing material
income. A parallel may be drawn between “fruit” and income on
one side and capital goods and capital value on the other side.
Considering the latter point of view: capital value in connection
with the aptitude to consume some capital increase – the following
points were consecutively raised as a subject of analysis: maintaining
intact the production, problems of financing and risk of pricefall.
Furthermore attention was paid to the particular difficulties re-
garding fixed capital. In addition to the general conclusion mentioned
above, the existence of strong interdependent relations between
the problems of financing and profit has appeared as another
deduction from the analysis. Special attention is called to this
aspect, because in general financing and profit problems used to
be regarded as two strictly separated spheres.

III
In attempting as yet to put the maintaining of net income intact
as a standard to the test of usefulness, the study dwelled on Hayek’s
views on capital and income. As the maintaining of capital still
has something to do with profit, Hayek's idea is the more attractive, because he emphatically couples capital-maintenance to constancy of income. But, partly because Hayek never intended to develop a theory of business economics, it was not found possible to derive a useful starting-point for the problem of profit-determination.

J. L. Meij, another author who uses the income-standard, has chosen the gross conception, i.e. the income of the firm. This approach results from the predominant importance he awards to the independency of the firm as a premise of the theory of business economics. Great value must be attached to the works of J. L. Meij. It was already hinted at the fact, that the Amsterdam school (Limperg) has placed theoretical business economics upon a high level. The theory of replacement-value and, more generally speaking, business economics developed in the wayLimperg did, represents a sound and complete theoretical concept. Nevertheless it is not entirely free from dogmatic tendencies. This may have some didactic value, on the other hand a certain rigidity could not be evaded. Meij must be complimented on trying to bring the theory out of this impasse.

Therefore, the most important point in Meij's theory of profit lies in the fact, that he only claims a relative relevancy for the implication chosen by him regarding aim and standard of economic activities within the firm. In Meij's opinion, trying to maintain the flow of income generated by the firm, represents no more than a probable hypothesis about the actual appearance of the object of business policy. Furthermore the stress must be mentioned which Meij lays on the manyfold uncertainties in valuation and profit determination together with his plea for incorporating the theory of capital as developed by theorists of political economy into the theory of business economics.

Different notions of profit are founded on different implications about the more concrete shape of aim and object of business policy (J. L. Meij). It is from this point of view that several theories of profit were analysed. Maintaining capital intact may be understood as a conception either from the nominalistic, or from the substantialistic approach, or in the sense of maintaining real value intact (Walb). Respectively, one considers maintaining the nominal value of the investment, subsistance of the production in its actual shape and size, and finally maintenance of the purchasing power of the capital invested in the firm. A different approach results from applying the standard of the firm being a source from which flows a steady income (German: "Gross-Einkommenprinzip, i.e. gross-income principle, i.e. brind).
Hayek's idea is the more attractive, capital-maintenance to constancy Hayek never intended to develop was not found possible to derive blem of profit-determination. 

so uses the income-standard, has as a premise of the theory of must be attached to the works at the fact, that the Amsterdam theoretical business economics upon element-value and, more generally developed in the way Limperg did, theoretical concept. Nevertheless static tendencies. This may have hand a certain rigidity could not imitated on trying to bring the 

point in Meij's theory of profit aims a relative relevancy for the long aim and standard of economic j's opinion, trying to maintain the firm, represents no more than actual appearance of the object of stress must be mentioned which amities in valuation and profit for incorporating the theory of political economy into the understood on different implications in and object of business policy of view that several theories of spital intact may be understood finalistic, or from the substan- f maintaining real value intact maintaining the nominal value production in its actual shape f the purchasing power of the ferent approach results from ing a source from which flows a steady income for the benefit of the shareholders. Finally, there is the idea of the firm as an independent organism, leading a life of its own, which may debouch into maintaining the relative place (German: “die relative Stelle”, Schmidt), or into a constancy of gross-income (J. L. Meij) and, in extremis, into the “eudynamic” principle, i.e. a gradual expansion as object and standard (Sommerfeld).

Specific difficulties are inherent in all these objects as soon as they are chosen as a standard for profit-determination. These objections are partly caused by clinging too much to the material capital goods. For those who do not avow substantialism, do not always succeed in getting entirely away from a typically substance- alistic view. On the other hand, one encounters the difficulties which are inherent in the so-called correction of fluctuations in currency value. One is always confronted with the unsolvable problem of separating general price-fluctuations from specific ones. Finally, these theories are all the more unsatisfactory, as the interdependent relations of financing and profit are not adequately solved.

Besides these difficulties, which have a differing significance in the various theories, there is one universal objection to any approach of the profit problem that bears the “trunk-idea”, or any idea of maintenance. Herewith the vision is meant that in the firm there is a "something" that ought to be kept intact on penalty of endangering the economic life of the firm itself. Substantialism bears the “trunk-idea” most clearly. But even in the theory of J. L. Meij one can find similar features, although Meij explicitly deals with economic categories and not with technical ones. Any approach, however, that deals with maintaining something intact, must be considered as inadequate, at least in the field of profit-determination.

For, in this way, elements of profit-destination would creep into the theory of profit-determination. This is more than a quibble, because no implication whatever on a more concrete object of business policy, can boast of a general and absolute validity. In so far as it may be possible to keep profit-determination free from elements of profit-destination, in so far as it may be possible to create a notion of profit without implying standards or norms, the introduction of such a conception is justified.

Profit primarily represents a category of proceeds and returns, and no function of policies. Hicks has plainly proved the ticklishness of income as a net-conception. As long as the theory of business economics does not break with criteria which allow to subsist any
relation of the notions "consumable" or "distributable" to profit as a theoretical conception, it will remain impossible to arrive at a solution for the problem of profit determination which can be considered of general validity. This claim of absolute validity does not count for the area of profit destination. But the phase of profit-determination, preceding that of profit-destination, should as far as possible be kept free from an excess of ex ante elements. Therefore it is necessary to examine more closely the possibility to define fundamental factors in the theory of business economics, such as cost, value and profit, in a way which is not influenced by a business policy which in itself is subject to alternatives.

IV

As a starting-point for the analysis of cost, proceeds and profit no implication was chosen but the following statement: the aim of production by the firm is to obtain an income through the exchange on the selling market. In accordance with J. L. Meij it was thought appropriate to use the gross-concept of income. In a certain sense gross-income may be looked upon as representing the other side of cost, at least of what ought to be called "cost". The prevailing Dutch theory of business economics reserves the word "cost" for "replacement-cost" whereas it is pleaded in this study to re-introduce the idea of the so-called "historical-cost". This has been argued in the following way. The essence of cost being the giving up of potential alternative applications, the moment of investing represents the crucial moment in which such applications are abandoned. The most essential limitation of potential applications for a factor of production lies in its being destined for the specific production in a particular firm. Furthermore it was explained why it was not thought appropriate – at least not in the theory of profit determination – to acknowledge any other moment in the economic production-process within the firm as the determining moment for cost, except that of the investing. This implies that exchange on the selling market is not considered as such a critical moment either.

In this way problems of price-fluctuations are entirely shifted into the area of "proceeds-maturing". This word has been chosen in order to characterize the stage between investing and exchange on the selling market. This plea for historical cost in opposition to replacement-cost has been held whilst considering the case of positive economic stocks. When economic stocks are equal to zero,
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It is impossible to arrive at a determination which can be of absolute validity does not. But the phase of profit-destination, should, as far as possible ante elements. Thereby the possibility to define business economics, such as influenced by a business

most, proceeds and profit gowing statement: the aim through the exchange with J. L. Meij it is these-concept of income. In is called "cost". Whereas it is pleaded in this way. The essence of costive applications, the moment in which such initial limitation of poten-
ties lies in its being destined firm. Furthermore it was apropriate - at least not in acknowledge any other process within the firm as that of the investing, market is not considered as are entirely shifted into order has been chosen in investing and exchange-
cial cost in opposition to considering the case of stocks are equal to zero, both concepts of cost coincide. Thus production with the aid of capital goods may be described as the incurring of cost, which entails proceeds that are not completely realized into money, at least not completely within one period. In consequence, determination of the profit of a certain period encounters uncertainties about proceeds which still have to be realized into money, i.e. proceeds of the capital goods which economically subsist in stocks at the end of the period. The producer will be obliged to form an opinion about the potential proceeds of his stocks (including fixed capital). This is a problem of valuation. For as a matter of fact valuation and estimating potential proceeds are one and the same thing. Both imply that a certain significance is attached to the goods for the obtaining of an income.

This looks like sliding off to the unsolvable problem of "allocation of proceeds". (German: "Zurechungsproblem"). Allocation of actual proceeds to each of a number of complementary factors of production is impossible. But it is certainly possible to form an opinion about \( \text{minimum-proceeds} \) which may be expected to result from a factor of production as part of a whole. Should this not be the case, any reflection upon the question whether investing in a certain direction must be considered rational or not, would be meaningless. Reasoning from this judgment about an investment being rational or not the following statement was deduced: in most cases replacement-value may be considered as representing a justified estimation of potential proceeds.

It is being pointed out that this application of the replacement-value differs fundamentally in its origin from the deduction by the Amsterdam school. In this study the replacement-value is not deduced from the so called "alternative of value", with the aid of what might be indicated as the "principle of omitting" (German: "Verlustgedanke", "Fortfallgedanke") neither from a "necessity to replace". In essence, replacement value is considered as a safe minimum out of a scale of potential proceeds which is in principle unlimited. With emphasis the Amsterdam school states that replacement value is a social value, thus implying a fairly objective determination. In conformity with J. L. Meij it has been argued here that valuation is fundamentally a matter of subjective views, also in the production area. Everybody's reaction upon imperfect foresight is necessarily a subjective one.

In view of the fundamental differences between the opinions thus developed and those of the most important representatives
of theoretical business economics in Holland, the study amply dwelled upon this part of the analysis. It was indicated why dealing with the "alternative of value" needs a good deal of caution. It is not allowed e.g. to borrow such a line of thought as being applied by Von Böhm-Bawerk, from the consumers' area in order to make conclusions which might be of value in business economics. One should realize that such a feature as the separation of buying market and selling market, is not without consistency for the problem of valuation: in the production area the relation between the alternatives of value is not of the same character as in the case of incidental valuation. Limitedness of possibilities of proceeds as well as of replacement leads to the conviction, that by applying the "Verlustgedanke" (so called principle of omitting) abandoned possibilities of income will come up for discussion with more probability than a speculation on sacrifices required for replacement will do. It appears that mostly the notion of "economic replacement" is not of so much importance in respect of valuation as the prevailing theory suggests. Furthermore it was made clear that the theoretical foundation of the replacement-value as a species of the genus value must be considered inadequate; at least as long as theoretical business economics relates value to income, an opinion which must be thought correct.

It is emphasized that the sacrifice made in the exchange on the selling market consists primarily in the abandoning of alternative possibilities of income and not in the sacrifice for replacement. Normally a necessity to replace will exist. But even then the relation between exchange and replacement is neither so stringent, nor so unilaterally directed, that in consequence of this, via the exchange, valuation should be founded upon sacrifices for replacement. Still arguing from the case of positive economic stocks, the height of the sacrifices required for replacement says nothing about the exchange being rational or not. Exchange takes place as a result of weighing the alternative possibilities of income, replacing is done in view of the expectations about the remunerativeness of the re-investment.

V

Rejecting the "trunk-idea" and more generally the concept of "maintaining something" as a guiding principle for profit determination, the cycle $M-G-M'$ was presented, i.e. money-goods-money (Karl Marx' Geld-Ware-Geld). This was done, not to consider it as an exponent of maintaining capital value intact as a standard, but as a manifestation of sacrifice and cost. The sacrifice not been defined as an element in any way to be finally realized. It has not yet been considered, must be valued. In this idea, profit is often the same as in some period of time, has been realized. The expectation of it, yet been considered, at the end of an interval of time for in the interval of time the value of the others.

When the sacrifice is made, it must never be considered from what is considered as a sometimes direct relation in the way in which the problem of valuation is solved by not postulating maintenance of the sacrifice can hardly be considered adequate, e.g. by postulate of the republic of profit determination.

Attention must be granted the realistic character and the possibility to maintain something between savings - and therefore money made to the money. It was argued that where good was made to the goods". As to register
study amply demonstrates why dealing with potential replacements requires caution. It is not sufficient to assume that mere market prices are accurate in determining the need to replace assets, nor is it wise to assume that mere market values are the best measure of their potential cash equivalents. The study underscores the importance of making economic judgments based on a comprehensive analysis of the alternatives and potential replacement values.

In the context of the theory of replacement value and income, the study emphasizes the significance of the concept of "vulgus" in speculative activity. The study argues that the replacement value of income depends on a speculation about the future, and that the speculative nature of market prices is inherent in the process of investing.

The study concludes by asserting that the concept of profit determination is not synonymous with the mere expression of the proceeds minus cost. Profit is fundamentally the favorable balance of proceeds and cost. The moment of investing, so the conversion M-G, has been defined as the moment of cost. Any decision about investing is taken for the sake of an expectation of proceeds, which will be finally realized in the conversion G-M'. In so far as capital goods have not yet matured into income at the end of a period, they must be valued in the light of their potential conversion into money. In this idea valuation means a projection of G against M'. Then profit is determined by deducting the cost incurred within some period (in the sense of historical cost) from the proceeds that has been realized within that period, the latter to be increased by the expectation of the proceeds of the capital goods that have not yet been converted into money, in casu by the value of the stocks at the end of the period. Naturally, what has already been accounted for in the income of the preceding period, must be deducted, i.e. the value of the stock at the beginning of the period.

When thus debouching into a simple comparison of capital value, it must nevertheless be stated, that this means something different from what is generally understood by nominalism. From the old, sometimes called naive nominalism, the opinion differs through the way in which profit-determination is coupled to the problem of valuation. It differs from more modern versions (Rieger, Prion) by not postulating maintaining of capital value as such. The maintenance of the nominal value of capital as an aim of business policy can hardly compete with standards which are economically more adequate, e.g. maintaining the actual size of the flow of income. Any postulate of this kind, however, ought to be related to the problem of profit destination and not to that of profit determination.

Attention was drawn to the positive significance that ought to be granted to the money-account. In opposition to the nominalistic character of the transfer of capital stands the intuitive propensity to maintain the material capital goods intact. Separation between specific and general fluctuations of prices is not possible; therefore maintaining the "real value" of capital intact as a standard cannot be of value in reality. It is acknowledged that the value of money is not constant and that consequently objections may be made to the money-account with regard to its usefulness. But it was argued that the value of the money-unit cannot be expressed in an indefinite and varying conglomeration as is formed by "the goods". As a matter of fact it is the function of the money-account to register economic dynamics in the midst of all kinds of price fluctuations.
fluctuations and in the first instance without connection to substantialistic correctives.

No fundamental separation has been accepted between capital- and profit-balance-sheet. In the first instance no distinction is made between transaction- and stock-results. In this analysis increases of capital which have not yet been realized into money, do form profit; profit and loss are seen as merely opposite magnitudes. These theses place the outcome of this study in a position nearly diametrically opposed to prevailing theory. They must, however, be seen in the light of rejecting any standard implied in the profit concept as a norm, as well as any relation of this concept to the aspect of ability to being consumed or distributed. It must be acknowledged that the other side of the concept of profit, as developed here, is a nearly total sterility. Seen from the point of view of business policy, determination of profit has a meaning which is much poorer in this theory than it is in current versions. Here lies the meaning of the title of this study: “The concept of profit, its contents and limitations”. A new line was drawn between profit determination and profit destination, in a certain sense it was drawn at an earlier moment. Its justification lies in the necessity to place elements of business policy in the area to which they functionally belong, viz. the area of profit destination. Exactly because profit destination has a pre-eminently pragmatic character, one should be on one’s guard that elements of destination should not steal into the problem of profit determination.

In this way an absolute validity for the concept of profit, as developed here, can be maintained. This cannot be said, however, in an other respect. For in determining profit the first thing to be done is to make a valuation: and this is an affair of subjective nature. This aspect was amply dealt with dealing with recent controversies about subjectivity and elements of business policy in profit-determination and profit-destination (Maandbl. voor Accountancy en Bedrijfshuishoudkunde 1955). Exactly because – but also solely in so far as – valuation precedes profit determination, the latter cannot be thought loosened from subjective elements; whereas elements of business policy should be placed into the area of profit destination.

Only the problems of profit determination are the subject of this study. The sterility of the concept of profit as developed here, however, led to the necessity to pay attention to some aspects of profit destination, though briefly. Profit destination has been considered in the context of the two poles. The policy has its basis in the firm, it is based on the holders. The narrower aim and concept of profit-destination: can be maintained or maintained.

In the current standards, their nature is rather as a reason for the firm, they are instances. As a change simultaneously distribution as a mere maintenance is not adequate as an adequate separate can be made with the aid for a production of maintenance to which production. This throws the chosen activities.

Following problems of profit destination, Ravestijn has consistently been chosen: the area of profit destination only be norm.
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considered as a part of business policy, which moves between two poles. The first is formed by dividend-policy. The concept dividend-policy has been used in a narrow sense, viz. exclusively in so far as it is based upon considerations regarding the interests of the shareholders. The second pole has been indicated as business policy in a narrower sense and relates to the pursuing of the more definite aim and object to which economic activities within the firm are directed: e.g. maintenance of either capital goods or capital value or maintaining the flow of income.

In the discussions it appeared again that these aims, these standards, have no general validity. It was already stated that by their nature they ought not to be considered as compelling, but rather as alternatives. Now attention must be called to a second reason for their relativity: if once chosen as a starting point by the firm, they are not adhered to consistently and under all circumstances. As a matter of fact several aims of business policy interchange simultaneously as well as one after another. A conservative distribution-policy will not stop at the maintenance of nominal capital value, if this should endanger the size of production. The mere maintaining of material capital goods will not be considered as an adequate norm, if the relative place of the firm in the market is not guaranteed as well. Mostly it will be hardly possible to separate care for safety from inclination to a gradual expansion with the aid of the firm’s own funds. Whether it will be possible for a producer—and if so, in what degree—to make the whole scale of maintenance ideas effective, will depend upon the other pole to which profit destination is directed: the dividend-policy. Beforehand it is impossible to define the border where the influences of the two poles touch, thus giving profit destination its actual shape. This throws light upon a third aspect of the relativity of what has been chosen by the firm as a more definite aim of economic activities.

Following the general tendency of relativity with respect to the problems of profit as being manifest in Holland (J. L. Meij, Van Ravestijn a.o.), in this study said relativity is emphatically and consistently laid there, where it has its functional place: in the area of profit destination. In this way the theory of business economics can accomplish its task concerning profit determination and profit destination, a task which is a serving one. Economics can only be normative, if it does not choose its norms itself.