Inhoud en grenzen van het winstbegrip

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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 clearness 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 thus the producing factors of production. Certain results of his work compress his substantialism into the more unsatisfactory substantia subjects “which lie behind” them as an organism, of which he analyses, which prevent his true analysis of Limperg’s substantialistic character from starting point on the maintenance of capital. Suddenly it becomes doubtful presence, however, in its reality of the economic theory does not.

An ample deduction is approach: arguing from capital as from capital, the “theorem of the income.” A parameter on one side and on the other. Considering the income with the aptitude further points were considered intact the production point of view. Furthermore at regarding fixed capital as in the above, the exist of the dynamic problems can deduction from the income aspect, because be regarded as a standard to views on capital.
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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 uncertain 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 regarding 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 sti
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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 way Limperg 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, subsistence 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 is derived. This is the idea of its own, with its own capital (German: "Gross-Einkommenprinzip", principle, i.e., "principle.

Specific different notions of profit are chosen, always succe- sively. In the nominalistic view, which are independent of the problem of securing a steady income, the value of the capital good is always succeeded in currency. Finally, these demands are independent relative to those of the Amsterdam school (Limperg).

Besides the various theories of profit, there is a "something of profit", which depends 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. Profit prim and no function of income as economics do.
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. He uses the income-standard, has the income of the firm. This dominant importance he awards as a premise of the theory of capital intact may be understood. For those who do not avow substantialism, do not always succeed in getting entirely away from a typically substanti-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. Here with 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 “distribuable” 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, both capita remain at least minima and are not a subject of exchange. It is deduced that what remains to be done is to apply the term “Verldeeplachte kapitaal” to the minimal possible reimbursement of placecapital, the moment of time at which the efficacy of the capital has been fully utilized or fully chosen. This applies also in the case of negative foreign economic stocks.
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It is impossible to arrive at a definition which can be of absolute validity does not mean that the phase of profitability, should as far as possible ante elements. Thereby the possibility to define business economics, such as it is influenced by a business cycle.

The essence of cost, proceeds and profit giving statement: the aim of income through the exchange with J. L. Meij it is pleaded in this concept of income. In the technical applications, the moment in which such initial limitation of potentials lies in its being destined firm. Furthermore it was appropriate – at least not in acknowledge any other proceeds within the firm as that of the investing market is not considered as are entirely shifted into the ord has been chosen in investing and exchange capital 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 exist 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 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.
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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 val-
uation. 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 impor-
tance 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.

Rejecting the “trunk-idea” and more generally the concept of
“maintaining something” as a guiding principle for profit deter-
mination, 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,
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Study amply demonstrates why dealing in commodities requires caution. It is not being applied in order to make a profit. One must look at the buying market as the problem of alternatives. One must look at the selling market as the problem of replacement. Incidental valuation of capital is coupled to the problem of income. The theory suggests that most important aspect of the market is the speculative role of money. The profit must be determined by deducting the cost incurred within some period 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. The concept of 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 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 discussed whilst 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 poles. The policy has its basis in the standards, its contents is based on the firm, it is based in the circumstances. As the firm change so do the standards. As the circumstances change so do the standards. As the standard change so do the circumstances. As the firm change so do the standards.

In the following problems of Ravestijn a. St. have been consistently dealt with. This throws light on the area of profit destination, as the firm change so do the circumstances. As the firm change so do the circumstances. As the firm change so do the circumstances.
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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.