

**Giorgi Malashkhia**

# **Metatheory of Profit**

*A New Vision*

2012

## UDC

The paper provides a completely new interpretation of the profit, which fundamentally differs from the existing theories. The paper is an elaborated version of the publication “Meta-theory of Profit: what is the Profit in Reality?” published earlier in 2007.

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## **From the Editor**

It is clear that development of the science is based on the new knowledge obtained as a result of significant research. It enriches and develops further or rejects existing theories. The work of prof. Giorgi Malashkhia "Meta-theory of Profit: True Meaning and Essence of Profit - A new Vision" is an essentially different theory of the profit from these we have known. The author provides critical discussion of the existing theories of the profit and shows how inadequately they assess the deep meaning of the profit, its social nature, processes of its generation, appropriation and use. The author has developed a new concept of the profit which, according to him, is based upon in-depth understanding of the economic phenomena, fundamental study of the basic aspects of the profit, which may provide a new knowledge about the profit.

We should agree with the author that the profit theory is significant not only for in-depth understanding of the phenomenon of the profit but also for the development of the scientific economic theory in general.

The creative theory of profit offered by prof. Giorgi Malashkhia includes innovative conceptual findings, which deal with the profit category, providing absolutely new vision of generation, distribution and use of profit, as a triune process. It distinguishes three economics: first - source of the profit - creation of the net

product; second – transformation of the net product into the profit through operation of the net product distribution mechanism, appropriation of the profit by economic subjects; third – use of the profit for the welfare and development of the certain subjects and the society in general.

The new profit theory offered by prof. Giorgi Malashkhia is based on the long-term research and the monographs published earlier: “Meta-economics – Philosophy of Economics”; “Metatheory of Profit. What is Profit in Reality” etc. the key points of this theory could be briefly formulated as following:

1. It would be improper to regard the profit as an outcome of only one single production factor – capital, labor or proprietary capacities (one factor can create nothing), appropriated by the certain economic subjects in a form of the income, as the views dominating the economic science are stating. The profit is an income obtained by the economic agents from the net product i.e. product created in excess to the costs from the economic activities i.e. joint action of the production factors in special (market relations) condition, with the support of a historically formed way of distribution and environment.

2. It is necessary to gain deeper understanding of the concept of the profit and its content thereof. Not only the capital owners and entrepreneurs should be considered as its recipients, but any other economic subjects as well – workers of various categories (persons engaged in labor and even the hired persons), self-employed persons in agrarian and other industries etc.

3. According to prof. Giorgi Malashkhia’s concept, the original form of the profit, it pure product (in excess to the costs) is created via special sources. This process is of primary significance

for the theoretical explanation of the profit creation. And in reality, this is one of determining factors for the economic and social progress, expanded reproduction and increase of the public wealth.

For the purpose of explanation of generation of products, which exceed the input, the author introduces a concept of the social energy, which implies the wealth creating potential of the people (society). The Social Energy is divided into two parts: one, created from the paid resources (those with costs) and the other, obtained from the free (gratis) resources. The author implies in the latter, primarily the natural resources. He expands the circle of the resources obtained for free or at a very low cost, i.e. mostly free resources - "operation of history" - the knowledge, experience, scientific achievements, products of creative work - technological and other innovations, laws of operations of the society and economy, spontaneous social processes acting for the benefit of people. This all is inherited or received free of charge, from the previous generations and for which the current generation of people pays nothing or which are included into the production process at very low costs, gaining the free part of the social energy required for increase of the wealth. The wider is the application of the sources of such social energy, greater is the quantity of initial form of the profit - net product and the profit, and finally, the source of growth of the wealth, expansion of production, increase of the welfare and the social progress.

The author pays great attention to the already known in science concept of free resources (which implies not only natural resources, to which the author, as already mentioned above, gives wider definition). He attributes to them the main role in creation of profit after net product and we should regard this as a new

view in science. Prof. Giorgi Malashkhia regards it significant that the nature and history, for which people do not have to pay anything, provide resources for free and play significant role in creation and increase of the wealth and net product (the one, exceeding the costs).

Appropriation of the net product by the economic subjects within the existing economic relations and market mechanisms is regarded as creation of the profit. On the basis of the existing mechanisms of appropriation and distribution and way of use, the profit becomes the source of the welfare of economic subjects and society, under conditions of necessary combination of the personal and public interests, without which its existence is impossible. The profit appropriation is of private nature and in addition, its use is of public nature (purpose) as well - creation of jobs, employment and creation of the income sources, growth of the wealth of the country, formation of the state revenues, creation of the public wealth, social security of the members of society etc.

In addition, the author emphasizes the unfairness in the process of profit appropriation and use - obtaining and use thereof by certain part of the society, without any adequate contribution, what is one of the main reasons of excessive inequality between people, poverty and hence unfairness. According to the author such unfairness is one of the greatest challenges of the mankind and the historical processes gradually develop towards getting rid of such unfairness. The paper offers formulation of the conception of the fair profit: appropriation of it, as the result of universal, non-personified free factors, in proportion with the labor contribution, as well as in accordance with the non-market principles and use for satisfaction of the common needs of the entire society, in accordance with the interests of all its members. This

was recognized only partially up to present and which should become reality in the future.

These are the new conceptual statements of prof. Giorgi Malashkhia about original profit theory. In our opinion, this is indeed interesting and worthy paradigm for the economic theories and practices, worth of special attention. Of course, similar to any other novelties, not everyone would share this theory; it will have opponents; there will be skeptics, due to misinterpretation or any other reason, but finally, the objective views will be formed inevitably. In any case, we regard prof. Giorgi Malashkhia's work as the significant scientific innovation. In our view it is desirable that it was introduced to as broad audience as possible.



# Introduction

*Not all that glitters is gold*

*Folk aphorism*

The subject of wealth distribution and profit, its genesis and appropriation have been and still remain in the center of attention of many outstanding theorists. Irrespective of great efforts for revealing the truth, the profit could be categorized as one of the most obscure phenomena in the economic life. However, there is an opinion that all in this respect is simple and clear. The present paper takes an attempt to show that the latter view is false. The issue of profit is related to one of the most undefeatable injustices in the history of the mankind – improper distribution of the wealth, adequate understanding of which is the most significant task of the science and one of the key issues for explanation of the life of the society.

This work is dedicated to exploring the truth about the profit. It is a brief summary of research on the social and economic progress carried out by the author over many years. Presented views are based on author's previous studies of the problems of humanization, objectivity and fairness of the social relations in general and economic relations in particular, presented in previous works: "Metaeconomics – Philosophy of Economics" (1995) and "Metatheory of Profit - What is the Profit in Reality?" (2007). The present study offers further elaborated views on the profit.

The goal of this paper is to provide a broader audience an alternative view about the profit. The view is fundamentally different from that of Marx or other scientists. It shall be noted, that offered explanation of the substance of the profit found some response in the scientific community but it was not sufficient for the broad discussions due to limited number of copies of above mentioned book, as well as a complexity of the concept of profit and not quite ordinary nature of the theoretical statements presented in the book. The lack of readers' interest to the theoretical issues didn't help either to broaden discussions. We would like to make one more attempt to present and spread the new approach by attracting attention of a broader audience.

Presented views are critical and somewhat radical. They are focused on the inadequate forms of the profit appropriation, their outcomes, as one of the greatest sources of the historical and contemporary injustice. At the same time, the paper does not intend to blame anyone for the existing injustice. It "blames" the history only, as the main cause, which made some groups of people carry the burden of injustice, because of lack of the social development. We see the ways for improvement of injustice not in revolutions, sacrifice, overturn but in the process of evolutionary changes, which would gradually create the conditions for overcoming the existing problems - improper distribution of the wealth in general and the profit appropriation in particular, creating conditions for fostering justice and addressing the problem of biased regulations.

I look forward to the active response of readers, in any form and we are open to discussion. It is understood that for many people presented views would be absolutely unacceptable, for some - unclear and uninteresting, some might perceive it as an attempt of overturning entire economic theory as it reject the fundamental

profit theory. Let it be so! I believe that there are people who would share these views.

As a number of references were unavailable to the author in original language, some citations are secondary translations from Georgian or Russian language into English. We apologize for this to our readers.

## 1. Qui pro Quo<sup>1</sup> about Profit

The profit can be defined by any person engaged in economic activities or studying economics, starting from the butcher or brewer mentioned in Adam Smith's book or street trader or small retailer, to the supermarket manager, minister or professor of economics. All of them would tell you that the profit is a difference between the income received from activities and total costs. This is a definition provided in the contemporary textbooks of the Economics. Knowledge about the profit is not limited to this in the economic science. Its substance, origin and ownership is considered on a wider and deeper basis in the works of many authors, in particular, the classicists – A. Smith, D. Ricardo, J.B. Say, K. Marx etc., as well as contemporary researchers. What can one say new about it?!

And still, in our opinion, while taking closer look at the subject of the profit, we can see that existing definitions and theories cannot provide full assessment of its actual meaning, genesis, social nature and economic relations, reflected therein. Existing concepts of profit, as well as the number of other social theories are based either on the superficial understanding or reflect the interests of the certain groups of people (strata) and does not reflect its adequate and true meaning. Moreover, generally, such individual approach distorts the reality, enhances greedy desire for profit

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<sup>1</sup> Confusion

beyond all limits, therefore, endangering the future of the mankind with conflicts with nature, as well as conflicts within the society. It is an obligation of the researcher to contribute to the development of a new theory of the profit, which would fundamentally change the current system of views dealing with the entire chain of the social phenomena. It would greatly contribute to the creation of opportunities for adequate thinking and behavior. Presented paper and discussions serve this goal.

Our starting point is that the simple definition of the profit, provided above, containing trivial truth and coinciding with the notion existing at the level of practice should be expanded and enhanced. A new, true, full and clear definition encompassing the substance and nature of this phenomenon, a theory, able to provide complete and correct concept of the profit is needed. The profit is undoubtedly one of the phenomena, which is difficult for understanding and somehow mystical in life of the society, likewise to the certain economic relations, it does not reveal its true nature. A. Smith stated that the profit is often confused with the other types of the revenues<sup>2</sup>. According to the contemporary author, F. Night, “probably no economic concept was used so widely with different meanings as “profit”<sup>3</sup>. Furthermore, profit covers numerous perversions of economic relations, as we will see

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<sup>2</sup> See Y. Mayburd. Revenues in the History of Economic Thinking. Moscow 1996, p. 382 (Rus).

<sup>3</sup> Taken from the book: P. Heyne. Economic Way of Thinking. Moscow. 1991. p. 311 (Russian translation). In general, correct understanding of the value categories is a difficulty. D. Ricardo emphasized the same. He stated that nothing has caused so many errors as unclear concepts related to the term “value”. D. Ricardo. Principles of Political Economy and Taxation. Moscow. v. 1, 1955. p. 311 (Russian translation)

below. Indeed, numerous theories of the substance and sources of the profit mislead the readers. We shall especially focus on some of them.

Primarily, these are the theories associating the profit to one of the production factors – labor, capital or production capacity and regard the profit as a derivative, product of one of the factors in each specific case. It is known that A. Smith regarded the profit as a part of the value (product) created by the labor. He mentions: “Income, gained from the capital investment by a person managing this capital or using it for the business is a profit”<sup>4</sup>. A. Smith considers the entrepreneur’s profit as a share in the value of the labor product<sup>5</sup>. Similarly, D. Ricardo regarded that the profit equals to the excess of the labor product over the wages<sup>6</sup>.

K. Marx’s view of a single factor – labor, as a source of profit is of special interest. It is well known that Marx’s theory was dedicated substantiate his theory of exploitation of the labor by the capitalists. Marx dedicated most of his works to prove that the profit is transformed form of so called added value created by the labor (according to Marx it was created by unpaid labor and appropriated by the capitalists for free).

Starting from Richard Cantillon, who first paid attention to the entrepreneur’ function, some economic theorists started attributing profit to so called entrepreneurial skills. According to J.B. Say, profit is partly a derivative of the capital and belongs to the capital owner. It is partly transferred to the entrepreneur as a result

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<sup>4</sup> Adam Smith. An Inquiry into the Nature and Causes of the Wealth of Nations. Volume 1. P. 71. (Georgian translation).

<sup>5</sup> Ditto. p. 88

<sup>6</sup> Above publication of D. Ricardo’s work. p. 98.

and compensation for his skills, activities and his/her role of a manager. Say explains that each production factor creates and its owners obtain the appropriate income: the worker - the wage, the capitalist - the profit and land owner (owner of natural resources) - the rent.

Famous author of wealth distribution, J. Clark regards that: "competition tends to give to the labor what is created by it, to the capital owner - what is created by the capital and to the entrepreneur - what is created through coordination function"<sup>7</sup>. (Underlined by author, G.M.)

Contemporary textbooks of the Economics state that the economists basically regard the profit as the result and compensation of the specific human resource - entrepreneurship skills, functions related to the production arrangement and management (incentive, innovations, responsibility etc.).

There is a theory, according to which profit is generated as a result of uncertainty of the conditions of economic activities. According to this theory the entrepreneur makes business in dynamic, uncertain conditions and applies innovative actions associated with the risk. At the same time the monopoly power is also applied. These aspects allegedly determine that profit is gained by relevant subjects. Concept of F. Knight, associating profit with the uncertainty, is also widely known.

Some authors exclude existence of profits under the conditions of the free (perfect) competition. This originates from L. Walras and J. Clark and various authors share this theory now.

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<sup>7</sup> J.B. Clark. The Distribution of Wealth. Moscow. 2000. p. 11 (Russian translation)

Regarding above concepts it must be noted that the issue of profit generation (the source) and appropriation should be separated from each other. In this separation lies the greatest contradiction and unjust nature of profit and generally distributional relations.

Presentation of the profit as a result of a single production factor (as understood in some concepts mentioned above) is not reasonable as no single factor can be entirely responsible for creating it. It cannot be a creator of the part of the product as such, its value and at the same time be a creator of the profit. One cannot declare ownership of any production factor as the basis for justified appropriation of profit, what is based upon historical injustice.

More specifically, genesis of the profit could not be attributed to the labor, which is a starting and the most important condition of the wealth creation. Undoubtedly, the contribution of the capital is of great significance, although it cannot be declared as a profit generator. One cannot neglect the great role of the entrepreneurial skills in production process and profit generation. None of these elements can act as generators of the product and profit, but these are only contributors, i.e. unless they act together with the other factors. It is fully unacceptable to attribute profit to some uncertainty in general. Behind uncertainty there are some actual causes that lead to great profit or great loss. Innovations and other special aspects impacting results by increasing or decreasing them are absolutely determined, these are: technological and organizational innovations, competitive changes, natural conditions and other random or naturally determined phenomena. In the production process these act in association with other factors and impact results and profits. Economic science defines their role in formation of the results of the production process as specific, de-



termines their contribution to the profit generation but this is not sufficient for elaboration of complete and true profit theory.

Perception of the profit, as a compensation for the risk adds nothing to the understanding of the meaning of the profit. The risk as such cannot create profit itself, although all activities are associated with the risks. Absence of profits under the conditions of perfect competition makes such activities absurd: result is equal to the costs and there is no point in carrying out this activity (as it will be discussed below), although, in reality there is no perfect competition.

Thus, we can conclude that existing concepts of the profit are more or less deviated from the truth. This view is dictated by our researches on the profit. In order to reach the truth, we must take a fundamental approach through gaining in-depth understanding of the events, which is the way leading to true knowledge.

Our starting point is anthropocentric approach - consideration of the issue in a broader context, particularly in relations with the people, their properties and interests, as well as value (axiometric) - good and evil and with respect of human happiness (eudemonistic). This would require correlating profit-associated relations with the moral, justice and humanity in general. We should also note that contemporary science is not directed towards understanding of the substance, social nature of the profit, its focus is seeking ways for profit generation and maximization.

Regarding the above, the following could be stated:

Firstly, the true understanding of the essence of profit means gaining understanding of the most significant fundamental issues

of economic theory and creation of true economic theory that heavily depends on this;

Secondly, the true theory of the profit provides the key for understanding contemporary distribution relations. Relying on such theory following must be clear within the framework of justice and objectivity: to whom, how much and on what basis belongs the profit; why justice and objectivity is violated in reality and what are the ways to restore them; how ethical image of contemporary society appears with respect of progress of mankind and civilization;

Thirdly, the true profit theory would be significant in understanding of the nature of the socio-economic system and degree of its human nature, in improvement and modernization of this system.

## 2. The Net Product as the Origin of the Profit

### *Initial Economics*

In order to replace the simplest trivial definition of the profit providing only the most general understanding thereof, with a broader view, and to gain in-depth understanding of the actual substance of the profit, the notion of the good (income) as surplus over expenditure, must become the starting point of the analysis. Analyses of its sources would clarify the issues related to the essence of the profit. This could be expressed with simple formula:

$$Q > Z, \text{ i.e. } Q - Z = \square Q; \square Q > 0,$$

Where: **Q** is the good (income); **Z** - costs,  $\square$ - increment.

As we can see, the main issue is the net product (income). It is well known, that the notion of "net product" as such was introduced in science by physiocrats. As a rule, it is a part of created good. Saying this we imply that production (activities) makes sense only if benefits exceed the costs. Otherwise, this is Sisyphean toil. The existence (creation) of the net product is decisive fact in production expansion and improvement; it is decisive in life of the society and for its progress.

Greater is the net product, the higher is the level of the economy and social life. In historical context we observe the growing nature of the net product. This is the cause of huge growth of the social wealth, which in some countries has reached tremendous scales. The role of the net product should be adequately assessed by the science and society. This seems apparent for everybody but its substance and sources are not as adequately understood by public and individuals. Primarily, it is important to know from where and how is created the product which is more than input - expenses and how justly it is and or should be distributed, how justly it is or should be appropriated. Every member of the society should have clear understanding of the source of his/her wealth and wellbeing, the entire society should be aware of this; still, no in-depth or substantial understanding has been gained in this respect.

Generation of profit, its growth, makes true sense only if this is growth of actual wealth for individuals and society in whole. This simple truth does not require any brain raking, though the profit discussion, as mentioned above, in theory and practice, is covered with unclear concepts confusing people and distorting its true meaning. If one has gained profit, this is undoubtedly due to his/her merits. Is this a true statement? Here the puzzle is a generation of the excess product (or net product). The above trivial formula contains significant contradiction: it seems that the result exceeding the costs (good, income) is created from nothing and is in breach with the fundamental law of the nature - the law of conservation of the mass and energy etc. which states that input should not exceed the output. *Ex nihilo nihil* - nothing can be created from nothing, i.e. from where is generated the surplus?

Of course we know, that surplus results from the technological progress, high qualification of the staff, favorable natural conditions, entrepreneurship skills etc. – these are the elements that condition the growth - result exceeding the expenditure (input). But this is not a sufficient explanation, this is superficial, simple answer only, saying nothing substantial about how the net product is created out of technological innovations, better qualifications etc, as well as about to whom the net product belongs objectively, justly, how it is transformed into the profit, what is the deviation between the contributions of the participants in its creation and the shares of its appropriators. The main objective is to gain in-depth understanding of all this to assemble full picture of the profit. We should go this way.

Net product was generated only after achieving certain level of production capacity, when people gained the ability to create more goods by means of the natural forces, knowledge and skills than they have spent resources for. The net product grows gradually, with technological and general progress. Profit appeared same time as money – commodity relations were established. Although, it is quite old, it became significant for the society only the last few centuries. Therefore, discussion of the profit, clarification of its substance and origin should be commenced from studying production of the net product, i.e. study of the initial economics.

Significant issue along with the substance of the profit is appropriation of the net product by specific economic subject, existence of the relevant mechanism. This should become another important subject of discussion at the further stage of the current study.

Physiocrats provided incomplete and inferior explanation of the factors of creation of the net product and they did not consider

the issue of distribution<sup>8</sup>. They regarded nature as the only element for the net product creation. They failed to understand other factors thereof, as well as the mechanism of its creation, net product's significance for the society, the role of various forms of activities and economic relations in its generation. It is clear that they could not do this at that level of available knowledge.

The concepts of the net product (net income) have certain place in science. While the issue of elements determining its sources and significance are not properly clarified and assessed yet it could not take the adequate place in the science. In clarification of this issue, in our opinion, the key aspect is the free nature of the net product - obtaining the result for free, the result which exceeds the expenditure. This very fact has been neglected by the theory. It is important to obtain not only commercial understanding of this concept as such but also possess the generic and economic understanding as well.

It is clear for all that in commercial respect, the net product (wealth minus costs) implies something obtained free of charge, without any payment. No one could dispute that "Gratis" is something for what no payment was made or nothing was spent either by individual or society. I.e. in the broad sense gratis or free of charge means no input of direct actions, no efforts of individuals either directly or genetically. Economic sentence: "there are no free dinners" is inappropriate here as we can list numerous facts of the wealth obtained for free. Moreover, if the greatest

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<sup>8</sup> E.g. the physiocrats regarded that land is one of the sources of wealth and only agriculture is its producer. See book: "25 Key Books in Economics". Ural Ltd. 1999. p. 45 (in Russian, translation from French). Production is limited by the wealth created by land. ditto. p. 48

part of the wealth obtained by the society or people was no greater than the costs (input) and society would produce the wealth equal to input, they would remain poor and no great wealth owned currently by the people and nations would exist. After careful consideration this would be understood and accepted. However, people are reluctant in recognizing existence of the wealth obtained for free. Many scientists know that the concept of free wealth, especially in relation with the wealth of nature, is known from the works of many authors (Pet, Ricardo, Malthus, Say, Marx, Srtumlin etc.)<sup>9</sup>. The physiocrats recognize the role of the nature only in production of goods of agriculture and mining industry. D. Ricardo considered the role of the nature in the industry in general. He wrote: Adam Smith did not devalue the service provided by the natural factors and machines to us... they serve us via increasing the quantity of products and by this they make people richer, by increasing the quantity of the usable values. But they fulfill this work for free (our underline G.M.), as we pay nothing for using air, heat and water"<sup>10</sup>.

We can recollect many recognitions of the significance of the nature but this is not the complete economic concept of free factors, which cover the substance and key aspects of the issue. The entire set of free factors/elements, without which people would not be able to produce anything, as well as their role was and is not fully understood and assessed. Within the scope of the approach pre-

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<sup>9</sup> E.g. the physiocrats regarded that land is one of the sources of wealth and only agriculture is its producer. See book: "25 Key Books in Economics". Ural Ltd. 1999. p. 45 (in Russian, translation from French). Production is limited by the wealth created by land. ditto. p. 48

<sup>10</sup> Above publication of D. Ricardo's work., p. 236

sented in this study, the set of free (gratis) factors have been broadened. We include in this set, together with the naturally originated resources anthropogenic powers as well. For example knowledge, experience, scientific and technological achievements, processes accompanying social development etc (these will be discussed later), transferred from one generation to another for free or at insignificant cost for their exploitation. They have also the specific properties, due to which they act likewise to the free forces of the nature. The mechanism of their operation and their contribution in creation of the net product, as an initial form of the profit, is not adequately understood in society.

Economic science should assign the proper role to the free resources, as the key element for explanation of the most significant phenomena – the net product. This would also allow seeing many things in a new way and clarifying many things.

Another aspect of the issue is commercial relations, where the owner of any good sets the price (formed in a certain way at market) of his/her products – goods or services. After inclusion into the market relations the product containing the free/gratis part, in respect of correlation between the actual costs and results (net product), becomes payable for the subjects who are participating in the exchange. This is process of the profit generation based on increased wealth, within the sphere of the commercial relations. The genetic meaning of the net full product is a bit different and it will be discussed separately <sup>11</sup>.

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<sup>11</sup> We imply the upcoming work “How People and Nations Become Rich?”



We regard the genetically free/gratis nature of certain part of production elements as a starting point for clarifying profit generation. It must be noted that the existence of such elements is related to: 1) rules of their creation and existence and 2) ownership of these elements, which turn them into the payable in commercial sense products. However, this in general does not change the net product genesis. And still initially these elements, with respect of growth of the wealth of entire society, remain free/gratis (unpaid source of the net product - net income). For example, no one would doubt that the solar energy - invaluable source of creation of the human life and is gratis. Is not atmospheric precipitation or oxygen free source for production of agricultural products sold at the market at certain price? Fertile soil is the source of free income for its owners, receiving the rent. This land, to a certain extent, is gratis factor for its lessees since it gives them free income (surplus exceeding the expenditure).

For example, oil deposits of Kuwait, United Arab Emirates and incomes gained from them etc. are not the gratis/free wealth? Are not the physical or intellectual capacities, talents, beauty, given by the nature to the people, though to a different extent but still vastly a greatest "gift"? How would economy and culture look like without them? Do the generations pay to their forefathers anything for the experience, knowledge, scientific achievements, ideas, inventions - the result of the technical creative work, material and spiritual wealth? The role of the historical process or laws is indeed great in obtaining useful results. Without all these, the mankind would never achieve current level of development. It would be good if the generations were grateful and appreciating the wealth given to them by the ancestors free of any charge.

Thus, the great reserves of free natural and anthropogenic resources available to the people, their combination with the production factors provide the basis for creation of good and its part – net product via human labor.<sup>12</sup> This is the greatest favorable precondition for creation and improvement of the life conditions. Without understanding and appreciation of all this, economic theory and generally, public conscience would look like a half empty vessel.

Understating the combination of free (*gratis*) factors with other production factors – labor, capital, entrepreneurship skills, and economic functions of the state, allows having a correct explanation of the net product as a predecessor of the profit and its transformation into the profit of economic subjects under certain conditions.

## *Social Energy*

For the purpose of in-depth understanding of the net product creation, we are introducing a concept of a “social energy”. This category would help us in understanding the socio-economic phenomena in general and in-depth aspects of the profit in particular.<sup>13</sup> **The social energy implies the wealth-creating potential of the society, ability of creating and increasing the material**

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<sup>12</sup> R. Cantillon regarded that the land is the source of wealth or mother and the labor – power producing it. According to W. Pit, labor is the father of wealth and its active source and the land, i.e. the nature is its mother. Thus, these scientists named the most significant sources of wealth from the outset of the economic science.

<sup>13</sup> We provided this in the above mentioned monograph “Metaeconomics – Philosophy of Economics” and other works.

**and immaterial (spiritual) wealth of the society and conditioning the human well-being and its development.** This energy encompasses the powers of humans and those, obtained from the nature (resources) and exists in a form of their synergies. The meaning of this concept is more than widely accepted concepts: “production forces”, “production factors”, “resources”, “production means” etc. Social Energy represents the wealth-generating capacities of the society in qualitative and quantitative terms. It helps to explain the facts expressed through formula:  $Q > Z$ , and to solve the contradiction of the Result exceeding the Expenditure (output exceeding the input). This would help us to understand the sources of the real net product, wealth and its ability to augment.

The social energy comprises of the work of individuals and groups in society, which originates from the physical (natural) and anthropogenic forces. The social energy is characterized with the significant features associated with the net product.

At first let us discuss the sources of the social energy and their properties/features.

Primarily, **the individual and his/her skills** should be regarded as such source. In society all comes from the main actor - a person. Therefore, the person with his/her physical and creative powers is considered as an initial source of the social energy. The person as such consists of two parts. Firstly, this is the biological potential of the human which is created in the nature and developed through the historical process via evolution and secondly, the potential of the socio-genetic intellectual development acquired through person's own efforts. The intellectual elite has the particular role, they drive forward the social progress in general and economic progress in particular. The latter encompasses spe-

cial significance for the history. Very important fact is that the individual, as such, possesses the wealth-creation potentials: one - given by the nature and another - obtained through anthropogenetic means - created through invaluable contributions invested by the society into his/her development.

Secondly, sources of the social energy are: **knowledge, experience, generated skills, scientific achievements, inventions, technical and organizational innovations, culture and literature in general etc.**, which create the forces of the history, the source of the social energy for the entire period of civilization. Today they are spreading at different pace and their utilization achieves huge scale. The society and people invest money to use it but do not pay adequate price for it.

Thirdly, such sources are natural conditions, resources: solar energy, geo-energy resources, minerals, hydro-resources, flora, fauna, climatic conditions etc., which, by people's actions are involved into the process of the wealth creation, as the energy sources originally were created without any human efforts. They are actually limited and decreasing due to consumption. Their significance and contribution increases through increased quantity or quality (through improvements) of the consumption.

Fourthly, the sources of the social energy are **reserves of the material wealth (capital) created by the generations and transferred to the current generation.** These reserves of the material wealth are useful in some form or to some extent and are assisting people in their activities and life. They serve to the wealth creation process for many, often tens of years and even more and make greater contribution to the wealth creation than the costs made for their creation due to the natural forces (materials) and anthropogenic resources (knowledge, inventions, discoveries etc.)

that are materialized in them. Technical equipment of the labor, introduction of the progressive technologies is also related to them.

Fifthly, the sources are **the laws of the nature and society, including these governing economy, spontaneous processes (labor distribution - specialization, cooperation, combination, concentration, favorable coincidence of the circumstances, synergy effect) i.e. so called "invisible hand", "gift of the fortune", etc.** These are absolutely specific sources of the social energy, acting invisibly, jointly with the actual production factors, in various directions of the economic process, facilitating growth of productivity of the resources (return) at micro and macroeconomic levels.

Sixthly, the role of the state and social regulations is of special nature and significance. This element combines special forces of synergy, which are based on the whole set of conditions. It is rooted both, in the past and current generations' skills. It plays the role of some kind of catalyst and multiplier in the process of growth and application of the wealth-creating potential of the society. This potential exceeds significantly the costs spent for it. Disregard for the existence of this element and underestimation of its importance and contribution to the theory of profit is absolutely unjustified.

Everything from this list is well known but we shall focus on and view them in the context of the net product generation and social energy. We shall consider them in light of the nature of the sources of the socio-economic progress. This approach lacks attention and is not adequately explored. In this respect, **the fundamental properties/features of the sources of the social energy** are of special significance. They provide basis for identification of

the key preconditions for creation of the net product and profit sources.

These properties/features are as follow: 1. The above mentioned sources of the social energy by their origin are characterized with their free nature, they are free of charge, i.e. they do not contain any human efforts or anthropogenic forces in general. We could discuss them both in commercial and genetic context. Firstly we imply here use of the forces and other resources of the subjects, as well as elements of the wealth production for the entire society. Due to intervention of such free forces we have correlation:  $Q > Z$ .

A **talent of a person** – the “gratis” result of the natural evolution and social development of the mankind is of special importance. This in combination of intellectual skills gained by efforts of the individual and is the main factor of his/her creative energy, creative potential. The Role of intellectual elite – people with the outstanding natural talents is a huge power. Due to these free (gratis) elements the historical process accelerates, taking advantage of the huge energy of technological and other innovations created through this process.

The free (gratis) **character of the natural forces** is important as well. These are not created by the humans but the scale and degree of their involvement into human activities determine the quantitative and qualitative characteristics of created wealth, net product output, its scales, i.e.  $Q - Z$  value. Natural factor is universal; in addition, it works to some extend within the economic process.

The same could be said about the “**work of history**” – fully or partially free anthropogenic sources of the social energy received

by current generations from the previous ones and used in the production process: the products of intellectual activities – knowledge, experience, inventions, discoveries. The utilization of the natural forces and human potential greatly depends on the “work of history” and therefore, the scale of the production of wealth, its net product also heavily depends on them.

The most important fact is that humans have non-commercial (onerous) and unselfish, free relations with the nature and history. Commercial relations emerge only later, in relation with creation, exchange and distribution of the wealth in market environment.

One of the properties of the social energy is associated with the fact that sometimes it seemingly emerges “from nothing”, without spending any human or other resources. This feature is a result of the very nature of some of its sources, which cannot be exhausted, cannot be worn out or reduced at a time of use/consumption (they may only become obsolete and useless if something new and advance appears ). This are the immaterial, quantitatively immeasurable sources, like knowledge, idea, scientific discovery, invention, know-how, all technical and organizational novelties, laws, public relations etc. The mentioned resources gain greater force, become more powerful with expansion of the area (scale) of their use. These are characterized with replication – expansion in space, repeatability and great duration of action. In result, their energy and potential respectively increases. Their application is of increasing nature and significance. Spontaneously created resources are unpaid as well (as a rule these do not require direct costs), these were distinguished above as separate class: the laws of the nature and science, development pat-

terns, public relations, including economic ones, labor distribution, good luck etc.

Another significant property/feature of the social energy is spontaneous accumulation of its sources, providing one of the bases for growth of this energy. This is especially applicable to the immaterial sources – primarily the results of creative work and intellectual capacities in general. The process of ontogenesis and phylogenesis takes place. The anthropogenic sources of the social energy grow as a result of this. Although dissipation (scattering, obsolescence) can also be observed in general, the existing reserves of the social energy grow because pace of adding new is greater than obsolescing. Quite significant part of the old is maintained, its stable properties (elements) are genetically transferred to the next generation objects, i.e. it does not disappear completely (the new emerges on the basis of the old and bears the signs of all stages of development), it is transferred from one generation to the other. Thus the social energy grows like an avalanche.

Here we should underline the multiplying capacity of capital assets. First of all it originates from free factors (from savings of the net product) and by increasing the income, it undergoes exponential self-multiplication over and over again.

It is critical to understand that every stage of development builds upon already attained level of development. Thus, we can conclude that there is a law, which determines that achieved level of development is attained. Accumulated (maintained) level is mostly of free nature.

There is a property of the social energy, which, at one glance, is not in conformity with the laws of the nature (physics), in particular, the law of conservation of the energy, matter, etc. Accord-



ing to this property the social energy possesses the capacity to increase or decrease in case of transformation from one form into another. This very feature makes it different from the physical energy. This is related to its qualitative, non-material, and non-quantitative characteristics and derives from its non-spendable, and non-exhaustible character. It has the power to grow in the process of dissemination and expansion. This is particularly property conditioning creation of the net product source in the process of economic activities - creation of free social energy, obtaining the result exceeding the input, i.e. increasing the social energy at a greater pace than the rate of growth of input.

Technological process of wealth creation with respect to generation of the net product - a gratis result of the activity, is of great significance as well. It originates from the nature. A new object created through the natural "technologies" (processes) in the nature have a qualitative advantage over the old ones. Because of its huge scale we regard it- as a "major synthesis". By combination/synthesis of two or more substances in the nature are created such useful products for humans as the oil, coal, gold, diamonds etc. The entire flora and fauna are confirmation of this, in particular, from the dead substances the higher - living organisms (plants, animals) emerge even earlier than the humans. Sometimes, the new objects are created as a result of decomposition of the complex substances and these new objects are of greater significance for humans than the components participating in their creation.

In the anthropogenic world it is easy to understand the process of creation of products through technologies (we call it "minor synthesis" due to the lesser scale of the process in comparison to the "nature technologies"). These products are better than re-

sources (input) used for their creation in terms of their usefulness to humans. Sociogenic technologies are special cases. Through purposeful actions of humans, relying on the natural forces and objects and in synthesis with the ideas, knowledge, invention abilities new the objects are created, which could not be found in the nature and which (with respect of needs of humans) have the properties exceeding the natural ones. This is the higher wealth. It is better fitted to the requirements of humans and satisfies them. This provides basis for the entire production process, from its very beginning up to the present.

These phenomena taking place in the nature and life of the society ( i.e. major and minor synthesis), deal not only with the creation of the material items only but pieces of creative activities as well, such as for example art, literature, science. In qualitative and quantitative terms this means creation of the net product which can be expressed through formula  $Q > Z$

The objective patterns of the nature and society, specialization, concentration, combination, phenomenon of luck, etc are in fact the features of gratis/free source of the social energy. While strengthening the power of production resources without direct costs, i.e. for free, this phenomenon magnifies the social energy and becomes one of the bases for creating the result exceeding the costs, i.e. improving production effectiveness. Historically significance of this property has always been apparent and currently it has an outstanding role in creating results which exceed the costs (in creation of the net product) both, at the micro-economic scale and macroeconomics in general.

All above mentioned, according to the system of the socio-economic relations of the society, could be explained in the economic parameters, the rule: "large in small" will operate, in addi-

tion, the correlation “whole is more than the sum of its components” is set. This is particularly revealed in the market relations. From these properties of the social energy sources we derive the new understanding of the concept of the net product i.e. product obtained in excess to the costs and concept of net product creation, as provided above. We give to this new understanding one of the central points in the economic theory. It can be also used for explanation of the economic and number of social phenomena, progress of social live in general, what was not done before.

**Existence of the social energy, free sources of the wealth and participation in wealth creation, on the basis of which the result (created wealth) exceeds the costs, comprise the special and decisive fact of the life and progress of individuals, their groups and entire mankind. Without all these, the society would become colorless and dead with the frozen at one single point reality.** Through this way the reserves of the material and moral wealth of the mankind achieved the significant scale (though they are still unable to satisfy the requirements of universal wellbeing in whole world).

We should note that our discussion so far deals with the real net product, although there is its unreal form as well in relation with the profit, which will be discussed later in the paper. Under specific conditions the net product is transformed into the profit, it is appropriated by certain subjects, in result of operation of the specific mechanism and regulations and this is the subject of our further discussion.

### 3. Transformation of Net Product into the Profit

#### *Second Economics*

Transformation of the net product into profit is a central point in the theory of profit. This is specific “social technology”. It is based upon special socio-economic system and economic mechanism of income distribution, formed at the certain stage of the social development, under conditions of money and commodity relations. In general, one could say that transformation of the net product into the profit means transfer of this product to the specific subjects, in a form of their income, source of increase of wealth and wellbeing. At this point we regard fundamental aspects of the profit as an economic phenomenon and category. Its social nature, character of its appropriation by the specific subjects and justice are not fully reflected in such understanding of profit. Actually the question is not only where the difference between total incomes and total costs emerged from but by whom, in what way, how justly (objectively) it is appropriated. This is one of the most significant points. Regarding this, we can formulate definition of the profit in more elaborated way. The **Profit is an income of specific subjects gained through certain form of economic relations, from the activities providing the results , which exceed the costs – the net product and it is appropriated via existing economic mechanism, justly or unjustly. The real**

**profit should be considered as a transformed form of the net product – the good created in excess of the costs through joint operation of economic factors, part of the good (income) obtained and appropriated justly or unjustly, through operation of distribution rule created by specific economic subjects. For the entire society it becomes additional wealth.<sup>14</sup>**

In the first part of this work we saw that none of existing theories could adequately explain genesis of the profit, though it has always been one of the central issues of the economic theory. For formulation of the true concept about this issue, we should follow the logic of transformation of the net product into the profit, what, in our opinion, would lead us to correct conclusions.

In order to do this we should start discussion with the “social technology”, which transforms one form of the social product – the net product into the other form – the profit. **This “technology” basically relies upon the market rules, mechanisms of wealth distribution based on the market laws. A non-economic form of social relations (political, legal, rough violence etc.) plays the supplementary role along with the certain moral rules of the human behavior.**

Let’s first take look at the most important – economic relations. As we mentioned earlier, the profit exists due to action of the relevant mechanisms, levers of money and commodity, market relations. Transformation of the net product into profit – this is a significant part of distribution relations. We should start discussing it with the conditions of distribution relations.

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<sup>14</sup> We imply real profit, supported by actually created wealth (riches), unlike the profit gained via non-production, money-grabbing actions, gerrymander, redistribution on account of the others.

This first of all includes the economic power, which emerges primarily as a result of the ownership of the production factors (capital, land, entrepreneurial skills, labor skills), further, the organizational role (control, regulation) and market position (monopoly advantage).

Regarding these factors, the major and first recipients of the profit are the owners of the capital (currently, mostly the shareholders) and entrepreneurs, based on the economic power – ownership and organization role, as well as monopolists, due to the special position at the market. As a result of these conditions the subjects receive income within the scopes of the existing distribution system.

The capital income (interest) may be the result of the ownership of this production factor received from one's own activities, inherited or obtained from the various sources including unlawful ones as well. This income, interest on capital is the form of the profit recognized in the theory. Its source is the same net product, creation of which is related to combination of the capital with the free factors. In this respect, capital plays significant role as the great part of the operation of the natural and anthropogenic free (gratis) forces is materialized in it. Within the general principle of justice, the interest on capital could be regarded as a due income in that part, which is obtained from the own or inherited savings of the wage and salary income. Everything else, in this respect, should be regarded as the income gained in excess to the due income, through existing economic mechanism.

Income gained from the entrepreneurship, in the theory, is called the entrepreneur's income<sup>15</sup>, consisting of so called normal profit, i.e. profit necessary for further activities in given industry and economic, or net profit, resulting from particularly favorable conditions of activities. It would be more reasonable to divide entrepreneur's income into two parts: one is the share of the entrepreneur, for special labor contribution made to the wealth creation, labor remuneration and the share for contribution in creation of the net product and second – additional part of the income (net profit) gained via operation of the market relations (mechanism), due to free factors. Functions of the entrepreneur, organizer, administrator are special source of economic power allowing them to appropriate greater part (more than due) of the net product created by universal free (gratis) factors.<sup>16</sup>

Income of both subjects - capital owners and entrepreneurs, without labor contributions, is a part of transformed net product obtained by mentioned subjects in excess to the costs, due to use of free natural and social factors. It was provided to these subjects

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<sup>15</sup> A. Marshall states: "Balance of the profit remained after deduction of interests on capital at current rate, as well as insurance costs, is called common entrepreneurship or management income. A. Marshall. Principles of Economics. Vol. I, Moscow. 1983 p. 135 (Russian publication).

<sup>16</sup> According to the economic theory,  $p = mc$ , also  $p = ac = mc$  ( $p$  – is the price,  $mc$  – marginal costs,  $ac$  – average costs), what is senseless, where it means receiving the same as spent. This would be vain work and this would exclude any development. And if  $c$  implies part of the net product. i.e. entrepreneur's income, in a form of so called normal profit – excess over compensation for his activities, this would be contradiction.  $c$  can not contain costs and net income. This is confusion. profit shall be clearly separated from the costs in all cases.

via market mechanism, relations, existing conditions of income distribution, within accepted rules and laws. We should take into consideration the fact that the capital, genetically (by its origin) is the product of free incomes, gained in excess to costs (from where, normally the savings originate).

Income of the land owners, with its common signs, is similar to the income of capital owners, but here the natural factors (land fertility, climatic conditions, their changes, location etc) play more significant role. By the origin it should be categorized as a profit or transformed net product. The owner receives it without labor activities, from the part of the net product originating from the free factors related to the nature and capital, which he appropriates on the basis of the land ownership. This is applicable to the wealth and net product generated from the natural resources and consequently, the profits of the relevant subjects. Net income, profit gained from leasing of various properties has many commonalities with the considered situation.

The further key condition for transformation of the net product into profit and for gaining profit is the natural right of free (self-employed) and hired workers over the products of their labor. The self-employed labor (peasants, craftsmen, professionals – doctors, teachers, lawyers etc.), especially when they apply the gained knowledge, experience, technology, organization methods etc., can create the net product (in excess of costs) and in quite significant quantities. After selling it they appropriate what is regarded as their net income, profit (and they regard this as such). For example, a peasant, who yields the harvest greater than inputs, due to the free factors – favorable natural conditions, techniques, scientific innovations etc., regards this part of his income and quite reasonably, as his profit – the income exceeding



the costs. The same could be said about the net income (profit) of other self-employed.

The profit from the labor, in particular, the one of the hired workers is of special nature, if we look at their income in a broader context, i.e. in normal social conditions, in relation with the costs of the labor force reproduction and other needs.<sup>17</sup> It is paradox but in the normal conditions the hired workers are the profit recipients. They lawfully receive more than costs from the net product created from the use of the free social energy and this is the source of improvement of their wellbeing.<sup>18</sup> Of course this does not imply inclusion of workers into profit distribution, neither dividends from the shares, rather the part of wages as transformed net product. Normally the incomes received by the hired workers should be regarded as their share of the net product for participation in its creation, received as a result of existing distribution mechanisms (via market mechanism), i.e. as the worker's profit (this would sound strangely, but in our opinion, this fully corresponds to the truth).

Some of the hired workers, like managers, organizers of activities, as a rule, receive very high remuneration, given the specific na-

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<sup>17</sup> Of course, labor remuneration can be very low in practice and even lower than the value of labor force, where there is no profit at all. Amount such situation D. Ricardo mentioned: where the market price of labor is lower than its natural price, the condition of workers becomes extremely hard: poverty leaves them without one or another items of comfort, which, normally, are absolutely necessary for them. Mentioned work of D. Ricardo, in Russian, p. 98.

<sup>18</sup> J. Clark regarded that the wages included the element which could be called quasi-profit. From Russian translation of the mentioned work by J. Clark. p. 360.

ture of their work and their rights in the income distribution system. Such remuneration contains significant part of the profit, even exceeding their contribution in generation of incomes.

Deviation from the normal level of the wages – labor remuneration as the way for gaining profit (and sometimes in a huge amount) could be regarded as special case. It takes place, primarily, in the case of booming and even perverted demand for the work and products of persons. This is related to the bad taste of mass consumers, attracted by low values. It is clear that the street music, vulgar shows have great audience. Certain sports have huge audience as well and this leads to the huge labor remuneration of certain people. The incomes of some artists, representatives of show business, singers and sportsmen, in some cases, comprise tens and even hundreds of millions and it amounts tens of thousands times averages of workers. This does not correspond to the relevant inputs made by the receivers of such remuneration. Therefore, most part of their income could be regarded as profit obtained mostly from the redistribution of the product (income) created in the society at an expense of others (consumers) via market mechanism.

Generation of incomes and profit of certain professionals is different to a certain extent. These are the professions, excessive labor price of which is not result of booming demand but is rather determined by the special nature of their labor and products, their significance for people, attitude of the consumers towards them. These are the doctors, lawyers etc. Their salaries, in many cases, are hundreds of times greater than the average labor remuneration. Their remunerations are not determined by the market rules, rather by the impact of their activities on the human lives and therefore, the individuals have to and are ready to pay

extremely high prices and especially where such high remuneration is not regulated by the state. They gain great profits. Such seemingly labor incomes gained as a result of such extraordinary (deviated from normal) factors are incomes received by these subjects at the expense of others, e.g. of the patients, clients etc (part of the products created in the other spheres), received by them excessively, via market mechanism.

The market demand for certain goods or services deviated from normal, lead to sales in huge quantities, irrespective of what is the actual benefit from this goods for the people. Such are for example the fashionable, widely advertised goods or types of service. Normally, the prices for them are high. The main condition of profit is the scale of the “need” and “demand” and not how valuable and useful actually are these goods or services as such. The consumers of such goods and services are like worshippers, they can pay anything to satisfy their desires even if they starve. Low quality fiction, pornographic “masterpieces”, soap operas have boarder audience than the classical immortal pieces. There is greater demand for hip hop music than for music of Mozart and Beethoven. Hence, the sellers of highly desired and demanded goods gain huge profits, which do not correspond to the value of relevant goods and services and to their contribution. In such cases incomes generated in other spheres are pumped to the suppliers of highly desired and demanded goods and services and hence, gaining undeserved (undue) profits via market mechanisms.

The workers of the banking sector and generally, finance institutions receive huge salaries within the scopes of proper labor remuneration, for their activities in the offices and various transactions not requiring any special skills. Such salaries are many

times greater than that of the competent technical specialist, worker of highest qualification, agricultural worker, steel-maker, designer, etc., i.e. those, who are the real creators of the good.

The state property and state activities also become the source of the profit. The state, as the owner and organizer of the production has gains similar to the private proprietor. And state as an element contributing to the production, becomes the subject of the property redistribution – it appropriates certain part of the net product through redistribution, that in its turn, pumps it in a form of the payment for services provided to the tax payers (creation of the favorable business environment, protection of person and of property, proper environment for economic activities etc.) through tax channels. In addition, transfer of the part of the profit to the budget by all subjects gaining the profits via fiscal channel is acceptance of the part of the good created with participation of free factors, as the one belonging to the society. This is based on the fact that the entire society, on behalf of which the state acts, has the right on the good (income) generated with the free factors.

Paying taxes from the salaries of hired labor actually means paying to the State part of the labor profit that is due to the society. Payment of the part of the profit from the income gained via other production labor (work of the craftsmen, peasants, specialists etc.) is transferred to the society in a form of taxes.

Significant precondition for gaining profit or appropriation of the net product is presence of the market mechanism: prices, credit, other financial levers etc. and here again, we deal with the redistribution of created products.

Apparently, the most effective leverage in this respect is the price. The prices comprise the most powerful and complex economic lever, with its particular place and role in economy. The price variability and deviation from the normal level is quite common phenomenon and it is widespread in redistribution of created products. This results in gaining unjust (undeserved) profits or losses by the sellers or buyers.<sup>19</sup> Such deviation of prices is caused by many conditions. The causes of change in demand and supply conditions are quite different – economic or non-economic, natural or sociogenic. Objective, fair price, corresponding to the normal stable condition in society and manifesting the social value of goods as a stable basis, is theoretical concept, quite rare in practice. The price should be the basis for analysis since unjustified (undeserved) profit or loss due to the economic mechanism and prices under conditions of market economy is quite widespread.

Incorrect, unfair prices transfer the incomes of buyers (consumers) to the monopolists or pump incomes of sellers to the buyers (consumers). Thus, the prices may the powerful lever for unfair distribution.

In reality we see this every now and then. Blockage of the road, destruction of the bridge by the landslide or flood, complication of the political situation because of protests, expected deficiency of goods etc. may “boost” prices and provide high profits to the

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<sup>19</sup> The issue of fair price was stated long ago (in the medieval period) by Thomas Aquinas and later, this issues was considered many times in the economic theory. In addition, existing understanding of this concept differs from the one presented here. Aquinas implied in it such price which does not cause damages either to the seller or buyer.

sellers at an expense of buyers, while the sellers have imported or produced the goods at much lower prices. In discussion of fair prices the starting point should be the socially normal conditions, deviation from which should be assessed. Barriers providing such undue (unjust) profits are sometimes created artificially. Thus, equality of demand and supply at the market, market equilibrium is not an innocuous one and it does not necessarily correspond to the conditions of the fair price formation. In number of cases this violates the basis of fair, objective and effective distribution of the incomes (obtaining due by all).

One of the preconditions of deviation of price from objective/fair level is economic power and exercising it for private interests, for example monopoly power. One of the factors of price deviation from the normal level is major intervention into economy from the state, improper measures intended for price regulation and control.

Setting prices by the state distorts distribution and objective formation of prices and prices are not properly justified and correctly set. In the conditions of planned economy there were numerous examples of this. This is not a rare case in the market economy either. The errors of the state policies in the sphere of price formation are easily seen and significantly impact the net product distribution by increasing or reducing profits of certain subjects.

Money and credit relations, speculations provide significant opportunities for unfair redistribution of the net product and gaining undue profits. Market allows distortions, which become the cause of significant undue incomes (profit) or losses. By aggressive actions, speculative transactions at the stock exchange some roguish players gain huge revenues. This seemingly takes place within the frames of the economic freedom, no one cares that

these subjects gain the wealth unfairly, let alone the moral aspect of such activities (this should be undoubtedly regarded as a great shame for society in the conditions of true understanding of moral and justice). Presentation of this in the economic theory as a form of some kind instrument for regulation of the market processes is unclear.

Appropriation of the part of the income created by free factors, in a form of undue profit by means of economic power, market mechanisms, prices, credits and other economic and institutional levers, by certain subjects and groups is a masked form of undue appropriation of profit as a result of special favorable conditions. Mostly this is regarded as a harmless fact within the effective regulations and laws. At the same time this violates the general principle of justice, objective principle (criterion) of wealth distribution, which implies fairness and reasonability.

Criminal profit is of absolutely specific nature. We should note here that it could not be regarded as a profit, as such, i.e. it should be labeled as a pseudo-profit. Not only it has nothing to do with the growth of public wealth but is related to the creation of harmful products and services or other crimes, creation of the anti-wealth (anti-values). In such cases criminals hide behind the shield of entrepreneurial freedom and democracy.

Primarily, here we should admit that the criminal business, which exists in numerous forms (starting from drug dealing and ending with human trafficking) and widespread under conditions of market relations. This business develops rapidly, improves its methods and types, sometimes even with greater success than production of useful wealth. Detailed discussion of its scales and types coexisting with the market economy and even impacted by it would be inappropriate here; we would like to

state only that criminal business is a great shame for the market system and mankind in general.

Unlawful activities like corruption, power abuse, unlawful business lobbying etc. yield great profits for certain people engaged in this for gaining unlawful, undue benefits to the detriment of the society, at an expense of the state and citizens. Maybe it would be adequate to call such incomes a quasi-profit.

There is a special form of appropriation of undue incomes, which is quite common. Such appropriation is carried out by means of abusive political power, income redistribution mechanism and unjust taxation system, which allows excessive pumping of income of a certain part of economic subjects to the state (into centralized fund – the budget).

Throughout history, there have been observed progressive changes in appropriation and use of the profit, in particular, increase of the part of incomes that is transferred for public use and is made available for common interests. This was reflected in increase of the role of the budget and fiscal policies, distribution of public incomes (GDP) and generally, in social welfare. Profit tax for corporations (depending on the amount of profit) differ in different countries, but mostly amounts to about 20-40% and higher, and for some products (natural gas, oil etc.) even 50%. Over last decades in USA it was 35%, in Canada – 36.1%, in Bahrain – 46%, in Great Britain – 15%, in France – 34%, in Japan – 37.5, in Germany – 38-40%, in Spain – 35%, in turkey – 32%, in Lithuania – 19%, in Russia – 35.4%, in Kazakhstan – 30%, in



Georgia – 20% etc.<sup>20</sup> Finally, current scheme of the profit appropriation could be presented as follows:

**Profit appropriation conditions:** ownership of production factors, economic power, economic mechanism, non-economic (political and other) power, masked violence, concealed activities.  
**Subjects receiving:** private persons, public (state, public groups, organizations).

**Profit recipients:**

**On the basis of ownership of non-personal production factors** – shareholders (investors), owners of the property (fixed capital) and land (natural resources);

**On the basis of institutional economic factor** – power (production organization, regulation) – entrepreneurs;

**On the basis of unlawful economic power** – monopolists;

**On the basis of labor factor** – self-employed, hired workers;

**On the basis of unlawful and apparent violence basis** – criminals, people engaged in the concealed activities;

**On the basis of political power (will), public influence** – state, public structures;

**On the basis of special conditions (good luck, booming demand or changed requirement/supply & demand, favorable condition, etc.)** – the sellers, consumers, professionals, institutions of the finance system etc;

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<sup>20</sup> Center of Business and Economy of Georgia. Comment on Reduction of Profit Tax. Tb. 2007, p. 18

Here, finally, we can say that under existing conditions, the profit can be appropriated objectively (due income) and also unduly, unfairly (undue income), as a result of certain chaos-creating circumstances in the sphere of logical sequence of factors and wealth distribution, even via phenomena, deviated from the regularity (what often takes place in the economy and generally, in the life of a society). It should be emphasized that objectively existing environment is formed as a result of historical processes (distribution way, mechanism) comprises the basis of appropriation of great part of profit by certain subjects.

These conditions of profit appropriation, as well as the entire income distribution mechanisms were shaped through the practice, independently of the will of individuals. In addition, it would be unreasonable to attribute the huge profits, amounting to millions and billions, gained by certain subjects, to their personal contribution. Thus, there exists the broad circle of due and undue profit recipients (appropriators). Hence, we should reject the profit concept, which presents it as the income of capital, income of the entrepreneur, unambiguously due or unambiguously undue income etc. We should make transition to the concept that more adequately reflects the reality.

Since such rule of profit generation and its appropriation takes place according to or in excess to the contributions made to the net profit creation, appropriation of profit justly or unjustly is an inevitable accompanying phenomenon of the market economy.

The figures presented above on the transfer of the part of profit to the state (public) reflect increase in fairness of profit distribution. In particular, they express the income redistribution process, by which, finally, part of the profit, i.e. income generated from free factors, is transferred to the entire society, to whom it, as the in-

come created by the universal factors objectively belong. Fostering of fairness in this sphere is a significant pre-condition for humanization of life. This shows that distribution of the profit created from the net i.e. free (unpaid) factors tend to become more and fairer, i.e. on the basis of principles of objectivity and reasonability (altruism). These principles are observed at different extent in different societies (countries). It is expressed also in increase of the role of transfers as the leverage mechanisms for profit redistribution in a form of various exemptions and subsidies for the public transport, education, health-care, development of fundamental science, implementation of the infrastructure programs, etc. and this, finally, reveals in socialization and humanization of economy.

All this takes place gradually, naturally, through evolution, without destruction and violence and should accelerate through application of relevant institutional means and measures by society. It should become one of the key directions of contemporary development and progress. Such mechanism of transformations is on the way of its formation but strengthening active constructive action of the society, in this respect is necessary. It has significant role in the life of society, in its change and improvement<sup>21</sup>.

In addition, lack of correspondence of the current way of income distribution in general and profit appropriation in particular, with the necessary level of fairness (objectivity) and reasonability, excessive discrepancy between the contributions of subjects in

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<sup>21</sup> Significance of extensive actions of people in the life of society was emphasized by the ancient philosophers – Plato, Aristotle, as well as E. Kant, F. Bacon, Leibnitz etc., the contemporary scientists: T. Parsons, A. Chardin, P. Cuss, L. Berger, T. Luckmann and others

creation of profit and appropriated shares therein, unfair distribution of created wealth in general remains the greatest problem of the mankind. Many disasters suffered by the mankind are related to this. Improper, unfair appropriation of profit was and is the reason of social disorders, malformations of market economy, inhumanity. Accumulation of the excessive properties, consumption of senseless luxuries, domination of wealth over the spheres of life – politics, moral, economy (abuse of economic power), oppression of people, direct and indirect encroachment of rights, imposing of the will of few people over the society, disintegration of the society, dividing into the opposing, dominating and dependent (oppressed) strata, strain, instability and other misfortunes.<sup>22</sup>

One could state that it is hard to find all over the world such sphere of disorders as distribution of wealth (incomes) and riches. This could be easily demonstrated by the huge inequality between people in distribution of incomes and wealth beyond any reasonable limits. Great majority of countries are the poorest ones. Within the countries inequality with respect of incomes and property is even more extreme. Incomes and properties of certain rich people are thousand times greater than average incomes and property. The greatest part of wealth is in the hands of small number of people. Even in the richest countries there is significant number of poor population. For example, share of the people

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<sup>22</sup> These problems are considered thoroughly in the works of A. Schweitzer, E. Fromm, P. Buchanan, J. Perkins and others. This is also described in the fiction of famous writers of 19<sup>th</sup> century: O. Balzac, E. Zola, J. Galsworthy etc.

beyond poverty line in USA was 22.2% in 1960, 12.7% in 2004.<sup>23</sup> Less than 2% of the population lives for less than 1.25 USD in developed countries like Slovenia, Estonia, Poland, Hungary, Latvia. National poverty rate is 16.8% in Slovenia, 14.8% in Poland, 5.9% in Latvia. These figures are much higher in number of developed countries, while the level is catastrophic in the developing countries. For example, 80.5% of people live with the incomes less than \$1.25 in Djibouti, 81.3% - in Burundi. In the world their number is 1.3 billions, i.e. almost  $\frac{1}{4}$  of world population.<sup>24</sup>

Reason of all this is not laziness of certain part of people, historical and natural conditions, level of economic development but unfair distribution of incomes, improper mechanism of profit appropriation. And this is not assessed properly. Of course, this situation plays in hand to the certain circles while the others do not understand the grievances of this problem fully.

After this can we say that contemporary civilization is at highly developed, it follows the correct way, and people in the world can live peacefully? Unfair wealth distribution and outrageous inequality of properties and life conditions currently is one of the main challenges of mankind. This is a significant danger for the countries and nations, for the entire world.

Entire generations of the scientists have been working on the problems of wealth (income) distribution. It is amazing that only some people agree that this is unfair. Furthermore, no one have justified in a scientific way, the ways of fair distribution of prop-

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<sup>23</sup> Income. Reverty and Health Insurance Coverage in the USA .2004. Comment Printing office. Washington. D.C. 2005.

<sup>24</sup> UN Report on Human Development. 2010, pp. 161-163 (in Russian)

erty; development of the truly scientific theory of wealth creation and distribution, which would be objective and reflect its vital significance for the science and practice.

Indeed, to whom belongs the profit? Who and how much should receive under conditions of fairness and objectivity?

Based on our considerations, generally the following could be stated (detailed research of the specific issues is the task for the future):

First of all, only profit, which is obtained in the process of generation of the real wealth can be considered fair, if it corresponds to the labor contribution within the scopes of generally objective relations and distribution. Profits gained and appropriated in excess is beyond the objective way of distribution and is undue according to the fundamental principle of objectivity, even if its appropriation is regarded as lawful. Thus, everyone should recognize that in practice we deal with the duly appropriated (due) and unduly appropriated (undue) profits. Unfortunately, unduly appropriated profit is the greatest part of total profit and this provides basis for unfairness, excessive inequality in wealth distribution and social chaos within existing economic and social system.

Secondly, based on our discussion we can conclude that there are three forms of profit: 1. the real profit, originated from the real net product. This is transformed form of the pure net profit, the real income of society, increment of wealth; 2. The profit gained via redistribution at other's expense, whether lawfully or unlawfully, through criminal activities; 3. De-facto unreal profit, with no goodness in it but which takes part in distribution of the wealth, i.e. the pseudo-profit.

Thirdly, the pattern of gaining and appropriating the profit, share of undue profit in entire incomes (profit) shows the level of justice in society and hence, the degree of progress, democracy and the level of civilization of the society.

Fourthly, following the way towards fair distribution of the wealth in general and profit in particular, is one of the significant conditions and criteria for humanization of society. The logic and principle of objectivity, as the main basis of the social order, tell us that appropriation of transformed net product obtained as a result of free universal factors of social energy should be carried out primarily, according to the labor contribution by the private subjects and further, by state, labor collectives etc. on the basis of regulations stated by the society, i.e. according to the merits, reasonability and altruism principles. The latter should be used for universal public needs and social programs, providing the normal life conditions for groups lacking incomes.

Regarding above mentioned, profit appropriation should be based on the contribution of subjects in creation of the net product, as well as social reasonability. In such conditions, the fair appropriation of the profit should be as follows (hypothetic model):

**Subjects receiving the profit:** private persons and society (state, groups of people, collectives)/

**Profit appropriation factors:** economic power (property gained by labor), labor (activities), political power, will of the society.

**Profit distribution by factors:**

**Profit appropriators on the basis of economic power and mechanism:** owners of the capital gained through labor;

**Profit appropriators on the basis of the labor factor:** self-employed, members of labor collectives.

**Profit administrator on the basis of political power, will of the society and reasonability principle:** state, labor (production) collectives, public institutions.

In all these cases the amount of the profit should be determined by labor contribution, while greatest part of the net income created by the universal factors (exceeding costs, i.e. providing free results) shall be made available to the whole society.

This rule of distribution of the net product or profit appropriation means receiving and administering the profit by those, to whom it is due, on the basis of labor contribution in its creation and principles set by the society (reasonability, altruism). This is the way corresponding to the use of the profit for the benefit of entire society and its members, for ensuring wellbeing of the members of the society.

Such appropriation of profit corresponds to the fairness (objectivity) in the life of society, overcoming social controversies in general, introduction of true humanism in the life of people. At the same time, this determines effectiveness of the economy, reasonable use of the resources, as this would contribute to overcoming difficulties related to existing injustice in society, which is hindering effective development of the economy.

Basis for these considerations is provided by the fact that according to fairness (objectivity) criterion and logics of the truth, the most part of the profit, as the one created via action of the universal sources, should be administered and controlled by the society – the democratic government, expressing the will of entire society



and the social institutes. For today, this takes place only partly. Profit distribution and appropriation in this way is gradually expanding. As we have seen from the data provided above, dealing with profit taxation and its transfer to the centralized fund of the state. There are numerous other facts and data confirming this. Though, this is not sufficient. Profit distribution and appropriation should become absolutely fair, objective and corresponding to the moral and therefore, all should receive what they objectively deserve (what was generated by his/her contribution to the creation of the income or what is due to him based on the principle of reasonability).

Such way of profit appropriation excludes gaining the most part thereof by the oligarchs, with relevant severe negative outcomes for society (excessive inequality, domination of capital over people, labor, politics etc.). It will be related to in-depth progressive changes in the economy, in distribution, ownership and other economic relations. On its side, this process will be in the socioeconomic system, in the way of life of the society, the precondition of fundamental changes, breakthrough towards humanization of the economy and entire life. This way would ensure the highest targeted economic stimulus for all economic subjects, as well as directing profits towards universal wellbeing.

We are aware that by the above mentioned considerations we oppose the existing theories of profit category, not only the Marxist one but the others as well, including the most recent ones. Up to present the issues of the profit and distribution were not stated and considered in this way. We clearly understand why the truth dealing with the profit is not interesting and convenient for certain people (groups). But we believe that full understanding of the profit, introduction of fairness and objectivity in the practice

of its distribution and appropriation is greatest challenge of the mankind. This is necessary for more human life style and finally, for full-scale development. Someone would state that our key statements do not correspond to the concept of profit, they provide incorrect understanding thereof, but still, the main thing is that they are true. We attempt to defend this new, true concept of profit, without caring much of what others think about it.

## *4. Use of Profit and Universal Wellbeing*

The New concept of profit use, which will be formulated here, is not in line with the existing concept (similar to our views about its creation and appropriation) and it contains innovations, which are dramatically different from widely recognized and spread views. In our opinion, this is what allows it to better reflect the reality and this responds to the perspective of the human development.

The existing rules of gaining (receiving) and appropriating the profit provide us with the full understanding of the social essence, nature of the profit and this has the key significance for the level of the social fairness in the society. Here it reveals to what degree the profit is consumed for the wellbeing of those who participate in its creation, to whom it objectively is due, as well as to wellbeing of the entire society. The way of use would finally clarify what are the benefits received by the strata of society from it.<sup>25</sup> Real reasonability of the profit use shall be translated into improvement of common wellbeing.

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<sup>25</sup> This is a very important aspect, though not all have the adequate feeling of fairness and many are atrophied in this respect or regard the unfairness as the phenomenon beneficial for them. Therefore,

Further in the paper we will discuss the use of the profit according to actually existing rules and reasonably (effectively), as well as according to the requirements of realization of the principle of fairness. Here we deal with the real profit but we cannot avoid discussing the issue of the use of unreal (pseudo) profit. The patterns of profit use by recipients for their own or for society's benefit, as well as the level of objectivity, fairness, moral in the society reveals in this.

The mechanism of use of the real profit, as such, implies combination of interests of recipients and society on the basis of objective interrelation i.e. according to how much is due to whom and who and how much has deserved. The interest of creation of profit, with respect of gaining and increasing real income, growth of the wealth of entire society is related to the use of profit. In addition, from the point of view of fairness or, humanization of the economy or conformity with the universal wealth for each and all, the main issue is how adequately, properly is implemented combination of principles of fairness and interests of the society in appropriation and use of profit. In this respect, let us at first consider existing patterns of use of profit and further we can discuss the proper way, as we see it. The issue of effectiveness of use of the profit, as well as entire income, how beneficial it is for the society and its members, i.e. whether it is used for improvement of actual wellbeing of people is of great significance. This means, to what extent is the profit transformed into the actual social benefit, wellbeing of the society. Of course, use of profit for various purposes and in different ways does not provide one and

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they feel good in the unfair world but the entire society can not follow this way. It requires justice like it requires other values, lacking of which destroys the society like improperly built wall.

the same social result i.e. similar real benefit. It can be used for improvement of the wellbeing, whether effectively or, ineffectively as it often takes place. This depends on the number of circumstances (goal, favorable natural conditions, technologies, institutions, organizational factor etc.) which is conditioned by the nature of profit appropriation and use.

The significant point is that appropriation and use of the profit does not coincide in respect to interests of the recipient and user and obtained results. In particular, appropriation involves only private interest and private result while use combines private and public interest and result. Appropriator of the profit – capital owner, entrepreneur and others increase their incomes and wealth. And the process of use of profit is related to increased wealth of both, private (first appropriators of profit) and members of entire society – creation of additional jobs, increase of incomes, growth of the wealth of country, what is beneficial for all members of the society and not only for the profit appropriators. Without such outcomes existence of the profit would be impossible and senseless.

Hence, any subject receiving profit (as described above) uses it as income, for two purposes: for their own wellbeing and for further expansion of production. This corresponds to the private and public interests. Acting in one-sided interests is as impossible as running with one leg only. In this respect, the profit is divided into two – consumption and accumulation funds. Operation of the economy, its subjects is impossible other way.<sup>26</sup> The accumu-

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<sup>26</sup> Philosophy of individualism stating that each person should take care about himself only and all will be all right, is absurd and this is proven by practice. Rather this is an animal behavior. No one could

lation of the funds along with the own interests expresses mainly interests of the society and its members as it is mostly used for expansion and development of the material basis for development of economy and improvement of life. Profit transferred to the consumption fund normally serves to the satisfaction of the requirements of relevant subject.

At the same time, there are some deviations and profit is used for unreasonable, unhealthy, senseless luxury requirements, for creation of excessive consumption and excessive wealth.<sup>27</sup> Sometimes profit is used for the purposes detrimental for the society and its members. This is applicable for both, accumulation and consumption funds.

The different case where the profit is used according to the principles of altruism, charity is a display of special human properties of the relevant subjects and serves to the wellbeing of the society and specific individuals.

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achieve any real and useful results in this way. Mutual cooperation and assistance by people, dealing with the problems with common efforts is much more effective

<sup>27</sup> We regard that the category of "excessiveness" is of great significance for the economic and social science. It implies what is more than necessary for satisfaction of the normal requirements of people and does not contain any actual benefits for people and serve to satisfaction of the pseudo-requirements. This may be unclear for many people, who follow the materialism but we should pay no attention to this as we regard that common sense and those, who think in a sound way would support us.

Excessive, senseless, actually useless consumption was considered by T. Veblen, in the book "Theory of Leisure Class". We discussed it in the work "Moderate Person". Magazine "Homo Esperans" #2, 2005

Let us discuss the use of profits of certain subjects. Profit of the entrepreneurs, given the way of its generation, is used for current consumption and for savings, i.e. for personal wellbeing and for improvement and development of production (technical improvements, staff training, innovative activities etc.).<sup>28</sup> Transfer of certain part of the profit to the public fund (budget) for common needs means that it serves the interest of society as a whole, and certain strata of population. Most part of the profit used for personal wellbeing, normally, is used for luxury, excessive consumption (accumulation of excessive wealth), what could be seen, in general, as a pseudo welfare. Thus, we can say that use of the entrepreneur's income (profit) takes place, first, for the reasonable purposes - real personal wellbeing and for the public interests - form expansion and improvement of production, as well for participation in the public funding and second, with respect of common sense, for the seemingly, pseudo wellbeing.

Incomes of the owners (interests on capital and rent from the natural resources and property) is mostly used for personal wellbeing, including the pseudo wellbeing and for participation in production development, for the purpose of increase of incomes, as well as for the common public needs (assets transferred to the budget etc.).

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<sup>28</sup> J,S, Mill mentioned about this that when the capitalist recovers his costs, normally some excessive amount is remained, comprising his profit, net profit of the capital invested into business - the value, which could be used for satisfaction of his requirements or desires, or at expense of which he can increase his wealth (book J.S. Mill. Principles of Political Economy, Moscow, 1980, p. 127 (from Russian publication).

Profit gained through own activities – self-employment and hired work (income from labor remuneration) is used by the individuals for improvement of their personal and family lives, for improvement of the conditions of work (technical equipment, improvement of qualification, innovations etc.). The part of the income received in excess to due income (by the workers of certain categories described above) is used for accumulation of excessive personal wealth, luxury (purposeless, useless) consumption and other unreasonable purposes. Part of the profit, in accordance with the established rules, is transferred for the public needs to the common fund (budget etc.)

The situation is quite different in case of use of (pseudo) profit gained via unlawful and criminal activities; it is used for expansion of criminal activities and wellbeing of criminals. Unfortunately the scale of such profit is large and increasing and creates numerous moral, material and social problems in society. Here we have obviously outrageous form of injustice. Sometimes is concealed. The profit gained through corruption, robbery, other forms of criminal activities can be also invested into production of useful wealth but it is still used for gaining of unlawful incomes intended for deception of the society.

It is reasonable that the most part of the profit is transferred to the state (public), according to the unbiased regulations established by society on the basis of principles of reasonability and altruism and used for the common needs and certain groups of citizens (people in need). Income generated from the universal free sources, given their origin, is due to all people, entire society; it should be used, according to above mentioned principles of distribution and use. Only in such conditions all excessive inequality will be eliminated in society and fair society would be formed.



This condition is not fulfilled in practice adequately, i.e. the deviations take place. Reason of this is existing economic mechanism, existence of improper forms of wealth distribution and use, improper influence of politicians on the economy, whether intentionally or due to the lack of knowledge and skills, or errors.

And still, within the scope of existing mechanisms of profit use, it acts as a resource for creation and appropriation of personal and public wealth; the unfair nature of initial distribution relations is declining; final appropriation and use of the profit takes more public features. Entire society and its members become sharers of its wealth. However, situation is far from the desired one yet.

The facts show that through taxes the significant part of all created wealth is accumulated in the hands of society and used for the needs of the entire society and its members. Share of this part increased significantly in the last century. In different countries, at different times, it was and is different. Currently, in various countries, it is from one fourth to half of gross domestic product.

With the increase of revenues gained from taxes the amount transferred to the state and used by state for common public needs and social protection of people by the end of 20<sup>th</sup> century reached 32.6% of GDP in Australia, 37.4% in Canada, 51% in France, 49.8% in Germany, 38.3% in Japan, 54.3% in Italy, 38.8% in UK, 35.1% in USA, 53.1% in Sweden etc, while the share of tax-

es in the beginning of 20<sup>th</sup> century was less than one tenth, e.g. 8% in USA.<sup>29</sup>

This shows increase of socialization of economy, it shows that the economy serves to satisfaction of the common-public needs, common wealth, to greater and greater extent.

We cannot neglect the fact that certain part of profit is also given for charity purposes – for assistance to the people, groups, institutions, countries, which are in helpless condition and need of assistance and support. This tradition originates from the ancient times but it became especially widespread from the 19<sup>th</sup> century. It is confirmation of strengthening human nature and it is significant fact in the life of the mankind.

Thus, regarding the way of the profit use it becomes clear that the profit is not the matter of interests and benefits of only certain subjects, it is not used for the wellbeing and purposes of its recipients and appropriators, as this was stated Marxists and other scientists. This cannot be so according to the common sense and logic. In such case it would be impossible to create and increase it, as its basis would be destroyed, as it is the common product of private and social factors.

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<sup>29</sup> Source: United national Accounts statistics. Government Accounts and Tables . 1983. Yahrbook. Country. Tabl. 2.3. Survey of current business . Yuly. 1986. Tabl. 3.14.

Yet, unfair nature of appropriation and profit use, concealed in market relations and laws, is quite significant and cannot be eliminated by above mentioned redistribution mechanisms.

In general, with the increase of the level of civilization of the society, injustice in profit use is further aggravated as public awareness of inadequacy of profit appropriation and use is also increasing. Thus, it takes more extreme features, and becomes greater challenge for the entire society. Though because of its masked/hidden nature, it is not properly understood yet.

Negative social outcomes of injustice related to the profit are heavy burden for the society. It is revealed in many forms. Briefly we could say that it is excessive unequal distribution of the property and other social wealth, accompanied by dramatically different life conditions for different strata of the population, which does not comply with the principles of objectivity and order; ineffective use of the most part of public resources for production of irrational goods by certain groups of people; social tensions, lack of peace and inharmonic nature of social relations; inadequate level of humanization of entire society and economy etc.<sup>30</sup>

Finally, use of the profit and its social outcomes may be evaluated with respect of universal values - good and evil. In this respect, complex nature of profit is the result of the process of its creation and distribution, in relation with distribution of whole wealth

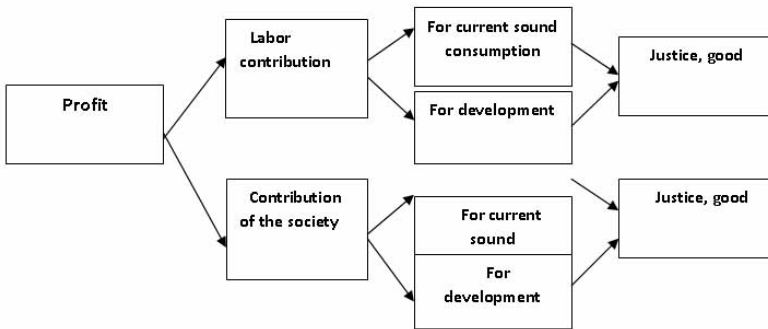
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<sup>30</sup> We should note that we are not interested in details and facts of use of profit. Our goal is to clarify its substance, nature and social outcomes in general. Therefore, we do not consider any specific facts. There are many such facts and they are easily available for all. We should add here that we intend to consider in greater details the social "price" of mentioned unfairness in the other works.

(incomes). Degree of justice in society is determined by the net product distribution – degree of fairness (objectivity) of rules of creation of the subjects’ profit and its use, together with distribution of entire incomes. This also reflects the level of humanization of the society, what is the main criterion and reference point of the progress.

For current period and for the future, realization of the principle of objectivity, fairness in appropriation and use of entire incomes and profits, in its strict sense (and not in illusory way) is on the agenda, as without this social progress would slow down or may even be reverted.

Results of transition to the objective and fair distribution and use could be presented through the following diagram:



*Fig. 1 Model of social results of objective (fair) distribution and use of the profit*

Under these conditions negative outcomes of profit creation and use (injustice, distortion of economic relations, where the due share is not received and not used reasonably) will be excluded,

as well as the harm, which is accompanying market relations will be eliminated. In this way the profit will become the source of good only.

In reality of contemporary life unfair distribution of profit, as well as its insufficiently reasonable use in social respect are apparent. It is the cause of gaining excessive, huge wealth by some people, as well as the cause for excessive consumption. Excessive wealth and consumption should be considered within the scopes of sound approach, as this is the loss of wealth for the countries and humanity.

Hence, one of the main challenges of the mankind is overcoming injustice in general and unfair rules in the sphere of distribution in particular. Objective appropriation and use of the profit is significant part of distribution of entire incomes and justice in general. The society would become more human, civilized and progressive if it deals with this problem. Their general principles – reasonability, personal contribution and altruism were briefly discussed in this paper and discussion of more specific issues is subject of separate study and it is not our goal here.

## Conclusion

The trend observed towards fairness of profit appropriation and use is primarily based upon progressive changes of the socio-economic relations and primarily property and labor relations, which are conditioned by improvement of intellectual, cultural level of society, production & technological changes, moving to the higher stage of civilization. The role of collective, group, democratic form of property in life of society increases, the public institutions is strengthened; their influence on the mechanisms of distribution and appropriation of incomes grow. The society gains better understanding that domination of few people, oligarchs over the economy and life, appropriation of the greatest part of incomes by them is unfair and this cannot be hidden from civilized society. Therefore, peaceful transition through progressive changes is taking place. Increase of public (collective, shareholder, group, private-collective – hybrid) property – forms of the

public production takes place in the economy, that is followed by improvement fairness of distribution.

Highly civilized society could not accept injustice, distorted, concealed forms of income appropriation and use. Gradually it will transform into objective human relations in peaceful way in appropriation and use of the incomes and profit. This is logically formed in the contemporary economic system and civilization. This would be a dramatic change, progressive breakthrough on the way of social progress.

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## About Author

Prof. Giorgi Malashkhia's interests are diverse. He pays great attention to problems of economics, human life and humanization issues, in general. He sees the role of the science in resolving problems through gaining in-depth understanding of the social phenomena on the basis of fundamental knowledge of laws of life. He places humanization of the life at the heart of the social progress. In his view, starting point of humanization is an eternal meta-values of mankind - the truth, moral, justice, freedom, beauty (esthetics) etc.

Prof Giorgi Malashkhia seeks source of human values in humans themselves, in their development and improvement, in particular, in intellectual-cultural progress. His key postulate is: the life, economy, policies, culture are alike of human and human system of values. Giorgi Malashkhia considers the skills creating the goods, use of free (gratis) or partly free natural and historical-heritable resources as the main source of the growth of material and spiritual wealth and calls it the social energy. Progress reveals itself in increase of material and spiritual wealth and good. Each stage of development and increase of wealth relies upon already achieved level, which was attained thanks to the contributions of previous generations.

Prof. Giorgi Malashkhia regards development of the humans as the most significant condition for responding to challenges delaying the social progress. The most part of the shortcomings and weaknesses is created by humans as such and humans can overcome them though their improvement and moral elevation.

Prof. Giorgi Malashkhia is the author of over 200 works, in Georgian, Russian, English and other languages. He has formulated the original theory of socio-economic progress, developed on the basis of his anthropogenic approach, axiological and eudemonist vision, genetic judgment and other methodological principles, as well as explanation and understanding of the processes in the society on the basis of universal category of social energy. *Meta-economics - Philosophy of Economics* (1995); *Metatheory of Profit - What is the Profit in Reality?* (2007); *Human Economics* (2009); *Development Degree and Universal Welfare* (2011); *Some Socioeconomic Aspects of Development Philosophy* (2011) etc.

