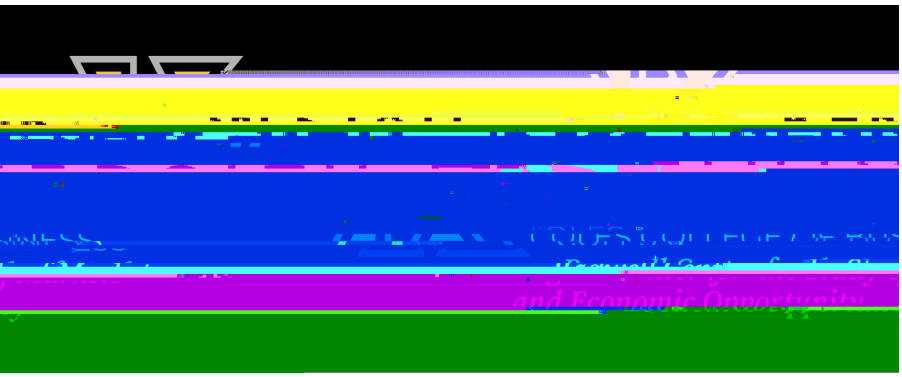

Commentary

Title:

"Is Profit Maximization or Social Responsibility the Morally Correct Goal of Business? 3 D U W

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non-capitalist systems, the incomes in capitalist countries are higher than incomes in non-capitalist countries.[3]

Profit maximization in firms leads directly to higher productivity for society and therefore higher incomes for the vast majority of people. The connection of profit making to incomes is due to the residual claimant status of those profits. Profit making firms are legally structured so that the owners of the firms may only take their profits out of the firm's revenues after all other contractual claimants have been paid. This means that everyone who does business with the firm, including the workers, gets paid before the owner does. Since the owner gets what is left over after everyone else is paid, the profit to the owner could be either positive or negative. In the following example we see two possible outcomes for a firm and its owner.

Table 1.

inserting other responsibilities other than profit maximization for the owner will lead to system wide inefficiencies and thereby lower incomes for all.

It is obvious that increasing the efficiency of firms will increase the incomes of owners and managers of firms, but how does the focus on maximizing the profitability of the firm redound to