The Uniformity-of-Profit Principle

A. Statement and Explanation of the Principle

1. *The rate of profit (return) on capital invested tends toward uniformity in all branches of industry.*

   The rate of profit contrasted with a profit margin.

2. Uniformity-of-profit principle based on the fact that capital is withdrawn from areas of low profitability or losses and invested in areas of higher profitability, the effect of which is to reduce the initially high profit rates and raise up the initially low profit rates.

B. Significance of the Uniformity-of-Profit Principle

1. The harmonious balancing of the different branches of industry; incentives and means for the counteraction, delimitation, and prevention of mistakes in production.

2. The power of the consumers to shift the course of production—"consumer sovereignty."

3. The need of businessmen to introduce continuous improvements in production ahead of others in order to earn an above average rate of profit; how the concern with profits expands production in the economy—the significance of cost cuts; why prices rise, even though the uniformity-of-profit principle operates to make them fall.

C. Applications of the Uniformity-of-Profit Principle

1. The repeal of farm subsidies, rent controls, and price controls on oil and natural gas.

2. Differential tax rates—e.g., the depletion allowance on oil and its abolition.

3. Rents and prices in minority neighborhoods.

The Tendency Toward a Geographical Uniformity of Prices

A. Statement and Explanation of the Principle

1. *The price of a good capable of transportation tends to be the same throughout the world, plus or minus costs of transportation (and tariffs, if any).*

2. Basis in the fact that it pays to buy in the cheaper market and sell in the dearer market, which has the effect of raising the price in the former and lowering it in the latter.

B. Significance and Applications of the Principle

1. Why local crop failures don't cause famines.

2. The Arab oil embargo against the U. S.

3. The export of Alaskan oil to Japan.

The Tendency Toward a Uniformity of Prices Over Time

A. Statement and Explanation of the Principle

1. *The price of a good in the present tends to equal its expected price in the future,* or, more precisely, the expected price of a good in the future tends to exceed its price in the present by no more than the costs of storage and an allowance for the going rate of return on capital for the period of storage.

2. Basis in the fact that buying and holding to take advantage of a higher price acts to raise the price in the present and, by making larger supplies available in the future, reduce the price in the future.

B. Significance and Applications of the Principle

1. The mitigation of scarcities.

2. The productive role of commodity speculation.

The Tendency Toward a Uniformity of Wage Rates for Labor of the Same Degree of Ability

1. Basis of the principle in the movement of workers from lower paying to higher paying fields and effect of more (less) workers on wages in a field; accomplished mainly by movement in supply of young workers entering the labor force.

2. Corollary tendency toward unequal wage rates for labor of different degrees of ability.

3. Premiums and discounts in wages accompanying non-monetary disadvantages and advantages of employment.

4. Consumer control over the relative size of the various occupations.

5. Seeking the highest paying job means trying to do what the consumers most want you to do

Prices and Costs of Production

1. The tendency for price of products to be governed by their costs of production

   a. Indirect determination by cost through variations in supply.
   b. Direct determination by cost through the decisions of sellers in setting their prices: the need to hold down the profits of competitors and potential competitors.

2. Analysis of cost of production into prices times quantities of factors of production; prices of factors of production at each stage largely determined by supply and demand—e.g., wage rates. Role of supply and demand becomes cumulatively greater, the further back in the production process one goes—e.g., autos to steel making to iron mining. *Explanation of price by cost, therefore, ultimately comes down to explanation based on supply and demand operating in markets for labor and other factors of production in given supply.*

3. Full explanation of prices based on cost and of all other prices depends on explanation of prices by supply and demand.

The General Pricing of Goods and Services in Limited Supply

1. A “catalog” of goods and services in limited (given) supply.

2. The prices of goods and services in limited supply are determined by the quantity of money and by the value judgments of the consumers with respect to the various goods and services on which they

spend the quantity of money. The quantity of money determines the absolute height of all prices, and the value judgments of the consumers determine their relative heights.

> Under this head, the value judgments of the consumers determine the relative incomes of the different kinds of workers, e.g., the incomes of skilled workers in relation to those of unskilled workers.

3. The prices of goods and services in limited supply are set high enough in a free market to level down quantity demanded to or below equality with the supply available. Consequently, shortages even of these goods and services are impossible in a free market. By the same token, the competition of the sellers of such goods prevents unsalable surpluses in a free market—implication of no mass unemployment in a free economy.

4. The setting of prices high enough to limit demand to the supply is to the self-interest of buyers as well as sellers, and of poor buyers as well as rich ones; similarly, the setting of prices low enough to clear the market is to the self-interest of sellers as well as buyers.

5. In a free market, goods and services in limited supply are distributed to consumers in accordance with a combination of their wealth and income and needs and desires.

6. The prices of factors of production in limited supply have the same characteristics and the same significance as the prices of consumers' goods in limited supply, as described under points 3, 4, and 5, above. (Factors of production are labor, materials, and machinery bought for business purposes, i.e., for the purpose of earning profits through subsequent sales.)

7. In addition, factors of production in limited supply have an added dimension of "distribution": Namely, they are distributed to different concrete uses or employments. E. g., wheat is distributed to the production of bread, crackers, etc. This kind of distribution, of a factor of production among its various products, takes place through a process of the different needs, desires, and purposes of one and the same individual consumers bidding against each other.

8. In a free market, factors of production in limited supply are distributed to their most important uses, in accordance with the pattern of consumer spending.

9. The concept of "most important uses" is a variable range, determined by the supply of the factor.

10. Prices of factors in limited supply are determined with respect to their marginal uses—that is, the least important of their most important uses. Consequently, prices determined by cost of production are determined with respect to the marginal uses of the factors of production.

11. All prices of goods and services in limited supply are determined by the consumers' value judgments with respect to marginal quantities, e.g., rental space.

12. More on the rationality and efficiency of the free market in responding to changes in economic conditions: In a free market, every change in the demand or supply of any factor of production is dealt with in a way that maximizes gains and minimizes losses. Factors of production in reduced demand or additional supply are channeled to the most important of their previously submarginal uses. Factors of production in additional demand or reduced supply are taken from the least important of their previous uses—viz., from their marginal uses.

13. More on the harmonious integration of all production and consumption in a free market: The significance of using lower priced factors in place of higher priced factors. The significance of cost calculations. What the prices of consumers' goods reflect.