

THE PROFIT MOTIVE IN EDUCATION

James Stanfield

It is not often that we find the Conservative Party jumping into bed with the notorious National Union of Teachers (NUT), but on the question of combining the profit motive with children's education, both subscribe to the NUT's mantra of 'Education is for children – not for profit'.

Writing in 1949, Henry Hazlitt suggested that '[t]he indignation shown by many people today at the mention of the very word profits indicates how little understanding there is of the vital function that profits play in our economy'. Thankfully, over half a century later there is now much more understanding about the importance of the profit motive in our daily lives – except of course in education. In fact, even attempting to relate education to money is still viewed by some with deep suspicion.

As such, Hazlitt's brief description of the function of profits is perhaps worth revisiting. Firstly, according to Hazlitt the prospect of profits helps to decide what will be produced and in what quantities, and if there is no profit in producing a product or service, it is a sign that the labour and capital devoted to its production are misdirected: the value of the resources that must be used up in providing a product or service is greater than the value of the product or service. Secondly, the profit motive also helps to put constant and unremitting pressure on business managers to improve and innovate. For-profit organisations don't have to be told to improve or innovate. Instead they have an inbuilt incentive to do so automatically. Hazlitt also challenges a common misconception which claims that profits can be increased simply by raising prices. Instead, it is by introducing economies and efficiencies that cut costs of production that helps to generate profits. Therefore, it will be those who have achieved the lowest costs of production that generate the highest profits. In short, 'profits not only tell us which goods it is most economical to make, but which are the most economical ways to make them'.

Ludwig von Mises has also helped to explain why businessmen and big business are not irresponsible tyrants, as many still claim them to be, because it is 'the necessity of making profits and avoiding losses that gives to the consumers a firm hold over the

entrepreneurs and forces them to comply with the wishes of the people'. As a result there is no problem when a businessman attempts to enrich himself by increasing his profits, because large profits are simply proof of supplying customers with what they want, while losses are the proof of blunders committed. As Mises concludes, '[t]he riches of successful entrepreneurs is not the cause of anybody's poverty; it is the consequence of the fact that the consumers are better supplied than they would have been in the absence of the entrepreneur's effort'.

From the above comments, it is clear that the profit motive plays an important role both within individual organisations and in the economy as a whole. They also suggest that while there has been much debate about the ethics of the profit motive itself, less attention has perhaps been given to the actual process of calculating profit and loss and how this influences how organisations operate and perform. For example, it is clear that if an organisation is driven by profits, then there appears to be an inbuilt incentive to record and monitor all costs. This is because if costs and revenues cannot be compared, then the calculation of profit becomes impossible. The ongoing calculation of profit and loss also provides an organisation with a continual flow of information about the quality of its products and services and if they are succeeding in meeting customer needs and expectations. The calculation of profit and loss therefore provides an essential link between what the customers want and what the organisation produces. Eureka! Could the profit motive prove to be the missing link in education?

In their 2003 publication *Education and Capitalism*, Walberg and Bast suggest that unless popular myths about capitalism are challenged, school reform in the USA will stall well short of success. I agree, but wouldn't it be nice if we had some Members of Parliament who were prepared to lead the debate and challenge such popular myths. Having some politicians who were prepared to enter the debate would be a good start.

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