

Saints don't Exist. Neither do Sinners.

Why the Profit vs. Altruism Debate Misses the Point

The Great Economic Delusion

Two reckonings arrived within months of each other. First, Lehman Brothers—the 158-year-old investment bank—vanished overnight, taking with it the retirement savings of millions who trusted that financial expertise meant financial responsibility. Then came revelations that Mother Teresa's organization had amassed millions in donations while patients in her Calcutta facilities suffered from treatable conditions that could have been resolved with basic medical supplies. These twin disasters—one born of greed, the other of supposed grace—reveal something profound about our economic discourse: we've been asking the wrong question for centuries.

We assume that changing ownership structure fundamentally transforms human nature within organizations. Private to public, for-profit to nonprofit—these shifts, we believe, will somehow suspend the basic psychological tendencies that drive all human action. This faith in institutional alchemy ignores both economic theory and decades of research showing that people respond to incentives with remarkable consistency, regardless of the moral rhetoric surrounding their work.

The productive inquiry isn't whether profit-seeking behavior is superior to altruistic alternatives. Rather, we must examine how different systems channel predictable human motivations toward outcomes that actually help people. The challenge lies in designing institutions that work with our messy, contradictory nature rather than demanding we become saints or accepting that we're all sinners.

The Beautiful Monster of Human Nature

Human behavior exhibits striking consistency across all organizational forms, defying simple categorization. The Stanford Prison Experiment showed how quickly ordinary students became authoritarian guards and submissive prisoners, but what's often overlooked is that some participants resisted their assigned roles while others embraced them enthusiastically (Zimbardo, 2007). This reveals not just our susceptibility to situations, but our wildly different individual responses to identical circumstances.

Principal-agent theory provides the economic framework for understanding this consistency: people systematically pursue their own utility maximization rather than organizational objectives when monitoring costs exceed compliance benefits (Jensen & Meckling, 1976). Government officials exhibit the rent-seeking behavior that public choice theorists predict—maximizing departmental budgets and personal authority rather than public welfare (Niskanen, 1971)—but they also demonstrate genuine public service motivation when institutional cultures support it. Private executives show identical contradictions—ruthlessly maximizing profits while also engaging in costly social responsibility initiatives that serve no obvious strategic purpose.

Consider the American Red Cross. Its CEO earns over \$700,000 annually while disaster victims sometimes wait days for basic supplies (Charity Navigator, 2022). Yet the same organization mobilizes thousands of volunteers who work without pay in dangerous conditions. What explains this paradox? It's not that some people are inherently good while others are bad—it's that the same complex humans respond differently to different incentive structures within the same organization.

Most telling is organizational evolution: when environmental changes threaten resource flows, organizations adapt their functions to ensure survival regardless of founding missions. The March of Dimes' transformation from polio prevention to birth defects represents not moral compromise but rational adaptation—organizations, like biological species, evolve to fit their resource environment or face extinction (Hannan & Freeman, 1984).

Understanding these patterns of human psychology leads us to a crucial question: if humans contain both selfish and altruistic impulses simultaneously, why do some organizations consistently bring out our better angels while others amplify our worst tendencies? The answer lies in how competitive forces shape the incentive structures that govern behavior.

An Alchemy of Incentives: The Customer Service Paradox

Your local restaurant provides superior service to your cable company not because restaurant owners are more virtuous, but because restaurants face daily competition while cable companies operate as regional monopolies. This simple observation reveals what actually drives performance across all sectors: competitive pressure creates external accountability that forces organizations to serve someone other than themselves.

Government enterprises can achieve efficiency levels matching private firms when subjected to competitive forces. Emirates Airline demonstrates exceptional operational efficiency despite being owned by the Dubai government, because it competes directly with private carriers in the highly competitive global aviation market (O'Connell, 2011). Norway's Government Pension Fund Global generates returns comparable to leading private investment firms because it

competes in global financial markets, not because Norwegian civil servants are morally superior to Wall Street traders (Milhaupt & Pargendler, 2017).

The pattern reveals that competitive pressure—not ownership structure—creates external accountability that forces organizations to serve someone other than themselves.

Playing with Fire: How Profit Burns Both Ways

Profit operates as a morally neutral force that amplifies whatever incentive structure contains it. In competitive markets, this force becomes a reliable servant of human welfare. When companies must fight for customers, profit maximization requires them to create genuine value. The venture capital industry demonstrates this dynamic perfectly, channeling \$130 billion annually toward technological innovation through pure self-interest (National Venture Capital Association, 2023). Yet this self-interested behavior inadvertently generates massive positive spillovers through knowledge sharing and breakthrough discoveries that benefit everyone.

The COVID-19 vaccine race exemplifies this mechanism at work. BioNTech and Moderna weren't competing to save humanity—they were racing for market dominance and massive returns. But their self-interested sprint produced global public benefits worth trillions of dollars and millions of lives saved (Wouters et al., 2021). Endogenous growth theory explains why this works: profit incentives drive technological advancement through increasing returns to scale and knowledge spillovers that exceed private gains (Romer, 1990).

The same mechanism that creates these benefits also generates predictable harms when competitive constraints fail. The pharmaceutical companies developing life-saving drugs also engage in "evergreening"—extending patents through minor modifications to maintain monopoly

pricing long after research costs are recovered. Boeing's 737 MAX tragedy reveals how profit optimization can turn deadly when competitive pressure operates without proper oversight. Boeing's rush to compete with Airbus led to design shortcuts that prioritized delivery schedules over passenger safety, killing 346 people (Gelles, 2020). The critical insight is that regulatory capture, not competition itself, created these perverse incentives.

The lesson? Profit is like fire—extraordinarily useful when properly contained, catastrophically destructive when it isn't. The challenge lies not in eliminating profit, but in designing systems that channel its energy toward genuine value creation rather than zero-sum extraction.

The Frontier of Good Intentions

Government officials, charitable workers, and private executives all respond to incentives with identical psychological patterns—they simply operate within different constraint systems. This insight from public choice theory strips away romantic notions about any sector having inherently superior motivations (Buchanan & Tullock, 1962).

Without competitive revenue pressures or profit-loss signals, government agencies lack the price information necessary for efficient resource allocation. The result is X-inefficiency—operating above minimum cost curves because weak incentive structures remove pressure to minimize waste (Leibenstein, 1966). Yet government achieves remarkable things when properly structured. NASA's Apollo program generated \$7 in economic returns for every dollar invested through technological spillovers that transformed computing and materials science (Chase Economics, 1975). The interstate highway system created economic value far exceeding its massive costs by reducing transportation expenses nationwide (Lewis, 2013). These successes occurred when

government programs operated under clear performance metrics that mimicked competitive accountability.

Charitable organizations face parallel challenges. They operate with revenue models completely disconnected from service quality, creating accountability problems where donors and beneficiaries represent different constituencies with conflicting needs (Ebrahim, 2003). The best charities overcome these structural disadvantages through rigorous performance measurement—GiveWell's research reveals that top-performing organizations generate 100-1000 times more impact per dollar than average charities within identical sectors (GiveWell, 2023).

The scale challenge remains significant: charitable giving totals approximately \$470 billion annually in the United States—impressive in absolute terms, yet representing only 2% of GDP and 8% of federal spending (Giving USA, 2022). While well-intentioned, charitable mechanisms lack the stability and magnitude necessary to support comprehensive social insurance or substantial infrastructure investments.

The pattern across all sectors confirms that human psychology operates consistently regardless of organizational mission statements. Success depends not on the moral character of participants, but on designing incentive structures that align individual rationality with collective benefit.

The Blueprint for Impact

The evidence points toward institutional diversity rather than universal solutions. We need productive tensions: competition and cooperation, innovation and stability, individual initiative and collective responsibility. Four distinctive principles emerge from successful organizations across all sectors:

Engineer competitive accountability to eliminate monopoly complacency Yardstick

competition theory shows how comparative performance measurement can discipline organizations through benchmarking even without direct market competition (Shleifer, 1985). Britain's water utility regulation compares performance across regional monopolies, creating competitive pressure through public rankings and financial penalties for underperformance. School choice programs in Chile and Sweden use voucher systems to introduce competition in public education while maintaining universal access (Böhlmark & Lindahl, 2015).

Design transparency systems that make truth-telling profitable The revelation principle demonstrates that optimal mechanisms can make truth-telling incentive-compatible (Myerson, 1991). Brazil's municipal fiscal transparency laws require real-time publication of government spending, creating citizen oversight that reduces corruption by 8-10% according to randomized controlled trials (Michener et al., 2020). Performance metrics must capture the full range of value creation, including social and environmental benefits that don't appear in financial statements.

Transform market failures through innovation, not replacement Environmental economics shows how carbon pricing can internalize pollution costs while preserving market efficiency (Stavins, 2003). Social impact bonds create market-like incentives for social services by tying payment to measurable outcomes (Fraser et al., 2018). Auction theory demonstrates how competitive mechanisms can efficiently allocate scarce resources while generating public revenue—spectrum auctions produce billions in government income while directing radio frequencies to highest-value users (Milgrom, 2004).

Cultivate institutional ecosystems, not organizational monocultures The most successful systems maintain multiple pathways to achieving social goals rather than betting everything on single approaches. Different social functions require different organizational approaches, and the most effective systems combine market mechanisms, democratic governance, professional standards, and mission-driven organizations in complementary roles.

The Human Constant

The most profound insight isn't that humans are primarily selfish or altruistic, but that we consistently respond to incentives regardless of the moral framework surrounding our actions. We contain multitudes—capacity for extraordinary generosity and shocking cruelty, brilliant innovation and destructive shortsightedness, genuine care for others and ruthless self-interest.

We're the species that built both concentration camps and hospitals, both predatory lending schemes and medical research that saves millions of lives. But we're also the species that created institutions capable of channeling our contradictory impulses toward constructive ends. The difference wasn't the moral character of humans involved, but the incentive systems shaping their behavior.

Adam Smith understood this complexity, recognizing that "it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest" (Smith, 1776). Market mechanisms represent one successful innovation for transforming private interest into public benefit, but they work alongside rather than in opposition to other institutions that harness our capacity for cooperation, justice, and collective action.

The Reckoning We Need

The future belongs to institutional designers who understand both economic laws and human psychology well enough to create systems that work with human nature rather than against it. This is the true challenge of economic development: not the impossible task of eliminating self-interest, but the achievable goal of channeling it toward ends that lift general prosperity.

We must abandon the false choice between profit and altruism in favor of sophisticated institutional designs that harness predictable human motivations for social benefit. This means embracing productive contradictions—competition and cooperation, innovation and stability, individual initiative and collective responsibility.

The most radical insight isn't choosing between profit and purpose, but recognizing that this choice itself misunderstands human psychology. The future doesn't belong to saints or sinners—it belongs to the systems we design to channel consistent human behavioral patterns toward collective flourishing.

In the end, we remain economic actors responding to incentives with predictable rationality across all organizational contexts. The difference lies not in our nature, but in the economic institutions we design. Our task is not to become different people, but to build different systems—systems that make rational self-interest serve general prosperity.

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