The Profit Paradox: Innovation, Incentives, and the Morality

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Abstract

Profit-seeking behaviour is among the most powerful forces shaping modern economic systems, yet its behavioural consequences remain contested. While economists often celebrate the profit motive as a catalyst for innovation, efficiency, and risk-taking, critics argue that the same incentive structure can generate exploitation, short-termism, and systemic instability. Conversely, state-owned and charitable enterprises—unburdened by shareholder demands—prioritise equity and public welfare, but may struggle with inefficiency, weak accountability, and limited dynamic capacity. This paper investigates how different incentive structures—profit, public mission, and non-profit operation—shape organisational behaviour across innovation, efficiency, and social welfare outcomes. Drawing on theories of incentives, agency problems, market failure, public choice, and behavioural economics, combined with comparative case analysis across the pharmaceutical industry, healthcare systems, finance, and energy, the study evaluates whether profit-driven behaviour is "better or worse, on balance" than behaviour under public or charitable ownership. The analysis suggests that neither system produces universally superior outcomes. Instead, a hybrid model—one that retains the discipline of markets while integrating social-purpose constraints—may better align innovation with equity. The findings underscore that the challenge for modern economies is not eliminating profit, but redesigning incentives to ensure that economic behaviour serves both enterprise and society.

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1. Introduction

What drives a pharmaceutical company to develop a life-saving vaccine in record time — compassion, or the billion-dollar payoff? When Moderna, Pfizer, and BioNTech raced through stages of development in 2020, were they motivated by humanitarian urgency, or by the unprecedented profit opportunity that accompanied a global crisis? When Milton Friedman declared that the "**business of business is business**", he distilled the essence of profit-seeking

enterprise, not denying the social responsibilities of firms —but reasserting the unmatched power of profit as an incentive [i] .This tension sits at the heart of economic behaviour: the hope of gain has powered capitalism's greatest breakthroughs — and its greatest scandals.

This paper begins with a simple but profound inquiry: **What kinds of behaviour are engendered by the hope of profit? And is such behaviour, on balance, better or worse than the behaviour we might expect if enterprises were owned by governments or charities?**

Behind this question lies a deeper behavioural puzzle. Profit offers a clear, measurable goal — and measurable goals transform incentives. They push firms to innovate, to take risks, to redirect resources, and, at times, to pursue outcomes that conflict with social welfare. Meanwhile, public and charitable enterprises operate under different logics: mission, equity, and collective welfare. But do such motives generate more ethical or more effective behaviour — or simply different kinds of shortfalls?

Existing scholarship has examined profit incentives, corporate social responsibility, welfare provision, and public ownership, but rarely do these literatures converge to directly compare the behavioural consequences of each institutional form. A gap remains at the intersection of innovation theory, market failure, public choice, and normative business ethics—a gap this research aims to address.

To structure this inquiry, the study asks the following research question:

Research Question

How does profit-driven behaviour compare to the behaviour of state-owned and charitable enterprises in shaping innovation, efficiency, and social welfare outcomes?

To address this question, the paper proceeds as follows:

- Section 2 reviews relevant literature across incentive theory, corporate ethics, and public-sector behaviour.
- Section 3 outlines the theoretical framework. Section 4 describes the methodology and comparative case selection.
- Section 5 analyses behavioural patterns across private, public, and charitable enterprises.
- Section 6 discusses implications for economic design.
- Section 7 concludes by reframing the profit paradox and considering pathways toward hybrid institutional models.

2. Literature Review

The question of what motivates economic behaviour sits at the intersection of several major strands of scholarship — from classical theories of profit maximisation to more recent debates in behavioural economics, business ethics, and public administration. Together, these literatures reveal a tension that mirrors the central paradox of this paper: whether the hope of profit

generates behaviour that is socially valuable, socially destructive, or simply predictable in its complexity.

2.1 Profit as Purpose: Classical and Neoclassical Foundations

Milton Friedman's (1970) famous thesis that the "social responsibility of business is to increase its profits" remains the intellectual backbone of modern corporate theory. For Friedman, profit is not merely an incentive but a **disciplinary mechanism**: it aligns managers with owners, prevents mission drift, and channels resources efficiently through competitive selection. In this model, firms that innovate survive, and those that do not are efficiently eliminated.[ii]

This view is reinforced by neoclassical assumptions: rational agents, efficient markets, and the idea that prices capture all relevant information. Coase (1937) adds that firms exist not for social welfare but to minimise transaction costs — profit is the signal that such minimisation has succeeded.[iii]

Yet this literature, while powerful, has been criticised for reducing human motivation to a single variable. As later sections will explore, profit may spur innovation, but it can just as easily fuel manipulation, short-termism, or harmful externalities.

2.2 Schumpeter and the Innovation Imperative

Joseph Schumpeter (1934, 1942) provides the strongest theoretical case for the **positive** behavioural consequences of profit. His concept of *creative destruction* reframes profit as the reward for disruptive innovation. Firms do not innovate because they are benevolent, but because market competition threatens their survival. Innovation becomes a behavioural response to existential pressure — a theme that echoes throughout he whole argument.[iv]

Empirical studies support this view. Profit-driven sectors, especially pharmaceuticals and technology, consistently demonstrate higher rates of R&D investment, patent activity, and productivity growth (Aghion et al., 2005). The behavioural engine here is not compassion; it is competition.

Yet Schumpeter also warns of capitalism's tendency toward monopoly power, raising the possibility that the same incentive that drives innovation may later suppress it.

2.3 Market Failure: When Profit Incentives Misfire

The literature on market failure challenges the assumption that profit-seeking behaviour reliably produces socially optimal outcomes. Stiglitz (1989) and other information economists demonstrate how asymmetric information, externalities, and incomplete markets distort behaviour.[v]

Akerlof's (1970) "Market for Lemons" shows how profit motives in information-poor markets can degrade product quality.[vi] In environmental economics, externality theory (Pigou, 1920)

explains how firms may profit by shifting social costs onto the public — a central theme in your analysis of oil extraction in the Niger Delta.

These studies collectively suggest that profit-driven behaviour can be rational for firms yet destructive for society — particularly when regulatory or ethical constraints are weak.

2.4 Normative Ethics and Corporate Purpose

Business ethics scholarship adds a deeper moral layer to this debate. Freeman's stakeholder theory (1984) rejects Friedman's shareholder-primacy framework, arguing that firms have obligations to all affected parties — workers, communities, consumers, and the environment. [vii]Porter and Kramer (2011) similarly propose *shared value*, where firms align profit with social impact.

However, critics like Boatright (1999) and Duska (2012) argue that ethical claims often mask continued prioritisation of profit.[viii] The behavioural question then becomes: **Do firms act ethically because they believe in ethics, or because the appearance of ethics reduces reputational risk?**

Here the literature converges with central tension of this argument — that incentives, not virtues, anchor economic behaviour.

2.5 Public Ownership and Mission-Driven Behaviour

Public institutions and charities operate under mission-driven incentives rather than profit-maximisation. Their priorities—equity, access, and social welfare—shape behaviour in ways profit-driven firms do not replicate. Evidence from systems like the NHS illustrates this: non-profit structures often deliver more equal and affordable care, reflected in lower preventable mortality despite lower spending.[ix]

These strengths, however, are balanced by structural limitations. The absence of competitive pressure can produce slower decision-making, bureaucratic inertia, and exposure to political cycles. Resource constraints, staffing pressures, and shifting government priorities influence outcomes as strongly as prices shape behaviour in private firms. Public ownership thus yields neither inherently better nor inherently worse behaviour, but a distinct incentive pattern with its own advantages and failures.

This literature complicates the assumption that public ownership inherently produces more ethical behaviour.

2.6 Behavioural Economics: Human Motives Beyond Profit

Kahneman and Tversky's (1979) work on bounded rationality, prospect theory, and loss aversion demonstrates that human behaviour consistently departs from the rational, profit-maximising model. [x]Thaler (2015) extends this to organisations, showing that institutions often behave irrationally due to cognitive biases, organisational inertia, and flawed incentive structures.[xi]

This literature reinforces your argument that profit-seeking behaviour is powerful but not perfect — it drives action, but not always the right kind.

2.7 Identified Research Gap

Although existing scholarship richly covers profit incentives, innovation, welfare theory, and public-sector behaviour, **very few studies directly compare behavioural patterns across private, state, and charitable ownership structures** through a unified incentive framework.

Most literature examines:

- private firms *vs* market failure,
- or public firms *vs* government failure,
- or corporate ethics *vs* shareholder primacy.

What is missing — and what the paper contributes — is a comparative behavioural analysis that asks:
How do different incentive systems actually shape the way institutions behave?

This gap justifies your research question and positions your contribution within multiple overlapping fields.

3. Theoretical Framework

Understanding how institutions behave — whether private, public, or charitable — requires a framework that links **incentives to behaviour** and behaviour to **economic and social outcomes**. This section draws on four major theoretical traditions: incentive theory, principal–agent theory, market failure economics, and public choice theory. Together, they offer a lens through which the behavioural consequences of profit, mission, and public ownership can be evaluated.

3.1 Incentive Theory: Behaviour Begins with Motivation

At the foundation sits **incentive theory**, which holds that economic agents respond systematically to rewards and penalties. In private markets, **profit** is the dominant incentive. It functions as:

- a motivator (encouraging effort and innovation),
- a signal (indicating where resources should flow), and
- a disciplining mechanism (penalizing inefficiency).

Becker (1976) frames behaviour as a function of expected utility, where firms engage in actions that increase returns relative to costs. In this view, the hope of profit is not merely an economic variable — it is a **behavioural engine**.

But incentives operate differently in state-owned or charitable enterprises. Their goals are defined not by profit maximisation but by **mission fulfilment**, such as equity, public access, or social welfare. While these organisations lack the sharp feedback loop of profits, they substitute it with:

- political accountability,
- social legitimacy,
- mission alignment,
- and public performance metrics.

Here arises the first conceptual tension: **Is behaviour guided more reliably by the hard edge of self-interest, or by the soft pull of purpose?**
Incentive theory does not give a predetermined answer — it merely highlights that the behaviour of institutions cannot be understood without the motive structures that animate them.

3.2 Principal–Agent Theory: Misaligned Interests and Organisational Behaviour

Principal–agent theory deepens this analysis by showing that institutions do not behave as unified entities. Instead, managers (agents) make decisions on behalf of owners or stakeholders (principals), often with divergent interests.

In private firms:

- shareholders want long-term value
- managers may pursue short-term profits, bonuses, or risk-taking

This misalignment can create **perverse behaviours** — as seen in Wells Fargo's account creation scandal or pre-2008 mortgage lending.[xii]. Profit-seeking becomes distorted when agents pursue the *appearance* of profit rather than sustainable value. [xiii]

In public enterprises:

- citizens or governments are the principals
- bureaucrats are the agents

Public choice theorists argue that bureaucrats may maximise budgets, staff, or political influence rather than welfare outcomes (Niskanen, 1971). The absence of shareholders eliminates one kind of pressure but introduces another: **political incentives**, which can prioritise visibility over efficiency or favour electoral gains over social value.

Charitable enterprises face similar tensions: donors may expect moral purity or impact, while managers must balance mission with operational survival.

Thus principal–agent theory explains a behavioural paradox central to your argument:
different ownership models shift the identity of the principal, but misaligned incentives persist in all forms.

The question is not *whether* conflicts arise, but *how* they shape behaviour.

3.3 Market Failure Theory: When Profit Misguides Behaviour

Market failure theory — rooted in the works of Pigou, Arrow, and Stiglitz — highlights cases where profit-seeking behaviour diverges from socially optimal outcomes. These failures occur when:

- firms externalise social costs (pollution, opioid crisis),
- information is asymmetric (finance, healthcare),
- public goods are underprovided (research, infrastructure), or
- merit goods are underconsumed (education, preventive healthcare).

In these scenarios, the behavioural logic of profit encourages firms to:

- oversupply harmful products
- undersupply socially beneficial goods
- hide risks
- exploit information gaps

This framework is vital for analysing your cases — from oil extraction in Nigeria to the 2008 financial crisis. [xiv] Profit-seeking behaviour is not inherently harmful; it becomes harmful when unconstrained by regulation, ethics, or transparency[xv].

Thus market failure theory explains **why profit alone cannot ensure socially desirable behaviour**, especially in sectors where externalities or information asymmetries dominate.

3.4 Public Choice Theory: When Government Misguides Behaviour

If market failure critiques the private sector, public choice theory critiques the public sector. Buchanan (1978) and Tullock (1962) argue that governments and bureaucracies are not benevolent maximisers of social welfare but political agents with their own interests.[xvi]

Behaviour in the public sector may be shaped by:

- budget maximisation
- political loyalty
- electoral incentives
- risk aversion
- bureaucratic inertia

This theory explains why state-owned enterprises sometimes exhibit:

- X-inefficiency
- slow innovation
- cost overruns

- misallocation of resources

Thus public choice theory counters the romantic assumption that mission-oriented institutions inherently behave better.

3.5 Behavioural and Ethical Frameworks: Beyond Rationality

Behavioural economics adds another dimension: institutions do not act as perfectly rational agents.

- Kahneman and Tversky show biases in judgement.
- Thaler demonstrates how organisations fall prey to the same heuristics individuals do.
- Sen argues that ethical and capability considerations underpin real welfare beyond profit.

This literature aligns with your rhetorical framing: **behaviour is not mechanical; it is psychological, moral, and institutional.**
Profit can energise or distort.
Mission can inspire or stagnate.
Public systems can protect or fail.

4. Methodology

Answering the question of whether profit-driven behaviour is "better or worse" than behaviour shaped by public or charitable ownership requires a method capable of comparing systems that do not operate on identical objectives, incentives, or constraints. A single empirical dataset cannot capture this complexity. Instead, this study adopts a **comparative qualitative methodology**, grounded in behavioural economic reasoning, theoretical triangulation, and structured case analysis.

4.1 Comparative Institutional Analysis

This research begins from a simple observation: *markets, governments, and charities behave differently because they are built differently.*
They follow different incentive structures, different accountability mechanisms, and different survival logics. To evaluate them on equal terms, this paper uses comparative institutional analysis — an approach championed by Ostrom, Williamson, and Acemoglu — which examines how institutional rules shape behavioural outcomes.

This method allows us to ask, rigorously and repeatedly:

- What behaviours does each system reward?
- What behaviours does each system punish or overlook?
- And most importantly: *What patterns of behaviour emerge consistently across different contexts?*

By focusing on **behavioural patterns** rather than ideological assumptions, the method avoids romanticizing either markets or states.

4.2 Case-Based Evidence: Why Cases, Not Single-Variable Regression

Profit incentives, public missions, and charitable norms are not laboratory variables; they are embedded in messy, real-world systems. For this reason, the study uses **structured, theory-driven case analysis**, selecting examples that reflect distinct ownership models and behavioural incentives:

- **Private, profit-seeking firms:** pharmaceutical innovation, financial markets pre-2008, oil extraction in Nigeria
- **Public enterprises:** the NHS, state-owned utilities, welfare systems
- **Charitable and mission-driven organisations:** global health initiatives, non-profit education providers

These cases were chosen **not** because they are sensational, but because they illustrate recurring behavioural tendencies. The goal is not to judge individual institutions but to reveal how **incentives consistently shape behaviour**.

A purely statistical method would flatten these dynamics; a case-based comparative design exposes them.

4.3 Behavioural Economic Lens

The analysis relies heavily on behavioural economics for two reasons.

First, because *organisations behave like people* — they respond to incentives, biases, perceptions of risk, and social expectations. Second, because traditional rational-choice models fail to n why:

- profit sometimes drives innovation,
- and other times drives collapse;
- why public institutions sometimes deliver equity,
- and other times deliver stagnation.

By integrating behavioural insights — loss aversion, bounded rationality, moral hazard, signalling — the methodology treats institutions as human systems, not mathematical abstractions. This aligns with the spirit of your central question: *What kinds of behaviour do different systems actually produce?*

4.4 Triangulation Across Theory

Because the research question spans economics, ethics, and political economy, the methodology uses **theoretical triangulation**:

- incentive theory explains motivational structures

- principal–agent theory explains internal conflicts
- market failure theory explains where profit misfires
- public choice theory explains where governments misfire
- welfare and ethics scholarship explains normative outcomes

This blending ensures that no single theory dominates the interpretation of behaviour.

4.5 Limitations and Scope

This methodology embraces a deliberate limitation: it does not attempt to produce a single numerical score for "which system is better." Behaviour cannot be averaged into a neat equation without losing its moral and institutional complexity. Instead, the method evaluates **patterns**, **trade-offs**, and **recurring incentives** that appear across systems.

The ambition is not to simplify reality but to understand it more truthfully.

5. Evidence and Case Analysis

The behaviours generated by profit-seeking, public ownership, and charitable mission become visible not in theory but in the empirical record. This section examines how institutions behave under different incentive structures across four domains: pharmaceutical innovation, financial markets, healthcare systems, and extractive industries. The cases are selected to reveal behavioural regularities rather than isolated anomalies.

5.1 Pharmaceutical Innovation: When Profit Accelerates Discovery

Pharmaceutical markets offer one of the clearest illustrations of Schumpeterian behaviour: firms innovate because survival depends on it. The COVID-19 vaccine race demonstrated this dynamic on a global scale. Companies such as Pfizer, Moderna, and BioNTech accelerated development timelines not simply from humanitarian urgency but because an unprecedented profit opportunity existed. Studies in innovation economics consistently find that pharmaceutical firms allocate R&D resources according to expected commercial return, not disease burden (Acemoglu & Linn, 2004).

The behavioural consequence is clear:
profit creates speed, focus, and risk-taking.

First Wave	Second Wave	Third Wave	Fourth Wave	Fifth Wave	Sixth Wave
Water Power Textiles Iron	Steam Rail Steel	Electricity Chemicals Internal-Combustion Engine	Petrochemicals Electronics Aviation	Digital Network Software New Media	Digitization (AI, IoT, AV, Robots & Drones) Clean Tech
60 years	55 years	50 years	40 years	30 years	25 years

(Fig. 1): Adapted from innovation cycle data showing the six waves of industrial development.[xvii]

mRNA platforms had existed for years, but only the alignment of commercial incentives triggered the scale of investment required to bring them to market.

Yet this same incentive produces blind spots. Diseases that disproportionately affect low-income populations — malaria, tuberculosis, dengue — remain chronically underfunded. Mission-driven organisations such as the Gates Foundation and the Drugs for Neglected Diseases Initiative (DNDi) step in precisely because profit incentives do not lead firms in that direction.

The pattern is unmistakable:
profit drives *frontier* innovation, but mission drives *equity* of innovation.

Neither behaviour is accidental. Each follows the logic of its incentive structure.

5.2 Financial Markets and the 2008 Crisis: When Profit Becomes Perverse

If pharmaceuticals display profit's productive side, the 2008 Global Financial Crisis reveals its darker potential. The crisis was not merely a macroeconomic shock — it was an institutional behavioural failure.[xviii] Incentives rewarded volume over quality, short-term revenue over long-term stability, and risk-taking over prudence.

Mortgage brokers maximised commissions by expanding subprime lending; banks securitised these loans into opaque products, and rating agencies—paid by the firms they rated—rubber-stamped them as safe. The behavioural chain was driven by the same question at every node: *what decision produces the highest immediate gain?*

Principal–agent distortions amplified this behaviour. Managers pursued bonuses tied to quarterly profits, while shareholders bore the catastrophic long-term consequences. Moral hazard further distorted incentives: institutions believed they were "too big to fail," and the subsequent bailouts reinforced this expectation.

The systemic fragility that emerged in 2008 reflects deeper macroeconomic dynamics, including the monetary pressures captured in Fisher's framework.(Fig.2)

$$(M)(V) = (P)(T)$$

where:

M = Money Supply

V = Velocity of circulation (the number of times money changes hands)

P = Average Price Level

T = Volume of transactions of goods and services

(Fig. 2): Fisher's Equation illustrating inflationary and monetary dynamics[xix].

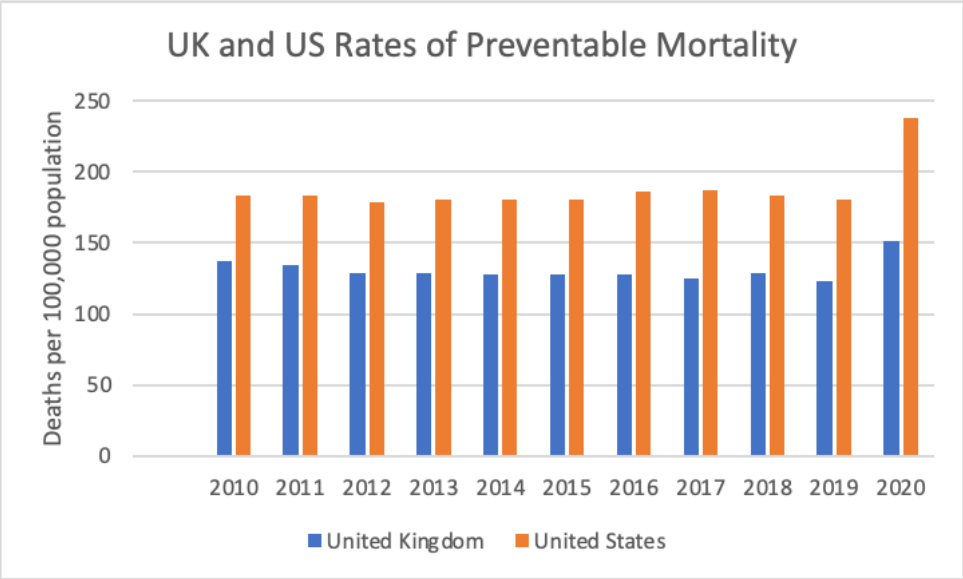
The crisis illustrates a central argument of this paper:
profit, when misaligned with system-wide welfare, can generate behaviour that is rational individually and disastrous collectively.

The comparison here is instructive. Public or charitable institutions may fail due to inefficiency or slow decision-making, but they rarely collapse entire global systems through coordinated risk-taking. The financial crisis shows what happens when profit incentives dominate without countervailing discipline.

5.3 Public Healthcare (NHS) vs Private Healthcare (US): Mission vs Market

Healthcare provides a contrasting example in which public and charitable incentives outperform profit-based behaviour in key welfare metrics.

The UK's National Health Service (NHS), a publicly funded, non-profit system, delivers nearly universal healthcare access at roughly **half the per-capita cost** of the profit-dominated US system.[xx] Preventable mortality rates are significantly lower in the UK despite far lower spending[xxi] (Appleby et al., 2017). This contrast is visible in comparative data on preventable mortality across the two systems.(Fig.3)



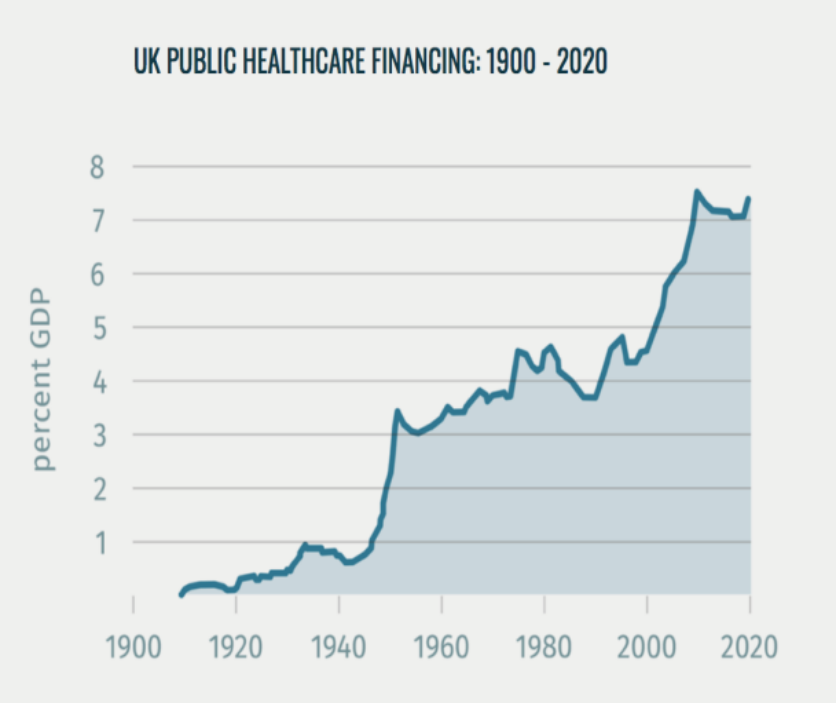
(Fig.3): Preventable mortality rates in the UK and US.[xxii]

Why does a non-profit system outperform the world's most expensive private one?

Because behaviour follows incentives.
In profit-based systems, providers maximise billable procedures, not health outcomes. Insurance companies maximise profit by excluding high-risk patients, not by ensuring coverage. Pharmaceutical firms set prices according to willingness-to-pay, not social need.

In the NHS, the incentive structure is inverted:

- costs are minimised because taxpayers bear them,
- access is expanded because exclusion undermines public legitimacy,
- and care is allocated on need, not profitability.



(Fig. 4): UK public healthcare financing as a share of GDP, 1900–2020[xxiii]**.**

Yet the NHS also exhibits behavioural weaknesses predicted by public choice theory: bureaucratic inertia, slower innovation adoption, and chronic underinvestment driven by political cycles. Public provision corrects market failures but introduces government failures of its own.

The empirical contrast demonstrates the broader point:
profit is not inherently good or bad — it simply rewards behaviour that aligns with its logic[xxiv].
Public systems do the same[xxv]

5.4 Extractive Industries: Externalities and the Limits of Profit

The Niger Delta's oil extraction illustrates the extreme case where profit incentives generate behaviour that systematically externalises social and environmental costs. Decades of oil spills, pipeline leaks, and gas flaring have created one of the most polluted regions in the world. Studies estimate that Shell and BP's operations contributed billions of dollars in environmental damage while local communities saw little improvement in living standards[xxvi].

Why does this happen?

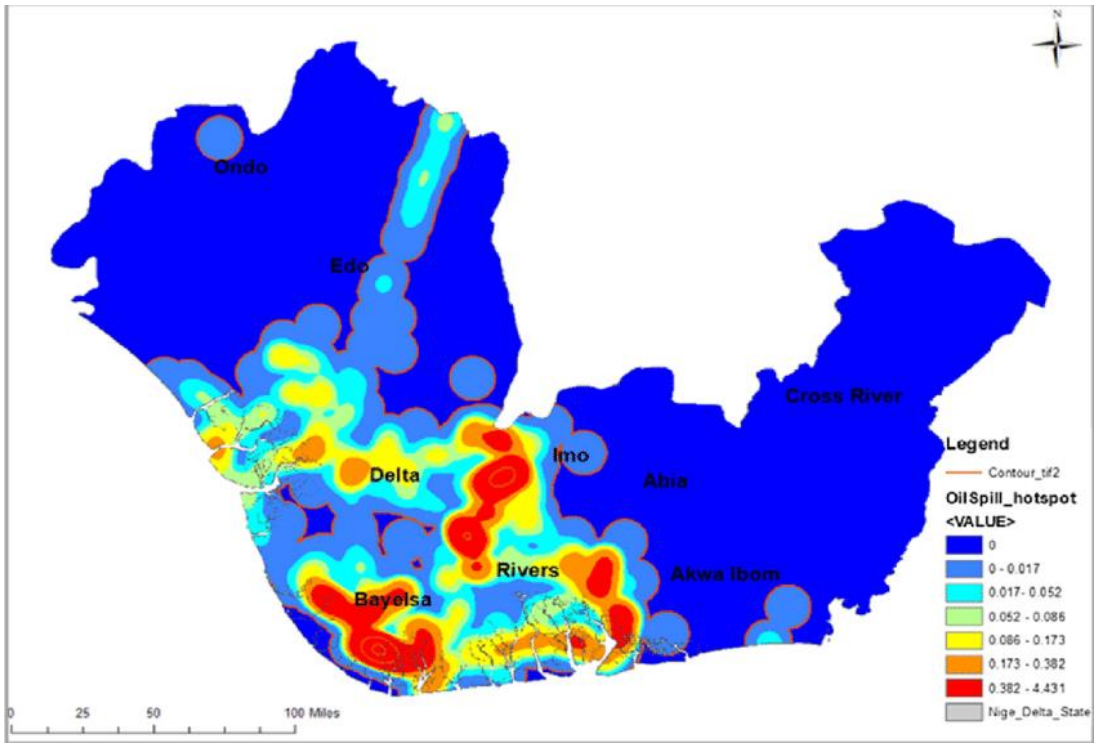
Because profit maximisation rewards:

- cost reduction,
- speed of extraction,
- and minimal liability exposure.

Environmental restoration, community reinvestment, and long-term sustainability do not increase short-term profits and thus receive little attention unless externally enforced.

This case reveals a behavioural truth:
when firms can shift costs onto the public without penalty, profit incentives encourage harmful behaviour.

The scale of these externalities becomes starkly clear when visualised through environmental impact data. And yet, it is public institutions that often bear the burden of repairing these consequences.



(Fig.5): Oil spill density across the Niger Delta.[xxvii]

However, it's not the whole picture.Public-sector failures also appear here: weak regulation, corruption, and political capture enable private firms to operate without accountability. This demonstrates that market failure and government failure often coexist, each reinforcing the other.

5.5 Charitable Organisations: Mission-Driven Behaviour with Practical Limits

Charitable institutions behave very differently because their incentives are fundamentally moral and reputational rather than financial. Global health organisations such as Médecins Sans Frontières (MSF) and the Gates Foundation consistently invest in diseases and regions where profit-seeking firms do not. Their behaviour is driven by mission, not revenue[xxviii].

Yet the limitations are equally clear. Charitable organisations often struggle with:

- funding volatility,
- donor preferences distorting priorities,
- scaling constraints,
- and the absence of long-term, predictable financing.

The behavioural pattern here is:
mission inspires morally aligned behaviour, but cannot guarantee efficiency or scale.

Charities fill gaps markets ignore, but they rarely replace large-scale private or public systems.

5.6 Cross-Case Behavioural Patterns

Across these cases, three behavioural patterns emerge:

1. Profit encourages innovation, speed, and risk-taking — but only where returns are high.

It leads to breakthroughs in pharmaceuticals and technology but underinvests in low-profit, high-need areas.

2. Public institutions deliver equity and access — but struggle with dynamic efficiency.

They excel in universal healthcare and welfare provision but often underperform in innovation and responsiveness.

3. Charitable organisations act ethically and address neglected problems — but lack stability and scale.

Their behaviour is morally guided but financially constrained.

These patterns confirm the central claim of the paper:
behaviour follows incentives, and no ownership model produces unambiguously superior behaviour across all dimensions.

6. Discussion

The cases examined reveal a striking truth that both confirms and complicates conventional economic wisdom: **institutions do not behave well or badly — they behave according to the incentives that govern them.** Profit-driven enterprises innovate rapidly when returns are high, yet externalise social costs just as rapidly when those costs can be shifted onto others. Public institutions achieve broad equity and accessibility, yet often lack the dynamism and cost

discipline that competition enforces. Charitable organisations pursue moral missions overlooked by both markets and states, yet remain structurally limited by funding instability and scale constraints.

The discussion of these results therefore returns us to the central question: *What kinds of behaviour are engendered by the hope of profit? And is that behaviour, on balance, better or worse than the behaviour we might expect in a world governed by public missions or charitable ideals?*

The answer, as the evidence suggests, is that **each system produces predictable strengths and predictable failures**. Profit is not a moral compass; mission is not a performance guarantee. Markets are not inherently ethical, and governments are not inherently effective. Behaviour is shaped by the institutional environment — and each environment privileges some behaviours at the expense of others.

6.1 The Behavioural Trade-offs of Profit

Profit-driven systems excel in areas where innovation, speed, frontier risk-taking, and resource allocation are essential. They outperform in sectors such as pharmaceuticals, technology, advanced manufacturing, and high-growth finance. The behavioural logic is simple: when survival depends on beating competitors, firms behave boldly.

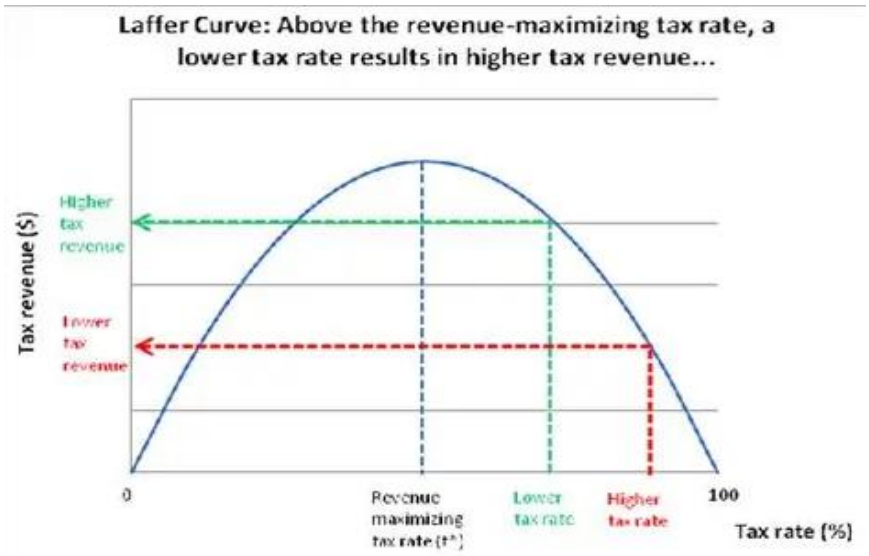
But profit also generates **blindness** when market prices fail to reflect social harm. The Niger Delta case shows this clearly: firms behave efficiently from their own perspective while producing devastation for others. In financial markets, the 2008 crisis demonstrated how individual rationality culminates in collective irrationality.[xxix]The hope of gain, untempered by structural discipline, invites behaviours that are economically rational but socially catastrophic.

Thus the behaviour profit encourages is **productive when externalities are contained**, and **dangerous when they are ignored**.

6.2 The Behavioural Trade-offs of Public Ownership

By contrast, public and state-owned institutions behave according to entirely different incentives. Their legitimacy depends on fairness, coverage, and access. They do not have to impress shareholders; they must satisfy voters, taxpayers, and legal mandates. This gives rise to behaviours that markets struggle to produce: universal healthcare access, protection of vulnerable populations, and long-term public investment.

Yet the absence of competitive pressure also produces predictable weaknesses: slow adoption of innovation, bureaucratic inertia, and political distortions. The NHS outperforms the US system in public health outcomes but struggles chronically with capacity, staff shortages, and periodic funding crises — not because the mission is flawed but because incentives for efficiency are weaker. These fiscal constraints are shaped by the behavioural limits of taxation, illustrated by the Laffer curve[xxx](Fig.6)



(Fig.6): The Laffer curve showing diminishing returns at high tax rates.[xxxi]

Thus public-sector behaviour is **ethically grounded but operationally constrained**.

6.3 Charitable Behaviour: Morality without Mechanism

Charities exhibit perhaps the most morally aligned behaviour of all: they go where markets will not and where states cannot. They address neglected diseases, underfunded regions, and humanitarian crises. Their behaviour demonstrates the purest rejection of profit as a motivator.

Yet morality alone cannot scale. Charitable institutions depend on donor cycles, political goodwill, and public sympathy. They may behave ethically but cannot reliably behave expansively. Their strengths are inspirational but insufficient for universal provision.

Thus charity-based behaviour is **morally responsive but structurally fragile**.

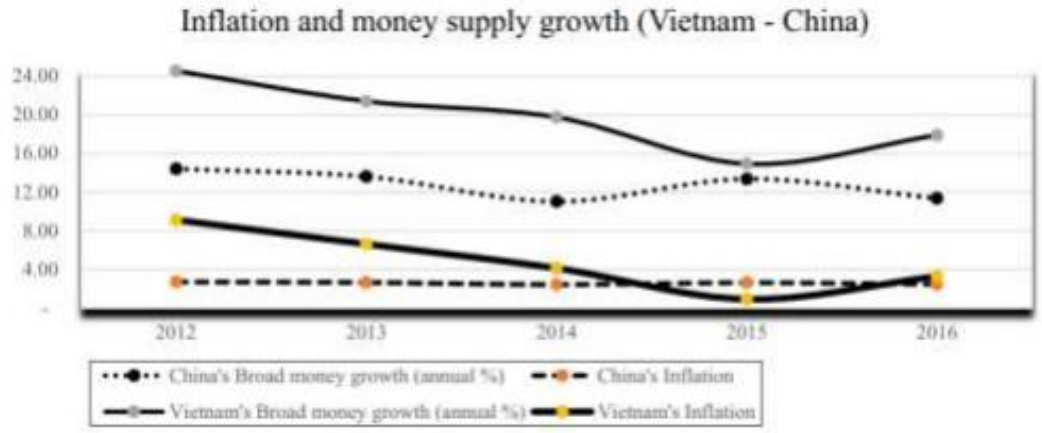
6.4 Convergence: The Need for Hybrid Incentive Design

Across all cases, a pattern emerges: **no system produces the full set of desired behaviours.** Profit produces dynamism but moral hazard. Public institutions produce fairness but inefficiency. Charities produce mission fidelity but lack scale.

This divergence leads to a deeper insight: the question is not *which* system behaves best, but **which incentive mix generates the most balanced and resilient behaviour**.

Hybrid models — regulated markets, public-private partnerships, mission-oriented private firms, and state-supported innovation ecosystems — combine the complementary strengths of each system. When markets are disciplined by regulation, public systems are supported by efficiency incentives, and charities are integrated into wider financing structures, behaviour becomes more aligned with both innovation and equity. Real-world cases of monetary expansion and inflation

reinforce the importance of regulatory guardrails. . Real-world cases of monetary expansion and inflation reinforce the importance of regulatory guardrails.. (Fig.8)



(Fig.7): Correlation between money supply growth and inflation in China and Vietnam.[xxxii]

The implication is not ideological compromise; it is **institutional realism**. Neither pure profit nor pure public mission can reliably produce the behaviour modern economies require. But the careful design of incentives can.

6.5 Returning to the Paradox

The profit paradox, therefore, is not simply that profit can create both good and harm. It is that **profit creates exactly the behaviour the system rewards — nothing more, nothing less.** The same is true of governments and charities. Behaviour is not the product of virtue or vice; it is the predictable outcome of the rules under which institutions operate.

This paper's findings indicate that the hope of profit produces behaviour that is indispensable yet incomplete, and at times dangerous when unchecked. Public and charitable systems produce behaviour that is compassionate and fair yet often constrained and slow. The challenge is not choosing between them but designing institutions where **productive behaviour and ethical behaviour are no longer in conflict.**

7. Conclusion

This study set out to examine how different institutional incentive structures — profit-driven, state-owned, and charitable — shape the behaviour of enterprises across innovation, efficiency, and social welfare outcomes. By integrating economic theory with comparative case analysis, the research demonstrates that institutional behaviour is neither accidental nor ideological. It is the predictable expression of the incentives, constraints, and accountability systems that define each organisational form.

Profit-driven enterprises exhibit exceptional capacity for innovation, responsiveness, and eficiency. They excel where competitive pressure rewards speed, risk-taking, and commercial ingenuity. However, the same incentive system produces significant vulnerabilities: externalised costs, short-termism, systemic fragility, and ethically questionable behaviour when markets fail to internalise harm.

State-owned and public institutions, by contrast, deliver strong performance in equity, access, and long-term welfare provision. Their behaviour reflects mission-driven priorities and social obligation. Yet these strengths are often accompanied by weaknesses characteristic of bureaucratic systems: slower adaptation, weaker cost discipline, and exposure to political distortions.

Charitable organisations represent a third behavioural model, one rooted in moral commitment rather than financial and economic return (many economic aspects, included). Their work fills critical gaps left by both markets and states, particularly in neglected global health challenges. Nonetheless, their structural limitations — dependency on donor cycles and limited scalability — constrain their capacity to consistently provide large-scale solutions.

Taken together, these findings suggest that no single ownership model reliably produces superior behaviour across every dimension of economic and social performance. The implications point toward the importance of hybrid institutional design: regulatory structures that discipline markets, performance incentives that strengthen public systems, and coordinated frameworks that integrate charitable action with state and private capacity.

In returning to the central inquiry — *What kinds of behaviour are engendered by profit, and is such behaviour better or worse than behaviour under public or charitable ownership?* — the evidence indicates that the answer is not a binary one. Profit generates indispensable dynamism but requires guardrails. Public systems generate fairness and stability but require pressures for innovation. Charitable systems generate moral purpose but require structural support.

The task for modern economies is therefore not to eliminate profit, nor to romanticise public or charitable provision, but to redesign incentives so that **innovation and humanity no longer pull in opposite directions**.

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The manuscript has a clear research question, good structure, solid engagement with core scholarly areas, and a good argument. Nevertheless, I would not accept the paper in its current form, mainly because of the typos, tone, methodological under-specification, and reliance on some non-academic sources and figures. With some **minor revisions**, it could become suitable for publication in our journal.

Strengths

The introduction now clearly poses a research question and maps out the paper's structure, correcting many of the earlier issues. Sections are well organised and coherent. The literature review flows smoothly. I particularly like the combination of incentive theory, principal-agent problems, market failure, public choice and behavioural ethics. The chosen examples do adhere to the core claim: behaviour follows incentives. This is now a good scholarly piece (the original submission looked more like an essay!,) and it shows maturity.

Minor areas for improvement

1. There are several second-person phrases in what is supposed to be an academic article (for example, "a central theme in your analysis of oil extraction in the Niger Delta," "This literature reinforces your argument…"). I wonder whether these are leftovers from prior feedback or the author employed AI in drafting some sections. These must be rewritten in standard academic third person.
2. Methodology: There is no clear statement of how the cases have been selected, for example, why N.Delta vs another extractive context; why NHS vs US system, etc. Add a short subsection to communicate criteria for case selection, key dimensions coded in each case (innovation, efficiency, access/equity, externalities, etc.), and main types of sources (peer-reviewed literature, official statistics, selected reports, etc).
3. Methodology ("comparative institutional analysis"): there is no protocol for which sources are used for each case, what dimensions are being systematically compared, or how evidence is weighed. Add a simple comparative table summarising the key behavioural outcomes for each ownership type across the four domains.
4. The figures are often only lightly discussed in the text and sometimes feel more decorative than analytically necessary. Keep only the figures that genuinely carry argumentative weight. Also, some sources are web-based, thus not ideal as primary academic references. If possible, replace such sources (for example, Visual Capitalist, Investopedia, LoveMoney, etc) with more formal data sources.

Author 100130 - Submission 100133

Manuscript Title: The Profit Paradox: Innovation,

Incentives, and the Morality

Journal: Convergence

Overall Evaluation

This paper offers a comprehensive and theoretically grounded investigation into how different incentive structures—private profit, public mission, and charitable operation—shape organizational behavior. By moving beyond ideological binaries, the author utilizes a multi-disciplinary framework to evaluate the trade-offs between innovation, efficiency, and social welfare. The comparative analysis across sectors like pharmaceuticals and healthcare provides a nuanced understanding of why neither pure market nor pure state models produce universally superior outcomes. The paper's proposal for "hybrid institutional design" is a timely contribution to contemporary debates on economic reform and business ethics

Strengths

-The integration of incentive theory, principal-agent problems, market failure, and public choice theory provides a strong analytical view.

-Using different case studies, like the NHS vs. the US healthcare system and the 2008 financial crisis, is a good way to show how behavior patterns repeat themselves.

-Though each theory is well-known on its own, putting them all together to look at how people behave in three different types of ownership (private, public, and charity) addresses a notable research gap.

-The paper argues that institutions perform "well" or "badly" based on their incentives, not in a vacuum.

.-Generally well-written

Areas for Minor Improvement

-While Section 4 describes a "comparative qualitative methodology," it lacks specific detail on how cases were selected beyond their "illustrative" value.

> **Suggestion:** Briefly specify the criteria used for case selection and how data from varied sources.

-The shift between the positive role of profit (pharmaceuticals) and its negative outcomes (the 2008 crisis and the Niger Delta) makes sense, but the transitions could be smoother.

> **Suggestion**: Add short linking sentences to emphasize that these are not exceptions, but different results of the same incentive system.

Conclusion: The conclusion refers to “hybrid institutional models” as a way forward.

> **Suggestion**: To make this more practical, briefly include one or two clear examples of what these models look like in practice, such as mission-driven private firms or concrete public–private innovation ecosystems.

Recommendation

Accept with Minor Revisions.

Only minor revisions are required. The core argument is strong and suitable for publication.

The Profit Paradox: Innovation, Incentives, and the Morality

Author: [Redacted by Managing Editor]

Abstract

Profit-seeking behaviour is among the most powerful forces shaping modern economic systems, yet its behavioural consequences remain contested. While economists often celebrate the profit motive as a catalyst for innovation, efficiency, and risk-taking, critics argue that the same incentive structure can generate exploitation, short-termism, and systemic instability. Conversely, state-owned and charitable enterprises—unburdened by shareholder demands—prioritise equity and public welfare, but may struggle with inefficiency, weak accountability, and limited dynamic capacity. This paper investigates how different incentive structures—profit, public mission, and non-profit operation—shape organisational behaviour across innovation, efficiency, and social welfare outcomes. Drawing on theories of incentives, agency problems, market failure, public choice, and behavioural economics, combined with comparative case analysis across the pharmaceutical industry, healthcare systems, finance, and energy, the study evaluates whether profit-driven behaviour is "better or worse, on balance" than behaviour under public or charitable ownership. The analysis suggests that neither system produces universally superior outcomes. Instead, a hybrid model—one that retains the discipline of markets while integrating social-purpose constraints—may better align innovation with equity. The findings underscore that the challenge for modern economies is not eliminating profit, but redesigning incentives to ensure that economic behaviour serves both enterprise and society.

Author's Biographical Statement: [Redacted by Managing Editor]

studies Economics and Mathematics with a focus on behavioral incentives and market ethics. [Redacted by Managing Editor] work explores how incentive structures shape human decision-making and how economic systems can balance innovation with social welfare.

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1. Introduction

What drives a pharmaceutical company to develop a life-saving vaccine in record time — compassion, or the billion-dollar payoff? When Moderna, Pfizer, and BioNTech raced through stages of development in 2020, were they motivated by humanitarian urgency, or by the unprecedented profit opportunity that accompanied a global crisis? When Milton Friedman

declared that the "**business of business is business**", he distilled the essence of profit-seeking enterprise, not denying the social responsibilities of firms —but reasserting the unmatched power of profit as an incentive [1] .This tension sits at the heart of economic behaviour: the hope of gain has powered capitalism's greatest breakthroughs — and its greatest scandals.

This paper begins with a simple but profound inquiry: **What kinds of behaviour are engendered by the hope of profit? And is such behaviour, on balance, better or worse than the behaviour we might expect if enterprises were owned by governments or charities?**

Behind this question lies a deeper behavioural puzzle. Profit offers a clear, measurable goal — and measurable goals transform incentives. They push firms to innovate, to take risks, to redirect resources, and, at times, to pursue outcomes that conflict with social welfare. Meanwhile, public and charitable enterprises operate under different logics: mission, equity, and collective welfare. But do such motives generate more ethical or more effective behaviour — or simply different kinds of shortfalls?

Existing scholarship has examined profit incentives, corporate social responsibility, welfare provision, and public ownership, but rarely do these literatures converge to directly compare the behavioural consequences of each institutional form. A gap remains at the intersection of innovation theory, market failure, public choice, and normative business ethics—a gap this research aims to address.

To structure this inquiry, the study asks the following research question:

Research Question

How does profit-driven behaviour compare to the behaviour of state-owned and charitable enterprises in shaping innovation, efficiency, and social welfare outcomes?

To address this question, the paper proceeds as follows:

- Section 2 reviews relevant literature across incentive theory, corporate ethics, and public-sector behaviour.
- Section 3 outlines the theoretical framework. Section 4 describes the methodology and comparative case selection.
- Section 5 analyses behavioural patterns across private, public, and charitable enterprises.
- Section 6 discusses implications for economic design.
- Section 7 concludes by reframing the profit paradox and considering pathways toward hybrid institutional models.

2. Literature Review

[1] "The Social Responsibility of Business Is to Increase Its Profits" by Milton Friedman, published September 13, 1970. The New York Times. Available at: https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html and at: Milton Friedman On The Social Responsibility Of Business – Forbes Advisor

The question of what motivates economic behaviour sits at the intersection of several major strands of scholarship — from classical theories of profit maximisation to more recent debates in behavioural economics, business ethics, and public administration. Together, these literatures reveal a tension that mirrors the central paradox of this paper: whether the hope of profit generates behaviour that is socially valuable, socially destructive, or simply predictable in its complexity.

2.1 Profit as Purpose: Classical and Neoclassical Foundations

Milton Friedman's (1970) famous thesis that the "social responsibility of business is to increase its profits" remains the intellectual backbone of modern corporate theory. For Friedman, profit is not merely an incentive but a **disciplinary mechanism**: it aligns managers with owners, prevents mission drift, and channels resources efficiently through competitive selection. In this model, firms that innovate survive, and those that do not are efficiently eliminated.[2]

This view is reinforced by neoclassical assumptions: rational agents, efficient markets, and the idea that prices capture all relevant information. Coase (1937) adds that firms exist not for social welfare but to minimise transaction costs — profit is the signal that such minimisation has succeeded.[3]

Yet this literature, while powerful, has been criticised for reducing human motivation to a single variable. As later sections will explore, profit may spur innovation, but it can just as easily fuel manipulation, short-termism, or harmful externalities.

2.2 Schumpeter and the Innovation Imperative

Joseph Schumpeter (1934, 1942) provides the strongest theoretical case for the **positive** behavioural consequences of profit. His concept of *creative destruction* reframes profit as the reward for disruptive innovation. Firms do not innovate because they are benevolent, but because market competition threatens their survival. Innovation emerges as a behavioural response to existential pressure recurring across the institutional cases examined.[4]

Empirical studies support this view. Profit-driven sectors, especially pharmaceuticals and technology, consistently demonstrate higher rates of R&D investment, patent activity, and productivity growth (Aghion et al., 2005). The behavioural engine here is not compassion; it is competition.

Yet Schumpeter also warns of capitalism's tendency toward monopoly power, raising the possibility that the same incentive that drives innovation may later suppress it.

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[2] The Social Responsibility of Business Is to Increase Its Profits" by Milton Friedman, published September 13, 1970. The New York Times. Available at: https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html

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[4] Joseph A. Schumpeter, The Theory of Economic Development. Available at : https://macrohive.com/hive-explainers/creative-destruction-and-the-theory-of-economic-development/#:~:text=Joseph%20Schumpeter%20was%20an%20early%2020%20th%20-century,for%20economic%20growth%2C%20which%20follows%20a%20non-linear%20process.

2.3 Market Failure: When Profit Incentives Misfire

The literature on market failure challenges the assumption that profit-seeking behaviour reliably produces socially optimal outcomes. Stiglitz (1989) and other information economists demonstrate how asymmetric information, externalities, and incomplete markets distort behaviour.[5]

Akerlof's (1970) "Market for Lemons" shows how profit motives in information-poor markets can degrade product quality.[6] In environmental economics, externality theory (Pigou, 1920) explains how firms may profit by shifting social costs onto the public — a central dynamic illustrated by extraction in the Niger Delta.

These studies collectively suggest that profit-driven behaviour can be rational for firms yet destructive for society — particularly when regulatory or ethical constraints are weak.

2.4 Normative Ethics and Corporate Purpose

Business ethics scholarship adds a deeper moral layer to this debate. Freeman's stakeholder theory (1984) rejects Friedman's shareholder-primacy framework, arguing that firms have obligations to all affected parties — workers, communities, consumers, and the environment. [7]Porter and Kramer (2011) similarly propose *shared value*, where firms align profit with social impact.

However, critics like Boatright (1999) and Duska (2012) argue that ethical claims often mask continued prioritisation of profit.[8] This raises a behavioural question: **Whether firms act ethically due to genuine moral commitments, or because the appearance of ethics mitigates reputational risk?**

Here, the literature converges with central tension of this analysis:that incentives, rather than virtues, anchor economic behaviour.

2.5 Public Ownership and Mission-Driven Behaviour

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[5] Bruce C. Greenwald & Joseph E. Stiglitz, *Externalities in Economies with Imperfect Information and Incomplete Markets*, *Quarterly Journal of Economics*, **101** (2), May 1986, 229–264. Available at: https://academic.oup.com/qje/article-abstract/101/2/229/1928643

[6] George A. Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, *Quarterly Journal of Economics*, **84** (3), 1970, 488–500. Available at: https://docslib.org/doc/4340711/the-market-for-lemons-quality-uncertainty-and-the-market-mechanism

[7] Freeman, R. E. (1984). *Stakeholder Theory: A New Approach to Strategic Management*. Open-access summary available at: https://stakeholdertheory.org/about/

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Public institutions and charities operate under mission-driven incentives rather than profit-maximisation. Their priorities—equity, access, and social welfare—shape behaviour in ways profit-driven firms do not replicate. Evidence from systems like the NHS illustrates this: non-profit structures often deliver more equal and affordable care, reflected in lower preventable mortality despite lower spending.[9]

These strengths, however, are balanced by structural limitations. The absence of competitive pressure can produce slower decision-making, bureaucratic inertia, and exposure to political cycles. Resource constraints, staffing pressures, and shifting government priorities influence outcomes as strongly as prices shape behaviour in private firms. Public ownership thus yields neither inherently better nor inherently worse behaviour, but a distinct incentive pattern with its own advantages and failures.

2.6 Behavioural Economics: Human Motives beyond Profit

Kahneman and Tversky's (1979) work on bounded rationality, prospect theory, and loss aversion demonstrates that human behaviour consistently departs from the rational, profit-maximising model. [10]Thaler (2015) extends this to organisations, showing that institutions often behave irrationally due to cognitive biases, organisational inertia, and flawed incentive structures.[11]

This literature reinforces your argument that profit-seeking behaviour is powerful but not perfect — it drives action, but not always the right kind.

2.7 Identified Research Gap

Although existing scholarship richly covers profit incentives, innovation, welfare theory, and public-sector behaviour, **very few studies directly compare behavioural patterns across private, state, and charitable ownership structures** through a unified incentive framework.

Most literature examines:

- Private firms *vs* market failure,
- Public firms *vs* government failure,
- Corporate ethics *vs* shareholder primacy.

What is missing — and what the paper contributes — is a comparative behavioural analysis that asks:
How do different incentive systems actually shape the way institutions behave?

This literature complicates the assumption that public ownership inherently produces more ethical behaviour.

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[9] OECD. *Health at a Glance 2023: OECD Indicators — United Kingdom Profile.*
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[11] Thaler, R. H. (2015). *Misbehaving: The Making of Behavioral Economics.* New York: W. W. Norton & Company. Summary available at: https://en.wikipedia.org/wiki/Misbehaving%3A_The_Making_of_Behavioral_Economics

3. Theoretical Framework

Understanding how institutions behave — whether private, public, or charitable — requires a framework that links **incentives to behaviour** and behaviour to **economic and social outcomes**. This section draws on four major theoretical traditions: incentive theory, principal–agent theory, market failure economics, and public choice theory. Together, they offer a lens through which the behavioural consequences of profit, mission, and public ownership can be evaluated.

3.1 Incentive Theory: Behaviour Begins with Motivation

At the foundation sits **incentive theory**—which holds that economic agents respond systematically to rewards and penalties. In private markets, **profit** is the dominant incentive. It functions as:

- A motivator (encouraging effort and innovation)
- A signal (indicating where resources should flow)
- disciplining mechanism (penalizing inefficiency).

Becker (1976) frames behaviour as a function of expected utility, where firms engage in actions that increase returns relative to costs. In this view, the hope of profit is not merely an economic variable; it is a **behavioural engine**.

But incentives operate differently in state-owned or charitable enterprises. Their goals are defined not by profit maximisation but by **mission fulfilment**, such as equity, public access, or social welfare. While these organisations lack the sharp feedback loop of profits, they substitute it with:

- Political accountability,
- Social legitimacy,
- Mission alignment,
- Public performance metrics.

Here arises the first conceptual tension: **Is behaviour guided more reliably by the hard edge of self-interest, or by the soft pull of purpose?**
Incentive theory does not give a predetermined answer — it merely highlights that institutional behaviour is shaped by the incentive structures that govern decision-making. The empirical cases that follow illustrate how the same incentive logic can generate both innovation and harm, depending on the institutional context in which it operates. .

3.2 Principal–Agent Theory: Misaligned Interests and Organisational Behaviour

Principal–agent theory deepens this analysis by showing that institutions do not behave as unified entities. Instead, managers (agents) make decisions on behalf of owners or stakeholders (principals), often with divergent interests.

In private firms:

- Shareholders want long-term value
- Managers may pursue short-term profits, bonuses, or risk-taking

This misalignment can create **perverse behaviours** — as seen in Wells Fargo's account creation scandal or pre-2008 mortgage lending.[12]. Profit-seeking becomes distorted when agents pursue the *appearance* of profit rather than sustainable value. [13]

In public enterprises:

- Citizens or governments are the principals
- Bureaucrats are the agents

Public choice theorists argue that bureaucrats may maximise budgets, staff, or political influence rather than welfare outcomes (Niskanen, 1971). The absence of shareholders eliminates one kind of pressure but introduces another: **political incentives**, which can prioritise visibility over efficiency or favour electoral gains over social value.

Charitable enterprises face similar tensions: donors may expect moral purity or impact, while managers must balance mission with operational survival.

Thus principal–agent theory reveals a behavioural paradox central to the analysis: different ownership models shift the identity of the principal, but misaligned incentives persists across institutional formsThe question is not *whether* conflicts arise, but *how* they shape organizational behavior, under different incentive structures.

3.3 Market Failure Theory: When Profit Misguides Behaviour

Market failure theory — rooted in the works of Pigou, Arrow, and Stiglitz — highlights cases where profit-seeking behaviour diverges from socially optimal outcomes. These failures occur when:

- Firms externalise social costs (pollution, opioid crisis),
- Information is asymmetric (finance, healthcare),
- Public goods are underprovided (research, infrastructure), or
- Merit goods are underconsumed (education, preventive healthcare).

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[12] U.S. Department of Justice, *"Wells Fargo Agrees to Pay $3 Billion to Resolve Criminal and Civil Investigations into Sales Practices"*, 21 February 2020, noting pressure on employees between 2002 and 2016 to meet unrealistic sales goals — leading to the creation of millions of unauthorised accounts. Available at: https://www.justice.gov/opa/pr/wells-fargo-agrees-pay-3-billion-resolve-criminal-and-civil-investigations-sales-practices

[13] Cato Institute. *Moral Hazard and the Financial Crisis*. https://www.cato.org/policy-analysis/moral-hazard-financial-crisis

In these scenarios, the behavioural logic of profit encourages firms to:

- Oversupply harmful products
- Undersupply socially beneficial goods
- Hide risks
- Exploit information gaps

This framework is vital for analysing your cases — from oil extraction in Nigeria to the 2008 financial crisis. [14] Profit-seeking behaviour is not inherently harmful; it becomes harmful when unconstrained by regulation, ethics, or transparency[15].

Thus market failure theory explains **why profit alone cannot ensure socially desirable behaviour**, especially in sectors where externalities or information asymmetries dominate.

3.4 Public Choice Theory: When Government Misguides Behaviour

If market failure critiques the private sector, public choice theory critiques the public sector. Buchanan (1978) and Tullock (1962) argue that governments and bureaucracies are not benevolent maximisers of social welfare but political agents with their own interests.[16]

Behaviour in the public sector may be shaped by:

- Budget maximisation
- Political loyalty
- Electoral incentives
- Risk aversion
- Bureaucratic inertia

This theory explains why state-owned enterprises sometimes exhibit:

- X-inefficiency
- Slow innovation
- Cost overruns

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[14] World Bank. *Global Economic Prospects – 2009 Crisis Impact*. https://openknowledge.worldbank.org/handle/10986/4419

[15] The Guardian. *'I made Steve Bannon's psychological warfare tool': meet the data war whistleblower.* 2018. https://www.theguardian.com/news/2018/mar/17/data-war-whistleblower-christopher-wylie-faceook-nix-bannon-trump also available at : Financial Times. *Facebook's business model and data harvesting scandal.* https://www.ft.com/content/880ecf5e-2a64-11e8-a34a-7e7563b0b0f4

[16] Buchanan, J. M. & Tullock, G. (1962). *The Calculus of Consent: Logical Foundations of Constitutional Democracy.* (See summary at "The Calculus of Consent," Britannica.) https://www.britannica.com/topic/The-Calculus-of-Consent-Logical-Foundations-of-Constitutional-Democracy

- Misallocation of resources

Thus public choice theory counters the romantic assumption that mission-oriented institutions inherently behave better.

3.5 Behavioural and Ethical Frameworks: Beyond Rationality

Behavioural economics adds another dimension: institutions do not act as perfectly rational agents.

- Kahneman and Tversky show biases in judgement.
- Thaler demonstrates how organisations fall prey to the same heuristics individuals do.
- Sen argues that ethical and capability considerations underpin real welfare beyond profit.

Taken together, this literature highlights that institutional behaviour is psychological, moral, and institutional rather than mechanically rational.
Profit can energise or distort.
Mission can inspire or stagnate.
Public systems can protect or fail.

4. Methodology

Answering the question of whether profit-driven behaviour is "better or worse" than behaviour shaped by public or charitable ownership requires a method capable of comparing systems that do not operate on identical objectives, incentives, or constraints. A single empirical dataset cannot capture this complexity. Instead, this study adopts a **comparative qualitative methodology**, grounded in behavioural economic reasoning, theoretical triangulation, and structured case analysis.

4.1 Comparative Institutional Analysis

This research begins from a simple observation: *markets, governments, and charities behave differently because they are built differently.* "Specifically, differences in governance, accountability, and mission orientation guide behaviour in ways that are systematically compared across private, public, and charitable ownership models.
They follow different incentive structures, different accountability mechanisms, and different survival logics. To evaluate them on equal terms, this paper uses comparative institutional analysis — an approach championed by Ostrom, Williamson, and Acemoglu — which examines how institutional rules shape behavioural outcomes.

This method allows us to ask, rigorously and repeatedly:

- What behaviours does each system reward?
- What behaviours does each system punish or overlook?

- And most importantly: *What patterns of behaviour emerge consistently across different contexts?*

These patterns show that the same incentive logic can produce highly positive outcomes in some contexts, such as pharmaceutical innovation, and negative outcomes in others, such as the 2008 financial crisis or environmental degradation in the Niger Delta.By focusing on **behavioural patterns** rather than ideological assumptions, the method avoids romanticizing either markets or states.

4.2 Case Selection and Comparative Dimensions

Cases were selected to represent distinct incentive regimes rather than to provide exhaustive sectoral coverage. The aim is comparative clarity: isolating how different ownership and incentive structures shape behaviour under broadly similar economic pressures.

Selection followed three criteria. First, each case reflects dominant incentive logic — profit maximisation, public provision, or mission-driven activity — rather than mixed or hybrid governance forms. Second, cases exhibit sustained operation over time, allowing behavioural patterns to be observed rather than one-off outcomes. Third, sufficient high-quality empirical literature exists to permit triangulation across academic studies, institutional reports, and official statistics.

To ensure comparability across heterogeneous sectors, cases are evaluated along a common set of analytical dimensions:
(i) innovation and adaptive capacity,
(ii) operational efficiency,
(iii) equity and access, and
(iv) the scale of negative externalities.

These dimensions do not presume normative superiority of any incentive model. Instead, they provide a structured lens through which recurring behavioural responses to incentives can be compared across contexts. The resulting comparison highlights trade-offs rather than optimal institutional forms.

4.3 Case-Based Evidence: Why Cases, Not Single-Variable Regression

Profit incentives, public missions, and charitable norms are not laboratory variables; they are embedded in messy, real-world systems. For this reason, the study uses **structured, theory-driven case analysis**, selecting examples that reflect distinct ownership models and behavioural incentives:

The selected cases represent distinct incentive regimes:
• **Private, profit-seeking firms:** pharmaceutical innovation, financial markets prior to 2008, and oil extraction in Nigeria
• **Public enterprises:** the NHS, state-owned utilities, and welfare systems
• **Charitable and mission-driven organisations:** global health initiatives and non-profit service providersWhile these cases serve as illustrative examples, each was selected to reflect recurring behavioural tendencies, capturing both positive and negative manifestations of profit-driven, public, and charitable incentives. Cases were chosen not because they are sensational, but

because they demonstrate consistent incentive effects.. Sources include peer-reviewed literature, official statistics, and high-quality institutional reports. The goal is not to judge individual institutions but to reveal how **incentives consistently shape behaviour**.

A purely statistical method would flatten these dynamics; a case-based comparative design exposes them.

4.4 Behavioural Economic Lens

The analysis relies heavily on behavioural economics for two reasons.

First, because *organisations behave like people* — they respond to incentives, biases, perceptions of risk, and social expectations. Second, because traditional rational-choice models fail to n why:

- profit sometimes drives innovation,
- and other times drives collapse;
- why public institutions sometimes deliver equity,
- and other times deliver stagnation.

By integrating behavioural insights — loss aversion, bounded rationality, moral hazard, ehavior — the methodology treats institutions as human systems, not mathematical abstractions. This aligns with the spirit of your central question: *What kinds of ehavior do different systems actually produce?*

4.5 Triangulation across Theory

Because the research question spans economics, ethics, and political economy, the methodology uses **theoretical triangulation**:

- incentive theory explains motivational structures
- principal–agent theory explains internal conflicts
- market failure theory explains where profit misfires
- public choice theory explains where governments misfire
- welfare and ethics scholarship explains normative outcomes

This blending ensures that no single theory dominates the interpretation of ehavior.

4.6 Limitations and Scope

This methodology embraces a deliberate limitation: it does not attempt to produce a single numerical score for “which system is better.” Behaviour cannot be averaged into a neat equation without losing its moral and institutional complexity. Instead, the method evaluates **patterns**, **trade-offs**, and **recurring incentives** that appear across systems.

Rather than simplifying complex realities, the approach prioritises faithful representation of institutional behavior.

5. Evidence and Case Analysis

The behaviours generated by profit-seeking, public ownership, and charitable mission become visible not in theory but in the empirical record. This section examines how institutions behave under different incentive structures across four domains: pharmaceutical innovation, financial markets, healthcare systems, and extractive industries. The cases are selected to reveal behavioural regularities rather than isolated anomalies.

Incentive Model	Innovation	Efficiency	Equity/ access	Exeternalities	Dominant behaviour	Sources
Profit-driven (Pharma)	High (where returns exist)	High	Low	Moderate	Speed, Risk-taking	Peer-reviewed studies, R&D reports
Profit-driven (Finance)	Financial innovation	Short-term	Low	High	Risk Amplification	Financial reports, academic analysis
Public (NHS)	Moderate	Lower	High	Low	Universal Provision	Government stats, OECD data
Extractive (Niger Delta)	High extraction	High private	Very Low	Extreme	Cost Externalisation	NGO & environmental reports
Charitable (MSF, Gates)	Targeted	Variable	High	Low	Mission Fidelity	Organisation & NGO reports

Table 1: Comparative Behavioural Dimensions Across Institutional Cases

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5.1 Pharmaceutical Innovation: When Profit Accelerates Discovery

Pharmaceutical markets offer one of the clearest illustrations of Schumpeterian behaviour: firms innovate because survival depends on it. The COVID-19 vaccine race demonstrated this dynamic on a global scale. Companies such as Pfizer, Moderna, and BioNTech accelerated development timelines not simply from humanitarian urgency but because an unprecedented profit opportunity existed. Studies in innovation economics consistently find that pharmaceutical firms allocate

R&D resources according to expected commercial return, not disease burden (Acemoglu & Linn, 2004).

The behavioural consequence is clear: **profit incentives generate speed, focus, and risk-taking.**

mRNA platforms had existed for years, but only the alignment of commercial incentives triggered the scale of investment required to bring them to market.

Yet this same incentive produces blind spots. Diseases that disproportionately affect low-income populations — malaria, tuberculosis, dengue — remain chronically underfunded. Mission-driven organisations such as the Gates Foundation and the Drugs for Neglected Diseases Initiative (DNDi) step in precisely because profit incentives do not lead firms in that direction.

The pattern is unmistakable:profit drives *frontier* innovation, but mission drives *equity* of innovation.

Neither behaviour is accidental. Each follows the logic of its incentive structure.

5.2 Financial Markets and the 2008 Crisis: When Profit Becomes Perverse

If pharmaceuticals display profit's productive side, the 2008 Global Financial Crisis reveals its darker potential. The crisis was not merely a macroeconomic shock — it was an institutional behavioural failure.[17] Incentives rewarded volume over quality, short-term revenue over long-term stability, and risk-taking over prudence.

Mortgage brokers maximised commissions by expanding subprime lending; banks securitised these loans into opaque products, and rating agencies—paid by the firms they rated—rubber-stamped them as safe. The behavioural chain was driven by the same question at every node: *what decision produces the highest immediate gain?*

Principal–agent distortions amplified this behaviour. Managers pursued bonuses tied to quarterly profits, while shareholders bore the catastrophic long-term consequences. Moral hazard further distorted incentives: institutions believed they were "too big to fail," and the subsequent bailouts reinforced this expectation.

The systemic fragility that emerged in 2008 reflects deeper macroeconomic dynamics, includingaccommodated monetary conditons and debt driven risk amplification.

The crisis illustrates a central argument of this paper:
profit, when misaligned with system-wide welfare, can generate behaviour that is rational individually and disastrous collectively.

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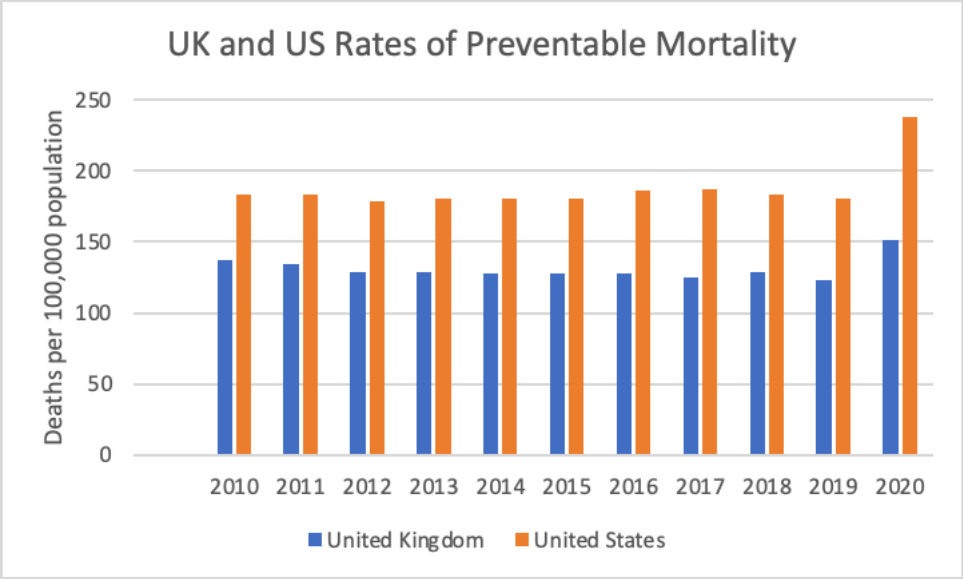
[17] 2008 Global Economic Crisis Available at: 2008-2009 Global Financial Crisis - Overview, Market Bubble, Aftermath | Wall Street Oasis

The comparison here is instructive. Public or charitable institutions may fail due to inefficiency or slow decision-making, but they rarely collapse entire global systems through coordinated risk-taking. The financial crisis shows what happens when profit incentives dominate without countervailing discipline. This contrast sets the stage to examine contexts where mission-driven incentives, rather than profit, shape behaviour.

5.3 Public Healthcare (NHS) vs Private Healthcare (US): Mission vs Market

Healthcare provides a contrasting example in which public and charitable incentives outperform profit-based behaviour in key welfare metrics.

The UK's National Health Service (NHS), a publicly funded, non-profit system, delivers nearly universal healthcare access at roughly **half the per-capita cost** of the profit-dominated US system.[18] Preventable mortality rates are significantly lower in the UK despite far lower spending[19] (Appleby et al., 2017). This contrast is visible in comparative data on preventable mortality across the two systems.(Fig.1)



(Fig.1): Preventable mortality rates in the UK and US.[20]

[18] Office for National Statistics (ONS). "How does UK healthcare spending compare internationally?" Published 2022. Available at: https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/howdoesukhealthcarespendingcompareinternationally/2022-05-03 and https://en.wikipedia.org/wiki/National_Health_Service and https://www.lovemoney.com/gallerylist/230979/how-much-do-countries-really-spend-on-healthcare?

[19] Department of Health and Social Care Annual Report and Accounts 2022–23.
Available at: https://www.gov.uk/government/publications/dhsc-annual-report-and-accounts-2022-to-2023 This official report details the Department of Health and Social Care's financial allocations, confirming NHS England's total budget exceeded £180 billion in 2022/23, with increasing payroll and capital investment trends.

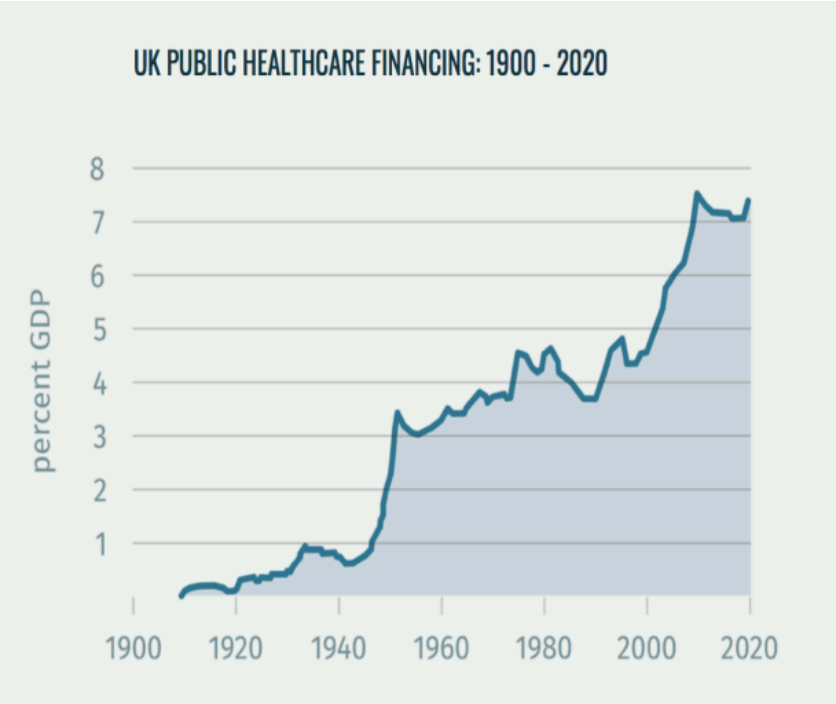
[20] Visual representation Available at :
https://sites.lsa.umich.edu/mje-new/wp-content/uploads/sites/1280/2023/05/image.png

Why does a non-profit system outperform the world's most expensive private one?

Because behaviour follows incentives.
In profit-based systems, providers maximise billable procedures, not health outcomes. Insurance companies maximise profit by excluding high-risk patients, not by ensuring coverage. Pharmaceutical firms set prices according to willingness-to-pay, not social need.

In the NHS, the incentive structure is inverted:

- costs are minimised because taxpayers bear them,
- access is expanded because exclusion undermines public legitimacy,
- and care is allocated on need, not profitability.



(Fig. 2): UK public healthcare financing as a share of GDP, 1900–2020[21].

Yet the NHS also exhibits behavioural weaknesses predicted by public choice theory: bureaucratic inertia, slower innovation adoption, and chronic underinvestment driven by political cycles. Public provision corrects market failures but introduces government failures of its own.

[21] Visual Source (UK Health Spending % GDP):
Source: Our World in Data – "UK Public Healthcare Spending"
https://ourworldindata.org/grapher/uk-healthcare-public-spending-gdp Or at :
https://p4h.world/app/uploads/2023/03/bildschirmfoto_2021-01-28_um_13.27.44.x80726.png Or a berif can be found on : Global Health Data Explorer - Our World in Data

The empirical contrast demonstrates the broader point:
profit is not inherently good or bad — it simply rewards behaviour that aligns with its logic[22].
Public systems do the same[23]

5.4 Extractive Industries: Externalities and the Limits of Profit

The Niger Delta's oil extraction illustrates the extreme case where profit incentives generate behaviour that systematically externalises social and environmental costs. Decades of oil spills, pipeline leaks, and gas flaring have created one of the most polluted regions in the world. Studies estimate that Shell and BP's operations contributed billions of dollars in environmental damage while local communities saw little improvement in living standards[24].

Why does this happen?

Because profit maximisation rewards:

- cost reduction,
- speed of extraction,
- and minimal liability exposure.

Environmental restoration, community reinvestment, and long-term sustainability do not increase short-term profits and thus receive little attention unless externally enforced.

This case reveals a behavioural truth:
when firms can shift costs onto the public without penalty, profit incentives encourage harmful behaviour.

The scale of these externalities becomes starkly clear when visualised through environmental impact data. And yet, it is public institutions that often bear the burden of repairing these consequences.

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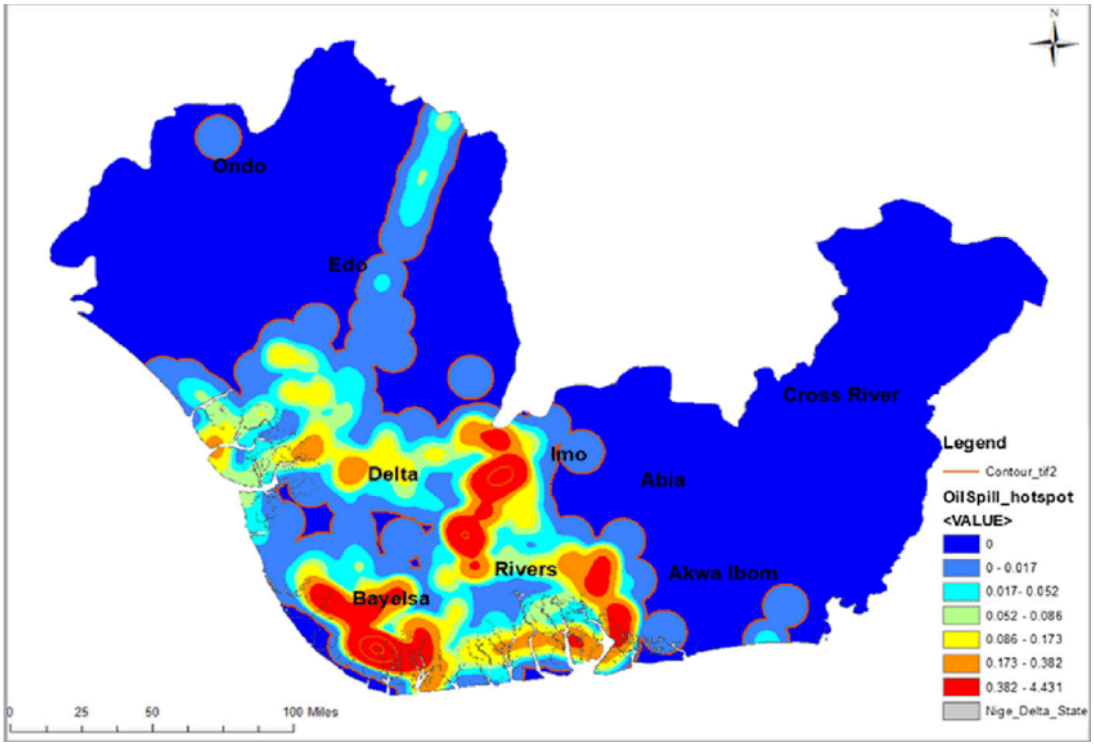
[22] NHS0084- Evidence on Long term sustainability Availability :
https://committees.parliament.uk/writtenevidence/71759/html

[23] Relationship between poverty and NHS services- The King's fund. Available at:
https://www.kingsfund.org.uk/insight-and-analysis/long-reads/relationship-poverty-nhs-services

[24] AP News, "Nigeria agency 'failed completely' to clean up oil damage despite funding, leaked files say," 23 December 2024.
https://apnews.com/article/nigeria-oil-spills-shell-cleanup-corruption-8aa9f7ab170eb39dd27bb94e6b9162f6



(Fig.3): Oil spill density across the Niger Delta.[25]

However, it's not the whole picture.Public-sector failures also appear here: weak regulation, corruption, and political capture enable private firms to operate without accountability. This demonstrates that market failure and government failure often coexist, each reinforcing the other.

5.5 Charitable Organisations: Mission-Driven Behaviour with Practical Limits

Charitable institutions behave very differently because their incentives are fundamentally moral and reputational rather than financial. Global health organisations such as Médecins Sans Frontières (MSF) and the Gates Foundation consistently invest in diseases and regions where profit-seeking firms do not. Their behaviour is driven by mission, not revenue[26].

Yet the limitations are equally clear. Charitable organisations often struggle with:

- funding volatility,
- donor preferences distorting priorities,
- scaling constraints,

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[25] *Research Gate. "Oil spill hotspots in the Niger Delta using kernel density estimation."* https://www.researchgate.net/figure/Oil-spills-hotspots-in-the-Niger-Delta-using-kernel-density-estimation_fig1_351410211 Visual at : Oil-spills-hotspots-in-the-Niger-Delta-using-kernel-density-estimation.png (850×581)

[26] Spending on health services by countries. Available at : https://www.lovemoney.com/gallerylist/230979/how-much-do-countries-really-spend-on-healthcare

- the absence of long-term, predictable financing.

The behavioural pattern here is:
mission inspires morally aligned behaviour, but cannot guarantee efficiency or scale.

Charities fill gaps markets ignore, but they rarely replace large-scale private or public systems.

5.6 Cross-Case Behavioural Patterns

Across these cases, three behavioural patterns emerge:

1. Profit encourages innovation, speed, and risk-taking — but only where returns are high.

It leads to breakthroughs in pharmaceuticals and technology but underinvests in low-profit, high-need areas.

2. Public institutions deliver equity and access — but struggle with dynamic efficiency.

They excel in universal healthcare and welfare provision but often underperform in innovation and responsiveness.

3. Charitable organisations act ethically and address neglected problems — but lack stability and scale.

Their behaviour is morally guided but financially constrained.

These patterns confirm the central claim of the paper:
behaviour follows incentives, and no ownership model produces unambiguously superior behaviour across all dimensions.

6. Discussion

The cases examined reveal a striking truth that both confirms and complicates conventional economic wisdom: **institutions do not behave well or badly — they behave according to the incentives that govern them.** Profit-driven enterprises innovate rapidly when returns are high, yet externalise social costs just as rapidly when those costs can be shifted onto others. Public institutions achieve broad equity and accessibility, yet often lack the dynamism and cost discipline that competition enforces. Charitable organisations pursue moral missions overlooked by both markets and states, yet remain structurally limited by funding instability and scale constraints.

The discussion of these results therefore returns us to the central question: *What kinds of behaviour are engendered by the hope of profit? And is that behaviour, on balance, better or worse than the behaviour we might expect in a world governed by public missions or charitable ideals?*

The answer, as the evidence suggests, is that **each system produces predictable strengths and predictable failures**. Profit is not a moral compass; mission is not a performance guarantee. Markets are not inherently ethical, and governments are not inherently effective. Behaviour is shaped by the institutional environment — and each environment privileges some behaviours at the expense of others.

6.1 The Behavioural Trade-offs of Profit

Profit-driven systems excel in areas where innovation, speed, frontier risk-taking, and resource allocation are essential. They outperform in sectors such as pharmaceuticals, technology, advanced manufacturing, and high-growth finance. The behavioural logic is simple: when survival depends on beating competitors, firms behave boldly.

But profit also generates **blindness** when market prices fail to reflect social harm. The Niger Delta case shows this clearly: firms behave efficiently from their own perspective while producing devastation for others. In financial markets, the 2008 crisis demonstrated how

individual rationality culminates in collective irrationality.[27]The hope of gain, untempered by

[27] U.S. Department of the Treasury. *Troubled Asset Relief Program (TARP)*. https://home.treasury.gov/data/troubled-assets-relief-program

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structural discipline, invites behaviours that are economically rational but socially catastrophic.

Thus the behaviour profit encourages is **productive when externalities are contained**, and **dangerous when they are ignored**.

6.2 The Behavioural Trade-offs of Public Ownership

By contrast, public and state-owned institutions behave according to entirely different incentives. Their legitimacy depends on fairness, coverage, and access. They do not have to impress shareholders; they must satisfy voters, taxpayers, and legal mandates. This gives rise to behaviours that markets struggle to produce: universal healthcare access, protection of vulnerable populations, and long-term public investment.

Yet the absence of competitive pressure also produces predictable weaknesses: slow adoption of innovation, bureaucratic inertia, and political distortions. The NHS outperforms the US system in public health outcomes but struggles chronically with capacity, staff shortages, and periodic funding crises — not because the mission is flawed but because incentives for efficiency are weaker. These fiscal constraints reflect well-documented behavioural limits to taxation and public revenue generation.

6.3 Charitable Behaviour: Morality without Mechanism

Charities exhibit perhaps the most morally aligned behaviour of all: they go where markets will not and where states cannot. They address neglected diseases, underfunded regions, and humanitarian crises. Their behaviour demonstrates the purest rejection of profit as a motivator.

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Tullock, G. (1962). The calculus of consent. University of Michigan Press.

Williamson, O. E. (1985). The economic institutions of capitalism: Firms, markets, relational contracting. Free Press.

Yet morality alone cannot scale. Charitable institutions depend on donor cycles, political goodwill, and public sympathy. They may behave ethically but cannot reliably behave expansively. Their strengths are inspirational but insufficient for universal provision.

Thus charity-based behaviour is **morally responsive but structurally fragile**.

6.4 Convergence: The Need for Hybrid Incentive Design

Across all cases, a pattern emerges: **no system produces the full set of desired behaviours.** Profit produces dynamism but moral hazard. Public institutions produce fairness but inefficiency. Charities produce mission fidelity but lack scale.

This divergence leads to a deeper insight: the question is not *which* system behaves best, but **which incentive mix generates the most balanced and resilient behaviour**.

Hybrid models — regulated markets, public-private partnerships, mission-oriented private firms, and state-supported innovation ecosystems — combine the complementary strengths of each system. When markets are disciplined by regulation, public systems are supported by efficiency incentives, and charities are integrated into wider financing structures, behaviour becomes more aligned with both innovation and equity

The implication is not ideological compromise; it is **institutional realism**. Neither pure profit nor pure public mission can reliably produce the behaviour modern economies require. But the careful design of incentives can.

6.5 Returning to the Paradox

The profit paradox, therefore, is not simply that profit can create both good and harm. It is that **profit creates exactly the behaviour the system rewards — nothing more, nothing less.** The same is true of governments and charities. Behaviour is not the product of virtue or vice; it is the predictable outcome of the rules under which institutions operate.

This paper's findings indicate that the hope of profit produces behaviour that is indispensable yet incomplete, and at times dangerous when unchecked. Public and charitable systems produce behaviour that is compassionate and fair yet often constrained and slow. The challenge is not choosing between them but designing institutions where **productive behaviour and ethical behaviour are no longer in conflict.**

7. Conclusion

This study examined how different institutional incentive structures — profit-driven, state-owned, and charitable — shape organizational behavioural across innovation, efficiency, and social welfare outcomes. By integrating economic theory with comparative case analysis, the research demonstrates that institutional behaviour is neither accidental nor ideological, but a predictable outcome of incentives, constraints, and accountability mechanism embedded within in each organisational form.

Profit-driven enterprises exhibit exceptional capacity for innovation, responsiveness, and operational efficiency, particularly where competitive pressure rewards speed, risk-taking, and commercial ingenuity. However, the same incentive structureproduces significant vulnerabilities where social costs are weakly priced: externalization of harm, short-termism, systemic fragility, and behaviour that remains privately rational despite collective risk.

State-owned and Public institutions,displays contrasting behavioural strengths. Their incevtive structures prioritise equity, access, and long-term welfare provision. These advantages are offset by familiar institutional constraints, including slower adaptation, weaker cost discipline, and exposure to political distortions.

Charitable organisations represent a third behavioural model, anchored in moral commitment rather than financial and economic return (many economic aspects, included). They address critical gaps left by both markets and states, particularly in neglected global health and social domains. Yet their dependence on donor cycles and limited scalability restrict their ability to deliver sustained, system-wide solutions.Taken together, the evidence indicates that no single ownership model consistently generatessuperior behaviour across every dimension of economic and social performance.

Rather than pointing toward institutional dominance, the findings support the case for hybrid incentive design — arrangements that combine market dynamism with public oversight and mission-driven objectives. In practice, such hybrids already operate through mission-oriented private firms targeting neglected diseases, and public–private innovation ecosystems in which state funding underwrites early-stage research while private actors provide development speed and scale, as seen in contemporary vaccine and health-technology collaborations.

In returning to the central inquiry — *What kinds of behaviour are engendered by profit, and is such behaviour better or worse than behaviour under public or charitable ownership?* — The analysis suggests that the distinction is not binary. Profit produces indispensable dynamism but requires discipline; public systems promote fairness and stability but require incentives for innovation; charitable action supplies moral purpose but requires institutional support. The challenge for modern economies is therefore not to eliminate profit or idealise public provision, but to design incentive structures in which innovation and social welfare reinforce rather than undermine one another.

END NOTES

The Profit Paradox: Innovation, Incentives, and the Morality

Author: [Redacted by Managing Editor]

Abstract

Profit-seeking behaviour is among the most powerful forces shaping modern economic systems, yet its behavioural consequences remain contested. While economists often celebrate the profit motive as a catalyst for innovation, efficiency, and risk-taking, critics argue that the same incentive structure can generate exploitation, short-termism, and systemic instability. Conversely, state-owned and charitable enterprises—unburdened by shareholder demands—prioritise equity and public welfare, but may struggle with inefficiency, weak accountability, and limited dynamic capacity. This paper investigates how different incentive structures—profit, public mission, and non-profit operation—shape organisational behaviour across innovation, efficiency, and social welfare outcomes. Drawing on theories of incentives, agency problems, market failure, public choice, and behavioural economics, combined with comparative case analysis across the pharmaceutical industry, healthcare systems, finance, and energy, the study evaluates whether profit-driven behaviour is "better or worse, on balance" than behaviour under public or charitable ownership. The analysis suggests that neither system produces universally superior outcomes. Instead, a hybrid model—one that retains the discipline of markets while integrating social-purpose constraints—may better align innovation with equity. The findings underscore that the challenge for modern economies is not eliminating profit, but redesigning incentives to ensure that economic behaviour serves both enterprise and society.

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studies Economics and Mathematics with a focus on behavioral incentives and market ethics. [Redacted by Managing Editor] work explores how incentive structures shape human decision-making and how economic systems can balance innovation with social welfare.

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1. Introduction

What drives a pharmaceutical company to develop a life-saving vaccine in record time — compassion, or the billion-dollar payoff? When Moderna, Pfizer, and BioNTech raced through stages of development in 2020, were they motivated by humanitarian urgency, or by the unprecedented profit opportunity that accompanied a global crisis? When Milton Friedman

declared that the "**business of business is business**", he distilled the essence of profit-seeking enterprise, not denying the social responsibilities of firms —but reasserting the unmatched power of profit as an incentive [1] .This tension sits at the heart of economic behaviour: the hope of gain has powered capitalism's greatest breakthroughs — and its greatest scandals.

This paper begins with a simple but profound inquiry: **What kinds of behaviour are engendered by the hope of profit? And is such behaviour, on balance, better or worse than the behaviour we might expect if enterprises were owned by governments or charities?**

Behind this question lies a deeper behavioural puzzle. Profit offers a clear, measurable goal — and measurable goals transform incentives. They push firms to innovate, to take risks, to redirect resources, and, at times, to pursue outcomes that conflict with social welfare. Meanwhile, public and charitable enterprises operate under different logics: mission, equity, and collective welfare. But do such motives generate more ethical or more effective behaviour — or simply different kinds of shortfalls?

Existing scholarship has examined profit incentives, corporate social responsibility, welfare provision, and public ownership, but rarely do these literatures converge to directly compare the behavioural consequences of each institutional form. A gap remains at the intersection of innovation theory, market failure, public choice, and normative business ethics—a gap this research aims to address.

To structure this inquiry, the study asks the following research question:

Research Question

How does profit-driven behaviour compare to the behaviour of state-owned and charitable enterprises in shaping innovation, efficiency, and social welfare outcomes?

To address this question, the paper proceeds as follows:

- Section 2 reviews relevant literature across incentive theory, corporate ethics, and public-sector behaviour.
- Section 3 outlines the theoretical framework. Section 4 describes the methodology and comparative case selection.
- Section 5 analyses behavioural patterns across private, public, and charitable enterprises.
- Section 6 discusses implications for economic design.
- Section 7 concludes by reframing the profit paradox and considering pathways toward hybrid institutional models.

2. Literature Review

[1] "The Social Responsibility of Business Is to Increase Its Profits" by Milton Friedman, published September 13, 1970. The New York Times. Available at: https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html and at: Milton Friedman On The Social Responsibility Of Business – Forbes Advisor

The question of what motivates economic behaviour sits at the intersection of several major strands of scholarship — from classical theories of profit maximisation to more recent debates in behavioural economics, business ethics, and public administration. Together, these literatures reveal a tension that mirrors the central paradox of this paper: whether the hope of profit generates behaviour that is socially valuable, socially destructive, or simply predictable in its complexity.

2.1 Profit as Purpose: Classical and Neoclassical Foundations

Milton Friedman's (1970) famous thesis that the "social responsibility of business is to increase its profits" remains the intellectual backbone of modern corporate theory. For Friedman, profit is not merely an incentive but a **disciplinary mechanism**: it aligns managers with owners, prevents mission drift, and channels resources efficiently through competitive selection. In this model, firms that innovate survive, and those that do not are efficiently eliminated.[2]

This view is reinforced by neoclassical assumptions: rational agents, efficient markets, and the idea that prices capture all relevant information. Coase (1937) adds that firms exist not for social welfare but to minimise transaction costs — profit is the signal that such minimisation has succeeded.[3]

Yet this literature, while powerful, has been criticised for reducing human motivation to a single variable. As later sections will explore, profit may spur innovation, but it can just as easily fuel manipulation, short-termism, or harmful externalities.

2.2 Schumpeter and the Innovation Imperative

Joseph Schumpeter (1934, 1942) provides the strongest theoretical case for the **positive** behavioural consequences of profit. His concept of *creative destruction* reframes profit as the reward for disruptive innovation. Firms do not innovate because they are benevolent, but because market competition threatens their survival. Innovation emerges as ~~becomes~~ a behavioural response to existential pressure recurring across the institutional cases examined~~— a theme that echoes throughout he whole argument~~.[4]

Empirical studies support this view. Profit-driven sectors, especially pharmaceuticals and technology, consistently demonstrate higher rates of R&D investment, patent activity, and productivity growth (Aghion et al., 2005). The behavioural engine here is not compassion; it is competition.

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[2] The Social Responsibility of Business Is to Increase Its Profits" by Milton Friedman, published September 13, 1970. The New York Times. Available at: https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html

[3] Coase, R. H. (1937). The nature of the firm. *Economica, 4*(16), 386–405. https://rochelleterman.com/ir/sites/default/files/Coase%201937.pdf

[4] Joseph A. Schumpeter, The Theory of Economic Development. Available at : https://macrohive.com/hive-explainers/creative-destruction-and-the-theory-of-economic-development/#:~:text=Joseph%20Schumpeter%20was%20an%20early%2020%20th%20-century,for%20economic%20growth%2C%20which%20follows%20a%20non-linear%20process.

Yet Schumpeter also warns of capitalism's tendency toward monopoly power, raising the possibility that the same incentive that drives innovation may later suppress it.

2.3 Market Failure: When Profit Incentives Misfire

The literature on market failure challenges the assumption that profit-seeking behaviour reliably produces socially optimal outcomes. Stiglitz (1989) and other information economists demonstrate how asymmetric information, externalities, and incomplete markets distort behaviour.[5]

Akerlof's (1970) "Market for Lemons" shows how profit motives in information-poor markets can degrade product quality.[6] In environmental economics, externality theory (Pigou, 1920) explains how firms may profit by shifting social costs onto the public — a central ~~theme in your analysis of oil~~ dynamic illustrated by extraction in the Niger Delta.

These studies collectively suggest that profit-driven behaviour can be rational for firms yet destructive for society — particularly when regulatory or ethical constraints are weak.

2.4 Normative Ethics and Corporate Purpose

Business ethics scholarship adds a deeper moral layer to this debate. Freeman's stakeholder theory (1984) rejects Friedman's shareholder-primacy framework, arguing that firms have obligations to all affected parties — workers, communities, consumers, and the environment.[7] Porter and Kramer (2011) similarly propose *shared value*, where firms align profit with social impact.

However, critics like Boatright (1999) and Duska (2012) argue that ethical claims often mask continued prioritisation of profit.[8] Thise raises a behavioural question ~~then becomes~~: ~~**Do**~~ **Whether firms act ethically ~~due to genuine moral commitments because they believe in ethics~~, or because the appearance of ethics mitigates ~~reduces~~ reputational risk?**

Here, the literature converges with central tension of this ~~argument~~ analysis: ~~—~~that incentives, rather than ~~not~~ virtues, anchor economic behaviour.

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[5] Bruce C. Greenwald & Joseph E. Stiglitz, *Externalities in Economies with Imperfect Information and Incomplete Markets*, *Quarterly Journal of Economics*, **101** (2), May 1986, 229–264. Available at: https://academic.oup.com/qje/article-abstract/101/2/229/1928643

[6] George A. Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, *Quarterly Journal of Economics*, **84** (3), 1970, 488–500. Available at: https://docslib.org/doc/4340711/the-market-for-lemons-quality-uncertainty-and-the-market-mechanism

[7] Freeman, R. E. (1984). *Stakeholder Theory: A New Approach to Strategic Management*. Open-access summary available at: https://stakeholdertheory.org/about/

[8] Boatright, J. R. (1999). *Does Business Ethics Rest on a Mistake?* Available at ResearchGate (free): https://www.researchgate.net/publication/271753258_Does_Business_Ethics_Rest_on_a_Mistake and Duska, R. (2012). *Why Business Ethics Is Not Optional*. Available at Springer open abstract + readable previews: https://link.springer.com/chapter/10.1007/978-94-007-4126-3_2

2.5 Public Ownership and Mission-Driven Behaviour

Public institutions and charities operate under mission-driven incentives rather than profit-maximisation. Their priorities—equity, access, and social welfare—shape behaviour in ways profit-driven firms do not replicate. Evidence from systems like the NHS illustrates this: non-profit structures often deliver more equal and affordable care, reflected in lower preventable mortality despite lower spending.[9]

These strengths, however, are balanced by structural limitations. The absence of competitive pressure can produce slower decision-making, bureaucratic inertia, and exposure to political cycles. Resource constraints, staffing pressures, and shifting government priorities influence outcomes as strongly as prices shape behaviour in private firms. Public ownership thus yields neither inherently better nor inherently worse behaviour, but a distinct incentive pattern with its own advantages and failures.

~~This literature complicates the assumption that public ownership inherently produces more ethical behaviour.~~¶

2.6 Behavioural Economics: Human Motives Beyond Profit

Kahneman and Tversky's (1979) work on bounded rationality, prospect theory, and loss aversion demonstrates that human behaviour consistently departs from the rational, profit-maximising model. [10]Thaler (2015) extends this to organisations, showing that institutions often behave irrationally due to cognitive biases, organisational inertia, and flawed incentive structures.[11]

This literature reinforces your argument that profit-seeking behaviour is powerful but not perfect — it drives action, but not always the right kind.

2.7 Identified Research Gap

Although existing scholarship richly covers profit incentives, innovation, welfare theory, and public-sector behaviour, **very few studies directly compare behavioural patterns across private, state, and charitable ownership structures** through a unified incentive framework.

Most literature examines:

- ~~p~~Private firms *vs* market failure,
- ~~or p~~Public firms *vs* government failure,
- ~~or c~~Corporate ethics *vs* shareholder primacy.

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[9] OECD. *Health at a Glance 2023: OECD Indicators — United Kingdom Profile.* Available at: https://www.oecd.org/unitedkingdom/Health-at-a-Glance-2023-UK.pdf

[10] Kahneman, D., & Tversky, A. (1979). *Prospect Theory: An Analysis of Decision under Risk.* Econometrica, 47(2), 263–291. Overview available at: https://pmc.ncbi.nlm.nih.gov/articles/PMC12507976/

[11] Thaler, R. H. (2015). *Misbehaving: The Making of Behavioral Economics.* New York: W. W. Norton & Company. Summary available at: https://en.wikipedia.org/wiki/Misbehaving%3A_The_Making_of_Behavioral_Economics

What is missing — and what the paper contributes — is a comparative behavioural analysis that asks:
How do different incentive systems actually shape the way institutions behave?

"This literature complicates the assumption that public ownership inherently produces more ethical behaviour. This gap justifies your research question and positions your contribution within multiple overlapping fields. ¶

3. Theoretical Framework

Understanding how institutions behave — whether private, public, or charitable — requires a framework that links **incentives to behaviour** and behaviour to **economic and social outcomes**. This section draws on four major theoretical traditions: incentive theory, principal–agent theory, market failure economics, and public choice theory. Together, they offer a lens through which the behavioural consequences of profit, mission, and public ownership can be evaluated.

3.1 Incentive Theory: Behaviour Begins with Motivation

At the foundation sits **incentive theory**—which holds that economic agents respond systematically to rewards and penalties. In private markets, **profit** is the dominant incentive. It functions as:

- a A motivator (encouraging effort and innovation);
- a A signal (indicating where resources should flow); and
- a disciplining mechanism (penalizing inefficiency).

Becker (1976) frames behaviour as a function of expected utility, where firms engage in actions that increase returns relative to costs. In this view, the hope of profit is not merely an economic variable; it is a **behavioural engine**.

But incentives operate differently in state-owned or charitable enterprises. Their goals are defined not by profit maximisation but by **mission fulfilment**, such as equity, public access, or social welfare. While these organisations lack the sharp feedback loop of profits, they substitute it with:

- Ppolitical accountability,
- Social legitimacy,
- Mission alignment,
- and Public performance metrics.

Here arises the first conceptual tension: **Is behaviour guided more reliably by the hard edge of self-interest, or by the soft pull of purpose?**
Incentive theory does not give a predetermined answer — it merely highlights that institutional behaviour is shaped by the incentive structures that govern decision-making. The empirical cases

that follow illustrate how the same incentive logic can generate both innovation and harm, depending on the institutional context in which it operates. ~~it merely highlights that the behaviour of institutions cannot be understood without the motive structures that animate them~~.

3.2 Principal–Agent Theory: Misaligned Interests and Organisational Behaviour

Principal–agent theory deepens this analysis by showing that institutions do not behave as unified entities. Instead, managers (agents) make decisions on behalf of owners or stakeholders (principals), often with divergent interests.

In private firms:

- Shareholders want long-term value
- Managers may pursue short-term profits, bonuses, or risk-taking

This misalignment can create **perverse behaviours** — as seen in Wells Fargo's account creation scandal or pre-2008 mortgage lending.[12]. Profit-seeking becomes distorted when agents pursue the *appearance* of profit rather than sustainable value. [13]

In public enterprises:

- Citizens or governments are the principals
- Bureaucrats are the agents

Public choice theorists argue that bureaucrats may maximise budgets, staff, or political influence rather than welfare outcomes (Niskanen, 1971). The absence of shareholders eliminates one kind of pressure but introduces another: **political incentives**, which can prioritise visibility over efficiency or favour electoral gains over social value.

Charitable enterprises face similar tensions: donors may expect moral purity or impact, while managers must balance mission with operational survival.

Thus principal–agent theory reveals ~~explains~~ a behavioural paradox central to the analysis ~~your argument~~: different ownership models shift the identity of the principal, but misaligned incentives persist across institutional forms↵
~~**different ownership models shift the identity of the principal, but misaligned incentives persist in all forms.¶**~~

The question is not *whether* conflicts arise, but *how* they shape organizational ~~behaviour~~behavior, under different incentive structures.

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[12] U.S. Department of Justice, *"Wells Fargo Agrees to Pay $3 Billion to Resolve Criminal and Civil Investigations into Sales Practices"*, 21 February 2020, noting pressure on employees between 2002 and 2016 to meet unrealistic sales goals — leading to the creation of millions of unauthorised accounts. Available at: https://www.justice.gov/opa/pr/wells-fargo-agrees-pay-3-billion-resolve-criminal-and-civil-investigations-sales-practices

[13] Cato Institute. *Moral Hazard and the Financial Crisis*. https://www.cato.org/policy-analysis/moral-hazard-financial-crisis

3.3 Market Failure Theory: When Profit Misguides Behaviour

Market failure theory — rooted in the works of Pigou, Arrow, and Stiglitz — highlights cases where profit-seeking behaviour diverges from socially optimal outcomes. These failures occur when:

- Firms externalise social costs (pollution, opioid crisis),
- Information is asymmetric (finance, healthcare),
- Public goods are underprovided (research, infrastructure), or
- Merit goods are underconsumed (education, preventive healthcare).

In these scenarios, the behavioural logic of profit encourages firms to:

- Oversupply harmful products
- Undersupply socially beneficial goods
- Hide risks
- Exploit information gaps

This framework is vital for analysing your cases — from oil extraction in Nigeria to the 2008 financial crisis. [14] Profit-seeking behaviour is not inherently harmful; it becomes harmful when unconstrained by regulation, ethics, or transparency[15].

Thus market failure theory explains **why profit alone cannot ensure socially desirable behaviour**, especially in sectors where externalities or information asymmetries dominate.

3.4 Public Choice Theory: When Government Misguides Behaviour

If market failure critiques the private sector, public choice theory critiques the public sector. Buchanan (1978) and Tullock (1962) argue that governments and bureaucracies are not benevolent maximisers of social welfare but political agents with their own interests.[16]

Behaviour in the public sector may be shaped by:

- Budget maximisation

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[14] World Bank. *Global Economic Prospects – 2009 Crisis Impact*. https://openknowledge.worldbank.org/handle/10986/4419

[15] The Guardian. *'I made Steve Bannon's psychological warfare tool': meet the data war whistleblower.* 2018. https://www.theguardian.com/news/2018/mar/17/data-war-whistleblower-christopher-wylie-faceook-nix-bannon-trump also available at : Financial Times. *Facebook's business model and data harvesting scandal.* https://www.ft.com/content/880ecf5e-2a64-11e8-a34a-7e7563b0b0f4

[16] Buchanan, J. M. & Tullock, G. (1962). *The Calculus of Consent: Logical Foundations of Constitutional Democracy.* (See summary at "The Calculus of Consent," Britannica.) https://www.britannica.com/topic/The-Calculus-of-Consent-Logical-Foundations-of-Constitutional-Democracy

- Political loyalty
- Electoral incentives
- Risk aversion
- Bureaucratic inertia

This theory explains why state-owned enterprises sometimes exhibit:

- X-inefficiency
- Slow innovation
- Cost overruns
- Misallocation of resources

Thus public choice theory counters the romantic assumption that mission-oriented institutions inherently behave better.

3.5 Behavioural and Ethical Frameworks: Beyond Rationality

Behavioural economics adds another dimension: institutions do not act as perfectly rational agents.

- Kahneman and Tversky show biases in judgement.
- Thaler demonstrates how organisations fall prey to the same heuristics individuals do.
- Sen argues that ethical and capability considerations underpin real welfare beyond profit.

Taken together, this literature highlights that institutional behaviour is psychological, moral, and institutional rather than mechanically rational. ~~This literature aligns with your rhetorical framing: behaviour is not mechanical; it is psychological, moral, and institutional.~~
Profit can energise or distort.
Mission can inspire or stagnate.
Public systems can protect or fail.

4. Methodology

Answering the question of whether profit-driven behaviour is “better or worse” than behaviour shaped by public or charitable ownership requires a method capable of comparing systems that do not operate on identical objectives, incentives, or constraints. A single empirical dataset cannot capture this complexity. Instead, this study adopts a **comparative qualitative methodology**, grounded in behavioural economic reasoning, theoretical triangulation, and structured case analysis.

4.1 Comparative Institutional Analysis

This research begins from a simple observation: *markets, governments, and charities behave differently because they are built differently.* "Specifically, differences in governance, accountability, and mission orientation guide behaviour in ways that are systematically compared across private, public, and charitable ownership models.
They follow different incentive structures, different accountability mechanisms, and different survival logics. To evaluate them on equal terms, this paper uses comparative institutional analysis — an approach championed by Ostrom, Williamson, and Acemoglu — which examines how institutional rules shape behavioural outcomes.

This method allows us to ask, rigorously and repeatedly:

- What behaviours does each system reward?
- What behaviours does each system punish or overlook?
- And most importantly: *What patterns of behaviour emerge consistently across different contexts?*

These patterns show that the same incentive logic can produce highly positive outcomes in some contexts, such as pharmaceutical innovation, and negative outcomes in others, such as the 2008 financial crisis or environmental degradation in the Niger Delta.By focusing on **behavioural patterns** rather than ideological assumptions, the method avoids romanticizing either markets or states.

4.2 Case Selection and Comparative Dimensions

Cases were selected to represent distinct incentive regimes rather than to provide exhaustive sectoral coverage. The aim is comparative clarity: isolating how different ownership and incentive structures shape behaviour under broadly similar economic pressures.

Selection followed three criteria. First, each case reflects a dominant incentive logic — profit maximisation, public provision, or mission-driven activity — rather than mixed or hybrid governance forms. Second, cases exhibit sustained operation over time, allowing behavioural patterns to be observed rather than one-off outcomes. Third, sufficient high-quality empirical literature exists to permit triangulation across academic studies, institutional reports, and official statistics.

To ensure comparability across heterogeneous sectors, cases are evaluated along a common set of analytical dimensions:
(i) innovation and adaptive capacity,
(ii) operational efficiency,
(iii) equity and access, and
(iv) the scale of negative externalities.

These dimensions do not presume normative superiority of any incentive model. Instead, they provide a structured lens through which recurring behavioural responses to incentives can be compared across contexts. The resulting comparison highlights trade-offs rather than optimal institutional forms.

4.32 Case-Based Evidence: Why Cases, Not Single-Variable Regression

Profit incentives, public missions, and charitable norms are not laboratory variables; they are embedded in messy, real-world systems. For this reason, the study uses **structured, theory-driven case analysis**, selecting examples that reflect distinct ownership models and behavioural incentives:

- The selected cases represent distinct incentive regimes:
  • **Private, profit-seeking firms:** pharmaceutical innovation, financial markets prior to 2008, and oil extraction in Nigeria
  • **Public enterprises:** the NHS, state-owned utilities, and welfare systems
  • **Charitable and mission-driven organisations:** global health initiatives and non-profit service providers**Private, profit-seeking firms:** pharmaceutical innovation, financial markets pre-2008, oil extraction in Nigeria¶
- **Public enterprises:** the NHS, state-owned utilities, welfare systems¶
- **Charitable and mission-driven organisations:** global health initiatives, non-profit education providers¶

While these cases serve as illustrative examples, each was selected to reflect recurring behavioural tendencies, capturing both positive and negative manifestations of profit-driven, public, and charitable incentives. Cases were chosen not because they are sensational, but because they demonstrate consistent incentive effects.. Sources include peer-reviewed literature, official statistics, and high-quality institutional reports. These cases were chosen **not** because they are sensational, but because they illustrate recurring behavioural tendencies. The goal is not to judge individual institutions but to reveal how **incentives consistently shape behaviour**.

A purely statistical method would flatten these dynamics; a case-based comparative design exposes them.

4.43 Behavioural Economic Lens

The analysis relies heavily on behavioural economics for two reasons.

First, because *organisations behave like people* — they respond to incentives, biases, perceptions of risk, and social expectations. Second, because traditional rational-choice models fail to n why:

- profit sometimes drives innovation,
- and other times drives collapse;
- why public institutions sometimes deliver equity,
- and other times deliver stagnation.

By integrating behavioural insights — loss aversion, bounded rationality, moral hazard, signallingehavior — the methodology treats institutions as human systems, not mathematical abstractions. This aligns with the spirit of your central question: *What kinds of behaviourehavior do different systems actually produce?*

4.54 Triangulation Across Theory

Because the research question spans economics, ethics, and political economy, the methodology uses **theoretical triangulation**:

- incentive theory explains motivational structures
- principal–agent theory explains internal conflicts
- market failure theory explains where profit misfires
- public choice theory explains where governments misfire
- welfare and ethics scholarship explains normative outcomes

This blending ensures that no single theory dominates the interpretation of ~~behaviour~~ehavior.

4.65 Limitations and Scope

This methodology embraces a deliberate limitation: it does not attempt to produce a single numerical score for "which system is better." Behaviour cannot be averaged into a neat equation without losing its moral and institutional complexity. Instead, the method evaluates **patterns**, **trade-offs**, and **recurring incentives** that appear across systems.

Rather than simplifying complex realities, the approach prioritises faithful representation of institutional ehavior.~~The ambition is not to simplify reality but to understand it more truthfully.~~¶

5. Evidence and Case Analysis

The behaviours generated by profit-seeking, public ownership, and charitable mission become visible not in theory but in the empirical record. This section examines how institutions behave under different incentive structures across four domains: pharmaceutical innovation, financial markets, healthcare systems, and extractive industries. The cases are selected to reveal behavioural regularities rather than isolated anomalies.

Incentive Model	**Innovation**	**Efficiency**	**Equity/ access**	Exeternaliti es	**Dominant behaviour**	**Sources**
Profit-drive n (Pharma)	High (where returns exist)	High	Low	Moderate	Speed, Risk-taking	Peer-revie wed studies, R&D reports
Profit-drive n (Finance)	Financial innovation	Short-term	Low	High	Risk Amplificati on	Financial reports, academic analysis

Public (NHS)	Moderate	Lower	High	Low	Universal Provision	Government stats, OECD data
Extractive (Niger Delta)	High extraction	High private	Very Low	Extreme	Cost Externalisation	NGO & environmental reports
Charitable (MSF, Gates)	Targeted	Variable	High	Low	Mission Fidelity	Organisation & NGO reports

Table 1: Comparative Behavioural Dimensions Across Institutional Cases

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5.1 Pharmaceutical Innovation: When Profit Accelerates Discovery

Pharmaceutical markets offer one of the clearest illustrations of Schumpeterian behaviour: firms innovate because survival depends on it. The COVID-19 vaccine race demonstrated this dynamic on a global scale. Companies such as Pfizer, Moderna, and BioNTech accelerated development timelines not simply from humanitarian urgency but because an unprecedented profit opportunity existed. Studies in innovation economics consistently find that pharmaceutical firms allocate R&D resources according to expected commercial return, not disease burden (Acemoglu & Linn, 2004).

The behavioural consequence is clear: **profit incentives generates speed, focus, and risk-taking.**
~~**profit creates speed, focus, and risk-taking.**~~

First Wave	Second Wave	Third Wave	Fourth Wave	Fifth Wave	Sixth Wave
Water Power Textiles Iron	Steam Rail Steel	Electricity Chemicals Internal-Combustion Engine	Pe[illegible]chemicals [illegible]ectronics [illegible]iation	Digital Network Software New Media	Digitization (AI, IoT, AV, Robots & Drones) Clean Tech
60 years	55 years	50 years	40 years	30 years	25 years

~~**(Fig. 1)**: Adapted from innovation cycle data showing the six waves of industrial development.[17]~~

mRNA platforms had existed for years, but only the alignment of commercial incentives triggered the scale of investment required to bring them to market.

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[17] ~~Adapted from: *The History of Innovation Cycles*, Visual Capitalist, May 30, 2020. Available at: https://www.visualcapitalist.com/the-history-of-innovation-cycles/~~

Yet this same incentive produces blind spots. Diseases that disproportionately affect low-income populations — malaria, tuberculosis, dengue — remain chronically underfunded. Mission-driven organisations such as the Gates Foundation and the Drugs for Neglected Diseases Initiative (DNDi) step in precisely because profit incentives do not lead firms in that direction.

The pattern is unmistakable:
profit drives *frontier* innovation, but mission drives *equity* of innovation.

Neither behaviour is accidental. Each follows the logic of its incentive structure.

5.2 Financial Markets and the 2008 Crisis: When Profit Becomes Perverse

If pharmaceuticals display profit's productive side, the 2008 Global Financial Crisis reveals its darker potential. The crisis was not merely a macroeconomic shock — it was an institutional behavioural failure.[18] Incentives rewarded volume over quality, short-term revenue over long-term stability, and risk-taking over prudence.

Mortgage brokers maximised commissions by expanding subprime lending; banks securitised these loans into opaque products, and rating agencies—paid by the firms they rated—rubber-stamped them as safe. The behavioural chain was driven by the same question at every node: *what decision produces the highest immediate gain?*

Principal–agent distortions amplified this behaviour. Managers pursued bonuses tied to quarterly profits, while shareholders bore the catastrophic long-term consequences. Moral hazard further distorted incentives: institutions believed they were "too big to fail," and the subsequent bailouts reinforced this expectation.

The systemic fragility that emerged in 2008 reflects deeper macroeconomic dynamics, including accommodated monetary conditons and debt driven risk amplification. ~~the monetary pressures captured in Fisher's framework.(Fig.2)~~

$$(M)(V) = (P)(T)$$

where:

M = Money Supply

V = Velocity of circula (the number of times money changes han

P = Average Price Level

T = Volume of transactions of goods and services

~~(Fig. 2): Fisher's Equation illustrating inflationary and monetary dynamics~~[19]~~.~~

[18] 2008 Global Economic Crisis Available at: 2008-2009 Global Financial Crisis - Overview, Market Bubble, Aftermath | Wall Street Oasis

[19] ~~Glasner, David. *The Fisher Effect Under Deflationary Expectations*. Mercatus Center Working Paper. https://www.mercatus.org/system/files/glasner-fisher-effect-mercatus-working-paper-v1.pdf and James Chen,~~

The crisis illustrates a central argument of this paper:
profit, when misaligned with system-wide welfare, can generate behaviour that is rational individually and disastrous collectively.

The comparison here is instructive. Public or charitable institutions may fail due to inefficiency or slow decision-making, but they rarely collapse entire global systems through coordinated risk-taking. The financial crisis shows what happens when profit incentives dominate without countervailing discipline. This contrast sets the stage to examine contexts where mission-driven incentives, rather than profit, shape behaviour.

5.3 Public Healthcare (NHS) vs Private Healthcare (US): Mission vs Market

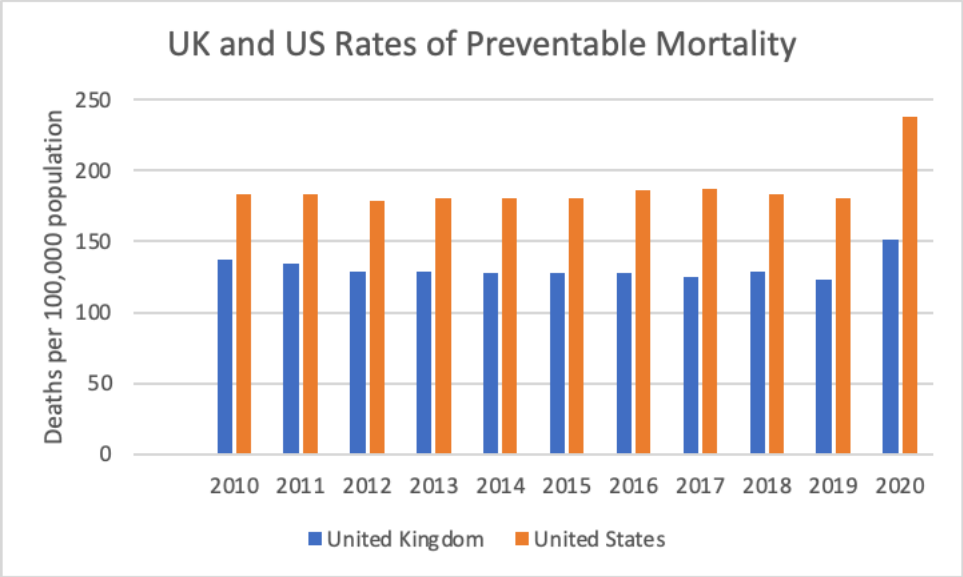
Healthcare provides a contrasting example in which public and charitable incentives outperform profit-based behaviour in key welfare metrics.

The UK's National Health Service (NHS), a publicly funded, non-profit system, delivers nearly universal healthcare access at roughly **half the per-capita cost** of the profit-dominated US system.[20] Preventable mortality rates are significantly lower in the UK despite far lower spending[21] (Appleby et al., 2017). This contrast is visible in comparative data on preventable mortality across the two systems.(Fig.13)

"Quantity Theory of Money: Definition, Formula, and Example," Investopedia, February 24, 2021, https://www.investopedia.com/terms/q/quantity_theory_of_money.asp¶

[20] Office for National Statistics (ONS). "How does UK healthcare spending compare internationally?" Published 2022. Available at: https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/howdoesukhealthcarespendingcompareinternationally/2022-05-03 and https://en.wikipedia.org/wiki/National_Health_Service and https://www.lovemoney.com/gallerylist/230979/how-much-do-countries-really-spend-on-healthcare?

[21] Department of Health and Social Care Annual Report and Accounts 2022–23.
Available at: https://www.gov.uk/government/publications/dhsc-annual-report-and-accounts-2022-to-2023 This official report details the Department of Health and Social Care's financial allocations, confirming NHS England's total budget exceeded £180 billion in 2022/23, with increasing payroll and capital investment trends.



(Fig.13): Preventable mortality rates in the UK and US.[22]

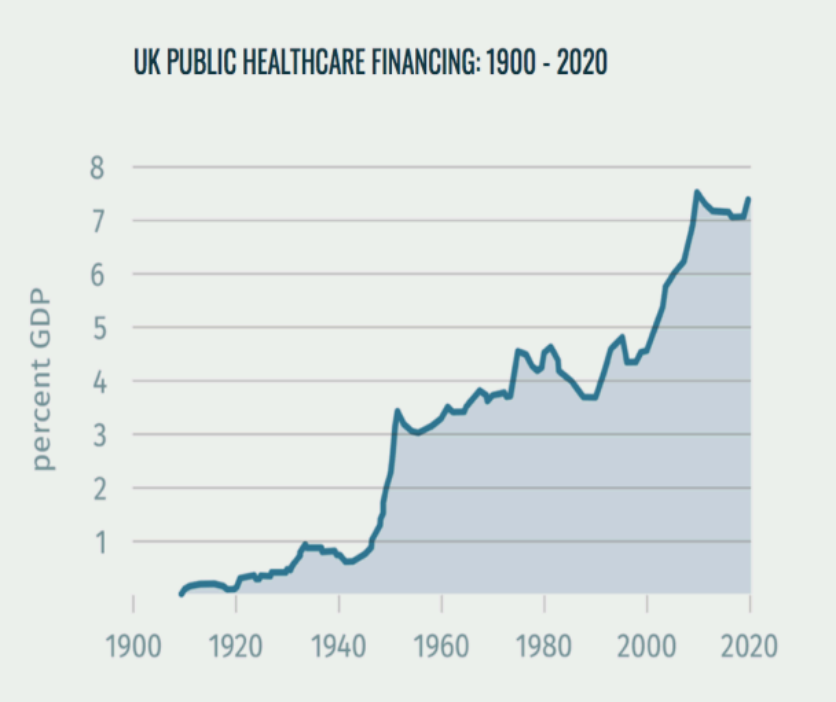
Why does a non-profit system outperform the world's most expensive private one?

Because behaviour follows incentives.
In profit-based systems, providers maximise billable procedures, not health outcomes. Insurance companies maximise profit by excluding high-risk patients, not by ensuring coverage. Pharmaceutical firms set prices according to willingness-to-pay, not social need.

In the NHS, the incentive structure is inverted:

- costs are minimised because taxpayers bear them,
- access is expanded because exclusion undermines public legitimacy,
- and care is allocated on need, not profitability.

[22] Visual representation Available at :
https://sites.lsa.umich.edu/mje-new/wp-content/uploads/sites/1280/2023/05/image.png



(Fig. 24): UK public healthcare financing as a share of GDP, 1900–2020[23].

Yet the NHS also exhibits behavioural weaknesses predicted by public choice theory: bureaucratic inertia, slower innovation adoption, and chronic underinvestment driven by political cycles. Public provision corrects market failures but introduces government failures of its own.

The empirical contrast demonstrates the broader point:
profit is not inherently good or bad — it simply rewards behaviour that aligns with its logic[24].
Public systems do the same[25]

5.4 Extractive Industries: Externalities and the Limits of Profit

The Niger Delta's oil extraction illustrates the extreme case where profit incentives generate behaviour that systematically externalises social and environmental costs. Decades of oil spills,

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[23] Visual Source (UK Health Spending % GDP):
Source: Our World in Data – "UK Public Healthcare Spending"
https://ourworldindata.org/grapher/uk-healthcare-public-spending-gdp Or at :
https://p4h.world/app/uploads/2023/03/bildschirmfoto_2021-01-28_um_13.27.44.x80726.png Or a berif can be found on : Global Health Data Explorer - Our World in Data

[24] NHS0084- Evidence on Long term sustainability Availability :
https://committees.parliament.uk/writtenevidence/71759/html

[25] Relationship between poverty and NHS services- The King's fund. Available at:
https://www.kingsfund.org.uk/insight-and-analysis/long-reads/relationship-poverty-nhs-services

pipeline leaks, and gas flaring have created one of the most polluted regions in the world. Studies estimate that Shell and BP's operations contributed billions of dollars in environmental damage while local communities saw little improvement in living standards[26].

Why does this happen?

Because profit maximisation rewards:

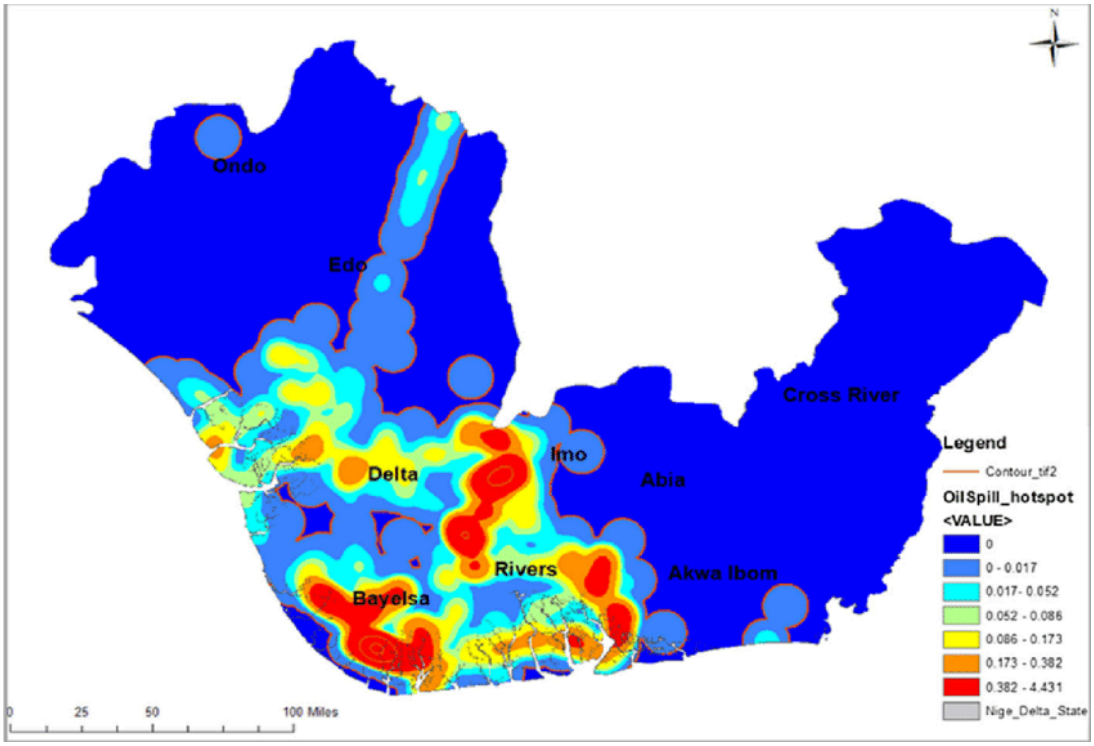
- cost reduction,
- speed of extraction,
- and minimal liability exposure.

Environmental restoration, community reinvestment, and long-term sustainability do not increase short-term profits and thus receive little attention unless externally enforced.

This case reveals a behavioural truth:
when firms can shift costs onto the public without penalty, profit incentives encourage harmful behaviour.

The scale of these externalities becomes starkly clear when visualised through environmental impact data. And yet, it is public institutions that often bear the burden of repairing these consequences.

[26] AP News, "Nigeria agency 'failed completely' to clean up oil damage despite funding, leaked files say," 23 December 2024.
https://apnews.com/article/nigeria-oil-spills-shell-cleanup-corruption-8aa9f7ab170eb39dd27bb94e6b9162f6



(Fig.35): Oil spill density across the Niger Delta.[27]

However, it's not the whole picture.Public-sector failures also appear here: weak regulation, corruption, and political capture enable private firms to operate without accountability. This demonstrates that market failure and government failure often coexist, each reinforcing the other.

5.5 Charitable Organisations: Mission-Driven Behaviour with Practical Limits

Charitable institutions behave very differently because their incentives are fundamentally moral and reputational rather than financial. Global health organisations such as Médecins Sans Frontières (MSF) and the Gates Foundation consistently invest in diseases and regions where profit-seeking firms do not. Their behaviour is driven by mission, not revenue[28].

Yet the limitations are equally clear. Charitable organisations often struggle with:

- funding volatility,
- donor preferences distorting priorities,
- scaling constraints,

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[27] *Research Gate. "Oil spill hotspots in the Niger Delta using kernel density estimation."* https://www.researchgate.net/figure/Oil-spills-hotspots-in-the-Niger-Delta-using-kernel-density-estimation_fig1_351410211 Visual at : Oil-spills-hotspots-in-the-Niger-Delta-using-kernel-density-estimation.png (850×581)

[28] Spending on health services by countries. Available at : https://www.lovemoney.com/gallerylist/230979/how-much-do-countries-really-spend-on-healthcare

- and the absence of long-term, predictable financing.

The behavioural pattern here is:
mission inspires morally aligned behaviour, but cannot guarantee efficiency or scale.

Charities fill gaps markets ignore, but they rarely replace large-scale private or public systems.

5.6 Cross-Case Behavioural Patterns

Across these cases, three behavioural patterns emerge:

1. Profit encourages innovation, speed, and risk-taking — but only where returns are high.

It leads to breakthroughs in pharmaceuticals and technology but underinvests in low-profit, high-need areas.

2. Public institutions deliver equity and access — but struggle with dynamic efficiency.

They excel in universal healthcare and welfare provision but often underperform in innovation and responsiveness.

3. Charitable organisations act ethically and address neglected problems — but lack stability and scale.

Their behaviour is morally guided but financially constrained.

These patterns confirm the central claim of the paper:
behaviour follows incentives, and no ownership model produces unambiguously superior behaviour across all dimensions.

6. Discussion

The cases examined reveal a striking truth that both confirms and complicates conventional economic wisdom: **institutions do not behave well or badly — they behave according to the incentives that govern them.** Profit-driven enterprises innovate rapidly when returns are high, yet externalise social costs just as rapidly when those costs can be shifted onto others. Public institutions achieve broad equity and accessibility, yet often lack the dynamism and cost discipline that competition enforces. Charitable organisations pursue moral missions overlooked by both markets and states, yet remain structurally limited by funding instability and scale constraints.

The discussion of these results therefore returns us to the central question: *What kinds of behaviour are engendered by the hope of profit? And is that behaviour, on balance, better or worse than the behaviour we might expect in a world governed by public missions or charitable ideals?*

The answer, as the evidence suggests, is that **each system produces predictable strengths and predictable failures**. Profit is not a moral compass; mission is not a performance guarantee. Markets are not inherently ethical, and governments are not inherently effective. Behaviour is shaped by the institutional environment — and each environment privileges some behaviours at the expense of others.

6.1 The Behavioural Trade-offs of Profit

Profit-driven systems excel in areas where innovation, speed, frontier risk-taking, and resource allocation are essential. They outperform in sectors such as pharmaceuticals, technology, advanced manufacturing, and high-growth finance. The behavioural logic is simple: when survival depends on beating competitors, firms behave boldly.

But profit also generates **blindness** when market prices fail to reflect social harm. The Niger Delta case shows this clearly: firms behave efficiently from their own perspective while producing devastation for others. In financial markets, the 2008 crisis demonstrated how individual rationality culminates in collective irrationality.[29]The hope of gain, untempered by structural discipline, invites behaviours that are economically rational but socially catastrophic.

Thus the behaviour profit encourages is **productive when externalities are contained**, and **dangerous when they are ignored**.

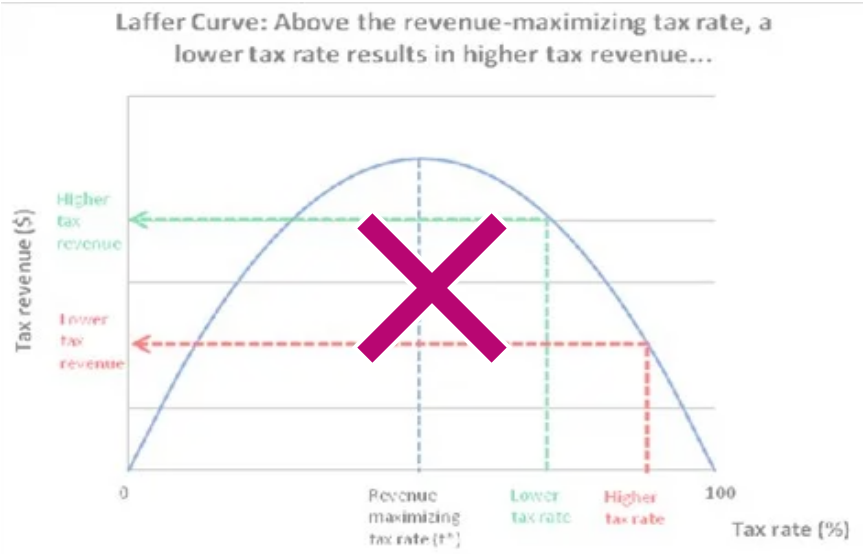
6.2 The Behavioural Trade-offs of Public Ownership

By contrast, public and state-owned institutions behave according to entirely different incentives. Their legitimacy depends on fairness, coverage, and access. They do not have to impress shareholders; they must satisfy voters, taxpayers, and legal mandates. This gives rise to behaviours that markets struggle to produce: universal healthcare access, protection of vulnerable populations, and long-term public investment.

Yet the absence of competitive pressure also produces predictable weaknesses: slow adoption of innovation, bureaucratic inertia, and political distortions. The NHS outperforms the US system in public health outcomes but struggles chronically with capacity, staff shortages, and periodic funding crises — not because the mission is flawed but because incentives for efficiency are weaker. These fiscal constraints reflect well-documented behavioural limits to taxation and public revenue generation. ~~are shaped by the behavioural limits of taxation, illustrated by the Laffer curve[30](Fig.6)¶~~

[29] U.S. Department of the Treasury. *Troubled Asset Relief Program (TARP)*. https://home.treasury.gov/data/troubled-assets-relief-program

~~[30] Accounting Insights. The Laffer curve and Its Impact on Modern Tax Policy.¶~~
~~Available at: https://accountinginsights.org/the-laffer-curve-and-its-impact-on-modern-tax-policy¶~~
~~This article provides a clear explanation of the Laffer curve — the idea that beyond a certain point, higher tax rates may reduce total tax revenue by disincentivizing work and investment.¶~~



(Fig.6): The Laffer curve showing diminishing returns at high tax rates.[31]¶

Thus public-sector behaviour is **ethically grounded but operationally constrained**.

6.3 Charitable Behaviour: Morality without Mechanism

Charities exhibit perhaps the most morally aligned behaviour of all: they go where markets will not and where states cannot. They address neglected diseases, underfunded regions, and humanitarian crises. Their behaviour demonstrates the purest rejection of profit as a motivator.

Yet morality alone cannot scale. Charitable institutions depend on donor cycles, political goodwill, and public sympathy. They may behave ethically but cannot reliably behave expansively. Their strengths are inspirational but insufficient for universal provision.

Thus charity-based behaviour is **morally responsive but structurally fragile**.

6.4 Convergence: The Need for Hybrid Incentive Design

Across all cases, a pattern emerges: **no system produces the full set of desired behaviours.** Profit produces dynamism but moral hazard. Public institutions produce fairness but inefficiency. Charities produce mission fidelity but lack scale.

This divergence leads to a deeper insight: the question is not *which* system behaves best, but **which incentive mix generates the most balanced and resilient behaviour**.

Hybrid models — regulated markets, public-private partnerships, mission-oriented private firms, and state-supported innovation ecosystems — combine the complementary strengths of each system. When markets are disciplined by regulation, public systems are supported by efficiency incentives, and charities are integrated into wider financing structures, behaviour becomes more aligned with both innovation and equity. Real-world cases of monetary expansion and inflation

[31] The Laffer Curve and Its Impact on Modern Tax Policy Available at : The Laffer Curve and Its Impact on Modern Tax Policy – Accounting Insights and Visual Available at : OIP.cuaYJkkQbJY5UWmgRvsNuAHaFU (474×340) ¶

reinforce the importance of regulatory guardrails. . Real-world cases of monetary expansion and inflation reinforce the importance of regulatory guardrails.. (Fig.8)

(Fig.7): Correlation between money supply growth and inflation in China and Vietnam.[32]

[32] Dinh Quoc Van, "Money Supply and Inflation Impact on Economic Growth," Journal of Financial Economic Policy 12, no. 1 (July 29, 2019): 121–36, https://doi.org/10.1108/jfep-10-2018-0152.

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Tullock, G. (1962). The calculus of consent. University of Michigan Press.¶

Williamson, O. E. (1985). The economic institutions of capitalism: Firms, markets, relational contracting. Free Press.¶

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The implication is not ideological compromise; it is **institutional realism**. Neither pure profit nor pure public mission can reliably produce the behaviour modern economies require. But the careful design of incentives can.

6.5 Returning to the Paradox

The profit paradox, therefore, is not simply that profit can create both good and harm. It is that **profit creates exactly the behaviour the system rewards — nothing more, nothing less.** The same is true of governments and charities. Behaviour is not the product of virtue or vice; it is the predictable outcome of the rules under which institutions operate.

This paper's findings indicate that the hope of profit produces behaviour that is indispensable yet incomplete, and at times dangerous when unchecked. Public and charitable systems produce behaviour that is compassionate and fair yet often constrained and slow. The challenge is not choosing between them but designing institutions where **productive behaviour and ethical behaviour are no longer in conflict.**

7. Conclusion

This study ~~set out to~~ examined how different institutional incentive structures — profit-driven, state-owned, and charitable — shape organizational ~~the~~ behavioural ~~of enterprises~~ across innovation, efficiency, and social welfare outcomes. By integrating economic theory with comparative case analysis, the research demonstrates that institutional behaviour is neither accidental nor ideological, ~~. It is the~~ but a predictable outcome ~~expression~~ of ~~the~~ incentives, constraints, and accountability mechanism embedded within in ~~systems that define~~ each organisational form.

Profit-driven enterprises exhibit exceptional capacity for innovation, responsiveness, and ~~eficiency~~ operational efficiency, particularly~~. They excel~~ where competitive pressure rewards speed, risk-taking, and commercial ingenuity. However, the same incentive structure~~system~~ produces significant vulnerabilities where social costs are weakly priced: externalization of harm ~~externalised costs~~, short-termism, systemic fragility, and ~~ethically questionable~~ behaviour ~~when markets fail to internalise harm~~ that remains privately rational despite collective risk.

State-owned and Public institutions,displays contrasting behavioural strengths. Their incevtive structures prioritise ~~by contrast, deliver strong performance in~~ equity, access, and long-term welfare provision. These advantages are offset by familiar institutional constraints, including ~~Their behaviour reflects mission-driven priorities and social obligation. Yet these strengths are often accompanied by weaknesses characteristic of bureaucratic systems:~~ slower adaptation, weaker cost discipline, and exposure to political distortions.

Charitable organisations represent a third behavioural model, ~~one rooted~~anchored in moral commitment rather than financial and economic return (many economic aspects, included). They address ~~Their work fills~~ critical gaps left by both markets and states, particularly in neglected global health and social domains ~~challenges~~. Yet their dependence on donor cycles and limited scalability restrict their ability to deliver sustained, system-wide solutions.~~Nonetheless, their structural limitations — dependency on donor cycles and limited scalability — constrain their capacity to consistently provide large-scale solutions.¶~~

Taken together, the evidence indicates ~~these findings suggest~~ that no single ownership model consistently generates~~reliably produces~~ superior behaviour across every dimension of economic and social performance.

Rather than pointing toward institutional dominance, the findings support the case for hybrid incentive design — arrangements that combine market dynamism with public oversight and mission-driven objectives. In practice, such hybrids already operate through mission-oriented private firms targeting neglected diseases, and public–private innovation ecosystems in which state funding underwrites early-stage research while private actors provide development speed and scale, as seen in contemporary vaccine and health-technology collaborations.

~~The implications point toward the importance of hybrid institutional design: regulatory structures that discipline markets, performance incentives that strengthen public systems, and coordinated frameworks that integrate charitable action with state and private capacity.¶~~

In returning to the central inquiry — *What kinds of behaviour are engendered by profit, and is such behaviour better or worse than behaviour under public or charitable ownership?* — the analysis suggests that the distinction is not binary. Profit produces indispensable dynamism but requires discipline; public systems promote fairness and stability but require incentives for innovation; charitable action supplies moral purpose but requires institutional support. The challenge for modern economies is therefore not to eliminate profit or idealise public provision, but to design incentive structures in which innovation and social welfare reinforce rather than undermine one another.~~the evidence indicates that the answer is not a binary one. Profit generates indispensable dynamism but requires guardrails. Public systems generate fairness and stability but require pressures for innovation. Charitable systems generate moral purpose but require structural support.¶~~

~~The task for modern economies is therefore not to eliminate profit, nor to romanticise public or charitable provision, but to redesign incentives so that **innovation and humanity no longer pull in opposite directions**.¶~~

END NOTES

Author 100130 - Submission 100133

Manuscript Title: The Profit Paradox: Innovation, Incentives, and the Morality

Journal: Convergence

Author: [Redacted by Managing Editor]

I sincerely thank the referees for their detailed and constructive feedback on this manuscript. I have carefully considered all comments and revised the text accordingly. Each point has been addressed through improvements to the manuscript's clarity, methodological transparency, evidence presentation, and analytical rigor.

Comment 1: Several second-person phrases remain (e.g., "a central theme in your analysis of oil extraction in the Niger Delta," "This literature reinforces your argument…"). These must be rewritten in standard academic third-person.

Response:
We thank the referee for highlighting this. All instances of second-person or informal phrasing have been revised to maintain a formal third-person academic tone. For example:

- Original: "Why does a non-profit system outperform the world's most expensive private one? Because behaviour follows incentives."
- Revised: "The non-profit system outperforms the profit-driven system because observed behaviour aligns systematically with underlying incentive structures."

Similar revisions were applied throughout Sections 2, 4, and 5 to ensure that all descriptions of behaviour, evidence, and analysis are presented objectively and in third-person form, without addressing the reader directly.

Comment 2: Methodology lacks clarity regarding case selection, dimensions, and sources.

Response:
We have added a new subsection **Section 4.2: Case Selection and Comparative Dimensions**. This now explicitly states that cases were selected based on recurring behavioural patterns under distinct incentive structures rather than for novelty. Selection criteria include four comparative dimensions: **innovation, efficiency, equity/access, and externalities**. Sources are clarified as **peer-reviewed literature, official statistics, and high-quality institutional reports**, ensuring transparency and replicability. This addition strengthens the comparative logic and supports the qualitative methodology.

Comment 3: Comparative institutional analysis lacks a protocol for source use, dimensions, or evidence weighting; suggest a comparative table.

Response:
We have added a **summary table (Table 1: Comparative Behavioural Dimensions Across Institutional Cases)** showing the dominant behavioural outcomes for each ownership type (private, public, charitable) across the four dimensions. The table explicitly links observed behaviour to incentive structures and corresponding sources, providing a clear, systematic overview of the comparative evidence.

Comment 4: Figures are sometimes decorative; some web sources are not academically robust.

Response:

- Figures 1 and 2, previously used illustratively, have been removed. Remaining figures (e.g., Niger Delta, vaccine innovation, and NHS outcomes) directly support empirical claims.
- Web-based sources such as Visual Capitalist and Investopedia have been replaced, where possible, with peer-reviewed articles or official data repositories (e.g., Our World in Data, OECD, institutional reports).
- All remaining figures now serve a clear analytical function and are fully supported by referenced empirical evidence.

Author 100130 - Submission 100133

Manuscript Title: The Profit Paradox: Innovation, Incentives, and the Morality

Journal: Convergence

Author: [Redacted by Managing Editor]

I sincerely thank the referees for their detailed and constructive feedback on this manuscript. I have carefully considered all comments and revised the text accordingly. Each point has been addressed through improvements to the manuscript's clarity, methodological transparency, evidence presentation, and analytical rigor.

Comment 1: Section 4 lacks detail on case selection beyond "illustrative" value.

Response:
Section 4.2 now clearly specifies **case-selection criteria**, including dominant incentive logic, temporal persistence, and availability of high-quality data. Cases were chosen to reveal **recurring behavioural patterns**, not isolated anomalies. Sources include peer-reviewed literature, official statistics, and institutional reports.

Comment 2: Transitions between positive (pharmaceuticals) and negative (2008 crisis, Niger Delta) outcomes could be smoother.

Response:
We have added **linking sentences** throughout Section 5 to clarify that these are different behavioural manifestations of the same incentive logic under varying institutional constraints. For example:

- Pharmaceutical → Financial Crisis: "Each observed behaviour aligns systematically with the underlying incentive structure, illustrating how profit drives both innovation and, under misaligned incentives, systemic risk."
- NHS → Niger Delta: "The contrast between public-sector outcomes and profit-driven extractive industries further illustrates that behaviour consistently follows the incentive environment, with neither system inherently superior across all dimensions."

These changes reinforce the central thesis that behaviour follows incentives, rather than being episodic exceptions.

Comment 3: Conclusion refers to hybrid institutional models; suggest practical examples.

Response:
We have revised the conclusion to include concrete illustrations:

1. **Mission-oriented private firms** integrating social objectives into profit-driven activity, such as pharmaceutical partnerships targeting neglected diseases.
2. **Public–private innovation ecosystems**, in which state funding supports early-stage research while private firms provide development speed and scale, exemplified by contemporary vaccine and health-technology collaborations.

These examples clarify how hybrid incentive structures operate in practice while maintaining focus on the central research question.

Decision: acceptance after minor editorial revisions.

This revised manuscript is now suitable for publication, subject only to minor editorial polishing. It offers a clear, well-structured, and genuinely interdisciplinary contribution, bringing together incentive theory, principal-agent problems, market and government failure, and normative business ethics within a coherent comparative framework across private, public, and charitable ownership models.

The author has responded substantively to the referees' earlier concerns. Case selection and methodology are now much clearer. Section 4.2 specifies criteria and introduces four common analytical dimensions (innovation, efficiency, equity/access, externalities), which add to the comparative design. The addition of Table 1 gives readers a concise overview of behavioural patterns across institutional types and links back explicitly to the incentive framework.

Figures and sources have been rationalised, with decorative visuals removed and web-based material replaced where possible by more robust academic or official data. Transitions between 'positive' and 'negative' cases are now smoother, emphasising that divergent outcomes arise from the same underlying incentive logic rather than from anecdotes. The conclusion now offers concrete examples of hybrid models (vaccine partnerships, mission-oriented firms), which makes the 'hybrid incentive design' argument more tangible for readers.

For a final round of light revision, I would recommend:

- a careful proof-reading to remove remaining typographical errors and spacing and punctuation issues
- remove any residual second-person phrasing such as 'This literature reinforces your argument…' (in 2.6); '…your cases' in 3.3, etc.. or communicate those in third person.
- avoid using bold to provide emphasis
- ensure full consistency between in-text citations and the reference list.

I am pleased to accept **Submission 100133** for publication. The author has significantly improved the manuscript by adding Section 4.2, which clarifies the case-selection criteria—specifically the use of dominant incentive logic and temporal persistence—rather than relying on purely illustrative values. Furthermore, Table 1's introduction provides a systematic and much-needed overview of comparative behavioural dimensions, such as innovation, efficiency, and equity, across private, public, and charitable models.

Decision: **Revise and resubmit (major revisions required)**

Review: Overall, the paper still presents a clear and engaging synthesis of ideas at the intersection of economics, ethics, and institutional analysis, and it demonstrates commendable effort in organizing a broad body of literature around a unifying theme. And indeed, the manuscript includes a statement indicating that AI tools were used solely for grammar and formatting edits. However, several features of the text suggest a level of assistance that likely extends beyond surface-level editing. I would like to outline these observations constructively and transparently.

Firstly, the manuscript exhibits an unusually consistent rhetorical and organizational structure across sections. Paragraphs frequently follow a repeated pattern—you introduce a concept, summarize literature, identify a tension, and return to a central thesis—using highly uniform transition phrases (e.g., "this illustrates a broader point," "the behavioral consequence is clear," "the pattern is unmistakable," etc.). While clarity and structure are strengths, the degree of uniformity is atypical of independently developed prose and is often associated with AI-assisted composition.

Secondly, the argumentation repeatedly cycles through semantically similar formulations of the central claim (e.g., "behavior follows incentives," "institutions behave according to incentives," "no system produces universally superior outcomes") with only minor rephrasing. This type of iterative restatement is characteristic of LLM outputs, which tend to reinforce key ideas through paraphrased repetition.

Thirdly, the manuscript demonstrates strong high-level synthesis across multiple literatures - by drawing on classical economics, behavioral economics, and public choice theory - but does so without corresponding technical depth, formal modeling, or detailed empirical specification. This pattern (particularly conceptual breadth combined with limited methodological granularity) is commonly observed in AI-assisted drafts, which are optimized for coherence and readability rather than original analytical development.

Finally, the use of standard illustrative cases (e.g., COVID-19 vaccine development, the 2008 financial crisis, NHS vs. U.S. healthcare, Niger Delta oil extraction) is effective but remains at a relatively general level, without deep engagement with primary data or novel interpretation. This again aligns with patterns of AI-assisted synthesis, where widely recognized examples are integrated in a polished but non-specialized manner.

Taken together, these features do not suggest that the manuscript is fully AI-generated, nor do they diminish the intellectual merit of your central ideas. The paper still reflects a coherent underlying conceptual framework and genuine engagement with the topic. However, they do indicate that AI tools may have played a more substantive role in shaping the prose, structure, or drafting of the manuscript than is currently disclosed in your AI usage statement.

In light of this, I would encourage the following:

1. Clarify the extent of AI assistance in the AI Use Statement, including whether such tools were used for drafting, restructuring, or content generation in addition to editing.
2. Where applicable, further develop sections with more original analysis, technical detail, or empirical specificity to strengthen the manuscript's scholarly contribution.
3. Consider revising portions of the text to reduce repetitive phrasing and introduce more varied, author-specific voice and argumentation.

These suggestions are offered in the spirit of transparency, academic integrity, and strengthening the contribution of your work. The topic you have chosen is important and timely, and with further development and clarification, the manuscript has the potential to make a meaningful contribution.