



Maximizing Current Cash Flow vs. Maximizing Wealth

By [Dr. Mason Gaffney]

Article citation:

[Gaffney, Mason]. "Maximizing Current Cash Flow vs. Maximizing Wealth." N.d. Study guide.

Fair Use Disclaimer

The Robert Schalkenbach Foundation, a non profit private foundation, is publishing this article, at no cost, pursuant to the Fair Use provisions of Section 107 of the Copyright Act which states that under certain circumstances, the fair use of a copyrighted material for purposes of criticism, comment, teaching, scholarship and research is not an infringement of copyright. If you have any concerns about the publication of this article, please contact us at info@schalkenbach.org.

The Robert Schalkenbach Foundation's Digital Collections and Archives is an extension of the Robert Schalkenbach Foundation's Engel Georgist Library. It collects, organizes, preserves, and provides free online access to researchers and the general public of Georgist literature including books, newspapers, pamphlets, scholarly articles and archival materials.

RSF is particularly proud to offer free online access to the works of the late Georgist scholar Mason Gaffney, made possible through the generosity of the Danica Foundation and with the consent of the Mason and Letitia Gaffney Trust.

Robert Schalkenbach Foundation: <https://schalkenbach.org/>

Engel Georgist Library: <https://www.librarycat.org/lib/EngelGeorgistLibrary>

RSF Digital Collections and Archives: <https://schalkenbach.starter1ua.preservica.com/>

I.A
#10A

Maximizing Current Cash Flow vs. Maximizing Wealth

What is the difference between wealth maximization and short run "profit" maximization? How might the difference be reconciled?

This question only arises because some people say "profit" when they really mean current cash flow. Maximizing current cash flow would be a very myopic way to run a business, or any part of your life. Holding a tree uncut because its growth rate $>$ the i.r. is an example of wealth maximization at the expense of short run cash flow. Wealth maximization is maximizing the present value of your assets by investing them in ways that yield returns greater than or equal to the discount rate.

To reconcile the difference, add unrealized gains to your current revenues. These unrealized gains are the present value of expected future cash flows. Also, obviously, subtract depreciation from your current revenues. (The U.S. tax code lets you deduct and even overstate depreciation in figuring taxable income, but does not make you add unrealized gains to taxable income. This is the result of heavy lobbying, and a bias, and should not confuse you when defining real income, apart from tax considerations.)