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UPDATE POST

The Misleading Campaigns against Corporate Revenue

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Critics often point to the millions of dollars in revenue that many companies make to justify calls for these companies to pay more for regulations, pay more in taxes, or be more "socially responsible." These activists are making a common mistake by confusing revenues – the gross amount of money a company makes in sales – with profits – the net amount of money left over after a company pays for all costs, such as raw materials, rent, payroll, and taxes.

Companies' profits – after paying for all these costs – are rarely large enough to pay for these critics' agenda, even if revenues are in the millions or billions of dollars. Take the restaurant sector, for example. Its profit margin – the amount of profit made on every dollar of revenue – is around 2.4 percent. That means that if a restaurant makes $1 million dollars a year in revenue, it only takes home $24 thousand a year in profit to share among the business owners. Yet critics point to the millions made in revenue to call on companies to pay for ever-increasing health care costs, blind to the fact that such raises would be have to be paid for by the $24 thousand not the $1 million.

This dynamic is not unique to the restaurant sector. Take the natural resources sector, another favorite target of social activists. While oil companies may make billions of dollars in revenues, the costly process of extracting, refining, shipping, and selling oil byproducts means that their profit margin is only about eight percent. In fact, for every gallon of gasoline that oil companies sell in the U.S., they only make about 5.5 cents in profit. Meanwhile, federal and state governments make approximately eight times that amount in taxes – an average of 45.6 cents per gallon. Yet oil companies – not the government – bear the brunt of critics' campaigns.

Same story for airlines, whose notoriously low profit margins hover around one percent. Similar to the oil industry, the government makes a much bigger profit in terms of taxes than the airlines themselves could ever hope to. In fact, the government's "profit margin" on airline tickets is 25 percent, about 25 times the airlines'. Yet social activists – pointing to the large revenues airlines make – still campaign for them to pay emission surcharges on their jet fuel. Already, airline owners would likely be better off closing down their businesses, laying off all their employees, and investing their money in the stock market. If they keep being attacked by misguided critics who confuse revenues with profits, they just might do that.