

Capitalism for Dummies (and Socialists)

The whole notion of capitalism is that those with capital are incentivized to invest it in order to obtain a profit. If profits are outlawed or significantly reduced through confiscatory taxation, the incentive to invest is reduced or eliminated.

If profit is forbidden, I have no incentive to invest rather than consume. Why would I **delay gratification** and **take on risk** to plant a field or build a factory if I don't stand to make a profit by doing so?

These principles apply even in a very simple economy. In a normal (profit-based) economy, I have an incentive to grow food not only to consume, but also to trade for other things that I want and need. The more food I grow, the more stuff (profit) I earn. I have an incentive not to consume all my food or squander all of my time, but rather to invest them.

This decision to invest requires both **delaying gratification** and the **assumption of risk**. I'm delaying gratification by working in my garden rather than resting under a tree, so that in the future I can rest inside of a house (which I will obtain with the profits from the excess food grown in my garden.) I'm assuming risk because if a hailstorm destroys or a thief steals all my crops before I can sell or trade them, all my efforts will have been for naught.

Suppose I hire someone to help me with my gardening in exchange for money or some other payment. Am I "exploiting" this employee by not offering him an ownership stake in my garden? The anti-profit communist may say yes, but he ignores a crucial difference between what I am doing and what my employee does. While I have **delayed gratification** and **assumed risk**, my employee does neither. He trades his labor straight across for payment. He doesn't have to wait until the crops go to market to get paid nor are his wages dependent on my crops' survival. If my agricultural endeavors fail, he is free to take his labor and sell it to a more successful farmer.

Risk means that failure is a very real possibility, and people will only assume risk when the potential payoff is high enough. If I knew with 100 percent certainty that my crops would be destroyed or stolen, I wouldn't bother spending my time and effort cultivating them. The same holds true at 99 percent. If the chance of failure is 50 percent, but my anticipated profit is three times my investment, suddenly the risk seems a bit more worthwhile.

The end result of a prohibition against profit is a lack of investment. I have no incentive to do anything but consume in a world where production has no reward. When no one is producing and everyone is consuming, the result is stagnation and ultimately death. Even if individuals produce just enough to keep themselves alive, it will be a subsistence level existence at best. (It should also be noted that when there is no stored wealth, surviving an

unexpected catastrophe is much more difficult if not impossible.)

Communism and socialism are based on a fundamental rejection of both human nature and economic laws. Without ownership and profit, there is no investment and without investment, there is no wealth creation. The false claim asserted by these philosophies is that only labor produces value, but labor devoid of **risk** and **delayed gratification** will produce little if any long-term value (wealth) because the value will be consumed as quickly as it is created. Only the entrepreneur (which is really just another word for a capitalist) who is willing to **take risks** and **delay gratification** can invest in the production of wealth beyond that which is needed for mere survival.

Without the ability to make (and keep) a profit by **taking risks** and **delaying gratification**, humanity cannot flourish and might not even survive. Capitalism may not always work perfectly due to state intervention, but it is still infinitely superior to the unworkable concepts advanced by the theory of socialism and its adherents.