

# Without Profit, There Would Be No Investment

Among the numerous fallacies embraced by socialism, one of the most notable is completely ignoring the value of investment and risk. Socialists love to talk about the value of “labor” and how profit is made on the backs of “labor,” but they ignore the fundamentals of human nature and of how the market actually works.

Labor doesn’t invest in building a widget factory. Labor doesn’t take the risk of widgets going out of style or being supplanted by something new in the market. Labor doesn’t pay for health and safety inspections. Labor doesn’t take the hit of depreciation.

Labor is paid first, before any profit is seen. Labor loses nothing when the factory burns down. Labor makes no investments and takes no risks, and therefore labor is not entitled to share in the reward. Labor makes a direct trade of time and skill for money. Beyond that, labor has no claim on the possible profits which a capitalist’s investment and risk may generate.

To be a laborer rather than a capitalist is a choice. It is a safe choice in which risk is traded for certainty and the possibility of profit is traded for the guarantee of wages. Most people are both laborers and capitalists. We engage in some direct trades of time and skill for money but we also make investments—be it in the stock market, bonds, cryptocurrencies, or even a loan (with interest) to a friend or neighbor.

Profit is not earned through labor. Wages are earned through labor. Profit is earned through investment and risk. The socialist sees this as unfair, but the socialist cannot explain why anyone would undertake a risky investment if there were no possibility of profit. Instead, the socialist is forced to embrace central planning as an alternative to all the productivity of the free market.

The socialist would have “the state” take on all the risk of investment in industry, infrastructure, research and development, and all other such things and then selflessly distribute the profits it will theoretically generate to the people—the laborers—regardless of what role or lack thereof they played in the generation of said profits.

What could possibly go wrong?

Everything, as it turns out. Unlike capitalists, who regularly fail, go bankrupt, and lose everything, the state cannot afford to take such significant risks. The state lacks the motivation of the capitalist and so it recoils when faced with the same odds at which the capitalist would jump. Even if one ignores the corruption and inefficiency which are endemic to all states, the state is just too risk averse to make meaningful gains in any sectors where it has primacy.

The possibility of profit is what makes investment and risk worthwhile. Without it, there is no incentive for investment and risk, and without investment and risk, there is no societal advancement, no innovation, and no wealth creation. People aren't going to risk their resources unless the reward for doing so outweighs the risk. That's basic human nature.

Contrary to what you may have heard, socialism doesn't "work on paper" any better than it works in practice. It just doesn't work, period. Attempting to remove profit from human existence removes the motivation which drives humanity to improve itself. Even if socialism didn't fail catastrophically (as it always has when put into practice), it would, at best, still lead to the devolution of mankind as productivity ground to a halt. That's not a future anyone should advocate.