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Ten very good things 6: Capitalism [1]

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Although capitalism is attacked for embodying greed, with some saying it has failed, it is in fact the most benign thing people have created, having brought about more good than any of the others. It is my good thing number six.

6. Capitalism

Capitalism was not invented. It developed out of the ways in which people deal with each other, and is one of the most benign things that people have done. Wealth can be spent on present consumption, or consumption can be deferred, and wealth used to generate more wealth in the future. When this is done the wealth is called capital, and the process of using it to create future wealth is called capitalism.

When merchants invested capital to kit out ships for trade, hoping for returns from cargoes such as spices, they would each take a share of the profits. If they invested equal sums, they would receive equal shares, but if they invested different sums, their share of the profits would correspond to the proportion they had put in. This is in essence how companies raise investment capital. They sell shares in their future profits, and people receive a proportion of those returns corresponding to the shares they bought.

This kind of investment has made possible specialization, mass production and mechanization, vastly increasing the output a person can produce, and making lower prices possible. It takes time, labour and usually machinery to embark on this process, and it is capitalism that has supplied the investment to make those things possible.

Only in the past few hundred years has capitalism created the wealth to lift huge numbers out of poverty, starvation and grinding toil. Capitalism has generated the wealth that has enabled diseases to be conquered, clean water and sanitation to become widespread, and has given people more opportunities and choices in their lives than any previous generation has enjoyed.

Some people and businesses use the political process to prevent the outcomes that free market capitalism would achieve. Through rent-seeking and cronyism, they secure favours from politicians that limit the free choices people would have made. Such behaviour is a corruption of capitalism and acts to limit what capitalism itself could have achieved without such burdens.

The achievements of capitalism in the advanced industrial economies have spread across the world as

capitalism itself has spread. More people have been lifted from starvation in the past two decades than ever before in human history, and the economic rise of countries such as China and India is bringing improved standards of living to millions. Capitalism has achieved more for humanity than any other institution people have developed.

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