

[Common Error No. 51](#) [1]

Written by [Dr Madsen Pirie](#) [2] | Monday 3 March 2008

51. "Capitalism is wasteful, dissipating resources into profit and advertising."



Some claim that resources in a planned economy need be allocated only to production and distribution. With no need for profits or for advertising, costs will be cheaper. In practice, however, profit spurs people to seek out market opportunities. They are constantly looking for needs that can be satisfied, or efficiencies which can be made, and to the gains which these can bring. This is why the market economies are so flexible and adaptable at bringing people the goods they want, by contrast with the sluggishness and unresponsiveness which characterized the socialist economies, and which still characterizes state industries.

Men and women are motivated, each with a desire to improve their lot. They are not automatons, programmed to act in ways which are of no benefit to them. People generally put in more effort and skill when they have some personal stake in the outcome, and stand to reap some of the rewards of their enterprise and enthusiasm.

The search for profit directs people to invest in production, to put money to work generating new wealth, and bringing new goods before people in the process. Advertising serves an important information function. It tells people about products, processes and prices, and enables them to compare. Much of it is directed to informing people about new products and services, and in attempting to break into new markets. It thus contributes to the competitiveness and adaptability of the economy.

Without profit or advertising, there is neither the incentive to seek out new markets, nor the ability to let people know what choices are available. There is no pressure for ever more efficiency in the production of goods and services, and no rapid turnover in the range of those which are available.

Far from being wasteful, both profit and advertising contribute to the superior efficiency and cost-effectiveness of market economies.

Source URL: <http://www.adamsmith.org/blog/tax-and-economy/common-error-no-51>

Links:

[1] <http://www.adamsmith.org/blog/tax-and-economy/common-error-no-51>

[2] <http://www.adamsmith.org/taxonomy/term/5779>

[3] http://disqus.com/?ref_noscript

[4] <http://disqus.com>