Johnny goes a few doors down from your home and knocks on Mrs. Jones’ door. Mrs. Jones answers. Johnny says, “Mrs. Jones, I have this bottle of soap. It’s the best there is. My mother uses it, and lots of people I know wouldn’t use anything else. You should really have some. It only costs three dollars, and since I'm your neighbor, I can take care of you. And besides . . . I’m just a kid.” There, isn’t that simple? Here is a small example of commerce in action, capitalism at its most basic level.

Mrs. Jones says, “Johnny, I appreciate your coming by. I think your product is good, but really, to be honest with you, I have lots of soap.”

“Let me come in and check,” says Johnny, charging for¬ ward. (Kids know how to overcome objections. They don’t stand on ceremony.)

Mrs. Jones, knowing that her objections are useless, says, “Okay, I’ll be a customer.”

Johnny rushes home excited. He says, “I’ve got three dollars to spend.”

“If you spend all three dollars,” you remind him, “you’ll be out of business.”

“Oh,” sighs Johnny, a bit disappointed. “I see what you mean.”

You go on to explain, “First, you must set aside two dollars to invest in another bottle of soap. You must not spend your capital. Capital must be carefully preserved. What would you think of a farmer who ate his seed corn? Dumb farmer, right? So capital, which is known as seed money, must be defended. It’s your only chance for another harvest.”

Johnny can’t argue with your explanation, so after considering the matter, he says, “Okay, I’ll set aside the two dollars so I can stay in business and continue to make a one-dollar profit. But I do get to spend the dollar profit, don’t I?”

Now comes your opportunity to show Johnny the difference between staying poor and becoming rich. You explain, “If you spend all your profit, you'll wind up broke and unhappy.”

Johnny doesn’t understand. So you take him to the poorest neighborhood in town and you ask him, “Do you want to live like this?”

“No.”

“All right then. You can’t spend the whole dollar.”

“Then what do I do with it?”

“First, you must pay your taxes.” And for kids this is easy.

They pay when they spend— unless they start making serious money, in which case you must teach them about federal taxes. (Remember the goose and its eggs?)

Next, you remind Johnny of the need for charity. Johnny remembers. ‘Oh yes, here is ten cents for those who cannot help themselves. Now can I spend the rest?”

‘‘No, no,” you reply. ‘‘You’ll still wind up broke and just a little less unhappy.”

“Okay, okay, what now?” Johnny is becoming impatient.

“The next ten cents out of your one-dollar profit is for the increase of your capital. If you keep setting aside ten cents for every dollar you make, you’ll someday have enough to buy two bottles of soap instead of one.”

“Oh, sure.” Now Johnny is really catching on. “If I can buy two bottles instead of one, I save myself a trip and sell more bottles.”

How clever!

Next, you explain that some companies will charge you less per bottle when you buy two. If they sell one bottle for two dollars, they might sell two bottles for three dollars and eighty cents. Johnny is excited. “Wow!" he exclaims. “When I sell it I can even make more profit!”

And it's true. Everybody benefits from the increase in cap¬ ital. The company gets to sell two bottles at a time, Johnny saves a trip and some costs, and he can keep some of the savings or pass them on to Mrs. Jones as an incentive to buy two bottles instead of one.

Johnny says, “Hey, this is neat. Now do I get to spend the rest of my profit?"

“No, we still need to do one more thing. We’re going to rent your money to the bank.”

“How does that work?"

So you explain. “Out of your profit you need to take out ten cents and put it into a financial institution, like a bank. They are going to pay you a fee for renting your money. They call it interest.”

“Why would a bank want to do this?"

“Because some projects, like building a tall building or a factory, take more capital than any individual has. So we have a system where all of us can invest our money in a bank so that the bank has enough money to lend for big projects. This helps create more jobs, and that helps everyone. In the meantime, the bank will pay you for the use of your money.”

“What kind of interest do they pay kids?”

“The same as they pay adults.”

Johnny has a hard time believing this. “You mean I get the interest of an adult when I'm only a kid?” he asks incredulously.

“That’s right. Your money can grow as quickly as anyone else’s

“Can I get my money back?”

“Sure, and you’ll always get more than you put in.”

“Hey, that's pretty good. Now can I spend what’s left?”

“Yes, Johnny, let’s go out and have some ice cream."