

## Notes on Capitalism

(This is the theoretical ideal, not the way capitalism is practiced in most countries, such the US, which is a modified form of capitalism, often mixed with socialism)

### I. Definitions

A. Capitalism is an economic system in which the ownership of land and natural wealth, production, distribution, exchange of goods, employment and reward for human labor are all entrusted to **private** rather than public control.

B. The means of production are owned by a minority of individuals who have the legal right to use this property for private gain.

C. Motivating forces -- **profit, greed, individual self-interest**

D. Capitalism relies on the **MARKET SYSTEM** (price determined by supply and demand), which determines distribution, allocates resources and establishes the income levels, wages, rents, and profits of the different individuals and social classes.

### II. The **IDEAL** Free Market

A. Price system based on supply and demand

1. Large numbers of **sellers**, none of whom control a significant fraction of the market, and large numbers of **buyers (consumers)**

2. **Sellers** wish to maximize profit (self-interest)

3. **Buyers (Consumers)** wish to maximize satisfaction from what is bought (highest quality at the lowest price)

4. **COMPETITION** of sellers force them to meet demands of buyers or rivals will steal customers. Profits are enlarged by operating more efficiently and meeting more completely the wishes of customers. However, rivals will quickly copy creative innovators creating the need for even better products and methods (examples: home computers; better gas mileage and safety features in cars)

5. When supply is high and demand is low, prices drop.

When supply is low and demand is high, prices rise.

B. **Laissez-faire** – “Let It Be”

1. Government does **NOT** regulate or interfere with business.

2. Government ensures fair play, defends the realm, administers criminal justice, and settles commercial disputes in courts.

3. Government sometimes undertakes projects that are unattractive to private developers but necessary for commerce (building roads, harbors, lighthouses, etc.)

4. Government maintains a balanced budget with low taxes and expenditures.

C. **EQUAL OPPORTUNITY** to develop as a producer or as an employee

1. Freedom to determine and develop self-interest

2. Freedom to go broke

3. The individual is responsible for both success and failure

#### D. SOCIAL BENEFITS -- "The Invisible Hand"

1. By individuals pursuing their own self-interest, they also benefit society as a whole by creating better and cheaper products, progress, and economic order.

2. "[Every individual] intends only his own gain, and he is in this, as in many other cases **led by an invisible hand** to promote an end which was not part of his intention...By pursuing his own interest, he frequently promotes that of the society more effectually than he really intends to promote it." -- Adam Smith

#### III. ENEMIES of a Free Market (where supply and demand determine price)

A. Monopolies, Cartels, Multinationals, or corporations that control the market

1. Cooperation between large corporations rather than competition (trusts, pools, holding companies, interlocking directorates)

2. Advertising which appeals to concerns other than quality and price. (emotions, sex, etc.)

B. Cooperation between Government and Business to favor a business or destroy competition (for example, the bailout of the automobile industry and Wall Street Banks)

1. Large government expenditures in private business

2. Government regulation of business

3. Business control of government

4. Large government debt

C. INEQUALITY of Opportunity

1. Inherited wealth

2. Racism

3. Sexism

D. Labor controls the market place or has no competitive position.

1. Surplus labor which creates inability for workers to earn more than subsistence

2. Labor unions force price of labor up

E. Repetitive instability of the business cycle

1. Recessions

2. Depressions

3. Stagflation

#### IV. Criticism of Capitalism

A. Moral grounds -- Capitalism promotes greed, materialism, and imperialism and turns brother against brother

B. Socialism/Marxism -- Capitalism creates a rigid class system of a ruling class of property owners (bourgeoisie) which exploits the working class (proletariat)

C. Because of overproduction and the instability of the business cycle, capitalism is inefficient and will fail (or will require more government control of business leading to the central organization of business in fascism or communism)

D. Fascism -- Capitalism promotes the interest of individuals and classes not the nation. To increase nationalism, businesses need to be regulated by the state.