

## STUDY PACK 9

### CAPITALISM

“Some regard private enterprise as if it were a predatory tiger to be shot. Others look upon it as a cow that they can milk. Only a handful see it for what it really is - \_\_\_\_\_.”

~~ Winston Churchill ~~

#### I. CAPITALISM AS AN ECONOMIC SYSTEM

##### A. Economic Systems of Production

There are two basic economic systems of production: Socialism and Capitalism. Under socialism, the government either \_\_\_\_\_  
\_\_\_\_\_. Under capitalism, \_\_\_\_\_  
\_\_\_\_\_.

##### B. Socialism

There are several variations or types of socialism.

*Worker management socialism* calls for the government to own all the means of production so that all workers are employed by the government. When the government that owns the means of production \_\_\_\_\_, it is called *democratic socialism*. When the government that owns the means of production comes into power by force, it is called \_\_\_\_\_.

When the government does not *own* the means of production, but exercises unlimited control over them, this is called \_\_\_\_\_.

When a government takes control over an industry, it is called \_\_\_\_\_.  
When a nation sells a nationalized business to individual stockholders, the process is called *privatization*.

##### C. Capitalism

*Capitalism* is the economic system where the means of production are owned by individuals either directly or through stock ownership. When the government has no power to regulate the economic decisions made by individuals, it is called *laissez-faire capitalism*.

The term *laissez-faire* is a French term that means “\_\_\_\_\_.”  
The term comes from an incident in the reign of the French King Louis XIV. When Louis XIV ascended the throne of France, the French economy was strong and growing. He instituted a number of strict government controls over the economy. He expected these controls to make the economy more efficient and more productive. These government economic controls had the opposite effect, as they always do.

Louis XIV called for a meeting of the leading businessmen in France. He asked them to present him with a plan for government action which would stimulate the economy. After a brief meeting, they presented him with \_\_\_\_\_  
\_\_\_\_\_. An angry Louis XIV refused, preferring government control to the efficiency of economic freedom.

*State capitalism* refers to a system where the means of production are in private hands but the government controls some factors of the economy without exercising complete control. This is also called *interventionism*. When government controls are used for the purpose of \_\_\_\_\_, it is called a *welfare state*.

Virtually all nations that are generally considered capitalist nations actually practice interventionism to a large degree. This is sometimes called \_\_\_\_\_.

This humorous evaluation of the different forms of capitalism and socialism appears in *Dreams Come Due*:

### **Socialism**

You have two cows; there is an election. The new government takes one of your cows through taxes and gives it to your neighbor. The neighbor knows nothing about livestock, so his new cow dies.

### **Communism**

You have two cows; there is a revolution. The new government confiscates both your cows and gives you a small part of the milk they produce. Both cows soon die, but the government is able to get powdered milk on credit from a democratic government.

### **Fascism**

You have two cows; there is a military coup. The new government confiscates both your cows and sells you part of the milk for ration coupons.

### **Nazism**

You have two cows; there is an assassination. The new government confiscates both your cows and shoots you.

### **New Dealism**

You have two cows; there is a depression caused by the government, and then an election. The new government buys your cows with currency it has just printed. It then shoots one cow, hires an unemployed person to milk the other cow, and throws the milk away in order to help raise milk prices.

### **Democracy**

You have two cows; there is a surplus of milk and prices are low. You appeal to the government to subsidize your milk for the “good” of the country. The government enacts your program, raises taxes on its citizens, and buys your milk at inflated prices. It then

stores the milk in rented warehouses until it spoils or they can find a Communist government to buy it on credit (of course) and at a loss (naturally).

### **Capitalism**

You have two cows. You sell one cow and buy a bull. There is freedom and prosperity.

## **II. DEFINING A FREE ECONOMY**

Richard M. Ebeling, professor of economics at Hillsdale College, lists eight points defining a genuinely free economy (*Imprimis*, August, 1997):

All means of production are privately owned.

The use of the means of production is under the control of private owners who may be individuals or corporate entities.

\_\_\_\_\_ determine how the means of production will be used.

Competitive forces \_\_\_\_\_ for consumer goods and various factors of production like labor.

The success or failure of individual and corporate enterprises is determined by \_\_\_\_\_, based on their greater or lesser ability to satisfy consumer demand in competition with their rivals in the marketplace.

The market is not confined to domestic transactions and includes freedom of international trade. The monetary system is based on a market-determined commodity (e.g., gold or silver), and the banking system \_\_\_\_\_ and \_\_\_\_\_, neither controlled nor regulated by government. Government is limited in its activities to the enforcement and protection of \_\_\_\_\_.

## **III. DEFINING AN INTERVENTIONIST ECONOMY**

Ebeling also lists eight factors of an interventionist economy.

The private ownership of the means of production is restricted or abridged. The use of the means of production by private owners is prohibited, limited, or regulated. The users of the means of production are prevented from \_\_\_\_\_.

Government influences or controls the formation of prices for consumer goods and /or the factors of production. Government reduces the impact of market supply and demand on the success or failure of various enterprises while it increases the impact of its own influence and control through such artificial means as \_\_\_\_\_, and direct or indirect \_\_\_\_\_.

Free entry into the domestic market by potential foreign rivals is discouraged or outlawed through import prohibitions, quotas, or tariffs.

The monetary system is regulated by government for the purpose of influencing what is used as money, the value of money, and the rate at which the quantity of money is increased or decreased.

And all these are used as tools for affecting employment, output, and growth in the economy. Government's role \_\_\_\_\_ to the protection of life, liberty and property.

#### IV. A BRIEF HISTORY OF CAPITALISM

Capitalism has always been practiced in small societies. As an organized political and economic philosophy, it began to be promoted by Italian city-states during the medieval period. These cities flourished. Capitalism began to be tried all over Europe. It routinely brought \_\_\_\_\_. \_\_\_\_\_! It often was quickly destroyed by those who sought to manipulate the economy for their own benefit.

English writers like Adam Smith and David Ricardo began to advocate capitalism as \_\_\_\_\_. \_\_\_\_\_ . To a large extent, this was adopted in England, generating \_\_\_\_\_.

The development of the United States of America, as a free, capitalist nation, created the ultimate test for capitalism as a national economic philosophy. The United States boomed creating \_\_\_\_\_. \_\_\_\_\_ . Within a few decades, the United States was the envy of the world.

#### V. THE RESULTS OF CAPITALISM

The critics of capitalism are quick to point out that under capitalism, \_\_\_\_\_. This is true. It is also true that under capitalism, a middle class develops. The middle class \_\_\_\_\_ and those classified as "poor" (by comparison) \_\_\_\_\_.

Edmund Opitz asks the question, "How shall we organize the productive activities of men so that society shall attain maximum prosperity?" He then declares, "And the answer given by economic science is: Remove every impediment that hampers the market and all the obstructions which prevent it from functioning freely. \_\_\_\_\_."

Ludwig von Mises came to the same conclusion in 1926:

"The United States has become great and rich under the power of an economic system that has set \_\_\_\_\_ on the free pursuit of the individual, and has thereby made room for the development of the country's productive power. America's unprecedented economic prosperity is not the result of the richness of the American land, but rather of the economic policy that understood how best to take advantage of the opportunities that the land offers."