

The Pros and Cons of Capitalism

SS 30-1

Left Wing	Center	Right Wing
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Public Direction	Private Direction
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Planned Economy Centrally Planned Economy Command Economy	Mixed Economy	Free Enterprise Laissez-faire Invisible Hand
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Communism	Socialism	Welfare Capitalism	Capitalism
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Interventionist	Individualist
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Common Good Social Welfare Collectivism	Individual Initiative Individualism
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Early Capitalism

You have learned that **mercantilism** is an economic system designed to increase a monarch's wealth. **Capitalism** is similar; it is an economic system for increasing an individual's wealth. It requires a relatively **free market**, open competition, the profit motive, and extensive private ownership of the means of production.

Capitalism: An economic system and ideology that is based on private ownership of the means of production and their operation for profit

Free Market: An economy in which **government does not interfere in business activities**; supply and demand are not regulated, or are regulated with only minor restrictions



The Key Ideas Behind Capitalism

Smith's *Wealth of Nations* and the writings of Malthus, Ricardo, Mill, and others became the foundation for the economic system of modern capitalism, which is in turn the foundation for globalization. These thinkers believed in four key ideas:

- Individual initiative and the desire for profit motivate people to work.
- People compete in their own self-interest.
- Individuals have the right to own private property and to accumulate wealth through development and use of that property.
- Most of the production, distribution, and ownership of the goods of a country should be in the hands of private individuals and companies.

Fast Facts

Totally free markets do not exist. In a totally free market, government would not regulate anything and would not own any businesses or property. In Canada, we have a *relatively* free market because government regulates the market in some ways. For example, it regulates safety on products for children.

To what degree do values affect the powers we give government?

Capitalism – The Advantages

- Market gives producers an incentive to produce goods the public wants
- Market provides an incentive to acquire useful skills
- A wide variety of goods and services is available
- There are incentives to use resources efficiently
- Competition encourages good quality at lower prices
- Productivity is rewarded by higher profits
- Fosters self-reliance
- Possible to become very wealthy

Examples of the Benefits of Capitalism

- Growth of the middle class and “*nouveau riche*” during the Industrial Revolution
- The rapid industrialization around the world is promoted by the ability to profit from innovations
- The growth of the US and other consumer countries compared to those nations with high levels of socialism (government intervention, like North Korea)
- The current technological revolution has been spurred by the benefits of competition

Capitalism – The Disadvantages

- Consumers can be manipulated by advertising
- Prices and incomes might not reflect what is best for society
- Business cycle experiences many ups and downs (= considerable unemployment)
- Monopolies and oligopolies can emerge that charge unreasonable prices
- Extreme income inequality results
- Industry cost-cutting can lead to environmental problems
- Insecurity is present on a large scale
- Difficult to break out of cycle of poverty

Examples of the Disadvantages by Capitalism

- Lack of concern for the workers, seen in industrialization nations from Great Britain's factories, US slavery, sweatshops in Asia
- The Great Depression, the 1990s dotcom bubble, the 2008 global recession, Enron...
- Competition does not mean a level playing field for all companies (eg WalMart, Standard Oil)
- Global climate change brought about by the increasing consumerism promoted by capitalism

Monopoly

In the past: a monarch granted one individual or a single company the *sole right* to gather and trade in a particular good

Today: when a business *has no competition in a market*, such as when a product or service is controlled by one company

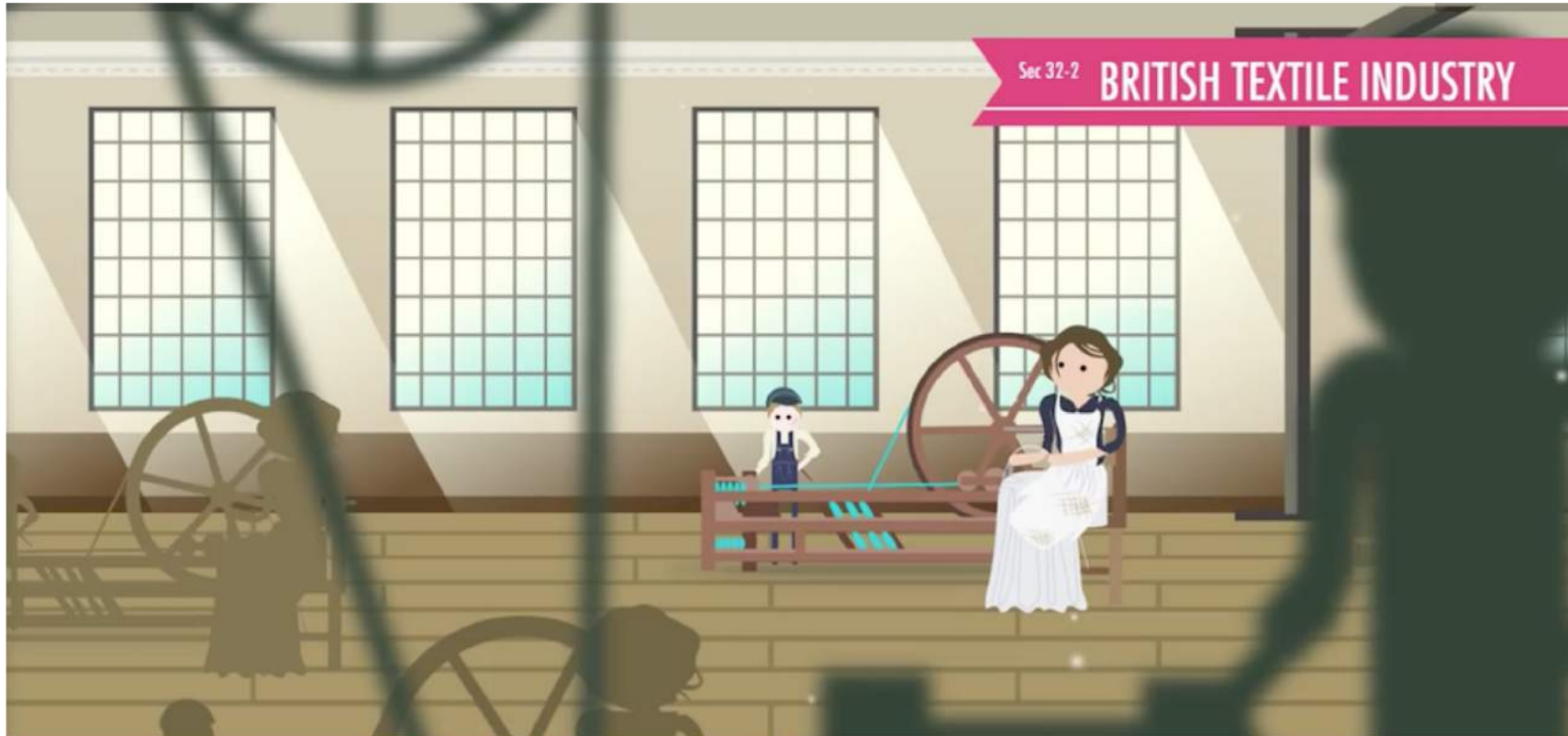
<https://www.youtube.com/watch?v=Sb-wfmJnt>



Industrialization

The shift of a country's **major economic activity** from **agriculture to manufacturing**



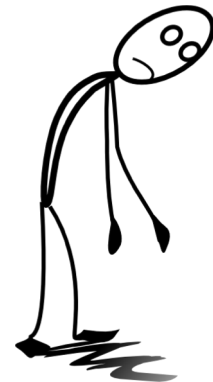


Industrial Revolution

<https://www.youtube.com/watch?v=zhL5DCizj5c>

Working Conditions

- **Factory Act 1819 = Limited the hours worked by children to a maximum of 12 per day.**
- Factory Act 1833 = Children under 9 banned from working in the textiles industry and 10-13 year olds limited to a 48 hour week.
- **Factory Act 1844 = Maximum of 12 hours work per day for Women.**
- Factory Act 1847 = Maximum of 10 hours work per day for Women and children
- **Factory Act 1850 = Increased hours worked by Women and children to 10 and a half hours a day, but not allowed to work before 6am or after 6pm.**
- Factory Act 1874 = No worker allowed to work more than 56.5 hours per week.





This five-year-old boy worked at an oyster plant in 1911, running barefoot on cracked shells as he retrieved buckets of shellfish to shuck. The company hired many children of his age to shuck oysters for as little as 30 cents a day, approximately \$7 in today's currency.

If you've ever shucked an oyster yourself, you can appreciate just how dangerous this line of work can be, particularly for someone that young.



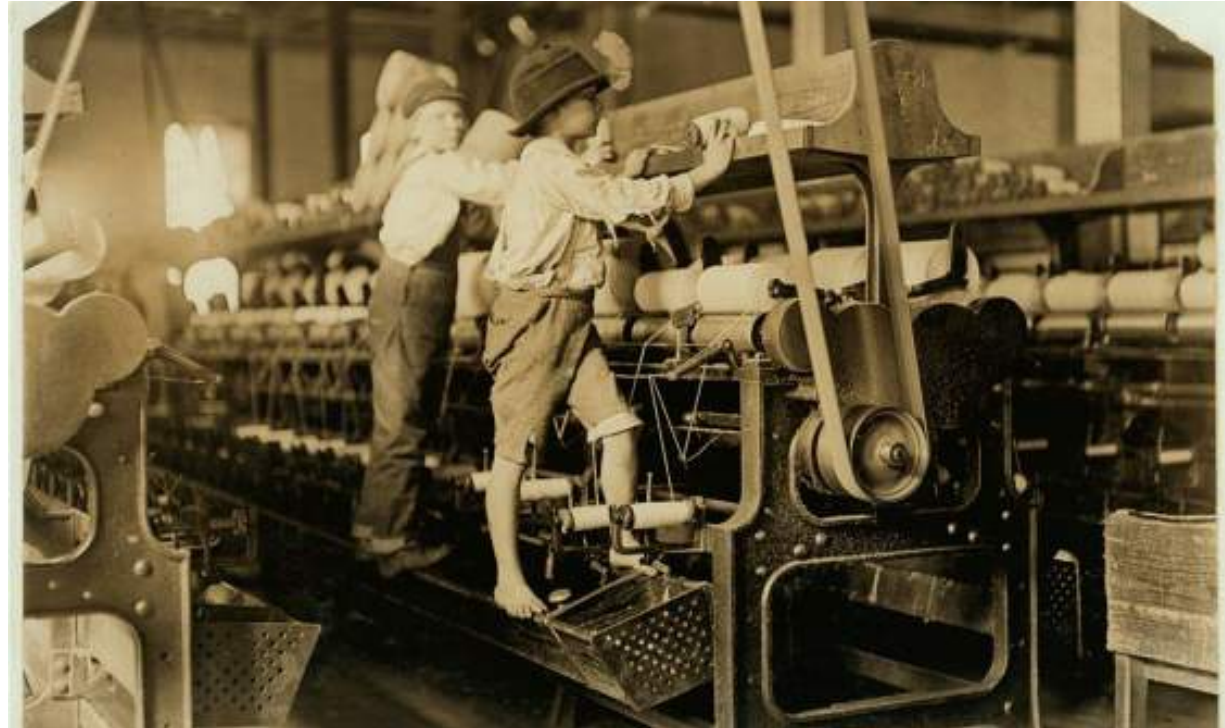
While there are quite a few children in this image of shrimp pickers, the youngest is eight years old and, while not pictured in this photo, the youngest boys employed by the company were only five.

These employees would stand over a trough all day shelling shrimp until their fingers bled, and of course the acid and salt water only worsened the pain.



These two berry hullers were only two and three years old, but they worked long, twelve hour shifts, just like the rest of their family members.

Hullers at the company would earn two cents per quart of berries finished, but there is no indication of how many quarts would typically be completed in a day.



This textile mill, photographed in 1909, commonly hired children too young to even reach the tops of the machines to mend the broken threads.

As a result, sights like this were common on the factory floor.

What do you already know about...

Employment Standards and Labour Laws in Alberta?

<https://www.alberta.ca/employment-standards.aspx>

Consider This...

What do you think makes for ideal working conditions?
What are the working conditions like in your workplace?

IT'S THE ECONOMY, STUPID!

The dollar is weak. Food and oil prices are high. Our nation is spending well beyond its means and owes trillions of dollars in debt to foreign governments. What most of the gloom-and-doom reports don't provide, however, is perspective—a historical survey of an economy that's been through more than a few ups and downs in its day. Here's a farsighted view of how our temperamental economic machine works, and a close-up of how it stands today. **KEY DEFINITIONS**

THE NATIONAL DEBT

This is the total outstanding amount that our federal government has borrowed up to the present day. To borrow money the U.S. Treasury issues securities such as bills, notes, and savings bonds to individuals, corporations, and foreign, state, and local governments.

U.S. National Debt is inflation-adjusted 2007 dollars
U.S. National Debt is actual dollars, U.S. Treasury figures

GROSS DOMESTIC PRODUCT

The GDP is a way to understand the size of a country's economy. It is the dollar value of the total goods and services that the nation's population produces. It is usually calculated by adding up everything the population spent plus the country's net exports. By tracking GDP over time we can evaluate the health of the economy.

U.S. GDP is inflation-adjusted 2007 dollars

INFLATION-ADJUSTED DOLLARS

Figures that have been corrected for inflation, allowing us to compare the price of a product over different time periods using a single value for the dollar.

ACTUAL DOLLARS Figures shown in the money value of a particular time in the past.

STOCK INDICES

The Dow Jones Industrial Average (the Dow) An index that tracks the stock prices of 30 prominent companies.
The Standard & Poor's 500 (The S&P 500) An index that tracks the stock prices of 500 large American companies.

THE BUSINESS CYCLE

A **boom** is a period of economic growth or expansion, while a **bust**, or recession, is a long-term cycle of economic contraction. From 1854 to 1945, the typical boom or bust lasted 21 months. Since World War II, expansions have averaged 50 months and contractions have averaged 11 months.

RECESSION

A recession, also called a "bust," is generally defined as two quarters of slow or negative GDP growth. The technical definition, as set by the National Bureau of Economic Research, a private nonprofit research organization, is when economic factors such as GDP, income, employment, industrial production, manufacturing, and sales significantly decline over the course of more than several months.

STAGFLATION

A term first used in the 1970s for simultaneous inflation and stagnation—a prolonged recession—two phenomena that were thought to be mutually exclusive before that time.

WHO OWNS AMERICA?

A big chunk of the **national debt**—about 28%, or \$2.6 trillion—is held by foreign governments.

Top five foreign holders of treasury securities from largest to smallest:
 • Japan • China • the United Kingdom • oil exporters* • Brazil
 *Ecuador, Venezuela, Indonesia, Bahrain, Iraq, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Algeria, Gabon, Libya, and Nigeria



The federal government doesn't follow the same accounting practices it requires corporations and state and local governments to follow. If it did, the national debt would actually be **\$50.1 trillion**.



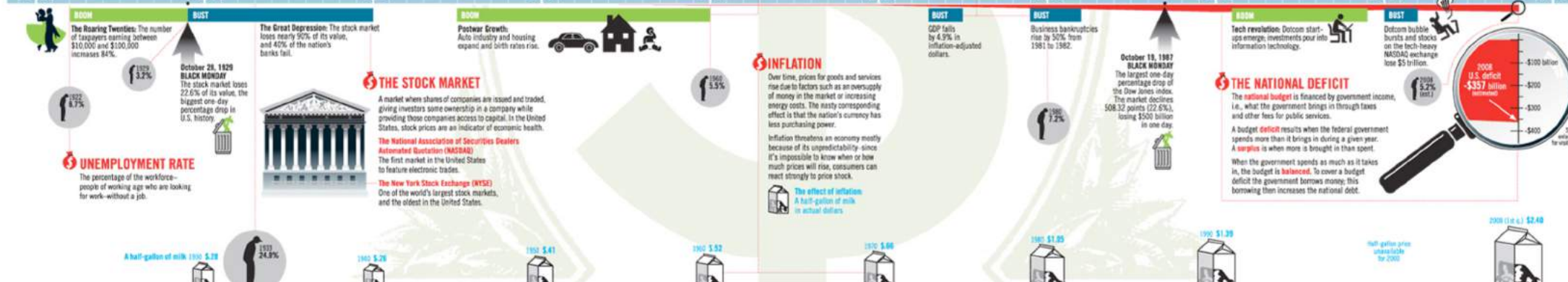
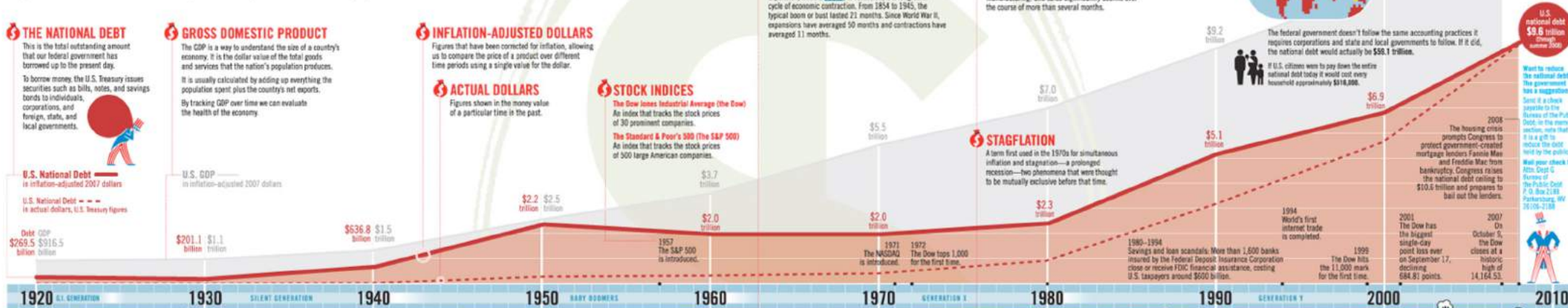
If U.S. citizens were to pay down the entire national debt today it would cost every household approximately **\$118,000**.

U.S. national debt \$9.6 trillion through www.fiscalservice.com

Want to reduce the national debt? The government has a suggestion: Send it a check payable to the Bureau of the Public Debt, in the memo section, write that it is a gift to reduce the debt held by the public. Mail your check to: Attn: Dept. G Bureau of the Public Debt P.O. Box 2138 Parkersburg, WV 26106-7138

The housing crisis prompts Congress to protect government-created mortgage lenders Fannie Mae and Freddie Mac from bankruptcy. Congress raises the national debt ceiling to \$10.5 trillion and prepares to bail out the lenders.

2008 On October 5, the Dow points its lowest ever on a historic high of 14,164.52.



HAVES AND HAVE-NOTS

- In 2000, the median American family made about \$41,000. In 2007, it made \$50,500 (both numbers in inflation-adjusted 2007 dollars).
- In 2007, the median annual income for Americans aged 65 and older was \$16,778. The Congressional Budget Office projects that 28 million American households will need food stamps in 2009—up from the program's 1994 record for participation.
- 43% of American households spend more than they earn annually. 44% of American employees said they live "paycheck to paycheck" in 2007, up from 37% in 2006.
- The average American household has \$8,565 in credit-card debt, which is 15% higher than it was in 2000.
- Approximately 42% of American households lack enough liquid savings to support themselves for three months.