

# Capitalism

Government, Capitalism



A free market system is the best way to organize the economy. Capitalism, economic system based on private ownership of the means of production, in which personal profit can be acquired through investment of capital and employment of labor. Capitalism is grounded in the concept of free enterprise, which argues that government intervention in the economy should be restricted and that a free market, based on supply and demand, will ultimately maximize consumer welfare.

These principles were most notably articulated in Adam Smith's treatise, *The Wealth of Nations* (1776), in which he opposed the prevailing theory of mercantilism. Capitalism has existed in a limited form in the economies of all civilizations, but its modern importance dates at least from the Industrial Revolution that began in the 18th cent., when bankers, merchants, and industrialist the bourgeoisie began to displace landowners in political, economic, and social importance and when innovations and efficiencies in commercial agriculture made available a large body of surplus labor, particularly in Great Britain.

Capitalism stresses freedom of individual economic enterprise; however, government action has been and in some cases remains required to curb its abuses, which have ranged from terrible working conditions, slavery (particularly in Britain and the United States), and apartheid (in South Africa) to monopoly cartels and financial fraud.

Capitalism does not presuppose a specific form of social or political organization: the democratic socialism of the Scandinavian states, the consensus politics of Japan, and the state-sponsored rapid industrial growth of South Korea while under military dictatorship all have coexisted with

capitalism. Yet despite the capitalist ideal of "hands-off" government, significant government intervention has existed in most capitalist nations at least since the Great Depression in the 1930s. In the United States, it exists in the form of subsidies, tax credits, incentives, and other types of exemptions. Though private production plays a major role in the economies of Germany and Japan, both nations have had centrally planned industrial policies in which bankers, industrialists, and labor unions meet and seek to agree to wage policies and interest rates; these countries reject the idea of letting the market wholly determine the economy.

The collapse of the Soviet Union and its satellite states in Eastern Europe (1989-91) represented a substantial retreat in the power of capitalism's traditional economic opponent, socialism; while some of those nations have move toward free-market capitalism, in others the state retained or has reasserted its control over many aspects of the economy. In China, Communist economic principles were gradually abandoned during the late 20th cent. and capitalism became increasingly important but within a strictly Communist political framework.