

# Capitalism

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**Capitalism** is an economic system. In it the government plays a secondary role. People and companies make most of the decisions, and own most of the property. Goods are usually made by companies and sold for profit. The means of production are largely or entirely privately owned (by individuals or companies) and operated for profit.<sup>[1][2]</sup>

Most property, for example, is owned by people or companies, not by the government. Capitalism has a more or less free market economy, which means that prices move up or down according to the availability of the products. People buy and sell things according to their own judgment. In most countries there is some regulation (trade laws) and some planning done by the government. They are sometimes called "mixed economies" to indicate this. Some people disagree on whether capitalism is a good idea, or how much of capitalism is a good idea.

The word comes from "capital", meaning something of value. This can be money ("*financial capital*") or any other goods that can be traded. The word "capital" originally comes from the Latin word "caput", meaning "head." It was used to mean how many "head" of cattle a rich person owned, in days long ago when cattle were used as money. In fact, the words "capital" and "cattle" both come from "caput".

The philosopher Adam Smith's book, *The Wealth of Nations*, was an important book that developed the ideas of capitalism and the free market. The word "capitalism" was not used until the 19th century. The greatest invention of capitalism is often said to be the joint stock company.<sup>[3][4]</sup> A joint-stock company is a business where different stocks can be bought and owned by shareholders. Each shareholder owns company stock in proportion to the number of their shares.

## Buying, selling, working, and hiring

In capitalism, people may sell or lend their property, and other people may buy or borrow it. If one person wants to buy, and another person wants to sell to them, they do not need to get permission from higher power. People can have a market (buying and selling with each other) without anyone else telling them to. People who own capital are sometimes called *capitalists* (people who support capitalism are called capitalists, too). They can hire anyone who wants to work in their factories, shops or lands for them for the pay they offer.

The word *capital* can be used to mean things that produce more things or money. For example, lands, factories, shops, tools and machines are capital. If someone has money that can be *invested*, that money is capital too.

In capitalist systems, many people are workers (or *proletarians*). They are employed to earn money for living. People can choose to work for anyone who will hire them in a free market.

This is different from many older economic systems. In *feudalism*, most people were *serfs* and had to work for the people who owned the land they lived on. In *mercantilism*, the government makes it hard to buy things from other countries. In many countries with *mixed economies* (part capitalism and part socialism) there are laws about what you can buy or sell, or what prices you can charge, or whom you can hire or fire.

## Investing

An *investment* is when people invest (give) their money in things. People can put their money together to buy or build things, even if they are too big for one person to make alone. The people who invest get to be the owners of what they buy or build together. The stock market lets people buy and sell investments.

Investing is important to capitalism. The word "capitalist" can mean two things: it can mean someone who likes capitalism; but it can also mean someone who invests. For example, a *venture capitalist* invests in new businesses.

People who start businesses, or invest in businesses, can make a lot of money. A business sells things that people want. The investors make extra money, which is called *profit*. Investors can take their profit and invest it in more businesses, or in making the business bigger. The investors can get more and more profit if the businesses are successful.

## People who disagree

*Socialists* and *communists* are people who do not support capitalism. They say it hurts workers, because businesses make more money by selling things than they pay the workers who make the things. Business owners become rich while workers remain poor and exploited (taken advantage of). They also argue society would be more efficient if people thought less about competing against one another for their own interests and thought more of working together for the overall good of society. Another argument is that each person has a right to basic needs (such as food and shelter). Within capitalism, sometimes people might not get everything they need to live.

Karl Marx was a famous communist philosopher from Germany. He wrote a famous book called *The Capital* (or *Das Kapital* in German). He said that capitalism would go away after workers decided to take over the government in a revolution because of the exploitation. There were violent communist revolutions in many countries. Many people were killed because of this. But capitalism did not go away, and most of these communist systems have collapsed and do not exist today, or else they have become more capitalist. Some people think that communism in those countries did not work because Marx's ideas, though nice in thought, did not really work. Others think that communist countries collapsed because of the attacks (military, political and economic) from capitalist countries.

Anarchists (that are not anarcho-capitalists) do not support capitalism either. They do not think workers should take the government, but that there should be no government at all. They think that communism failed because the communists set up dictatorships that said

that they would rule in the name of workers, instead of letting workers organize themselves freely.

## People who agree

There are different words for people who support capitalism. In many parts of the world, these people are called either *conservatives* or *liberals* (especially *market liberals*). In the United States, the word "liberal" can mean someone whose beliefs lean toward socialism - what other countries might call a *social liberal*. *Libertarian* is a word that in America and some other countries means someone who wants the government to have little or no power to tell people what to buy or sell.

The reasons for capitalism are not just economic. They are political. They believe that government control of the economy leads to loss of liberty by the citizen. The argument was put best by Friedrich Hayek, who connected the open society with respect for the individual, and tolerance for the differences between people.<sup>[5]</sup>

People who support capitalism also have disagreements. Most people agree that capitalism works better if the government keeps people from stealing other people's things. If people could steal anything, then nobody would want to buy anything.

In most countries, the government does more than that. It tries to make sure that people buy and sell fairly and that employment is fair. Because the government takes a lot of money in taxes, it also buys a lot of things and gives a lot of money away. It spends money on guns and ships for the military, on science research in universities, and on schools and libraries. It also gives money to people who do not have jobs, and to businesses that the political leaders think are important. When the government is in charge of part of the economy, this is called a "[mixed economy]." However, when the government spends money it causes arguments about what the money should be spent on.

A few people think that people can protect themselves without any government. Instead of having laws against stealing, people could protect their own things, or agree to pay other people such as arbitrators, insurers, and private defenders to protect them. This belief is called "anarcho-capitalism." These people think that the government is trying to take away their earnings, because it takes taxes away from people against their will and keeps them from making agreements between themselves.