

Capitalism: Definition and Basic Questions

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What Is Capitalism?

An economic system for the production and distribution of goods and services in which the means of production are, in most cases, privately owned for the purpose of making a profit.

What Are the Means of Production? Who Owns Them?

Means of production are, for example, natural resources, land, infrastructures, technologies, machineries, etc.

The ownership of the means **of production** belongs to those who have sufficient **capital** to acquire them

What is Capital?

Financial capital — such as obligations, stocks, shares, futures, entitlements, typically liquidated in the form money — but also real estate as well as social and human capital

What Is Profit? How to Make It?

Profit is the positive difference between the costs of production, including wages, costs of machineries etc. and the price at which goods and services are sold.

Profit can be achieved either by *reducing costs* or by *raising prices*.

How Are Prices Determined Under Capitalism?

Prices are determined by the law of *supply and demand*, so that the scarcer a good or service, the higher its price. This applies also to the price of labor and wages.

Prices, in most cases, are not fixed in advance by a government entity. Sometimes the government does step in to regulate prices, for example, minimum wage.

Why Is There Private Property of The Means of Production?

The private ownership or property of the means of production is an essential feature of capitalism.

There could be others systems of ownership. The means of production, for example, could be owned collectively by the citizens.

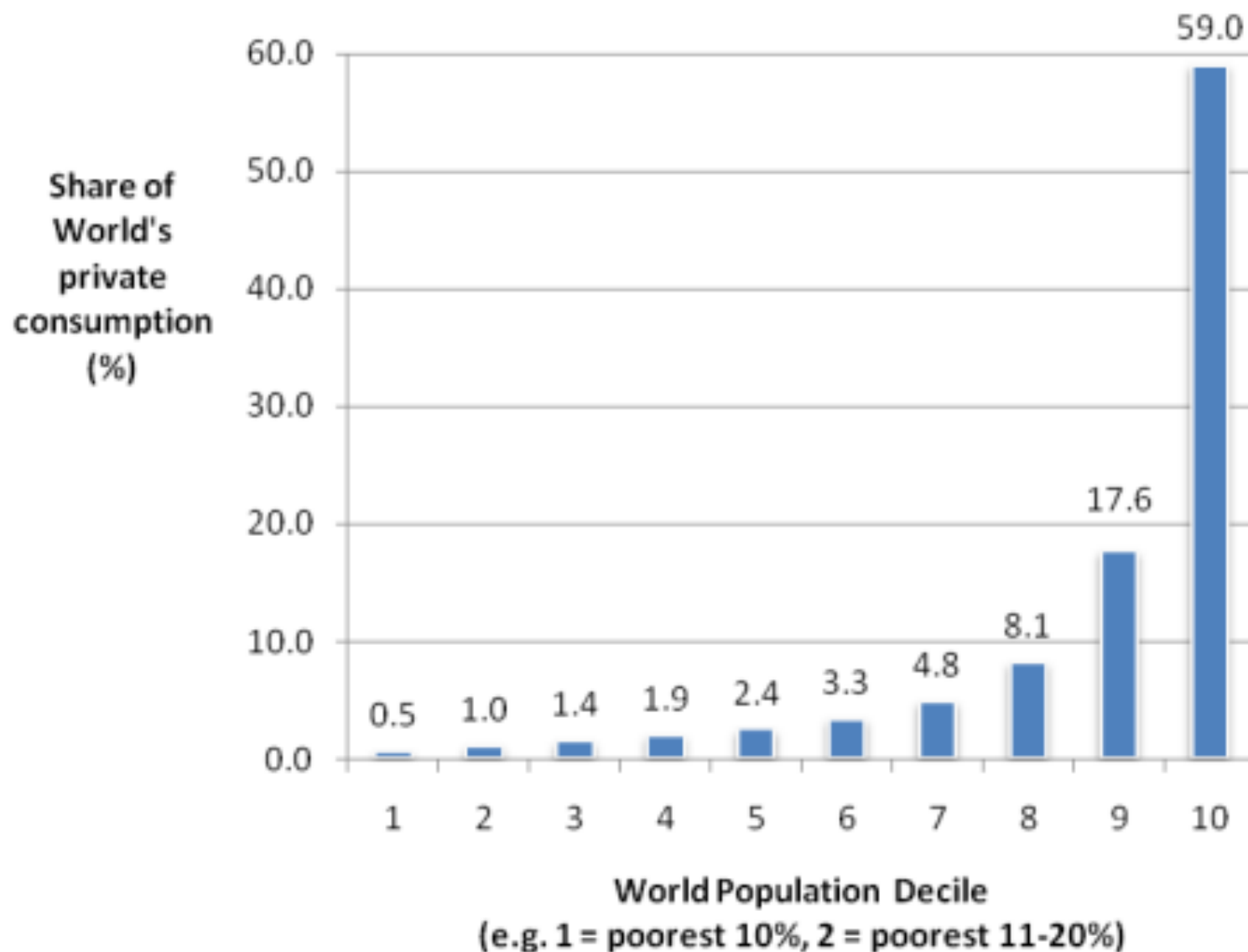
Capitalism

- ❖ Private ownership of the means of production
- ❖ Based on capital
- ❖ Prices determined by supply and demand
- ❖ Driven by profit
- ❖ Moderate or little state interference

Is Capitalism Good or Bad?

What About Social and Economic Inequalities and Poverty Across the World?

Inequality of Consumption, 2005



Source: World Bank Development Indicators 2008

Is There Anything Bad About Inequalities?

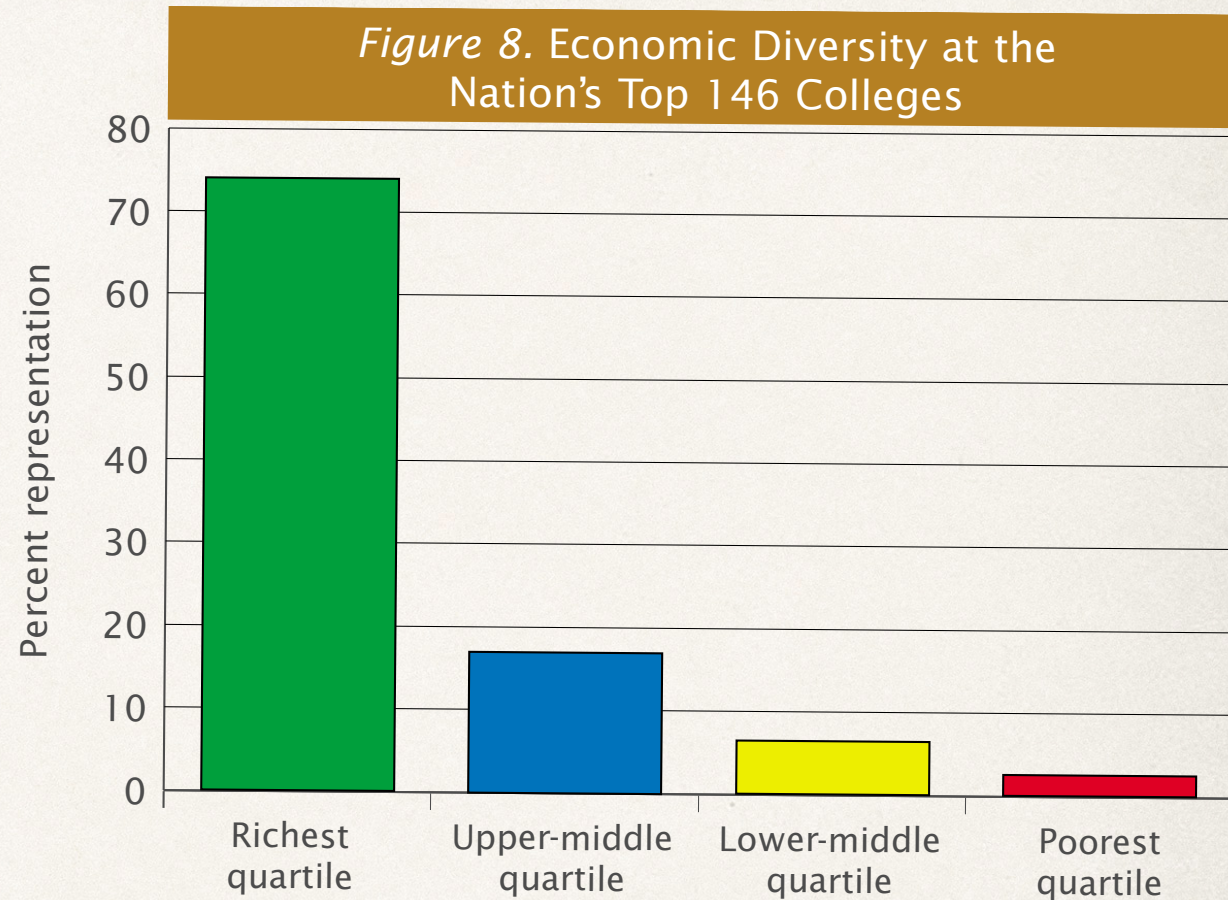
Videos featuring economist Milton Friedman, one of the strongest defenders of capitalism in the 20th century

<https://www.youtube.com/watch?v=Wi-D24oCa10>

<https://www.youtube.com/watch?v=Rls8H6MktrA>

<https://www.youtube.com/watch?v=g-o0kD9f6wo>

Inequality of Opportunity: One's Family Economic Background Matters for One's Educational Opportunities



Source: Anthony P. Carnevale and Stephen J. Rose, "Socio-economic Status, Race/Ethnicity, and Selective College Admissions," in Richard D. Kahlenberg, ed., *America's Untapped Resource: Low-Income Students in Higher Education* (New York: Century Foundation Press, 2004), Table 3.1, p. 106.