Modern Capitalism: Economy

# **Introduction**

Capitalism is an economic system in which capital goods are owned by private individuals or enterprises. A market economy is one in which goods and services are produced based on supply and demand in the general market, rather than through central planning, as in a planned or command economy.

Free market or laissez-faire capitalism is the purest form of capitalism. Private individuals are unrestricted here and may decide where to invest, what to create or sell, and at what rates commodities and services are exchanged. There are no checks or regulations in place in a laissez-faire market. Unlike socialism or feudalism, which use centralized political techniques to organize economic decisions, capitalism uses decentralized and voluntary decision-making to plan economic decisions.

In the present times, most countries utilize a mixed capitalism system, in which the government regulates industry and owns a portion of some businesses.

# **Private Property**

Private property rights are fundamental to capitalism. Most modern concepts of private property stem from John Locke's theory of homesteading, in which human beings claim ownership through mixing their labor with unclaimed resources. Once owned, the only legitimate means of transferring property are through voluntary exchange, gifts, inheritance, or re-homesteading of abandoned property.

Private property promotes efficiency by giving the owner of resources an incentive to maximize the value of their property. So, the more valuable the resource is, the more trading power it provides the owner. In a capitalist system, the person who owns the property is entitled to any value associated with that property.

For individuals or businesses to deploy their capital goods confidently, a system must exist that protects their legal right to own or transfer private property. A capitalist society will rely on the use of contracts, fair dealing, and tort law to facilitate and enforce these private property rights.

When a property is not privately owned but shared by the public, a problem known as the tragedy of the commons can emerge. With a common pool resource, which all people can use, and none can limit access to, all individuals have an incentive to extract as much use value as they can and no incentive to conserve or reinvest in the resource. Privatizing the resource is one possible solution to this problem, along with various voluntary or involuntary collective action approaches.

# **Profits and Losses**

Profits are closely associated with the concept of private property. By definition, an individual only enters into a voluntary exchange of private property when they believe the exchange benefits them in some psychic or material way. In such trades, each party gains extra subjective value, or profit, from the transaction.

Voluntary trade is the mechanism that drives activity in a capitalist system. The owners of resources compete with one another over consumers, who in turn, compete with other consumers over goods and services. All of this activity is built into the price system, which balances supply and demand to coordinate the distribution of resources.

A capitalist makes the greatest money by making the most effective use of capital assets while creating the highest-value item or service. Information regarding what is most valuable is communicated in this system by the pricing at which another individual freely purchases the capitalist's good or service. Profits indicate that fewer high-value inputs have been converted into higher-value outputs. When capital resources are not utilized efficiently and fewer useful outputs are produced, the capitalist suffers losses.

# **Capitalism and Economic Growth**

Capitalism has shown to be a highly successful vehicle for economic progress by providing incentives for entrepreneurs to reallocate resources away from unprofitable channels and into sectors where customers value them more highly.

Prior to the 18th and 19th centuries, rapid economic growth was mostly achieved by conquest and resource extraction from the victims of such conquests. This was a confined, zero-sum process in general. According to research, average global per-capita income remained unchanged between the rise of agricultural cultures until around 1750, when the first Industrial Revolution began to take hold.

Capitalist manufacturing systems have substantially increased output capacity in subsequent ages. More and better items become more affordable to a larger population, boosting living standards in previously unimaginable ways. As a result, practically all political philosophers and economists claim that capitalism is the most efficient and productive exchange system.