Merits of Capitalism:

The main merits and advantages of capitalism are as follows:

1. Production According to the Needs and Wishes of Consumers: In a free market , consumer needs and wishes are the upper most in the minds of the producers. They try to produce goods according to the tastes and liking of the consumers. This leads to maximum satisfaction of the consumers as obtained from his expenditure on the needed goods.

2. Higher Rate of Capital Formation and More Economic Growth: People under capitalism have the right to hold property and pass it on in inheritance to their heirs and successors. Owing to this right, people save a part of their income so that it can be invested to earn more income and leave larger property for their heirs. The rate of capital formation increases when savings are invested. This accelerates economic growth.

3. There is Complete Freedom of Choice in a Capitalist Economy: Economic freedom means the right to earn and retain property. It also means the freedom of enterprise and choice of occupation. This leads to the automatic channelization of the country’s man power resources in different vocations. There is no need to direct people or force them. Further, there is the freedom of contract which ensures smooth and flexible functioning of different production units.

4. Optimum Utilisation of Resources Available: The limited resources of the community are put to the most economical uses with as little waste as possible. There is keen competition among producers and entrepreneurs to produce and sell goods. Every producer and entrepreneur tries to use the productive resources at his disposal in the most economical manner in order to make maximum profit.

5. Efficient Production of Goods and Services: Due to competition every entrepreneur tries to produce goods at the lowest cost and of a durable nature. Entrepreneurs also try to find out superior techniques of producing the goods consumers get the highest quality goods at the least possible cost because the producers are always busy in making their production methods more and more efficient.

6. Varieties of Consumer Goods: Competition is not only in price but also in the shape design, colours and packing of products. Consumers therefore get a good deal of variety of the same product. They need not be given limited choice. It is said that variety is the spice of life. Free market economy offers variety of consumer goods.

7. In Capitalism there is no Need of Punishment for Good and Bad Production: A capitalist economy provides encouragement to efficient producers. The able an entrepreneur is, the higher is the profit he obtains. There is no need to provide any kind of punishment. The price mechanism punishes the inefficient and reward2s the efficient on its own.

8. It Encourages the Entrepreneurs to Take Risks and Adopt Bold Policies: Because by taking risk they can make higher profits. Higher the risk, greater the profit. They also make innovations in order to cut their costs and maximise their profits. Hence capitalism brings about great technological progress in the country.

9. It Provides the Best Atmosphere for Inventions: Entrepreneurs are always on the look-out for new ideas to be applied to production. They try to beat each other in innovations. This leads to rapid expansion, greater employment and income. The investors are suitably rewarded with their royalties, through the copy right. Similarly, innovators enjoy the benefits of their research, through the system of patents and trade-marks.

10. It Provides a Good Deal of Flexibility: This type of economy can automatically change with the circumstances. During war time market regulations are adopted to provide for the war machine. As soon as there is peace, the economy reverts to the free functioning of markets

Demerits :

The main de-merits or dis-advantages of capitalist economy are as follows:

1. Inequality of Distribution of Wealth and Income: The system of private property acts as a means of increasing inequalities of income among different classes. Money begets money. Those who have wealth can obtain resources and start big enterprises. The property less classes have only their labour to offer. Profits and rents less classes have only their labour to offer. Profits and rents are high. Wages are much lower. Thus the property holders obtain a major share of national income. The common masses have their wages to depend upon. Although their number is overwhelming their share of income is relatively much lower.

2. Class Struggle as Inevitable in Capitalist Economy: Some critics of capitalism consider class struggle as inevitable in a capitalist economy. Marxists point out that there are two main classes into which capitalist society is divided. The ‘haves’ which are the rich propertied class own the means of production. The “have not’s” which constitute the wage earning people have no property. The ‘haves’ are few in number. The ‘have not’s are in majority. There is a tendency on the part of the capitalist class to exploit the wage-earners. As a result there is a conflict between the employers and the employees which leads to labour unrest. Strikes, lockouts and other points of tension. All this have a very bad effect on production and employment.

3. Social Costs are Very High: A capitalist economy industrialises and develops but the social costs of the same are very heavy. Factory owners running after private profit do not care for the people affected by their production. The environment is polluted because factory wastes are not properly disposed of. Housing for factory labour is very rarely provided with the result that slums grow around big cities.

4. Unnecessary Multiplicity and too Much of Competition: Consumers have to pay a high price for their freedom of choice and provision of variety. There is sometimes too much competition leading to unnecessary high costs of production because competitors bid the prices of resources too high. There is wasteful advertisement. Sometimes substandard goods are highly advertised and the consumer is deceived.

5. Instability of the Capital Economy: A capitalist economy is inherently unstable. There is recurring business cycle. Sometimes there is a slump in economic activity. Prices fall, factories close down, workers are rendered unemployed. At other times business is brisk, prices rise, fast, there is a good deal of speculative activity. These alternating periods of recession and boom lead to a good deal of wastage of resources.

6. Unemployment and Under-employment: A capitalist economy has always some unemployment because the market mechanism is slow to adjust to the changing conditions. Business fluctuations also result in a large part of the labour force going unemployed during depressions. Not only this, workers are not able to get full time employment except under boom conditions.

7. Working Class does not have Adequate Social Security: In a capitalist economy, the working class does not have adequate social security, commodity, the factory owners do not provide for any pension, accident benefits or relief to the families of those who die in employment. As a result, widows and children have to undergo a good deal of suffering. Governments are not in a position to provide for adequate social security in over populated less developed countries.

8. Slow and Unbalanced Growth: A free market economy may work automatically but the rate of growth is rather slow. Moreover as the economy progresses, there is no all round development. Some areas develop much faster while others remain backward. Industries may expand fast while there may be poverty in agriculture.

9. No Bargaining Capacity of Labourers hence Exploitation: In a capitalist economy, workers are often paid a wage rate below their productivity. This is because; they do not have the bargaining power to get their due from the rich capitalist. Women and children are often paid a very low wage rate. There is no equal pay for equal work.

10. Growth of Monopolies with their Evils: A capitalist economy is competitive only in theory. In practice, the few competitors often arrive at an understanding and exploit the consumer. Sometimes the bigger firms buy or eliminate the smaller firms to establish their supremacy in particular lines or production. They charge high prices and do not have any compulsion to improve efficiency of production. Thus, the much talked about efficient working of a capitalist economy becomes a myth. Conclusion: Economists now agree that there are certain imperfections in a free enterprise economy which must be corrected. The Government must come out to regulate the economic machine so that it does not run down occasionally. Government has a positive role to play in promoting unemployment, price stability and orderly growth. The difference of opinion now is not on whether the government should regulate or not, but is rather on how much control is appropriate under different circumstances.