

Free Market Economy and Capitalism

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Abstract

This is an article containing various topics of capitalism. Here we can learn the features of capitalism. Besides the background of capitalism are presented here. Some philosophers who established this type of economy will be explained here. I presented some criticisms here also against this type of economy. How this kind of economy affect people and solutions which are obvious probable are also presented here.

Keywords: Free Market; Economy; Capitalism; Advantage; Features; Objection; Solution.

1. Introduction

Capitalism, or the free market as it is often called, is a system of private ownership. In layman's term, it means that the economy of the country is in the hands of just a select few - "The Rich". It is one of the oldest types of economy dating back to the 18th century. It is an economy in which the companies, resources, materials, machinery, production are handled by the rich people who are referred to as the capitalists.

It is one of the oldest economic systems and its origin is at the time of the mid-eighteenth century in England in the wake of the Industrial Revolution. It is that system, where means of production are owned by private individuals, profit is the main motive and there is no interference by the government in the economic activities of the economy. Hence, it is known as a free-market economy. According to Karl Marx, in his 'Das Kapital', the capitalist on an average takes twelve hours work from the worker and pays him wages equal to six hours work. According to Ferguson, "Capitalism is a free-market form or capitalistic economy may be characterized as an automatic self-regulating system motivated by the self-interest of individuals and regulated by competitions."

2. Free Market

In economics, a free market is an idealized system in which the prices for goods and services are determined by the open market and consumers, in which the laws and forces of supply and demand are free from any intervention by a government, price-setting monopoly, or other authority. Proponents of the concept of free-market contrast it with a regulated market, in which a government intervenes in supply and demand through various methods such as tariffs used to restrict trade and protect the economy. In an idealized free-market economy, prices for goods and services are set freely by the forces of supply and demand and are allowed to reach their point of equilibrium without intervention by government policy.

3. Market Economy

A market economy is a system where the laws of supply and demand direct the production of goods and services. Supply includes natural resources, capital, and labor. Demand includes purchases by consumers, businesses, and the government. A market economy is an economic system in which the decisions regarding investment, production, and distribution are guided by the price signals created by the forces of supply and demand. The major characteristic of a market economy is the existence of factor markets that play a dominant role in the allocation of capital and the factors of production.

4. Evolution of the Free-Market Economy

The market economy emerged from its involvement with production and exchange. A modern and modified form of the market economy is the free market economy. At the beginning of market development, the ruling

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party or government strictly controlled the market in different ways. By the end of the eighteenth century, government control free trade was allowed as a way to get rid of this control by passing a proposal called 'Allow to do'. This activity gradually plays an important role in promoting trade and commerce. In the nineteenth century, the concept of free-market took place in Europe known as 'Laissez-faire policy'. Later, the concept of 'Free Enterprise Economy' worldwide was appreciated. In 1983, the open market economy system was introduced in Bangladesh.

5. Like the Free Market Economy

In the free market economy, the quality of the country's products, purchases and prices are determined by the market. In this system, the general public must be engaged as a consumer, labor, and investor. The production is affected by consumers' desire to purchase. The investor or organization itself decides and the workers themselves find work. The market is the center for investment in goods and services. The market is controlled through a competition based on the demand and supply of products and services produced. In the concept of the free market, a person can claim higher returns due to his / her skill. The government does not directly control the market in this manner, but the government maintains and makes laws in the suitability of all concerned.

6. David Ricardo

David Ricardo, (born April 18/19, 1772, London, England—died September 11, 1823, Gatcombe Park, Gloucestershire), English economist who gave systematized, classical form to the rising science of economics in the 19th century. His laissez-faire doctrines were typified in his Iron Law of Wages, which stated that all attempts to improve the real income of workers were futile and that wages perforce remained near the subsistence level.

7. Comparative Advantage

About 250 years ago, English economist David Ricardo gave a theory for trade. The theory was named Theory of Comparative Cost Advantage. According to the theory that the country which produces at a relatively low cost, the country will produce those products and sell it in other countries. This theory worked as the basis for trade between countries until globalization. The law or principle of comparative advantage holds that under free trade, an agent will produce more of and consume less of a good for which they have a comparative advantage. Comparative advantage is the economic reality describing the work gains from trade for individuals, firms, or nations, which arise from differences in their factor endowments or technological progress. In an economic model, agents have a comparative advantage over others in producing a particular good if they can produce that good at a lower relative opportunity cost or autarky price, i.e. at a lower

relative marginal cost prior to the trade. One does not compare the monetary costs of production or even the resource costs (labor needed per unit of output) of production. Instead, one must compare the opportunity costs of producing goods across countries. David Ricardo developed the classical theory of comparative advantage in 1817 to explain why countries engage in international trade even when one country's workers are more efficient at producing every single good than workers in other countries. He demonstrated that if two countries capable of producing two commodities engage in the free market, then each country will increase its overall consumption by exporting the good for which it has a comparative advantage while importing the other well, provided that there exist differences in labor productivity between both countries. Widely regarded as one of the most powerful yet counter-intuitive insights in economics, Ricardo's theory implies that comparative advantage rather than absolute advantage is responsible for much of international trade.

8. Absolute Advantage

Philosophers talk about free trade among different nations. The purpose of which was to get the absolute advantage on a product. Because different countries can present different prices for the same product. Different countries can give different skills to the same product. Because the skills, technology and natural production of different countries are different. The real benefits of finding absolute advantage on a product will be seen in these two countries. Both countries will benefit from this.

9. Specialization and Free Market

The question comes here, wherein a country, if he has lesser labor costs, what will happen? In such a situation, David Ricardo said that when a country will come up with all the benefits of its production, it will still take the specialization and free trade economy system. In his famous book on the Principles of political economy and Taxation, for example, if England is able to produce more goods than Portugal between England and Portugal, they should take a specialization and free trade economics.

10. Features of Capitalism

Historically, capitalist society was characterized by the split between two classes of individuals—the capitalist class, which owns the means for producing and distributing goods (the owners) and the working class, who sell their labor to the capitalist class in exchange for wages. The economy is run by the individuals (or corporations) who own and operate companies and make decisions as to the use of resources. But there exists a “division of labor” which allows for specialization, typically occurring through education and training, further breaking down the two-class system into sub-classes (e.g., the middle class). Capitalist societies believe markets should be left alone to operate without government intervention. However, a

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completely government-free capitalist society exists in theory, only. Even in the United States, the poster child for capitalism, the government regulates certain industries, such as the Dodd-Frank Act for financial institutions. By contrast, a purely capitalist society would allow the markets to set prices based on demand and supply for the purpose of making profits. True capitalism needs a competitive market. Without competition, monopolies exist, and instead of the market setting the prices, the seller is the price setter, which is against the conditions of capitalism. Capitalism in its purest form is a society in which the market sets prices for the sole purpose of profits and any inefficiency or intervention that reduces profit making will be eliminated by the market. One of the main features of capitalism is the ability to own private property. The owner of the property has the sole right to do what he wishes with it. It can be leased or sold according to the preference of the owner. The property can also be inherited by the heir(s) of the owner without any interference from the government. This right is the first and foremost feature of capitalism. Completion is needed for a free market economy. It allows for different people who, by their individual actions, cannot influence market decision so they come together and establish the basis of marketing. The more the competition, the more the variety of consumers and each producer fights to stay relevant in the market economy. This is the hidden hand of the market operating in competitive conditions. It allocates scarce resources among competing users by rationing price when demand outstrips supply. Price mechanism determines what the producers make, how much, when and also where they produce. Capitalist countries encourage free enterprise -- an economic system that promotes prosperity by allowing private individuals and businesses to compete for profit, according to the Center for Free Enterprise at Florida Southern College in Lakeland. The system operates on the principle of survival of the fittest, in which companies that offer the best products and services for the lowest prices -- while maintaining a high level of profitability -- typically survive. The goal is to maximize profit and minimize cost, promoting robust competition between businesses as they meet the demands of consumers. The government has limited, minimal involvement in the market. Sociologists, economists, and politicians often use the French term "laissez-faire," which translates "leaving things to take their own course," to describe the government's noninterference in private business, according to Georgia State University. Supporters of capitalism believe in limited taxation, a business owner's right to set wages and minimal government-mandated labor policies, other than those designed to ensure employee safety and protect against unfair hiring practices. Capitalists support technological advancement because it increases productivity, encourages modernization and leads to increased revenue, according to "The Challenge of Global Capitalism" by Robert Gilpin. They also understand that there are growing pains associated with progress, such as initial implementation costs, learning curves, increased training demands and the need for more highly skilled and educated workers.

11. Adam Smith and the Free Market Economy

Adam Smith (English: Adam Smith) (1723-1790) is known as the father of modern economics. In 1776 he wrote *An Inquiry into the Nature and Causes of the Wealth of Nations*, giving a signification about the main topics of the economy. Smith's first book was "The Theory of Moral Sentiments". Adam Smith proposed the idea of the invisible hand. Speaking of competition, supply and the tendency to control the free market for demand and self-determination. He was interested in the new economy of his time and explained his opinion about this. Adam Smith was overwhelmingly impressed by the new free-market economy of his time. This impression was the incident that caused him to think about the principles that made the new economy so successful.

12. Invisible Hand

Undisclosed market power which helps in the consistent adjustment of the demand and supply of goods in a free market so invisible hand. Smith's discussion between 'The Wealth of Nations'

His approach is called the opinion of utility in the open market. In his view, everyone is free for his self-determination in the open market. People's welfare is possible only through their self-determination.

Let's talk about competition. In this way, the competition will run among the manufacturers of personal business. Their competition will continue to be the buyers' enthusiasm. This interest will not be created only by providing them with the services of the goods, and the attractive price of the product will be added. Production costs will be nearly the price of the product. By doing this, the producers will benefit by reducing the cost of producing them. This will increase market competition.

Their production source will be self-reliant. The production source will be regulated by their self-sufficiency. By meeting their self-sufficiency and by fulfilling their own benefits, they will benefit and as well as the welfare of the society. Social citizens will get an economical advantage through this free market through this. There will be a combination of many competitive markets.

Adam Smith insisted on this new economy, there miraculously increased productivity and he linked productivity to the labor department. He thinks that the division of labor can be done as far as possible. It is possible to increase work time, increase time-saving skills and so on. The quantitative aspects of the work of each employee will be increased.

His classic utilitarian opinion has faced much criticism. First of all, his invisible hand, which was behind production and demand, is unrealistic because many critics think that there is much difference between the current market and its market. The market idea of the market is limited to small merchants, where at present

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the market is based on large industries, where small businesses are not given the prime importance. In the meanwhile, here it has been emphasized that the benefit is beneficial. But basically, people try to save human rights through product service.

13. Jon Locke

John Locke (29 August 1632 – 28 October 1704) was an English philosopher and physician, widely regarded as one of the most influential of Enlightenment thinkers and commonly known as the "Father of Liberalism". Considered one of the first of the British empiricists, following the tradition of Sir Francis Bacon, he is equally important to social contract theory. His work greatly affected the development of epistemology and political philosophy. His writings influenced Voltaire and Jean-Jacques Rousseau, many Scottish Enlightenment thinkers, as well as the American revolutionaries. His contributions to classical republicanism and liberal theory are reflected in the United States Declaration of Independence.

14. State of Nature

John Locke considers the state of nature in his *Second Treatise on Civil Government* wrote around the time of the Exclusion Crisis in England during the 1680s. For Locke, in the state of nature, all men are free "to order their actions, and dispose of their possessions and persons, as they think fit, within the bounds of the law of nature." "The state of Nature has a law of Nature to govern it", and that law is the reason. Locke believes that reason teaches that "no one ought to harm another in his life, liberty, and or property"; and that transgressions of this may be punished. Locke describes the state of nature and civil society to be opposites of each other, and the need for civil society comes in part from the perpetual existence of the state of nature. This view of the state of nature is partly deduced from Christian belief (unlike Hobbes, whose philosophy is not dependent upon any prior theology).

John Locke's state of nature and free market

In the twentieth century, many economists used this theory to reinforce the free market economy. They said, through voluntary exchange of products and through the free market, the property can be privately managed.

15. Objection about Karl Marx's Free Market and Free Trade

Marxism is a nineteenth-century philosopher, economist, journalist and political theory and social theory based on the theory of Revolutionary Karl Marx and Friedrich Engels. Here Marx is a very important proponent. Here is the role of classing in the process of economic change and the development of capitalism. And the basis of equality Marx society Free market workers are neglected.

He presented the following objections about the free market.

1. Marx believed that human nature was created on many possibilities. Which is to understand the people. They have the opportunity to develop those possibilities. But this market obstructed it. Not everyone gets the opportunity to develop themselves. Which creates injustice.
2. In the capitalist system, workers are against this system. In the capitalist system, property owners use it according to their wishes.
3. Sometimes the owners want to use workers as machines. An example of cruelty.
4. If the workers lose their job, their opportunities for change are limited.
5. Workers cannot work happily with this system.
6. The workers are mentally exhausted and very easy to get fatigued.
7. The workers' power to be taken away.
8. In this capitalist system, it is not possible to meet their basic needs or basic needs.

16. State and Capitalism

The relation between capital and the state is central to an understanding of developments in the world today. It is thrown up in a whole series of apparently different discussions: on the future for the Third World, on the relations between the superpowers in the aftermath of the Cold War, on the prospects for successful economic restructuring in the USSR and Eastern Europe, on the repeated rows within the Tory government over European integration, on the significance of the United States' war against Iraq. These issues have created considerable debate on the left. They have been the subject of an intermittent discussion among contributors to this journal for a decade and a half, and among the wider left, there has been much greater confusion. The most common view of the capitalist state among Marxists is to see it simply as a superstructure, as external to the capitalist economic system. Capitalism, in this view, consists in the pursuit of profits by firms (or, more accurately speaking, the self-expansion of capitals) without regard to where they are based geographically. The state, by contrast, is a geographically based political entity, whose boundaries cut across the operations of the individual capitals.

The state may be a structure that developed historically to provide the political prerequisites for capitalist production—to protect capitalist property, to police the dealings of different members of the ruling class with each other, to provide certain services which are essential for the reproduction of the system, and to carry through such reforms as are necessary to make other sections of society accept capitalist rule—but it is not to be identified with the system itself.

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This view of the state claims to be based on the Communist Manifesto: ‘The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie.’ But its origins do not lie in Marx himself so much as in the classical economists who preceded him: in the Communist Manifesto Marx simply takes their insistence on the need for a minimalist, ‘night watchman’ state and draws out its class character.

Nevertheless, it is the view that is to be found in most modern academic Marxism. So, for instance, it was to be found on both sides of the debate which took place in *New Left Review* between Ralph Miliband and Nicos Poulantzas.² Miliband argued what has been called the ‘instrumental’ view of the state: it was tied to the capitalist class because its leading personnel came from the same milieu as the owners of private capital.

Despite their apparent opposition to each other, both Miliband’s and Poulantzas’ views can lead to the conclusion that the capitalist state can be used to reform capitalist society. If it is the character of its personnel that guarantees the capitalist nature of the state, then changing the personnel could change the character of the state, allowing it to be used for socialist purposes. If the state is a function of the society of which it is part, then if that society is racked by deep class struggles, these would find their expression through the state. The ‘condensate of class forces’ could express both the ruling class and working-class pressures—which perhaps explains why Poulantzas could move from Maoism to Eurocommunism without any fundamental change in his theoretical framework. More recently, another variant of the view of the state as external to capital has emerged on the left. Within academic Marxism, there is a growing tendency for people to counterpoise the capitalist system, as a system based upon the drive of firms to accumulate, to the ‘system of states’ within which it has been enmeshed historically.

17. What “Capitalism” Is and How It Affects People

Capitalism is defined as an economic system in which a country’s trade, industry, and profits are controlled by private companies, instead of by the people whose time and labor powers those companies. The United States and many other nations around the world are capitalist countries, but capitalism is not the only economic system available; throughout history, other countries have embraced other systems, like socialism or communism, so it’s important to explore what capitalism actually is. CNN recently reported that 66% of people between the ages of 21 and 32 have nothing saved for retirement. However, according to Salon, the reason many millennials haven’t been investing in mutual funds or building up their own financial nest eggs isn’t because they’re too broke, or that they lack personal responsibility — it’s because they think our current economic system, capitalism, will cease to exist by the time they are in their 60s. The millennials Salon spoke to expect to see a grand societal shift in their lifetime, either toward socialism — a political and economic system in which the means of production are collectively and equally owned by everyone — or

toward a sort of dystopian Mad Max nightmare in which resources have dwindled, rich plutocrats own everything, and ordinary people need to band together in small, autonomous communities to survive. To conservatives' dismay, the modern idea of socialism, which has roots in Greek philosopher Plato but emerged as a popular political idea in the early 19th century among German radicals like Karl Marx and Friedrich Engels, has become increasingly popular among young people in the past several years, following Democratic Socialist Bernie Sanders's underdog run for president and the authoritarian creep of the ultra-capitalist, anti-socialist Trump regime. The revolutionary movement at the close of the imperialist war, and during the succeeding period, has been marked by unprecedented intensity. The month of March 1917, witnessed the overthrow of Tzarism. In May 1917, a vehement strike movement broke out in England. In November 1917, the Russian proletariat seized the power of Government. The month of November 1918, marked the downfall of the German and Austro-Hungarian monarchies. In the course of the succeeding year, a number of European countries were being swept by a powerful strike movement constantly gaining in scope and intensity. In March 1919, a Soviet Republic was inaugurated in Hungary. At the close of that year, the United States was convulsed by turbulent strikes involving the metal-workers, miners, and railwaymen. Following the January and March battles of 1919, the revolutionary movement in Germany reached its culminating point shortly after the Kapp uprising in March 1920. The internal situation in France became most tense in the month of May 1920. In Italy, we witnessed the constant growth of unrest among the industrial and agrarian proletariat leading in September 1920, to the seizure of the factories, mills, and estates by the workers. In December 1920, the Czech proletariat resorted to the weapon of the proletarian mass strike. March 1921, marked the uprising of workers in Central Germany and the coal miners' strike in England. Following the close of the war which has been characterized by the elemental nature of the revolutionary onslaught, by the considerable formlessness of its methods and aims, and the extreme panic of the ruling classes, the first period of the revolutionary movement may now be regarded as having reached its termination. The self-confidence of the bourgeoisie as a class and the apparent stability of its governmental apparatus has undoubtedly become strengthened. The fear of Communism haunting the bourgeoisie, without having disappeared, has nevertheless somewhat relaxed. The leading spirits of the bourgeoisie are now even boasting of the might of their governmental apparatus and have assumed the offensive against the laboring masses everywhere, on both the economic and political fields. The high tide of capitalism was reached in the two decades preceding the war. The intervals of prosperity were superseded by periods of depression of comparatively shorter duration and intensity. The general trend was that of an upward curve; the capitalist countries grow rich. Having scoured the world market through their trusts, cartels, and combines, the masters of world-capitalism well realized that this mad growth of capitalism would finally strike a dead wall confining the limits of the capacity of the market created by themselves. They, therefore, tried to get out of

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the difficulty by a surgical method. In place of a lengthy period of economic depression which was to follow and result in the wholesale destruction of productive resources, the bloody crisis of the world war was ushered in to serve the same purpose. But the war proved not only extremely destructive in its methods, but also of an unexpectedly lengthy duration. So that besides the economic destruction of the “surplus” productive resources, it also weakened, shattered, and undermined the fundamental apparatus of European production. At the same time, it gave a powerful impetus to the capitalist development of the United States and quickened the aggrandizement of Japan. Thus the center of gravity of world industry was shifted from Europe to America. The outbreak of the imperialist war coincided with the industrial crisis which had its origin in America (1913) and began to hover menacingly over Europe. The normal development of the industrial cycle was checked by the war which had itself become the most powerful economic factor. It created an unlimited market for the basic branches of industry and secured them against the competition. The war played the part of a solid customer ever in want of goods. The manufacture of productive commodities was supplanted by the fabrication of means of destruction. Millions of people not engaged in production, but in work of destruction, were continuously using up necessities of life at ever-increasing prices. This process is the cause of the present economic decline. By the contradictions of capitalist society, the masters lent the cloak of prosperity to this ruinous prospect. The State kept issuing loan after loan, one issue of paper money following upon another, till State accounting began to be carried on in billions instead of millions. The wear and tear of machinery and equipment were not repaired. The cultivation of land was in a bad state. Public constructions in the cities and on the high-roads were discontinued. At the same time the number of government bonds, credit, and treasury bills and notes, kept growing incessantly. Fictitious capital increased in proportion as productive capital kept diminishing. The credit system instead of serving as a medium for the circulation of goods became the means whereby national property, including that which is to be created by the growing generations, were being mobilized for military purposes.

18. Probable Solution

Under a capitalistic economy, the allocation of various resources takes place with the help of the market mechanism. Price of various goods and services including the price of factors of production are determined with the help of the forces of demand and supply. Free price mechanism helps producers to decide what to produce. The goods which are more in demand and on which consumers can afford to spend more are produced in a larger quantity than those goods or services which have lower demand. The price of various factors of production including technology helps to decide production techniques or methods of production. Rational producer intends to use those factors or techniques which has a relatively lower price in the market. Factor earnings received by the employers of factors of production decides spending capacity of the people.

This helps producers to identify the consumers for whom goods could be produced in larger or smaller quantities. Price mechanism works well only if competition exists and natural flow of demand and supply of goods is not disturbed artificially. Our world is once again hurled into a deep socio-economic crisis, in which the current extractive model of value creation is facing a series of structural crises. But as the old world is dislocating, the seeds of a new one are being sown. The peer-to-peer capacity to relate to each other over the Internet entails the emergence of what Yochai Benkler in *The Wealth of Networks* called ‘commons-based peer production’ (CBPP). CBPP is a new pathway of value creation and distribution, where peer-to-peer infrastructures allow individuals to communicate, self-organize and, ultimately, co-create non-rivalrous use-value, in the form of digital commons of knowledge, software, and design. Think of the free encyclopedia Wikipedia, the myriad of free/open-source projects or open design communities such as Wikihouse and Farm hack. CBPP is fundamentally different from the incumbent models of value creation under industrial capitalism. In the latter, owners of means of production hired workers directed the work process and sold products for profit. Such production is organized by allocating resources through price signals, or through hierarchical command. It is a system based on subordinate labor forced to sell its work power to the owners of the companies that employ them. CBPP projects do have systems of quality control that represent a kind of benevolent hierarchy or heterarchy. These ‘maintainers’ or ‘editors’ protect the integrity of the system as a whole and can refuse contributions that endanger the integrity of the system. However, and this is crucial, they do not coerce work. CBPP is based on open input; a participatory process of coordinating the work; and a commons as output.

19. Conclusion

The most important aspects of a capitalist system are private property, private control of the factors of production, accumulation of capital, and competition. The starkest counterpoint to capitalism is communism. In a communist system, there is no private property, a central government controls the means of production, capital is not accumulated by individuals or private businesses, and competition is nonexistent. Put simply, a capitalist system is controlled by market forces, while a communist system is controlled by the government.

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