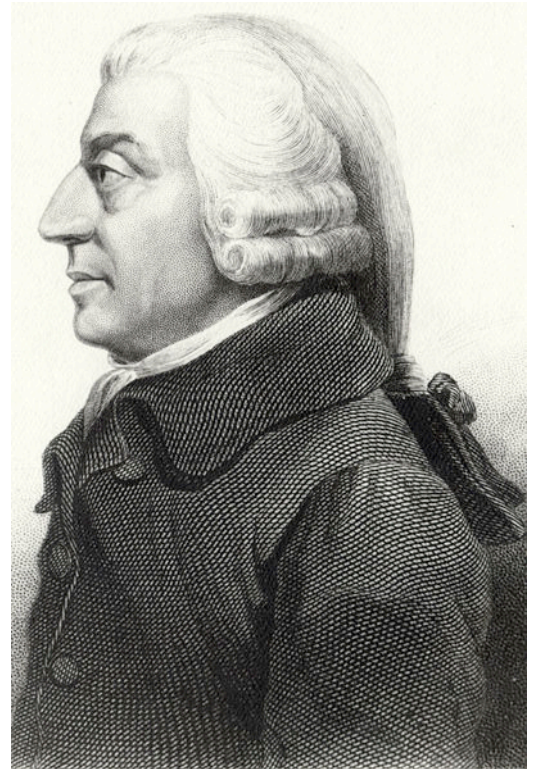


Capitalism

In the industrialized countries in the 19th century the Industrial Revolution opened a wide gap between the rich and the poor. Business leaders believed that the government should stay out of business and economic affairs. Their argument was that owners of businesses should be able to operate without the government telling them what they could and could not do. This idea is what we know today as Capitalism.

Adam Smith (pictured below) was a professor at the University of Glasgow in Scotland. In 1776 he defended the idea of “free market” which is the theory that the government should not interfere with businesses. He argued that there were three natural laws in economics:

1. The law of self-interest- This law states that people work best when they are working for their own good. Smith believed that progress results when people follow their own self-interest.
2. The law of competition- This law states that competition breeds success and competition in business forces people to make a better product. Smith believed that businesses follow their own self-interest by competing for the consumer’s money. In order for businesses to be successful, they must produce goods or services that are better and less expensive than those of their competitors.
3. The law of supply and demand- This law states that enough goods would be produced at the lowest possible price to meet the need of the economy. Consumers compete to buy the best good at the lowest prices. Smith believed that this competition would shape the market as buys dictated what businesses sold based off of what people bought.



Eventually, other economists would agree and add on to Adam Smith’s economic theory. This led to the creation Capitalism. Capitalism is an economic system in which the factors of production are privately owned and money is invested in business ventures to make a profit. Capitalism states that the government should not interfere with businesses, as regulations and rules would interrupt the natural progress of society. Capitalism is based on the idea that people want (and have) to make money in order to survive in the world. If two businesses are making the same product then people are naturally going to buy the product that is cheaper and better made. This means the business that makes the better product will get the most money. If other businesses want to also make money then they need to create a better, less expensive version of the product that people will want to buy. This competition means better prices ultimately for the common person. Capitalism also supports the theory that those that work the hardest and the smartest will be the most successful in society.