

# The Economic System

By Dr. Frank Elwell



# The Economic System

The way that a society is organized to produce and distribute goods and services is the crucial determinant in the way the other institutions are organized.



# Critical Conditions of Capitalism:

- ◆ Private ownership
- ◆ Pursuit of profit
- ◆ Competition
- ◆ Government Conditions

# Private ownership

Individuals encouraged to own:

- ◆ Private possessions
- ◆ Capital goods



Tony Triolo, The Huntsville Time

# Pursuit of profit

Profit has positive consequences for society. The more a capitalist invests to increase profit, the more the economy grows; a rising tide lifts all boats.



Wayne Barrett, Prince Edward Is

# Competition

Competition serves to:

- ◆ Assure quality
- ◆ Keep prices low



# Government Conditions

According to the ideology of capitalism, the government is supposed to practice laissez-faire (leave the economy alone).



# Government Conditions

According to the ideology, if corporations are left unhindered by government the profit motive, private ownership, and competition will achieve the greatest good for the greatest number.



# Government Conditions

But in reality, the state has sponsored capitalism from the beginning, creating the conditions for capitalism to exist (enforcement of contracts, tax policy, and direct investment in the economy) as well as expanding capitalist markets throughout the world through military and economic force when necessary.



# Government Conditions

Government action in the enforcement of economic contracts, and in allowing the accumulation of capital (without confiscating all profits).



# Capitalism

While the American economy has always been based on the principles of capitalism, the present economy is far removed from a free enterprise system.



D. Donne Bryant

# Capitalism

The American economy is now dominated by huge corporations that, contrary to classical economic theory, control demand rather than being responsive to the demands of the market.



# Monopoly

Marx hypothesized that competition will result in some firms becoming bigger and bigger as they eliminate their opposition or absorb smaller competing firms.



# Monopoly

Unless the government acts to break up large companies, the result of the competitive process is the formation of monopolies in each of the various sectors of the economy.



# Early capitalism worked because of:

- ◆ Traditional values of discipline, hard work, and deferred gratification.
- ◆ Competition between capitalist enterprises.



*Kenneth Murray, Photo Research*

# Monopoly

Competition, you will recall is the lynchpin of capitalism. In the absence of government, it keeps individual profit-seeking in check.



# Oligopoly

When four or fewer firms supply 50 percent or more of a particular market, an oligopoly results, which performs much like a monopoly or cartel.



Junebug Clark, Photo Recherche

# Oligopoly

Since there is no free market in many areas of our economy, there is no built-in incentive for oligopolies to improve quality or lower costs.



Joseph Nettis, Photo Researcher

# Corporate Size

As a result of corporate growth, economic power has become extremely concentrated in America.



# Corporate Size

There were about 200,000 industrial corporations in the U.S. with total assets in 1980 of about \$1.2 trillion.

- ◆ The largest 100 industrial corporations control 55% (\$683 billion) of all industrial assets.



# Transportation, Communication, and Utilities

There are some 67,000 corporations in these fields.

- ◆ The largest 50 corporations control over two-thirds of the nation's assets in airlines, railroads, communications, and electricity and gas.



# Banks

The financial world is equally concentrated.

- ◆ The 50 largest banks out of 17,700 serving the nation control 61.3 percent of all banking assets.



# Corporate Size

This trend toward ever-greater concentration among the largest American corporations has accelerated in recent years.



Lawrence Migdale, Photo Research

# Globalization

The steel industry provides a good example of how globalization and foreign competition has affected the American economy.



# Globalization

Following WWII, the U.S. produced 50% of the world's steel, but in 1982 it produced only 13%, and today less than 7% resulting in a huge decline in steel mill jobs since 1957.



# Globalization

In the decade after World War II, with only 6 percent of the world's population, the US was producing two thirds of the world's manufactured goods.



Culver Pictures, Inc.

# Oligopoly

Because of the lack of competition at home and abroad, American companies didn't bother to modernize plants, didn't anticipate changes in consumer demand, didn't care enough about quality control.



# Oligopoly

American companies, protected from competition at home and abroad didn't run into serious foreign competition until the late 1960s.



# Globalization

Other nations, especially Japan and Germany, were more competitive in the world market because of government planning, subsidies, stiff competition at home and the building of more efficient plants.



# Globalization

Beginning in the 1970s manufacturers increasingly located plants in nations in which environmental, labor, and consumer protection were weak and wages were low. Consequently, plants located in western nations are at considerable economic disadvantage.



# Globalization

Short-term results of the introduction of foreign competition:

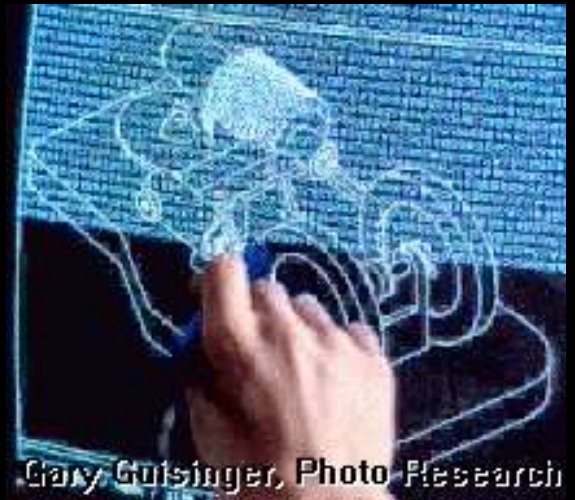
- ◆ Decline of old-line manufacturing
- ◆ Protectionism



# Globalization

Long-term results:

- ◆ Corporate Downsizing
- ◆ New wave of automation
- ◆ Mergers
- ◆ Tightening coordination
- ◆ Squeezing wages and benefits



# Globalization

Now the process of concentration begins on an international scale, but, when sufficient concentration is reached, competition will cease.



Tom McHugh, Photo Researchers, Inc.

# Rise of the Multinational

The multinational, or corporations located in several countries, change the balance of power between capitalism and the state.



# Rise of the Multinational

Multinationals have increased leverage to threaten to lay off workers or move jobs abroad if they do not get favorable government treatment such as tax breaks and the relaxation of restrictive regulations.



Steven Frankel, Photo Research

# Rise of the Multinational

The public debate over corporate and environmental policy is full of reference to fears that these multinationals will take their business elsewhere if the state becomes too restrictive.



# Economic Change

All of these changes in the American economic system will have tremendous impact on the rest of the social system.



# Economic Change

These changes cause both economic and social problems.

