

Characteristics of Free Enterprise Capitalism

- A free enterprise economy has both capitalism and free markets.
- Characteristics of a capitalistic free enterprise economy include:
- Self-interested behavior- actions that provide the greatest personal benefit. Adam Smith, the father of modern economics, explains that the best economic benefit for all can usually be accomplished when individuals act in their own self-interest. The invisible hand reveals that when dozens or even thousands act in their own self-interest, goods and services are created that benefit consumers and producers
- voluntary exchange -buyers and sellers willingly participate.
- Private property rights allow people to own and control possessions, giving them the incentive to work, save, and invest. Motivated by profit.
- Specialization: assignment of tasks to the workers, factories, regions, or nations that can perform them most efficiently.
- Competition benefits both consumers and the economy. Provides a continuous supply of newer and better products.
- Consumers ultimately determine WHAT to produce by their spending- consumer sovereignty reflects the idea that the consumer rules the market.

Benefits of Free Enterprise Capitalism

- **Market economies** produce a huge variety of goods, with ever changing prices.
- There are periods of uneven economic growth.
- In free enterprise capitalism, the **gaps** between rich and poor citizens seem to increase.
- In free enterprise economies, suppliers want to avoid competition.
- Businesses such as corporations have most of the same rights as individuals, but they also have many responsibilities as a result of government-imposed regulations.
- Government has become involved in the American free enterprise system because its citizens want it that way.
- The government passes laws to help protect citizens from false advertising, unsafe food and drugs, environmental hazards, unsafe products and to promote competition.
- All levels of government provide goods and services for citizens, including education, highways, public welfare, and many others.

Economic and Social Goals

- The belief in economic freedom, chose your own occupation, employer and job location, is one of the cornerstones of American society.
- Economic efficiency is a major goal because resources are scarce and people understand that the factors of production must be used wisely.
- Americans have a strong belief in economic equity, which includes justice, impartiality, and fairness.
- Unemployment compensation, Social Security, and Medicare are examples of government programs to provide economic security.
- Economic growth is a major goal, and new goals develop as society evolves.

- After the **Soviet Union** collapsed, many Eastern European countries transitioned to capitalism, including Poland, Hungary, the Czech Republic, and Slovakia.
- In **Russia**, the decades-long transition to capitalism has resulted in the current market-based economy, with the exception of government-controlled energy, natural resource, and defense-related industries.
- After the failure of the Great Leap Forward, **China** was influenced by successful market economies in Asia and today is undergoing some privatization and other capitalistic endeavors.
- In Latin America, socialism still exists in **Venezuela** (moved away from capitalism) and **Argentina**, but Chile has made the transition to capitalism.
- **Sweden** was a welfare state that had highest taxes to provide a strong social welfare program. This limited their economic growth. Today they are free market system with an unemployment rate and per capita GDP that are relatively high.

- **Japanese** government is much more involved in the day-to-day activities of the private sector than what we see here in the U.S..
- By opening its markets to world trade, **South Korea** has progressed from one of the poorest countries in Asia in the mid-1950s to a leading producer of electronics and automobiles today.
- The government in **Singapore** has focused on a few select industries, pouring money and resources into pharmaceuticals, medical technology, and financial and high tech industries.
- Even though the US now has relations with **Cuba**, they still have a command economy with a strong central authority.