



SAMPLE of Diploma Prep Materials

## **SOCIAL STUDIES 30-1**

**Content Review - Economic Systems**

# 1. CAPITALISM



In Canada, in the early 1990s, the luxury car market counted for 3% of auto sales. Now, 1 out of every 10 new vehicles purchased is from a luxury dealer.

*-Maclean's, 8 June, 2015*

The evidence in the above excerpt illustrates that the forces of economic freedom and self interest in the modern-day world. On the one hand, one could say that luxury car manufacturers have tapped into Canadians' growing demand for these vehicles by offering more choices and more options. On the other hand, one could infer that less government involvement in the economy has allowed Canadians to gain greater amounts of wealth and that a higher percentage of them are able to afford these luxury items.

In this section, you will review Individualism and its connection to capitalism/laissez-faire economics.

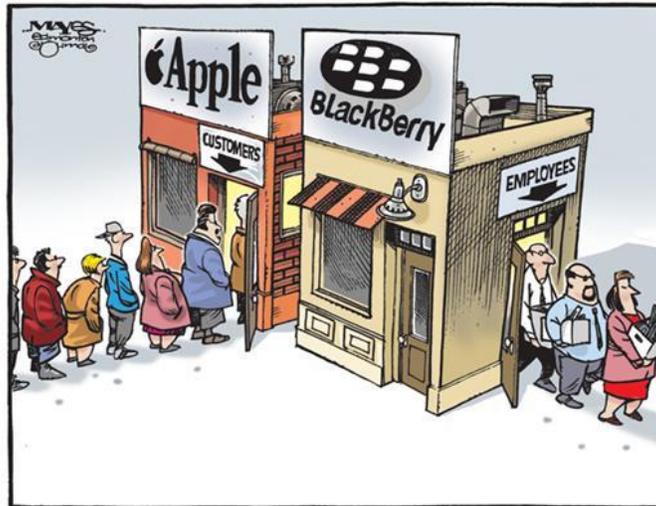
## 1.1 INDIVIDUALISM AND CONNECTION TO ECONOMIC SYSTEMS

- There are 4 principles of individualism (**private property, competition, self-reliance and economic freedom**) are chiefly concerned with allowing individuals the opportunity of making profit
- Organization of society is based on the non-interference of government in the economy
- Origins and theory: Adam Smith-**trickle-down economics**-entrepreneurs who seek to make profit need employees and thereby enhancing the standard of living of the collective (more to come later in this section)
- What do these principles allow/create?
  - Ability to gain great wealth
  - Provide private services such as daycare and healthcare; creates competition and makes for better services and prices
  - Stimulates creativity where someone with an entrepreneurial spirit can pursue profit

### 1.1.1 Individualism in practice in a modern day society:

In practice, governments that embrace individualist economic principles **are** involved in the economy. Their intervention in the economy is done in order to promote the 4 principles. These governments would institutes legislation such as a flat tax, low corporate taxes, patent laws, laws against the formation of monopolies, Competition Bureau of Canada.

In the following editorial cartoon (which appeared in 2013), the 4 principles of individualism are evident:



**Competition:** two tech companies are vying for customers. The cartoonist has illustrated that the forces of competition in the marketplace has made Apple more successful than Blackberry as Blackberry employees have lost their jobs due to falling profits.

**Self-interest:** the motivation and desire to conquer a great market share is evident in the cartoon. Employees in the research and development departments of both companies come up with ideas and methods to attract the greatest amount of customers. The spirit of innovation is inherent in the principle of self-interest.

**Economic freedom:** the freedom to create new tech devices is evident in the cartoon.

**Private property:** both tech companies attempt to utilize their resources in the most effective manner in order to attract the most amounts of customers possible. The tech companies patent systems which then become their own property to gain profits.

More information on individualism will follow in the *Political Systems* booklet.

## 1.2 PRINCIPLES OF COLLECTIVISM

The principles of collectivism largely reflect the opposite principles of individualism. People who support these principles value the well-being of the group over the individual's self-interest. From an economic standpoint, proponents of collectivism feel that the government should have a greater role in the economy in promoting greater amounts of equality amongst the citizens. The economic principles of collectivism are the following:

**Cooperation:** This is the belief that society is better off when citizens work together to achieve their economic goals. It is the opposite of the individualist principle of competition.

**Economic equality:** Supporters of collectivism value a more even playing field in the economy where the government has a greater role in providing a wide range of essential services for its citizens. They feel that when individualism in the economy is promoted, economic inequality is the result. Therefore, the government needs to have a social safety net in place.

**Public property:** This refers to property being owned and operated by the government. It is the opposite of the individualist principle of private property.

**Collective Interest:** This is the collectivist principle that guides the government in how, why and when it intervenes in the economy. Governments that support collectivism act in the collective’s interest when intervening in the economy.

More information on the principles of collectivism will follow in the *Political Systems* booklet.

### 1.3 INDIVIDUALISM MORPHS INTO AN IDEOLOGY

---

The principles of individualism morphed into an ideology called **capitalism**. In a capitalist society, each individual should be allowed autonomy in making economic decisions and the right to own property. Businesses will run more efficiently without government interference.



It advocates laissez-faire capitalism (non-intervention economically by the government). The forces of supply and demand shall determine all in this type of society. It accepts idea that inequality will arise at times.

### 1.4 ADAM SMITH’S VALUES AND BELIEFS

---

**Adam Smith** is considered to be the main philosopher associated with laissez-faire capitalism. He believed the following:

- **Competition:** competition within the marketplace will force the producer to create a better, and ultimately more affordable, product
- **Trickle-down effect:** if the wealthy are left alone to do what they do best, business will have the opportunity to expand and create more jobs
- **Benefits to the collective:** the collective will eventually benefit from an individual self-interest. Entrepreneurs seek to gain greater profits with increased production which necessitates the creation of jobs for the collective. Entrepreneurs need labour whom they will pay a salary, contributing to elevating the general standard of living of society.

## 1.5 THE INDUSTRIAL REVOLUTION

Smith's *laissez-faire economics* was the driving force behind the **Industrial Revolution** (1750-1900), the world's first experiment with capitalism. During this period of time, mechanization and the factory system replaced the cottage industry.

Although there was an economic boom during the Industrial Revolution, it brought with it a host of other problems like long working hours, dangerous working conditions and child labour. These abuses of the capitalist system prompted many people to rethinking and re-examining the advantages of classical liberalism.

### 1.5.1 John Stuart Mill's Response:

These abuses of the capitalist system during the Industrial Revolution prompted many people, like **John Stuart Mill** in the 1830s, to rethinking and re-examining the merits of laissez-faire capitalism:

- Mill still valued the foundational elements of capitalism but, he felt that governments had the moral duty in protecting workers from overzealous and greedy entrepreneurs.
- Mill believed that the corporate responsibility of business was to treat workers with dignity and respect.

