1 The New Capitalism

In the historical development of the United States its economic system has evolved from pure capitalism to mixed capitalism. During the colonial period pure capitalism functioned through the cottage industry. As an independent business person each cottage controlled the factors of production and took the risk of producing the products for sale at the market place. Whatever resources were used in the production of products came from the land. Labor was supplied by the family. Tools and equipment were also part of the capital resources of the cottage environment.

With the advent of the industrial revolution, pure capitalism began to change, eventually to disappear. Now there is evidence of a rebirth in Hong Kong and the United States. In the face of the rapidly changing world a form of almost pure capitalism has emerged. The British colony of Hong Kong is a thriving cottage industry. Each household unit is an independent entrepreneur blending the factors of production into finished goods for sale in the international marketplace. Clothing, toys, and cloth goods are the specialty items of the relative of pure capitalism.

A second potential rebirth of the cottage industry has been discussed for America with the development of personal computers. Many futurists predict a thriving cottage industry here. In this scenario a person would no longer commute to work but would stay at home and transact business the new capitalism.

Questions

1. Why do you think the cottage industry in Hong Kong has emerged in the face of industrialization in the world?
2. Why do you think the possibility of a cottage industry is in the United States?
3. Which industries would most likely be adaptable to the cottage approach?
4. What factors would have to change to see this become a reality?

Case 1.2 Concealed Capitalism

An economic phenomena is taking place in the Soviet Union in recent years to has become known that two distinct economic systems are operating side by side within its national borders.

The official system communism place the factors of production under the control of the state. State factories and stores manufacture and market goods as directed by the national planners. The resources for these goods are carefully allocated and monitored by the central agency. Norms, established by government laboratories and institutes, detail the amount of raw materials needed and the acceptable wastage for the production of goods. Once the goods are produced they are distributed through a government controlled network of wholesalers and retailers. Price are established by the government for the goods intended for the final consumer.

Within this state controlled monopoly, however the private enterprise system is producing shoes, clothing, handbags, sunglasses, and other consumer goods. It competes side by side with the state system. Its advantage: efficiency and ability to follow the fashion trends as quickly as they emerge in the Western nations. The government takes months to approve production of an item in state run factories the entrepreneur avoids this obstacle.

How is this possible? The goods are produced on the same equipment, which is operated and managed by the same personnel who produce the state controlled goods. Capital and supplies are provided by private entrepreneurs who own the goods and eventually sell them for profit.

This system within a system functions under the eyes of state agencies an elaborate system of reallocation of resources and bribery "Inducements" are given to planners to inflate the estimates for the amount of maternal needed for the production of goods and the goods themselves are not
always produced to exact specifications. Once the goods are manufactured they are distributed through the state controlled network of wholesalers and retailers who also support the second system. The employees of the store are willing to sell the goods for one third of the profit.

The individuals who operate within the underground economic system do so at personal risk. When an entrepreneur is successfully identified and brought to trial for economic crimes against the state, the punishment normally prescribed is a lengthy period of confinement in a labor camp.

Questions

1. Why would underground entrepreneurs risk imprisonment to create these business ventures?
2. What conclusions can you draw about communism and capitalism as economic systems from this case?
3. It's not the money. It's the fact that It's my business" Relate this statement to this case situation.