<u>The Basics of Market Economics: An Introduction to Capitalism</u>

When considering securities markets, it is helpful to define and explore financial markets, along with a short examination of where the modern economy originated.

Economics can be characterized as the study of scarcity. In the simplest possible terms, there are not enough goods and services for everyone to have as much as they want. Varying social systems have been established throughout human history to distribute these scarce resources. These systems have included Feudalism, Collectivism, and Capitalism. In our century, most nations follow a mixed market approach—a capitalist economy with limited, strictly defined areas of government control and regulation.

But where did economics come from, and why is the Mixed Market system so successful? Are there other economic systems, just as valid as Mixed Market Capitalism, and successful in the modern age--or have other systems been proven inefficient?

In the past, the economic affairs of nations traditionally operated under the direct control of the government. A little more than three hundred years ago, the same type of European Liberal Intellectuals who developed modern representative democracy began to advance the idea that economies could operate more smoothly without external controls or excessive regulation, resulting in a relatively steady and predictable rate of growth, ultimately providing greater wealth for all. This economic system is known as "Capitalism" and represented a radical departure from the ways of the past. Other modern systems, collectivist in nature, are also departures from the traditional modes of organization, but have frequently been found wanting in some aspect or another—they stifle growth, discourage innovation, or demand tax rates that many would consider unnecessarily high.

The earliest economies functioned on a barter system. Goods and services were exchanged in return for other goods and services of equivalent value. Often, the lending of money at interest was prohibited. After the development of coinage around three thousand years ago, the barter system was gradually replaced with a medium of exchange that carried a standard value, what we call "money". While once minted in (or in later centuries backed by) precious metals, modern money has no intrinsic value, and the value of money depends on the amount of goods and services, which can be obtained in exchange for it. While money has existed since antiquity, among most people for the bulk of human civilization, barter persisted.

As history progressed, so did economics. Essential economic decisions were made by a hereditary ruler (King, Emperor, etc.), and his policies carried out by a hereditary military elite (Knights, Lords, etc.) Most people were not in this noble class, and their activities were limited to farming and religious observances, engaging in constant work with virtually no compensation (Peasants, Serfs, etc.). An ordinary person would work a small farm, with almost no specialization of labor—everyone farmed. The peasants would then give their Lord most of what they grew. In return, the Lord would protect them from hostile tribes nations, or people. This amounts to an institutionalized protection racket. Peasants were forbidden to move off their land. They worked each day from sunup to sundown until they died. Wealth was also plundered from conquered foreign nations, and peoples (euphemistically called "colonies").

These types of primitive economy are characterized by aggressive exploitation of resources, including human life and labor. Development and innovation were stifled, and the institution of slavery was almost universal (there are still some parts of Africa and Asia where slavery is legal even in our century). Some Kings encouraged conflict among these lesser nobles to keep them in line. Other warred continuously upon their neighbors. This system is called “Feudalism”. While Feudalism predates recorded history, it was not until the European dark ages that it achieved its most identifiable form. In some areas, such as China and Russia, Feudalism persisted well into the last century. Life under the feudal system is often described as “nasty, brutish, and short”.

In response to the abuses of the Feudal system, starting in the eighteenth century philosophers and economic theorists developed the idea of forming collectives to make economic decisions. Since this was frowned on by the hereditary nobility, the establshment of collectivism would necessitatt the overturning of the old order, and the creation of a new one. The least extreme form of collectivism is socialism. Here most of the market behaves as a free market,m just like with Capitalism, except that certain goods and services related to people’s basic physical needs (such as food and medicine) are provided to all citizens by the government. The government pays for these goods and services through high tax rates. Socialist countries in our century include Sweden and Norway.

A more radical variation of socialism, first developed by Marx and Engels in the middle of the nineteenth century, is known as "Communism". Intended to address the top-weighted nature of emerging industrial Capitalism, Communism takes a massive leap away from free markets and towards more government control—only in a Communist economy (as contrasted with a highly controlled Feudal economy), the centralized authority responsible for making these decisions is not a hereditary nobility, but an elected council of ordinary citizens. Communism is often characterized as "from each according to their means, to all according to their needs". Economic decisions are made by through centralized economic planning. There is no private ownership of property and the state is the only employer. Economic stability and growth depends on good decisions making by committee of dozens, hundreds, or perhaps even thousands of people. While ideally promoting economic equality and democracy in the purest sense, Communism in practice has proved to encourage the opposite, and Communist staetes often lean towards totalitarianism. The usual example from the recent past is the USSR—Union Of Soviet Socialist Republics—a Soviet is a council of labor unions—in our century, the only remaining communist nations are the People's Republics of China, North Korea, Vietnam, and Cuba. In all of these nations, Communism has served to restrict growth, stifle initiative, deny creativity, destroy individualism, and prevent innovation.