socialism an economic system in which the government owns and operates basic industries but individuals own most businesses

capitalism (free enterprise) an economic system in which individuals own and operate the majority of businesses that provide goods and services

free-market system pure capitalism, in which all economic decisions are made without government intervention

and cell phones. The communist country appears more open to free enterprise now.[9] Hundreds of thousands of Cuban workers are shifting from the public sector to the private sector. Similarly, China has become the first communist country to make strong economic gains by adopting capitalist approaches to business. The Chinese state is the largest shareholder among China's 150 largest companies and influences thousands of other businesses.[10] Economic prosperity has advanced in China with the government claiming to ensure market openness, equality, and fairness.[11]

Socialism **Socialism** is an economic system in which the government owns and operates basic industries—postal service, telephone, utilities, transportation, health care, banking, and some manufacturing—but individuals own most businesses. For example, in France the postal service industry La Posta is fully owned by the French government and makes a profit. Central planning determines what basic goods and services are produced, how they are produced, and how they are distributed. Individuals and small businesses provide other goods and services based on consumer demand and the availability of resources. Citizens are dependent on the government for many goods and services.

Most socialist nations, such as Sweden, India, and Israel, are democratic and recognize basic individual freedoms. Citizens can vote for political offices, but central government planners usually make decisions about what is best for the nation. People are free to go into the occupation of their choice, but they often work in government-operated organizations. Socialists believe their system permits a higher standard of living than other economic systems, but the difference often applies to the nation as a whole rather than to its individual citizens. Socialist economies profess egalitarianism—equal distribution of income and social services. They believe their economies are more stable than those of other nations. Although this may be true, taxes and unemployment are generally higher in socialist countries. Perhaps as a result, many socialist countries have also experienced economic difficulties.

Capitalism **Capitalism**, or **free enterprise**, is an economic system in which individuals own and operate the majority of businesses that provide goods and services. Competition, supply, and demand determine which goods and services are produced, how they are produced, and how they are distributed. The United States, Canada, Japan, and Australia are examples of economic systems based on capitalism.

There are two forms of capitalism: pure capitalism and modified capitalism. In pure capitalism, also called a **free-market system**, all economic decisions are made without government intervention. This economic system was first described by Adam Smith in *The Wealth of Nations* (1776). Smith, often called the father of capitalism, believed that the "invisible hand of competition" best regulates the economy. He argued that competition should determine what goods and services people need. Smith's system is also called *laissez-faire* ("let it be") *capitalism* because the government does not interfere in business.

Modified capitalism differs from pure capitalism in that the government intervenes and regulates business to some extent. One of the ways in which the United States and Canadian governments regulate business is through laws. Laws such as the Federal Trade Commission Act, which created the Federal Trade Commission to enforce antitrust laws, illustrate the importance

TABLE 1.1 Comparison of Communism, Socialism, and Capitalism

	Communism	Socialism	Capitalism
Business ownership	Most businesses are owned and operated by the government.	The government owns and operates major industries; individuals own small businesses.	Individuals own and operate all businesses.
Competition	None. The government owns and operates everything.	Restricted in major industries; encouraged in small business.	Encouraged by market forces and government regulations.
Profits	Excess income goes to the government.	Profits earned by small businesses may be reinvested in the business; profits from government-owned industries go to the government.	Individuals are free to keep profits and use them as they wish.
Product availability and price	Consumers have a limited choice of goods and services; prices are usually high.	Consumers have some choice of goods and services; prices are determined by supply and demand.	Consumers have a wide choice of goods and services; prices are determined by supply and demand.
Employment options	Little choice in choosing a career; most people work for government-owned industries or farms.	Some choice of careers; many people work in government jobs.	Unlimited choice of careers.

Source: "Gross Domestic Product or Expenditure, 1930–2002," *InfoPlease* (n.d.), www.infoplease.com/ipa/A0104575.html.