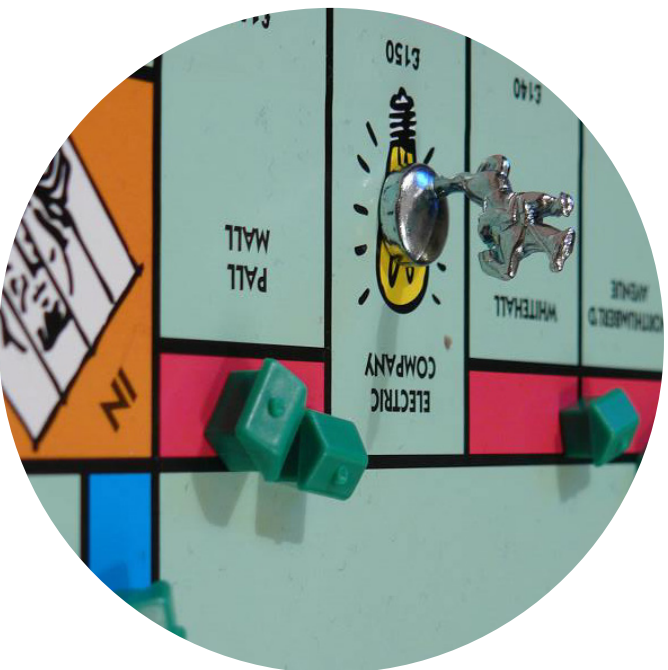


WHAT :

CAPITALISM



“IT IS WELL ENOUGH THAT PEOPLE OF THE NATION DO NOT UNDERSTAND OUR BANKING AND MONETARY SYSTEM, FOR IF THEY DID, I BELIEVE THERE WOULD BE A REVOLUTION BEFORE TOMORROW MORNING.”

HENRY FORD

Some rebel readers will have divergent viewpoints about capitalism from the outset (e.g., “capitalism is capable of great things” versus “capitalism is evil”). A word laden with many definitions, the topic is further complicated because there are multiple forms of capitalism in existence today.

A Rebel’s Handbook defines capitalism as the modern form of capitalism currently unfolding in the United States. For the purposes of the handbook, the singular term embodies the cumulative role of business, government, and workers as they interrelate with our status quo.

Because the term is often misperceived as confusing, this section covers capitalism’s guiding principles to distill what it actually is. The mechanics of how capitalism allegedly works in

theory and how it actually functions in practice are explained. A handbook for action rather than an econ textbook, readers interested in learning more about the economic intricacies of capitalism itself can refer to the handbook’s *Rebel Toolkit* (page 149) for additional resources.

SHORTCUT: IF YOU ALREADY THINK THAT CAPITALISM STINKS, FEEL FREE TO SKIP AHEAD TO ACTIONS THAT DRIVE CHANGE IN PART II (PAGE 61). BEFORE DOING SO, REBELS ARE ENCOURAGED TO READ THE ONE-PAGE REBEL BULLETIN (PAGE 25), A CAUTIONARY TALE ABOUT THE PERILS OF ATTRIBUTING THE ENTIRETY OF OUR WOES ON A SINGULAR PROBLEM.

CAPITALISM UNPLUGGED

The term capitalism itself was first coined in the 1800s during the Industrial Revolution, when the capitalist framework we live in today was really revving to life. Lots of other competing or congruous isms, like communism and socialism, were being actively pitched to people during the same period.

Have you ever had a conversation with a friend about different political systems? You know, the one where someone says something like, “[fill in the blank]ism sounds promising in theory, but it just doesn’t work as well in practice.”

People typically make that statement about other isms but rarely about capitalism. That’s largely because capitalism has already succeeded in convincing most people that it’s the best way to go (even if some of these same people would simply argue that it’s the best of the worst).

The framework of big macro concepts like capitalism are so steeped in most of today’s culture that, at first glance, it can be hard to cull capitalism out and see what it is actually all about.

Paradoxically, lots of people would have a hard time defining the word even if asked. If you need proof, just ask a random stranger on the street to

define capitalism and see how they respond (likely, like you’re crazy for asking).

Although capitalism may be hard for someone to articulate, it’s considered today’s preeminent way of doing business. Capitalism is a driver for a whole lot of things happening in our lives. You know, stuff like needing to go to school, hold a job and pay rent. For all you econ geeks out there, also referred to as: marketplace credentials, monetary income, and privately-held property.

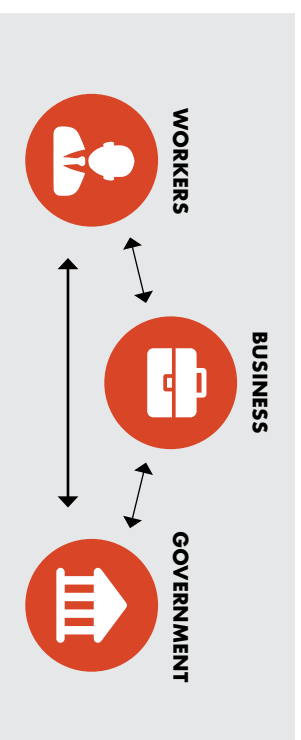
In theory, the opaque concept of capitalism definitely sounds pretty damn promising: an economic system where anyone can make it big and people have lots of freedoms (like the freedom of speech). Capitalism sells itself on the premise of ideals captured in the American Dream, that anyone has a shot to get rich if they work hard enough or conjure up the right winning idea.

So the question for you is this: if people are so quick to say other isms sound so much better in theory than practice, is it so unreasonable to place the world’s most applied economic theory under a magnifying glass and ask the same question of it?

CAPITALISM DEFINED (IN THEORY)

To better understand capitalism, let’s begin with an impartial understanding about how the form of capitalism that we have in place in the United States is supposed to operate in theory. Don’t worry: we’ll make this econ101 lesson short.

Put simply, capitalism can be defined as the constant push and pull between its three biggest players: business, government, and workers. These three players exist a controlled market economy that is carefully designed to foster and encourage economic activity, while also promoting equality (or so the theory goes).



WORKERS;	BUSINESS;	GOVERNMENT;
Provides the workforce for business and government to operate. Worker spending helps stimulate the economy, which in turn helps to generate more jobs. Capitalism requires a range of workers, from people in suits earning the big bucks to help stimulate the economy, to police carrying guns to enforce capitalism’s rules.	Creates the jobs that pay people the salaries they need to live on. The golden rule for all businesses is that survival is based on turning a profit. For business corporations in particular, the golden rule is for this profit to help maximize shareholder value.	Exists as a steward of capitalism, almost like a referee. Government’s job is to make sure that capitalism’s rules play out fairly and safely (AKA: legally). In a democracy like the United States, citizenry is supposed to be integrally involved in governmental decision making in order to help ensure that the government does not become a crooked referee.

America's form of capitalism runs on a constant and healthy tension between these three big players: A system of checks and balances. On a basic level: workers depend on having a job so they can earn a livable wage and rely on government to regulate business so that their working conditions are safe.

In turn, government is dependent on the salary of the worker and the profit of a business so that they can collect taxes to operate. Finally, business depends on government to ensure everyone plays by the rules and on workers to power their businesses and purchase their products.

So there's the premise of our modern form of capitalism in a nutshell. But that nagging question still remains: Like so many other isms, does today's implementation of capitalism also sound superior only in theory?

CAPITALISM DEFINED (IN PRACTICE)

Have you ever heard stories about how early U.S. coal mining camps worked? There's a good chance the answer is no because people don't like talking about it all that much. This is a fairly absent chapter from most history textbooks. It is a time period in American history when capitalism was thriving – but it didn't make capitalism look all too good in practice.

Most early coal camps worked something like this: employees put in really long shifts and faced extremely hazardous working conditions. Instead of being compensated with U.S. dollars, they were typically paid with scrip from the mining company; only good to cash in at mining camping stores (the stores were coincidentally owned by the camp owner).² Can you guess where this is going?

Groceries, drinks, clothes – basically everything – was purchased with scrip. And not surprisingly, some mining camp owners set the price of their store goods at exorbitantly high prices.³ The boss got rich while the miners got poorer.

Recognizing capitalism's perils, like the mining camps debacle, capitalist governments are, in theory, supposed to help stand with the people and make sure things happen fairly. The U.S. government arguably helped do this for quite a while – with tools like antitrust laws to break up big monopolies and campaign laws to ensure that capitalists could not buy elections.⁴

Citizen demand for equal opportunity protections, like fair voting and equitable education, was particularly successful in the Progressive Era (1890–1920). Rebels writers, like Jacob Riis and Ida Tarbel, helped call out corporate greed and energize change with their photos of income inequality and stories about big oil companies during this era.⁵

Fast-forward to today and some people continue to critique capitalism, or at the very least, the contemporary implementation of it. Concerns range from the indirect and often non-priced costs of doing business (also known as externalized costs), to the scarcity of resources that can be pervasive in capitalist-based economies. There are others who praise modern capitalism for the economic opportunities they say it continues to offer and the innovations it helps to cultivate.

But comparing capitalism at work in early American coal mining camps, the Progressive Era, and today can quickly make reading eyes go glassy.⁶ So in order to better understand how our current implementation of capitalism operates in practice, the following chapter overlays the theories of capitalism with the reality of our status quo.

“I AM NOT SO OPPOSED TO CAPITALISM THAT I HAVE FAILED TO SEE ITS RELATIVE MERITS. IT STARTED OUT WITH A NOBLE AND HIGH MOTIVE TO BLOCK THE TRADE MONOPOLIES OF NOBLES, BUT LIKE MOST HUMAN SYSTEMS IT FALLS VICTIM TO THE VERY THING IT WAS REVOLTING AGAINST. SO TODAY, CAPITALISM HAS OUTLIVED ITS USEFULNESS.” DR. MARTIN LUTHER KING JR.

CAPITALISM IN ACTION: **U.S. BANK BAILOUT**

Capitalism in theory doesn't sound so bad. But today's capitalism in practice is arguably not always looking so hot.

An illustrative case study: how the government could have helped the people during the 2008 financial crisis but ended up helping out the big banks instead.

The largest banks in America messed up big time in 2008. In a bid to increase their customer base, banks loosened their standards for home mortgage loans. As a result, banks were doling out cash to some people who lacked the economic means to easily pay it back. For eager homeowners lured into perfect-sounding loans, it turned out that the deal was too good to be true.

Subprime mortgages were given to tons of people who could not make their make their monthly payments. As a result, many people who failed to make their mortgage payments accrued high debt and some ultimately ended up losing their homes.

The banks got themselves in dire financial straits: they needed money in response to all the debt they created.



OUR GOVERNMENT SPENT HUNDREDS OF BILLIONS OF DOLLARS TO BAIL OUT THE BANKS.⁷

Banks were the ones responsible for making the mistake in the first place: they knowingly deceived people. Doesn't it seem a little strange for our government to just bail them out?

Instead, our government could have figured out a way to loan the same amount of money directly to homeowners to help them out with their drowning debt and save them from losing their own homes.

This action, by its very definition, is arguably still capitalism: funds being utilized to provide credit and to keep the economy running. But it's a different kind of capitalism than the one our nation has grown used to because it is a kind where the government gives a hand up to the people instead of extending a hand out to big businesses.