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Common Error No. 32 [1]

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32. "The fact that capitalism is in crisis is shown by the constant shifts from boom to bust."

Critics point to stock market and financial volatility as evidence of a "crisis of capitalism." In fact capitalism is always adjusting to new trends and reacting to new events, sometimes sharply, sometimes gradually.

Capitalism goes through business cycles. When confidence is high the market booms, but sometimes business contracts and consolidates. Despite the fluctuations of these periodic swings, there has been a steady growth rate, averaging about 2 percent per annum for over a century. Even the Great Depression of the 1930s failed to deflect the trend of that long-term average.

The business cycle's troughs and peaks are not a crisis of capitalism. Capitalism has shown itself well able to survive these cycles. Despite them, society gets steadily richer, and living standards rise as wealth diffuses through all classes.

Governments have distorted these cycles by manipulating the economy for electoral advantage. They have flooded money and credit into the economy ahead of an election to stimulate a short-term boom and gain support from the feeling of prosperity this induces. This has produced economic dislocation and inflation which had to be squeezed out later with attendant unemployment.

In recent years independent central banks have tried to smooth the business cycle's severities by combining the pursuit of sound money with making credit easier when an economic downturn loomed. It has been a precarious act which cannot necessarily be sustained, but this is not a crisis of capitalism either. It might just be problems arising from one type of financial management.

Capitalism itself is resilient. It adjusts, it survives. Its dynamism contrasts sharply with the rigidity of the planed economies, their consistent failure to deliver the goods, and their ultimate collapse. If people are free to invest in new production, to innovate and seek new markets, the resultant economy shows remarkable ability to survive the periodic shocks it encounters.

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