

# Comparing economic systems: capitalism, communism and socialism

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"The Bolshevik," painted by Boris Kustodiev in 1920, depicts a communist marcher in the Soviet Union.

Economic systems provide needs for citizens by answering several questions:

What resources does the country have, and what can be produced from them? How should goods and services be produced from the available resources? How are goods and services distributed among the inhabitants? Different economic systems around the world answer these questions in different ways.

The resources of an economic system are called factors of production because the economy needs them to produce goods and services. They may be grouped into four categories:

- Land. This category includes all natural resources, such as soil, water, air and minerals.
- Labor. Every economy needs human resources — people who produce goods and services.
- Capital. Capital includes money, factories, heavy machinery — anything used to produce products and goods.

– Management. Managers organize and direct the other three factors of production.

Until the publication of the 1848 "Communist Manifesto," much of the Western world followed a course where individuals owned private property, business enterprises, and the profits that resulted from wise investments. Karl Marx and Friedrich Engels turned the world upside down.

Marx and Engels pointed out the uneven distribution of wealth in the capitalist world and predicted a worldwide popular uprising to distribute wealth evenly. Ever since, nations have wrestled with which direction to turn their economies.

## **Capitalism**

Capitalism is based on private ownership of the means of production and on individual economic freedom. Most of the means of production, such as factories and businesses, are owned by private individuals and not by the government. Private owners make decisions about what and when to produce and how much products should cost. Other characteristics of capitalism include the following:

**Free competition.** The basic rule of capitalism is that people should compete freely without interference from government or any other outside force. Capitalism assumes that the most deserving person will usually win. In theory, prices will be kept as low as possible because consumers will seek the best product for the least amount of money.

**Supply and demand.** In a capitalist system, prices are determined by how many products there are and how many people want them. When supplies increase, prices tend to drop. If prices drop, demand usually increases until supplies run out. Then prices will rise once more, but only as long as demand is high. These laws of supply and demand work in a cycle to control prices and keep them from getting too high or too low.

## **Communism**

Karl Marx, the 19th-century father of communism, was outraged by the growing gap between rich and poor. He saw capitalism as an outmoded economic system that exploited workers, which would eventually rise against the rich because the poor were so unfairly treated. Marx thought that the economic system of communism would replace capitalism. Communism is based on principles meant to correct the problems caused by capitalism.

The most important principle of communism is that no private ownership of property should be allowed. Marx believed that private ownership encouraged greed and motivated people to knock out the competition, no matter what the consequences. Property should be shared and the people should ultimately control the economy. The government should exercise the control in the name of the people, at least in the transition between capitalism and communism. The goals are to eliminate the gap between the rich and poor and bring about economic equality.

## **Socialism**

Socialism, like communism, calls for putting the major means of production in the hands of the people, either directly or through the government. There is, however, no one clear definition of socialism. Originally, socialism was essentially the same as communism. The Soviet Union, or USSR (Union of Soviet Socialist Republics), was trying to create a socialist or communist

government, the names were fairly interchangeable. For some, socialism was really just seen as a stepping stone to creating the perfect communist society, as envisioned by Marx.

To many modern socialists, who are often called Social Democrats, socialism is somewhere between communism and capitalism. These modern socialists, like communists, believe that wealth and income should be shared more equally among people. These social Democrats differ from communists in that they do not believe that the workers will overthrow capitalists suddenly and violently. Nor do they believe that all private property should be eliminated.

Their main goal is to narrow, not totally eliminate, the gap between the rich and the poor. The government, they say, has a responsibility to redistribute wealth to make society more fair and just. Many leaders in Europe call themselves socialists, laborites (members of a Labor Party) or social Democrats. Vermont Senator and former presidential hopeful Bernie Sanders has called himself a Democratic Socialist — about the same as a social Democrat — and has expressed admiration for how Scandinavian countries have tried to make sure every person in their society has access to housing, health care, education, meaningful employment and transportation.

There is no purely capitalist or communist economy in the world today. The capitalist United States has a Social Security system and a government-owned postal service. Communist China now allows its citizens to keep some of the profits they earn. These categories are models designed to shed greater light on differing economic systems.

## Quiz

- 1 Which answer choice BEST summarizes how socialism is affected by the ideas of capitalism and communism?
- (A) Socialism uses the ideas of communism that put production in the hands of the people and narrow the wealth gap, while still allowing capitalist principles like private property and personal profit.
  - (B) Socialism was first envisioned by Marx as the stepping stone to a perfect communist society, but was later corrupted by social Democrats who used its ideas to overthrow capitalists suddenly and violently.
  - (C) Socialism focuses on capitalist ideas like free competition to assume that the most deserving person will earn the most money, and rejects the communist ideas that wealth can be more fairly distributed among workers.
  - (D) Socialism was created as a reaction to communism so that people could take their means of production back from the government, but later combined government production and capitalist ideas about health care and education.
- 2 The article develops the differences between capitalism and communism in each of the following ways EXCEPT:
- (A) by explaining the nature of free competition and supply and demand
  - (B) by outlining the inspiration and principles of Marx and Engels' book
  - (C) by describing Bernie Sanders' admiration for systems in Scandinavian countries
  - (D) by contrasting economic approaches to private ownership of business and resources
- 3 Which answer choice BEST describes the structure of the article?
- (A) The article outlines the differences between communism and socialism, and demonstrates how socialism attempts to resolve some of the common problems associated with communism.
  - (B) The article describes the basic principles and characteristics of capitalism, and contrasts those characteristics with the communist goals of Karl Marx and Friedrich Engels.
  - (C) The article provides a definition for the term factors of production, and outlines the personal disputes over control of those factors that led to three specific economic systems.
  - (D) The article lists factors of production common to most countries' economies, and describes three economic systems' basic philosophical principles in relation to one another.
- 4 What is the relationship between the article's first two paragraphs and its final paragraph?
- (A) Both propose solutions to the problems many countries face regarding the distribution of and profit from factors of production.
  - (B) Both suggest that combining different factors from multiple economic systems is the best way for a nation to achieve balance.
  - (C) The first two paragraphs suggest there are many questions that influence economic systems, and the final paragraph shows that some countries have combined systems in an attempt to find practical answers.
  - (D) The first two paragraphs propose questions that need to be answered by any economic system, and the final paragraph shows how capitalism and communism have fully answered them in some nations.