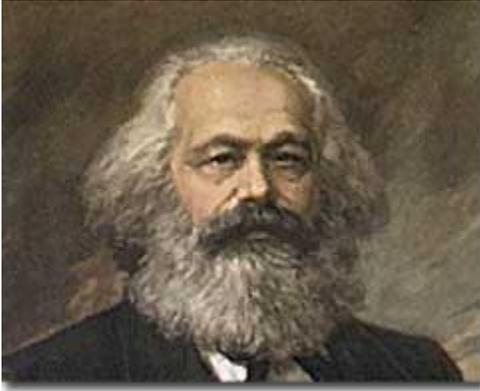


## Comparing Economic Systems!

Summarizing

### Comparing Economic Systems



Karl Marx, German philosopher, economist, and revolutionary, laid the ideological groundwork for modern socialism and communism.

Karl Marx and Friedrich Engels turned the world upside down.

Until the publication of their 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. 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.

The antitrust lawsuit against Microsoft is one way that the government has tried to promote competition. Supporters of Microsoft say that forcing Microsoft to allow companies to bundle arch-rival Netscape's web browser with Microsoft Windows is not unlike making Coca-Cola include a can of Pepsi in each six-pack it sells.

- 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. Socialism also believes that wealth and income should be shared more equally among people. Socialists 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.

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.

#### Capitalism, Socialism & Communism: Introduction

Capitalism is an economic and political system in which individuals own economic resources and industry, whereas under socialism, the state plans and produces goods, and either owns or redistributes resources among its citizens. In a capitalist economy, the political system emphasizes competition for resources as a means of increasing capital (or wealth) and developing personal success. In a

socialist economy, the emphasis is on distributing wealth so that individual needs are met with collective capital. There are many different versions of both capitalism and socialism, and most modern societies are a blend of the two.

### **Capitalism**

Individualism and competition are fundamental to capitalism. In a purely capitalist society, individuals are responsible for protecting their own interests in the marketplace and within their communities. The potential success of each individual is also valued. People are encouraged to direct their talents in a way that benefits themselves, such as by starting a business or entering a highly profitable profession.

Capitalism relies on a system of checks and balances brought about through competition. Individuals who own capital can compete with others to provide goods and services to the marketplace; those who produce and effectively market goods that are in demand and at a price that people want to pay are likely to succeed. Similarly, businesses that treat their workers well and pay good wages are most likely to attract good employees, which is more likely to mean success for the business. Those who offer inferior service or fail to attract good workers will eventually fail and leave the marketplace.

Low taxes are generally a goal of capitalistic governments. In addition, government funding for public services, like social service benefits, is generally kept to a minimum. Health care systems may also be primarily funded by the private sector, requiring citizens to purchase their own health insurance or rely on an employer to provide insurance.

### **Types of Capitalism**

When discussed theoretically, capitalism has several unique defining characteristics. In practice, however, nuance has developed and as a result, it can be separated into a variety of types:

- **Free-market capitalism:** This type of capitalism leaves all aspects of a society to be governed by the market, with little or no intervention from the government. Here, the role of the government is limited to protect the lives and property of the citizens.
- **Corporate capitalism:** In this type of economy, large, bureaucratic corporations dominate the economy. This allows for long-term planning and efficiency, but less innovation. Large corporations may also have an equally large influence over the government, leading to legislation designed to protect the interests of those companies.
- **Social-democratic or social market economy:** This economic system is an attempt to balance the benefits of a free-market system with a strong social support structure. While most industries are privately owned, the government is more heavily involved in making sure that competition is fair, unemployment is low, and social welfare is provided for those who need it.
- **State-lead capitalism:** In this economy, the means of production are owned by the government, but run in a “capitalistic” way — meaning for profit. The term is also sometimes used to describe an economy in which the government steps in to protect the interests of businesses.

### **Socialism**

Socialism relies on governmental planning, rather than the marketplace, to distribute resources. While it is usually possible for individuals living in a socialist country to own businesses or offer professional services directly to consumers, they are usually taxed heavily on their profits. Public services are typically numerous and funded by taxpayer money. Citizens are expected to work, but the government provides services such as education, healthcare, and public transportation for free or at very low cost. Socialist countries also often have extensive social welfare systems to aid the unemployed, disabled, and elderly.

In addition to paying higher taxes, business owners in socialist countries are often expected to comply with very strict labor laws designed to protect workers against exploitation. These laws include restrictions on work hours and mandate regular vacations, sick time, and leave for numerous reasons, such as the birth or adoption of a baby. Employers are typically not expected to provide health insurance coverage, however, as medical care is usually provided through national health care systems.

### **Types of Socialism**

There are a wide range of socialist political philosophies, including Marxism and reformism. Marxism, originating from the works of Karl Marx and Friedrich Engels, argues that socialism is the mid-point between capitalism and communism, with the means of production controlled by the working class but with the state guiding the economy on the workers’ behalf. Reformism, sometimes called social democracy, is focused on changing capitalist societies from within, through the political process and government reform. In addition, there are a number of different economic theories of socialism:

- Market socialism involves running public or cooperative companies within the free market. Rather than depending on taxes, the government takes all profits and redistributes them by paying employees, funding public institutions, and offering social services.
- In a planned economy, the government owns the means of production, and plans out what will be produced, how much will be made, and the price it will sell for.
- Self-managed economies depend on the collective actions of specific groups to make decisions. For example, a self-managed company may be owned by its workers, who collectively decide the direction of the business.
- State socialism or state-directed economies have industries that are owned cooperatively, but which operate with some planning or direction from the government.

### **Communism**

While it is a different economic system, many people confuse socialism with communism. Under communism, everything is owned communally, or by everyone. Ideally, there is no government or class division, and no money; each person contributes to society as best as he or she is able, and takes from that society only what he or she needs. The decisions made by that society are supposed to benefit the people as a whole, not any individual.

Historically, countries that have been called “communist” actually practiced some form of socialism, usually run by one political party. The state typically owned all forms of production and practiced very strict central planning — meaning that the government decided how all resources were to be used. Many critics argue that most governments that are called “communist” are really very different from the word’s true meaning.

## Mixed Economies

Very few societies are purely capitalist or purely socialist, although most are more strongly one than the other. The United States, for example, is considered to be a capitalist society, but the Social Security system, which provides support for people who are unable to work, is socialistic. Sweden is considered by some people to be a socialist country because of its high tax rate and large welfare system, but the majority of industry in the nation is in private hands, which is capitalistic.

## Critiques

The criticisms of both capitalism and socialism largely stem from different opinions about how economic forces should shape governments and societies. Some critics believe that the human spirit needs competition to fully develop, while others emphasize the need for people to cooperate with each other, ensuring that the needs of all citizens are met. Within each philosophy, there are additional critics who disagree about how each economic or political system would work best.

Critics of capitalism note that the marketplace can be unstable, presenting real dangers to the well-being of those who are not wealthy or who are otherwise vulnerable. Giving business owners free rein to set the terms of employment and to keep most of the profits from their enterprises to themselves, can establish a wealthy class which, in turn, can suppress the freedom of others. These critics also note that a purely capitalist society does not address the needs of those who are truly unable to compete either as business owners or as laborers. Without some social support systems, such as Social Security or welfare, those who cannot work or earn enough money to survive must lead a precarious existence, and may be forced to rely on family or private charity for support.

Those who criticize socialism observe that heavy taxation to provide equal social services for all citizens can discourage business owners from innovation and excellence, given that the owner won't personally profit from his or her efforts. In addition, when the government plans the economy, some critics question whether officials and their policy advisors really understand what is best for a country's citizens; such socialist governments may give their citizen's no choice in deciding what kinds of services they really want or need. In addition, capitalist critiques of generous socialist social welfare programs note that these programs may discourage people from working, as people may be able to live reasonably well on government benefits rather than having to hold a job. As a result, families may slip into generational poverty, as the children may grow up feeling entitled to government support.

## Comparison chart

	<u>Communism</u>	<u>Socialism</u>
<b>Philosophy</b>	From each according to his ability, to each according to his needs. Free-access to the articles of consumption is made possible by advances in technology that allow for super-abundance.	From each according to his ability, to each according to his contribution. Emphasis on profit being distributed among the society or workforce to complement individual wages/salaries.
<b>Economic System</b>	The means of production are held in common, negating the concept of ownership in capital goods. Production is organized to provide for human needs directly without any use for money. Communism is predicated upon a condition of material abundance.	The means of production are owned by public enterprises or cooperatives, and individuals are compensated based on the principle of individual contribution. Production may variously be coordinated through either economic planning or markets.
<b>Religion</b>	Abolished - all religious and metaphysics is rejected.	Freedom of religion, but usually promotes secularism.
<b>Political System</b>	Usually takes the form of totalitarianism as Marx described in The Communist Manifesto. Cronyism common.	Can coexist with different political systems. Most socialists advocate participatory democracy, some (Social Democrats) advocate parliamentary democracy, and Marxist-Leninists advocate "Democratic centralism".
<b>Ideas</b>	All people are the same and therefore classes make no sense. The government should own all means of production and land and also everything else. People should work for the government and the collective output should be redistributed equally.	All individuals should have access to basic articles of consumption and public goods to allow for self-actualization. Large-scale industries are collective efforts and thus the returns from these industries must benefit society as a whole.
<b>Definition</b>	International theory or system of social organization based on the holding of all property in common, with actual ownership ascribed to the community or state. Rejection of free markets and extreme distrust of Capitalism in any form.	A theory or system of social organization based on the holding of most property in common, with actual ownership ascribed to the workers.
<b>Key Proponents</b>	Karl Marx, Fredrich Engels, Vladimir	Robert Owen, Pierre Leroux, Karl Marx,

	Lenin, Leon Trotsky.	Fredrick Engels, John Stuart Mill, Albert Einstein, George Bernard Shaw, Thorstein Veblen, Emma Goldman.
<b>Social Structure</b>	All class distinctions are eliminated.	Class distinctions are diminished.
<b>Economic coordination</b>	Economic planning coordinates all decisions regarding investment, production and resource allocation. Planning is done in terms of physical units instead of money.	Planned-Socialism relies principally on planning to determine investment and production decisions. Planning may be centralized or decentralized. Market-socialism relies on markets for allocating capital to different socially-owned enterprises.
<b>Private Property</b>	Abolished. The concept of property is negated and replaced with the concept of commons and ownership with "usership".	Two kinds of property, personal property, such as houses, clothing, etc. owned by the individual. Public property includes factories, and means of production owned by the state but with worker control.
<b>Political movements</b>	Leninism, Trotskyism, Marxism-Leninism, Maoism, Left-Communism, Stalinism.	Democratic Socialism, Communism, Libertarian Socialism, Anarchism, Syndicalism.
<b>Free Choice</b>	Either the collective "vote" or the state's rulers make economic and political decisions for everyone else.	All choices, including education, religion, employment and marriage, are up to the individual. All health care and education is provided through a socialized system funded by taxation. Citizens have free and equal access.
<b>Key elements</b>	Centralized government, planned economy, dictatorship of the "proletariat", common ownership of the tools of production, no private property. equality between genders and all people, international focus. anti-democratic. One party system.	Economic activity and production especially are adjusted to meet human needs and economic demands. "Production for use": useful goods and services are produced specifically for their usefulness.
<b>Way of Change</b>	Government in a Communist-state is the agent of change rather than any market or desire on the part of consumers. Change by government can be swift or slow, depending on change in ideology or even whim.	Workers in a Socialist-state are the agent of change rather than any market or desire on the part of consumers. Change by the workers can be swift or slow, depending on change in ideology or even whim.
<b>Discrimination</b>	In theory, all members of the state are considered equal.	The people are considered equal, laws are made when necessary to protect people from discrimination.
<b>Ownership structure</b>	The means of production are commonly-owned, meaning no entity or individual owns productive property. Importance is ascribed to "usership" over "ownership".	The means of production are socially-owned with the surplus value produced accruing to either all of society (in Public-ownership models) or to all the employee-members of the enterprise (in Cooperative-ownership models).
<b>Examples</b>	Ideally, there is no leader; the people govern directly. This has never been actually practiced, and has just used a one-party system. Examples Of Communist states are the erstwhile Soviet Union, Cuba and North Korea.	Union of Soviet Socialist Republics (USSR): Although the actual categorization of the USSR's economic system is in dispute, it is often considered to be a form of centrally-planned socialism