

# 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, such as oil reserves or rich farmland, does the country have? What can be produced from them? How should goods and services be produced from the available resources? How are goods and services distributed among those who live there?

Different economic systems around the world answer these questions in different ways.

## **The Necessary Resources**

The resources of an economic system are called factors of production. These are things like land, workers and money that countries have and then use to make a profit. Countries need them to produce goods and services. Resources can be separated into four groups:

Land: This includes all natural resources, such as soil, water, air and minerals.

Labor: This is the work of the people who produce goods and services.

Capital: This is money, factories, heavy machinery or anything used to produce goods.

Management: This is the people who organize and direct the other three groups.

Before the mid-1800s, much of the Western world (Europe and the Americas) followed a course where individuals owned private property, businesses and the profits that came from good investments. This is called capitalism.

Then in 1848, Karl Marx and Friedrich Engels turned the world upside down with their book "Communist Manifesto." Marx and Engels pointed out the unequal wealth of capitalism. They predicted a worldwide fight against capitalism. They thought those with less money would demand wealth be distributed evenly among all people.

## **Characteristics Of Capitalism**

Capitalism is based on private ownership and individual economic freedom. This means most factories and businesses are owned by private individuals, not the government. Private owners make decisions about what and when to produce and how much products should cost, not the government.

Other characteristics of capitalism include the following:

Free competition: Capitalism says that people should compete freely. There should not be interference from the government or others. This means the government cannot help one business have an advantage over another. Instead, the business or person with the best product and production will be the most profitable. Prices will be kept as low as possible because of the people buying the products. They will seek the best choice for the least amount of money.

Supply and demand: 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. Prices will rise again when demand also rises. Supply and demand work in a cycle to keep prices from getting too high or too low.

## **Karl Marx And Communism**

Karl Marx, the 19th-century father of communism, was outraged by the growing gap between the rich and the poor. He thought capitalism made rich people richer by taking advantage of workers, who would eventually rise against the rich because they were so unfairly treated. Marx thought communism would eventually replace capitalism.

Communism is 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 take out their competition, no matter what the results. Communism says property should be shared, and the people should ultimately control the economy. The

government's job should be to exercise control in the name of the people, at least during the move from capitalism to communism. The goals of communism are to do away with the gap between the rich and poor and to have an equal economy for everyone.

### **How Socialism Differs**

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. Some socialists have the same beliefs as communists, but others believe socialism should be somewhere between capitalism and communism. In Europe, these socialists are called social Democrats. Bernie Sanders, the senator from Vermont who ran for president, has similar views as social Democrats.

Socialism differs from communism in that it does not believe workers will overthrow capitalists suddenly and violently. Socialism also does not believe that all private property should be eliminated. Its main goal is to narrow, not totally do away with, the gap between the rich and the poor. Socialism believes the government should redistribute wealth by taxing the rich to make society fairer.

There is no purely capitalist or communist economy in the world today. For example, the capitalist United States has a Social Security system that provides money to people when they retire. The United States also has a government-owned postal service. Communist China now allows its citizens to keep some of the profits they earn.

**Quiz**

- 1 According to the article, why did Karl Marx think the economic system of the world would change?
- (A) He believed the system of supply and demand failed at keeping prices from changing.
  - (B) He believed the poor of the world would rise up and demand a system that treated them fairly.
  - (C) He believed a system run by the government would prove to be the most profitable.
  - (D) He believed competition among businesses created a system that lowered their production.
- 2 Based on the article, which of the following is MOST important to all economic systems?
- (A) economic freedom
  - (B) factors of production
  - (C) equal distribution of wealth
  - (D) government-owned services
- 3 The section "The Necessary Resources" introduces the idea that communism was a reaction to capitalism.
- The section "Karl Marx And Communism" develops this idea by .....
- (A) explaining how Marx believed the goals of communism would fix the problems of capitalism.
  - (B) describing where Marx studied capitalism to research ideas for his book on communism.
  - (C) explaining why Marx thought capitalism made rich people richer and hurt workers.
  - (D) describing who Marx inspired to follow the ideas in his new system called communism.
- 4 Why does the author include information about the views of Bernie Sanders?
- (A) to give a description of someone who is against socialism
  - (B) to provide historical context for why some countries use socialism
  - (C) to give a specific, current example of one way of looking at socialism
  - (D) to provide a detailed, popular plan for changing socialism