

Capitalism, Socialism, Communism . . . What is the difference?

Capitalism and **socialism** are somewhat opposing schools of thought in economics. The central arguments in the socialism/capitalism debate are about economic equality and the role of government: socialists believe economic inequality is bad for society and the government is responsible for reducing it via programs that benefit the poor. e.g. free public education, free or subsidized healthcare, social security for the elderly, higher taxes on the rich. On the other hand, capitalists believe that government does not use economic resources as efficiently as private enterprise and therefore society is better off with the free market determining economic winners and losers. This lack of government involvement in the economy is called “laissez faire” (literally “let it be”)

The U.S. is widely considered the defender of capitalism and large parts of Scandinavia and Western Europe are socialist democracies. However, the truth is every developed country has some programs that are socialist.

Capitalism:

At its root, capitalism is an economic system based on three things: wage labor (working for a wage), private ownership of the means of production (things like factories, machinery, farms, and offices), and production for exchange and profit (you pay for what you get). While some people own means of production, or capital, most of us don't and so to survive we need to sell our ability to work in return for a wage.

In terms of government involvement in the economy, capitalists believe in the principle of “Laissez-faire economics, which means to “let it be”. Therefore, capitalism is opposed to government intervention in economics because capitalists believe it is inefficient. Rather, a free market produces the best economic outcome for society. Govt. should not pick winners and losers.



Influential Leader: Adam Smith is often identified as the father of modern capitalism. In his book, *Wealth of Nations*, he discusses the importance of **division of labor** and **free trade**, the **limits on government intervention**, all signify the moment when economics transitions to the “modern.”

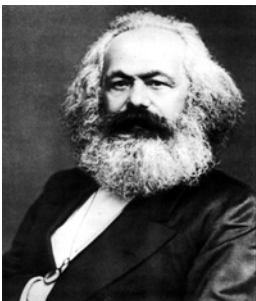
Socialism

Socialism is an economic system where the means of production, such as money and other forms of capital, are owned by the state (the government) or public. Under a socialist system, everyone works for wealth that is, in turn, distributed to everyone. Under capitalism, you work for your own wealth. A socialist economic system operates on the premise that what is good for one is good for all. Everyone works for their own good and the good of everyone else. The government decides how wealth is distributed among the people. In a socialist economy, the government provides for the people. The taxes are usually higher than in a capitalist system. There may be government-run health care and a complete system of government-operated education. It is a misconception that people do not pay for these services. They do pay for them through higher taxes. Socialist systems emphasize equal distribution of wealth among the people.



Communism

In a way, communism is an extreme form of socialism. Many countries have dominant socialist political parties but very few are truly communist. The key differences between socialism and communism are due to the fact that socialism is simply an economic system, while communism is both a political/governmental system **and** an economic system. The second main difference between socialism and communism is that within communism the distribution of goods and services takes place according to the individuals needs, while in a socialist system, goods and services are distributed based on individual efforts (e.g. paying taxes). Finally, within a socialist system, capitalism CAN exist (e.g. privately owned companies), while in a communist system capitalism CANNOT exist.



Influential Leader in the development of Socialist and Communist theory:

German economist, philosopher, and revolutionist, and one of the most original and influential thinkers of modern times, Karl Marx produced much of the theory of modern socialism and communism. In his publication the *Communist Manifesto*, Marx declared that all history was the history of class struggles. Under capitalism, the struggle between the working class and the business class would end in a new society, a communist one.

Capitalism	Negatives of Capitalism
Economic system where the means of production are owned by private individuals	Private ownership means production leads inequality of wealth – rich get richer, poor get poorer
Government control and interference at a minimum	Competition wasteful because of high cost of advertising
Private ownership of natural resources permitted	No government agency controlling production, creates waste by overproduction and duplication of effort
Allocation of national resources determined by supply and demand	Profit is the motivation of production. Scarce resources wasted on goods and services that serve no useful purpose
Competition eliminates inefficient producers, improves products, reduces costs	Dollar vote (one votes for the manufacture of good by buying them), the poor have little say in determining production
Private ownership of property permitted	Planning individual basis, leads to overproduction and waste

Socialism	Negatives of Communism and Socialism
Socialism is an economic system in which most means of production is owned and controlled by the government	Socialism lacks incentives for increasing effort, no motivating force
Socialists believe moving toward their goals of government ownership and control of production by gradual means	Determining “need” is a problem which government is unable to solve
Property nationalized, owners compensated	Because government controls production, it also protects the inefficient producer
Government plans production by determining what produced and what quantity	Because of improper government planning, both overproduction and underproduction can and do occur
Socialism, production determined by need not profit	Freedom of choice is somewhat limited
Because government owns production, production can be planned and waste eliminated	
Overproduction, duplication of effort, and depressions avoided as competition replaced by cooperation and planning	

Communism	Differences between Communism and Socialism
Communism is an economic system where, in theory, all goods owned collectively and payment of income based on need	Communists seek to end capitalism by revolution whereas socialists do it by ballot box
Individuals given little freedom in determining what to produce	Socialists believe in orderly transfer for production from private to public ownership
Everything owned collectively, private ownership of production prohibited	Under socialism, fair payment is made for nationalized property
Individuals work to full potential with compensation determined by government. In most controlled economies, incentives used to encourage work at full potential	Socialism has high regard for an individual’s freedom