

A comparison  
between socialism  
and capitalism  
economics essay



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The political and economic world has always been dependent on each other, not one can survive without the other and the world cannot function without both. Countries have been competing in finding the best economic and political combination that brings their countries into the power they need to lead the world. First Europe has always conquered the world history by strong military power based, the power of the church and lack of freedoms for the people, as things developed and the two world wars ended, the political world as we know it ended as well; Europe is no longer in charge of the world, as new ideologies started to show, United States of America began developing into a world power, Russia adopted the communist approach of the world, and began collecting countries under their union. Capitalism evolved with Adam Smith and got adopted by the United States; Faced by the communist USSR (Union of Soviet Socialist Republics) led by Russia. During their cold war and the fight to show which political economic theory is better, capitalism won the first round, USSR was demolished, Capitalism invaded the world for the past 20 years, and to our surprise after believing for so long, that we finally reached the perfect political economy theory, Capitalism collapses in 2008 and showed the world how vulnerable this theory is, at the same time, theres certain economists who have always predicted the collapse of the financial system and the world economy, promoting the collapse of the political economic theories, and they are the Austrian economists lead by Fredrick Hayek and Robert Vin Misis. Although there have been a lot of scenarios for these political economies, a comparison and contrast of Socialism (communism), and the Free-Market system (Capitalism) will be the main focus of my study to find the best mix of

theories that can provide the world with a stable, consistent and developing economic theory that will leave the world better off.

#### Literature Review:

Socialism according to Marxian system who is the founders of this theory is Socialism, a set of relations of production that will follow capitalism, contains some vestiges of capitalism. One of the chief characteristics of capitalism is that the means of production, capital, are not owned or controlled by the proletariat. The major change that occurs in the transition from capitalism to socialism is that the expropriators are expropriated the proletariat now owns the means of production. However, under socialism, a remaining vestige of capitalism is that economic activity is still basically organized through the use of incentive systems: rewards must still be given in order to induce people to labor. (Karl Marx, 1991)

On the other hand capitalism that was found by Adam Smith its defined as capitalism is a social system based on private ownership of the means of production. It is characterized by the pursuit of material self-interest under freedom and it rests on a foundation of the cultural influence of reason. Based on its foundations and essential nature, capitalism is further characterized by saving and capital accumulation, exchange and money, financial self-interest and the profit motive the freedoms of economic competition and economic inequality, the price system, economic progress, and a harmony of material self-interest of all individuals who participate in it (George Reisman. 1998)

The economic development stages were said by Marx to consist of two major groups which include the workers and owners of means of production, he provided a historical description of economic development whereby he pointed out the major stage, the first stage was slavery, then feudalism, then capitalism and finally communism, he viewed communism as a form of economic organization that would emerge from the ruins of capitalism, according to him workers were oppressed and alienated and a revolution would take place that would replace capitalism with the communist form of society. (Benedetto, 1996)

However, Many theorists and policymakers in predominantly capitalist nations have emphasized capitalism's ability to promote economic growth, as measured by Gross Domestic Product (GDP), capacity utilization or standard of living; This argument was central, for example, to Adam Smith's advocacy of letting a free market control production and price, and allocate resources. Many theorists have noted that this increase in global GDP over time coincides with the emergence of the modern world capitalist system. (Capitalism, Robert E. Lucas Jr 2008)

As for Labor value was also another principle of Karl Marx economics, labor value refers to the value of a product that is usually determined by the amount of labor utilized to produce the product. This means that he assumed that the value of products depended on the amount of labor used in the production of that product, he stated that the greater the productivity of labor then this means that less labor hours will be spent in producing the product and therefore the lower will be the value of the product. (Skousen, 2007)

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On the other hand, according to the capitalistic point of view of labor, they said: The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labour.

The effects of the division of labour, in the general business of society, will be more easily understood by considering in what manner it operates in some particular manufactures..... The division of labour, however, so far as it can be introduced, occasions, in every art, a proportionable increase of the productive powers of labour. The separation of different trades and employments from one another seems to have taken place in consequence of this advantage. This separation, too, is generally called furthest in those countries which enjoy the highest degree of industry and improvement; what is the work of one man in a rude state of society being generally that of several in an improved one. In every improved society, the farmer is generally nothing but a farmer; the manufacturer, nothing but a manufacturer. The labour, too, which is necessary to produce any one complete manufacture, is almost always divided among a great number of hands.... This great increase of the quantity of work which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances; first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many. (The Wealth of Nations, Adam, 1937)

Regarding wages in the economy Marx pointed out that workers sold labor power to the owner of the production process, according to him the value of wages that prevailed were determined by the market forces which include the demand for labor by the capitalist and the supply of labor by workers, these forces determined the wage rates and given that the means of production were owned by only a few capitalist then workers were the majority and therefore labor supply was high. Wage rate in the economy however were sufficient to enable workers to reproduce labor power.

(Skousen, 2007)

As for the capitalist, they argued about the wage as The value of labor is determined on a foundation of its utility and scarcity, by demand and supply \_ more specifically, by the competition of buyers for the limited supply not by any form of cost of production, least of all by any cost of production of labor (Capitalism, George Reisman. 1998)

Karl Marx distinguished two forms of capital as constant and variable capital, according to him constant capital referred to non reproductive capital, constant capital refers to the capital value that does not undergo any changes in its value in the production process example machinery and raw materials, according to him interest and depreciation costs were transferred to the cost of products and therefore these form of capital does not add value to the product produced. (Karl Marx, 1991)

The other form of capital according to him was variable capital, variable capital refers to the portion of capital that represented labor power, labor power produced value to the product that was equal to its value and also

produced a surplus. Labor was the sole source of value of the product and this refers to the portion of capital that was spent in hiring of the workers. (Karl Marx, 1991)

For the capitalists, There are two dimensions to the scarcity of capital and capital goods. In one respect, capital goods are simply as scarce as our labor and ability to produce consumers goods. The second dimension of the scarcity of capital refers to the fact that goods can be produced with varying amounts of capital per unit, that is, with varying degrees of capital intensiveness. (Capitalism, George Reisman. 1998)

Marx also pointed out the importance of technology in the production process, technology and machinery were important ingredients in the production process, and technology increased the productivity of labor given that reducing the time taken by labourers to produce his exchange wage value, therefore capitalists aimed at reducing the time spent by labor in the production process by introducing machines in the production process. (Benedetto, 1996)

The economic degree of capitalism and the degree of capital intensiveness in the economic system operate, as it were, as a kind of long-range radar net for technological progress with commutative long-run consequences for capital accumulation and the ability to implement technological advances, in that they determine which kinds of technologies can be picked up and implemented at any given time. (Capitalism, George Reisman. 1998)

Methodology:

Comparing and contrasting the two theories, showing their pros and cons, combining their pros, and coming up with a model that shows the best fit for a perfect economic theory. This theory will be proved by works of other scholarly, and by examples of countries that have taken this theory into action and now are leading the world economies.

### Capitalism VS Socialism: comparison

As we have seen capitalism consisted of free market system with small government intervention in the market according to Adam Smith, labours are fit to work as much as possible to come up with the optimum production, wages are distributed according to the demand and supply of the labour itself, capital is accumulated and saved, and technology is crucial for economic growth and development which are based on GDP and living standards.

On the other hand, socialism is a planned market economy, where the means of production lays in the hands of the government, labours are suppressed therefore they need to retaliate on the means of production owners through revolutions that would destroy the capitalism system and replace it with the communist system, moreover the socialists believed that the wages it was referred to as the value of a product that is usually determined by the amount of labor used to produce the product, capital was separated into two categories, constant and variable, where constant capital is the capital from machinery and raw materials that depreciated therefore cannot be included in the factors of production and the variable capital that is the labour capital, which is the sole power of valuing the products



produced. Last but not least, one of the factors I am studying in this paper, is technology which according to Marx and Socialists in general, is a main source of economic development, as it facilitates the production process on the labour and is more productive and efficient, they also argued that it is the reason for the economic development in the capitalist systems.

### Capitalism Socialism

Political and economical power accessible to all Economic and political power in the hand of the government

Capital ownership for all Capital ownership controlled the government

Capital incomes beyond consumption capacity for a wealthy elite Adequate and secure incomes from capital for a governing elite

Individualistic system Collectivist system

Materialistic ideology and system which ignores the growing income insecurity and inequality Materialistic ideology and system based on and fostering the absolute dependency of all citizens on the state for their income security and well-being

Labor-centric, classical laissez-faire economic system Labor-centric Marxist and Keynesian systems

Win-lose, zero-sum, scarcity, orientation Lose-lose, zero-sum, scarcity, forced-levelling orientation

Sacrifices justice for efficiency Sacrifices efficiency for collectivist " justice"

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Wage system (jobs for the many, capital ownership for the few) Wage system (jobs for all, capital ownership for none)

Equality of opportunity to work; inequality of opportunity to own Forced duty to work and forced equality of results as determined by governing elite

Protects private property rights eliminates rights of private property and putting control over means of production in hands of the government

“ Hands-off” role of the state regarding monopolization of ownership and control Economic power is totally centralized in or regulated by the state

Prices and wages are unprotected from global competition Prices and wages controlled by government

Capital credit available to all All credit controlled by state

Technology controlled by private sectors Technology controlled by the government

Basically these two systems have more into them than just, technology, economic development, labour, and capital; they vary in a very important figure which is government intervention along with certain different sectors summarized in the table below:

In less words, Capitalism is based on a free market, least government intervention in the economic processes, Labours have to depend on their skills, education and knowledge to be able to get paid and live decently, yet they are free to do any business, and buy and sell in the market. Competition

is very high due to the free business system, which enhances price inclination, leaving the society better off. Moreover, private ownership and property is accepted for all the people as in, they are free to own anything they pay for, furthermore, business is dealt with according to demand and supply, which pushes the prices to increase or decrease (as the demand increase price increase, as supply increase price decrease). On the other hand a socialist system is based on government owning all factors of production, government setting a standard price for goods and services, distributing wealth and wages to all labours, finding jobs and employment for everyone in the society, concentrating on the well being and the equality among citizens, rather than enhancing competition and rivalry, all property is owned by the state, and business is based on the States well being and decisions of what goods shall be sold and at what price and in what quantities.

#### Advantages and Disadvantages:

The advantages of Capitalism mainly circulates around the distinctive freedom the people have, as they are allowed to start up a business whenever they can, they can enter and leave the market freely which enhances competition. This competition increases supply, therefore prices of normal goods will decrease and quality of goods will increase, leaving the society better off. Also when the market has all these businesses coming in and out, system corruption do not take place as there arent any specific people controlling everything to their benefits, therefore corruption will least occur in a capitalistic system. Furthermore, creating great competition

between firms and businesses, will lead each firm to enhance its  
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technologies and innovations, coming up with new goods and services that will all benefit the consumer on the long run. On the other hand, capitalism leads to income inequality as the poor will remain poor since they lack the ability to start a business and make money, as for the rich, they will become richer as they have all the tools that leads to monopoly and the dismantle of the poorer. Moreover this system will create high unemployment rates, as every individual is self-dependent to get an education and find a job and make money, if you dont have the ability to work you will end up helplessly unemployed with no one to help you out. Also one of the disadvantages of capitalism highlighted by Karl Marx, it states that:

The capitalists will face falling profit levels and the only solution to this problem will be increased exploitation of labor, exploitation of labor will involve reducing wages in order to attain desired surplus values, there will be a rise in unemployment and this will be due to technology advancement and population growth, the high unemployment will increase labor supply enabling capitalist to further exploit labor. (Hollander, 2008)

Monopoly capitalist will lead to increased constant capital and as more and more workers become unemployed and due to further exploitation of labor through low wage rates there will be a revolution where the capitalist form of society will be replaced by the communist form of society. (Hollander, 2008)

As for socialisms advantages, first this system promotes equality among the society, where everyone is treated exactly the same, everyone is employed and everyone gets paid an equal wage at the end of the month, second, the government provides its people with everything they need, healthcare,

education, etc... Thirdly the government puts all the rules for the economy, the politics, the judicial system and the society, therefore no monopolistic power to exploit the poor, but the poor doesn't exist. Socialism has faced a lot of criticism, and the main point is that, although there are no monopolistic powers exploiting the people and everyone is treated equally, but the government or the state that is controlling everything becomes the exploiting power. As the state controls all resources, all the wealth the labours make, all the businesses working on its lands, owning every piece of land and distributing very little to its citizens is what puts socialism up to the question. In concept, the theory is perfect on the human level, but in action, most states officials exploit the labours, distribute very little to them, keeping all the wealth for themselves, and having the power in the hands of a small number of people will lead to dictatorship, as what's happening in Venezuela and Cuba, there the people are poor but their governments are rich. Socialism promotes corruption as there are no supervisors or controls on the elites who hold the factors of production.

In short the table provided will show the pros and cons of socialism and capitalism:

Advantages:

| Socialism | Capitalism |
|-----------|------------|
|-----------|------------|

|                         |  |
|-------------------------|--|
| Income Equality for all | Competition leads to lower prices and higher quality of goods and services |
|-------------------------|--|

|                    |                                     |
|--------------------|-------------------------------------|
| Employment for all | Innovation and technology increases |
|--------------------|-------------------------------------|

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Government provides healthcare, education, security and income for its people  
Least forms of corruption

No monopolies takes place as prices are fixed  
Economic freedom and businesses initiation, creates opportunities for people to make as much money as they work for

Disadvantages:

Socialism Capitalism

Exploitation of labours Monopoly

Corruption Unemployment

High levels of poverty thus high levels of crime  
Income Inequality

State owns all the means of production, economy is controlled, no entry of new businesses unless under the power of the State  
Big gap between the rich and the poor, where the poor have no hope in maintaining a good living standards, and the rich exploits the poor as they are the ones who can open and close businesses as they own the majority of the capital.

THE MIX

As I have just laid out the advantages and disadvantages , the facts on both theories and a brief summary of what they consist off, its time to come up with the economic theory that have minimal disadvantages, by combining both systems, Socialism and Capitalism.

First, we must have a free economy, where businesses can compete against each other freely, this will promote advancements in technology, innovation and quality of goods and services produced, it will also promote price decrease due to an increase in supply, which will leave the society better off, and the economy raring in variety and growth.

Second, we must have government intervention in certain aspects of the country, like healthcare, education and infrastructure, as these three are the basics for any future economic growth. When the society is healthy and well educated, it will gain more skills and characteristics that allow them to open businesses and firms that will lead to economic growth and development.

Third, governments and private businesses should work together in order to be able to build up the perfect employment system, where no one is left behind, this way firms and business will have their labours, and governments will get rid of unemployment. Having full employment will lead to a better efficient and effective working society, which will eventually lead to economic growth and development, which will lead the country to advance and become more powerful.

Fourth, having a Social political system combined with a free market will reduce the gap between the rich and poor, as the government will be providing those who are not able to work, with decent living standards of basic health, education and shelter.

Fifth, maintaining free trade is essential for economic development

(capitalism), but having trade surpluses is whats perfect for economic

growth, in order to do that, the firms and governments should combine their  
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efforts in creating manufacturing goods industries that will fill up the domestic market and have a surplus for free trade. This will boost the economy upwards and will open the market to the world, also importing less expensive goods and services than if manufactured by the country, i. e. make use of comparative advantage.

#### Conclusion:

Although the struggle and debate between these two economic theories have been going on for as long as history can take us, yet history has proved the inconsistency of these theories by first the failure of the Soviet Union and the poor conditions the Socialist countries nowadays are living in, like Venezuela, Cuba, Sweden, Greece, Russia, Vietnam, and Syria. On the other hand, the world was cheering for Adam Smith few years ago, as Capitalism was showing success and stability added to great economic power leading to political power, until 2008 where the whole economic system crashed, throwing the world into its worst economic recession since 1929. The few economies that survived this economic downturn inspired the world with the best economic system; one of few was Singapore, a country with no natural resources whatsoever, and a combined mixed economy of Socialism and Capitalism. The study of this country itself, has inspired me to dwell into the main economic theories of Marx and Smith, in order to come up with this system that if practiced correctly and ethically will lead to economic growth and development; and the president of the biggest capitalist country of the world, Barak Obama, sure supports me on this, as he has just been passing bills that supports government intervention in the countrys social welfare, on the other hand Hu Jintao, the president of the biggest socialist country in the <https://assignbuster.com/a-comparison-between-socialism-and-capitalism-economics-essay/>



world, cannot agree more that having a free market combined with a socialist approach is the best thing to do to maintain a countrys power economically and thus political. As Chinas economy boosted once they opened their markets, and the U. Ss market recovered after government intervention in the market and bailouts provided to those who went bankrupt.