

# Comparing economic systems: capitalism, communism and socialism

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

An economy is the riches and possessions of a country or area. Countries' economies give goods and services to their people. They do this by answering several questions:

What resources, such as oil or farmland, does a country have? What can be produced from them? How should goods and services be produced from them? How should these be divided among people who live there?

There are different kinds of economies. They answer these questions in different ways.

## **Four Main Resources**

Countries use things that they have to make goods and services. There are four groups of resources that countries use:

**Land:** This includes things found in nature, like the earth, water, air and more.

**Labor:** This is the people who make goods and services.

**Capital:** This is money, factories, machines or anything used to make goods.

**Management:** These are the people who lead the other three groups.

Before the mid-1800s, much of the Western world's economy was based on capitalism. This means people own property, businesses and their profits.

In 1848, Karl Marx and Friedrich Engels wrote a short book called the "Communist Manifesto." In it, they pointed out that capitalism can make people unequal. With capitalism, some people are rich and others are poor. Marx and Engels thought the poor would rise up and demand equal wealth.

### **The Way Capitalism Works**

Capitalism is based on people's economic freedom. This means most factories and businesses are owned by people, not the government. The owners decide what to make. They decide how much their goods should cost.

Capitalism also includes:

**Free competition** – Capitalism says that people should do business freely without interference from the government. This means businesses can sell the same things and the government cannot help one business over the other. The idea is that people will make the best choice for the least amount of money. This will keep prices as low as possible.

**Supply and demand** – Prices are determined by supply and demand. This means how many products there are and how many people want them. When supplies go up, prices drop. Prices rise again when demand is high again. This keeps prices from getting too high or too low.

### **Communism's Founder**

Karl Marx is known as the founder of communism. He did not like the growing divide between the rich and the poor in the 1800s. He thought the poor worked hard but did not benefit from their work.

Marx thought that in time communism would take the place of capitalism.

Communism does not allow people to own property. Marx believed this encouraged greed and fighting. Instead, communism says people should share things equally. No one would have more or less. An equal economy is the goal of communism.

### **Socialism's Similarities**

Socialism is like communism in some ways. Socialism also says that wealth should be shared more equally. It says that people, not the government, should be in charge of producing things.

Socialism also differs from communism in some ways. Socialism does not believe workers will overthrow capitalism. Socialism also does not believe that people should not own property.

The main goal is to make there be less of a difference between the rich and poor. Socialism is in between capitalism and communism.

There is no economy in the world today that is completely capitalist or communist. For example, United States is capitalist. But, the United States has a Social Security system that provides money to people when they get older and retire from their jobs. The United States also has a government-owned postal service, which is a business. China is communist but now allows its citizens to keep some of the profits they earn.