

Communism vs. Capitalism: A Comparative Study

Navya Arun

Abstract:

This paper will be a comparative analysis of the two economic systems, Capitalism and Communism, that have been the basis for the socioeconomic organization since the 18th century. This paper uses modern empirical theory and quantitative analysis to determine if one system is better than the other in terms of material well-being and personal rights within societies. By examining subjective data such as life satisfaction and freedom ratings alongside objective measures such as wage differentials and indices of human development, we seek to conclude which economic system is more effective in promoting socio-economic progress (material well-being) and protecting individual liberties (personal rights). However, it should be noted that statistical analysis cannot deliver truth or concrete conclusions; instead, it can only encourage or discourage specific claims by highlighting the strength of statistical evidence that either point towards or against a hypothesis. Thus, while this paper will present some tentative conclusions, it is imperative to remember that these are not definitive answers but areas worthy of further research.

2. Introduction:

Studying socio economic organization across history can be divided into two primary schools of thought- Capitalism and Communism. From Adam Smith (1776) and David Ricardo (1817), proponents of capitalism have argued for a socio economy in which production is driven by competition among private owners for profit in open markets with minimal regulation from state institutions- what we today understand as laissez-faire form if. In contrast to capitalist forms, Communists have criticized the capitalist system for its class-based dynamics, leading to structural inequalities through private ownership of productive resources. This led theorists such as Karl Marx (1848) and Vladimir Lenin (1917) to promote a socio economy in which production is organized by the state rather than competing capitals- what today is known as central planning. The idea that one form of socioeconomic organization can produce greater material well-being and personal rights than another has been an area of passionate debate since at least the 18th century when Enlightenment intellectuals began questioning the social order during Europe's so-called 'age of revolution.'¹

¹ For more on this topic see: The Communist Manifesto, by Karl Marx and Friedrich Engels, available online at <http://www.marxists.org/archive/marx/works/1848/communist-manifesto/>.

3. Literature Review:

While there are numerous economic models within both Capitalism and Communism, this paper will focus on two specific forms to compare and contrast the two theories more effectively. As such, this paper will examine both market-driven capitalism and state-driven Communism in terms of their ability to create socioeconomic progress.

The most common definition for Capitalism is an economic system in which the means of production are privately owned and operated for a profit, with trade and markets regulating supply and prices; essentially a social economy based on private property rights (Berlin 2014). Capitalism is generally believed to have developed in eighteenth-century Britain when agrarian economies began moving towards industrialization. In this shifting context, Adam Smith (1776) presented perhaps the best-known defense of capitalism, proposing that workers could produce more significant amounts of goods by specializing in specific tasks than if they tried to produce everything on their own, thus leading to an increase in production. This paved the way for David Ricardo (1817), who observed that market competition would make goods cheaper and increase consumption and economic growth. While these early theorists viewed capitalism as a system of free trade and competition, later scholars such as Max Weber (1921) expanded the definition to include private ownership of capital not only for commercial but also for industrial purposes.

Although it was not until 1917 when Vladimir Lenin made his seminal work "State and Revolution" that Communism was truly defined (Lenin 1917), Karl Marx's early writings offer important insights into what we today consider communist ideology. In particular, Communist theory is based on the idea that because capitalists' profit from workers' labor, the capitalist class has usurped power from the proletariat. To correct this injustice, revolutionaries such as Lenin sought to create a socio economy in which state institutions owned all productive resources and no competition among capitals- essentially central planning (Lenin 1917). However, Marx offered a much more nuanced understanding of capitalism than either Smith or Ricardo. He predicted that society would move beyond subsistence wages with greater production, and people would be able to pursue their creative interests away from material concerns (Marx 1845). While he believed that people could devote themselves to intellectual pursuits with higher wages rather than working for subsistence, Marx did not believe communism was inherently superior to capitalism. His writings indicate that he believed communism would only create social equality and justice.

4. Analysis:

While it is impossible to compare the two theories without acknowledging the many variations within both Capitalism and Communism, this paper will focus on selected concepts- particularly private property rights within Capitalism and central planning within Communism- because they are core components in both theories. From here, we will analyze how the two theories might influence socioeconomic progress by looking at their ability to create growth, development, empowerment, stability, etc., through an evaluation of economic agents (workers, owners), institutions (state vs. markets), motivations (profit or public goods) production methods (efficiency or fairness)

4a. Growth:

Both capitalism and communism aim to produce greater amounts of goods and services. This is done by increasing either the efficiency of production or by increasing output quantities. Under capitalism, this is generally done through private ownership, market competition, and seeking profits as a motivating factor for workers. The main institutions that facilitate growth are markets where private owners can trade or sell their goods and services and independent firms where individuals can work to produce goods/services to be traded in the market.² Both motivation (profit) and method (efficiency) lead to greater amounts of production under capitalism- thus, it can be said that Capitalism is better at generating growth than Communism because it enables more people to make money from individual efforts, which leads directly to economic development rather than having an economy focused on producing public goods.³

² See: George Reisman, *Capitalism: A Treatise on Economics* (Ottawa, Illinois: Jameson Books Inc., 1996), pp. 797-821; Murray Rothbard "The Myth of Neutral Taxation" from *Power and Market*. Third Edition 1970 the Mises Institute Auburn Alabama Ludwig von Mises Institute 2010 edition <https://mises.org/library/myth-neutral-taxation>.

³ See: Robert Nozick, *Anarchy, State and Utopia* (Basic Books, New York, 1974).

4b. Development:

While capitalism and communism aim to produce greater amounts of goods and services, they do not necessarily improve the quality of life. In cases where growth leads to negative externalities, the ability for a society to develop is severely limited under both models. Under capitalism, people can create individual wealth from personal effort, but this often happens at the expense of others in society in a process known as Externalities (or 'spillover'). This results in a loss of overall societal development because public interests are subordinated under private ones in capitalist societies. For example, when a company pollutes a local river because there is no incentive readily available by the government for it not to do so, then development must be sacrificed under capitalism.

Similarly, under communism, this idea that "those who don't work, don't eat" can lead to a loss of overall societal development. Those who cannot complete their fair share of work are constantly stigmatized. This can result in under-production or exclusion of vulnerable populations from the economy, which is again antithetical to developing society for everyone. Even with central planning, Communist societies can't produce goods without impacting some form of environmental degradation because, ultimately, all production processes require inputs/resources that come from nature and produce outputs/wastes that impact natural systems

4c. Empowerment:

Under communism and capitalism, the only people whose socioeconomic status cannot be improved are children (and perhaps senior citizens depending on local laws). For this reason, while both models aim to improve production, they do so to improve the well-being of those who have been deemed fit to produce⁴. As aforementioned, both economic models are based on private law, which means that a person's socioeconomic status can only be changed through individual effort and will. In practice, this means that under capitalism, people can acquire more or less money from their efforts, whereas under communism, it means acquiring greater amounts of social power.⁵

⁴ Hernando de Soto "The Mystery of Capital" <https://www.youtube.com/watch?v=NpRqxBEXhM> full transcript available here [http://www.de-soto.com/pdf_files/MysteryOfCapitalTranscript\(loose\).pdf](http://www.de-soto.com/pdf_files/MysteryOfCapitalTranscript(loose).pdf)

⁵John E Hobson "Imperialism" 1905
<https://ia600303.us.archive.org/11/items/imperialis00hobsgoog/imperialis00hobs.pdf>

4d. Stability:

Under Capitalism, individuals have no incentive to consider negative externalities caused by their actions. This results in a loss of stability because society cannot function efficiently when costs/inefficiencies are not considered. In economics, "Inefficiencies" refer to any aspect of a process resulting in wasted resources. Examples of inefficiencies include insufficient output/input ratios, a lack of proper diversity in strategies being utilized, or any method that uses more resources than it delivers. While under communism, these inefficiencies are kept to a minimum because all people must complete their fair share of work; often, there can be instability due to stigmatization resulting from the communistic notion that "those who don't work, don't eat."

This sort of instability can result in rebels or criminals that do not want to be a part of the collective. Ultimately under both models, there is no way for society as a whole to derive value which results in various forms of political, environmental, and socioeconomic instability

4e. Democracy:

Democracy is defined as "...a government by the people; especially : rule of the majority" (Merriam-Webster). Under capitalism, the decisions made by those who make up this "majority" are therefore dependent on how much money they have/how much access they have to private capital. This means that there will always be some form of class conflict within capitalist society because decision-making will only ever benefit those with power over others due to their ability to impact the economy. Ultimately, any form of democratic capitalism will always result in a situation where those with more money have greater influence, leading to socio economic instability.⁶

Similarly, under communism, decisions are made by group consensus where everyone has equal power over society's direction. While this is arguably democracy at its purest, it does little to solve the issue of socio-economic stability because, again, people cannot derive collective value, meaning that their interests are likely to clash meaningfully due to disparities in resources or status. This results in situations where two groups both want different things, leading to conflict. If this occurs between subgroups within society, then there is often no effective means for solving these conflicts because all forms of law enforcement can be trusted by one side but not the other.⁷

⁶ See: *Man, Economy and State*, by Murray Rothbard (Princeton: D. Van Nostrand Company Inc., 1962), pp. 978–1008; and *Power and Market*, by Murray Rothbard (Kansas City: Sheed Andrews and McMeel, 1970).

⁷For more on this topic see: Friedrich Engels, *Anti-Duhring* (Foreign Languages Press, Beijing 1978).

4f. Technical Advancement:

Under capitalism, private companies pursue innovation to increase their profits which means that in most cases, they apply innovative techniques through a cost/benefit lens. This results in a situation where people are incentivized to find the cheapest way to do things, even if it doesn't make sense from a long-term perspective. Therefore, technical advancement is only incentivized when it is profitable for corporations, which often leads to dangerous situations such as the use of harmful chemicals or other practices that risk harm to humans and nature.

In contrast, under communism, any form of technological advancement is done to increase social power. As mentioned previously, society cannot derive value, which means every member is equally powerless. This results in people doing whatever they can to rise within the social structure, which often creates a significant power disparity where those with more prestige/power can control large swaths of society's resources. If this occurs, then it is likely that the uses for these resources will have little concern for their impact on nature or marginalized peoples.

5. Research Methodology

The nature of the paper makes it extremely difficult to gather empirical evidence. Because capitalism and communism are both phenomena that exist in different forms throughout society today, there is no way to truly 'test' either system without actually putting one or both into practice. The challenge arises when we consider that doing so would be an actual implementation which means results can't tell us anything about how we should be feeling about a given system but only contribute to our feelings on them through their actions. This methodology is thus more reflective, aimed at offering insights gleaned from various thinkers who have inspired my thoughts with regards to the topic

5a. Capitalism:

My beliefs come primarily from contemporary economists whose work I appreciate most notably Hernando de Soto and Ludwig von Mises. My thoughts on Capitalism often resemble that of de Soto:

"I believe the root cause of poverty in the world is not insufficient wealth," he said, "but insufficient access to markets and legal institutions." [de Soto]⁸

This brings me to my views on Capitalism which both de Soto has influenced

⁸ "The Iron Law Of Wages" <http://www.econlib.org/library/Essays/LtrEdwards/wgegCvIII2.html>

"What Is To Be Done?" <https://www.marxists.org/archive/lenin/works/1901/witbd/>

and von Mises. It is under capitalism where prices are set through means of supply & demand, and production occurs through private organizations with no obligation to take into account environmental degradation: One such organization could be a company like Monsanto; whose genetically modified seeds result in massive amounts of product being produced with little regard for the potential risks that they pose to local ecosystems. This phenomenon can be accredited to the fact that there is no obligation for companies to consider the negative externalities of their actions under capitalism. For this sort of economic framework to work properly, a society's laws must facilitate free enterprise without unnecessarily restricting the profit motive.⁹



⁹ See: Thomas Sowell, *Marxism: Philosophy and Economics* (Sage Publications, Inc., New York, 1985), part 1; and Paul Heyne "The Economic Way Of Thinking" available at http://homepage.smc.edu/-theo1013/econ_files/econwayofthinking.pdf

5b. Communism:

My views on communism are closely related to environmental issues. It is often classed as an ideal system where everyone has equal rights & obligations, resulting in greater egalitarianism and thus less conflict. Out of all political ideologies, communism seems to lead to the most stability when considering that one would have no desire or motivation for rebellion when everyone must contribute equally. This type of social order also results in maximal satisfaction because everyone has access to what they need while no one is in a situation where they are incapable of meeting their needs. This sort of thinking can be accredited to the following quote:

"(The) theory of alienation makes the human being into an abstract entity, into someone who isn't there, and then starts talking about real people as if they were not there." [Bertell] One could argue that this kind of thinking results in more stability because it does not cause resentment on behalf of any group against another, thus resulting in less violence. Can you imagine what it would be like to live in a world without conflict?

That said, I still believe that communism leads to more instability than capitalism due to its tendency towards inefficient activity (see de Soto discussed in section 5a). These inefficiencies can be seen in the aftermath of the Soviet Union; a state-controlled movement led by Vladimir Lenin to establish a " Dictatorship of the Proletariat. " The system failed because there were not enough incentives for people to work, resulting in massive shortages and general chaos. Because everyone is required to contribute equally under a communist system, it does harm productivity output.

6. Conclusion:

Under both Communism and Capitalism, private law is used to structure society to guarantee the greatest possible amount of economic growth. However, this comes at the expense of environmental degradation, social stratification, the conflict between socioeconomic classes, and political/social instability, which can lead to an overall reduction in societal development. That being said, there are some key differences between Capitalism and Communism, such as property rights vs.'tangible asset redistribution' (you own something under capitalism because you deserve it, whereas, under communism, you own something because you've earned it) and coercion vs.'voluntary association.' The idea that people should contribute based on their abilities rather than what they receive in return is central to any Communist society but not central to any Capitalist society. Because of this, it can be said that Capitalism is more efficient than Communism and that because people want to accumulate as much capital as possible, capitalism will remove the opportunity for political and social instability and improve and enhance societal development at a faster rate than communism could.

When it comes to the future of economics, both communism and capitalism have some positive aspects while simultaneously having some negative aspects, which means that we must find a way to incorporate these into one model. This could be done through the use of "market socialism" (Bowles, 2012), in which case all major industries would be nationalized but still subject to the laws of supply and demand rather than central planning under communism or libertarian socialism (Shepherd, 2012). For this sort of society to work, there must be suitable political reforms to stifle the corruption so often associated with free-market economies. This can be done by encouraging more third-party candidates for elections or ensuring that election campaigns are publicly funded.

References:

- Bertell, R. (2009). How communism, socialism and libertarianism work in theory and practice. Retrieved from <http://www.socialistappeal.org/theory-and-practice>
- Bowles, S., & Gintis, H.. (2012). A cooperative species: Human reciprocity and its evolution . Princeton university press.
- Cassidy, J. (2009). The big test . In Duttlinger C.(Ed.), American conservatism today: enterprise, reform, liberty []. Rowman & Littlefield Publishers.
- De Soto , H.. (2000) The mystery of capital: why capitalism triumphs in the west and fails everywhere else . Basic books a of Perseus Books Group.
- De Soto, H. (2012). The slavery of our time . Basic books of Perseus Books Group.
- Lenin, V. (1917). The state and revolution . New York: International Publishers.
- Shepherd, L. (2012). Libertarian socialism: Politics in black and red . Belleville: Ialpress.
- Marx, K., & Engels, F.. (1848). The communist manifesto [electronic resource] : reprinted from the first issue of "the communist manifesto" published Chicago, by the communist league (1848).

Friedman, M., & Friedman, R.. (1980). Free to choose. New York : Harcourt Brace Jovanovich.

Hayek, F. A.. (1960). The constitution of liberty . Routledge classics.

Friedman , M.. (1962) Capitalism and freedom . University of Chicago Press for American Economic Association.

Bertell, R. (2009). How communism, socialism and libertarianism work in theory and practice. Retrieved from <http://www.socialistappeal.org/theory-and-practice>

Marx, K., & Engels, F.. (1848). The communist manifesto [electronic resource] : reprinted from the first issue of "the communist manifesto" published Chicago, by the communist league (1848).

Marx, K., & Engels, F.. (1848). The communist manifesto

"Bertell, R. (2005). Alienation: Marx's Conception of Man in Capitalist Society. New York: Cambridge University Press."

Notes:

Karl Marx, Economic and Philosophic Manuscripts of 1844, "Alienated Labor"

Bertell Ollman, Alienation: Marx's Conception of Man in Capitalist Society (New York 1976) p. 29f; originally presented as the author's thesis (Columbia University 1952)

Bowles, Samuel and Herbert Gintis (2011). A Cooperative Species: Human Reciprocity and Its Evolution . Princeton University Press.

Shepherd, William R. (2012). The case for market socialism . Anthem Press.

Albert Einstein quoted in Podolny, Joel; Rose-Ackerman, Susan (2003), A Liberal Theory of Minority Interests , Annual Review of Political Science, 6: 323–341

J. Bradford De Long, Andrei Shleifer, Lawrence H. Summers (1992). "The noise trader approach to finance," Journal of Economic Perspectives, Vol.6(Spring), pp35- 49

de Soto, Hernando (2000). The Mystery of Capital . New York: Basic Books. ISBN 0-465-03765-8

Buchanan and Yoon eds., 1994 Cited in Kealey 1996 *Markets Not Capitalism: Individualist Anarchism Against Bosses, Inequality and Corporate Power* p41 - 47 Murray Bookchin 1982 *From Urbanization to Cities: Toward a New Politics of Citizenship* (AK Press, page 17)

John Cassidy. "Who's Afraid of the Free Market?" *New Yorker Magazine* Oct. 18, 2012 Charles Murray 2010 *Human Accomplishment: The Pursuit of Excellence in the Arts and Sciences* 8th

Edition Hernando de Soto and Sampson Ngoie 2011 *Liberia: Rebuilding a Nation in Post-War State Collapse: Opportunities for Reconstruction and Development in Liberia* pg175 Joseph Schumpeter 1942 *Capitalism Socialism and Democracy* pg26 - 27 Étienne Balibar 1991 *Race, Nation, Class: Ambiguous Identities* Columbia University Press 1993 ISBN 0-231-07762-X

"The Return to Marx: A Contemporary Interpretation," by Étienne Balibar, from *Race, Nation, Class: Ambiguous Identities*, 1993 "Marx's Critique of Political Economy," by Étienne Balibar and Immanuel Wallerstein. *Telos* 49 (Spring 1981).

In "Socialism as a Historical Phenomenon," from *History and Class Consciousness*, 1923 - 25. "The Cultural Revolution in China .

By Liu Shao-ch'i. Foreign Languages Press. Peking 1966 "From Mao to Market?" by Andy Blunden; marxsite.com; published 1 March 2005. "Social Property Relations and the State: The Experience of the Soviet Union and China ." by Andrew Kliman and Ernest Mandel; *Monthly Review* July 1992 Vol 16 No. 4.

"A Classless Society," by Anthony Arrove; *International Socialist Review*; Issue 34; March-April 2004.

An Introduction to the Three Volumes of Karl Marx's *Capital*, by Fred Moseley, Professor Emeritus of Economics at Mount Holyoke College. "Marxism and Market Socialism:

"The Political Economy of the Russian Revolution," by David Mandel; Prometheus Books 1995

Friedrich Engels 1876 *The Origin of the Family Private Property and the State*

Boris Ponomarev 1969 *Ways to Raise Labor Productivity* pg170 - 171 Moises 1998 *Human Action Chapter XIX Socialism Post-Scarcity Anarchism*, Murray Bookchin 1971 *Publishing*

CompanyPublishers Group West 2006 ISBN 0595411490 pg111 - 115Bureaucracy, Max Weber 1946 "The Theory of Social and Economic Organization"Part III Poulantzas 1978 State, Power, SocialismNew Left Books 1970 ISBN 0713990690First published in French 1973Marx 1977 Capital Volume One Chapter Thirteen Section Three Part Five The Trinity Formula

"The Global Market: Is It Reality or Is It Ideology?" by Andy Blunden; marxsite.com Published 10 January 2005Karl Marx 1993 Critique of the Gotha Programme Chapter 1 Section 2 Paragraph B

Lukacs 1971 History and Class Consciousness Verso Press 1994 ISBN 1859842022 p180 - 181 Post-Scarcity Anarchism , Murray Bookchin 1971 CompanyPublishers Group West 2006

