Student Handout 2

Evaluating Capitalism and Socialism

<table>
<thead>
<tr>
<th>Positives (Benefits)</th>
<th>Capitalism</th>
<th>Socialism</th>
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<tr>
<th>Negatives (Problems)</th>
<th>Capitalism</th>
<th>Socialism</th>
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Student Handout 3

Capitalism and Socialism Reading

Directions: Read the following passages carefully. Highlight or underline key ideas and terms that are important to understanding each economic system. Use the left hand column to take notes. Be prepared to discuss and explain the ideas and terms you selected.

Notes and Questions

Capitalism:

Capitalism is an economic system based on money (capital means money). The central idea of capitalism is that the marketplace, not rulers or governments, decide what will be made and sold. In the marketplace, people influence what will be produced by the goods they decide to purchase. For example, if more people purchase Ford automobiles than Chevrolet automobiles, then more Fords and fewer Chevrolets will be produced. In his book The Wealth of Nations, economist Adam Smith called this idea the invisible hand (the ability of the marketplace to respond to public demand without the government getting involved). Because governments could not control the invisible hand from moving the marketplace, economists called this type of economy laissez-faire, or “hands-off” capitalism. The Wealth of Nations carries the important message that the government should intervene as little as possible in economic affairs and leave the market to its own devices. It advocates the liberation of economic production from all regulation in order to benefit the people.

In 19th century western Europe, capitalism became the dominant economic system. Wealth increased tremendously for some, and the middle classes increased in size. However, the Industrial Revolution caused many people to give up farming and move to cities to seek employment. Many farmers found jobs in the new factories in the cities. Factory workers worked from 12 to 16 hours a day, 6 days a week, with 30 minutes for lunch and dinner. There was no such thing as a minimum wage and a worker could be fired at any time for any reason. Some began to see capitalism as an unfair economic system where the rich got richer and the poor suffered.
Socialism:

Socialism is an economic system in which the government owns and controls manufacturing and is responsible for planning the economy. It was created in an attempt to eliminate the differences between the rich and poor. In a socialist system, where the government owns manufacturing, businesses, and property, the government determines what is to be produced and distributes wealth evenly. Early 19th century socialists believed that the spirit of cooperation evident in socialist theory could replace the marketplace competition of capitalism. Later 19th century proponents of socialist theory, like Karl Marx, believed that cooperation was not possible and that conflict between the owners of capital and those who worked for them in factories was inevitable. He believed that the struggle between the two groups would eventually lead to a workers revolution.

Text Dependent Questions

1. What role does government play in capitalism?

2. How does the concept of the “invisible hand” support this idea?

3. Why was capitalism viewed as an unfair system in the 19th century?

4. What role does the government play in socialism?

5. What did Marx think would happen in a socialist society?
Writings from Marx and Engels

Excerpts from the *Communist Manifesto* by Friederich Engels and Karl Marx, 1848

"The modern bourgeois (middle class) society...has not done away with class antagonisms (hatred between groups of people). It has but established new forms of struggle in place of the old ones. Modern industry has converted the little workshop of the patriarchal (male) master into the great factory of the industrial capitalist. Masses of laborers, crowded into the factory, are organized like soldiers.... They are slaves of the machine and the manufacturer. Instead of rising as industry progresses, they sink deeper and deeper into poverty....”

"Owing to the use of machinery and to division of labor, the work of the proletarians (worker class) has lost all individual character, and consequently, all charm for the workmen. He becomes [a limb] of the machine, and it is only the most simple, most monotonous (boring), and most easily acquired knack (skill or ability), that is required of him.”

Excerpt from the *Principles of Communism* by Friedrich Engels, 1847

“Above all, [the government]... will have to take control of industry and of all the branches of production out of the hands of... competing individuals, and instead institute a system as a whole, that is for the common account (good), according to a common plan, and with the participation of all members of society. It will... abolish (eliminate) competition....Private property must therefore be abolished.”
Adam Smith

Excerpts from *The Wealth of Nations* by Adam Smith, 1776

"The sole purpose of all production is to provide the best possible goods to the consumer at the lowest possible price. Society should assist producers of goods and services only to the extent that assisting them benefits the consumer... he [the consumer] intends his own gain; and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.... By pursuing his own interest, he frequently promotes that of the society...."

"According to this liberal and generous system, therefore, the most advantageous method in which a landed nation can raise up artificers (craftsmen), manufacturers, and merchants of its own, is to grant the most perfect freedom of trade to artificers, manufacturers and merchants of all nations."


The man of system...is apt to be very wise in his own conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it... He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it.

Text Dependent Questions:

1. In *Wealth of Nations*, what does Smith see as the role of government?

2. In *The Theory of Moral Sentiments*, what does Smith see as a problem between government and society?