2 Socialism

Find Out:
- What are the historic roots of socialism?
- How are market economies different from command economies?
- What are the principal arguments for and against socialism?

Key Terms:
proletariat, bourgeoisie, welfare state, market economy, command economy

You know that in the United States, all people are entitled to equal protection under the law. Of course, this political equality is not the same as economic equality. As you have read, America’s capitalistic system enables some to achieve greater financial rewards than others.

There is, however, an economic system that seeks to equitably distribute wealth throughout society. This section is about that system.

What Is Socialism?

Socialism is an economic and a political philosophy based on the idea that the benefits of economic activity—wealth—should be equitably distributed throughout a society. This fairness is achieved through the principle of collective—that is, public—ownership of the most important means by which goods and services are produced and distributed.

Socialism rejects the concepts of private ownership, individualism, and competition for profit that lie at the heart of capitalistic thought and practice. Instead, socialists emphasize cooperation and social responsibility in order to achieve this more equitable distribution of both income and opportunity. Political equality is not enough, they say. Real equality can come only when extreme differences in wealth across the population are reduced, and the public controls the centers of economic power in a society.

The roots of socialism lie deep in history. Almost from the beginning there have been those who have dreamed of a society built on socialist doctrine. Most earlier socialists foresaw a collective economy that would arise out of and then be managed by voluntary private action. With few exceptions, they believed that they could reach their goals without governmental action—and, so, early socialist doctrine is often called “private socialism.”

The Industrial Revolution

Present-day socialism developed in large part as a reaction to the poverty and other miseries that accompanied the Industrial Revolution.

The Industrial Revolution occurred as the Western world moved from an agricultural to an industrial economy. It appeared most distinctly...
in Great Britain in the late 18th century and spread generally through Western Europe and to the United States in the 19th century. It was marked by rapid urbanization and the growth of large-scale manufacturing.

Many observers of 19th-century British factories and factory towns were appalled by the conditions they found. Men and women often worked 14- to 16-hour days—usually in filthy, noisy, and unsafe conditions. Small children regularly worked alongside their parents, for even less pay. Most factory workers and their families lived in dank, crowded, and unhealthful slums.

Those and other adverse effects of the Industrial Revolution led many to seek social and economic reforms. And those conditions led some to argue for much more radical change.

Karl Marx Clearly, Karl Marx (1818-1883), the father of modern-day socialism, was the most significant critic of capitalism to emerge in the 19th century. Much of his work and most of his extensive writings were done in collaboration with Friedrich Engels (1820-1895). Together, Marx and Engels wrote The Communist Manifesto in 1848—“to do for history,” as Engels later said, “what Darwin’s theory has done for biology.”

Marx believed that capitalism was fatally flawed. The proletariat—the workers—were being so badly abused by the bourgeoisie—the capitalists—that they were certain to rise up and overthrow the capitalistic system. You will read more about Marx and his ideas in the next section.

Socialists and Communists A powerful socialist movement took shape among European workers and thinkers during the middle and late 19th century. Almost all socialists accepted Marx’s criticism of capitalism. But the movement was deeply split by the question of how best to achieve socialism. Some argued that a socialist society could come only out of a “violent and bloody revolution.” Over time, those who took that view came to be called communists. Others argued that socialism could be attained by peaceful means, through the democratic process. Today, the terms socialism and socialist are usually used to identify those evolutionary socialists.

The British Labour party and the major “social democratic” parties of Western Europe are leading examples of that brand of socialism. At various times in recent history, these parties have controlled their governments and have instituted many socialist programs through democratic means.

Characteristics of Socialist Economies

Countries that have socialist governments typically enact one or more of the following measures to achieve the aims of socialist philosophy.

Nationalization Organizing enterprises under governmental control—often by taking over privately owned industries—is called nationalization. Recall that in the last chapter you read about nationalization in Mexico in the 1930s. In democratic countries such as Britain, the government might nationalize enterprises, paying the former owners what it calculates to be a fair price. In some countries, however, govern-
ments have nationalized industries without paying any compensation.

Nationalization sometimes, but rarely, includes all businesses in a country. Typically, nationalization is selective. Socialist governments usually want to control the country's most important industries, but they may allow many types of businesses to remain in private hands. Also, socialist countries might want certain important industries that are based upon newly emerging technologies to remain private since individual initiative and entrepreneurial risk-taking are very important during the early phases of a business.

A goal of many socialist governments is to give each company's workers a say in deciding how the company is run. Sweden's Social Democratic party, for example, has a plan for gradually transferring ownership of private companies to their workers. Elected worker representatives now sit on many companies' boards of directors.

Public Services and the Welfare State

Socialists stress the goal of assuring that everyone in a society is decently housed and fed. Stated another way, socialists aim to guarantee the public welfare by providing for the equal distribution of necessities and services. Public services are considered to be government's responsibility. One of the earliest to implement such ideas was Britain's Liberal government, which adopted pensions, health insurance, and unemployment insurance between 1908 and 1911. Other countries' programs may range from free university education to free housing for the poor.

Countries that provide extensive social services at little or no cost to the users are called welfare states. In such countries, medical and dental services may be provided free or for a small charge. People who lose their jobs or who are physically unable to work receive government payments that are nearly as high as their former wages. All people above retirement age receive government pensions. Parents may receive government payments for each child until the child reaches the age of 18.

Taxation

All governments, capitalist or socialist, get their funds from taxation. But because social welfare services are quite expensive, taxes in socialist countries tend to be high. It is not uncommon for taxes to take 50 or 60 percent of an individual's total income. Socialists tend to place most of the burden on the upper and middle classes, consistent with their philosophy of achieving a more equal distribution of wealth. Tax rates can amount to 90 percent of a wealthy person's income.

The Command Economy

Economies can be divided into two broad categories, depending on how basic decisions are made. Under capitalism, as you have seen, the government's role is a limited one. Key decisions are made by thousands of private individuals and companies through the give and take of the marketplace. For that reason, capitalist economies are called market economies.

Under socialism, and also communism, decision making is much more centralized. Public bodies can plan how an economy will develop over a period of years. Governments set targets for production. They guide investment into specific industries. In theory, therefore, governments can direct the economy along desired paths. Thus, socialist and communist economies are called command economies.

A document called the five-year plan plays a key role in many command economies. The plan is a blueprint showing how leaders want the economy to develop over the next five years. (You will read about the use of five-year plans in the former Soviet Union in the next section.) Making a five-
year plan is an intricate process drawing on experts from many areas of national life. The purpose is to set economic goals for the future and to plan how to achieve those goals most efficiently.

**Socialism in Developing Countries**

Socialism has won a large following in developing countries. There, public ownership and centralized planning are widespread.

One reason for socialism's appeal is that most developing countries are starting from scratch at building industry. Such countries have no tradition of locally controlled, large-scale industry. Large industries that do exist often are owned by foreign interests—firms that have a base in one country and holdings in many others. By nationalizing a foreign-owned company and placing local people in charge, a political leader can win broad public support.

Socialism also appeals to leaders who want to mobilize an entire nation behind a program of industrial growth. Through central planning, leaders can channel investment into the parts of the economy they think are most essential.

Often, however, guided growth of this sort requires painful sacrifices by a nation's people. High taxes skim off a large part of people's income. The government may devote so much attention to one or two basic industries that the production of consumer goods or food may be neglected. Then public unrest may develop.

Political instability is a persistent problem in developing nations. It is one reason for the tendency of socialist and other governments in such nations to turn to authoritarian methods. Few developing nations have succeeded in establishing the democratic versions of socialism that are found in parts of the industrial world.

**Major Criticisms of Socialism**

Both capitalistic and socialist economies have their strengths and their weaknesses. For supporters of capitalism, it is easy to see weaknesses in the theory and practice of socialism. For supporters of socialism, on the other hand, it is capitalism that is riddled with faults.

Critics say socialist countries have a tendency to develop too many layers of bureaucracy. They say this complicates decision making and has a deadening effect on individual initiative. As a result, critics say, socialist economies are slower to take advantage of new technologies.

In the eyes of socialism's critics, the smooth running of an economy is too complex to be directed by central planners. Too many unpredictable events are involved, they claim. Too many clashing interests are at stake. For all its faults, the invisible hand of the market economy works more efficiently than the visible hand of the command economy, say socialism's critics.

Another criticism is that socialism deprives people of the freedom to decide for themselves how to use their income. Most of a person's income goes to taxes. Since earners get to keep only a part of their earnings, they have little incentive to work harder and earn more. Why work hard when your basic needs will be taken care of anyway? So ask socialism's critics.

In response, socialists point to the inequalities of wealth and power that exist under capitalism. Socialists argue that socialism evens out inequalities and thus is morally superior to capitalism. In their view, socialism makes political democra-
Global Awareness

Global Price Comparison of Selected Goods and Services (U.S. Dollars)

<table>
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<tr>
<th></th>
<th>Apples (1 lb)</th>
<th>Aspirin 100 tab</th>
<th>Candy Bar (1)</th>
<th>Fast Food*</th>
<th>Man's Haircut</th>
<th>Snack Food (8 oz)</th>
<th>Toothpaste (6 oz)</th>
<th>Woman's Cut/Blow Dry</th>
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*Fast food consists of burger, fries, and soft drink

Source: Ranzheimer International

Interpreting Tables  The world’s economies are closely related, yet they still differ greatly. How do the prices paid in the United States compare with those paid elsewhere?

cy work more smoothly by supplementing it with economic democracy.

Defenders of socialism also argue that it gives workers and ordinary citizens more control over their daily lives. Under capitalism, they say, a company’s management can abruptly decide to close a factory that is no longer making money. The company has no obligation to ask its workers’ opinions, even though such a decision can throw thousands out of work and disrupt an entire community. This could not happen under socialism, the argument goes. Workers and community leaders would sit on the company’s board. They would help decide what was best for the entire work force and community—not just for the company’s shareholders.

Section 2 Review

1. Define: proletariat, bourgeoisie, welfare state, market economy, command economy
2. How does socialism differ from capitalism?
3. What part did the Industrial Revolution play in the birth of modern socialism?
4. State two criticisms of socialism and two criticisms of capitalism.

Critical Thinking

5. Making Comparisons (p. 19) How might a socialist and capitalist government differ in their treatment of the problem of unemployment?