

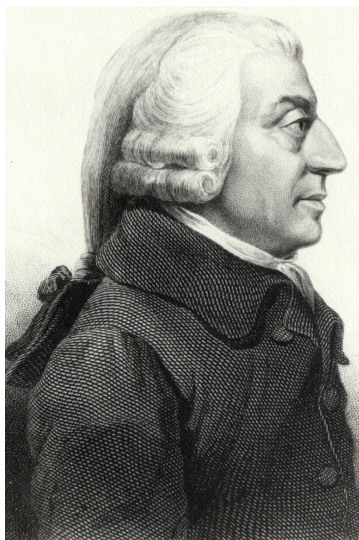
# Capitalism vs. Communism: Systems that Shape Our World

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*Adapted by Fishtank Staff*

- 1 For centuries, people have debated the best path to a fair and prosperous society. Capitalism and communism offer different answers to this debate. While capitalism is economic in nature, communism encompasses both an economic and political system. Capitalism and communism represent opposing perspectives on private property, competition, and class. Over time, many countries have experimented with these systems. In practice, these systems have diverged from the theories they come from, taking different forms with both benefits and drawbacks.

## Understanding the Capitalist System

- 2 Capitalism is an economic system where individuals and businesses own property and resources and make decisions about how they are used. Economist Adam Smith's 1776 book, [\*The Wealth of Nations\*](#), laid out the fundamentals of capitalism. Smith believed that acting in one's own self-interest could lead to economic growth for all. He wrote, "It is not from the benevolence of the butcher . . . or the baker that we expect our dinner, but from their regard to their own interest." In other words, bakers do not sell bread because they generously want to feed people—they sell bread because they want to make a profit. In this exchange, the baker gets money, and others get bread to eat. In Smith's view, this system creates prosperity for all since people need goods and services they can't make themselves.



Adam Smith, the father of capitalism, laid the foundations for modern economic theory. Profile of Adam Smith by James Tassie is in the public domain.

- 3 At the heart of capitalism is a [market economy](#), which is driven by two forces: supply and demand. Supply is the amount of goods or services in the market. Demand refers to how many people want a good or service and how much they will pay for it. These two forces work together to regulate prices in a market economy. For example, if it's a hot day, demand for ice cream may increase because more people want a cold treat. However, the ice cream shop can only make a limited supply of ice cream. When many people want ice cream, the shop can raise its prices. As the price goes up, fewer people may be willing to buy the ice cream, causing demand to fall. This supply and demand relationship, and the way it is guided by individuals' self-interest, is central to capitalism. Adam Smith wrote, "Every individual . . . intends only his own gain, and he is in this . . . led by an invisible hand to promote [the public interest] which was no part of his intention" (1776). Smith used the invisible hand metaphor to describe how people contribute to balancing the market by acting for their own benefit. By responding to changes in supply and demand, people and businesses end up making what others want. In this way, they support economic growth while ensuring everyone's needs are met.
- 4 Competition is also key in a capitalist economy. Smith believed that competition leads businesses to come up with new ideas to stand out while also maintaining fair prices. For instance, if two ice cream shops open in the same neighborhood, they may try to offer lower prices, tastier scoops, or more innovative flavors to get customers. If one shop has higher prices or worse ice cream, customers can go to the other shop. This competition can keep prices in check and encourage businesses to improve their products.
- 5 Another key element of capitalism is the right to privately own property, such as land, machines, or products. Capitalists argue that ownership incentivizes people to put time and resources into improving their businesses. For example, if a person owns their ice cream shop, they are motivated to take care of it and improve it to make more profit. In this way, capitalism encourages efficiency and creativity.
- 6 These strengths of capitalism, however, can have negative consequences when put into practice. Critics note that, without proper government regulation, capitalism can incentivize businesses to put profit over the well-being of their workers. For example, during the Industrial Revolution in the late 1700s and early 1800s, business owners wanted to produce goods quickly and cheaply for large profits. They hired adults and children to work 14–16 hours per day for very low wages in dangerous, polluted factories. Without safety regulations in place, many workers were injured by machines and fires would often break out. Housing shortages and low wages forced workers to live in shanty towns with no access to clean water. These disastrous living conditions stood in stark contrast to the new mansions being built by wealthy factory owners. Today, many similar issues persist in capitalist countries like the United States: workers may labor in unsafe working conditions or put in long hours for little pay, while business owners profit.
- 7 One of the biggest criticisms of capitalism is that it leads to extreme wealth inequality because the system incentivizes employers to exploit, or take advantage of, their employees, leading to an unfair distribution of wealth. For example, the United States has a mostly capitalist economy

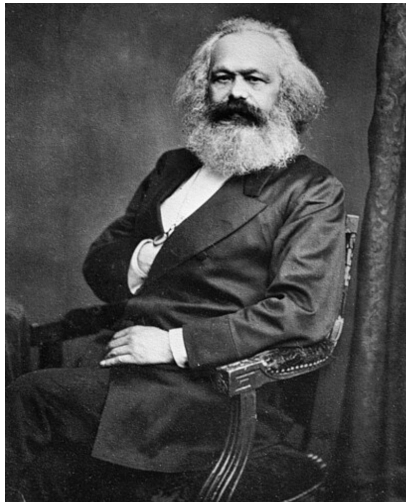
and a massive wealth gap. According to the [Pew Research Center's](#) 2020 report on economic inequity, the poorest Americans have not seen their income grow since 1980, while the ultra-rich have seen their income grow by around 6% per year. As of 2024, the top 1% of wealthy people owned about 27% of the U.S.'s total wealth. Moreover, [813 out of 2,781 billionaires in the world](#), including Jeff Bezos and Elon Musk, have made their fortune in the American capitalist system. Meanwhile, about 38 million Americans live below the poverty line. This wealth gap continues to expand.

- 8 Another major impact of unregulated capitalism is environmental harm. Large companies can destroy local environments through practices like deforestation and pollution. For example, in 2010, a BP oil rig exploded in the Gulf of Mexico after BP directors encouraged employees to cut corners around safety to increase profit. This caused the largest marine oil spill in history and devastated the habitat. Additionally, according to research by the [Carbon Majors Database](#) in 2017, just 100 companies have produced over 70% of greenhouse gas emissions since 1988. These emissions are a major driver of rising temperatures worldwide. Many of these companies have made billions of dollars while being primary contributors to climate change. Critics of capitalism argue that since the goal of large companies is to maximize profits, they are not incentivized to protect the environment, enabling them to cause global damage.
- 9 Today, most countries, including the United States, have some form of a capitalist economy. But these countries do not follow a fully capitalist, or free-market, system. They have mixed economies, where both the market and the government play a role. For example, in the U.S., the government regulates industries like transportation and healthcare to make sure they follow safety standards. It also provides social safety nets for people, like unemployment benefits and food stamps. Still, U.S. businesses are usually free to function how they want to within certain regulations.
- 10 While capitalism has driven innovation and historically improved living standards for many, it has also deepened inequality and harmed environments. Since capitalism drives the global economy, the challenge is to maximize its benefits while regulating the system to minimize its negative effects.

## **Communism in Theory and Practice**

- 11 In the mid-1800s, in response to the problems of existing capitalist systems, a new theory of economics and government emerged: communism. [Communism](#) advocates for a classless society where everything, including factories, land, and machinery, is collectively owned, and people work based on their abilities. While capitalism values private ownership and free markets, communism focuses on sharing resources to meet people's needs without taking advantage of, or exploiting, workers.
- 12 Modern communist ideas were introduced in 1848 in [The Communist Manifesto](#) by Karl Marx and Friedrich Engels. Marx and Engels first saw communism as a way to correct the flaws they saw in capitalist systems. They looked back in history to track how the relationship between the

worker and their work changed as technology developed. For example, iron miners once worked with shovels that they owned. Once the steam shovel was invented, no individual miner could afford one. So, the miners had to work for someone who could afford this new technology. Thus, workers were distanced from their work and became part of the means of production for the rich business owner. The "means of production" is the ownership and use of labor, land, and capital—the things required to create goods. Labor is the effort made by an individual, land includes natural resources, and capital includes factories and other types of property.



Portrait of Karl Marx (1818–1883) by John Jabez Edwin Mayall is in the public domain.

- 13 Marx and Engels argued that the Industrial Revolution further separated workers from their work, increasing worker exploitation. In their eyes, capitalism's focus on profit promoted the greed of the bourgeoisie, or those who owned the means of production. Marx and Engels wrote about the cruel treatment of workers: "Masses of labourers, crowded into the factory, are organised like soldiers . . . Not only are they slaves of the bourgeois class . . . they are daily and hourly enslaved by the machine" (1848). In a capitalist system, business owners profited by hiring laborers to work for low wages in dangerous conditions. Typically, the profits made from the laborers' work only benefited the business owners. Marx and Engels saw this as evidence that capitalism rewarded business owners who exploited their laborers.
- 14 In their manifesto, Marx and Engels imagined a world without social classes, where all wealth and property would be shared and used for the common good. They encouraged revolution to get to that vision, writing, "The proletarians have nothing to lose but their chains. They have a world to win. Working men of all countries unite!" Marx and Engels believed that once workers joined forces with each other to overthrow the bourgeoisie, they would free themselves from oppression, or cruel and unjust control by those with power. They believed revolution, or a complete and forceful change in the political and economic structure of society, was necessary. Overthrowing the bourgeoisie would remove their control over resources and production, paving the way for a classless society where factories, farms, and businesses would benefit everyone.

- 15 In the vision Marx and Engels laid out, once the revolution was successful, people would work only as they were able and share in the benefits of their labor. Regardless of a person's contribution, everyone would receive roughly the same benefits. Goods would be produced to meet the needs of the people. No single individual or business would take more than their fair share because people would no longer need to pursue profit. Marx and Engels believed this would lead to social equality and the end of worker exploitation.
- 16 *The Communist Manifesto* also set out some policies to achieve a truly classless society once the worker revolution was won. These policies included bringing transportation, communication, and banking systems under the state's control. High income taxes would redistribute wealth and help transition to a classless society. People would also no longer inherit wealth from their parents, reducing economic inequality over time. This wealth would instead be redistributed by the state to benefit society as a whole. Free education for all and the end of child labor would allow children to develop their talents and abilities, ultimately leading to a more dynamic and freer society. These ideas emphasized community well-being over individual self-interest.
- 17 When communist theories were put into practice, however, they did not live up to Marx's and Engels' ideals. One major reason for this is the difficulty of aligning communist principles with human nature. Communism assumes people will act in the interest of society as a whole rather than pursuing personal gain. However, competition, ambition, and self-interest can often undermine the communist system's goals of equality and shared resources, leading to inefficiency or corruption.
- 18 Today, there are five communist countries: China, Cuba, Laos, North Korea, and Vietnam. Most of them have been ruled by dictatorial leaders who centralized power within the state without abolishing class hierarchies. This has led to oppressive policies and, often, economic hardship. Some leaders have successfully implemented communist policies that benefited communities in their country, but the gaps between theory and practice reflect the challenges of overhauling a country's political and economic systems to achieve a communal society.

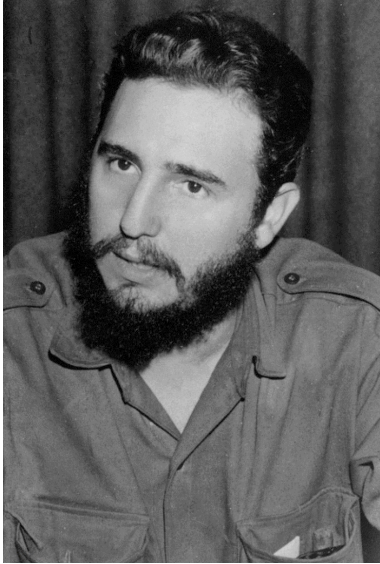


19 Today, China is the world's largest communist country. One of its most influential leaders was [Mao Zedong](#), who established a communist government in 1949 and ruled until 1976. He enforced radical policies like the Great Leap Forward, which aimed to rapidly industrialize China in order to position it as an economic rival to advanced Western nations. His government set unrealistic steel production goals for millions of workers, which led to poorly-made products and the loss of valuable resources. Moreover, farmers were forced to work on industrial projects instead of harvesting their crops. These policies caused massive famines, killing an estimated 15 to 45 million people. In 1966, Mao started a movement called the Cultural Revolution to unify China under communist ideology. He aimed to remove all capitalist and traditional ideas and culture from Chinese society and encouraged students to identify anyone they thought was disloyal to the communist regime. To achieve this, tens of millions of young students formed the Red Guards, who attacked and killed many people they saw as disloyal, including intellectuals, the elderly, and party leaders. They also fought amongst themselves, creating widespread violence and chaos across China. During his time in power, Mao used propaganda to control public opinion. Schools, newspapers, and films discouraged independent thinking and promoted his ideologies as truth. Today, China's leaders continue to maintain strict control over dissent.



Statue of Mao before State Building in China.  
Photograph is in the public domain.

20 Like in China, [Cuba's communist government](#) tried to implement certain principles to change their society. Fidel Castro took control of the Cuban government in 1959. His government introduced social reforms to improve literacy, healthcare, and education. This resulted in some major successes, like a near-universal literacy rate and free, accessible healthcare. However, Castro's regime also placed strict limitations on political freedom, controlling the press and silencing his opponents. Castro also transitioned Cuba to a centrally-planned economy with government control over major industries. But poor organization and mismanagement slowed the production of goods and led to an economic downturn. This, combined with U.S. economic sanctions, has led Cuba's economy to struggle for decades since Castro's rule, leaving many people without access to basic goods. According to a 2022 report from the [Cuban Human Rights Observatory](#), 72% of Cubans live below the poverty line.



Cuban Prime Secretary of the Cuban Communist Party and President of the State Council, Fidel Castro.  
Photograph of Fidel Castro is in the public domain.

- 21 Both China and Cuba show the complex realities of implementing communist principles in the real world.

### **Mixed Legacies**

- 22 Western capitalist nations and communist countries have long fought to maintain and spread their own ideologies. Though each system presents ideals that have driven important movements, both have created challenges and social divisions in practice. The flaws of both systems have led to widening gaps in wealth and power. However, the theories behind capitalism and communism have shaped societies for generations, and continue to influence global politics and economics today.