

# Chapter 27: Capitalism versus Communism/Socialism

## Introduction

Communism represents a political and economic philosophy with immense influence on the world over the last 100 years. The diagram below illustrates the reach of communism both today and in recent history:



North Korea is considered one of the worst places to live, under the dictatorial control of Kim Jong Un. North Korea is considered a communist country.



We have been in 3 wars against communist nations: The Cold War (roughly 1950 - 1988), the Vietnam War (1955-1975) and the Korean War (1950 to 1953).



Today, communist China is arguably the biggest threat to America. Their economy, military, and technology rivals ours. If you read their propaganda and news, you can quickly see that China views America as a frenemy (friend-enemy). They sort of like us but also say they would happily go to war and beat us.

While America often views communist nations as enemies, many Americans love the communist philosophy.

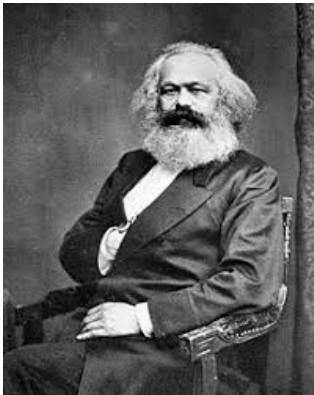


everything together, so there is very little individual freedom to do what you want with your money.

When you hear the word "communism," think community, communal, or commitment. The prefix com- means "together." When you hear the word "socialism" think "social" or "society," which also means "together" or "group."

Communism and socialism have been interpreted differently in different countries. In communist Russia (called the Soviet Union), everyone received the exact same paycheck. The Soviet government, not individual businesses, set the price for bread, water, and all other products. In communist North Korea, all businesses are owned by the government and not individual citizens.

Karl Marx, one of the earliest philosophers and economists of communism, created the central ideas of communism that other governments adapted for their own countries. Karl Marx's most succinct summary of communism comes from the following line:



"From each according to his ability,  
to each according to his needs"  
-Karl Marx, 1875

(Yes, he looks like Hagrid from Harry Potter)

According to Marx, socialism was a government system to prevent the disparities between rich people and poor people. In capitalism, since everyone had freedom over their own money, some were born rich and stayed rich while others were born poor and stayed poor. This did not sit well with Marx.

Even though you are about to see how I, the author, am very critical of socialism, it is impossible not to respect the intellectual history of this movement\*. A map below indicates all the communist countries only 50 years ago:



Picture retrieved from Google image via Andrey Kaspersky's YouTube channel

When communism spread to different countries, each leader interpreted Marx differently and enacted communist policies differently.

	<h2 style="text-align: center;">Leninism</h2>	<p>Vladimir Lenin's idea of communism took over Russia making it the Soviet Union. People received equal paychecks (sometimes). Farmers, shoemakers and local store owners were allowed to take top government positions.</p>
	<h2 style="text-align: center;">Maoism</h2>	<p>Mao Zedong's idea of communism took over China whereby jobs were assigned, not chosen, by the communist government.</p>

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\* This reflects my own understanding of finance and not that of Olney Charter High School or the Niche Clinic. I have portrayed these economic and political philosophies for educational purposes to promote an interconnected understanding of the content of this book.

Not only have Karl Marx's ideas motivated revolutions in countries, but Marx is one of the top 10 most cited people in the history of civilization! That's right, that strange-looking version of a hippie professional wrestler is on the list of the most referenced writers ever, alongside Aristotle, Plato, and the Bible.



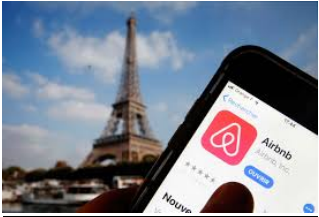
**Capitalism** is the freedom to use your own money to generate your own wealth and **communism** is where everyone shares the same wealth. The way capitalistic and socialist countries achieve this freedom or shared wealth comes down to prices.

## Capitalism versus Socialism: A battle over prices

No country in the world is purely capitalistic or purely socialistic. In America, the poor can get free healthcare and coupons for free food, called food stamps. In communist China, billionaires and millionaires are allowed to exist. Capitalistic and socialistic countries share so many similarities that some call themselves one but actually resemble more of the other. In the most pure, unadulterated forms of capitalism, anyone and everyone sets whatever prices they want for whatever services and products they create. Pure socialism, in turn, determines non-negotiable prices for services and products until, ideally, they find out how to make everything free.

Why do capitalistic countries allow anyone to set their own prices? Because competition permits only reasonable prices, or else the company goes out of business.

If someone charges too high for a service or product, another company will take all the customers. If the price is too low, that company will be forced to set a higher price to make a profit or go out of business. Nothing is legally stopping Dunkin Donuts from charging \$50 per donut, but they will never do this because other fast-food breakfast chains will get all the customers. Chipotle could start to sell burritos for a penny, but they soon won't earn enough in profits to pay for the ingredients, staff, and monthly rent payment for the building. Capitalists refer to the free-for-all of prices or the "free market," and it works very well for many things:

When the free market sets appropriate prices	
<p style="text-align: center;"><b>Food</b></p> 	<p>Dozens of brands for the same groceries fill supermarket aisles. Even if Fruity Pebbles is your favorite cereal, you may be equally happy with Lucky Charms. A peanut butter and jelly sandwich costs less than \$1 to make. As mentioned earlier, a Burger King Whopper, McDonald's Big Mac, and KFC chicken sandwich all revolve around \$4. Almost all Americans can afford the occasional meal out, and any one of us can make a \$2 turkey sandwich at home during tough times.</p>
<p style="text-align: center;"><b>Cars</b></p> 	<p>A Porsche may cost \$80,000 but a brand-new Toyota Corolla costs \$25,000. That same Corolla, 6 years later, may cost just \$12,000 and last another 10 years. Someone desperate to take a new job outside of the city can get a 20-year-old Corolla for just \$300 that will last about 1 more year.</p>
<p style="text-align: center;"><b>Vacations</b></p> 	<p>A cruise may cost \$5,000 but a trip to an upstate New York mountain town can come out to \$500 including gas, Airbnb, and meals. Whatever a person's financial situation is, a vacation is not an impossibility.</p>

While capitalism employs the free market to determine prices, socialism directly sets the price. In fact, it's called "price setting." Sometimes a single government official will set the price for bread, Tylenol and everything else. Price-setting sounds like a perfect idea, but this chapter explains why it almost inevitably goes horribly wrong. First, we must give credit where credit is due. Here are some examples where socialistic countries have set prices most of us agree are a good thing:

When price-setting does some good in socialistic countries	
<p>Medicine in Canada and the UK</p> 	<p>Canada and the United Kingdom have elements of both capitalism and socialism. In both countries, the cost of basic medicine is \$0</p>
<p>Electricity in Argentina</p> 	<p>Argentina's socialistic policies make electricity extremely cheap. Electricity is cheaper in Argentina than any European or North American country. It is nearly 7% the cost of electricity in America. Many families in the United States sleep in the cold because they cannot afford heat during winter. This is not a problem in Argentina.</p>
<p>Property in Qatar</p> 	<p>Qatar does not identify as socialist, but it has socialistic elements nonetheless. Qatar sometimes gives out free land and mortgages with 0% interest. To them, no one owns land—it's a public right.</p>

## Capitalism versus purely socialistic countries: violence

North Korea, China, North Vietnam, and the Soviet Union (Russia) all attempted entirely communistic or socialistic policies, and, in doing so, created the biggest violations in humans rights in the history of the modern world. All of these communist government experiments occurred right around World War 2 or soon after.

During World War 2, Adolf Hitler rose to power with the Nazi party. They declared the communists of Russia as one of their enemies, but the Nazis simultaneously identified as socialists. (The official name of the Nazis were the "National Socialist German Workers Party.) Even though the Nazis were not fully communist, almost the entire world recognizes Nazis as one of the most cruel, misguided and violent political groups in modern history—and the fully communist countries of the time were even more violent!

Under Nazi control, Germany exterminated 6 million Jews. Those millions of innocent people were shot, forced in gas chambers and human-sized ovens, and used for painful science experiments. The communists were even worse.

When Russia became the communistic Soviet Union, they exterminated 10 million of its own people. During World War 2, America and the Soviet Union were allies so American and European troops often fought side-by-side with the socialist Russians. After the war, the Soviet Union took soldiers who fearlessly fought for their country and sent them to Russian concentration camps called "gulags." What?! That's right: while American and European soldiers received a hero's welcome after the war, Soviet soldiers were "rewarded" with homemade concentration camps. Why?! The communist government worried that Soviet soldiers not only found time to talk about economics alongside their American and European allies but they may have grown fond of capitalistic ideas. For fear that Soviet soldiers may have become capitalists, their reward for fighting for their country was often life imprisonment.

While the Soviet Union exterminated 10 million Russians, communist China murdered 100 million of their own people! 10 times the amount of Chinese people died from their own government compared to the Soviet Union, which was already bigger than the death caused by the socialist Nazi party. During this time, China wanted to build a country for the poor and the forgotten, so the Chinese ordered their citizens to kill anyone who even looked like they had an education. That's right, if it looked like you went to school and got an education, the Chinese government wanted you dead!

Even today, countries that identify as communist tend to have higher poverty, violence, and forced imprisonment compared to capitalistic countries. One main reason is that communist governments require autocratic or dictatorial rule to set prices and control the market place. American government can split power between



a president, Congress, the Supreme Court, and 50 states each with dozens of local governments because people are free to set prices without a central authority. In communist Russia, China or North Korea, a single-leader maintains power for decades because price-controls require, well, someone setting prices. To avoid people protesting the new prices, each of these countries have controlled the television, radio, internet and all media. Even today, communist countries imprison journalists and reporters who speak ill of the government. Why? Even if a more competent communist politician would do a better job, the government believes that any change in their economic policy would prevent their grand economic plan from being realized. Sadly, we have not had a country that calls itself communist also protect freedom of speech for its citizens. This is no coincidence.

### Capitalism versus purely socialistic countries: the inevitable failure of price-controls.

In America, all 300 million citizens work together, without realizing it, to set the prices for goods and services. This means that no one is actually "setting" a price, but our collective, unconscious decisions of what to buy and not buy on any given moment reflects the "free market," and it beats communistic price-controls every time. The diagram on the next page is similar to the diagram in the last chapter about how the Fed tries to manage inflation. This diagram can simply be called "America's version of the free market."

# America's Version of the Free Market

## COMPETITION

- Farmers are competing against other farmers to offer cheap and fast crops to businesses
- Marketers are proving to businesses they can help them sell more goods and services with their advertising



- Chefs are competing against other chefs to make cheaper crops turn out to be tastier food products
- Construction companies are competing against each other to be hired to build cheaper but still high-quality buildings



## PRICES

This keeps a Big Mac and 5-piece chicken meal around \$4



- Farmers are taking out loans to get better equipment to produce better crops
- Marketers are hiring researchers to test different advertising methods

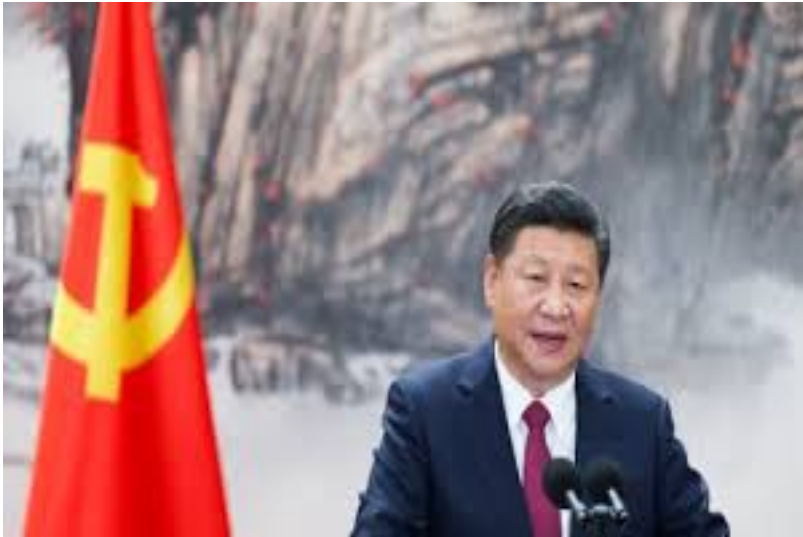


- Chefs are paying for more expensive culinary schools to learn how to make the best tasting foods
- Construction companies are taking out loans to get the best equipment to build cheaper stores

## Business innovation

Any change in any element of this process gradually changes prices. Die-hard pizza lovers may recognize if a slice goes up \$0.10 at their favorite spot, but the gradual

change in prices is something no one often notices. This works very different in Communist China. There, a single person or entity that sets the price.






“Today, I think the economy would be great if bread were \$2!”

Hypothetical and hyperbolic example from dictatorial “President” Xi Jinping

Communism fails because it is a mathematical impossibility to calculate any price correctly.

The Impossibility of Price Controls<sup>29</sup>

Let’s assume there are only 3 steps to getting pizza delivered to your door: (1) the farmers make the bread, cheese, and sauce, (2) chef makes the pizza, (3) the pizza delivery guy drives the pizza to your house:

3 steps of ordering pizza		
(1) Farming	(2) Cooking	(3) Delivery
		

If something effects one part of this process, it effects the entire process.

## Hurricane Strikes a Farm

Let's say a hurricane destroys nearby roads in South Carolina where the farm is. Getting gasoline into South Carolina will require more police, trucks and effort. Thus, the price of gas will increase.

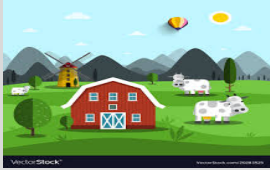

Farming machines that require gasoline will become more expensive. The only way for the farm to stay open is to charge more for their tomatoes, cheese and bread.

The pizza chef has to pay for these higher priced goods but now he is worried about making a profit. He has kids to feed, and his pizza costs more money to produce. His only option is to charge more for his pizza and pay his drivers less. The delivery person now has fewer customers because less people are buying the more expensive pizza, and he is making less money because his boss cut his wages. (

That single hurricane increased the costs of each step in the pizza delivery process to affect one another.


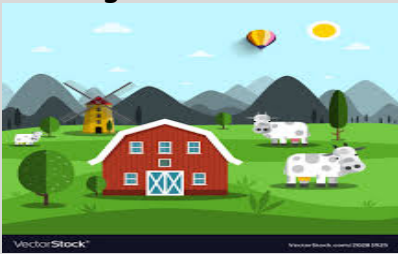

## Hurricane Strikes the Pizza Store

Now, imagine the hurricane passed by the farm and instead landed in the town of the pizza store. This too affects farming and delivery.

	Farming	Delivery
Cooking	 <p>Chefs are charging more for pizza because the gas to get to work and pay for the store's electricity costs more. More expensive pizza means fewer customers. and the demand for farm goods decreases.</p>	 <p>It costs more to make pizza, people will buy less, and then delivery costs will change with fewer customers.</p>

## Hurricane Strikes Delivery Routes

Now, imagine the hurricane passes by both the farm and the pizza shop but it lands in the towns that the pizza delivery person serves. This may mean that delivery costs go up, and people will order less pizza until the hurricane ends. With fewer customers, the farm will sell less to the pizza shop.

	<p>Cooking</p> 	<p>Farming</p> 
<p>Delivery</p> 	<p>If people are ordering less pizza, the pizza store may cut down on the number of pizza delivery people.</p>	<p>If people are ordering less pizza, the farmers may need to fire some of the help because they do not need to produce as much greed, tomato sauce and cheese.</p>

## The Hurricane Strikes all 3

Now, here comes the big one: imagine the hurricane is so huge that it lands in the cities with the farm, pizza shop, and delivery location. Not only does it make business hard for each of them individually, but this leads each link in the chain to affect all the others.

When one thing effects all other things, and all those other things then affect everything else, we call the process "interdependent".

Imagine your mom is in a bad mood, which makes your sister cry. Your sister's tears make you mad, which then leads you to snap on your mom. Now, your mom gets even more angry at your sister and you. Soon, your Uncle Larry gets involved and it becomes one giant mess.

Interdependencies when an increase in prices for one service affects all the others			
	Farming	Cooking	Delivery
Farming	X	If farming costs go up, then ingredients become more expensive. The only way to make a profit is charge more.	If farming costs go up, then fewer people will be ordering pizza delivery.
Cooking	Chefs are charging more for pizza because the gas to get to work and pay for the store's electricity costs more.	X	It costs more to make pizza, people will buy less, and then delivery costs will increase with fewer customers.
Delivery	If it costs more to deliver, then chefs are going to have less money to buy the farmer's crops	If it costs more to deliver, the chef is going to charge more for their pizza or fire some delivery people	X

We represent the inter-dependency of prices with the "factorial" sign in math. It's represented by the exclamation point "!" So, if the creation of pizza has 3 steps, and changing one step affects all the others, we represent the process by writing 3!

With a factorial ("!"), you multiply every consecutive number by the next consecutive number. See below:

$$\begin{aligned}
 1! &= 1 \\
 2! &= 2 \times 1 = 2 \\
 3! &= 3 \times 2 \times 1 = 6 \\
 4! &= 4 \times 3 \times 2 \times 1 = 24 \\
 5! &= 5 \times 4 \times 3 \times 2 \times 1 = 120 \\
 6! &= 6 \times 5 \times 4 \times 3 \times 2 \times 1 = 720
 \end{aligned}$$

Price of pizza = 3!. So, a change in gasoline prices affects prices in 6 different ways. If you look from the previous page (re-printed below) there are 6 changes.

Interdependencies when an increase in prices for one service affects all the others			
	Farming	Cooking	Delivery
Farming	X	If farming costs go up, then ingredients become more expensive. The only way to make a profit is charge more.	If farming costs go up, then fewer people will be ordering pizza on delivery.
Cooking	Chefs are charging more for pizza because the gas to get to work and pay for the store's electricity costs more.	X	If costs more to make pizza, people will buy less, and then delivery costs will change with fewer customers.
Delivery	If it costs more to deliver, then chefs are going to have less money to buy the farmer's crops.	If it costs more to deliver, the chef is going to charge more for their pizza or fire some delivery people.	X

6 circles!

But, really, pizza has many more than 3 steps. Here are just some of the steps that go into making pizza:

- Farmer grows wheat
- A dairy farmer buys a cow and sells the milk to a company that makes cheese
- A third farmer across the country grows tomatoes and sells the tomatoes to a different company to make tomato sauce
- Many different delivery services take crops and foods to super market
- Super market sells crops and food stuffs to pizza store owner

