

Capitalism vs. Socialism

by

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Freeeditorial 

Dedicated to Álvaro Sánchez-Cervera Serrano, who, despite being in the prime of his youth, possesses a great curiosity about one of the most important fields of human relations: economics.

Economics has played a hugely important role in human history; so much so, that there is no other factor that has had a bigger influence on the societal and lifestyle changes that humankind has undergone over the centuries. It has been responsible for wars, revolutions, poverty, wealth, and the level of wellbeing of each individual. Sadly, however, despite its importance, we know very little about it and we don't even tend to be aware of its significance in our lives. Indeed, the only thing we know is whether we are in good or bad economic conditions, although we almost never know why.

Over the last two centuries, society has been torn between two conflicting economic philosophies: capitalism and socialism.

Curiously, most of us tend to align themselves with one or the other philosophy, even to a fanatical degree, when in reality they don't know what either one means or the actual influence they have on our lives. Generally, people choose one or the other in the same way they choose the football team they support. It is generally their families and communities that determine an inclination for one or the other from childhood, creating a feeling with no rational basis, which, coupled with our nature as social creatures, ultimately drives us to embrace one or the other without the slightest understanding or reflection.

Once people have chosen their political philosophy of preference, they tend to place anyone who shares their point of view on a pedestal (just like football fans do with the players on their favorite team) and to praise those who point out the defects of the opposing view, regardless of whether the defects in question are real or imaginary. Filmmakers, authors, or philosophers who share their political or religious sympathies are automatically classified as geniuses of their respective fields. However, there are also individuals who try to "live off" politics, who therefore choose their affiliation for more powerful, pragmatic reasons: to get as much out of it as they can, and, once they have attained the power they seek, to hold onto it at any price. But both categories of individuals—the emotional followers and the careerists—choose their political-economic philosophy without the slightest idea of what it means, and often without caring very much either. Actually, it should be a matter of great concern to them, especially to those whose positions give them the power to make decisions that affect their fellow citizens. But regrettably it is not, and that willful ignorance is often responsible for major economic crises.

Before going any further, it would be useful to establish a concise definition of each of these two ideological perspective on the economy.

Capitalism: An economic and social system based on private ownership of the means of production, the importance of capital as a creator of wealth,

and of the people (i.e., the market) for determining and correcting the types of goods that the means of production should create, because they are things that the public wants or needs.

Socialism: An economic and social system based on ownership of the means of production by the State, which determines and controls the goods to be produced and distributed without taking the market into account. Communism is the final stage of the socialist model. Both theories have the same origin in the 19th-century German thinkers Karl Marx and Friedrich Engels, who defined them in their works *Capital* and the *Communist Manifesto*.

It is important to clarify at this point that the “market” does not refer to some malevolent, obese businessman with a big cigar. By definition, the market refers to the decisions made by the collective of individual consumers who make up a community, although this definition may be deemed to no longer apply (or at least to be misapplied) when governments or the financial sector manipulate those markets, as occurred in the global economic crisis of 2008.

But let’s turn now to the origins of each of these philosophies.

The first case in history where the two theories were applied was in ancient Greece. It is important to note that the ancient Greek states were never able to expand beyond the narrow limits of their cities to form a nation, as the region was made up of a multitude of city-states that were constantly at war with one another. For many years, the most important of these city-states were Athens and Sparta. In Athens, the model applied was a capitalist model, while in Sparta a communist model was adopted.

Let’s begin with the capitalist system. In Athens, by the time Pericles came to power (the city’s golden age), the economic system was capitalist. Ownership of the land, which in the days of Homer was held by the government, had passed onto the citizens. The banks, the big shipping companies and industries were also privately owned. The State only owned the subsoil, and even this was not managed directly by it but was given to private individuals to cultivate.

But it would not be until the 19th century, as a consequence of the Industrial Revolution, that the capitalist system began to take definitive shape. As a result of this revolution the production of goods was mechanized, and this led to an exponential growth in the quantity of goods produced. Very soon, business owners understood that they needed buyers with money to be able to purchase their goods, and specialist workers to operate the machines.

Prior to this era, particularly in the Middle Ages, craftsmen with limited

technological means were only able to produce a few dishes (or whatever product they made) every day. This meant that to survive they only needed a few nobles and clerics as customers, as these would be the only people who could afford them. But with the mechanization brought by the Industrial Revolution, factories were able to produce a thousand dishes a day. Clerics and nobles could not possibly absorb such quantities. Thousands more customers were needed to buy the goods. This was when the first wages appeared, which at first were not very generous, but gradually, as the system was consolidated and expanded to all branches of production, wages were regulated and began increasing.

This need for people with money to buy the goods produced, and the need for specialist workers in the factories (slaves had no money and offered only unskilled labor), played an important role, among other factors, in the appearance of movements calling for the abolition of slavery. Indeed, the fact that abolitionist movements rose to such prominence in the 19th century was no accident. It was the economy that developed in the wake of the Industrial Revolution that liberated the slaves because slavery became unnecessary. It is also no accident that in the American Civil War the industrial North fought for the abolition of slavery while the agricultural South fought to maintain it, as the Southerners needed the cheap labor for the continued cultivation of the crops (mainly cotton) that they sold to the mechanized industries of the Northern states and Europe. Conversely, in the North what they needed was people with purchasing power to buy the industrial goods they were producing and specialist workers for their machines. Thus, slavery was not abolished because human society was any nobler in the 19th century than it had been in previous centuries; in reality, it was because slavery, which had existed since the dawn of time, had ceased to be profitable. In short, it was the economy created by the Industrial Revolution that freed the slaves, not the conscience of humankind; for example, the Catholic Church rarely questioned the legitimacy of slavery, particularly of Africans.

In this way, the Industrial Revolution gradually created wage earners who, over time, would eventually enter the middle class. This had wide repercussions for the most industrially developed societies, creating stability and preventing the kind of social turmoil that would arise in social contexts with severe economic inequities. Such inequities tend to encourage those with nothing to lose except their poverty to follow any madman who offers them hope, however ludicrous that hope may be. Conversely, societies whose middle classes represent the largest proportion of the population tend to be more stable, as the majority would have plenty to lose if a populist extremist, on either the right or the left, were to gain power.

But returning to capitalism, it is important to note that this philosophy is not homogeneous, as there are different theories on how to apply it in practice.

On the one hand is the approach represented by the British economist John Maynard Keynes, who basically proposed that when the markets fail, the State should become the main buyer and investor in order to stimulate consumption and thus create employment. This theory has its greatest followers among the (non-Marxist) socialist parties of Europe, and members of the Democratic Party in the United States.

In opposition to this theory (but still within capitalism) is the approach advocated by the American Nobel Prize-winning economist Milton Friedman. At a time when Keynesian ideas were especially popular in the period after World War II, Friedman, a decisive proponent of economic liberalism, was one of the few economists who defended the ideas of Adam Smith (considered the father of modern economics) and harshly criticized the expansion of the public sector in Western nations. The United States under Ronald Reagan and the United Kingdom under Margaret Thatcher applied his economic philosophy.

On the other hand, there are also two types of capitalism based on its relationship with politics: democratic capitalism, exemplified by the United States; and autocratic capitalism, exemplified by China's current system. Advocates of autocratic capitalism generally criticize the democratic version for its lack of efficiency due to the amount of internal debate inherent to democracy, sometimes with negative and even paralyzing effects. Democrats, meanwhile, condemn autocratic capitalism for the lack of freedom it affords its citizens.

Without delving into this debate, it is worth pointing out that it has been a very common mistake made by Western countries in recent history to expect other nations to embrace political democracy before changing their economic system. History shows irrefutably how misguided this order of development can be. The former Soviet Union, which is one of the most significant cases in this respect, attempted to change politically before it changed economically (i.e., by shifting from a socialist to a capitalist economy), and the results were—and continue to be—nothing short of disastrous. On the other hand, China after the death of Mao, implemented a form of autocratic capitalism that is creating a middle class in China, just as Spain did in the period following its civil war (1936-1939), which should result, as occurred in Spain, in the successful move to democratic capitalism once the middle class comes to represent the majority of the population. But this process cannot be rushed, as China still has more than a third of its population living in absolute poverty, because Shanghai and Beijing are not

all of China.

On the other hand, we have the other major economic philosophy of our time: socialism.

As noted above, its historical origins can be located in Sparta, which established a kind of communism with its subordination by law of all private interests to the public good. That is, to the government. The Spartans imposed a social structure modeled on military life, and even the education of their youth (and thus the manipulation of their thought) was entrusted to the State, and austerity in private life was an obligation.

In our times, the former Soviet Union, China, Cuba, Venezuela, and North Korea are all countries that have implemented socialism. The Soviet Union collapsed with economic problems created by the system itself. Upon Mao's death, China embraced autocratic capitalism to pull its population out of poverty. Today, Cuba, Venezuela, and North Korea continue to apply this philosophy.

Yet despite the repeated failures of this political-economic system, by analyzing the events of the 19th century we can find some explanations for its success in some parts of the world. It seems undeniable that socialism was the consequence of the tumultuous and uneven birth pangs of the Industrial Revolution, which were very harsh on many people, as is always the case with any major social upheaval. Indeed, the relationship between capital and labor was very similar at the beginning of this revolution to the relationship between nobles and serfs under the feudal system, perhaps out of habit and custom.

A clear example of these harsh conditions was the construction of the Suez Canal in the 19th century. The idea emerged as a result of the Industrial Revolution, as its objective was to connect the markets of Europe and Asia. Most of the workers employed for the completion of this enormous construction were Egyptians who were taken by force from their houses or farms and paid a paltry wage to work 18 hours a day. More than 20,000 of these workers died in workplace accidents. The developer who sought the capital for this huge engineering enterprise was Ferdinand de Lesseps, a French diplomat who behaved towards the canal workers the way that the aristocracy had done with its serfs.

It is in this historical context that the German thinkers Marx and Engels appeared with their theory of socialism. Naturally, they were strongly influenced by the dramas they saw around them in the relations between capital and labor at the time. But over time those relations would become more balanced (a development that the German thinkers did not foresee) with workers eventually entering the middle class, especially during the

second half of the 20th century, and no longer identifying with the Marxist descriptions of them as a proletarian class. Indeed, as the middle classes came to represent the majority, its political influence grew exponentially, contributing significantly to national stability.

Time, which is the only irrefutable judge, has shown that capitalism, in its assorted varieties, is more effective and beneficial to the average citizen than Marxist socialism, as the latter, in addition to creating poverty, tends to create political tyrannies, because the concentration of political and economic power into just a few hands makes this inevitable. Another of the reasons for the failure of socialism is that it is contrary to human nature to try to restrict (or, as has been attempted in some cases, to eliminate) private property, as its existence is essential for societies to function properly, because it satisfies the human desire to possess goods for personal enjoyment, and also to encourage and stimulate personal and professional success.

In short, an analysis of the historical development of each of these two conflicting economic systems makes it clear that socialism (as its theorists predicted) evolves almost inevitably towards communism, because powerful governments tend to go on increasing their power at the expense of their citizens, who have very little influence on the decisions made by their leaders under this system. Indeed, one of the mottoes coined by the thinkers behind this economic approach expresses it perfectly: “To govern for the people but without the people.”

Conversely, history also shows us that autocratic capitalism tends to evolve towards democracy because it creates a middle class that will always end up demanding participation in government as they come to realize that they are the ones financing that government through the taxes they pay.

In conclusion, in view of the analysis above, it would seem wise to establish our political sympathies based on an understanding of the economic repercussions they can have on our lives, and not on the same emotion on which we base our choice of a football team to cheer for.

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