

Economic Principles of Socialism and Capitalism for Addressing Poverty

By Matthew Kaiser

Throughout life many people will never experience extreme poverty, or for that matter poverty at all. There could be many reasons for this, such as being born in a place with low poverty rates or being born into families who are affluent. Regardless of the reasons people will not experience poverty, there are people who cannot seem to escape from poverty. According to the United Nations, around ten percent of the world's population is living in extreme poverty and struggles to fulfill the most basic human needs (United Nations, n.d.). Why is extreme poverty still a problem in a world immensely more developed than in the past? Would capitalism address poverty more efficiently and better than socialism? To answer these questions there must be an understanding of the definition of poverty, classifications of the different economies, and the characteristics of socialism and capitalism.

When one thinks about poverty, one may assume that poverty just entails a lack of financial stability. People who lack income and stability will experience the effects of poverty more than those who do not. However, extreme poverty includes many variables such as hunger, malnutrition, limited access to education, social discrimination, exclusion, and poor living conditions. When these things fester together and economies fail to fix these issues, the result is extreme poverty and poor qualities of life. Though poverty can be found in most places in the world, most extreme poverty is found in developing economies.

There are three broad classifications countries can be placed into: *developed economies*, *economies in transition*, and *developing economies*. *Developed economies* are in countries that can sustain a high level of economic growth and provide economic security for its citizens. There are many ways to quantify this classification. The first way is to analyze a country's income per capita, which is a measurement for how much money is earned per person in a country. Some other ways could be looking at how industrialized a country is, general standards of living, and technical advancements. *Developed economies* will produce all these factors at much higher rates than *economies in transition* and *developing economies*.

Economies in transition are countries that are usually in a transition of a centrally planned economy, such as socialism, to some form of a market-based economy. There was a huge shift in this when the Soviet Union collapsed and lost their influence. The transition from a central planned economy to a market economy has many challenges. These economies are neither as rich and prosperous as *developed economies*, nor are they at the level of *developing economies*. It is important to understand that in these economies there is little, if any, extreme poverty, but large segments of the economy remain below poverty lines. These economies, for the most part, will experience high inflation or hyperinflation and will have a difficult time calculating GDP.

Developing economies are in countries that are not as advanced or developed as the rest of the world. There are many common characteristics found in *developing economies* such as low income per capita, dependence on exports, high rates of unemployment, and high population growth/size. There is often extreme poverty caused by many reasons such as war, political instability, social inequality, history, and natural disasters. Over the past two decades there has been significant progress in many of the world's poorest countries. According to The World Bank, "The extreme poverty rate fell from more than 50% to about 30%. Child mortality declined from nearly 14% to 7%. Access to electricity increased by 57% and the share of people using at least basic drinking water and sanitation services increased by 22% and 41%, respectively, among other results" (Barne & Wadhwa, 2019). There are significant improvements being made in the world, but there is yet to be a world with no poverty. However, this basic understanding of poverty and the different classifications of economies should help one explore whether socialism or capitalism would help in ending extreme poverty.

In a socialist system the community (and ultimately the government), rather than the individuals in a community, owns and manages property and natural resources. The ideas of socialism go back as far as Ancient Greek times when a man by the name of Thomas More drew on Platonic ideas that money should be abolished, and people should live and work communally (History.com Editors, 2019). The present-day motivations of socialism stem from the Industrial Revolution. During this time factory owners became extremely wealthy while many of the workers lived in poverty, demonstrating an expanding capitalist system.

This idea of Socialism, as seen in the Soviet Union, developed further from the ideas that Karl Marx portrayed in his work *The Communist Manifesto*. Marx's emphasis was on the new clash between capital and labor and getting rid of the class system that controls the means of production. He believed these classes used their power to exploit the labor class.

In a capitalistic system private individuals or businesses own capital goods and property. They decide when and how to produce goods. The production of goods and services are based on supply and demand in the general market, not what the government mandates. Adam Smith brought about the idea of capitalism when he argued against mercantilism. Smith also proposed the idea of an invisible hand – an idea that free markets will regulate themselves through competition, supply and demand, and self-interest – in his book *The Theory of Moral Sentiments*. There are many different variations of capitalism, but most countries have a mixed capitalistic system. This means there is some level of government regulation on businesses and production. Smith believed there should be a limited government but did see the value in having a government for education and defensive purposes.

There are many advantages and disadvantages of capitalism and socialism. Perhaps the biggest apparent advantage of socialism is that the government spreads wealth to everyone, eradicating class distinctions. The government also manages the means of production which helps to ensure private enterprises cannot exploit these means for personal gain. However, socialism also has disadvantages. One weakness lies in the fact that for this system to work there must be no corruption. This system stems from the belief that humans are generally good and will do whatever it takes to help others. There are other disadvantages of socialism such as a reduction of innovation levels, discouragement of competition, and more government spending.

Perhaps the biggest advantage of capitalism is the fact there is an immense amount of economic growth and efficiency. This causes a higher standard of living, greater exports, and the ability to produce what the markets demand. Other advantages of this system are people turning their skills into ways to make money, self-regulation, and limited government spending. However, capitalism also has disadvantages. One disadvantage is the system allows for inequality, due to being able to pass down wealth to future generations. This system also does not always allow for growth as there are recessions and high unemployment periods. For this system to grow and sustain itself, people must buy products.

So, would capitalism or socialism do a better job with eliminating extreme poverty in developing economies? This is a hard question to answer due to the many unique variables that each developing country has and no one country being fully socialist or capitalist. Perhaps one way to answer this question would be to look at the system each economy has in relation to the three classifications. Research shows many *developed economies* are closer to a capitalistic system than a socialist system. Additionally, most *developing economies* and *economies in transition* have influences in socialistic policies, which would suggest a mix of both economies would be something to consider.

Another way to answer this question would be to look at a specific developing economy, such as China. According to the World Bank, “since China began to open up and reform its economy in 1978, GDP growth has averaged almost ten percent a year, and more than 850 million people have been lifted out of poverty” (The World Bank, 2020). This would also suggest capitalism does help in the development of nations and could possibly help *developing economies*. China also has the second largest economy in the world, but their per capita income is only about a quarter of that of high-income countries. Thus, China remains a developing country with much of its people in poverty.

Regardless of how one answers this question it should be known and accepted that there is no definite answer on if socialism or capitalism would help end extreme poverty. However, the facts do suggest a mixed economy could do great things for these nations. By learning about these poor countries and thinking about what makes a nation strong, one could help in the ending of extreme poverty. There will always be some level of poverty in the world, but there can be a world with no extreme poverty. There can be a world where all humans are able to live without worrying about food, fresh water, health, and safety. It is up to people to help each other and share what they know.

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