**Capitalism and Socialism Reading**

Directions: Read the following passages carefully. Highlight or underline key ideas and terms that are important to understanding each economic system. Use the left hand column to take notes. Be prepared to discuss and explain the ideas and terms you selected.

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| **Notes and Questions** | **Capitalism** |
|  | Capitalism is an economic system based on money (capital means money). The central idea of capitalism is that the marketplace, not rulers or governments, decide what will be made and sold. In the marketplace, people influence what will be produced by the goods they decide to purchase. For example, if more people purchase Ford automobiles than Chevrolet automobiles, then more Fords and fewer Chevrolets will be produced. In his book The Wealth of Nations, economist Adam Smith called this idea the *invisible hand* (the ability of the marketplace to respond to public demand without the government getting involved). Because governments could not control the *invisible hand* from moving the marketplace, economists called this type of economy laissez-faire, or “hands-off” capitalism. The Wealth of Nations carries the important message that the government should intervene as little as possible in economic affairs and leave the market to its own devices. It advocates the liberation of economic production from all regulation in order to benefit the people. In 19th century western Europe, capitalism became the dominant economic system. Wealth increased tremendously for some, and the middle classes increased in size. However, the Industrial Revolution caused many people to give up farming and move to cities to seek employment. Many farmers found jobs in the new factories in the cities. Factory workers worked from 12 to 16 hours a day, 6 days a week, with 30 minutes for lunch and dinner. There was no such thing as a minimum wage and a worker could be fired at any time for any reason. Some began to see capitalism as an unfair economic system where the rich got richer and the poor suffered. |

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| **Notes and Questions** | **Socialism** |
|  | Socialism is an economic system in which the government owns and controls manufacturing and is responsible for planning the economy. It was created in an attempt to eliminate the differences between the rich and poor. In a socialist system, where the government owns manufacturing, businesses, and property, the government determines what is to be produced and distributes wealth evenly. Early 19th century socialists believed that the spirit of cooperation evident in socialist theory could replace the marketplace competition of capitalism. Later 19th century proponents of socialist theory, like Karl Marx, believed that cooperation was not possible and that conflict between the owners of capital and those who worked for them in factories was inevitable. He believed that the struggle between the two groups would eventually lead to a workers revolution. |

**Text Dependent Questions**

1. What role does government play in capitalism?

2. How does the concept of the “invisible hand” support this idea?

3. Why was capitalism viewed as an unfair system in the 19th century?

4. What role does the government play in socialism?

5. What did Marx think would happen in a socialist society?