

UNIT

8

CHAPTER 22

COMPARING POLITICAL AND ECONOMIC SYSTEMS

CHAPTER 23

INTERNATIONAL RELATIONS

PUBLIC POLICY LAB

How do United Nations ambassadors help solve conflicts among countries? Find out by reading this unit and taking the Public Policy Lab challenge on pages 552–55.



THE UNITED STATES AND THE WORLD



CHAPTER 22

COMPARING POLITICAL AND ECONOMIC SYSTEMS

Do you remember when the Soviet Union dissolved or when the Berlin Wall was torn down? For many people around the world, these events showed the failures and successes of several major political and economic systems.

Varying political and economic systems have long been a feature of human societies. During the 1900s, democracy has flourished in some nations, while authoritarian governments have emerged in others. In some parts of the world, communist revolutionaries attempted to establish a social order without economic classes. In yet others, leaders have worked to establish socialism. As the twentieth century comes to a close, capitalism appears to be either firmly in place or on the rise everywhere. By studying the world's various political and economic systems, one can gain insight into these styles of governing and the cultures that have developed them.



Government Notebook

In your opinion, why might different societies and their leaders form different kinds of political and economic systems? What problems or difficulties might inspire the development of new systems? Write your answers in your Government Notebook.



SECTION 1

CAPITALISM

Political Dictionary



entrepreneur
capitalist
factor of production
consumer
competition
supply and demand
profit
self-interest
mixed economy

Objectives

- ★ What are the four factors of production?
- ★ In what way is a free-market economy an essential aspect of capitalism?
- ★ How do supply and demand, competition, and the profit motive affect capitalist economies?
- ★ How does the U.S. economy differ from Adam Smith's capitalist ideas?

Have you ever thought about starting your own company? If you bought a piece of land, built your own business there, and hired employees to work in the business, you would be an entrepreneur and a capitalist. An **entrepreneur** is a person who takes on the risk of starting, organizing, and operating a business, while a **capitalist** is a person who invests his or her money, land, or machinery in a business. Entrepreneurs and capitalists form the basis of the capitalist system, establishing and maintaining the businesses and industries that drive a free-enterprise economy.

Today the United States, Japan, Mexico, and Taiwan, for example, have some form of capitalist economy. To be classified as capitalist, a country must have an economy geared around some combination of the following principles—private ownership, a market economy, competition, and profit.

Private Ownership Central to the capitalist system is private, or nongovernmental, control over the factors of production. The **factors of production** are the basic resources needed for a country's economy. They include natural resources, human resources, capital resources—such as money and machinery that are needed to produce goods—and entrepreneurship. The factors of production for a shoe factory, for example, would include the land the factory occupies, the factory itself, the machines and materials required to make the shoes, the employees, and the person or people who started and run the business.

Private ownership means that individuals and corporations—rather than the government—own or control the factors of production. In many capitalist societies, governments own some natural resources, such as land, as well as basic public services, such as the postal system and public utilities. However, businesses in the United States and other capitalist nations are owned by individuals and corporations.

The Four Factors of Production



Natural Resources



Human Resources

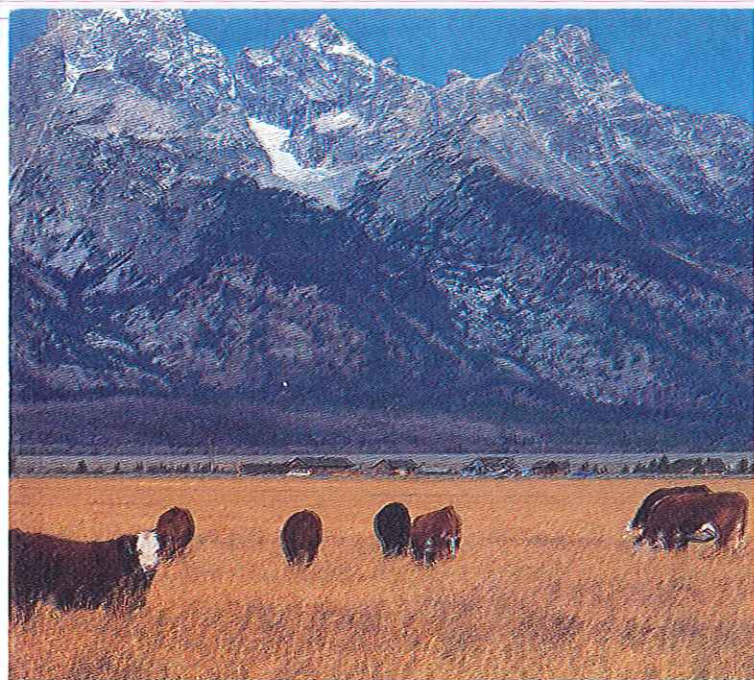


Capital Resources



Entrepreneurship

The basic resources needed for a country's economy are known as the factors of production. What are some types of capital resources?



PUBLIC GOOD *The U.S. government controls certain basic public services in addition to owning some of the country's natural resources. This government-owned land near Jackson, Wyoming, is leased to ranchers for cattle grazing. What basic public services are controlled by the U.S. government?*

Market Economy A second principle of capitalism is the market economy. In precapitalist economies each family generally produced almost everything it needed, trading with others for items the family could not make itself. In this type of economy, individuals had to perform several jobs in order to make the things they needed. In a free-market economy, however, the products from an individual's labor are not for his or her use alone, but are offered for sale in the market. For example, if you were to pick strawberries as an agricultural worker, you would not take them home for your own use. You would pick the strawberries for your employer, who would pay you for your labor. As noted in Chapter 9, goods and services are exchanged freely in a free-market economy, and the government has little say in what, how, and for whom they are produced.

Critical to free-market economies is the ability of **consumers**, or buyers of products, to choose freely from among goods offered for sale. Consumers therefore actively influence what and how much will be produced, through the pressures their buying decisions put on the market.

Competition and Profit Another essential element of capitalism is **competition**—the effort that sellers of similar products exert in obtaining the

business of consumers. When individuals and corporations must compete in the market economy, they are pressured to produce improved products in order to attract buyers. In a competitive market the prices of goods are determined by two primary factors—supply and demand. Under the laws of **supply and demand**, goods that are in great supply and for which there is little demand tend to have low prices. Conversely, goods that are in low supply and for which there is high demand have high prices.

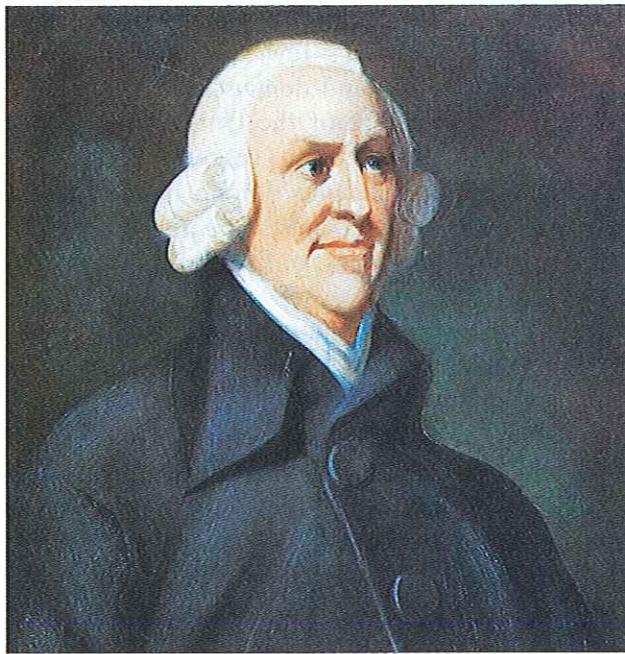
Another cornerstone of capitalist economies is **profit**—the difference between the revenue received from the sale of a good or service and the costs of providing it. A capitalist system works because the opportunity to earn profits lures people to invest their capital. Industries that generate particularly high profits encourage higher levels of investment. According to the laws of supply and demand, however, an increase in the supply of an industry's products forces down their prices and eventually decreases profits.

Roots of Capitalism

From around the 800s to the late 1300s, economic and social systems in Europe were dominated by feudal monarchies. Feudalism was based on the rule of an aristocratic class of titled landowners—such as barons, dukes, earls, and counts—who answered to a royal family headed by a monarch. As noted in Chapter 1, many people at that time believed that God chose royal families and their heirs to rule over kingdoms and nations. In feudal societies, people's fates depended on the class into which they were born. Moving into a higher class was almost impossible. People who were born peasants almost always lived their entire lives as peasants, working the land for the benefit of the landowners and royal families.

Eventually the feudal order was challenged by a middle class of entrepreneurs that first arose in cities. New theories of government and economics emerged as this rising business class gained influence. Writers and theorists such as Scottish economist Adam Smith, who wrote *An Inquiry into the Nature and Causes of the Wealth of Nations* in the 1700s, popularized ideas about how a free market could regulate economic activity.

Smith stated that everyone in a capitalist economy competes with everyone else to seek the greatest possible advantage from each market transaction. Thus the primary motivation for



WORLD AFFAIRS Scottish economist Adam Smith popularized ideas about how a free market regulates economic activity. In what century did Smith publish his major writings?

economic behavior is **self-interest**—the impulse that encourages people to fulfill their needs and wants. Self-interest helps the economy grow as businesses compete with each other to provide goods and services to meet consumers' needs and wants. This competition brings about great efficiency because resources are used only to produce the goods and services for which people are most willing to pay. People's pursuit of their own self-interest thus serves as an "invisible hand," guiding the market to promote the public good.

Smith argued that government efforts to regulate prices or restrict free trade interferes with the invisible hand's ability to satisfy consumer wants. He said that the laws of supply and demand would assure that enough goods would be produced to meet the needs of the population. In addition, competition among entrepreneurs would both control profit levels, and also encourage both new and more efficient production methods.

Capitalism in the United States and in Welfare States

The United States does not practice the pure market principles that Smith envisioned. Instead,

it has developed what can be called a **mixed economy**, one in which private enterprise and government action both play a role. The government of a capitalist nation may enact some regulations, but its role in the economy is limited.

As noted in Chapter 9, the government in a capitalist society such as the United States can encourage economic growth by means of fiscal policy—for example, by altering the federal budget or by increasing or decreasing taxes. Conversely, to regulate the nation's economy, the Federal Reserve may use monetary policy, raising or lowering interest

Characteristics of Capitalism

PRIVATE OWNERSHIP

Individuals and businesses own the means of production: land, factories, machinery, and natural resources.



MARKET ECONOMY

Individuals and businesses are free to sell their labor, goods, and services.

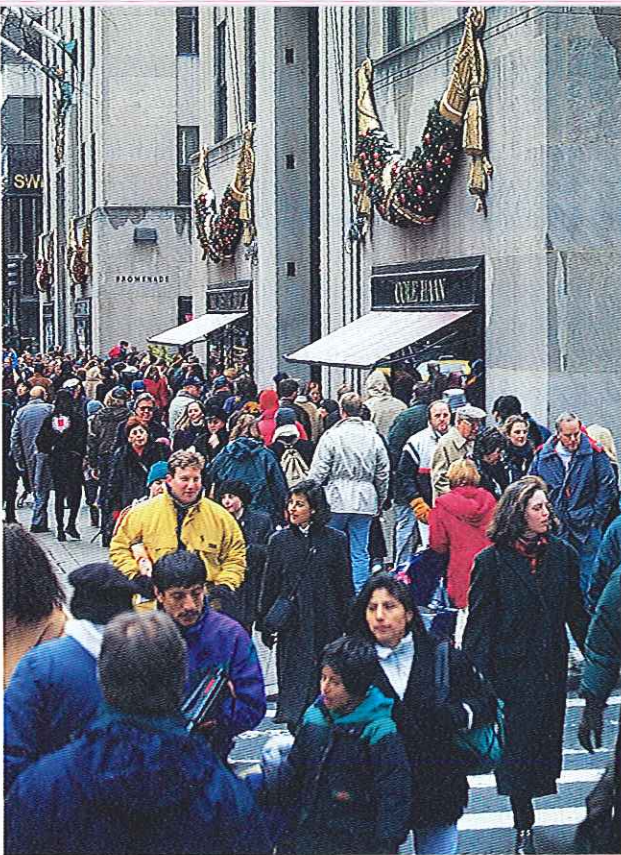


COMPETITION AND PROFIT

Individuals and businesses are free to compete with others and to earn profits in an open market.



Capitalistic economies are characterized by private ownership, free markets, competition, and profit. In a capitalist economy, what assures that enough goods will be produced to meet the needs of the population?



PUBLIC GOOD *In the United States's capitalist economy, the government regulates industry, taxes citizens, and provides social services. In what other ways is the government involved in the economy?*

rates to discourage or encourage the borrowing of money. Taxing and spending policies enable the government to provide social services such as education, as well as provide for national defense. The government also may regulate health and safety standards in the workplace.

Otherwise, governments of countries with market economies pass few regulations on the operation of supply and demand. In a capitalist economy such as that of the United States, the government acts as a kind of referee. Although it helps regulate interactions among businesses, it generally does not interrupt the operations of capitalists, business owners, or the market economy. In the United States, private industries have great leeway in decision making, but the U.S. government influences the economy by regulating business practices, taxing citizens, and providing social services. The government also influences the economy in much the same way as a large business does through its purchases of goods and services from the private sector and as an employer of a significant portion of the population.

Many mixed economies today operate under what is called welfare state capitalism—government provides widespread social services financed by taxes. Examples of countries with welfare state capitalist economies include Brazil, Canada, Germany, Mexico, and the United Kingdom.

Welfare state capitalist governments differ from one another primarily in the extent to which they regulate industry, the rate at which they tax businesses and individuals, and the types of social services they provide. In mixed economies, taxes usually fund basic public services, social services such as monetary assistance to the poor, and health care, education, and public housing. Some mixed economies, particularly those in Europe, provide many additional services as well.

SECTION 1

REVIEW

1. Define the following terms: entrepreneur, capitalist, factor of production, consumer, competition, supply and demand, profit, self-interest, mixed economy.
2. What are the four factors of production, and what role do they play in a capitalist system?
3. Describe the essential elements of a capitalist economy.
4. What are the differences between Adam Smith's capitalist ideas and the way in which the U.S. economy is structured?

5. Thinking and Writing Critically

In what ways do you think capitalism offers people more political and economic freedom? In what ways might it limit those freedoms for some people?

6. Applying **POLITICAL FOUNDATIONS**



Conduct an Internet search to find information on Adam Smith. Use that information to write a short profile of him. Be sure to include details about his life and work, such as the place and dates of his birth and death and the titles of his significant writings.

SECTION 2

SOCIALISM

Political Dictionary



socialism
democratic socialism
proletariat
bourgeoisie
communism
nationalization
command economy

Objectives

- ★ What are some of the basic principles of socialism?
- ★ What are some nations that have strong socialist traditions?
- ★ What is a welfare state?

As you have read, capitalism focuses on private ownership, profit, competition, and the operation of the free market. In such a system, people attain different levels of wealth and success, which produces inequality in their standard of living. Some people are quite wealthy, while others are poor. Another economic system attempts to reduce these inequalities of wealth by redistributing money throughout society. Under this system, **socialism**, the government or the people as a whole own, or at least control, the factors of production and manage the distribution of goods. Various types of socialism have been developed to fit different countries' unique cultural, social, economic, and political needs.

History of Socialism

Socialism as an organized political movement began in western Europe in the late 1700s and early 1800s after the Industrial Revolution—when Western countries moved from agricultural to industrial economies. Factories subjected laborers to harsh working conditions and worsened the unequal distribution of wealth. Some political

thinkers, including Robert Owen and Charles Fourier, responded by calling for reform to address these economic and social inequalities.

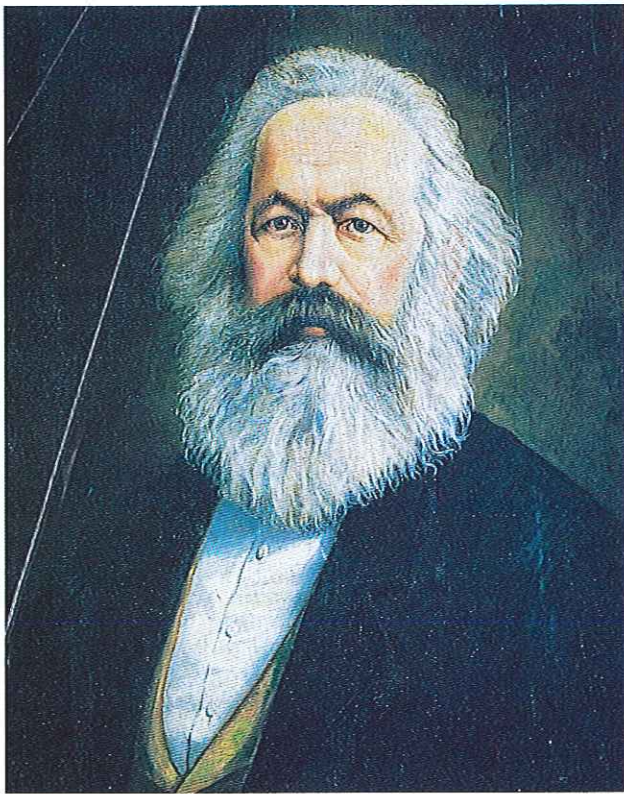
Early socialists sought to expand civil liberties and to secure greater economic equality. They concentrated on expanding voting rights and on establishing the ability of trade unions to bargain collectively with the management of corporations and other businesses. Following the ideas of **democratic socialism**, people sought to use these and other peaceful methods to eliminate capitalism. Industrial factory workers and intellectuals who favored reform worked together in this movement's early political parties. Other political theorists, however, had more revolutionary ideas about political and social reform.

Karl Marx The founder of modern socialist thought is German political and economic theorist Karl Marx, who along with German social scientist Friedrich Engels wrote important works on socialism during the 1800s. These texts criticized capitalism, saying that free markets would enable the wealthy to take advantage of the workers.

Marx urged the **proletariat**—the workers—to violently overthrow the **bourgeoisie**—the people



WORLD AFFAIRS In Sweden, a democratic socialist country, the government provides citizens with health care. How did democratic socialists hope to eliminate capitalism?



WORLD AFFAIRS Karl Marx (pictured here) and Friedrich Engels wrote the *Communist Manifesto*, which urges workers to overthrow capitalist governments. Of what economic and political system do Marx and Engels's theories form the foundation?

who own the means of production in a capitalist nation. Over time, his ideas formed the foundation of authoritarian socialism, or **communism**, which is based on government ownership or control of nearly all of the factors of production. (Communist doctrine is more fully explained in Section 3.)

Characteristics of Democratic Socialism

Democratic socialism has varied a great deal from nation to nation. In general, however, socialist economies all involve widespread social services and at least some **nationalization**, in which the government takes over industries. In most democratic socialist countries, government ownership is limited to industries of key national concern, such as electric utilities and transportation systems. Individuals are able to influence economic planning through the election of government officials. High taxes are

generally a feature of socialist economies as well. One characteristic that is shared by both socialist and communist countries is that they all operate under command economies, though the organization of this system varies widely among these countries.

Many European nations, including Denmark, Austria, and Sweden, practice democratic socialism. In addition, economies of some less-developed countries, such as India, were traditionally based on democratic socialism. In recent years, many of these economies have moved closer to capitalism.

Social Services and the Welfare State Most socialists believe that government should assure the equal distribution of certain basic social services. For this reason, nations with strong democratic socialist traditions—such as Israel, Sweden, and Australia—have enacted comprehensive social service programs, including old-age pensions, income supplements, health care, child care, unemployment compensation, and supplemental payments to people with children. Socialists also have attempted to expand educational opportunities for all people, eliminate discrimination, replan the layout of towns and cities, tear down slums and build new houses, and rebuild societies by cooperation instead of through competition and profit. As noted in Section 1, a government that provides widespread social services funded by taxes is a welfare state.



WORLD AFFAIRS This textile-manufacturing plant belongs to the Egyptian government, which owns many of Egypt's major industries. Why do socialist countries nationalize industries?

Careers in Government



International Broadcasting Bureau

In 1994 the U.S. International Broadcasting Bureau was established to coordinate all U.S. government international broadcast services. These services include U.S. and international news and programming for listeners around the world.

The most familiar of these broadcast services is Voice of America (VOA). VOA radio began airing on February 24, 1942, to provide news information to listeners in Germany and Nazi-occupied Europe during World War II. VOA remained on air after the war and today broadcasts in 52 languages to about 86 million listeners each week. Since October 1996 VOA also has broadcast television programs. All VOA programming is produced in Washington, D.C.

Every VOA broadcaster must be a fluent speaker of his or her target audience's language. Broadcasters also must possess a wide range of journalistic skills, such as interviewing, writing, and reporting for radio. Many VOA broadcasters pick up their skills while earning a college or graduate degree in print or broadcast journalism.

Most VOA broadcasting job applicants have experience reporting or editing for a news publication, a broadcaster, or a wire service, such as the Associated Press. In addition, applicants must pass an examination that tests their skills and experience, and foreign-language abilities.

A 24-hour hotline provides information about job openings throughout the federal government. Anyone interested in jobs with an International Broadcasting Bureau agency or with any other federal agency should submit a resumé or an official job application to the office in question.



Every Voice of America broadcaster must have a wide variety of journalistic skills and be fluent in the language of his or her target audience.

Nationalization Although democratic socialists do not insist that government control of the means of production is always necessary, some socialist governments try to halt the concentration of wealth through the nationalization of basic industries and services such as banking, transportation, electric power, and mining. Because government operates those businesses, all citizens own them and collectively benefit from any of their profits.

Taxation Although all governments tax their citizens to help pay for government services and programs, under socialism, taxes are extremely high. For example, from the 1920s until 1991, Sweden was solidly socialist, and its taxes were

among the highest in Europe. The Swedish government used the tax revenues to finance comprehensive health insurance, unemployment insurance, retirement benefits, public and college education, public housing, and child care. Although the Swedish standard of living was extremely high, taxes were a source of great controversy. High taxes forced workers to demand higher wages. To cover the cost of these wage hikes, companies increased the prices of their goods. Moreover, tax revenues lagged behind the rising costs of social programs. As a result, the government ran deficits, borrowing heavily to meet its economic and social goals.

In the 1991 election, the Social Democrats lost



POLITICAL PROCESSES *The Eastern European nation of Romania operated under a communist command economy before its communist government fell in the early 1990s. Today many of the country's formerly government-owned enterprises have come under private control. How much of the economy does the government control in a democratic socialist country?*

control of the government, and a nonsocialist government was formed under the leadership of the Moderate Party. In 1994, however, the Social Democrats once again gained control of the government after winning the election. The government is now working to ease some of the country's economic problems by restructuring government finances. It has launched a government program to limit welfare benefits and turn over the operation of some government services to private firms.

Command Economies

Both socialist and communist countries operate, wholly or in part, under what is called a command economy, or planned economy. In a **command economy**, government authorities control some or all of the major economic processes. Prices, for example, are determined by government regulations rather than by the interaction of supply and demand in the marketplace. Decisions about what, when, and by whom goods and services will be produced are made by government officials, often called central planners.


Although both democratic socialist countries and communist countries operate to at least some extent under command economies,

the extent to which the government controls the economic activity varies significantly. In a democratic socialist economy, the government controls only a portion of the economy. For example, the government might own and operate telephone networks, public transportation, and postal and shipping services, and heavily regulate only a few industries. As you will learn in Section 3, in a communist country the government owns or controls all areas of the economy.

SECTION 2

REVIEW

1. Define the following terms: socialism, democratic socialism, proletariat, bourgeoisie, communism, nationalization, command economy.
2. How do Karl Marx's ideas differ from those of democratic socialism?
3. What are the two main principles of socialism, and why are they important?
4. What are four characteristics of democratic socialism?

5. Thinking and Writing Critically  What features of socialism strike you as being most attractive, and which as least attractive?

6. Applying **POLITICAL PROCESSES** Although the United States is a capitalist society, some U. S. government policies have reflected socialist principles. Give some examples of policies that you think reflect socialist principles. Do you think these policies have helped or hurt people in the United States? Explain your answer.

SECTION 3

COMMUNISM

Political Dictionary



class struggle
Communist Manifesto
forces of production
relations of production
vanguard
Bolsheviks
Communist Party

Objectives

- ★ What are some of the basic principles of communism as described by Karl Marx?
- ★ How did Vladimir Lenin's concept of communism differ from that of Marx?
- ★ What changes occurred in the Soviet Union under Joseph Stalin?
- ★ Why did the Soviet Union eventually dissolve?

Since 1917, communist revolutions promising sweeping political, economic, and social change have taken place in countries around the globe. Although most of the resulting communist governments no longer exist, communism has powerfully shaped history and the way people look at power and politics around the world. Nations that have experienced communist rule include Bulgaria, Cuba, China, Hungary, North Korea, Poland, Romania, the Soviet Union, and Vietnam. In the late 1980s most of these countries abandoned communism. Others, such as China, have been slowly changing their economic and political systems to reflect some democratic socialist and capitalist principles. Only Cuba and North Korea remain truly communist.

Communist Thought

As noted in Section 2, Karl Marx is considered the founder of modern socialist ideology; however, his more revolutionary views became the founding principles of an authoritarian style of social-

ism, or communism. Revolutionary leaders from around the world have based their policies and goals on Marxist thought.

Marx's View of History One of Marx's most important contributions to economic thought lies in his interpretation of past events. Marx stated that throughout history all societies have been characterized by **class struggle**—the ongoing competition between economic groups for resources and power. The class struggle in Europe between the 800s and the late 1300s took place between the feudal lords and their subjects. In the capitalist societies that followed feudalism, this struggle has taken place between the bourgeoisie and the proletariat.

In his *Communist Manifesto*, which he cowrote with Friedrich Engels, Marx argued that economic factors have played the dominant role in shaping history. In an agricultural society, land is the basic means of production and those who own it acquire prominence and make up the ruling class. According to Marx, these landowners



WORLD AFFAIRS Karl Marx argued that class struggle influenced the histories of all societies, as illustrated in this fifteenth-century painting showing property owners vowing service and allegiance to their feudal lord. According to Marx, what factors play the dominant role in shaping history?

had more influence than any governments and other formal organizations in shaping policy, social standards, and values.

Marx believed that because capitalists own the means of production in modern, industrial society, they hold the power. Capitalists not only rule society economically, they also determine its political destiny. In addition, they dominate the law, education, the press, and artistic and literary expression in order to maintain their property ownership.

Concepts of Production Two other concepts are central to Marx's idea of social change. First, Marx described what he referred to as **forces of production**, the various elements that fuel an economy. The greatest forces of production today are probably technological and scientific knowledge. Marx also discussed the **relations of production**, economic relationships that are affected by social institutions—for example, relations between buyers and sellers.

Marx argued that in a free-market economy the growth of technology and the other forces of production are hampered by capitalism's flawed relations of production. Workers do not get paid enough, and they therefore cannot buy products the economy is able to produce. Economic crisis is the result.

Revolution Marx's primary objections to capitalism were to what he saw as its inefficiencies and injustices. To overcome these problems, Marx argued, workers must stage a violent revolution. Unlike democratic socialists, who believe in peaceful change through elections and participatory democracy, Marxists spoke of a war between the classes. Workers would have to rise up and seize the means of production from the capitalist class. Marx assumed that, over time, people of the working class would develop a consciousness, or awareness, that the capitalists were taking advantage of them. Working-class leaders would then come forth to head revolutionary movements. Marx believed that these working-class movements would develop around the world to defeat capitalism.

Marx assumed that a global communist society would emerge after the revolution. There would be no social or economic classes and no private property, and workers would own the means of production, including transportation, railways, and factories. In addition, the government would no longer serve as an agent of class rule. In a classless society, government would eventually wither away.

Marx's insights into the importance of material conditions and economic systems have helped modern scholars understand social forces much more thoroughly. However, Marx's economic interpretations have proved too general and too simplistic. Even though economic factors are critical to people's interactions with one another, they are not the key factors in all situations. Factors such as ideology, religious beliefs, and nationalism have often played more important roles in social and international conflicts. In addition, Marx's economic predictions about the increasing misery of the working class and the inability of capitalism to accommodate technological progress have proved wildly inaccurate. Furthermore, the governments of the Marxist states that have been established did not wither away, but rather turned totalitarian.

Proletarian Dictatorship Once a revolution took place, Marx believed that a "dictatorship of the proletariat" would be necessary to make the transition from capitalism to communism. During this transition, Marx thought that the proletariat would need to use force, even terror, to succeed in their communist revolution and abolish both the



POLITICAL PROCESSES This Russian propaganda poster depicts the class struggle. The banner on the left reads, "Long live workers' and peasants' Soviet power!" The caption below it reads, "Death to capitalism." The banner on the right reads, "All power to capitalists and death to workers and peasants!" The caption below it reads, "Death under the heel of capitalism." What were Marx's primary objections to capitalism?



POLITICAL PROCESSES This 1886 painting by Robert Koehler titled *The Strike* shows workers protesting harsh working conditions. How did Marx believe that communism would be established?

ruling classes and private ownership. Even though Marx hoped for a society in which no class ruled over another, he supported the working class's use of violence against the ruling class to achieve this goal.

For Marx, who argued that this situation could only exist in a communist society where capitalist rulers could not dominate workers, economic equality would be achieved by the elimination of class privileges. Marx further believed that in the highest stage of communism all people would reach a state of full equality.

The World's First Communist Nation

Despite Marx's focus on overthrowing modern capitalism, the first communist nation was not to be a highly developed, industrial society. Instead, the first successful communist uprising occurred in Russia, an economically underdeveloped nation.

Vladimir Lenin Vladimir Lenin, a Russian intellectual and revolutionary, was the most influential communist leader of the early 1900s. Although Lenin considered himself a faithful follower of Marx, he emphasized politics over economics. As a result, he stressed that a **vanguard**—the people he hoped would lead a communist revolution in his country—should form a professionally organized political party. In working toward this aim, Lenin spent 17 years

abroad leading and helping develop the **Bolsheviks**, a communist party organization in Russia.

Unlike Marx, Lenin did not believe that a nation had to become a fully industrial society before a revolution could occur. He thought it would be smarter to smash capitalism where it was politically and organizationally weakest—for example, in economically underdeveloped Russia, Asia, and Africa. Also, while Marx believed in a temporary dictatorship of the proletariat, Lenin and the Bolsheviks established a dictatorship *over* the proletariat.

Russian Revolution Led by Lenin, the Bolsheviks successfully overthrew the Russian government in a bloodless revolution in November 1917. The Bolsheviks—who became known as the Russian **Communist Party**—gained support in the early 1900s through their rigorous opposition both to Russia's harsh monarchical government and to the country's bloody involvement in World War I. Opposition to the revolution led to civil war, which lasted until 1920, when the Communists defeated their opponents.

The Communists imposed policies throughout Russia that radically transformed political, economic, and social life. They nationalized banks and businesses and confiscated land, distributing it to peasants in the countryside.



WORLD AFFAIRS In the early 1900s the Bolsheviks gained the support of Russian citizens by actively spreading propaganda. What organization did Lenin and the Bolsheviks form?

By 1921, however, Lenin recognized that the communist society he had aspired to had not been created—poverty was rampant, and peasant revolts threatened the stability of the nation. Lenin then established what he called the New Economic Policy. This policy was designed to revive the nation's economy by promoting agriculture and industry, and by allowing some private ownership of land and limited free trade.

Spreading Communism Lenin had a more aggressive plan for the spread of communism than Marx had envisioned. Marx believed that economic crises in individual countries would inspire independent communist revolutions that would defeat capitalism. Lenin, however, believed that Russia should be used as a base for supporting communist revolutions in other countries. After seizing power in Russia, Lenin began to organize centers of communist activity throughout the world.

Lenin's ideas about freedom followed from Marx's ideas, but he set them aside in part when he came to power. Lenin believed that the proletariat should have political freedom to organize revolutionary parties before the fall of capitalism. Once the Communist Party took power during the revolution, however, it would have to govern the state ruthlessly and with iron discipline. After the Russian Revolution was complete, Lenin in fact maintained the dictatorship of the Communist Party while concentrating on building a communist nation. Only when the development of communism was complete, declared Lenin, would everyone gain genuine political freedom from the limitations imposed by poverty and inequality. Lenin emphasized that collective freedom, not individual freedom, was his highest priority.

Joseph Stalin Vladimir Lenin died in 1924, two years after Russia had joined with other territories to form a new communist nation—the Soviet Union. The Communist Party established itself as the Soviet Union's only

political organization and did not tolerate opposition. Lenin's successor, Joseph Stalin, took the country's dictatorial government to a new extreme. He ruled the Soviet Union with an iron fist for almost 30 years.

Disliking Lenin's move toward free enterprise, Stalin instituted his own economic strategies, the Five-Year Plans. Stalin also focused on developing heavy industry, the military, science, and technology in order to demonstrate to other nations the Soviets' superiority in these areas. He also hoped that these actions would establish the Communists as a stable and accepted force.

Part of Stalin's new policy involved the forced collectivization of agriculture—the combining of small farms into large, government-owned agricultural enterprises. This system was imposed despite widespread peasant opposition. More than 5 million peasant households were eliminated, their property was taken, and millions of peasants were starved to death, killed, or were sent to forced-labor camps. Around 7 million people died from 1929 to 1933 as a result of collectivization and brutality in the labor camps.



WORLD AFFAIRS *The historical photo above shows a Soviet farm where peasants have gathered to hear a speaker talk about the advantages of collective farming. Why did Stalin institute his own economic plans?*

Results of the Five-Year Plans Because the Soviet Union had vast natural resources, the Five-Year Plans succeeded in transforming the nation into a world leader in the production of steel, iron, coal, and oil. However, the quality of life for the Soviet people was dismal. The development of agriculture and of consumer goods industries under communist rule was weak. The Soviet Union also had difficulty providing adequate government-owned housing for many of its citizens. In the later years of the Soviet Union, health care also declined. For example, the infant mortality rate increased in the 1970s and 1980s.

In the area of education, however, the Soviet leadership effectively transformed an ill-educated nation into one with almost 100 percent literacy. At first, only 4 years of education were guaranteed for children in rural areas, but eventually, most areas provided 10 years. Adult education programs were common, and by the late 1970s, more than 5 million Soviet citizens attended institutions of higher education each year.



WORLD AFFAIRS *The Soviet Union created a highly effective system of education. What effect did the Soviet education system have on the country's literacy rate?*

The Failure of Communist States

Despite its initial promises for improvement, Communist Party rule in the Soviet Union and in Eastern Europe disintegrated in the late 1980s. Not only had the Communist Party failed to achieve its theoretical goal of abolishing economic and social classes, but at least three new classes had risen after the Russian Revolution. In the Soviet Union, the dominant class, made up of only a few hundred thousand families, included government officials, party leaders, military officers, industrial executives, scientists, artists, and writers. The second class, which was made up of

Comparing

Governments

Fascism

In contrast to democracy, the central principle of fascism is government's absolute dominance of society. Fascism gained support in the 1920s and 1930s, a period that had been thrown into chaos partly by the great economic and social costs of World War I and by a worldwide economic depression. Many people believed that an extremely powerful government was needed to solve the vast economic and political problems of the day.

In this atmosphere, three fascist leaders emerged in Europe: Benito Mussolini in Italy in 1922, Adolf Hitler in Germany in 1933, and Francisco Franco in Spain in 1939. All three dictators came to power by using some degree of violence.

Once in power, Mussolini, Hitler, and Franco banned all political parties but their own and suspended basic rights and freedoms. In short, the three ruled as absolute dictators, demanding unquestioned obedience from the people, the press, and religious, civic, and social organizations. Today, with fascism a thing of the past, the citizens of these countries enjoy freedom. Germany and Italy are democratic republics and Spain is a constitutional monarchy.

The Foreign-Policy Debate

National leaders consider information and opinion from a variety of sources when deciding U.S. policy toward foreign countries. Among the official sources are military leaders, information-gathering organizations such as the Central Intelligence Agency, and elected federal officials. An important but unofficial source of policy influence is the media.

Professional and scholarly journals are particularly influential. Political scientists and other observers analyze foreign-policy issues and suggest courses of action in journals such as *Foreign Affairs* and *Foreign Policy*. These and other, similar journals are highly regarded by many policy makers. Many of the authors of journal articles have had substantial experience in developing foreign policy. Others have an established record of study in the field.

Perhaps the most famous journal article to influence foreign policy was a July 1947 piece in *Foreign Affairs*. The anonymous author, who signed the article "X," was George F. Kennan. Kennan had been a U.S. diplomat and a U.S. State Department adviser on the Soviet Union. His diplomatic experience—particularly in the Soviet Union—made Kennan a respected authority on the issue of U.S.-Soviet foreign policy.

At the end of World War II, U.S. officials debated how the United States and its allies should deal with the Soviet Union. Soviet leaders were expanding their influence and control throughout Eastern Europe and in other regions. In his *Foreign Affairs* article, Kennan argued that the Soviet Union would eventually collapse under the weight of its unworkable system of communism and cooperate with the United States.

In the meantime, Kennan said, the U.S. government should work—patiently but firmly and over the long term—to contain, or block, the expansion of Soviet control and influence. This policy, which was known as containment, dominated official U.S. foreign policy for more than four decades.

Like Kennan, other former government officials



In 1947 George F. Kennan wrote an article in which he argued that the Soviet Union would collapse and eventually cooperate with the United States.

often publish articles and appear on television and radio news programs to contribute to foreign-policy debates after leaving office. For example, James A. Baker III, U.S. secretary of state under President George Bush, wrote an article for the *New York Times* that stressed the importance of strong U.S. ties with the former Soviet republic of Georgia. Some well-known and widely read columnists and commentators, such as William Safire—a former speechwriter for President Richard Nixon—Anthony Lewis, and George Will, regularly write on policy issues.

The media, then, provides an important national forum for debate on policy issues. In some instances, as with Kennan's 1947 article, journalism proves that the power of the pen can be quite persuasive.

What Do You Think?

1. In what ways does journalism contribute to the making of foreign policy? Why are journals such as *Foreign Affairs* highly regarded by policy makers?
2. Many observers debate public policy and social issues in newspapers and on television. What do you think makes a commentator persuasive?

around 4 to 5 million families, included the intermediary ranks of civilian and military officials, collective farm managers, and some of the better-paid skilled workers and technicians in industry. The third class included the bulk of the population—the common workers and the peasants—who made up more than 50 million families.

The Communist Party ruled everyday life in an authoritarian manner, controlling the military, police, mass media, and government enterprises. People who disagreed with the Communist Party's policies were incarcerated and sometimes tortured. The party's economic decisions had crippled the economy, while the standard of living for most Soviet people increased more slowly than in major free-market nations. By the end of the 1980s, some leaders and disillusioned citizens in both the Soviet Union and Eastern European nations were openly challenging the failing communist system.

Eastern Europe The authoritarian governments that the Soviet Union had set up in Eastern Europe after World War II fell apart during this time. As anticommunist resistance in these nations grew, the governments allowed some political reforms. However, these reforms did not stop the demands for change. Movements such as those led by the Solidarity union in Poland demanded multiparty elections and hastened the disintegration of the Communist Party first in Poland, and then in Hungary, the German Democratic Republic (East Germany), Czechoslovakia, Bulgaria, and Romania.

Mikhail Gorbachev As noted in Chapter 10, in 1987 the Soviet government under Mikhail Gorbachev tried to ease some of the unrest in the Soviet Union by implementing perestroika, or "restructuring," and glasnost, or "openness." Gorbachev's policies included greater civil liberties, access to information, and legal restraints on government power. Some economic changes were made to allow greater influence of global capitalist markets. However, these changes only gave the Soviet people a clearer view of what life might be like if communism were completely abandoned.



WORLD AFFAIRS *Lech Walesa, leader of the Polish Solidarity movement in the 1980s, led his country's fight for government reform. In what other former Communist nations did citizens organize movements to demand political reform?*

Gorbachev, believing that his country needed massive change, decided in 1989 not to block the political movements occurring in Eastern Europe. As a result, all of the communist governments there collapsed within several months. In 1991, after months of unrest and an attempted overthrow of Gorbachev's government, the Soviet Union dissolved.

Former Communist Nations Today The transition from communism to democratic, capitalist societies in Eastern Europe and the former states of the Soviet Union has been filled with many difficulties. Political parties have been fragmented and unstable, and ethnic-religious strife in nations such as the former Yugoslavia has been a recurring problem. In some areas, political disorder and crime have grown particularly severe. Many of the existing industries in these countries had been inefficient by world standards and therefore collapsed when forced to compete with business in capitalist nations. The nations of the former Soviet Union and Eastern Europe continue to struggle in their efforts to rebuild their societies. A new, competitive economy seems to be taking root in some places. Nevertheless, the futures of these nations remain uncertain.

CASE STUDY

China: A Country with Two Economic Systems

WORLD AFFAIRS Like some nations in Eastern Europe and the former Soviet Union, China has experienced significant changes in its economic system in recent years. The handing over of capitalist Hong Kong to communist China in 1997 marked the joining of two different economic systems. Some people believe that this transfer marked the most dramatic chapter in China's decades-long shift away from a communist economy.

For nearly 100 years, Hong Kong had been a British territory and had operated under a free-market system that enabled it to become an economic powerhouse. Before Great Britain gave up control of the colony, China agreed to let this system remain in place.

China itself had already begun moving away from a communist command economy. China's leaders in 1978 introduced reforms that allowed private investment and trade. As a result, China's economy grew rapidly in the 1980s and 1990s.

This rapid economic growth created problems,

however. For example, urban crowding increased as people moved from poor rural areas to search for better-paying jobs in the cities. The benefits of economic growth were unevenly distributed, and inflation rates skyrocketed.

China's leaders argued that a strong communist government was needed to keep the country stable during this period of change. Chinese citizens, on the other hand, have increasingly called for political reforms such as democratization and an end to corruption. The government refused these requests. In 1989 government leaders ordered soldiers to forcibly remove prodemocracy demonstrators from Tiananmen Square in China's capital city, Beijing. Thousands were killed, and hundreds more were arrested in the following weeks.

Some people now fear that the Chinese government will treat Hong Kong with similar harshness. Observers, however, believe that Hong Kong's history of political freedom and its powerful economy may speed China's transformation from a communist country to a free, democratic, and capitalist one.

SECTION 3

REVIEW

1. Define the following terms: class struggle, *Communist Manifesto*, forces of production, relations of production, vanguard, Bolsheviks, Communist Party.
2. In what ways did Marx think that communism would offer greater freedom and equality than did capitalism?
3. How did Vladimir Lenin go about putting communism into practice in Russia?
4. What changes did Joseph Stalin bring to the Soviet Union after Lenin's death?
5. What problems led to the demise of the Soviet Union?

6. Thinking and Writing Critically

Many people now say that the downfall of the Soviet Union proves that communism is a system that can never work in the real world. What factors do you think contributed to the Soviet Union's collapse? In what ways was Marx's theory of communism different from the communism that was applied in the Soviet Union?

7. Applying **POLITICAL FOUNDATIONS**



Conduct an Internet search for nations that have communist governments today. Make a small chart comparing economic and political information.

SECTION 1

The United States, Japan, Mexico, and Taiwan have some form of capitalist economy. To be classified as capitalist, a nation's economy must be geared around some combination of the following principles—private ownership, a market economy, competition, and profit.

The roots of capitalism can be found in the works of writers and theorists such as Adam Smith, who believed that self-interest was the primary motivation for economic behavior. Smith argued that government involvement in the economy limits the ability of the market to function in ways that are best for society.

The United States does not have a pure market economy. Instead, it has a mixed economy.

SECTION 2

Another economic system—socialism—tries to eliminate inequality by redistributing wealth. In a socialist system the government or the people as a whole own or control the factors of production and manage the distribution of goods.

Early socialists hoped to change the harsh working conditions and economic inequality resulting from the Industrial Revolution. Socialism eventually divided into two movements—democratic socialism and communism. Democratic socialists believed that capitalism should be eliminated through peaceful methods. Communists believed in a revolution of the proletariat.

The four main characteristics of democratic socialism are public services, nationalization, high taxes, and a command economy. In a socialist state, social services are provided by the government. In addition, some basic industries and services are often nationalized, and taxes are high to help government pay for the services.

SECTION 3

Karl Marx developed modern socialist principles. His more revolutionary views, however, became the

founding principles of communism. Marx believed that the capitalist system, in which the capitalists control the factors of production, is unjust. He also thought that workers must stage a violent revolution to eliminate the capitalist system.

The world's first communist state was not a highly developed, industrial society. Instead, an economically underdeveloped nation—Russia—was the first to institute communist principles. Vladimir Lenin was Russia's first communist leader. Unlike Marx, who believed in a dictatorship of the proletariat, Lenin thought that a dictatorship *over* the proletariat was needed to establish a communist system. Thus, under Lenin's direction the Communist Party established itself as the only political organization and did not tolerate opposition.

Joseph Stalin, Lenin's successor, took the country's dictatorial government to a new extreme. Stalin developed a series of Five-Year Plans—forcing the collectivization of agriculture and focusing on the development of heavy industry. By the 1970s and 1980s people in both the Soviet Union and Eastern Europe began to demand change. In spite of changes made by the Soviet government under Mikhail Gorbachev in 1987, communist governments in Eastern Europe collapsed, and the Soviet Union itself dissolved in 1991.


Government Notebook

Review what you wrote in your Government Notebook at the beginning of the chapter about why different kinds of political and economic systems might form. Now that you have finished studying this chapter, do you feel that any of the reasons you listed help explain the establishment of socialist or communist states? Record your answers in your Notebook.

REVIEW

REVIEWING CONCEPTS

1. What are the four principles around which capitalist economies are based?
2. What is government's role in a capitalist economy?
3. Name the three characteristics of a socialist economy.
4. What two concepts are central to Marx's theory of social change?
5. Why did Lenin establish a communist dictatorship after the Russian Revolution?

THINKING AND WRITING CRITICALLY



1. **POLITICAL PROCESSES** How do the basic principles of socialism and capitalism differ? What are some of the benefits and disadvantages of each system?
2. **POLITICAL PROCESSES** How does the operation of a command economy in a democratic socialist country differ from that of a communist country?
3. **POLITICAL FOUNDATIONS** According to Karl Marx, how would a revolution pave the way for a country to make the transition from a capitalist system to a communist system? Why do you think some people would argue that Lenin failed to create a communist society after the revolution?
4. **PUBLIC GOOD** How do the laws of supply and demand determine the price of goods for sale in a competitive market? How is competition beneficial to the development of market economies? Do you think that freedom of choice is important to a capitalist economy? Why or why not?

CITIZENSHIP IN YOUR COMMUNITY



With a group, interview an owner of a small business in your community to find out about setting up a private business. What role do competition and supply and demand play in the operation of the business? What are some of the government regulations that affect the operation of the business? Does the local or state government offer any assistance to people setting up their own business? When you have completed the interview, prepare a presentation for your class. Be sure to include visual images such as charts, graphs, and photographs.

INDIVIDUAL PORTFOLIO PROJECT



Conduct research on a country that operates under a democratic socialist system. What services does the government provide to all citizens? How are these services funded? What are some of the country's largest labor unions? What is the government's role in the operation of the country's major industries? After completing your research, create a poster depicting the economic system of the country you select and write a short article describing its features. Include photos or drawings to illustrate the article.

PRACTICING SKILLS: UNDERSTANDING MEASUREMENT CONCEPTS AND METHODS



The chart on the next page contains the consumer price index (CPI), or cost-of-living index, for a 10-year period. The CPI measures the average change in prices over time. The index is

based on the prices of specific goods and services that a typical family purchases on a day-to-day basis. These goods and services include food, shelter, clothing, transportation, and medical services. The figures below were computed by comparing prices for the year indicated with prices from 1982–84. Study the chart and answer the questions that follow.



1. Which years had the highest and lowest rates of increase?
2. When has the rate of increase ever stayed the same for more than one consecutive year?
3. From 1991 to 1996, what happened to the average change in prices?

THE INTERNET: LEARNING ONLINE



Conduct an Internet search to learn more about Karl Marx. You might start with search words such as *socialist theory*, *Karl Marx*, and *Communist Manifesto*. Write a one-page biographical sketch of Marx. Be sure to include important details about his life and work, such as the place and dates of his birth and death and the titles of his most important writings. Write down a list of the Web sites you visit.

ANALYZING PRIMARY SOURCES



THE COMMUNIST MANIFESTO

Karl Marx and Friedrich Engels wrote the *Communist Manifesto* in 1848 as a call for revolution. Their work has been important to the study of how economic forces impact history. The following excerpt discusses the aims of the Communist Party. Read the excerpt and answer the questions that follow.

“It is high time that Communists should openly, in the face of the whole world, publish their views, their aims, their tendencies, and meet this nursery tale of the specter of communism with a manifesto [statement of principles] of the Party itself. . . .

The immediate aim of the Communists is the same as that of all other proletarian parties: formation of the proletariat into a class, overthrow of bourgeois supremacy, conquest of political power by the proletariat. . . .

The distinguishing feature of Communism is not the abolition of property generally, but the abolition of bourgeois property. Modern bourgeois private property is the final and most complete expression of the system of producing and appropriating products that is based on class antagonisms, on the exploitation [unfair use] of the many by the few.

In this sense, the theory of the Communists may be summed up in the single phrase: abolition of private property. . . .

Communists disdain [refuse] to conceal their views and aims. They openly declare that their ends can be attained only by the forcible overthrow of all existing social conditions.”

1. What do Marx and Engels say is the immediate aim of the Communist Party?
2. According to Marx and Engels, of what is modern bourgeois private property an expression?
3. What single phrase does the excerpt say sums up the theory of communism?