

Capitalism

Capitalism is an economic system in which the means of production are privately owned and goods and services are distributed competitively for profit. The United States is often cited as an example of the success that can be attained through “free enterprise.” Every social institution must be supported by a compatible ideology; three key elements of capitalistic ideology are private ownership, competition, and profit.

In predominantly capitalist societies, private ownership is the hallmark of the economy and extends to the ownership of natural resources (e.g., forests, mines, and land), means of production (e.g., factories, industrial plants, and manufacturing sites), and businesses that provide important services. As an ideal type, capitalism promotes competition by allowing the relative value and cost of goods and services to be determined by their supply and demand in the marketplace. In its pure form, free economic competition requires a *laissez-faire* (hands-off) policy that allows the economy to be guided solely by the “laws” of the marketplace. In practice, most capitalist economies are subtly and sometimes forcefully guided by government leaders and agencies that regulate the distribution and consumption of goods and services. Despite government intervention, profit remains the driving force behind a capitalistic economy.

Most supporters of capitalism agree that the profit motive is essential to a dynamic and efficient society. Because private producers and owners of businesses are forced to compete for profits, they must search for ways to cut costs and increase their share of the consumer market. Hence capitalism is almost always accompanied by dynamic growth. Since Max Weber’s classic work on *The Protestant Ethic and the Spirit of Capitalism* (1958a), sociologists have been intrigued with the relationship among capitalism and religion and other social institutions (Tester, 2000).

Socialism

Socialism is an economic system in which the means of production are owned and controlled by the state and goods and services are distributed as a cooperative enterprise without regard to personal profit. No country practices pure socialism, but between 1917 and 1991 the Soviet Union was the premier example of a socialist economy. Today, China has assumed that role and promotes the ideology that state ownership, government regulation, and collective goals provide the greatest benefits for the masses although capitalism is making noticeable inroads there. Under socialism, the state restricts private ownership to only a few personal items and thus limits social stratification based on wealth. Through state ownership of factories and service agencies, revenue generated from production is put back into the economic system for the benefit of all citizens. This does not mean socialist countries are without stratification, however, as party membership, the region of the country, and urban versus rural residence create important economic differences (Kerblay, 1983; Mathews, 1986; Gerber, 2002).

According to socialist ideology, capitalism is fueled by short-run hedonism and is ultimately doomed to fail as individuals compete for personal profit. In contrast, socialism is supported by the social value that the common good is more important than individual desires. Hence socialists believe that the collective goals of society can be accomplished better through state planning and economic cooperation. When countries undergo a transition from socialism to capitalism, as in the republics of the former Soviet Union and to a lesser extent in China, power and privilege are no longer the sole domain of the state and the managers in charge of redistribution but are shared by the workers involved in production and the market economy (Nee, 1989, 1991).