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**Title:**

*"The Impact of Socialism on  
Practicing Economics Systems"*

**Author(s):**

Nathaneal Cook

# Contents

Abstract.....3

Introduction.....4

Capitalism.....5

Supply and Demand.....6

Socialism.....6

Social Democracy.....7

Soviet Russia.....7

New Economic Policy (NEP).....9

Five Year Plan.....10

Korea.....12

Conclusion.....16

Works cited.....17

**Abstract:**

This paper will explore the effects of socialism on the Russian economy. It will contrast socialistic ideologies and practices with capitalistic ideologies and practices. The research will inform the reader of the origins of socialism and provide a case study into the economic impact of socialism on those that have chosen to adopt its' customs and practices. The research will look to answer the question: "does history prove that socialism is an effective economic system?" The paper will exhort the reader to evaluate lessons from history in a manner that provokes thought and causes reflection. Ultimately, the reader will be able to clearly discern the lessons that history teaches about the effects of socialism on an economy.

## **Introduction:**

In lieu of the many changes taking place in the world today, it behooves countries to adopt viable economic practices. These practices, having been derived from economic systems, greatly impact the financial trajectory of an economy. An economic system refers to the rules and methods put in place by a society to answer three fundamental economic questions: “What to produce?,” “How to produce it?,” and “For whom to produce it?” (Mathews & Patrono, 2020). To determine the answer to these questions, there are four basic institutions with varying levels of power distribution. These four institutions are markets, firms, government, and households. A market refers to the collection of all potential buyers and potential sellers of goods and services and accounts for nearly all the interactions between households and firms in many economies (Mathews & Patrono, 2020). A firm is an enterprise or company that buys products and offers services to consumers with the aim - in a free market economy - of making a profit. Firms and households play pivotal roles in decision-making within economies.

In any functioning economy, the government has a critical role to play. In this context, government refers to a decision-making institution with the legal authority to impose restrictions or mandates on the behavior of other decision makers, in other words, the ability to use legal coercion (Mathews & Patrono, 2020). The extent of governmental regulation and enforcement has long been a topic of much debate. Perhaps one of the most primordial viewpoints regarded governmental economic involvement as extraneous. It was believed that government had no place in the economy and that society would self-regulate. Ideologists behind this economic viewpoint are deemed anarchists. Anarchism is commonly known to have been founded by William Godwin, a then Presbyterian minister who embraced and was transformed by “increasingly radical political beliefs” (Toler, 2011). The alternate viewpoint to anarchism is communism. Communists believe that governmental supervision is essential for regulation and

that individuals cannot function without it. Communistic ideology gives the state complete ownership of everything, and the government must organize and dictate all economic activities. Between these opposing views lie two of the more commonly held economic social organizations, namely, capitalism and socialism. Although many would argue that socialism is the most beneficial system of social organization, we cannot ignore the impacts that socialism has had on the economy of other countries that have adopted its practices. We cannot deny the fact that history leaves clues.

### **Capitalism:**

Capitalism is essentially an economic system where private individuals or businesses own the means of production. The term itself is derived from the term “capital,” which refers to money that is invested with the expectation of earning more money. Capitalist systems are not always intrinsically identical or even similar. However, central to every capitalist system is private ownership of the means of production by individuals who remain relatively free to choose their activities, where they work, what they buy and sell, and at what prices (Meltzer, 2012). In a capitalist system, businesses invest capital in resources and goods with the expectation of making a profit. The capitalistic model hinges on the voluntary trade of goods or services for monetary resources. In other words, one would trade economic resources for something that they perceive to be of more value. These voluntary trades take place when each party believes that the result of the exchange provides physical, mental, or material stimuli or gain. Capitalists perceive competition to be inevitable and necessary as, firms compete amongst each other for the acquisition and retention of consumers. Supply and demand is balanced as consumers compete with each other for goods and services.

## **Supply and Demand:**

To better understand the underlying principles of capitalism, there must be sufficient understanding of the economic laws of supply and demand. The law of demand states that all other factors fixed, the higher the price of the good, the fewer the number of people that will purchase the good. In other words, higher prices typically lead to lower quantities demanded. The law of supply states that all other factors fixed, with a higher price, sellers are incentivized to sell more of an economic good. Therefore, when sellers can sell at higher prices, they typically sell in higher volume. From the seller's perspective, pricing goods higher justifies and accounts for higher opportunity costs associated with additional units sold. Considered together, within a Capitalists system, the supply chain "model" illustrates buyer and seller behavior and determine prices in each market.

## **Socialism:**

The primary alternative to capitalism is socialism. Socialism is an economic system where production and distribution decisions are imposed by the government. In a socialist system, citizens depend on the state for many of their basic needs (healthcare, food, childcare assistance, etc.). Naturally, socialistic ideologies hinge around a centrally planned economy; an economy that has a central authority or governing body that makes economic decisions on behalf of the economy. Prevailing socialist ideologies advocate for egalitarian societal conditions, the abolishment of private ownership, nationalization of production, and governmental control of capital. It is important to note that like capitalism, not all forms of socialism are identical. There are various ways that socialist ideologies have been implemented.

## **Social Democracy:**

In the early twentieth century, many socialists who wanted to differentiate themselves from the violent activities associated with socialism adopted the name social democrat. Social democrats advocate a peaceful, evolutionary transition from capitalism to socialism through the use of the existing political process (Toler, 2011). Social democracy is largely considered to be one of the two “camps” associated with socialism, the other being communism. We will begin by discussing the first socialist society which was widely considered a totalitarian state.

The origins of the first socialist society trace their roots back to the Russian Revolution of 1917. This revolution led to the end of the Romanov dynasty and ushered in years of Russian Imperial rule. During this time, political revolutionist Vladimir Lenin led a well-organized faction called the Bolsheviks to gain control of the Russian government, political system, and to begin changing the country’s economic system (Mathews & Patrono, 2020). With aide from allies, the Bolsheviks commandeered buildings and strategic areas making Vladimir Lenin the leader of the new Communist Russia. With his newfound position, Lenin quickly went to work on establishing an alternate economic structure.

## **Soviet Russia: Communism**

Immediately upon his political overthrow, Lenin took several actions to reform Russia socially, legally, and economically. Among the first of his actions were a series of decrees. In his first decree, the private ownership of land was abolished, and the properties were redistributed amongst the peasants. Following that decree was the establishment of the Central Executive Committee of the All-Russian Congress of Soviets. This committee was the highest legislative body and boasted supreme power in Russian governance. Lenin then issued the Declaration of the Rights of the Peoples of Russia giving rights to non-Russians to create independent nation-

states resulting in many nations declaring independence. These nations included Finland, Lithuania, Latvia, Ukraine, Estonia, Transcaucasia, and Poland. All these nations soon dealt with the promotion of communist parties promulgated by the Bolsheviks. Several of Lenin's other decrees included limiting Russians to an eight-hour workday, a decree on education that allowed for the government to guarantee free education for all children in Russia, a decree on Workers' Control which mandated workers of enterprises to create elected committees to monitor company management, legalized abortions, and the nationalization of banks.

In June of 1918 the Bolshevik regime implemented War Communism, an economic system largely believed to be designed to address the lack of food and artillery to towns and militia although, many of its dictates seemed to reveal an authoritative ruling ideology. The primary ruling principles associated with War Communism emphasized state controlled forced labor, the nationalization of industry, extreme centralized management, state control of foreign trade, the abolishing of private enterprises, the attempted abolishing of money as a form of exchange, and the acquiring of agricultural goods that exceed the minimum for distribution amongst the population.

Although the newfound economic system brought military victory to the Bolsheviks, it came with devastating results to the economy. Because of the decrees set in place for the requisition of agricultural surplus, farmers only grew enough to suffice their essential necessities. Farmers knew that anything in abundance would be confiscated by the state. Therefore, cities were deprived of food and malnutrition commonly took place amongst the population. Between 1916 and 1920, people in northern and central Russian cities thought their only reprieve to be moving to the countryside and growing their own food (Trueman, 2015). Some 33% of Russian citizenry moved to the countryside in this endeavor. Factories also suffered on account of workers not having enough food to adequately perform their work



functions. In 1920, small factories were only producing 43% of their 1913 total, large factories were only producing 18% of their 1913 total, and coal production was only 27% of its 1913 total (Trueman, 2015). Trade with other countries was practically non-existent as, other nations refused to trade with a country governed by Bolshevik rule.

### **New Economic Policy (NEP):**

In the wake of the devastating economic effects of War Communism, with unrest amongst laborers, and with rebellion amongst soldiers, Lenin decided to change course. In March 1921 at the Tenth Party Congress, he began the implementation of what was known as the New Economic Policy (NEP). Realizing that War Communism wasn't appropriate for the times that Russia was in, Lenin introduced new Capitalist's methods while maintaining a Socialist framework (albeit much less strict than that enforced under War Communism). In this new economic system, agricultural surplus was no longer confiscated freeing farmers to gain from selling goods on the market. This incentivized farmers to produce more goods. Private ownership of property and small businesses was also allowed, normalizing huge sectors of the market although, large scale businesses remained under governmental constraint. Newly incentivized provisions gave way to dramatically increased production and gave rise to entrepreneurs and businesspeople. The implementation greatly revived the Russian economy and allowed for the stabilization of currency.

Despite the obvious economic benefits of introducing this new system, the Communist Party hated the idea of mixing with capitalist ideologies and having a capitalist class. Socialist principles were in direct contrast to capitalism. Because of which, upon Lenin's death (January 21<sup>st</sup>, 1924) and Joseph Stalin's rise to power, the NEP was abolished in 1928 and replaced with the first of a succession of "5-Year Plans." The initial 5-year plan reintroduced a central command government with the state being in complete control of the production of goods and

services (Mathews & Patrono, 2020).

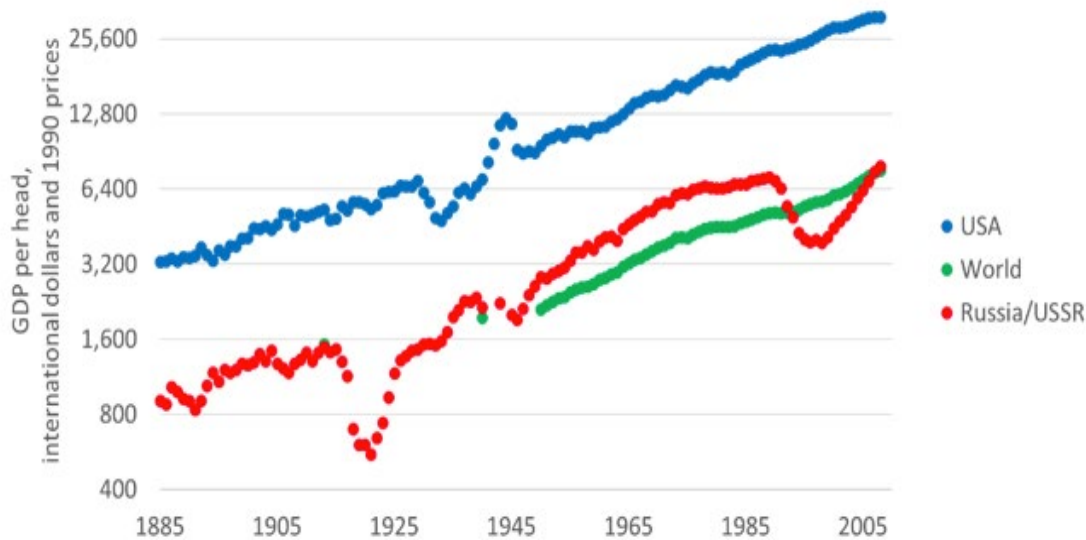
### **5-Year Plan:**

Stalin's 5-Year Plan for the Soviet Union was a set of directives with the primary objective of transforming Russia from an agricultural country into an industrialized country. Stalin and his cohorts believed that the only means of establishing a purely Communist system and eradicating the Capitalist practices within Russia was by industrializing society. The plan addressed grain shortages between 1927-1928 which resulted from farmers refusing to sell grain at the government set price. Secondly, Stalin wanted to build heavy industry to bolster the USSR's military capabilities. In the wake of WWI, Soviet leaders remorsefully remembered how the lack of sufficient industry costs them defeat at the hands of Germany. Strengthening their militia, building powerful weaponry, and building war vehicles (e.g., planes, tanks, cannons) would be possible with heavy industry and could deter a possible attack from their capitalist counterparts. The plan also enforced collectivization, which nationalized privately owned farmland confiscating the land under government control. Stalin ordered the economy based on the principles of central command where all major economic decisions are made by a central authority or committee.

In some respects, one could argue that the initial 5-Year Plan was successful. By making huge investments in technical education and contracting employees from the West, many industrial plants were built, and coal, oil, steel, and electricity production increased by considerable amounts. However, Stalin ruled with an iron fist and with often cruel methods. Coercion and corruption ran rampant and if production goals and plans weren't met, laborers could expect severe punishment to include imprisonment, labor camps, or death. Also, the Soviet plan for collectivism resulted in a decline in agricultural productivity. Grain production fell by 10% and meat production fell by 52% between 1928-1934 (Bilinski, 2022). There was massive

resistance to Russian collectivism amongst more wealthy private farmers and stock herders. This resistance was met by the Soviet confiscation of livestock and valuable crops. Farmers could not access government aid and the result was mass famine, deportations, imprisonments, and executions. During these times, in Ukraine, more than 6 million people died from famine alone. Stalin initiated a second plan and a third plan both with mixed results before the Soviet Union's economy declined during World War II due to devastation caused by the war.

Despite the many challenges associated with operating and sustaining a centrally planned economy, the Soviet Union had periods of notable economic growth. The GDP Per Capita associated with the Soviet Union reflects strong bursts of growth beginning with the establishment of the NEP in 1921. With the implementation of Stalin's 5-Year Plan, came another period of economic growth followed by rapid growth post WWII. This upward trend continued until its demise in 1989. When compared with the United States and Western Europe's economy for the same time-period, Russia's growth is put into context as quite unimpressive. Western Europe's economy flourished much more than that of the Soviet Union (see Figure 1). History provides a great example of a socialist's system being implemented and ultimately being inferior on many levels to a capitalist economic system.



**Figure 1**

<https://voxeu.org/sites/default/files/image/FromMay2014/harrisonfig1.png>

### **Korea:**

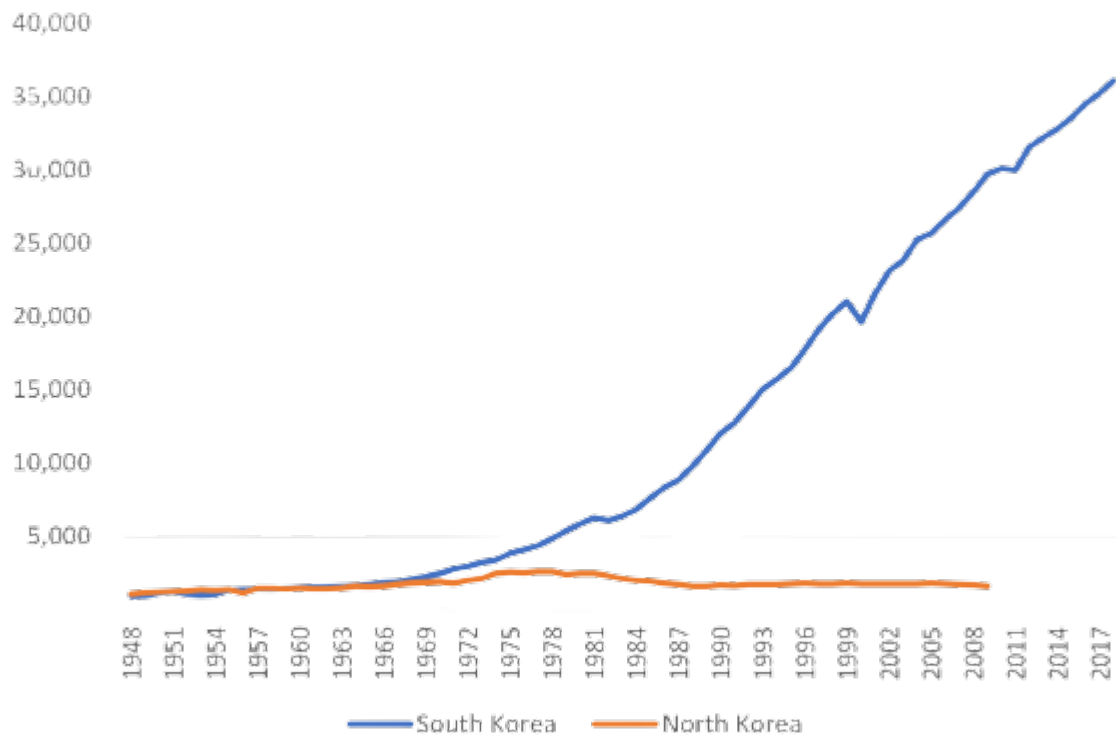
After spending much of its history under monarchies, Japanese surrender in WWII radically contributed to the backing of South Korea by the United States and to totalitarian rule in North Korea. In the aftermath of the war, Korea was left in a paralytic state with no direction and no clear leadership. In such a condition, Korea was ripe for the “picking” and in desperate need of aid. Such an opportunity attracted Joseph Stalin who took immediate action to transform North Korea. He started by enforcing his governmental ideologies onto North Korea. After implementing trainings and promulgating his political philosophies, the People's Republic of Korea was established with Stalin’s handpicked leader Kim Il Sung to dictate the affairs of the nation under communist rule. Sung’s agenda was to spread communistic rule to South Korea thus unifying Korea into a truly socialist state. To this effect, on June 25<sup>th</sup>, 1950, North Korean forces, armed with weapons funded by the Soviet Union and China, attempted to unify South Korea under communist rule by force. This began years of warfare and initiated the Korean War. Over 2 million Koreans died along with over 3,000 American casualties. In 1953, armistice ended the

Korean War and left North Korea with serious economic problems, severe famine, and millions of deaths.

With most of the North Korean economy devastated, North Korean leaders quickly began to launch measures to revive their economy. Reconstruction efforts were directed with communist blueprints. Emphasis was placed on heavy industry rather than consumer products, with the underlying Stalinists framework of central planning, dictatorship, and state ownership. Rationing was also introduced to include food and consumer goods. Looking to expedite production and maximize efficiency, Sung launched the Chollima Movement which further implemented Stalinists methods. This movement aimed to raise productivity by introducing longer hours and more efficient work practices. This tactic became the precursor to several other movements of this type, often with the same result. Naturally, the result was exhausted workers and machines used for extended periods of time beyond their intended capabilities. While the economy under the Sung administration saw an initial increase, it proved to be far less than sustainable, ending in widespread famine despite aid from various entities.

Post WWII, the Republic of Korea (South Korea) was heavily backed by the United States. However, the initial years of South Korea's independence were marked by excessive governmental corruption, inherent mismanagement, and massive amounts of aid being contributed by the United States. In 1961, General Park Chung-hee was appointed to leadership and set out to transform the South Korean economy. Having inherited an economically poor nation that was heavily dependent upon assistance and economically inferior to North Korea, Park made it the administration's highest priority to lift the country from its' current impoverished state. This was by no means an easy task. After having experienced rapid population growth, streets were chaotic and overcrowded, natural resources were scarce, and it was not uncommon to see panhandlers and children selling gum on the streets (Seth, 2013). The New York Times did a series on South Korea titled "Outlook Dreary for South Korea" in which A. M. Rosenthal wrote, "South Korea the poorer half of one of the poorest countries in the world, is trying to exist as a nation with too many people and too few resources" (Seth, 2013).

While the future looked grim for South Korea, developments had been put in place for an economic resurrection. With aid from the United States, many Koreans were able to receive technical training in various fields. These trainings would enable many skilled professionals to be placed in impactful governmental areas. Other South Koreans used their own means to travel to learn various valuable skillsets in the United States. With this period of advancement came the emergence of several entrepreneurs who were initially persecuted, but soon proved to be integral in the development of the South Korean economy. They often worked closely with Park for the benefit of the country. Park also shifted to a growth strategy utilizing export promotion. This allowed incentives such as low interest rates to be given to various exporting firms which attracted more exporting firms into exporting. This accelerated productivity advances and increased efficiency growth in export industries (Seth, 2013). The results of these and other implementations eventually led South Korea to experience sustained periods of rapid growth while North Korean economy continued to experience rapid deterioration (see Figure 2). According to New York Times author Dinesh D'Souza, "South Korea now is more than 20 times richer than North Korea, a difference manifested in virtually all indicators of human welfare" (D'Souza, 2020).



**Figure 2**  
**Comparison of North and South Korean GDP per capita in USD (Kumar, Rishi)**  
<https://lexgratis.substack.com/p/an-extensive-critique-of-north-korean?s=r>

**Conclusion:**

Socialism has been implemented countless times at varying levels. Economic results from North and South Korea are similar to those of East and West Germany. Cuba, Poland, Yugoslavia, Vietnam, Zambia, and many other countries have experimented with socialism to no avail and even to great disaster. Socialist ideology today dismisses this evidence writing off the lack of success to authoritative dictatorship. According to D'Souza, "...modern socialist seek to dispense the tyranny and merely keep the economic program." Although many would argue that socialism is the most beneficial system of social organization, we cannot ignore the impacts that socialism has had on the economy of other countries that have adopted its practices. A specter is haunting America – the specter of socialism (D'Souza, 2020).



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