

Defining capitalism and command economies

[Government](#), [Capitalism](#)



Defining Capitalism and Command Economies of Economics “ Economics is the study of how wealth is created and distributed” which, includes “ the products produced and sold by business” (Pride, Hughes, & Kapoor, 2011, p. 10). When studied, it is the science of the financial considerations of the buying, selling, and the production of goods and services that are consumed by our world and its people. There are two different perspectives when studying economics.

Microeconomics and macroeconomics are different in that microeconomics is the study of the individual and business decisions that affect the economy, whereas macroeconomics is the study of national and global economy (Pride et al, 2011, p. 10). Together, micro and macroeconomics examine the decisions of individuals, businesses, the government, and society and how all of these people deal with making and distributing the money that is derived from the production of services and goods. These decisions combined with the prosperity of the nation, determine the economy.

There are two different economic systems in today's world. Capitalistic nations and those nations that are run under command economies are the two systems that can be found across the globe. The two systems differ in two major ways. First, they vary in the ownership of the factors of production. These factors are the land and natural resources, labor, capital, and entrepreneurship (Pride et al, 2011, pp. 10-11). Second, the way that particular nations system answers four questions listed by Pride, Hughes, and Kapoor (2011), determines a nation's economy (p. 11).

Those four questions listed are concerning what products, how the products, for whom the products are produced and who owns and controls the major

factors of production as aforementioned. One major understanding on the impact a nation's economic system has on all the economic activities of its citizens is when there is a consideration that a country's system determines how the factors of production are used to meet the needs of the society it supports (Pride et al, 2011, p. 11). An eighteenth century Scottish economist, Adam Smith published a book in 1776, called *Wealth of Nations*.

Smith argued that a " society's interests are best served when the individuals within that society are allowed to pursue their own self-interest" (Pride et al, 2011, p. 11). Smith came up with a term called the " invisible hand" which describes how people work hard when they know they can benefit financially from the goods or services they can provide and as a result, these personal financial gains benefit others and that nation's economy. Pride et al (2011), discusses how the success of people in the community and therefore the success of the nation, can be tied indirectly to the success of the individual small business owners (p. 1).

Smith's ideas promote individuals should have the ability to succeed and create wealth by owning property and resources. The government should not be involved in the market and should be limited to government duties owed to the nation. This system Smith describes, is known as *laissez faire*, declares the government should have no interference in the economy and solely provide defense against enemies, ensure internal order, and furnish public works and education (Pride et al, 2011, p. 2). Smith also believes in the concept of market economy, where the producers and buyers of good and services determine the amount produced and the selling price. As stated earlier, resources should be owned by individuals and they should be entitled

to use and sell their goods as they choose, in addition to enjoying the benefits from ownership of these resources (Pride et al, 2011, p. 12). Very different from that of a capitalistic nation, is the economic system, called a command economy.

Whereas capitalism suggests individuals own and operate the majority of businesses that provide goods and services; the government decides what goods and services, how they are produced, for whom will they be available to, and who owns and controls those four major factors of production discussed earlier in command economies (Pride et al, 2011, p. 14). In essence, the government is the controlling and deciding entity of how the resources are used and produced and by whom they are controlled by.

Today, most countries that fall within a command economy are considered to be a socialistic economy. Key industries such as transportation, communications, utilities, banking, and important industries that produce material such as steel are owned by the government (Pride et al, 2011, p. 14-15). Although small private businesses may be allowed to certain degrees, many citizens work in state-owned industries. Communism is another example of a command economy.

This is a “ classless society whose citizens together owned all economic resources” (Pride et al, 2011, p. 15). These citizens would then contribute to the economy as they could and would receive benefits that were needed back from the distributions by the government. Different than a socialist economy, workers do not have much of any choice when given a job, but those who had special skills or talents were often viewed as being compensated more than that of an average citizen.

Often citizens of command economies go without the essential needs or the wants of society because the supply of goods and services is determined by the government and not the consumers themselves. Today, many traditional countries that were thought of as socialist nations are transitioning to a free-market economy. According to Pride et al (2011), this is also considered a market economy where businesses and individuals decide what to produce and buy, and the market determines prices and quantities sold. Communism is fading out and these economies are now similar to what was considered socialist.

Northern Korea and Cuba are probably two countries that are the best examples of today's communist economies whereas those that once were thought of as communist countries are now considered socialist or even capitalist nations. The United States falls under what is considered a mixed economy, where there is both capitalism and socialism. Free market economies, which fall under capitalism, are those nations currently transitioning such as France, Sweden, and India (Pride et al, 2011, pp. 10-15).

References Pride, W. M. , Hughes, R. J. , & Kapoor, J. R. (2011). *Foundations of business* (2nd ed.). Mason, OH: South-Western.