

Comparison of free market command and mixed economic systems



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A problem of every economy is scarcity. Scarcity is the very reason why economics as a subject of study was formed, for scarcity is the base or foundation of it all (the study of economics). Scarcity in terms of economics can simply be defined as resource(s) being “ limited in supply”; this is because human wants are unlimited while resources are limited. For this reason resources must be allocated effectively in order to prevent wastage, this presents a problem for economists (hence the study of economics) and brings these basic questions to the fore, namely;

What to produce

How to produce

Who to produce for

These are the guidelines economists use to maximize the limited resources for the unlimited wants of man. Economic systems are therefore formed with their function being to determine the allocation of resources.

IDENTIFICATION OF BASIC ECONOMIC SYSTEM

There are three basic economic systems, namely;

Free market economy

Command economy

Mixed Economy

FREE MARKET ECONOMIC SYSTEM

Its other names include capitalist/free enterprise/laissez-faire economy.

In this economic system resources are allowed to be owned and controlled by private property owners, private firms and individuals, these entities have the right to compete for economical gain. Since resources are controlled in such a way the market forces; demand and supply determine resource allocation as opposed to being restrained by the government whose only role in this economic system is to protect individuals and grant rights to control resources through legislation and awarding of contracts.

Features of free market economy include:

Individuals have the right to own resources

Price is determined by the market forces (price mechanism)

There is competition within the market

There is little or no government intervention

The laissez-faire (let-us-be) philosophy is employed

There is usually a large gap between the rich and poor

Individuals have the right to vie for economical gain

Consumers are ripe for exploitation

Price is unstable because of chance of inflation, competition and other related factors

Consumers have freedom of choice

Large rate of innovation due to competition

Social benefits e. g. healthcare and education are only available if it can be afforded

Freedom of choice for consumer

A good example of a country that employs free market economy system is the United States of America.

COMMAND ECONOMIC SYSTEM

Its other names include planned economy and controlled economy.

Command economy is the opposite to a free market economy, it can be branded this way because in this economic system resources are owned and controlled by the state/government as no-one (individuals, private firms etc) is allowed to own resources which results in the non-existence of competition for economical gain in such an economy. The state decides what to produce, how much of it should be produced (resources), which resource is of most importance, the proportion of particular resources dedicated to which sector, distribution of output and so on. Also in this market system market forces are not a factor in price determination because the government itself decides on what the price of resources should be (price regulation).

This economic system is characterized by the following:

Individuals and firms don't have the right to own and control resources

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Price regulation is employed instead of price mechanism

This system prevents customer exploitation

There is price stability

Freedom of choice is restricted for the consumer

Minimal specialization and division of labor

There is a good chance that resources will be underutilized because of the government alone decides what to be produced, creating potential for wastage

The government attempts to address wants and needs by deciding what is required.

People are generally of equal wealth

There is no vying for economical gain between individuals and firms

Officials are usually corrupt

The government owns and controls all resources

Examples of countries that employ the command economic system include
The USSR (now dissolved), Cuba and North Korea

MIXED ECONOMIC SYSTEM

The mixed economic system is a system that combines free market and command economy policies in a certain ratio. This means the laissez-faire is

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employed but the government still has significant control over resources.

This is the most realistic example of an economic system because no economy is purely capitalist or command. It is believed that a combination of the two systems may lead to the edging out of the many disadvantages that these systems independently bear. Some examples of mixed economy (high degree of government control and consumer freedom) are England and Nigeria.

COMPARISM WITH OTHER ECONIMIC SYSTEMS

FREE MARKET ECONOMIC SYSTEM

PLANNED ECONOMIC SYSTEM

Market forces determine price (price mechanism)

Price is determined by the government (Price regulation)

Individuals and private firms have the right to own and control resources

Individuals do not have the right to own and control resources

Little or no government intervention in economic policy, their role is only to protect individuals and regulate activities through legislation (Laissez-faire)

Government policies oversee and control entire economy

Since individuals are left to vie for economic gain, competition is abundant hence the need for innovation

Innovation is effectively non-existent since the government determines what is needed

The nature of the economy creates a large gap between the rich and poor i.e. the competitive nature results in losers losing and winners winning

In this system the government eradicates competition in order to create equality resulting thereby reducing the gap between the rich and poor

Extreme highs and lows in terms of standard of living

Most people experience equal standard of living (although it is usually collectively low)

Products are usually of very high quality as a result of competition

Manufacturers have no incentive to improve their products since the government dictates what to make resulting in a high probability of the manufacture of below standard products

Economy is very unstable

Economy is very stable

This system dominates most economies around the world (around 80%)

This system is not as widespread covering about 20% of the worlds economies

Economic system gets country involved in international trade and guarantees the best potential utilization of resources

Resources are underutilized since they are only made for home consumption, this also restricts ability to trade internationally

STRENGTHS OF COMMAND ECONOMIC SYSTEM

Consumer exploitation is roundly prevented

There is price stability

There is a relatively lessened gap between the rich and poor (this is in comparison with a capitalist economy)

Essential goods are provided

It provides a minimum standard living

It's a very stable economy

It's very flexible in the face of a major problem as the government can react very quickly to the problem since it controls all

There are equal social services and opportunities for all such as healthcare, education

WEAKNESSES OF COMMAND ECONOMY

Specialization and division of labor is low

The consumer does not have freedom of choice

International trade severely restricted since government only aims to create goods for its own country

Underutilization and wastage of resources

Product quality is normally sub-standard

Standard of living is collectively low

Officials are usually corrupt

Innovation is practically useless as the government determines what is required for the economy

CONCLUSION

These three examples of economic systems are the broadest and best summarise all forms of economic systems in the world. Though some systems may seem utopian when described but they are actually for more complex in nature and bring along many disadvantages along with the advantages they are characterized by. Therefore economic systems are not necessarily picked based on the perception of which one is felt to appears to be better but what the concerned party hopes to achieve within their country.