

Planned economic system



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Planned Economic System (PES) A Planned Economy is an economic system in which the state directs the economy. It is an economic system in which the central government controls industry such that it makes all decisions regarding the production and distribution of goods and services in an economic system. Its most extensive form is referred to as a command economy or centrally planned economy. A country which has a planned economic system is Cuba. Advantages & Disadvantages of PES

Advantages: * Wastage of resources would be reduced since the state makes the decision as to what is produced and directs the resources into the different areas.

* Profits gained from state industries may be used to generate further production and expand provision of public goods such as hospitals and other welfare services. * Consideration may also be given to the improvement of general working conditions of state employees. * Since the state determines the price of goods and the amount paid in salaries, then no group of workers by themselves can force prices up.

* Income is more evenly distributed. * Workers may tend to increase their efficiency since they may feel that they are working both for themselves and for their country. Disadvantages: * There is wastage of manpower because large numbers of persons are required for central planning.

* Conflicts of interest arise because what the country needs may not be what the people want. * The government protects workers by setting a minimum wage. * The lack of scope for individual incentives may lead to a lack of initiative.