How do free, planned, traditional and mixed economic systems address the problem ...

1.

a) Traditional Economy: Let us begin with the most basic of economies. Traditional economy has been part of human culture for countless years, and it heavily depends on the old practice of bartering, which means ‘ to exchange a good or service in return for another particular good or service’. As traditional economies would generally fall into the term of microeconomics, due to its relatively small scale, the absence of proper commerce and that people will hardly overproduce something, scarcity is very likely to appear. Being such economy self-relying with little or no waste produced, stockpiling is not a basic characteristic of traditional economies; this can also be due to the nature of goods such as foodstuff and other organics, usually of limited natural lifespan, which in turn leaves only a small window for barter. Hence, with these characteristics taking place, scarcity may easily crash upon a traditional economy, leading to disaster.

As we said, the economy is self-relying; therefore products are directly linked to each other (i. e. if wheat crops fail, there is insufficient bread, which can lead to famine, therefore to a diminishing population and hence to even lesser wheat production next year). This can really destroy a small community which heavily depends on each other’s support to keep going.

Traditional economies generally have very little choices to solve the problem of scarcity. Since they only take the most basic of needs, generally there is no substitution of goods such as changing from beef to fish if, for instance, cows becomes scarce; should this happen, it would be good if people can turn to fish and therefore keep the economy working. Another crucial aspect that traditional economies are forced to work on is storage or stockpiling. Normally, they produce very little waste since most of the goods or services are consumed, but when scarcity takes place, some traditional economies have resorted to stockpiling as prevention for hard times. Substitution and stockpiling can more effectively over-come the scarcity problem.

When these fail, traditional economies can – and have- also resorted to another solution: trade. Commerce can be a core instrument since it opens windows to other products (substitutes), which can dearly replenish a traditional economy's scarce product or service. These seem to be the best methods (and probably some of the very few) to address scarcity in a traditional economy. A further approach would consist in expanding the economy to obtain more production and, consequently, a greater increase in output; however, that would turn the small traditional economy into a larger scale economy where monetary power becomes essential, therefore changing its nature. Read also1.

b) Centrally Planned Economy: Differing with a traditional economy, a planned system is at an enormous scale. It is administrated by the State (which acts as a high command), and is possibly the most complicated economic system to manage. A planned economy can be effective to a certain extent of areas; yet, as all systems, it does pose some weaknesses. When scarcity begins to build to a higher degree in a planned economy (' scarcity to a higher degree' because scarcity is always present in any economy) the government creates new policies to sort it out (in a planned economy scarcity can happen from insufficient planning; i. e. from jeans and zips, you may have lots of jeans but without zippers due to a planning mistake.

This would leave you with a scarcity of complete jeans). As planned economies allocates ALL resources as they see fit, the government can decide and manage without much difficulty the arrival of these resources to production areas; however, it might make errors in amounts or destinations sent. In a planned economy the most used way to combat scarcity is to increase the concentration of a substantial number of factors of production in a given area. This tends to be rather complicated since in this type of economy, everything is supposed to be worked to 100% capacity in all areas.

Facing these issues, planned economies usually take a variety of different approaches, as: a) First resort to politics before action can be taken (politics play a crucial role in the welfare of planned economies, especially in post-war or war; i. e. URSS in the Cold War.) If they see that no immediate threat imposed on them, they would continue in allocating most of their resources to that scarce area. However, to do this they must take and distribute factors of production (labourers, transport, investment, land, etc..

.) and one of the most demanding fields is National security. This means that given the chance, some planned economies will take a few factors from the army or security and re-direct it to the scarce area. However, this is a hard process since it has been highly put-off, due to the inability to lower resources directed at these highly consuming fields. b) The second approach to planned economies would be to raise prices, but they must do so in a way so that even the poorest of their workers are able to buy that particular product.

This approach might lower the demand of the good and bring people to find alternatives, however the problem is generally there are no alternatives. So this approach tends to not go well as well. c) A planned economy would have the option of subsidizing the firms of that particular scarce product, to encourage it to grow and produce more. This can be effective, but it may lack in resources if the firm expands such as workers. So to counter-effect this, the firms would bring in machinery, which could end up leaving a lot of workers laid-off.

The machinery would indeed increase production, and if the government finds a way to re-allocate the unemployed workers this policy could work and reduce scarcity. d) Sometimes planned economies resort to rationing, especially if the country is at war. The most commonly used system is the rationing coupons. By doing this, the government can easily estimate the amount needed and the amount that each person gets. In some ways, this virtually eliminates scarcity for that product since everyone gets the same shares of it. Therefore they can’t demand for more.

This system was widely used especially in the Second World War countries, at that era, and it proved to be an effective scarcity removal. e) Another really used policy is propaganda. The planners would run add campaigns to try and make people conscious of the seriousness of a problem and hopefully make them consume less. A common example is gas, people are encouraged to share cars, turn to diesel or even use a non-gas transport system.

This is also really widely used today in many countries, for example some areas of Indonesia are inaccessible unless your car is carrying more than 3 people. f) And possibly the last suitable solution to scarcity on a planned economy would be to switch to either a mix, free or open trade. This would allow for better efficiency, more resources, and better allocation of resources, thus resulting in a substantial increase of that particular scarce good, since many companies will seize to opportunity and produce the good which is highly demanded. The major issue is that once this happens, the economy can no longer be centrally planned. Therefore it is a major step, and probably the last of resorts that any centrally economy would decide to make. We’ll review transition problems in the second question with more detail.

1. c) Free Market Economy: Now let us slip to the exact opposite of centrally planned economies; the free market. Basically the free market aims at letting the economy run by itself with as little government intervention or participation as possible. This can generally result to good outcomes, as competition helps production efficiency and cost reduction. However, if totally unregulated, companies may turn into monopolies, oligopolies or cartels, leading to scarcity and to affect the economy much the same.

A free market will try and improve their output of the scarce products in quite a number of ways, being increasingly the choice of developed ones the use of technology. Among other choices, here are a few ways free markets solve scarcity…a) Free markets are aware that innovation in better technology can greatly improve output of scarce resources. This leads governments to subsidize firms in order to promote their research and development, therefore new technology can be obtained and used.

This directly connects to free market's belief in specialization, where a more specialized company would obtain higher production rates; this in turn produce more output and promotes innovation with new machineries and technologies, making a system more efficient. b) Another common measure to reduce scarcity is to simply import the volumes missing in the economy; however, this does not take into account potential deficits and inconveniences, but it does solve scarcity. c) Free markets base their economies in heavy competition. This in some ways is a very effective scarcity solver. Since companies furiously compete for supremacy, the most efficient and productive one will generally end up in the high line.

Competition really helps over-come scarcity since the firms will gradually concentrate in the quality and quantity of the product at a lower price, with as few resources available. However, the competition must not go to the extremes, such as monopolies or too few firms that leave a huge amount of unused resources to become wasted. Therefore, complete disappearance of the State and regulations seems practically unviable even in a free market. d) A free market can in some ways concentrate in its most productive areas, even though it might not be the scarcity area. If, say, country " A" is best at producing rice, but its scarce on fish, what it can do is concentrate all it's available resources on rice.

Therefore, once they earn profits from the surplus rice, they may obtain the fish through other means such as trade. This can greatly help reduce scarcity, and produce profits (or reduce deficit levels) for the economy. e) Another method used by free markets is to broaden consumer's choice with alternative supply or products. The main issue with scarcity is that consumers choose a particular product because they cannot find another that meets or exceeds their demands.

Theoretically, if there are substitute products or second choice products, it is possible that demand will become balanced amongst the several products, taking off the pressure of the scarce one, thus leading to diminish scarcity for that particular good or services. A good example is computers. Before, when Microsoft was the supreme company (and it still is now) only they owned the computers fit for consumption of both general public and professionals. Therefore computers became scarce and highly demanded. Yet, the free market allowed Apple to develop an alternative line and rise as the supreme-of-choice for designs. This greatly reduced computer scarcity and made good competition so that the two companies fought to improve efficiency, output and quality at a lower cost, using as less resources as able.

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Free markets tend to have easier access to different solutions, but they still hold a few problematic issues which we'll review in the second part of this essay. 1. d) Mixed Economy: Lastly, we will review the mixed economy, increasingly becoming the system of choice to be found in developing or heavily populated countries. Mixed economies are a difficult system to categorize, for there is an ample range of mixed economies which use as many different methods to prevent scarcity. Trying to balance efficiency with social and labor issues, these economies tend to bring in a merge of methods derived from both free market and planned economies.

Nevertheless, whether they're more to one side or the other can change the different solutions. However, in the mixed economy, the system tries to cope with scarcity with a regulated amount of government intervention and/or participation in the production of some goods or services. It is very difficult to exactly predict what measures a government/market will take, for they tend to adopt the seemingly best appropriate method from either the free or planned economies at a particular moment. In doing so they are becoming each time more flexible and more able to correct any of the mistakes that they make.

However, the most general method used by a mixed market is government subsidies. Since the government has still considerable power (unlike in the free market) areas which are crucial to prevent scarcity are well looked after; hence, the government only needs to sometimes give the so much needed boost to these other firms, so that they can innovate in technology and create a capital for research. An interesting mixed economy method used to help reduce (but not eliminate) possibilities of scarcity is by setting a minimum-maximum price barrier. This should be backed-up by legislation from the government and usually states that the price of a particular good or service MUST not go beyond or below the two given prices. Hence, scarcity is prevented as retailers don't sell below the minimum price limit; therefore, there is no excess consuming of the product which would tend to leave it in the scarce list.

Another variation linked to this, is that the government can slightly raise the minimum price if there is simply TOO much consumption of that particular good. However, for this to work, it needs the intervention of the government in also another possible aspect. The government must be prepared to help pay for the producers’ cost by either buying their products or other means. This would prevent desperate producers from illegally selling a good below its given minimum price limit, which leads to much feared black markets. Finally, a quite popular measure used by governments for the last 2 decades is to sell all the unneeded State companies or factories and allow them to privatize, this helping deregulate an area which can greatly aid with the diminishing of scarcity. The reason for this is that when an area deregulates, it produces more competition, which in turn improves allocation of resources and efficiency, leading to a larger output of the scarce resource.