

COMPARATIVE ECONOMIC SYSTEMS

As we have said, all nations must answer the question of scarcity. All nations and societies must allocate their resources in order to meet their needs. This is where the essential dilemma between unlimited wants and limited needs comes into play. We have also noted that all nations must make choices. This is a matter of *resource allocation*. When we allocate limited resources we make choices. The cost of these choices is known as *opportunity cost*. When making these choices and dealing with scarcity, resource allocation and opportunity cost nations are answering what we have previously referred to as the *three basic economic questions*. These are the questions all nations must ask when dealing with scarcity and efficiently allocating their resources. They are:

- What to produce?
- How to produce?
- For whom to produce?

Each nation and society thus must make choices and decisions based upon their own values. If a society values meeting more wants and needs at the expense of freedom of choice then they may choose a system radically different than our own. Thus we have seen the creation of a variety of economic systems.

Economic systems are divided up into three basic types. These types are:

- Traditional Economic Systems
- Market Economic Systems
- Command Economic Systems

Traditional Economic System

A traditional economic system is one in which people's economic roles are the same as those of their parents and grandparents. Societies that produce goods and services in traditional ways are found today in some parts of South America, Asia, and Africa. There, people living in an agricultural village still plant and harvest their own food on their own land. And the ways they produce clothing and shelter are almost exactly the same as those used in the past. Tradition decides what these people do for a living and how their work is performed.

Market Economic System

A market economic system is one in which a nation's economic decisions are the result of individual decisions by buyers and sellers in the marketplace. The U.S. has a market economic system. When you finish school, you may go to work where you choose, if a job is open. You are also free to go into business on your own. Suppose that you decide to open a business. You will risk the money that you have saved or borrowed in the hope that you will be successful. The price that you charge for your goods or services will be influenced by the prices charged by your competitors (other businesses selling the same items). The success that you have will depend on the demand by consumers for your goods. You may do extremely well. But if people do not want what you are selling, you will go out of business.

Command Economic System

In a command economic system, the main decision maker is the government. No person may independently decide to open and run any kind of business. The government decides what goods and services are to be produced. And the government sells these goods and services. The government also decides how the talents and skills of its workers are to be used.

WHO OWNS THE MEANS OF PRODUCTION IN ECONOMIC SYSTEMS?

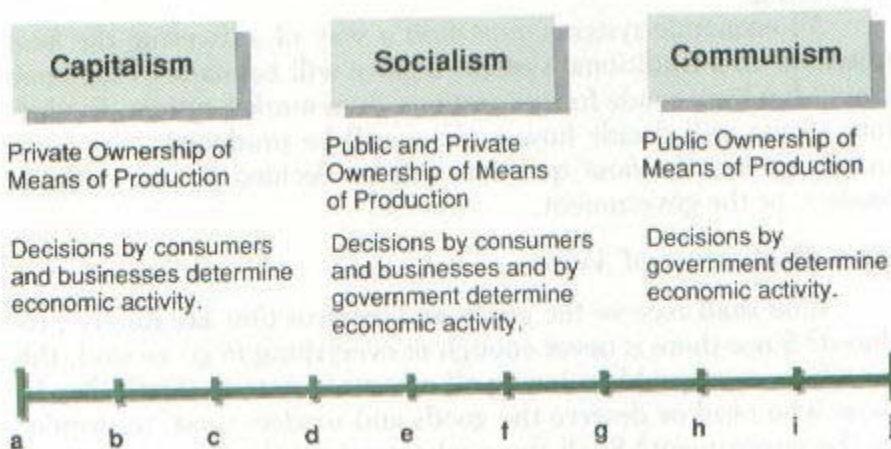
We have classified economic systems according to the way they answer three basic questions of what, how, and who. A fourth question that should be asked is, "Who owns the means of production?" An economy's means of production are its capital: factories, farms, shops, mines, and machinery. The means of production are used to produce other goods and services.

If the government owns and operates almost all of the nation's means of production, then that nation's economic system is called **communism**. China has a communist economic system. Almost all of the means of production are publicly owned—that is, owned by the government. Government planners decide the answers to the basic economic questions. Farming on private plots of land is sometimes allowed. In recent years, the Chinese government has been allowing more and more private businesses to operate.

If the government owns and operates many of the nation's major industries—such as banks, airlines, railroads, and power plants—but allows individuals to own other businesses, including stores, farms, and factories, that nation's economic system is called **socialism**.

Sweden is an example of a country whose economic system is often described as socialist. The government owns most of its major industries, such as coal mining, electric power, gas, telephone, and railroads. Under Sweden's national health insurance system, the people receive free medical services all their lives.

If almost all the stores, factories, and farms in a nation are owned and operated by private individuals or businesses, then its system is called **free enterprise**, or **capitalism**. The U.S. has a free enterprise, or capitalist, economic system.



No country has an economic system that is 100 percent communism, socialism, or capitalism. All countries today have **mixed economic systems** or mixed economies, with some free enterprise and some government ownership.

In the U.S., as in most capitalist countries, there are many examples of government ownership. Public colleges, high schools, and elementary schools, for example, are owned and operated by state or local governments. Other publicly owned enterprises are the postal service, many municipal bus lines and trains, a few electric power plants, and housing projects.