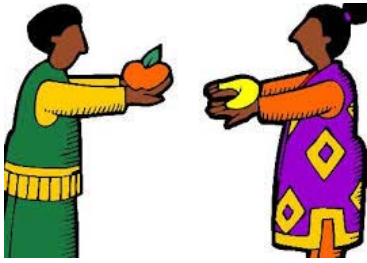


Economic Systems

The way in which a society addresses the problem of scarcity, not having enough goods and services to meet the needs of all its members, determines which economic system that society establishes. The four main types of economic systems are traditional, free enterprise, communism, and socialism. These systems are based on economic theory, but in reality, no society follows any one economic system. Most countries have economies that feature many elements of the different systems. Countries are classified based on how actively the government intervenes in the economy.

Traditional



A traditional economy will address the problem of scarcity by sticking to the practices that their ancestors have passed down through the generations. Generally, individuals do not choose what their position in society will be; they simply do what their parents did. Resources and tools are allocated by trading one product for another; for example, one may trade a dozen eggs for a shirt. Sometimes, this can result in uneven values of products and distribution of resources. Since many traditional economies are agricultural-based, major occupations in these societies will include hunting, fishing, farming, and herding cattle.

These societies generally participate in subsistence agriculture, where people produce enough crops to provide for their families or villages. Farmers produce diverse crops in order for the family or village to use them over the course of the year until the next harvest. People also use their time to weave cloth and make other products by hand. These are called cottage industries, which help farming families meet any additional needs that are not met by agricultural products. Traditional societies very rarely produce a surplus and very little is sold or traded, resulting in slow economic growth.

Capitalism/Free Enterprise

Capitalism, or free enterprise, is an economic system in which people own their own goods and property. Some people invest their money to produce things, like owning factories, machines, and land. Others will decide how to distribute goods and services that are produced. Both of these investors work to gain a profit- the amount of money that remains after the costs of running the business are paid. Free enterprise markets follow the “laissez-faire” principle, which states that governments do not use economic resources efficiently and that businesses are better off determining economic winners and losers. Therefore, capitalism is opposed to government intervention in economics because a free market produces the best economic outcome for society. However, incomes are not equal because they can be decided on by private corporations; there is very often huge gaps in economic equality because of the drive for profit.



In a free enterprise economy, producers are free to decide what to produce, and consumers are free to buy whatever they need and want. Some products may not be produced because there is not a guaranteed profit for the producers. Capitalism uses the law of supply and demand to set prices. Supply is the amount of something that is available, and demand is the number of consumers who want it. Consumers will then make economic decisions by deciding which product they want to purchase. This creates competition- producers battling over who can make the most profit. Competition leads to innovation, the process of developing newer, better things. Producers constantly come out with new versions that have different capabilities. Multiple companies are allowed to manufacture various products, which drives prices down to attract consumers.

Socialism



Socialism is an economic system where the means of production, such as money and other forms of capital, are owned by the state (the government) or public. Socialist governments typically own their nation's hospitals, banks, transportation systems, and major industries. However, socialism also encourages private ownership of small businesses, like shops and small manufacturing companies. A socialist economic system operates on the premise that the government decides how wealth is distributed among the people. Socialists believe economic inequality is bad for society and the government is responsible for reducing it via programs that benefit the poor

such as free public education, free or subsidized healthcare, and social security for the elderly.

Workers are paid according to the value of their work, so individuals are not motivated to work by a desire for profit. In a socialist economy, the government works with private-owned companies to provide services to all citizens. To provide these services, taxes are usually higher in a socialist system than in a capitalist system. It is a misconception that people do not pay for these services- they do pay for them through higher taxes.

Communism

Communism, also called a command economy, is an economic system in which all economic decisions are made by government leaders. The state decides what goods will be produced, how the goods will be produced, and who will receive these goods. The state owns the equipment for production, sets production quotas, and tells workers when they will work. There is no private property under communism, so people can't sell things or invest in the economy to make a profit. The state sets prices, so while the people are consumers, they can only purchase products that are made available to them.



In a way, communism is an extreme form of socialism. Workers do not have incentives to work hard because they are all paid equally. Goods and services are distributed is controlled by the state, which often implements five-year plans developed to prepare for changes in populations and production levels. There are no social classes in a communist system, which allows cooperation to replace competition to meet everyone's needs. Many countries have dominant socialist political parties but very few are truly communist. The key difference between socialism and communism is that socialism is simply an economic system which can operate independently of any government system, while communism relies on the constant intervention of a government (most likely a dictatorship or totalitarian) in order to operate the economy.