

Economic Systems

People must choose which methods to use to allocate different kinds of goods and services.

There are four basic ways that societies have come up with over the years to allocate scarce goods and services among their people. These include a Traditional Economy, a Command Economy, a Market Economy and a Mixed Economy. Each of these economic systems are described below.



Market Economy

The economic system in most industrialized countries is the one used in the United States: a market (or capitalist) economy. Under a market economy, people, rather than the government, own the resources and run the businesses. The purpose of most businesses operating under a market economy is to earn a profit. Individuals, not the government, make most economic decisions in a market economy. Businesses are free to choose which products to produce and how to produce them. They can set their own prices. Customers are free to buy any goods and services they choose. Buyers and sellers are free to make transactions among themselves, without government interference.

Command Economy

During the 20th century, several nations had command economies (like the former Soviet Union). In a command economy the government owns most resources and makes most economic decisions. Each company receives a government plan that tells it what to produce. The government determines all prices, styles, colors and even the amounts of products produced. Individuals within a command economy have no say in production and often not even their role in it. If the government tells you that you will be an assembly-line worker, then that is what you will be. Today (since the break-up of the Soviet Union), the best-known command economies are North Korea and Cuba.

Mixed Economy

In reality, most countries today have economies that contain a mix of economic systems. Even in the U.S., the economic system is not a pure market economy (although we still consider our system a market economy). Our government does control the economy in some ways. For example, it sets the rates that public utilities, such as electric and water companies, can charge consumers. For the good of society, the government also sets limits on what businesses and individuals may do. For example, neither you nor a business is allowed to discard hazardous waste into a river. Also, a business may not make false claims about the quality of its products. Most economies in the world are actually mixed economies, falling somewhere between a pure command economy and a pure market economy.

Traditional Economy

Throughout most of human history, people have lived in traditional economies. In a traditional economy, the ways to produce products are passed from one generation to the next. Parents teach children how to produce goods and services. Children pass these methods on to their children. Tribes in remote areas of the world still live in a traditional economy. Parents teach children how to hunt, weave baskets, and create jugs to carry water. Our society still contains some elements of a traditional economy.