

An Interview with Mr. Market and Ms. Command

Interviewer: Today, we have with us two people who represent two types of economic systems: Mr. Market Economy and Ms. Command Economy. They are going to tell us about how they are similar and different. Greetings, Mr. Market and Ms. Command. Glad to have you with us today. Now, first thing's first: What exactly is an economic system?

Mr. Market: An economic system is the "rules," so to speak, as to how resources are allocated among a group of people or in a particular country. Now, you may be wondering what I mean by resources. There are four types of resources-also known as the **four factors of production**. There are **natural resources**, which are gifts of nature, such as water, mineral deposits, virgin forests, and land. There are also **capital resources**, which are manmade resources used to produce other items, such as equipment, tools, and buildings. **Labor** is another resource and describes the human effort used to produce goods and services. The final resource is **entrepreneurship**. Entrepreneurs are the people who risk money, time and reputation to organize these resources to produce goods and services. Notice that the last two resources are actually humans – labor as the human effort needed to produce goods and services and the entrepreneur as the individual who organizes the other resources to produce goods and service.

Interviewer: Ms. Command, would you agree that an economic system provides rules for how resources are allocated?

Ms. Command: Yes, and this is precisely the area in which we are so different.

Interviewer: What do you mean?

Ms. Command: In my economy, we use central planning to decide how to use resources, what to produce, and what to charge the customer. Generally, it is a central committee, many times the government, who makes decisions about how our natural, capital, labor, and entrepreneurial resources are used. In other words, the central committee decides how many refrigerators get built, what resources should be used to make them, and how the refrigerator will be priced. The central committee even decides who gets refrigerators and who doesn't, because it also decides how much each worker receives in compensation.

Mr. Market: Yes. Your economy, Ms. Command, depends a lot more on group decision-making and group ownership. The central committee makes the decisions, and the government owns the resources. Those are some of the major differences between command and market economies. In my economy, the individual, not the government, owns property. Individuals have the freedom to start their own businesses, and workers have the freedom to decide which jobs they want to pursue with their qualifications. People in a market economy make decisions out of self-interest. If individuals want to start their own businesses because they want to be their own bosses, they can do so. There is a risk in doing that, but many think it is worth the risk because of the potential to make a profit. Consumers search for goods and services that best satisfy what they want. And workers seek out a job that is the best for them-again satisfying their own self-interest.

Interviewer: One thing that always confuses me is the market mechanism, which is an important part of your economic system, Mr. Market. Can you explain that a bit?

Ms. Command: Yes, I want to hear more about what you have to say about the market mechanism.

Mr. Market: A market is where buyers and seller meet. It can be an auction, it can be a store, it can be the Internet-anywhere where buyers and seller get together. Sellers are trying to sell their items at the highest price possible. Buyers are trying to buy at the lowest price possible. There is thus some give and take. If buyers do not want the item that is put on the market or if the item is priced too high, they will not buy it, which means the seller will go out of business because he/she cannot cover costs. Conversely, if a lot of buyers want the product, the business might well expand because the owner would like to make more profit, which is the reward for assuming the risk of starting a business.

Ms. Command: In my system, the committee has to get together to decide what to produce and what not to produce. In your system, it sounds like it is more automatic. That is, if people like and buy the product, more resources are put into making it. If people do not like and buy the product, then resources are not put into making it. The market determines how resources are used instead of a central committee.

Interviewer: I think I understand how a market works a lot better. People in market economies are always talking about competition in a market economy. What role does competition play in your economy?

Mr. Market: Competition plays a very important role. When someone comes up with a new product or service and is making a lot of money, other people see this and want to get in on the action. Multiple people then compete against each other on price, customer service, and product quality. A playing field with a lot of competitors ensures that consumers get a better product at a lower price. Let's take the car industry as an example. Some people buy specific cars which are considered better quality even though they must pay a higher price. Some people buy cars based on price while others buy a particular brand because of a strong local service department.

Ms. Command: In our economy, we do not worry much about competition. We might choose to put out two cars—one that is inexpensive and the other a deluxe car. This means that we'll produce only one inexpensive car and one deluxe car, not multiple versions of each.

Interviewer: How do you ensure, Ms. Command, that the consumer is getting a better product at a lower cost?

Ms. Command: The central committee makes those decisions. Sometimes, this decision-making process takes quite a bit of time. For example, if product deficiencies are discovered, the Central Committee must come to agreement as to what changes must be made.

Interviewer: What is the role of government in both of your economies?

Mr. Market: The role of government is limited when it comes to producing goods and services. The government makes sure that the markets are competitive so that they can operate efficiently.

Ms. Command: Government is generally very important in my economy since it owns the resources and make the decisions as to what to produce, how to produce it, and who is to get the product.

Interviewer: My last question relates to the entrepreneur. How important is the entrepreneur in each of these economies?

Mr. Market: The entrepreneur is the individual who drives innovation, making new products that people want. The entrepreneur is the change agent for the economy.

Ms. Command: Hopefully, the central committee in making the decisions will be entrepreneurial but that cannot always be true. It is many times difficult to get a committee to make a decision which involves taking a risk. Also, there is little incentive for someone to be entrepreneurial because we do not allow individuals for the most part to start their own businesses or make a profit.

Interviewer: Thank you so much for your comments. This has been very helpful in clarifying the difference between the two economic systems. Oh yes, I forgot to ask. Is there any country in the world which is totally a market or totally a command economy?

Mr. Market: No, the United States has a mixed economy, tending more toward market than command. This means that many resource decisions are made through the market but others are made through the government. For example, people buy automobiles, homes, and haircuts through the market. Yet, some resource decisions are made by the government, such as those related to national defense, public education, and police/fire protection.

Ms. Command: I would have to agree with Mr. Market. China, North Korea, and Cuba are examples of countries which are primarily command economies. Yet, they allow some operation of a market, such as for agricultural products. That's why, even in the strictest command economy, you will see fruit and vegetable stands—people raising some products on governmentally owned farms and selling the produce to the general public on a limited scale.

Questions

1. What is an economic system?
2. What are the four factors of production?
3. Describe the primary difference between a command economy and a market economy when deciding how resources are to be used.
4. How is property ownership different in a market economy compared to a command economy?
5. What are the freedoms that individuals have in a market economy that they do not have in a command economy?
6. What is a market? How does it decide how resources are allocated?
7. What is the role of government in a market economy and in a command economy?
8. Why are entrepreneurs more important in a market economy than in a command economy?
9. Is there any economy in the world that is strictly a market economy or a command economy? Explain your answer.