***economic system***

***Definition***

***An organized way in which a state or nation allocates its resources and apportions goods and services in the national community.***

*Read more: http://www.businessdictionary.com/definition/economic-system.html#ixzz3TUpYJ91B*

*http://www.shmoop.com/economic-systems/types.html*

Economic Systems

**TYPES OF ECONOMIC SYSTEMS**

"You can't always get what you want." That's what the Rolling Stones sang, anyway (check it out: great song even if it's a bit before your time). And while Mick Jagger probably didn't have Econ 101 in mind, he managed to sum up perfectly the core concept underlying all economics.

**Scarcity** is the fundamental challenge confronting all individuals and nations. We all face limitations... so we all have to make choices. We can't always get what we want. How we deal with these limitations—that is, how we prioritize and allocate our limited income, time, and resources—is the basic economic challenge that has confronted individuals and nations throughout history.

But not every nation has addressed this challenge in the same way. Societies have developed different broad economic approaches to manage their resources. Economists generally recognize four basic types of economic systems—traditional, command, market, and mixed—but they don’t completely agree on the question of which system best addresses the challenge of scarcity.

A **traditional economic system** is—here's a shocker—shaped by tradition. The work that people do, the goods and services they provide, how they use and exchange resources… all tend to follow long-established patterns. These economic systems are not very dynamic—things don’t change very much. Standards of living are static; individuals don’t enjoy much financial or occupational mobility. But economic behaviors and relationships are predictable. You know what you are supposed to do, who you trade with, and what to expect from others.

In many traditional economies, community interests take precedence over the individual. Individuals may be expected to combine their efforts and share equally in the proceeds of their labor. In other traditional economies, some sort of private property is respected, but it is restrained by a strong set of obligations that individuals owe to their community.

Today you can find traditional economic systems at work among Australian aborigines and some isolated tribes in the Amazon. In the past, they could be found everywhere—in the feudal agrarian villages of medieval Europe, for example.

In **a command economic system or planned economy**, the government controls the economy. The state decides how to use and distribute resources. The government regulates prices and wages; it may even determine what sorts of work individuals do. Socialism is a type of command economic system. Historically, the government has assumed varying degrees of control over the economy in socialist countries. In some, only major industries have been subjected to government management; in others, the government has exercised far more extensive control over the economy.

The classic (failed) example of a command economy was the communist Soviet Union. The collapse of the communist bloc in the late 1980s led to the demise of many command economies around the world; Cuba continues to hold on to its planned economy even today.

In **market economies**, economic decisions are made by individuals. The unfettered interaction of individuals and companies in the marketplace determines how resources are allocated and goods are distributed. Individuals choose how to invest their personal resources—what training to pursue, what jobs to take, what goods or services to produce. And individuals decide what to consume. Within a **pure market economy** the government is entirely absent from economic affairs.

The United States in the late nineteenth century, at the height of the lassez-faire era, was about as close as we've seen to a pure market economy in modern practice.

A mixed economic system combines elements of the market and command economy. Many economic decisions are made in the market by individuals. But the government also plays a role in the allocation and distribution of resources.

The United States today, like most advanced nations, is a mixed economy. The eternal question for mixed economies is just what the right mix between the public and private sectors of the economy should be.

***Why It Matters Today***

Half of the twentieth century went down as a global battle between defenders of free markets (democratic capitalist nations, led by the United States) and believers in command economies (the communist bloc, led by the Soviet Union).

The US and USSR never went to war against each other directly, but dozens of smaller (yet still tragic and significant) wars unfolded around the world as bitter fights over economic systems turned bloody. Korea, Vietnam, Nicaragua, Afghanistan, Angola… millions of people died in the various "hot" theaters of a Cold War fought to decide whether markets or states should control economic affairs.

The great irony was that the Cold War finally ended not on a battlefield, but because the Soviet economy finally self-destructed by the late 1980s. For most of the world, the Soviet collapse proved that command economies were simply inferior to the market-dominated mixed economies of the capitalist world. Of course, China – still ruled politically by an authoritarian Communist Party, even though its economy is now more mixed if not exactly free – is now the biggest creditor nation to the United States.

*Sometimes, a Song Says it Better: Revolution, by The Beatles*

*“You say you want a revolution”, the Beatles sang, advising:*

*“But if you go carrying pictures of chairman Mao  You ain't going to make it with anyone anyhow”*

*EXTRA - Some diagrams*





