

Type of Economic Systems

This handout shows some basic differences between capitalism, socialism, communism, and fascism. .

Factors of Production

Factors are found worldwide and go into the manufacturing of all goods present in the world. They work as a unit, and the removal of any of them will bring production to a halt.

1. Land Land is the factor of production from which goods originate. Land consists of natural resources before people have worked on these natural resources
2. Labor This factor of production involves human effort in the production process. However, it does not include the managerial or organizational factors.
3. Capital This is nay human-made instrument of production used in the furthering of the production process. It can be something as simple as a drill press or as complex as a steel mill.
4. Entrepreneur This is a businessperson. The businessperson assumes the responsibility of the enterprise and coordinates and manages land, labor, and capital.

Below are some characteristics of capitalism, socialism, communism, and fascism with focus on who owns and manages the factors of production.

Capitalism

- Economic system where the means of production are owned by private individuals
- Government control and interference at a minimum
- Private ownership of natural resources permitted
- Allocation of national resources determined by supply and demand
- Competition eliminates inefficient producers, improves products, reduces costs
- Private ownership of property permitted

Negatives of Capitalism

- Private ownership means production leads inequality of wealth- rich get richer, poor get poorer
- Competition wasteful b/c of high cost of advertising
- No government agency controlling production, creates waste by overproduction & duplication of effort
- Profit is the motivation of production. Scarce resources wasted on goods and services that serve no useful purpose
- Dollar vote (one votes for the manufacture of goods by buying them), the poor have little say in determining production
- Planning individual basis, leads to overproduction & waste

Socialism

- Socialism is an economic system in which most means of production is owned and controlled by the government.
- Socialists believe moving towards their goals of government ownership and control of production by gradual means
- Property nationalized, owners compensated
- Government plans production by determining what produced and what quantity
- Socialism, production determined by need not profit
- Because government owns production, production can be planned and waste eliminated
- Overproduction, duplication of effort, and depressions avoided as competition replaced by cooperation and planning.

Negatives of Communism and Socialism

- Socialism lacks incentives for increasing effort. No motivating force
- Determining "need" a problem which government unable to solve
- Because government controls production, it also protects the inefficient producer
- Because of improper government planning, both overproduction and underproduction can and do occur
- Freedom of choice is somewhat limited under socialism

Communism

- ☐ Communism an economic system, in theory, all goods owned collectively and payment of income based on need
- ☐ Individuals given little freedom in determining what to produce
- ☐ Everything owned collectively, private ownership of production prohibited
- ☐ Individuals work to full potential w/compensation determined by government. In most controlled economies, incentives used to encourage work at full potential

Fascism

- ☐ Fascism economic system combines capitalism's private ownership of production w/communism's state planning
- ☐ Industry organized into corporations or estates under strict regulation of government
- ☐ Industrial owners belong to Fascist Party, labor union strictly controlled

Fascism traditionally associated with war economy

Differences between Communism and Socialism

- ☐ Communists seek to end capitalism by revolution whereas socialists do it by ballot box
- ☐ Socialists believe in orderly transfer for production from private to public ownership
- ☐ Under socialism, fair payment is made for nationalized property
- ☐ Socialism has high regard for an individual's freedom

Negatives of Fascism

- ☐ Negatives of other systems apply here, combination of other economic systems