

Economic Systems and Problems in Human Society

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Abstract

Economists could never agree on what economics can be called. But many agree on many aspects of economic negotiation and analysis. According to Adam Smith, ‘Economics is the science of discussion on wealth’. John Stewart Mill thinks that ‘the meaning of wealth is fundamental and discusses its production and distribution rules’. According to Ricardo, ‘Political Economy is the nature of the property and the reason why he thinks it should be said that it can’t be construed as a rule by which to determine the division of the rules in different classes, but the rationale is to make a fairly accurate rule. It is more understandable that the previous searches are meaningless and confusing and the next is simply scientific Knowledge is acceptable’.

According to Ricardo, ‘the fundamental task of economics is to find out the interconnection between people in different parts of the economy and their distribution of resources.’ According to Alfred Marshall, ‘economics is a science of resources on the one hand, and on the other hand, it is more important to study human science, it discusses the daily life of the people.’ In his landmark essay on the nature of economics, Lionel Robbins defined economics as “the science which studies human behavior as a relationship between ends and scarce means which have alternative uses”.¹

Keywords: Economic Systems; Economic Problems; Role of Government; Human Society.

¹ (Robbins, 1935, p. 16).

1. Introduction

The economic system we are currently living in is generally called the market economy. But there is a name that is capitalism. Age of an economic system can't be called a trick because a system does not rise suddenly, it develops for a long time. After calculating roughly, it is said that there are different names of those economic systems that they did not have the same look in all the countries, and now there are different economic systems for thousands of years, even thousands of years before the age of the system.

Economist has seen such a system in history that most of the people were slaves. Slaves were bought by slave owners. Slave owners had all these powers. If you were defeated in the war, you would have become a slave. In ancient Greece, when the famous city state emerged, there was a slave system there. During the introduction of Islam in the Arab country, we can see the existence of the slave system. There was no such slavery in our sub-continent, but the system here was very strong, and in many cases, it still has a caste system. In this way, a person's social status is determined by birth, and his talents and qualifications are secondary here.

What we see after the slave system is generally called feudalism. In this system, the landlord's wealthy owners are the most powerful in this society. On the other hand, most people work on land in exchange for rent or as a landlord. This system is called the Zamindari system briefly. In our country, this system was not exactly like the whole of Europe. Here the power of King or Emperor was much more centralized. All of them were considered as land owners. Many people say society in a state-centric society.

The process of industrial revolution in Europe began in the seventeenth century. In the process of this industrial revolution, capitalism was established as a mechanism in Europe by 1910. This situation is often called the market economy. In this system, people lived in almost all parts of the world. We will discuss various problems based on the economic system or analyze the data, which is basically this system. That's why the features of the system are to be taken into account:

- Personalization on production equipment and capital
- The main importance of individual interest
- Production targets for profit maximization in the market

2. Economic system

People are involved in various activities for their own existence and for their own development. People are related to many people. In such a way, the exchange of enjoyment of distribution of production is very important in the work of people with many others. These works, which together say economic work together.

All these tasks cannot be done all the time in the same way. What will be the production, How to produce, for whom will be the production produced for, these issues are not the same all the time. The difference is how it is made? The difference is made mainly for the ownership system, along with social regulatory rules and so on. In this proprietary system, in the state and social system, people who collectively work collectively, in one word, they are called economic systems. ²Economic system a set of institutions for decision making and for the implementation of decisions concerning production, income, and consumption within a given geographic area. ^[1]

3. Different Economic Systems

From the above discussion, we realize there are many economic systems in human history. Many of these systems are now past, but the systems we have seen now have passed the various systems of the past.

Samuelson discusses various economic systems and for whom it is produced, which is mentioned in various textbooks. He did not consider past arrangements in this discussion. The current economic system mainly divided into three parts.

- Capitalist Economy
- Socialist Economy
- Mixed Economy

According to his interpretation, the market economy means free economy, where everything is determined by the market, the government has no role. In its interpretation, the mixed economy is the economy where there will be market economics but the government's role remains. Actually, there is no existence of the first type of economy in the world. According to Samuelson, the mixed economy is the real face of the market economy in the world.

Samuelson indicates that the directional economy is different from the capitalist system or the economies which were attempted to stand out of their authority. These are sometimes called socialist measures. These are called state-made economics without directional. Because the economics are governed under an overall plan, not because the person or the government directs these economies. Indeed, directional economics is called those where everything is directed at the head of state or by some directions. Military rule is the economy of civil administration or monarchy.

² Gregory and Stuart, Paul and Robert (February 28, 2013). The Global Economy and its Economic Systems.

4. For what, whom & which is the production in different economic system?

Here are some of the central features shown in some of the major aspects of the various economic systems that have passed since ancient times. Here the ancient joint system is meant to a long-term economic system of the people before the emergence of personalization where the people all together had everything done according to the need. Pre-capitalism means that the existing system of capitalism has been explained together before the emergence of capitalism. Among them, the slavery system of the feudal system is the Asian production system. These are the common features: Personal ownership is centralized in all societies, but none of this is capitalism. What we call the capitalism system is that the books related to various economics are called market economics. Capitalism is what is said to be the answering system, somewhere called socialism somewhere called communism.

There was a summary of what was done in different sectors of the economy and why it was produced and for whom:

Different Economic Systems	What production	How to produce	Production for whom
Original joint system	Joint necessities	Technology obtained	for everyone
Capitalism or market economy	Sellable products	Minimum expenditure and high production technology	For people with purchasing power
Capitalism social ownership system	Social necessities	Minimum expenditure and high production technology	For everyone
Pre-capitalism is a privately held system	Rent goods	Technology obtained	Owner's rent

Table-1: What was done in different sectors of the economy and why it was produced and for whom

5. Role of Government in Economic Systems

The shortcomings of the free market mechanism under which there is no role of government in the economic development of a nation.

Due to the failure of the free market mechanism, the intervention of government became indispensable for the growth of an economy.

Now, the question arises of determining the extent of government in regulating and managing economic activities.

This remains a debatable issue among various economists. This is because of the reason that the government intervention is also not able to eradicate the economic problems of a nation completely.

Different economists have given different viewpoints for the role of government in an economy.

5.1. Following are some of the viewpoints given by different economists

According to Colin Clark, “The role of government must be held at a ceiling of 25 per cent of the national income.”

According to Samuelson, “There are no rules concerning the proper role of government that can be established by a priori reasoning.”

From the aforementioned viewpoints, it can be concluded that the accurate and exact percent or amount of government intervention in an economy is hard to decide and calls for an issue of collective social choice. The extent of the role of government differs in different economies. An economic system is a way through which economic resources are owned and distributed.

5.2. Capitalist Economy

A capitalist economy refers to an economy that works on the principle of the free market mechanism. It is also termed as laissez faire system. In a capitalist economy, the role of government is very limited. The main functions of government, as given by Adam Smith, are to maintain law and order in a country, make the national defense stronger, and regulate the money supply. According to Smith, the market system administers various economic functions. However, over a period of time, the functions of government in an economy have increased.

5.2.1. In a capitalist economy, the main responsibilities performed by the government are as follows

- a. Developing and sustaining the free market mechanism system
- b. Eliminating any kind of restrictions on the working of free competitive market
- c. Increasing the effectiveness of free competitive market system through various measures

5.2.2. In the view of Meade, following are the responsibilities of a government in a capitalist economy

- a. Regulating and controlling various economic situations, such as inflation and deflation, by formulating and implementing various fiscal and monetary measures
 - b. Controlling the power of monopolistic and large corporations to elude various economic problems, such as unemployment and inequitable distribution of resources
 - c. Possessing the ownership of public utilities, such as railways, education, medical care, water, and electricity, which are required by an economy as a whole
 - d. Prohibiting discrimination among individuals and providing them equal educational and job opportunities
 - e. Limiting restrictive trade practices and the power of trade unions
 - f. Maintaining law and order, administering justice, and safeguarding the freedom of individuals in an economy
 - g. Supporting private ventures in an economy
 - h. Creating a central planning body that helps in the development of an economy on a larger scale
 - i. Handling problems to the environment, extinction of natural resources, and growth of population,
- Therefore, we can conclude that the major role of government in a capitalist economy is to control and encourage the free market mechanism. In addition, the government should encourage private ventures for safeguarding the future of an economy.

5.3. Socialist Economy

In a socialist economy, the function of government is entirely different from the function of government in a capitalist economy. In a capitalist economy, the government acts as a regulatory and complementary body. On the other hand, in a socialist economy, the government plays a comprehensive role in almost all economic activities, such as production, distribution, and consumption, of a nation. In a socialist economy, not only the ownership of private property is allowed to a limited amount, but the concept of the free market mechanism is also eliminated.

The private ownership of resources, in a socialist economy, is changed by state ownership. In addition, in a socialist economy, the government plans and regulates all the economic activities centrally at a state level. Moreover, the decisions related to production, allocation of resources, employment, pricing, and consumption, are completely dependent on the government or its central planning authority. In a socialist economy, the individual's decisions are totally dependent on the limit decided by the government.

For example, individuals are given the freedom of choice, but it is subject to the limitations of the policy framework of the socialist economy. The countries in which the socialist economy is adopted are China, Yugoslavia, Czechoslovakia, and Poland. The objective of the government in a socialist economy is the same as in the capitalist economy, such as growth, efficiency, and maintaining justice. However, the ways adopted by the socialist economy to achieve those objectives are different from the capitalist economy.

For example, in the capitalist economy, the main force of motivation is private profit, whereas, in the social economy, the encouraging factor is social welfare. The socialist way of managing an economy facilitates the elimination of various evil activities of the capitalist economy, such as labor exploitation, unemployment, and inequality in society. This is only the classical view of the socialist economy.

According to nineteenth-century socialist views, socialism would function without capitalist economic categories – such as money, prices, interest, profits and rent – and thus would function according to laws other than those described by current economic science. While some socialists recognized the need for money and prices at least during the transition from capitalism to socialism, socialists more commonly believed that the socialist economy would soon administratively mobilize the economy in physical units without the use of prices or money. ^[2]

However, over a passage of time, the scope of the socialist economy has also been reduced due to various reasons, such as a prohibition of profits from private ventures, inadequate utilization of resources, and restrictions on economic development as noted by Union of Soviet Socialist Republics (USSR).

5.4. Mixed Economy

Mixed economy - An economy that uses both market signals and government directives to allocate goods and resources." This follows immediately from a discussion on command economies and market mechanism.

^[3] In a mixed economy, the private sector is encouraged to work on the principle of the free market mechanism under a political and economic policy outline decided by the government. On the other hand, the public sector, in a mixed economy, is involved in the growth and development of public utilities, which is based on the principle of socialist economy.

In a mixed economy, the public sector comprises certain industries, businesses, and activities that are completely owned, managed, and operated by the government. Moreover, in a mixed economy, certain laws have been enacted by the government to restrict the entry of private entrepreneurs in industries reserved for the public sector.

Apart from this, the government also strives hard for the expansion of the public sector by nationalizing various private ventures. For example, in India, the government has nationalized several private banks, which has resulted in the expansion of the public sector. Besides working for the growth and development of the public sector, the government, in a mixed economy, controls the activities of the private sector by implementing various monetary and fiscal policies.

It should be noted here that a free market mechanism is actually a form of a mixed economy. This is because of the reason that in free market mechanism, both the private and public sectors exist simultaneously. However, the public sector in a free market mechanism economy is different from the public sector of the mixed economy.

In free market mechanism economy, the public sector is responsible to maintain law and order in a country, make the national defense stronger, and regulate the money supply. On the other hand, the public sector of a mixed economy is involved in almost all economic activities, such as production, distribution, and consumption. For example, the public sector of an economy, such as India, is based on the socialist pattern of society.

6. The Economic Problem³

All societies face an economic problem, which is the problem of how to make the best use of limited, or scarce, resources. The economic problem exists because, although the needs and wants of people are endless, the resources available to satisfy needs and wants are limited. ^[5]

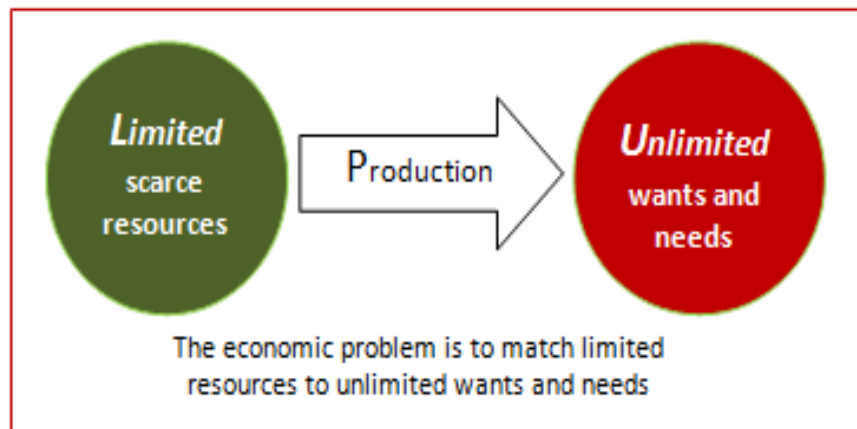


Figure-1: Economic Problem (Limited Resources and Unlimited Wants)

7. Limited Resources

³ Economicsonline.co.uk

Resources Are Limited in Two Essential Ways:

- Limited in physical quantity, as in the case of land, which has a finite quantity.
- Limited in use, as in the case of labor and machinery, which can only be used for one purpose at any one time.

8. Choice and Opportunity Cost

Choice and opportunity cost are two fundamental concepts in economics. Given that resources are limited, producers and consumers have to make choices between competing alternatives. All economic decisions involve making choices. Individuals must choose how best to use their skill and effort, firms must choose how best to use their workers and machinery, and governments must choose how best to use taxpayer's money.

Making an economic choice creates a sacrifice because alternatives must be given up, which results in the loss of benefit that the alternative would have provided. For example, if an individual has £10 to spend, and if books are £10 each and downloaded music tracks are £1 each, buying a book means the loss of the benefit that would have been gained from the 10 downloaded tracks. Similarly, land and other resources, which have been used to build a new school could have been used to build a new factory. The loss of the next best option represents the real sacrifice and is referred to as opportunity cost. The opportunity cost of choosing the school is the loss of the factory, and what could have been produced.

It is necessary to appreciate that opportunity cost relates to the loss of the next best alternative and not just any alternative. The true cost of any decision is always the closest option not chosen.

9. Samuelson's Three Questions

America's first Nobel Prize winner for economics, the late Paul Samuelson, is often credited with providing the first clear and simple explanation of the economic problem - namely, that in order to solve the problem of scarcity all societies, no matter how big or small, developed or not, must endeavor to answer three basic questions.

9.1. What to produce?

Societies have to decide the best combination of goods and services to meet their needs. For example, how many resources should be allocated to consumer goods, and many resources to capital goods, or how many resources should go to schools, and how many to defense, and so on.

9.2. How to produce?

Societies also have to decide the best combination of factors to create the desired output of goods and services. For example, precisely how much land, labor, and capital should be used to produce consumer goods such as computers and motor cars.

9.3. For whom to produce?

Finally, all societies need to decide who will get the output from the country's economic activity, and how much they will get. For example, who will get the computers and cars that have been produced? This is often called the problem of distribution.

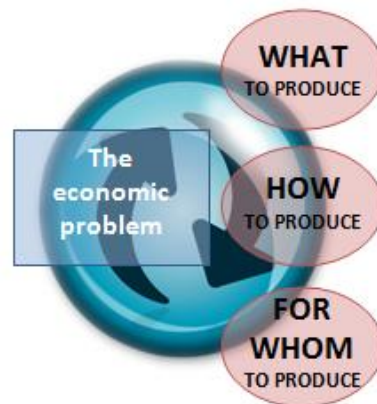


Figure-2: Paul Samuelson's Three Questions about Economic Problems

10. Conclusion

The economic system refers to ownership, state, and social system, on the exchange of production and distribution of the product. In the meantime, people work collectively. According to the above discussion, the market economy is a free economy where markets determine everything. The mixed economy will be the market economy but the government will have the role. And in directional economics, everything is directed at the head of state or by some directions. There are several basic questions that must be answered in order for an economy to run satisfactorily. The scarcity problem, for example, requires answers to basic questions, such as what to produce, how to produce it and who gets what is produced. An economic system is a way of answering these basic questions and different economic systems answer them differently. Many different objectives may be seen as desirable for an economy, like efficiency, growth, liberty, and equality. ^[6]

Economic systems are commonly segmented by their property rights regime for the means of production and by their dominant resource allocation mechanism. Economies that combine private ownership with market allocation are called "market capitalism" and economies that combine private ownership with economic planning are labelled "command capitalism" or dirigisme. Likewise, systems that mix public or cooperative

ownership of the means of production with economic planning are called "socialist planned economies" and systems that combine public or cooperative ownership with markets are called "market socialism". ^[5] Some perspectives build upon this basic nomenclature to take other variables into account, such as class processes within an economy. This leads some economists to categorize, for example, the Soviet Union's economy as state capitalism based on the analysis that the working class was exploited by the party leadership. Instead of looking at nominal ownership, this perspective takes into account the organizational form within economic enterprises. Indeed, aside from the variation of ownership forms, some follow certain ideas in Marx, saying that how one class relates to another is the crucial matter rather than specifically who owns what, with true socialism involving a lack of exploitation of one class by another. This kind of argument can lead to the position that the Soviet Union was not really socialist but a form of state capitalism in which the government leaders exploited the workers. ^[7]

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