



Comparing the Broad Social Goals of Command and Market Economies

In our seeking for economic and social progress as a nation,
we all go up or else all go down as one people.

Franklin D. Roosevelt



Goal: Economic Efficiency

...how well scarce productive resources are allocated to produce the goods and services people want and how well inputs are used in the production process to keep production costs as low as possible

Economic Efficiency

Bundle of Resources

Use A has value of \$25

Use B has value of \$22

Use C has value of \$20

Only if this bundle of resources goes to the highest-valued use will we have economic efficiency.

- An economic principle holding that businesses and individuals should fulfill as many of society's needs as possible while maximizing the provided resources.
- When a society achieves economic efficiency, goods and services are produced without a lot of waste and those goods and services are what the consumers want and or need the most.



Goal: Economic Equity

...what is “fair.” Economic actions and policies have to be evaluated in terms of what people think is right or wrong.

Equity issues often arise in questions dealing with the distribution of income and wealth. Some people judge equity based on providing **equality of opportunity**. Others judge based on **equality of outcomes**.

Economic Equity

- This goal centers on fairness. People's beliefs around what is right or wrong determine how this goal is achieved.
- Issues that involve Economic Equity certainly deal with redistribution of income.





Goal: Economic Freedom

...things such as the freedom for consumers to decide how to spend or save their incomes, the freedom of workers to change jobs and join unions, and the freedom of individuals to establish new businesses or close old ones

Economic Freedom



- This goal is about the amount of choice people have in where they work and live, the type of career they have, what they do with their income and what they buy or sell. Economic freedom is restricted in some cases to protect the rights of others, for example there are laws prohibiting the production, sale and purchase of illegal drugs.



Goal: Economic Security

...protecting consumers, producers and resource owners from risks that exist in society. Each society must decide from which uncertainties individuals can and should be protected and whether individuals, employers or the government should provide or pay for this protection.

Economic Security

- Keeping people safe from economic risk is the basis of this goal. United States Government programs such as welfare, Social Security and food stamps are all examples of ways America tries to achieve this goal. Producers and consumers desire to be protected from risks over which they have little or no control such as illness, bank failures and man-made or natural disasters.





Goal: Economic Stability

...maintaining stable prices and full employment and keeping economic growth reasonably smooth and steady. **Price stability** means avoiding inflation or deflation. **Full employment** occurs when an economy's scarce resources, especially labor, are fully utilized.

Economic Stability



- This goal involves three aspects: sustained growth without large swings in output or consumption; stable rate of employment; and a stable level of prices without dramatic inflation or deflation. Most nations with economic freedom allow for some unemployment and inflation.



Goal: Economic Growth

...**increasing the production** of goods and services over time. Economic growth is measured by changes in the level of real gross domestic product (GDP). A target annual growth rate of 3% to 4% in real GDP is generally considered to be reasonable and sustainable.

Economic Growth

- Economic growth is the sustained increase in the production of goods and services. It is measured by Gross Domestic Product (the total value of all final goods and services produced in a nation in a year). A nation's standard of living can only improve if GDP increases. To achieve economic growth a country must invest in education, technology and capital goods. This goal is closely related to a country's long term ability to use resources to achieve the other goals.





Command Economies: Economic Efficiency

Resource allocation established by **central planners**.
State-owned businesses are often inefficient but rarely
allowed to fail.



Market Economies: Economic Efficiency

Most allocation decisions are made by **consumers and producers** in markets.

Extensive **specialization** and international **trade** increase productivity and competition.

Command Economies: Economic Equity

Equality of outcome: wages are often set by government to provide greater income equality.

Opportunities for moving or changing jobs are limited, so jobs rarely make use of individuals' skills and abilities.





Market Economies: Economic Equity

Equality of opportunity: people are free to make own decisions on how to use their resources and capabilities but no guarantee of success.

Income depends on the value of labor and other resources an individual has to sell.

Command Economies: Economic Freedom



Government owns most capital and land resources,
with many decisions made by central planners.



Market Economies: Economic Freedom

Private ownership of most kinds of resources is allowed, and individual freedom and control of resources is highly valued.

Command Economies: Economic Security



Pensions, jobs, income, housing and health care are provided or guaranteed by the **government**.



Market Economies: Economic Security

Generally, **individuals are responsible** for their own health care, retirement benefits, housing and income.

There are some government programs to reduce risks and provide increased economic security such as assistance for low-income families, unemployment compensation, social security and government job-training programs.



Command Economies: Economic Stability

There is **no unemployment**.

Prices are usually set **below market price** to ensure that goods are sold, which controls *official* measures of inflation.



Market Economies: Economic Stability

Some unemployment is tolerated.

Income depends on the resources an individual has to sell.

The federal government **uses monetary and fiscal policies** to reduce unemployment and inflation and to encourage economic growth.



Command Economies: Economic Growth

Growth targets are set by central planners who assign **output quotas** for different firms.

Incentives to reduce waste are weak or nonexistent.

Plant facilities and equipment maintenance are often a problem since rewards are for output, not maintenance.



Market Economies: Economic Growth

Incentives for individuals and businesses to produce more and to avoid waste encourage efficient use of resources.

Specialization, trade, and investment in capital and in workers' education and training encourage higher levels of output.



Is Economic Growth Sustainable?

There is global disagreement on whether or not economic growth is a logical goal.

For example, economic growth rates of 2% to 3% is very modest by standards of the industrial era. However, with an annual growth rate of only 2.5%, the global economy would double in size every 30 years. (John Ikerd)

Critics believe the economic growth rates of the industrial era were an aberration in human history that **will not be sustainable** in the future.

If true, we have a decision to make.



Economic Growth vs. Sustainable Progress



The goals of governments and economies reflect society's goals. Our decision is whether we want to continue **unlimited economic growth** or whether we want to pursue **sustainable progress** (development/growth) ... to continue to advance accumulation of wealth or to advance individual happiness and overall societal well-being.



The End

