

Matching social costs with benefits

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MERITS of socialism are theoretical. Merits of capitalism are practical. Sometimes it is hard to have a match between what the socialist says and what they do. According to socialist, as the human-being, we will try our best in all possible ways to do all kinds of goodness for the human world. But in many instances we can find that the leaders in socialism love to do the best thing for themselves and their families like anybody else. Theoretically, socialist would like to develop the community as a whole instead of making their own benefit. In practice, many people do not work by themselves in the system of socialism to do their best. They think if they do not work it is not a problem for them. Some others in the socialistic system will work for them and the others. Or some people tend to benefit themselves without getting involved in work. This is called a free riders problem in socialism. As a result, it is not possible to have a developed or a better community under this system. It means that there is a possibility of great loss incurred by unutilisation or under-utilisation of human resource potential in socialism.

Capitalism is not theoretical. We have a freedom to do whatever we like to do for our own economic benefit. In capitalism we take the opportunity to exercise our self-interest. We love ourself and our families more than the others in the society. For our self interest, we work hard for doing the best for ourself. In capitalism, an environment of market economy and market competition appears automatically. Our individual purpose is to maximise our utility subject to our budget constraint. The objective of the firm and company in capitalism is to maximise the output, revenue and profit. In the market economy of capitalism, we take the chance of producing quality goods and services with a minimum possible cost and selling these products to customers at a reasonable price. We can have more customers, more sale, more revenue and more profit.

The customer or the buyer will benefit by having quality goods and services at a very low price. And the capital investors including all kind of entrepreneurs benefit from the prosperous business in the system of market economy of capitalism.

As to demerits of capitalism, market imperfection including monopoly, duopoly, oligopoly or a less than competitive market situation of few sellers or few buyers can be mentioned. Capitalism can go out of the system. Therefore, capitalism sometimes may not be beneficial for the people. Situation of few sellers can make a market syndicate of selling non-quality products at a very high price. Or in case of

Positive externality is a benefit to third party. For example, if somebody builds a recreational park the others can benefit out of that park. Negative externalities are the cost imposed on a third party, e.g. cancer from passive smoking. Example of merit goods is education. Educated mothers can better educate their children. As mentioned before, demerit goods are smoking which is harmful for direct smokers as well as for the secondary smoker. Public goods including police and national defense services are non-rival and non-excludable. Monopoly power controls the market and can charge higher prices for goods and services as mentioned before.

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a few buyer the consumers would like to buy very high quality product at a very low price. Investors and sellers can be looser to a great extent. The incentive of the entrepreneurs will decrease which is not very good for the overall growth of the economy. Therefore, according to many, capitalism is not a system. Capitalism is what happened in the absence of the system. Without any control by the government or in the absence of any system to manage the market failure there is an inefficient allocation of resources in free market under capitalism. However, the possibilities of social loss and total social loss including the loss of private individuals can be ignored in capitalism if such economic activities are not regulated properly. Merits and demerits can be of different types including positive externalities, negative externalities, merit goods, demerit goods, public goods, monopoly power, inequality, factor immobility and agriculture etc.

In capitalism, less than equitable distribution of income can increase inequality. The geographical and occupational immobility of factors for production of goods and services can introduce a kind of disadvantage or disincentive of some entrepreneurs. Agriculture is often subject to market failure. So externalities are very much a key term in market failure. The advocated method of overcoming the market failure includes tax or negative externalities such as carbon tax and incentive for positive externalities etc. Law and regulation and pollution tax are also different kinds of method of overcoming the market failure in capitalism. To maximise the positive externalities there are many methods to apply by the government in the system of market economy under capitalism.

As mentioned before, once you are educated you can educate your children better. Therefore, the education programme is very much a priority in both capitalism and socialism. We must remember that

total social benefit is a sum of private benefit and external social benefit. Social efficiency occurs when social cost is equal to social benefit. Therefore, there is a government intervention in the sector including education, transport and the related others producing positive externalities in any system of capitalism, socialism and mixed economy.

A mixed economy is an economy which includes a variety of private and government controls. The mixed economy is conceived with the characteristics of both capitalism and socialism. Private economic freedom mixed with a government degree of regulation of markets are the normal feature of mixed economy. It is not very easy to define a country to see if it is entirely capitalist, socialist or mixed economy. It is worthwhile to mention that economies ranging from the United States to Cuba and North Korea may be termed mixed economies. The economic freedom includes privately owned industry for which there is individual freedom, economic efficiency and the incentive to innovate privately by competition. Economic freedom reflects the allocative efficiency provided by the invisible hand of market forces of Adam Smith. Free economy in the mixed system also provides an incentive to innovate through competition. Government regulations are in place in the system of mixed economy because the private sector cannot be well equipped including environmental issues, employment status and maintenance of competition etc. Some mixed economies also include varies degree of centralised economic planning. State ownership in the mixed economy includes the ownership of means of production for achieving the national and social objectives and to maximise total social benefit.

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