Merits and demerits of socialism, capitalism, mixed economy

We have the freedom to do whatever we like to do for our economic benefit

SUBJECT OFTHEDAY

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Merits of socialism are theoretical while merits of capitalism are practical. Sometimes it is hard to have a match between what the socialists say and what is really in their minds.

According to socialists, as human-beings, we try our best in all possible ways to do all kinds of good for the human world. But in many instances we find that the leaders in socialism love to do things for themselves and their families like anybody else.

For example, many socialists are communist leaders in South Asia including the former chief minister of West Bengal, Jyoti Basu and the affluence of their families may be mentioned.

Theoretically, socialists 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. They think if they do not work it is not a problem for them. Somebody 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 the system of socialism.

It means that there is a possibility of great loss incurred by non-utilization or under-utilization of human resource potential in socialism.

Capitalism is not theoretical. We have a freedom to do whatever we like to do for our economic benefit. In capitalism we take the opportunity to exercise self-interest. We love ourselves and our families more than others in the society.

For our self interest, we work hard for doing the best for ourselves. In capitalism, an environment of market economy and market competition appears automatically.

Our individual purpose is to maximize our utility subject to our budget constraint. The objective of the firm and company in capitalism is to maximize the output, revenue and profit.

In the market economy, we take the chance of producing quality goods and services with a minimum possible cost and selling these products to customer at a reasonable price.

We can have a more customers, more sales, 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 market economy.

As to the demerits of capitalism, market imperfection including monopoly, duopoly, oligopoly or a less than competitive market situation of few sellers or few buyers may 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 a few buyers the consumers would like to buy very high quality product at a very low price. Investors and sellers can be losers 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 happens in the absence of a system. Without any control of the government or in 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 may be ignored in capitalism if such economic activities are not regulated properly. Merits and demerits can be of different types including positive externalities and negative externalities, merit goods, demerits goods, public goods, monopoly power, inequality, factor immobility and agriculture etc.

Positive externality is a benefit to third party. For example, if somebody builds a recreational park the others can benefit out of that recreational park. Negative

externalities are the cost imposed on a third party, e.g. cancer from passive smoking.

Examples of merit goods are education. Educated mother 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 defence services are non-rival and non-excludable. Monopoly power controls the market and can charge higher prices for their goods and services as mentioned before.

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 maximize 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 program is very much a priority program 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 is the normal feature of mixed economy.

It is not very easy to define a country to perceive 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 encourage private 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 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 various degrees of centralized economic planning. State ownership in the mixed economy includes the ownership of means of production for achieving the national and social objectives and to maximize total social benefit.

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