Arguments for both Free Market and Command Economies

SAFA Financial Literacy Lesson

Recap: What are free market and command economies?

Free market economies are markets in which numerous sellers and consumers can freely interact and trade, in which supply and demand determines the price of goods in the market.

Command economies are markets in which the government has far greater control, creating plans, implementing restrictions and quotas, and collectivizing property.

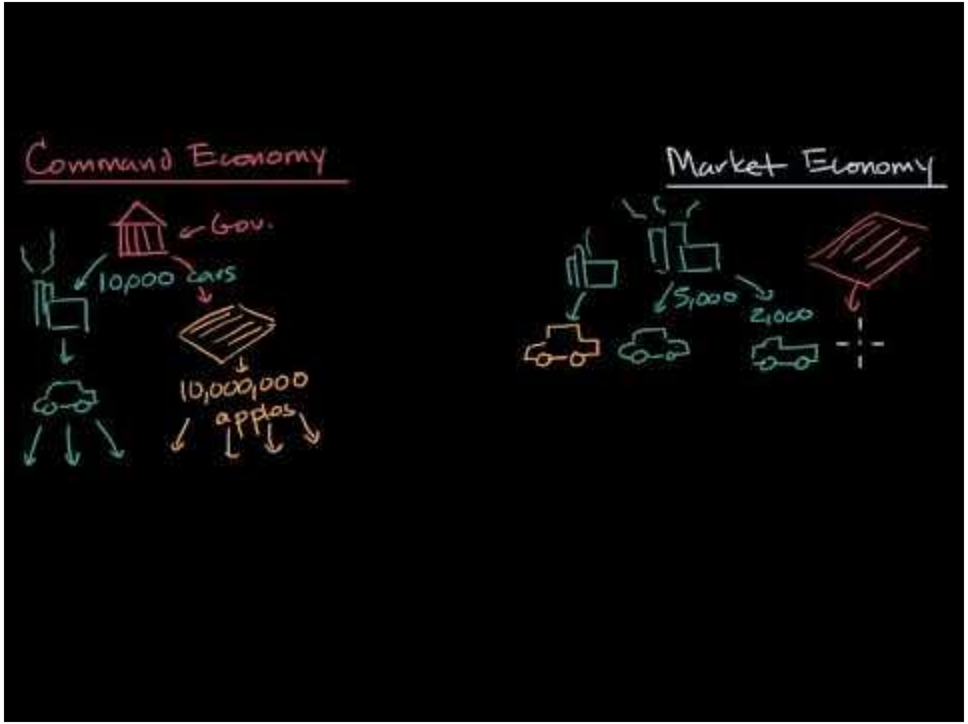
Arguments for Free Market Economies

There is greater competition in free market economies. As described previously, competition is very beneficial to an economy, as due to the necessity to attract more consumers, there is greater innovation and efficiency(as those which are not go out of business). In general, proponents of free market economies believe that the Invisible Hand will automatically correct the market and work towards social benefit.

Arguments for Command Economies

Proponents of command economies will state that free market economies without restriction have far too much economic inequality and harm the environment. This is because due to the intense competition between businesses, prices are driven down, and in order to benefit those who control these businesses, the wages of the workers are driven down. In addition, there is far less regulation, so working conditions can be far worse, and the environment can be damaged to a far greater extent.

Videotime


Command Economy
Gov.
10,000 cars
10,000,000
apples
Market Economy
5,000
2,000

The Real World: Conflict between Free Market and Command Economies(The Cold War)

In the Cold War, a command economy, the USSR, and a free market economy, the US, were opposing each other due to differing political and ideological aims. However, the USSR lost the Cold War, as its command economy failed it, with poor conditions for its people and a stagnant economy. It had far less efficient systems and was far behind the technologically superior United States of America. In fact, even liberal reforms, like Gorbachev's Perestroika, that tried to introduce free market aspects to the USSR were not successful, and the USSR collapsed.

The Real World: China

China originally was a command economy under Mao Zedong. However, the command economy was not effective, as demonstrated with the Great Leap Forward. Due to its poor planning, China underwent the Great Chinese Famine, which killed millions. China's next Chairmen, Deng Xiaoping, however, instated economic reforms that made China more like a free market economy. Under these reforms, China's economy boomed, and it became a major world power with the second largest economy in the world.

The Real World: The Great Depression

In 1929, after the prosperous Roaring Twenties in which the US's free market economy prospered, the Stock Market crashed in Wall Street, New York City. Due to this crash, businesses began to fire employees due to reduced production, leading to significantly higher levels of unemployment. Eventually, the entire world was impacted by the US's recession. However, the United States employed Keynesian Economics, with the institution of the New Deal. This is against usual free market economics, as the government intervened in the market. However, this is based on the idea that although the Invisible Hand may correct this recession, it would require more time, and more people would suffer, and as a result, the government intervened. On the contrary, the command economy of the USSR was not affected, as factors like demand were not significant due to state planning. In fact, the USSR prospered during the Great Depression while many free market economies were declining.

Conclusion

This is the end of the final lesson in the Financial Literacy workshop offered by SAFA for Education. Thank you for attending this workshop, and I hope you have learned useful information that can help you in the real world! If you want to learn more in depth about investment, please head to the SAFA Investment workshop, and if you want to learn about entrepreneurship, please head to the SAFA Entrepreneurship workshop.