

2.3

Centrally Planned Economics



As a Young Economist, I will be able to...

- Describe how a centrally planned economy is organized.
- Distinguish between socialism and communism.
- Analyze the use of central planning in the Soviet Union and China.
- Identify the disadvantages of a centrally planned economy.

Centrally Planned Economies

The Government, rather than individual producers & consumers, answers the economy questions

Government owns the land & capital & decides on what to produce

Command Economies- Operate in direct contrast to free market systems

They oppose private property, free market pricing, competition, & consumer choice



Example of The Economy

Let's look at the production of uniforms for the military in a command economy...

1. Top planners make decision & send materials to a materials committee

2. The committee evaluates the amount of materials & sends decisions to smaller organizations



3. Materials arrive at the factory & uniforms are created, leaving out consumer sovereignty

Socialism

Socialism- Not a single economic system, based on belief that wealth should be evenly distributed throughout society

Some countries use socialism within a free market to provide different services

Some countries see socialism the stage between capitalism & communism



Communism

Communism- Central government owns & controls all resources & means of production. Makes all economic decisions

Developed by Karl Marx, who stressed conflict between labor & capital

Believed that the exploitation of workers an unfair distribution of wealth



Authoritarian- Governments who limit individual freedoms & require strict obedience from their citizens

Two Communist Economies

The Soviet Union controlled Russia & eastern Europe from 1917-1991

Farmers worked state farms & starve, most capital went to military & heavy industry

China revolutionized in 1949-late 1970s & tried to build small factories in small communities

China changed some policies to allow some economic freedom, but still has government control key economic decisions



***Disadvantages of Central Planning

1. *Economic Efficiency*- Government fixes wages & lack incentives for work.

2. *Economic Freedom*- Works have none & this can lead to brutal outcomes & discourage competition

3. *Economic Growth*- Change is discouraged thus no profit to encourage growth

4. *Economic Equity*- Chosen few enjoy high incomes & access to higher-quality goods

5. *Additional Goals*- It can guarantee jobs & jump start some industries