**Economic Systems**

**What you’ll learn to do: differentiate between economic systems and discuss theoretical views of economics**



**Figure 1**. Companies pay to advertise their goods and services in Times Square in New York City, NY. Advertisements are an important facet of the U.S. capitalist economic system. (Photo courtesy of Chris Tagupa/unsplash)

In this section, you’ll examine the basics of economies, which refer to the social institution through which a society’s resources (goods and services) are managed. You will also learn about the development of economies through the transformation of societies.

The Agricultural Revolution led to development of the first economies that were based on trading goods. Mechanization of the manufacturing process led to the Industrial Revolution and gave rise to two major competing economic systems: capitalism and socialism. Under capitalism, private owners invest their capital and that of others to produce goods and services they can sell in an open market. Prices and wages are set by supply and demand and competition. Under socialism, the means of production is commonly owned, and part or all of the economy is centrally controlled by government. There is no nation that is *completely* capitalist or socialist; many countries’ economies feature a mix of both systems.

**The Development of Economic Systems**

Economy is one of human society’s earliest social structures. In sociology, **economy** refers to the social institution through which a society’s resources are exchanged and managed. The earliest economies were based on trade, which was often a simple exchange in which people traded one item for another. Our earliest forms of writing (such as Sumerian clay tablets) were developed to record transactions, payments, and debts between merchants. As societies grow and change, so do their economies—the economy of a small farming community is very different from the economy of a large nation with advanced technology..

The dominant economic systems of the modern era are capitalism and socialism, and there have been many variations of each system across the globe. Countries have switched systems as their rulers and economic fortunes have changed. For example, Russia has been transitioning to a market-based economy since the fall of communism in that region of the world. Vietnam, where the economy was devastated by the Vietnam War, restructured to a state-run economy in response, and more recently has been moving toward a socialist-style market economy.

**The Agricultural Revolution**

The first true economies arrived when people started raising crops and domesticating animals, both of which required staying in one place for a period of time.

As more people specialized in non- farming jobs, villages grew into towns and then into cities. Urban areas created the need for administrators and public servants. Disputes over ownership, payments, debts, compensation for damages, and the like led to the need for laws and courts—and the judges, clerks, lawyers, and police who administered and enforced those laws.

At first, most goods and services were traded between small social groups by exchanging one form of goods or services for another known as bartering (Mauss 1922). This system only works when one person happens to have something the other person needs at the same time. To solve this problem, people developed the idea of a means of exchange that could be used at any time: that is, money.

**Money**

Colonies were established to secure these markets, and wars were financed to take over territory. These ventures were funded in part by raising capital from investors who were paid back from the goods obtained. Governments and private citizens also set up large trading companies that financed their enterprises around the world by selling stocks and bonds.

Governments tried to protect their share of the markets by developing a system called mercantilism.

**Mercantilism**

**The Industrial Revolution**

Until the end of the eighteenth century, most manufacturing was done by manual labor. This changed as inventors devised machines to manufacture goods. A small number of innovations led to a large number of changes in the British economy.

The Industrial Revolution also changed agricultural practices.

The Industrial Revolution modernized the world.

While many people’s lives were improving, the Industrial Revolution also birthed many societal problems.

**Capitalism and Socialism**

Mechanization of the manufacturing process led to the Industrial Revolution which gave rise to two major competing economic systems: capitalism and socialism. Under capitalism, private owners invest their capital and that of others to produce goods and services they can sell in an open market. Prices and wages are set by supply and demand and competition. Under socialism, the means of production is commonly owned, and part or all of the economy is centrally controlled by government.

**Capitalism**

Scholars don’t always agree on a single definition of capitalism. For our purposes, we will define **capitalism** as an economic system in which there is private ownership (as opposed to state ownership) and where there is an impetus to produce profit, and thereby wealth.

Investment

Prices

Competition

Wages

**Socialism**

**Socialism** is an economic system in which there is government ownership (often referred to as “state run”) of goods and their production, with an impetus to share work and wealth equally among the members of a society. Under socialism, everything that people produce, including services, is considered a social product. Everyone who contributes to the production of a good or to providing a service is entitled to a share in any benefits that come from its sale or use. To make sure all members of society get their fair share, governments must be able to control property, production, and distribution.

How far should the economy be controlled?

Communist control of the economy - command or planned economies

Market socialism

By far the most important influential thinker on socialism as an economic system is Karl Marx.

**Corporatism - see digital article on Fascism (Sheldon Richman)**

Fascism's original economic theory was based around the ideals of Corporatism

Read the first seven paragraphs of Richman's discussion of fascism as an econmic system and summarise below what it aimed to do, and why...