

ABEKA ACADEMY

FREE ENTERPRISE ECONOMY VS. COMMAND ECONOMY

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Thesis: It is important to know the similarities and differences between command economies and free enterprise economies, and how they can work together.

1. Free Enterprise Economy
  - a. What is a Free Enterprise economy?
  - b. What benefits does this type of economy have?
  - c. What disadvantages does this economic system have?
2. Command Economy
  - a. What is a Command Economy?
  - b. What benefits does a command economy have?
  - c. What are the disadvantages of a command economy?
3. Comparison
  - a. What type of economy is preferred throughout the world?
  - b. Why is that particular type of economic system prominent?
  - c. How can these systems be combined to improve the economy?

All countries have to figure out how to shape their economies, for many different reasons, including the following: production and distribution of goods, how a nation's resources are used, and how economic stability is achieved. The two primary economic systems, free enterprise and command economies, are exact opposites of each other. A free enterprise economy, or capitalism, is a system in which the economy is not driven by the government, but by the market. On the other hand, a command economy is a system in which the government controls all major economic decisions. While both economic systems have advantages and disadvantages, most nations use a combination of these two different systems to bring balance to their economies. Generally, free enterprise is the preferred system, because it brings innovation and economic expansion. Command economies, however, can also have their strong points. It is important to know the similarities and differences between command economies and free enterprise economies, and how they can work together.

A free enterprise economy, also known as capitalism, is based on private ownership and personal freedom. Businesses and individuals have the freedom to produce, sell, and purchase goods based on supply and demand, which determines prices and production levels. This system promotes competition among businesses and producers which brings prices down, improves product qualities, and new innovations. "Free enterprise is based upon personal freedom. No one is forced to buy or sell anything they don't want to. Both buyers and sellers are better off in a transaction—the seller can make a profit and the buyer can obtain a good or service that they want. This mutual benefit for companies and households is meant to drive entrepreneurialism" (Corporate Finance Institute). Additionally, free enterprise economies give people the ability to prosper through education, entrepreneurship, and investing. Another advantage is economic efficiency, as companies tend to use resources wisely, resulting in less wasting (Cram). Even though this economic system has many advantages, there are also some issues with it. One of the biggest problems is economic inequality, which means that people who own businesses and assets typically are able to build more wealth than people who don't. According to the Chron, a free enterprise economy can create monopolies, which is where one company is the sole producer of a certain product. One other thing that a free enterprise economy does not have is essential services, such as healthcare, transportation, etc. without government interference.

A command economy is where the government controls every aspect of the economy, including production levels, sales, and determining what goods can be bought/sold. Typically, Socialist and Communist nations are the ones who adopt this economic system. This system was created to ensure lower unemployment rates and decrease inefficiency and benefit the common good (Investopedia). Governments in command economies disperse resources based on national priorities rather than consumer demand, allowing them to focus on long-term economic planning and disaster response. "Because the government controls the means of production in a command economy, it determines who works where and how much they are paid. This power structure contrasts sharply with a free market economy, in which private companies control the means of production and hire workers based on business needs, paying them wages set by market forces" (Investopedia). One advantage of a command economy is

that it reduces price changes, which can reduce economic uncertainty for consumers (Cram). However, despite these benefits, command economies still have setbacks. A major issue is absence of competition, which reduces motivation and innovation. Ellis Davidson says that central planning often leads to misallocation of resources, resulting in shortages of necessary goods and overproduction of others (Davidson). Additionally, command economies generally take away individual freedoms. Governments with command economies don't allow entrepreneurship and innovation. This makes the countries with command economies less productive, and prevents them from embracing technological advancements.

When comparing these two economic systems, one can understandably see why free enterprise economies are more widely preferred across the world. Countries such as the United States, Canada, and Germany have used free-market principles to drive economic expansion, technological progress, and wealth creation. The primary reason for this preference is that free enterprise economies encourage innovation and efficiency, allowing businesses to compete, meeting consumer needs. However, the free enterprise system still has flaws. This is why many countries adopt a mixed economy, using ideas from free enterprise and command systems. According to Leslie Kramer, countries like China and the United States blend free-market principles with government regulation to balance economic growth and social welfare (Kramer). This combination allows governments to regulate industries, prevent monopolies, and provide essential public services while still allowing businesses to operate freely. Additionally, governments in mixed economies can step in with certain areas, such as unemployment benefits and healthcare programs, to eliminate issues with a purely free enterprise economy (Cram). Over time, people have realized that strictly sticking with one type of economy is not the right answer, and utilizing ideas from both can create a more stable and better economy.

Ultimately, both free enterprise and command economies have advantages and disadvantages, making it necessary for modern economies to adopt a hybrid approach. Free enterprise economies are great at promoting innovation, competition, and wealth generation but can lead to inequality and market instability. Command economies provide stability, job security, and excellent resource distribution but often suffer from inefficiency and lack of innovation and motivation. By using principles from both systems, nations can create an economic structure that encourages growth while ensuring economic stability. This system allows for a thriving private sector while maintaining essential, but not pressing, government intervention to protect citizens from economic failure and market crashes. As economies continue to grow, creating a balance between free enterprise and the command economic system will be important for maintaining long-term economic prosperity and stability.

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