

All economic systems must make three basic economic decisions: (1) what and how many goods and services should be produced, (2) how they should be produced, and (3) who gets the goods and services that are produced. The Soviet Union, as described below by a Russian observer, provided an example of this situation: "In 1961, the [Communist] party predicted . . . that the Soviet Union would have the world's highest living standard by 1980. . . . But when that year came and went, the Soviet Union still limped along, burdened by . . . a stagnant economy." A market economy is based on the concept of free enterprise, the idea that private individuals or groups have the right to own property or businesses and make a profit with only limited government interference. Believing that such economic decision making benefits all of society and not just a few people, countries with command economies try to distribute goods and services equally among all citizens. Recent history has demonstrated, however, that communist economies lack the free decision making and incentives that foster business innovation and generation of products that people need and want. In a command economy, the government owns or directs the means of production—land, labor, capital (machinery, factories), and business managers—and controls the distribution of goods. One political party—the Communist Party—makes decisions and may even use various forms of coercion to ensure that the decisions are carried out at lower political and economic levels. One of the few advantages in a traditional economy is that the roles of individuals are clearly defined. Another positive aspect of market economies is that the government tries to stay out of the way of businesses and there is a great variety of goods and services for consumers. A mixed economy is one in which the government supports and regulates free enterprise through decisions that affect the marketplace. In a traditional economy, habit and custom determine the rules for all economic activity. Instead, their behavior is defined by the customs of their elders and ancestors. People, as shoppers, choose what products they will or will not buy, and businesses produce more of what they believe consumers want. In this arrangement, the government's main economic task is to preserve the free market by keeping competition free and fair and by supporting public interests. Socialism and communism are examples of command economies because they involve heavy government control. Communism is an extreme form of socialism in which all property is collectively, not privately, owned. For example, it was a tradition in the Inuit society of northern Canada that a hunter would share the food from the hunt with the other families in the village. When new technologies are introduced, these ideas and techniques are discouraged. In a market economy, individuals and private groups make decisions about what things to produce. An economic system organized in this way is referred to as capitalism. The weak, sick, disabled, and old sometimes have trouble providing for themselves and often slip into poverty. However, in practice these two economic systems are mixed economies.