

Theoretical Analysis of Dominant Economic Systems: A Conceptual Rejoinder

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Abstract

Different countries of the world faced with the challenges of national development have toggled in the dilemma of which economic system is more efficient and effective. While the liberals argued that the profit-oriented capitalism is a preferable alternative economic system to promote sustainable national development because it encourages high productivity through competitions; the radicals aver that socialism is a better option given that it is more people-oriented unlike the exploitative capitalism. Although no doubt is expressed with respect to the potentials of the two economic systems to steer sustainable national development, some of the associated merits and demerits that may make or mar economies were identified. Essentially, it is observed that the concept of mixed economy is not necessarily an economic system different from socialism and capitalism, but a synthesis of the values adapted from, but not limited to, the two major contending ideologies. It is submitted that the efficacy of any of the economic systems to promote national development depends more or less on the extent to which its operations can adequately harness the resources available in the society.

1. Introduction

An **economic system** refers to the structure that guides production, allocation distribution, and consumption of goods and services (Richard, 1995; Conklin, 1991). It is a network or interrelated arrangement of a set of institutions and people with associated social relations that propel economic production. It is an organized way in which a state or nation allocates its resources and apportions goods and services in the national community. It comprises a Set of principles and techniques by which a society decides and organizes the ownership and allocation of economic resources. In other words, 'economic system' refers to the organizational arrangements and process through which a society makes its production and consumption decisions. In making such decisions, issues like efficiency, growth, liberty, and equality are taken into serious consideration. Thus, an economic system is composed of people and institutions, including their relationships to productive resources such as labour, land, capital, and entrepreneur. An economic system is comprised of the various processes of organizing and motivating labour, producing, distributing, and circulating the fruits of human labour, including products and services, consumer goods, machines, tools, and other technology used as inputs to future production, and the infrastructure within and through which production, distribution, and circulation occur. The processes of the various economic systems are partly and indispensably determined by the political, cultural, and environmental conditions within which they come to exist.

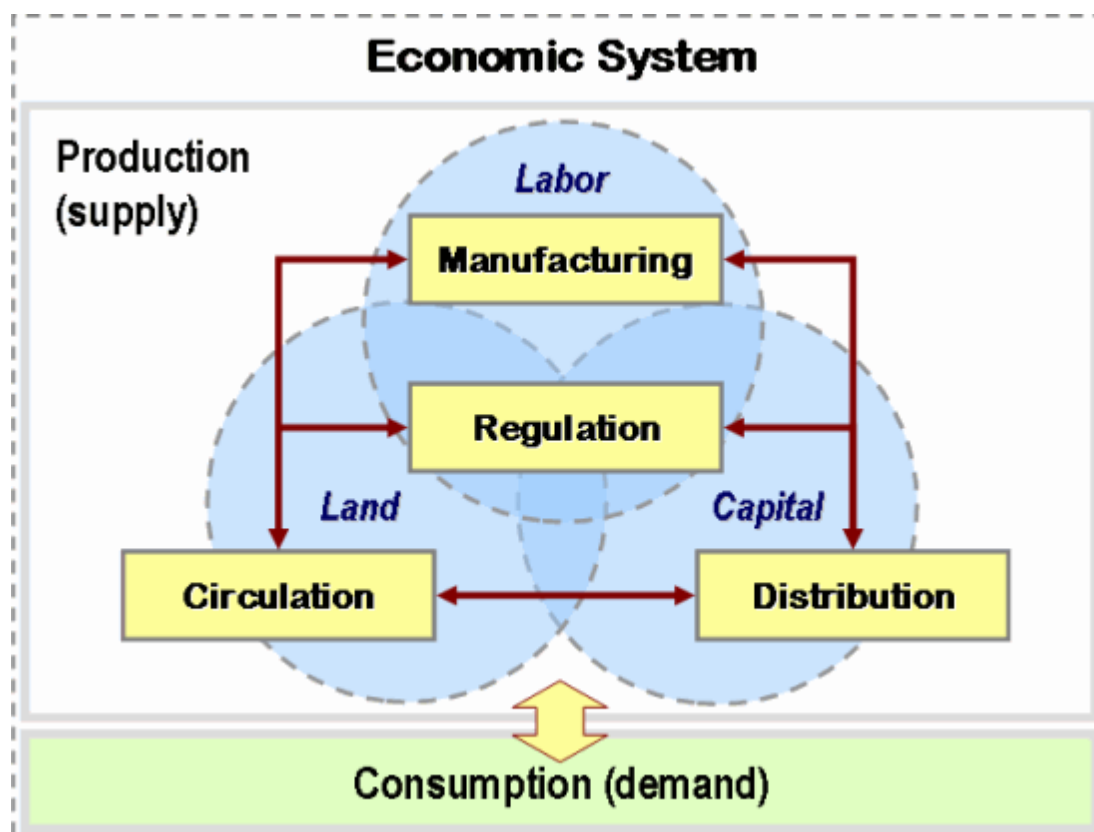
2. The Extremes of Economic Systems

There are two main extremes of economic systems: the free-enterprise system, and the pure-communist system. In the extreme of free-enterprise system, all resources are privately owned. This system, following Adam Smith's postulation, is based on the belief that the common good is maximized when all members of society are allowed to pursue their rational self-interest (Smith, 1776). At the other extreme, usually called a pure-communist system, all resources are publicly owned. This system, following Karl Marx and Vladimir Ilich Lenin, is based on the belief that public ownership of the means of production and government control of every aspect of the economy are necessary to minimize inequalities of wealth and achieve other agreed-upon social objectives. No nation exemplifies either extreme. As one moves from capitalism through socialism to communism, a greater share of a nation's productive resources is publicly owned and a greater reliance is placed on economic planning.

3. Decision-making and Operational Procedures in Economic System

Decision-making in any economic system has organisational structure which determines the operational procedures. The decision-making structure refers to how decisions are made regarding the use of economic inputs (the means of production), distribution of output, the level of centralization in decision-making, and who makes these decisions (Gregory and Stuart, 2003). Decisions might be carried out by industrial councils, by a government agency, or by private owners. Some aspects of decision-making structures include coordination mechanism, productive property rights, and incentive system. Coordination Mechanism refers to how

information is obtained and used to guide and regulate economic activity. The two dominant forms of coordination include planning and the market; planning can be either centralized or de-centralized while the market is self-regulatory through the interplay of the forces of demand and supply. Productive Property Rights on the other hand refers to ownership (rights to the proceeds of output generated) and control over the use of the means of production. They may be owned privately, by the public (state enterprise), or held in common by the society (common ownership). The incentive System is a mechanism for inducing certain economic agents to engage in productive activity; it can be based on either material reward (compensation) or moral reward (social prestige) (Gregory and Stuart, 2003). The organisational structure of an economic system is represented in the diagram below:



An economic system can be considered a part of the social system and hierarchically equal and coordinate to the legal system, political system, cultural system, etc. Economic systems seek to address the questions of what to produce, how to produce it, and who gets what is produced. Notably, different economic systems address these issues differently.

The evolution of economic systems is anchored on Karl Marx's theory of economic development which stated that over the course of history, superior economic systems would replace inferior ones. In his contention, inferior systems are beset by internal contradictions and inefficiencies that make them impossible to survive over the long term. In Marx's scheme, primitive communal system was replaced by slave-owning system; while the feudal system replaced the slave-owning system; later, feudalism was replaced by capitalism, which would eventually be superseded by socialism if Karl Marx's predictions are correct (George and Stuart, 2003). Without prejudice to the various classifications, we shall be mainly concerned with the prevailing economic systems and concept: capitalism, socialism, and mixed economy.

4. The Classification of Economic Systems

Economic systems can be divided by the way they allocate economic inputs (the means of production) and how they make decisions regarding the use of the inputs. The two major systems are Capitalism and Socialism.

4.1 The Capitalist Economic System

Capitalism is a socio-political and economic system which advocates private ownership and control of the means of production for the purpose of profit maximisation. In a capitalist economic system, production is carried out to

maximize private profit, decisions regarding investment and the use of the means of production are determined by competing business owners in the market-place; production is based on the process of capital accumulation. The means of production are owned primarily by private enterprises and decisions regarding production and investment determined by private owners in capital markets. Capitalist systems range from *laissez-faire*, with minimal government regulation and state enterprise, to regulated and social market systems, with the stated aim of ensuring social justice and a more equitable distribution of wealth as in welfare state or ameliorating market failures through economic intervention. According to Gamble (1963), the origins of capitalism centred around the development of market economy in which acts of production and acts of exchange became separated, production became oriented to exchange rather than use, and goods therefore acquired a generalised exchange value in addition to their specific use value. In other words, the origin of capitalism is associated with the emergence of exchange value for commodities which eventually stimulated the quest for profit maximisation. Thus, the capitalist economic system is characterised by private ownership of capital goods, whose production, distribution, and prices are determined by the capitalists, motivated solely by the profits envisaged to be made in the bargain, in a free market and without unreasonable state interference (Azikiwe, 1981). Essentially, the capitalist economic system is focused two main ideas: the existence of private property partially controlled by the state and production for profit maximisation.

The Characteristics of Capitalism

1. The existence of private property; i.e. private ownership of the means of production.
2. The prevalence of commodity production for exchange values.
3. The priority of market value over use value in production processes.
4. Enterprise and hardwork are motivated by material self-interests and profit maximisation.

Forms of Capitalism

The identifiable forms of capitalism include: Enterprise capitalism, Social capitalism, and Collective capitalism. Enterprise capitalism as operated in USA is based on the ideas of classical economists such as Adam Smith and David Ricardo (1777-1823) and updated by the theorists like Milton Friedman and Fredrick Hayek. Enterprise capitalism holds faith in unrestrained operations of market competition, deriving from the belief that the market is a self-regulating mechanism. Enterprise capitalism is anchored on the doctrine of *laissez-faire* which holds that the government of a state should have no control at all over economic activities (Smith, 1776). Their submission that every economic activity is profit-driven is reflected in Adam Smith's assertion that it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard on their own interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.... Premium is therefore placed on high productivity and labour flexibility for private gains. Trade Unions are usually weakened on the fear that labour organisations constitute obstacles to profit maximisation by rising against excessive exploitation. Although enterprise capitalism encourages high productivity and improvement on production forces as a result of perfect market competition, it is a source of wide material inequalities and social fragmentation (Ake, 1982).

Social Capitalism practised in Germany promotes ownership and control of the means of production by the bourgeoisie state in the interests of the capitalists but with some considerable regards for the welfare of the civil society (the people) (List, cited in Gamble, 1963). Social capitalism owes its origin heavily to the flexible and pragmatic ideas of economists like Friedrich List (1789-1846) than on the strict market principles of classical political economy as formulated by Ricardo and Smith. List however emphasised the importance of politics and political power. He argued that state intervention should be used to protect infant industries from the rigours of foreign competition. The central theme of this model is the idea of a social market; that is, an attempt to merge the principles of market competition with the need for social cohesion and solidarity. In a sense, social capitalism tolerates the activities of trade unions who enjoy representations through works councils and participate in annual rounds of wage negotiations that are usually industry-wide. This relationship is underpinned by comprehensive and well-founded welfare provisions which provide workers and other vulnerable groups with social guarantees like pensions, gratuities, and job security, education, health care services etc. The criticism against social capitalism include first, due to the heavy emphasis on consultation, negotiation and consensus, it tends to encourage inflexibility and makes it difficult for a business to adapt to changing market conditions. Second, further strains imposed by relatively high levels of social expenditures require maintaining high quality welfare provision. This pushes up taxes and so burden employers and employees.

Collective capitalism as obtainable in Japan is characterised by ownership of the means of production not by an individual but a group of capitalists who have decided to pull their resources together. Members of such a group therefore form a joint-stock company (Gamble, 1963). This is prevalent in many capitalist countries in form of cooperative societies and multi-national corporations where shares are sold out to interested buyers. Hence, the

distinctive character of collective capitalism is its emphasis on cooperative long term relationships. This allows the economy to be directed not by an impersonal price mechanism, but through relational markets. Collective capitalism ensures that there is a close relationship between industry and finance through interlocking share ownership by industrial groups.

Merits of Capitalism

1. **Diffusion of Power:** this refers to the fact that instead of concentrating the ownership of the means of production in the state, various private entrepreneurs participate actively in its ownership. This is believed reduces the totalitarian and monopolistic tendencies of the state.
2. **Specialisation of labour:** Capitalism encourages specialisation of labour thereby enhancing the exploitation of one's full potentials. The individual makes the choice of what economic activity to engage, in accordance with the talents and economic potentials possessed. This is unlike in socialism where the "command economy" subjects individuals to work, what to do, and what to produce. Command economy scarcely considers job specialisation and satisfaction.
3. **Promotion of Efficiency:** competition is seen as an incentive to efficiency. This stems from the fact that where there is competition, the entrepreneurs will be working towards better products, lower prices and better services.

Demerits of Capitalism

1. **Exploitation:** The idea of exploitation is expressed in the phrase, "Monkey work, Baboon chop". The argument here is that the workers are not adequately remunerated for the labour expended. The workers do not receive the fair share of the proceeds of the labour offered; instead, the surplus value from the workers surplus labour is appropriated to the entrepreneurs, management and shareholders etc who did not offer any direct labour that generated the profits. Similarly, the means of production are monopolised by few privileged individuals to exploit the many less privileged ones.
2. **The prevalence of the law of the Jungle:** The law of the jungle is the survival of the fittest. The critiques regard competition as unnecessary because it often leads to injustice and the crushing out of small competitors. It encourages wastes, extravagances, and duplication. It is further argued that capitalism invigorates human depravity and inordinate ambitions given that every capitalist does anything possible to win and survive in the open market.
3. **Disjointed economic planning:** capitalism is also accused of not being able to plan collectively. This suggests that capitalist economies feature fragmented micro-economic planning with considerations only for the immediate business environment.
4. **Capitalism is all about consistent quest for profit maximisation at any manageable expense;** hence, making money to make more money without due consideration for the welfare of the people.
5. **Hoarding of entrepreneurial strategies and tactics:** It is observable that capitalist entrepreneurs are highly secretive about their successful entrepreneurial strategies and tactics. Any strategy or tactics capable of engineering business progress is hoarded by the management in order to use it and out-compete the rest of the competitors. Though, hoarding of strategies and tactics promotes growth in the firm, it retards macro-economic development.

4.2 The Socialist Economic System

This is a socio-political and economic system where the state owns and controls the means of production for the welfare of the citizens (Robertson, 1993). By this action of controlling the means of production, the aim of the state is to produce what is needed by the society without regard to what may be most profitable to produce. Socialism expects to produce an egalitarian society where all are cared for by the state; this is expressed in the popular socialist dictum: "from each according to his abilities, to each according to his needs". This is why Azikiwe (1981) posited that socialism seeks to extend its activities to all undertakings with the objective of promoting equality and social welfare. He further noted that socialism is altruistic in its content in that it desires expansion of state activities not for aggrandisement but in order to assure freedom and justice to the individual. Thus, in a socialist economic system, production is carried out to directly satisfy economic demand by producing goods and services for use; decisions regarding the use of the means of production are adjusted to satisfy economic demand, investment (control over the surplus value) is carried out through a mechanism of inclusive collective decision-making. The means of production are either publicly owned, or are owned by the workers cooperatively. The primary concern for socialist planned economies is therefore, to coordinate production to directly satisfy human needs/economic demand (as opposed to generate profit and satisfy needs as a byproduct of pursuing profit), to advance the productive forces of the economy while being immune to the systemic

inefficiencies (cyclical processes) and crisis of overproduction that plagues capitalism so that production would be subject to the needs of society as opposed to being ordered around capital accumulation (Ake, 1982).

Features of Socialism

Without prejudice to the forms of socialism, Aja (1998) identified some of the features to include:

1. Centralised economic planning: There is a heavy imprint of central planning which manifests itself in annual and multi-layer planning. The industry is subjected to mandatory plan allocation. The state is at the core of economic planning with a measure of bureaucratic micro-regulations through ministries to various enterprises.
2. The organisation of production is built around state enterprises, cooperatives and official monopolies.
3. The concentration of the industry in the heavy industry section (which was most typical of the Soviet Union).
4. The instruments of economic policy and macro-economic controls are rudimentary. This means that institutional infrastructures for conducting economic policies are underdeveloped because inter-firm and inter-regional labour and capital mobility are constrained.
5. There is lack of legal and institutional framework for the creation of market activities, market intermediaries and services such as accounting, auditing, and information networks.
6. Mechanisms for private ownership and property rights are usually non-existent or perhaps in the infancy or periphery.

Forms of Socialism

There are two main models of socialist economic system: State socialism and Market socialism. But despite the differences, they still maintain the unique features of socialism.

State Socialism is based on the collectivisation of economic resources and bringing them under the control of the state apparatus. In the USSR, a system of directive planning placed overall control of economic policy in the hands of the highest organs of the communist party, which supervised the drawing up of output target by a network of planning agencies and committees. The key organ was the Gosplan, the state planning committee, which set production targets for the entire economy and in the process allocated resources to each enterprise, controlled trade and fixed prices, wage levels, taxes and subsidies. The execution of these plans was the responsibility of powerful economic ministries which controlled particular sectors of the economy and directed the work of the soviet enterprises such as Banks, factories, shops, state and collective farms. Nevertheless, there are some observable defects of central planning that characterise state socialism:

- i. Inefficiency: it is argued that no matter how competent and committed the planners may be, they are confronted by a range and complexity of information that is simply beyond their capacity to handle (Hayek, 1944).
- ii. The social safeguards built into central planning together with its relatively egalitarian system of distribution did little to encourage enterprise or promote efficiency. Although all soviet workers had job, it was more difficult to ensure that they actually worked.
- iii. Central planning is associated with the emergence of new social divisions based on political or bureaucratic position. In other words, a new class of party-state bureaucrats emerged who enjoyed status and privileges equivalent to those of capitalist class in western societies. This goes contrary to the primary aim of socialism to produce an egalitarian society.

Market Socialism on the other hand is considered an alternative to the heavily centralised Soviet Model. It is the outcome of the attempts to reconcile the principles of socialism with the dynamics of market competition. It is a socialist economic system that is based on the process of capital accumulation, but seeks to control or direct that process through state ownership or cooperative control to ensure stability, equality or expand decision-making power. Mikhail Gorbachev's Perestroika programme of economic restructuring between 1985 and 1990 depicts the practice of market socialism. Perestroika which means restructuring (Robertson, 1993) refers to economic reorganisation and toleration of some limited democratisation. Perestroika developed as a rolling programme which initially permitted the development of cooperatives and single proprietor business to supplement the central planning system but eventually allowed soviet enterprises to disengage themselves from the planning system altogether, and become self-financing and self-managing. The central feature of a socialist market economy is thus the attempt to balance self-management against market competition. This does not amount to the re-introduction of capitalism since the economic enterprises are still owned and controlled by the workers; besides, there is no market in labour, and therefore no exploitation. What differentiates this model from the soviet type is that self-managing enterprises operate not according to the tyranny of the planners but with market

environment shaped by competition, incentives, and profits (Azikiwe, 1981). The merits of market socialism include:

- i. The market environment provides a guarantee of consumer responsiveness and efficiency.
- ii. The dangers of bureaucratic power are kept at bay since the planning system has been relatively decentralised.

However, the weakness is that self-management conflicts with market disciplines since it dictates that enterprises respond first and foremost to the interest of their workforces rather than profit maximisation. In all, Azikiwe (1981) identified some merits and demerits of socialism thus:

Merits of Socialism

- i. It promotes public welfare
- ii. It encourages fair distribution of wealth.
- iii. It encourages nationalisation of public utilities for the common good of the citizens.
- iv. It advocates for scientific planning.

Demerits of Socialism

- i. The fallacy of collective ownership: This derives from the argument that it is not true to human nature to substitute individual ownership for collective ownership. This is expressed in Aristotle's submission that socialism breeds conflict over allocation as much as capitalism breeds conflict over ownership. In essence, where collective ownership was obtained, force had been applied to commandeer the change.
- ii. Multiplicity of socialist factions: The proliferation of socialist factions into Utopian, christian, marxian, guild, fabian, and democratic socialists tends to alter the central idea and operations of the economic system. While some prefer evolutionary methods to achieve their objectives, others hold unto revolutionary means. It is therefore difficult for adherents to determine which is the royal road to socialism.
- iii. Tendency towards totalitarianism: Human beings do not naturally and voluntarily serve with a spirit of altruism. Some degree of force is required to maintain law, order and good government thereby making totalitarianism a vital tool.

4.3 The Concept of Mixed Economy

The concept of mixed economy has been treated by some scholars as an independent economic system and ideology; while others see it as the synthesis of other economic systems such as capitalism and socialism. For the avoidance of doubt, Ajah (1998) noted that mixed economy is neither an independent economic system nor an ideology. There are principally two contending independent economic systems: socialism and capitalism.

Drawing from the contention of Ajah (1998), the concept of mixed economy is a logical outcome of the practical unity of capitalism and socialism as well as any other synthesis that may occur between or among other economic systems. In this context, mixed economy is a combination of capitalism and socialism expressing their ideological interdependence. This captures the obvious assertion that neither socialism nor capitalism is absolutely and independently operational in principle and practice anywhere in the world. Thus, capitalist economic system is by definition or description, a matter of the predominance of the institutions of private property or as the hallmark of economic growth and development. On the other hand, an economy is socialist to the extent that the state still exercises predominant control in planning or regulating the economy. It is therefore not surprising that in spite of socialist elements in capitalist economies, their defining ideology still remains capitalism. Similarly, although socialism may claim state ownership and control of the means of production, there still exist some elements of market orientations as advocated in capitalism.

Meanwhile, mixed economy incorporates the appreciable values of various economic systems like nationalisation, commercialisation, privatisation, and regulation in one state without prejudice to the ideological connections. The major interest is in promoting the growth and development of the national economy.

Conclusion

No society is eternally committed and exclusively limited to the operation of any given economic system. The government of each country decides and determines the economic system expected to be more functional and attuned to the development needs of the people and adopts it. From time to time, the economic system may be subjected to reforms, transformations, and modifications, without necessarily changing the fundamental principles and values. Also, a nation practising a particular economic system may often adapt some adaptable principles, policies and programmes of another economic system as a strengthening strategy. In our

contemporary societies, none of the identified economic systems operates absolutely without recourse to the adaptable values of others. Instead, they are interdependent while still retaining their fundamental features.

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