



NATIONAL OPEN UNIVERSITY OF NIGERIA

COMPARATIVE ECONOMIC SYSTEM

ECO 427

DEPARTMENT OF ECONOMICS

FACULTY OF SOCIAL SCIENCES

COURSE GUIDE

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Introduction

ECO 427 is designed to teach you and evaluates the working of different economic systems. The course examines the major economic systems of the world, in both theory and practice. The approach will generally focus on encouraging a general understanding of how economic systems work and how economic theory interacts with government policy, history, and culture to explain economic performances and to answer the basic economic problems and questions of what to produce, how to produce and for whom to produce.

You will be taught widely the diversities of economic system through selected basic theoretical and conceptual issues comparison criteria, using the well-known economic systems of capitalism, socialism, planned and unplanned economic system and market economies as practiced in the selected countries covered are treated in-depth to embody the institutional arrangements in contrast to the USA, UK, Japan, Netherlands, Indian and Nigerian situations. Finally, the economics of the USSR, China, Yugoslavia, Hungary and Cuba are treated following a brief discussion of Marxian Economics such that doctrinal issues in the development of the discipline particularly methodologies are treated in the context of contemporary economic system of Asian tigers , Brazil and Nigeria.

Course Content

This course exposes students to the workings of economic systems of developed and less developed economies which can be compared to draw a valid similarities and differences, *ceteris paribus*. Topics covered include the following:

Module 1: Understanding the economy and the society's problem

Unit 1: Basic meaning and definition of the economy

Unit II: Factors of production

Unit III: The problem of the society

Module 2: The basics of economic systems and institutions

Unit 1: Classifications of the economy according to ownership of resources

Unit II Classifications of the economy according to decision making

Unit III: Comparison of economic ownership of resources and decision making

Module 3 The theory of Marxian economics

Unit 1 Perspective of Marxian theory

Unit II Economies of USSR and CHINA

Unit III Economies of Yugoslavia, Hungary and Cuba

Module 4: Contemporary economic system

Unit 1: Economic system of USA, UK and Japan

Unit 2: Economic system of Nigeria, India and Netherlands

Unit 3: Economic system of Brazil and Asian tigers

Course Aims

There are Twelve (12) study units in the course and each unit has its objectives. You Should read the objectives of each unit and bear them in mind as you go through the unit. In addition to the objectives of each unit, the overall aims of this course include:

- (i) To introduce you to the Understanding of the economy and the problem of the society.
- (ii) To teach you the basics of economic system and institutions.
- (iii) To expose you to the theory of Marxian economy.
- (iv) To sensitize you with the institutions and evolution of capitalism
- (v) To give you the detailed analysis of contemporary economic system.
- (vi) To show you the goals by which economies are to be evaluated.
- (vii) To teach you the workings of the economic systems based on their classifications.

Course Objectives

To achieve the aims of this course, there are overall objectives which the course is out to achieve though, there are set out objectives for each unit. The unit objectives are included at the beginning of a unit; you should read them before you start working through the unit. You may want to refer to them during your study of the unit to check on your progress. You should always look at the unit objectives after completing a unit. This is to assist the students in accomplishing the tasks entailed in this course. In this way, you can be sure you have done what was required of you by the unit. The objectives serves as study guides, such that student could know if he is able to grab the knowledge of each unit through the sets of objectives in each one

The objectives of this course are:

- To educate students on the workings of economic systems of to solve basic economic problems of what to produce, how to produce and for whom to produce
- To impart into the students the various type of economic system that is available in the world.
- To educate learners on how to compare the economic system of selected countries of the world.

Working through This Course

To successfully complete this course, you are required to read the study units, referenced books and other materials on the course.

Each unit contains self-assessment exercises called Student Assessment Exercises (SAE). At some points in the course, you will be required to submit assignments for assessment purposes. At the end of the course there is a final examination. This course should take about 12weeks to complete and some components of the course are outlined under the course material subsection.

You have to work through all the study units in the course. There are Four modules and Twelve study units in all.

Course Materials

The major component of the course, What you have to do and how you should allocate your time to each unit in order to complete the course successfully on time are listed follows:

1. Course guide
2. Study unit
3. Textbook
4. Assignment file
5. Presentation schedule

Study Unit

There are 12 units in this course which should be studied carefully and diligently. The breakdown of the four modules and twelve study units are as follows:

Module 1: Understanding the economy and the society's problem

Unit 1: Basic meaning and definition of the economy

Unit II: Factors of production

Unit III: The problem of the society

Module 2: The basics of economic systems and institutions

Unit 1: Classifications of the economy according to ownership of resources

Unit II Classifications of the economy according to decision making

Unit III: Comparison of economic ownership of resources and decision making

Module 3 The theory of Marxian economics

Unit 1 Perspective of Marxian theory

Unit II Economies of USSR and CHINA

Unit III Economies of Yugoslavia, Hungary and Cuba

Module 4: Contemporary economic system

Unit 1: Economic system of USA, UK and Japan

Unit 2: Economic system of Nigeria, India and Netherlands

Unit 3: Economic system of Brazil and Asian tigers

Each study unit will take at least two hours, and it include the introduction, objective, main content, self-assessment exercise, conclusion, summary and reference. Other areas border on the Tutor-Marked Assessment (TMA) questions. Some of the self-assessment exercise will necessitate discussion, brainstorming and argument with some of your colleges. You are advised to do so in order to understand and get acquainted with historical economic event as well as notable periods.

There are also textbooks under the reference and other (on-line and off-line) resources for further reading. They are meant to give you additional information if only you can lay your hands on any of them. You are required to study the materials; practice the self-assessment exercise and tutor-marked assignment (TMA) questions for greater and in-depth understanding of the course. By doing so, the stated learning objectives of the course would have been achieved.

Textbook and References

For further reading and more detailed information about the course, the following materials are recommended:

- Adewunmi, D. O., (2014). Introduction to Comparative Economics, a textbook, 1st Edition, Mill world Publication Limited.
- Anthony, C. F., (1987). Natural resources, the New Palgrave: A Dictionary of Economics, vol 3, pp. 612–14.
- Astonault, D. F., (2014). The Economy of Russia, a theoretical analysis, a Journal of Development Economics, vol 7, pg 55-73, Mac Hill Press Limited.
- Baumol .W, & Wall, M., (2010). Good Capitalism, Bad Capitalism. Book available at <http://www.yalepresswiki.org/w/index/index.php>
- Dale, K. A., (2016). Introduction to Market Economy, a broader perspective, a textbook 1st edition, Saiye Printing Press, Lagos, Nigeria.
- Djankov, S. & Daht, R., (2003). The New Comparative Economics Journal of Comparative Economics December, V. 31.
- Egbenorcha, D. E., (2017). The Problem, Prospects of a Planned Economy, a theoretical Approach, a textbook 2nd edition, Ibadan Press Limited.
- Elliott, P. & Gant, D., (2013). Comparative Economic Systems, Lecture Notes on Classical and Marxist Theories of Change
- Faraday, J. J., (2016). The impact of Karl Max on A Developing Economy, a Journal of Economic Development, vol 4, pg 34-57, West Coast Publication Limited.
- Frank, S. & Kirrily. J., (2004). The Political Economy Of Land, Putting Henry George in His Place, the Journal of Australian Political Economy, December.
<http://www.investopedia.com/terms/s/socialism.asp>
- Friedman, T., (2000). The Lexus and the Olive Tree [http://en.wikipedia.org/wiki/The Lexus and the Olive Tree](http://en.wikipedia.org/wiki/The_Lexus_and_the_Olive_Tree).
- João, P. & Galhano, A., (2009). The artificial simulacrum world. The geopolitical Elimination of communitarian land use and its effects on our present global condition, Eloquent Books, New York, USA, pp 71.
- Kun Ji Fu, X. Z., (2010). The greatest Asian Economy: Japan Economy in Focus, 2nd edition, Jang Jo Press Limited.
- Neale, W., (1987). The Household and Business firm, Institutions Journal of Economic Issues September, V 3, pp 21.
- Paczkowski, A., (2008). Introduction to comparative economic systems Rutgers University, New Brunswick, New Jersey
- Pierre, C., (1994). De la terre à l'état, Eléments pour un cours de politique agricole, ENGREF, INRA-ESR Laboratoire d'Economie des Transitions, Montpellier, France, 47 pp.
- Quenton, A. O., (2017). Impact of Capitalist of Developing Economy, a Journal of Social Sciences, vol 2, pg 21-43, Mill Screen Publication Limited.
- Smriti, C., (2011) Socialism, Features, Merits and Demerits of Socialism Economics <http://www.investopedia.com/terms/c/communism.asp>
- Sanya, K. Y., (2016). Comparative Economics System, a broader Perspective, 2nd Edition, DDT Press limited, Lagos.
- Trinity, G. F., (2017). Max Theory and its impact of Developing Economy, A Journal of

- Contemporary Development, vol 3, pg 33-52, McGill Press Company.
- Wolf, M., (2003). "The Morality of the Market" Foreign Policy September-October, pages 47-50
- Wood, D. J., (2007). The Rise and Fall of United Kingdom Economy, a wider Perspective, 3rd edition, Hill world Publication Limited.
- Wesley, S. T., (2004). The United State of America in a global view, 4th edition, New-Jean Publication Company.

Assignment File

Assignment files and marking scheme will be made available to you. This file presents you with details of the work you must submit to your tutor for marking. The marks you obtain from these assignments shall form part of your final mark for this course. Additional information on assignments will be found in the assignment file and later in this Course Guide in the section on assessment.

There are four assignments in this course. The four course assignments will cover:

- Assignment 1 - All TMAs' question in Units 1 – 3 (Module 1)
- Assignment 2 - All TMAs' question in Units 4 – 6 (Module 2)
- Assignment 3 - All TMAs' question in Units 7 – 9 (Module 3)
- Assignment 4 - All TMAs' question in Unit 10 – 12 (Module 4).

Presentation Schedule

The presentation schedule included in your course materials gives you the important dates for this year for the completion of tutor-marking assignments and attending tutorials. Remember, you are required to submit all your assignments by due date. You should guide against falling behind in your work.

Assessment

There are two types of the assessment of the course. First are the tutor-marked assignments; second, there is a written examination.

In attempting the assignments, you are expected to apply information, knowledge and techniques gathered during the course. The assignments must be submitted to your tutor for formal Assessment in accordance with the deadlines stated in the Presentation Schedule and the Assignments File. The work you submit to your tutor for assessment will count for 30 % of your total course mark.

At the end of the course, you will need to sit for a final written examination of three hours' duration. This examination will also count for 70% of your total course mark.

Tutor-Marked Assignments (TMAs)

There are four tutor-marked assignments in this course. You will submit all the assignments. You are encouraged to work all the questions thoroughly. The TMAs constitute 30% of the total score.

Assignment questions for the units in this course are contained in the Assignment File. You will be able to complete your assignments from the information and materials contained in your set books, reading and study units. However, it is desirable that you demonstrate that you have read and researched more widely than the required minimum.

You should use other references to have a broad viewpoint of the subject and also to give you a deeper understanding of the subject.

When you have completed each assignment, send it, together with a TMA form, to your tutor. Make sure that each assignment reaches your tutor on or before the deadline given in the Presentation File. If for any reason, you cannot complete your work on time, contact your tutor before the assignment is due to discuss the possibility of an extension. Extensions will not be granted after the due date unless there are exceptional circumstances.

Final Examination and Grading

The final examination will be of three hours' duration and have a value of 70% of the total course grade. The examination will consist of questions which reflect the types of self-assessment practice exercises and tutor-marked problems you have previously encountered. All areas of the course will be assessed

Revise the entire course material using the time between finishing the last unit in the module and that of sitting for the final examination to. You might find it useful to review your self-assessment exercises, tutor-marked assignments and comments on them before the examination. The final examination covers information from all parts of the course.

Course Marking Scheme

The Table presented below indicates the total marks (100%) allocation.

Assignment	Marks
Assignments (Best three assignments out of four that is marked)	30%
Final Examination	70%
Total	100%

Course Overview

The Table presented below indicates the units, number of weeks and assignments to be taken by you to successfully complete the course, Comparative economic system (ECO 427).

Units	Title of Work	Week's Activities	Assessment (end of unit)
	Course Guide		
Module 1 Understanding the economy and the society's problem			
1	Basic meaning and definition of the economy	Week 1	Assignment 1
2	Role of factors of production in economic system	Week 2	Assignment 1
3	The problem of the society	Week 3	Assignment 1
Module 2 The basics of economic systems and institutions			
1	Classifications of the economy according to ownership of resources	Week 4	Assignment 2
2	Classifications of the economy according to decision making	Week 5	Assignment 2
3	Comparison of economic ownership of resources and decision making	Week 6	Assignment 2
Module 3 The theory of Marxian economics			
1	Perspectives of Marxian theory	Week 7	Assignment 3
2	Economies of USSR and CHINA	Week 8	
3	Economies of Yugoslavia, Hungary and Cuba	Week 9	Assignment 3
Module 4 Contemporary economic system			
1	Economic system of USA, UK and Japan	Week 10	Assignment 4
2	Economic system of Nigeria, India and Netherlands	Week 11	Assignment 4
3	Economic system of Brazil and Asian tigers	Week 12	Assignment 4
Total		12weeks	

How to Get the Most from this Course

In distance learning the study units replace the university lecturer. This is one of the great advantages of distance learning; you can read and work through specially designed study materials at your own pace and at a time and place that suit you best.

Think of it as reading the lecture instead of listening to a lecturer. In the same way that a lecturer might set you some reading to do, the study units tell you when to read your books or other material, and when to embark on discussion with your colleagues. Just as

a lecturer might give you an in-class exercise, your study units provides exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit and how a particular unit is integrated with the other units and the course as a whole. Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit.

You should use these objectives to guide your study. When you have finished the unit you must go back and check whether you have achieved the objectives. If you make a habit of doing this you will significantly improve your chances of passing the course and getting the best grade.

The main body of the unit guides you through the required reading from other sources. This will usually be either from your set books or from a readings section. Some units require you to undertake practical overview of historical events. You will be directed when you need to embark on discussion and guided through the tasks you must do.

The purpose of the practical overview of some certain historical economic issues are in twofold. First, it will enhance your understanding of the material in the unit. Second, it will give you practical experience and skills to evaluate economic arguments, and understand the roles of history in guiding current economic policies and debates outside your studies. In any event, most of the critical thinking skills you will develop during studying are applicable in normal working practice, so it is important that you encounter them during your studies.

Self-assessments are interspersed throughout the units, and answers are given at the ends of the units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examination. You should do each self-assessment exercises as you come to it in the study unit. Also, ensure to master some major historical dates and events during the course of studying the material.

The following is a practical strategy for working through the course. If you run into any trouble, consult your tutor. Remember that your tutor's job is to help you. When you need help, don't hesitate to call and ask your tutor to provide it.

1. Read this Course Guide thoroughly.
2. Organize a study schedule. Refer to the 'Course overview' for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information, e.g. details of your tutorials, and the date of the first day of the semester is available from study centre. You need to gather together all this information in one place, such as your dairy or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working breach unit.
3. Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their course work. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.

4. Turn to Unit 1 and read the introduction and the objectives for the unit.
5. Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will also need both the study unit you are working on and one of your set books on your desk at the same time.
6. Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the unit you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.
7. Up-to-date course information will be continuously delivered to you at the study centre.
8. Work before the relevant due date (about 4 weeks before due dates), get the Assignment File for the next required assignment. Keep in mind that you will learn a lot by doing the assignments carefully. They have been designed to help you meet the objectives of the course and, therefore, will help you pass the exam. Submit all assignments no later than the due date.
9. Review the objectives for each study unit to confirm that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult your tutor.
10. When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to pace your study so that you keep yourself on schedule.
11. When you have submitted an assignment to your tutor for marking do not wait for it return 'before starting on the next units. Keep to your schedule. When the assignment is returned, pay particular attention to your tutor's comments, both on the tutor-marked assignment form and also written on the assignment. Consult your tutor as soon as possible if you have any questions or problems.
12. After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in this Course Guide).

Tutors and Tutorials

There are some hours of tutorials (2-hours sessions) provided in support of this course. You will be notified of the dates, times and location of these tutorials. Together with the name and phone number of your tutor, as soon as you are allocated a tutorial group.

Your tutor will mark and comment on your assignments, keep a close watch on your progress and on any difficulties you might encounter, and provide assistance to you during the course. You must mail your tutor-marked assignments to your tutor well before the due date (at least two working days are required). They will be marked by your tutor and returned to you as soon as possible.

Do not hesitate to contact your tutor by telephone, e-mail, or discussion board if you need help. The following might be circumstances in which you would find help necessary. Contact your tutor if.

- You do not understand any part of the study units or the assigned readings
- You have difficulty with the self-assessment exercises
- You have a question or problem with an assignment, with your tutor's comments on an assignment or with the grading of an assignment.

You should try your best to attend the tutorials. This is the only chance to have face to face contact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study. To gain the maximum benefit from course tutorials, prepare a question list before attending them. You will learn a lot from participating in discussions actively.

Summary

The course, Comparative Economic System (ECO 427), exposes and enables you to evaluate the workings of different economic systems. The course examines the major economic systems of the world, in both theory and practice. The approach generally focus on encouraging a general understanding of how economic systems work and how economic theory interacts with government policy, history, and culture to explain economic performances and to answer the basic economic problems and questions of what to produce, how to produce and for whom to produce. It also taught widely the diversities of economic system through selected basic theoretical and conceptual issues comparison criteria, basic economic institution, centralization versus decentralization, and ideologies which are examined. These basic economic models: capitalistic market versus non-capitalistic market, planned versus command economics are treated in-depth to embody the institutional arrangements in contrast to the USA, UK, Japan, Netherlands, Indian and Nigerian situations. The economics of the USSR, China, Yugoslavia, Hungary and Cuba are treated following a brief discussion of Marxian Economics such that doctrinal issues in the development of the discipline particularly methodologies are treated in the context of contemporary economic system of Asian tigers , Brazil and Nigeria. On successful completion of the course, you would have developed a deeper knowledge and workings of the economic system. However, to gain a lot from the course please try to apply anything you learn in the course to term papers writing in other related courses. I wish you success with the course and hope that you will find it fascinating and handy.

MODULE 1

Module 1: Understanding the economy and the society's problem

Unit 1: Basic meaning and definition of the economy

Unit II: Factors of production

Unit III: The problem of the society

Unit 1: Basic meaning and definition of the economy

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1.0 INTRODUCTION

You must have read the Course Guide. I also assume that you have familiarized yourself with the introductory comments in Module 1. This unit is the first among the three constituents units of this module. The main thrust of this unit is to introduce you to the basic meaning and definition of the economy, show the principal decision makers in the economy which comprises the household, business firm and the government. This unit is fundamental to the understanding of subsequent units and modules. This is simply because other units and modules will be discussed on the basis of the fundamental concepts explained here, hence, requires your maximum attention and understanding. Economy means "management of the household" (ecology, also derived from Greek word, means "study of the household"). The "household" here refers to the entire society. An economy begins with the desires of the people in the society for material goods and services and there must be a system that makes it work. You should notice that we use the word "desires" or "wants", rather than "needs". We will not concern ourselves with the question of what it is that people truly need. As a student of economics, you should know that human wants or desires is insatiable, the clamour for this bring about the interaction of these principal decision makers which are the individual household, the business firm and the government.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Define what economy is all about as scholarly established and in your own words.
- Identify the relationships between the three economic agents.
- Enumerate the roles of government intervention in the economy.

3.0 MAIN CONTENT

3.1 The Basic meaning and definition of the economy

Generally, our focus in this course is to understand the study of comparative economic system. Firstly, let us examine an economy. The word "economy" is derived from the Greek word: "oikos", meaning household. Economy means "management of the household" (ecology, also derived from Greek word, means "study of the household"). The "household" here refers to the entire society. It is pertinent that for society to exist, people in such society would have their own desires. However, we are not concerned with psychological desires such as love, power, or respect. Hence any product that satisfies people's desires is called a "good" or a "service".

Economists make three assumptions about human being desires for material goods and services. Firstly, human being are insatiable. No matter how many goods and services people have, they still want more. Today, even the poorest Nigerians have more goods and services they desire for consumption even if they cannot afford it. Yet, we still desire more and more. Secondly, human being are rational in nature. People's desires are not to be questioned. I desire the things i desire for my own reasons, you desire the things you desire for your own reasons, I also know what is best for me and you know what is best for you. Thirdly, human being act as maximizer. Consumers attempt to maximize the satisfaction they get from their purchases, given their limited incomes. Likewise, business firms attempt to maximize their profits, workers also attempt to maximize their wages/salary or other benefits of a job. Therefore, such a person who acts as a rational, self-interested, maximizer is known as "Economic Man". The economy therefore is a society which allow the co-relationship of all the economic agent which are the household, business firm and the government.

The economy comprises of decision makers or economic agents which are the following.

1. The individual or Household
2. The business firm
3. The Government.

The above listed decision makers makes up the unit that co-relate and exist in the economy. The contribution of each of this unit cannot be over looked in the economy. Economic transactions which involved the interplay of demand and supply between these economic agents are facilitated to allow for circular flow of resources, factors of production, income, tax, transfer payments etc to mention but few to be determined as a result of these transactions. What we are talking about is that, each of this economic agent or decision makers depends on one another for survival in the economy. Let us take a closer look at the circular flow of income, you will discover that the individual supply factors of production called labour to both the business firms and government but in return got reward of income known as wages or salary. Likewise, the business firms buys up labour services for productive activities and in return pays for it ceteris-paribus. The government also pay for labour services, as well as transfer payments like bursary, grants etc are benefits to business firms and individual, in return taxes, fines and levies are paid back to the government as income.

The economy could be viewed in two perspectives,

- (1) At Micro level and
- (2). At Macro level

When you are considering the small unit of the economy, it means micro economy. As economics students, micro economy involves looking at the economy of the individual and the business sector. The consumption expenditures, income, savings, demands and supply etc of the individual and business firms are considered here. It can otherwise be regarded as a 2-sector economy. On the other hand, considering the broad aggregate of the economy, it is said to be macro economy, where the economy will be looked into broadly considering all economic variables that are applicable. All aggregate income and expenditures will be considered which include GNP, National income, consumption expenditure, investment, government spending or expenditure, import, export, taxes, inflation, unemployment, exchange rate etc.

It is also important to let you know the relationship that exist in the economy which is between the individual household and the business firm.

SELF-ASSESSMENT EXERCISE

Briefly discuss the meaning of the word Economy.

3.2 The individual household and business firms

In this section, we shall discuss the contributions of both the individual household and the business firms to the economy. The interaction of the duo cannot be over emphasized, in that the duo is major key player in the circular flow of income and they interdependent on each other.

As an individual household, major economic decisions are taken and determine by you. Such economic decision and transaction are facilitated by self- economic power. Let us examine the individual household within the context of a family unit that is the father, mother, children, and other dependent relatives. You should know that each of this family unit depend mainly on the person who has the most economic power, most times the father or mother is regarded as the family bread winner. The decisions of making the family survive depend largely on the family economic system that will be anchored by their main bread winner. The decision of making the family economic system work depends on the following factors.

- a. Income factor
- b. Consumption factor
- c. Price factor
- d. Taste factor
- e. preference factor
- f. Savings or Investment factor
- g. Demand factor
- i. Supply factor

The individual household economic decision is based firstly on his level of income which determines his or her expenditure pattern. For example, the father earns wages or salary as income and his family member survival depend largely on this earnings. However for consumption expenditure to come in, he will consider other factor like savings which is also regarded as investment, the market price factor of goods and services, his taste and preference for goods and services etc. The contributions of the individual household thus determine the economic growth and development of the family in the micro economy. This also reflect in the macro economy, through which the total individual income,

consumptions, prices, savings, investments, aggregate demand and supply etc are decided to translate into the economic goals of the economy to desirable level of economic growth and developments.

The business firms on the other hand contribute immensely to the economic system of the economy. Looking at the business firms from the perspective of the micro economy, the basic question or problem of the society of what to produce, how to produce, for whom to produce and the type of technological inputs etc can be better answered by this economic agent. The economic power of the society also lies in the business firms or sector due to the dominance of ownership of resources of production. The business firm has the power to hire and fire the individual household because it is a major economic agent in the economy that can also take major decision for the survival of the economy. Major decisions of production, distributions, consumptions, income, price, market competition, etc are some of the basic challenges of the business firms to co-exist in the economy. In the light of this, firms are supposed to co-relate in the economy to proffer answers to basic economic problems.

SELF-ASSESSMENT EXERCISE

Briefly discuss the relationship between individual household and the business firms in the economy.

3.3 The government

This is the third economic agent who is also a major decision maker in the economy. The government is regarded as the state in some parameters. The responsibilities of the state in the economy cannot be ruled out but necessary to balance the economy where the household and business firms are stake holders. The decision of answering the basic question of what to produce, how to produce, for whom to produce and the type of technological inputs etc is also a concern for the state. The government is regarded as the central authority saddled with the responsibility of controlling and coordinating the economy. Aside capitalist and market economic system where the ownership of economic resources is determined by the individual household and the business firm, ownership of economic resources is determined by the government where socialism, communism. Centrally planned and command economic system is practiced. These shall be treated extensively in this course. The following are the reasons or roles for government intervention in the economy

- 1.To eliminate the exploitation of the capitalist in capitalist economic system.
- 2.To distribute income evenly among decision makers in the economy.
- 3.To provide welfare for the citizens in the economy.
- 4.To stabilize the economy.
- 5.To reduce unemployment in the economy.
- 6.To curb inflation.
- 7.To tackle and reduce poverty.
- 8.To tackle insecurity.
- 9.To allocate resources efficiently
- 10,To monitor balance of payment

SELF-ASSESSMENT EXERCISE

Briefly describe the roles of government intervention in the economy

4.0 CONCLUSION

From our discussion so far on the basic meaning and definition of the economy, we can infer the following facts:

- That the economy comprise three decision makers which contribute to taking major economic decisions to make economic system effective to achieve the economic goal of the economy..
- There is relationship between the three economic agents which is the individual household, the business firms and the government in the economy that allow economic system to flourish.
- There is need for government intervention in the economy to effectively allocate resources evenly and to redistribute income in the economy.

5.0 SUMMARY

In this unit, we have attempted to show the basic meaning and definition of the economy. Also, from the point of view of harmonization, you have learnt about the economy, we also discussed the relationship among the economic agents known as the individual household, business firms and the government as they contribute to the economy to make economic system work. I believe your understanding of this unit has given you a basis for the understanding of the next unit and in fact subsequent modules. I expect you by now to be anxious of reading more about the role of factors of production in economic system which will be duly served in the next unit.

6.0 TUTOR-MARKED ASSIGNMENT

The contributions of the economic decision makers in the economy cannot be ruled out; Discuss.

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UNIT 1I Role of Factors of Production in economic system.

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Factors of production
 - 3.2 Land as factor of production and feudal system
 - 3.3 Labour as factor of production and evolution of slavery
 - 3.4 Capital as factor of production and evolution of capitalism
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

Having familiarized yourself with the explicit explanations in the first unit of this module which discusses the basic meaning and definition of the economy and what it entails. This unit is the second among the three constituents units of this module. The main thrust of this unit is to show the factors of production and the contribution of Land, Labour and Capital which are resources of production in the economy as well as their evolutionary effect of slavery, feudalism and capitalism. This unit is also fundamental to the understanding of subsequent units and modules. This is simply because other units and modules will be discussed on the basis of the fundamental concepts explained here, hence, requires your maximum attention and understanding.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Show the role of factors of production in the economy
- Enumerate the characteristics of land, labour and capital and their evolutionary effect of slavery, feudalism and capitalism
- Identify the importance of these factors of production to economic system

3.0 MAIN CONTENTS

3.1 Factors of production

In order to satisfy the desires for consumer goods, the people in the society must engage in production. To produce, people begin with natural resources. Nature provides land, minerals, trees, water, fish, animals, and so forth. Usually the people must do something to these natural resources to satisfy their desires. For example, harvest the fruits and vegetables, dig the minerals, cut the trees, and catch the fish, and so on. The productive contribution made by the people is called labour. However, with natural resources and labor alone, the society will not be able to satisfy the desires of the people very well. From earliest times, people have learned that they could satisfy their desires better by

taking some of the natural resources and converting them into a form that will not meet desires today but which will allow greater production in the future. Thus, wood and iron are used to make a hammer. The hammer is not desired by anyone for its own sake, but it does allow people to build more of those things they do desire. We call this indirect use of natural resources that is “capital goods”. Do not confuse this meaning of the word "capital" with other meanings of the word. In business use, for example, capital sometimes refers to the money invested by the owner of a business. Capital goods here refer to goods made by people for the purpose of increasing production. Examples are machines, tools, equipment, and factory buildings. Finally, there is a need for someone to recognize the desires that people have and then bring together the appropriate natural resources, labor, and capital to meet these desires. There is risk involved; if one does not recognize the desires correctly or if one organizes the production inefficiently, considerable loss could result. For example, Steve Wozniak and Steven Jobs recognized a desire of some people in the society which is a desire for a computer that could be operated at home. They didn't just develop such a computer; they started a company called Apple. With others, they developed the product, obtained the natural resources, hired and trained the workers, bought the necessary machinery, and organized the production process. The success of the Apple II allowed both of them to have wealth valued in the hundreds of millions of dollars. A person who undertakes this activity is called an entrepreneur. There are so many successful entrepreneurs who became famous and have their names written with gold in the book of fame in the world and likewise in Nigeria. For example Aliko Dangote (Dangote group), Michael adenuga (Globacom), Ray Kroc (McDonalds), Bill Gates (Microsoft), Sam Walton (Wal-Mart), Irwin Jacobs (Qualcomm), and many others are very well known. Unfortunately, most entrepreneurs are not so successful. The natural resources, labour, capital goods, and entrepreneurship are called the factors of production.

SELF ASSESSMENT EXERCISE

Explain your understanding of factors of production

3.2 Land as a factor of production and feudal system

In economics, land comprises all naturally occurring resources whose supply is inherently fixed. Examples are any and all particular geographical locations, mineral deposits, forests, fish stocks, atmospheric quality, geostationary orbits, and portions of the electromagnetic spectrum. Natural resources are fundamental to the production of all goods, including capital goods. Location values must not be confused with values imparted by fixed capital improvements. In classical economics, land is considered one of the three factors of production (also sometimes called the three producer goods) along with capital, and labour. Land is sometimes merged with capital to simplify micro-economics. You should know that land is the most basic of all economic resources, fundamental to the form that economic development takes. Its use for agricultural purposes is integral to the production of the means of our subsistence. Its use in an urban context is crucial in shaping how effectively cities function and who gets the principal

benefits from urban economic growth. Its ownership is a major determinant of the degree of economic inequality: surges of land prices, such as have occurred in major cities of Nigeria like Abuja, Lagos and Port Harcourt and in some country like Australia, USA, UK, during the last decade, cause major redistributions of wealth. In both an urban and rural context the use of land and nature, more generally is central to the possibility of ecological sustainability. Contemporary social concerns about problems of housing affordability and environmental quality necessarily focus our attention on 'the land question. However, land ownership in the olden days before the advent of modern economic system always causes feud among the stakeholders in the community leading to crisis that sometimes result to war. Feudal system gave power and ownership of resources to anybody who occupy larger expanse of land and as such the person will have power to control the remaining community people.' Let us now discuss the characteristics of Land. The following are the characteristics of Land:

1. Free gift of nature: Land is a free gift of nature to mankind. It is not a man-made factor but is a natural factor given to mankind and the society in general.

2. Primary factor of production: Though all factors are required for production, land puts foundation for production process. The starting point of production process is an acquisition of land; therefore it is a primary factor.

3. Perfectly inelastic supply: From society's point of view, supply of land is perfectly inelastic i.e. fixed in quantity. Neither it can be increased nor decreased. Simply put, you cannot change the size of the earth. But from individual point of view, its supply is relatively elastic.

4. Grad ability: Land varies from region to region on the basis of fertility. Some lands are more fertile and some are not at all. So, fertility wise, grading of land is possible. So, in this way, land has grad ability.

5. A passive factor: Land itself doesn't produce anything alone. It is a passive factor. It needs help of Labour, Capital, Entrepreneur, etc. Like labour and entrepreneur, it doesn't work on its own initiative. So it is a passive factor.

6. May have diminishing returns: Here, return means quantity of crops. By using fertility of land with the help of capital and labour continuously, returns gets diminished because of reduction in fertility

7. Has a derived demand: Demand for agricultural goods is a direct demand and for producing such goods, land is indirectly demanded. So, as a factor, land has a derived demand from consumer's point of view.

8. Indestructible factor: Land is durable and not perishable. It has a long life. No one can destroy the land. The power of land is permanent and indestructible. Its fertility can be destroyed as well as restored by human efforts.

9. Perfectly Immobile: Mobility means ability to move. Movement of land from one place to another is impossible. Thus, physically, land is perfectly immobile. But it has certain occupational mobility because it can be used for variety of occupations, like agricultural use or for construction of houses.

10. Earns rent as a reward for its use: Rent is a reward for the use of land. Classical economists like Ricardo connected rent with fertility of land whereas modern economists like Marshal stated that land earns rent because of its scarcity.

SELF ASSESSMENT EXERCISE

List and explain the features of land as factor of production.

3.3 Labour as a factor of production and evolution of slavery

Labour includes both physical and mental work undertaken for some monetary reward. In this way, workers working in factories, services of doctors, advocates, ministers, officers and teachers are all included in labour. Any physical or mental work which is not undertaken for getting income, but simply to attain pleasure or happiness, is not labour.

For example, the work of a gardener in the garden is called labour, because he gets income for it. But if the same work is done by him in his home garden, it will not be called labour, as he is not paid for that work. So, if a mother brings up her children, a teacher teaches his son and a doctor treats his wife, these activities are not considered 'labour' in economics. It is so because these are not done to earn income. According to S.E. Thomas, "Labour connotes all human efforts of body or mind which are undertaken in the expectation of reward." However, people like Karl Marx advocated against the wrong usage of labour resources during their time. He posited that capitalist who have money to engage labour resources always turn them to slaves and will not be given what is commensurate with their labour services. He saw this as slavery. This is why he frowned vehemently against capitalism and we shall now look at the characteristics of labour as a factor of production.

Characteristics of Labour:

Labour has the following peculiarities which are explained below:

1. Labour is Perishable:

Labour is more perishable than other factors of production. It means labour cannot be stored. The labour of an unemployed worker is lost forever for that day when he does not work. Labour can neither be postponed nor accumulated for the next day. It will perish. Once time is lost, it is lost forever.

2. Labour cannot be separated from the Labourer:

Land and capital can be separated from their owner, but labour cannot be separated from a labourer. Labour and labourer are indispensable for each other. For example, it is not possible to bring the ability of a teacher to teach in the school, leaving the teacher at home. The labour of a teacher can work only if he himself is present in the class. Therefore, labour and labourer cannot be separated from each other.

3. Less Mobility of Labour:

As compared to capital and other goods, labour is less mobile. Capital can be easily transported from one place to other, but labour cannot be transported easily from its present place to other places. A labourer is not ready to go too far off places leaving his native place. Therefore, labour has less mobility.

4. Weak Bargaining Power of Labour:

The ability of the buyer to purchase goods at the lowest price and the ability of the seller to sell his goods at the highest possible price is called the bargaining power. A labourer sells his labour for wages and an employer purchases labour by paying wages. Labourers have a very weak bargaining power, because their labour cannot be stored and they are poor, ignorant and less organised.

Moreover, labour as a class does not have reserves to fall back upon when either there is no work or the wage rate is so low that it is not worth working. Poor labourers have to work for their subsistence. Therefore, the labourers have a weak bargaining power as compared to the employers.

5. Inelastic Supply of labour:

The supply of labour is inelastic in a country at a particular time. It means their supply can neither be increased nor decreased if the need demands so. For example, if a country has a scarcity of a particular type of workers, their supply cannot be increased within a day, month or year. Labourers cannot be 'made to order' like other goods.

The supply of labour can be increased to a limited extent by importing labour from other countries in the short period. The supply of labour depends upon the size of population. Population cannot be increased or decreased quickly. Therefore, the supply of labour is inelastic to a great extent. It cannot be increased or decreased immediately.

6. Labourer is a Human being and not a Machine:

Every labourer has his own tastes, habits and feelings. Therefore, labourers cannot be made to work like machines. Labourers cannot work round the clock like machines. After continuous work for a few hours, leisure is essential for them.

7. A Labourer sells his Labour and not Himself:

A labourer sells his labour for wages and not himself. 'The worker sells work but he himself remains his own property'. For example, when we purchase an animal, we become owners of the services as well as the body of that animal. But we cannot become the owner of a labourer in this sense.

8. Increase in Wages may reduce the Supply of Labour:

The supply of goods increases, when their prices increase, but the supply of labourers decreases, when their wages are increased. For example, when wages are low, all men, women and children in a labourer's family have to work to earn their livelihood. But when wage rates are increased, the labourer may work alone and his wife and children may stop working. In this way, the increase in wage rates decreases the supply of labourers. Labourers also work for less hours when they are paid more and hence again their supply decreases.

9. Labour is both the Beginning and the End of Production:

The presence of land and capital alone cannot make production. Production can be started only with the help of labour. It means labour is the beginning of production. Goods are produced to satisfy human wants. When we consume them, production comes to an end. Therefore, labour is both the beginning and the end of production.

10. Differences in the Efficiency of Labour:

Labourer differs in efficiency. Some labourers are more efficient due to their ability, training and skill, whereas others are less efficient on account of their illiteracy, ignorance, etc.

SELF ASSESSMENT EXERCISE

List and explain the features of labour as factor of production.

3.4 Capital as a factor of production and evolution of capitalism

Capital has been defined as that part of a person's wealth other than land, which yields an income or which aids in the production of other wealth. Capital serves as instrument of production of further wealth. Wealth that is left unused or is hoarded is regarded as capital. Capital is a type of good that can be consumed now, but if consumption is deferred, an increased supply of consumable goods is likely to be available later. Adam Smith defines capital as "That part of a man's stock which he expects to afford him revenue is called his capital." Capital is derived from the Latin word "caput" meaning head, as in "head of cattle". The term "stock" is derived from the Old English word for stump or tree trunk, i.e. something that grows over time. In economics, capital goods, real capital, or capital assets are already-produced durable goods or any non-financial asset that is used in production of goods or services.

How a capital good is maintained or returned to its pre-production state varies with the type of capital involved. In most cases capital is replaced after a depreciation period as newer forms of capital make continued use of current capital non profitable. It is also possible that advances make an obsolete form of capital practical again.

Capital is distinct from land (or non-renewable resources) in that capital can be increased by human labour. At any given moment in time, total physical capital may be referred to as the capital stock (which is not to be confused with the capital stock of a business entity).

In a fundamental sense, capital consists of any produced thing that can enhance a person's power to perform economically useful work. For example a stone or an arrow is capital for a caveman who can use it as a hunting instrument, and roads are capital for inhabitants of a city. Capital is an input in the production function. Homes and personal autos are not usually defined as capital but as durable goods because they are not used in a production of saleable goods and services.

In classical economic schools of thought, particularly in Marxist political economy, capital is money used to buy something only in order to sell it again to realize a financial profit. According to Marx, capital only exists within the process of economic exchange. It is wealth that grows out of the process of circulation itself, and for Marx it formed the basis of the economic system of capitalism. In more contemporary schools of economics, this form of capital is generally referred to as "financial capital" and is distinguished from "capital goods". Capital occupies a central position in the process of economic development. In fact, capital formation is the very core of economic development. The possession of capital by some individuals gave rise to capitalism as the ownership of resources is being controlled by capitalist. Capitalism is discussed extensively in one of the module ahead Let us now examine the characteristics and importance of capital. Capital plays a vital role in the modern productive economic system. They are as follows;

Characteristics and Importance of Capital to economic system

1. Capital is man-made in nature
2. It involves the element of time as it renders its service over a period of time.
3. The use of capital makes roundabout methods of production possible.
4. It can be retained or used up for further wealth.
5. It brings income or profit when invested.
6. It is essential for production in the economy
7. Increases productivity in the economy
8. It contributes to economic development
9. It aids the creation of employment opportunities
10. It makes investments possible

SELF ASSESSMENT EXERCISE

Highlight and explain five features of capital as factor of production.

4.0 CONCLUSION

From our discussion so far on the roles of factor of production to economic system. We deduce the following facts:

- That to satisfy the desires for consumer goods, the people in the society must engage in production using the resources available which are the factors of production
- That land is a free gift of nature to mankind and is not a man-made factor but is a natural factor given to mankind and the society in general
- That labour connotes all human efforts of body or mind which are undertaken in the expectation of reward or income
- Capital serves as instrument of production of further wealth and occupies a central position in the process of economic development, playing a vital role in the modern productive economic system.

5.0 SUMMARY

In this unit, we have attempted to show the role of factors of production in the economy, enumerate the characteristics of land, labour and capital as factors of production and identify the importance of these factors of production to economic system. From the point of view of harmonization of all these rationale, you have learnt that all these factors are inputs in productive economic system. I believe your understanding of this unit has given you a basis for the understanding of the next unit and in fact subsequent modules. I expect you by now to be anxious of reading more about the problem of the society which will be duly served in the next unit.

6.0 TUTOR-MARKED ASSIGNMENT

Explain the relevance's of factors of production to economic system of Nigeria.

7.0 REFERENCES/FURTHER READING

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UNIT III: The problem of the society

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The problem of scarcity
 - 3.2 What to produce?
 - 3.3 How to produce?
 - 3.4 For whom to produce?
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
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1.0 INTRODUCTION

In our previous units we have discussed the basic meaning and what economy is all about, there is need for us to look critically at the problems of the society within the context of the available resources. In this wise, we shall again be considering explicitly, what to produce, how to produce and for whom to produce to answer the basic question and problem of the society. I will advise that you carefully follow the explanation for easy assimilation of the contents in this unit. This unit is the third among the three constituents units of this module. The main thrust of this unit is to show the explicit explanation of the societal problem. Hence it requires proper concentrations.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Show the problem of scarcity in the society
- Indicate the problem of what to produce in the society
- Identify the problem of how to produce in the society
- Show the problem of for whom to produce.

3.0 MAIN CONTENTS

3.1 The Problem of Scarcity

The factors of production determine the maximum amounts of the various goods and services that can be produced at any particular time. But people's desires for these goods and services are insatiable. As a result of this, the desires always exceed the ability to meet them, a phenomenon known as scarcity. Scarcity generates the fundamental problem faced by all societies. Because of scarcity, every society must answer three fundamental questions. When something is scarce, people will be competing to look for it anywhere. The demand for this scarce commodity will create so many problems in the society. For example, the problem of scarce petrol in Nigeria is given the society a challenge of difficult situation where prices of goods and services have soar higher than the normal prices when it was available.

SELF ASSESSMENT EXERCISE

Scarcity is a challenge in the society which posed a problem to be tackled: Elucidate on this.

3.2 What to Produce?

What to produce is a fundamental question of society's problem. The society is faced with the challenges of basic needs but needs are different from one person to the other and it's difficult to know. In a world of scarcity, any choice to produce something is also a choice not to produce something else. If the factors of production are used to produce tanks, they cannot also be used to produce automobiles. There is simply not enough of the factors of production. Production of all of the goods and services that are desired is simply not possible. The value of whatever is sacrificed when a decision is made is called the "opportunity cost". Sometimes, opportunity cost can be easily measured in money. For example, if you choose to spend N500 on a movie ticket, you are sacrificing N500 worth of other goods or services that you could have bought. In other situations, opportunity cost may be harder to measure. Your decision to take this course has an opportunity cost which is the value of the time you will sacrifice. If you would have worked during this time, your sacrifice can be measured easily; you sacrificed the wages you would have earned. But if you would have watched television, slept, or spent time with your family or friends, it is harder to put a naira value on your sacrifice. But that does not change the fact that you have sacrificed time to take this course. So the question of what to produce is one of the basic problems of the society

SELF ASSESSMENT EXERCISE

Discuss your understanding of the question of what to produce in the society.

3.3 How to Produce?

How to produce is another major challenge faced by society. Having decided what to produce, we must now determine how to produce it. This means that we must decide on the combinations of the factors of production that we will use. Goods produced mainly by workers are called labour-intensive goods. Goods produced largely by machinery and equipment are called capital-intensive goods. Some goods may be natural resource intensive, technology-intensive, energy-intensive, skill-intensive, and so on. There are usually many different ways to produce a given product. Rice grown in China is both labour-intensive and water-intensive. But rice grown in California is capital-intensive as well as water-intensive. Similarly, cotton grown in the South America is labour-intensive while cotton grown in California is capital-intensive. Recently, California's main growth industries have been technology-intensive and skill-intensive rather than capital-intensive. This is also the case with many developed and industrialized countries like Israel, Germany, Canada, United Kingdom, France, Brazil, Russia. In the case of less developed nation like Nigeria, so many challenges posed a threat to this societal problem. The question now is "who will do what work?" This is sometimes called the division of labour. We must decide how production will be organized. The question is will workers

work independently or will they be asked to cooperate with other workers? Who will run a given machine, who will keep the records, and who will make the decisions? All these are pertinent questions that posed a problem to the society.

SELF ASSESSMENT EXERCISE

Discuss your understanding of the question of how to produce in the society

3.4 For Whom to Produce?

Once it has been decided which goods and services are to be produced, it must be decided who will receive these goods and services. Remember that goods and services are scarce; not every desire can be satisfied. Production of goods or services that will meet my desires may mean less of the goods or services that would meet your desires and vice versa. We are in conflict when it comes to choosing and accepting a particular goods and services. Somehow, we must resolve this conflict in a manner that allows us to exist as part of the same society. In most economies, our incomes determine which of our desires can be satisfied. But in most economies, government also intervenes to redistribute income. In some economies, this redistribution is more significant than in others. Differences in redistribution will be a major concern of this course. It is therefore obvious that the society is faced with daunting challenges which has to be overcome to make the economic system of such society work.

SELF ASSESSMENT EXERCISE

Discuss your understanding of the question for whom to produce in the society.

4.0 CONCLUSION

From our discussion so far on the problem of the society, we can conclude as follows:

- That economic system of nations will not work effectively if the problem of scarcity is not well addressed to utilize optimally the economic resources available at the disposal of such nations.
- That the societal problem of what to produce, how to produce, and for whom to produce is not the same from countries to countries and that each country adopt its own strategy of solving them to make their economic system work.

5.0 SUMMARY

In this unit, we have attempted to show the problem of the society, the problem of scarcity, what to produce, how to produce and for whom to produce? You have learnt that economic system of nations will not work effectively if the problem of scarcity is not well addressed to utilize optimally the economic resources available at the disposal of such nation and as well tackle the societal problem of what to produce, how to produce and for whom to produce. I believe your understanding of this unit has given you a basis for the understanding of the next unit and in fact subsequent modules. I expect you by now to be anxious of reading more about the basics of economic systems and institutions which will be critically treated in the next module.

6.0 TUTOR-MARKED ASSIGNMENT

Critically explain the problem of the society as it relates to the functionality of the economic system.

7.0 REFERENCES/FURTHER READING

- Anthony C. F. (1987). Natural resources, the New Palgrave: A Dictionary of Economics, vol 3, pp. 612–14.
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MODULE 2

THE BASICS OF ECONOMIC SYSTEMS AND INSTITUTIONS

Unit 1: Classifications of the economy according to ownership of resources

Unit II Classifications of the economy according to decision making

Unit III: Comparisons of economic ownership of resources and decision making

UNIT 1 classifications of the economy according to ownership of resources

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 - 3.2 Socialism and its features
 - 3.3 Communism and its features
 - 3.4 Mixed economy and its features
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- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

Our discussion in the first module of this course was too general and broad in nature to allow us understand the concept called economy. Therefore our task in the present module would be to look at the basics of economic systems in its ramification and applicability. An economic system is a system of production, resource allocation, exchange, and distribution of goods and services in a society or a given geographic area. It includes the combination of the various institutions, agencies, entities, decision-making processes, and patterns of consumption that comprise the economic structure of a given community. As such, an economic system is a type of social system. For the above reasons, we shall familiarize ourselves with the classifications of the economy based on the ownership of resources, decision making and then make comparisons of the economic system. It is therefore intended to pay proper attention to the explanations and discussions in this module and this unit.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Define and explain what capitalism, socialism, communism and mixed economy are.
- Enumerate the features, importance, merits and demerits of these economic systems.
- Highlights countries synonymous to the practice of these economic systems

3.0 MAIN CONTENTS

3.1 Capitalism and its features

Capitalism is the private controlled and ownership of factors of production. It is an economic system where private individuals controls the economic resources of the economy. It stands in direct contrast to government-controlled economies, where production and prices are set by a central decision-making body. Economist Adam Smith famously compared free markets to an “invisible hand” pushing producers toward goods and services for which there is greatest need. In a capitalist market economy, decision-making and investment is determined by the owners of the factors of production in financial and capital markets, and prices and the distribution of goods are mainly determined by competition in the market. Economists, political economists, and historians have adopted different perspectives in their analyses of capitalism and have recognized various forms of it in practice. These include laissez-faire or free market capitalism, welfare capitalism, and state capitalism. Capitalism has existed under many forms of government, in many different times, places, and cultures. Following the decline of mercantilism, mixed capitalist systems became dominant in the Western world and continue to spread. The question now is how does capitalism emerged?

However, history tells us that early Islam promulgated capitalist economic policies, which migrated to Europe through trade partners from cities such as Venice. The 16th, 17th and 18th centuries witness the era of feudalism that is economic system of land ownership, mercantilism that is trade profits economic system and industrial revolution era which culminated into people owning and determining their production by themselves in England and later spread to some part of Europe and the USA.

Capitalism was carried across the world by broader processes of globalization and, by the end of the nineteenth century, became the dominant global economic system, in turn intensifying processes of economic and other globalization. For capitalism to dominate the production process of society, many different social, economic, cultural, technical and legal-political conditions had to come together. Later, in the 20th century, capitalism overcame a challenge by centrally-planned economies and is now the encompassing system worldwide, with the mixed economy being its dominant form in the industrialized Western world. The following are the characteristics of capitalism;

1. Private ownership of means of production
2. Capital accumulations,
3. High level of wage labor,
4. Voluntary production exchange on a market,
5. The use of the price mechanism to allocate resources between competing uses.
6. Competitive markets
7. Maximize exchange-values instead of use-value.
8. The investment of money to make a profit.
9. Free market systems for new entrant
10. Have exploitative tendency on labour

Consider the List of countries with a trace of capitalism in their economic system are as follows.

Asian Countries

Bahrain, Georgia, Hong Kong, Japan, Kuwait, Mauritius, Singapore, South Korea, Taiwan, Thailand, United Arab Emirates

European countries

Albania, Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Latvia, Macedonia, Malta, Netherlands, Norway, Portugal, Romania, Slovakia, Slovenia, Spain, United Kingdom

African countries

Cape Verde, South Africa, Uganda

North American countries

Barbados, Belize, Canada, El Salvador, Guatemala, Jamaica, Mexico, Panama, United States of America

South American countries

Chile, Peru

Others are

Australia and Samoa

SELF ASSESSMENT EXERCISE:-

Briefly explain your understanding of capitalism as an economic system

3.2. Socialism and its features

Socialism is an economic and political system based on public or collective ownership of the means of production. Socialism emphasizes equality rather than achievement, and values workers by the amount of time they put in rather than by the amount of value they produce. The decisions as to how much to produce, which methods of production to employ and for whom to produce are taken by the planning authority. That is why a socialist economy is also called a planned economy. It also makes individuals dependent on the state for everything from food to health care. According to Smriti Chand article, a socialist economy is an economic organization in which the means of production are owned and regulated by the state. The production and distribution of goods and factors of production are done by the state under the direction of the planning commission. China, Vietnam, North Korea and Cuba are examples of modern-day socialist societies. Twentieth-century socialist governments were overthrown in Czechoslovakia, East Germany and the U.S.S.R.

State capitalism is an economic system in which the state undertakes commercial (i.e., for-profit) economic activity, and where the means of production are organized and managed as state-owned business enterprises (including the processes of capital accumulation, wage labor, and centralized management), or where there is otherwise a dominance of corporatized government agencies (agencies organized along business-management practices) or of publicly listed corporations in which the state has controlling shares. Marxist literature defines state capitalism as a social system combining capitalism with ownership or control by a state; by this definition, a state capitalist country is one where the government controls the economy and essentially acts like a single huge corporation, extracting the surplus value from the workforce in order to invest it in further production. This designation applies regardless of the political aims of the state (even if the state is nominally socialist), and some¹ people argue that the modern People's Republic of China constitutes a form of state capitalism and/or that the Soviet Union failed in its goal to establish socialism, but rather established state capitalism.

Welfare capitalism is capitalism that includes social welfare policies. Welfare capitalism is also the practice of businesses providing welfare services to their employees. Welfare capitalism in this second sense, or industrial paternalism, was centered on industries that employed skilled labor and peaked in the mid-20th century. Today, welfare capitalism is most often associated with the models of capitalism found in Continental and Northern Europe, such as the Nordic model, social market economy and Rhine capitalism. In some cases welfare capitalism exists within a mixed economy, but welfare states can and do exist independently of policies common to mixed economies such as state interventionism and extensive regulation.

We shall now examine the features of socialism. The main features of this system are detailed below.

(1) Public Ownership:

A socialist economy is characterized by public ownership of the means of production and distribution. There is collective ownership whereby all mines, farms, factories, financial institutions, distributing agencies (internal and external trade, shops, stores, etc.), means of transport and communications, etc. are owned, controlled, and regulated by government departments and state corporations. A small private sector also exists in the form of small business units which are carried on in the villages by local artisans for local consumption.

(2) Central Planning:

A socialist economy is centrally planned which functions under the direction of a central planning authority. It lays down the various objectives and targets to be achieved during the plan period. Central economic planning means “the making of major economic

decisions of what and how much is to be produced, how, when and where it is to be produced, and to whom it is to be allocated for by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole.”

And the central planning authority organizes and utilizes the economic resources by deliberate direction and control of the economy for the purpose of achieving definite objectives and targets laid down in the plan during a specified period of time.

(3) Definite Objectives:

A socialist economy operates within definite socio-economic objectives. These objectives “may concern aggregate demand, full employment, satisfaction of communal demand, allocation of factors of production, distribution of the national income, the amount of capital accumulation, economic development...and so forth.” For achieving the various objectives laid down in the plan, priorities and bold targets are fixed covering all aspects of the economy.

(4) Freedom of Consumption:

Under socialism, consumers’ sovereignty implies that production in state owned industries is generally governed by the preferences of consumers, and the available commodities are distributed to the consumers at fixed prices through the state-run department stores. Consumers’ sovereignty under socialism is confined to the choice of socially useful commodities.

(5) Equality of Income Distribution:

In a socialist economy, there is great equality of income distribution as compared with a free market economy. The elimination of private ownership in the means of production, private capital accumulation, and profit motive under socialism prevent the amassing of large wealth in the hands of a few rich persons. The unearned incomes in the form of rent, interest and profit go to the state which utilizes them in providing free education, public health facilities, and social security to the masses. “As far as wages and salaries are concerned, most modern socialists do not aim at complete and rigid equality. It is now generally understood that the maintenance offered choice of occupation implies wage differentials.”

(6) Planning and the Pricing Process:

The pricing process under socialism does not operate freely but works under the control and regulation of the central planning authority. There are administered prices which are fixed by the central planning authority. There are also the market prices at which consumer goods are sold. There are also the accountings prices on the basis of which the managers decide about the production of consumer goods and investment goods, and also about the choice of production methods.

In view of the above features, there is need for us to also look at the merits and demerits of socialism. The following are the advantages of socialism as advanced by Prof, Schumpeter.

Merits of Socialism:

(1) Greater Economic Efficiency:

Economic efficiency under socialism is greater than under capitalism. The means of production are controlled and regulated by the central planning authority towards chosen ends. The central planning authority makes an exhaustive survey of resources and utilizes them in the most efficient manner. Economic efficiency is also achieved by utilizing resources in producing socially useful goods and services which satisfy the basic wants of the people, like cheap food, cloth, and housing.

(2) Greater Welfare due to Less Inequality of Income:

In a socialist economy there is less inequality of income as compared with a capitalist economy because of the absence of private ownership of the means of production, private capital accumulation, and private profit. All citizens work for the welfare of the state and each is paid his remuneration according to his ability, education and training. All rents, interests and profits from various sources go to the state which spends them for public welfare in providing free education, cheap and congenial housing, free public health amenities, and social security to the people.

(3) Absence of Monopolistic Practices:

Another advantage of socialism is that it is free from monopolistic practices to be found in a capitalist society. Since under socialism all means of production are owned by the state, both competition and monopoly are eliminated. The exploitation by the monopolistic is absent. Instead of private monopoly, there is the state monopoly of the productive system but this is operated for the welfare of the people. In the state-owned factories, socially useful commodities are produced which are of high quality and are also reasonably priced.

(4) Absence of Business Fluctuations:

A socialist economy is free from business fluctuations. There is economic stability because production and consumption of goods and services are regulated by the central planning authority in accordance with the objectives, targets and priorities of the plan. Thus there is neither overproduction nor unemployment.

Demerits of Socialism:

A socialist economy has also certain disadvantages:

1. Loss of Consumers' Sovereignty:

There is loss of consumers' sovereignty in a socialist economy. Consumers do not have the freedom to buy whatever commodities they want. They can consume only those commodities which are available in department stores. Often the quantities which they can buy are fixed by the state.

2. No Freedom of Occupation:

There is also no freedom of occupation in such a society. Every person is provided job by the state. But he cannot leave or change it. Even the place of work is allotted by the state. All occupational movements are sanctioned by the state.

3. Misallocation of Resources:

Under socialism, there is arbitrary allocation of resources. The central planning authority often commits mistakes in resource allocation because the entire work is done on trial and error basis.

4. Bureaucracy:

A socialist economy is said to be a bureaucratic economy. It is operated like a machine. So it does not provide the necessary initiative to the people to work hard. People work due to the fear of higher authorities and not for any personal gain or self-interest.

There is no doubt that a socialist economy is better than a capitalist economy because of its overwhelming merits. But it is disliked for the loss of political, economic and personal freedoms.

SELF ASSESSMENT EXERCISE:

Briefly explain your understanding of socialism as an economic system

3.3 Communism and its features

Communism, also known as a command system, is an economic system where the government owns most of the factors of production and decides the allocation of resources and what products and services will be provided. A political and economic ideology based on communal ownership and the absence of class. Communism, which can be thought of as opposite to capitalism's, says that in a capitalist society, the working class (the proletariat) is exploited by the ruling class (the bourgeoisie). However, based on a Utopian ideal of equality and abundance, as expressed by the popular slogan, "From each according to his ability, to each according to his need," communism in practice has only existed under authoritarian government and has been the source of millions of

human rights violations and deaths. Unlike socialism, communism has a bit of force on the allocation of resources for the people.

One of the fundamental problems with communism is the knowledge problem, which describes how, without a price system, central planners cannot accurately determine what goods and services should be produced or in what quantities. Useless surpluses and devastating shortages are the result. Communism is often considered to be a twentieth century political experiment that officially failed in the late 1980s and early 1990s with the fall of the Berlin Wall witness in East Germany and the collapse of the Soviet Union known as USSR.

The most important originators of communist doctrine were Karl Marx and Frederick Engels. Like the socialists before them, they wanted to end the exploitation of the masses by the few. The capitalist system at that time required workers to work under harsh and dangerous conditions for little pay. The end goal of communism was to eliminate class distinctions among people, where everyone shared equally in the proceeds of society, when government would no longer be needed. Karl Marx agreed with Louis Blanc in how labour and income should be managed: "From each according to his abilities, to each according to his needs." However, it seems clear from history that Adam Smith had the correct principle, which is that people work in their own self-interest. Marx and Engels believed that there was a class struggle between the masses, which Marx referred to those who could only offer their labour as the (proletariat), while the owners of the means of production, which included land, raw materials, tools and machines, and especially money are regarded as members of the ruling class and known as the (bourgeoisie). He believed that a political revolution was essential because the state was a central instrument of capitalist society, and since the bourgeoisie had a stronghold on the government, it would, in many cases, be necessary to use force and violence to overthrow the capitalists. Communist countries, particularly Russia and China, decided on a centrally planned economy (aka command economy). The following are features of communism:

1. Government owns land
2. Government owns capital
3. Government allocates all scarce resources.
4. Government controls prices for labour and goods.
5. Government determines what, how and for whom to produce.
6. It is authoritarian in nature
7. There is no class in the society

Let us consider the following advantages and disadvantages of communism

Advantages of Communism

1. Communism is an internally stable economic system, in that those that participate benefit and those that don't are culled - creating an incentive to participate.
2. Communism requires common goals and agreed upon rules/laws to allocate responsibilities and resources. If successful, this leads to a spirit of sharing builds stronger social communities, creating a stabled economy.
3. Due to their sense of cooperation, healthy communistic systems are very efficient at distributing resources within their localized areas - particularly in times of need.

Disadvantages of Communism

1. Large or geographically broad populations tend to be diverse, making it difficult to maintain a common goal or set of rules for shared effort and resources.
2. Large, diversified societies tend to gravitate towards systems of hierarchy, reducing the perception of fair distribution of work and resources which can destabilize a communistic society.
3. Allowing an influx external culture increases the likelihood of destabilizing the homogeneity of the society. As such, communistic systems tend to block out external cultures and exclude outside competition, weakening the system's ability to learn from, or compete with, external economies

SELF ASSESSMENT EXERCISE:

Briefly explain your understanding of communism as an economic system

3.4 Mixed economy and its features

A mixed economy is variously defined as an economic system consisting of a mixture of Markets and economic planning, public ownership and private ownership, or free markets and economic interventionism. However, in most cases, "mixed economy" refers to market economies with strong regulatory oversight and governmental provision of public goods, although some mixed economies also feature a number of state-run enterprises. In general the mixed economy is characterized by the private ownership of the means of production, the dominance of markets for economic coordination, with profit-seeking enterprise and the accumulation of capital remaining the fundamental driving force behind economic activity. But unlike a free-market economy, the government would wield indirect macroeconomic influence over the economy through fiscal and monetary policies designed to counteract economic downturns and capitalism's tendency toward financial crises, unemployment, and growing income and wealth disparities, along with playing a role in interventions that promote social welfare. Subsequently, some mixed economies have expanded in scope to include a role for indicative economic planning and or large public enterprise sectors.

According to Smriti Chand, in his write up posits that there is mixture of private and public ownership of the means of production and distribution. Some decisions are taken by households and firms and some by the planning authority. All developing countries like India and Nigeria are mixed economies. We shall now look at the features of mixed economy:

Features of mixed economy

1. Public Sector:

The public sector is under the control and direction of the state. All decisions regarding what, how and for whom to produce are taken by the state. Public utilities, such as rail construction, road building, canals, power supply, means of communication, etc., are included in the public sector projects. They are operated for public welfare and not for profit motive. The public sector also operates basic, heavy, and strategic and defense production industries which require large investment and have long gestation period. But they earn profits like private industries which are utilized for capital formation.

2. Private Sector:

There is a private sector in which production and distribution of goods and services are done by private enterprises. This sector operates in farming, plantations, mines, internal and external trade, and in the manufacture of consumer goods and some capital goods. This sector operates under state regulations in the interest of public welfare. In certain fields of production, both public and private sectors operate in a competitive spirit. This is again in the interest of the society.

3. Joint Sector:

A mixed economy also has a joint sector which is run jointly by the state i.e public and private enterprises. It is organized on the basis of a joint stock company where the majority shares are held by the state.

4. Cooperative Sector:

Under a mixed economy, a sector is formed on cooperative principles. The state provides financial assistance to the people for organizing cooperative societies, usually in dairying, storage, processing, farming, and purchase of consumer goods.

5. Freedom and Control:

A mixed economy possesses the freedom to hold private property, to earn profit, to consume, produce and distribute, and to have any occupation. But if these freedoms adversely affect public welfare, they are regulated and controlled by the state.

6. Economic Planning:

There is a central planning authority in a mixed economy. A mixed economy operates on the basis of some economic plan. All sectors of the economy function according to the objectives, priorities and targets laid down in the plan. In order to fulfill them, the state regulates the economy through various monetary, fiscal and direct control measures. The aim is to check the evils of the price mechanism.

7. Social Welfare:

The principal aim of a mixed economy is to maximize social welfare. This feature incorporates the merits of socialism and avoids the demerits of capitalism. To remove inequalities of income and wealth, and unemployment and poverty, such socially useful measures as social security, public works, etc. are adopted to help the poor. On the other hand, restrictions are placed on the concentration of monopoly and economic power in the hands of the rich through various fiscal and direct control measures.

We shall again consider the merits and demerits of mixed economic system

Merits of Mixed Economy are:

- (1) It has best allocation of resources:
- (2) There is a general balance between the public sector and the private sector
- (3) It is a welfare state:
- (4) There is presence of Social security
- (5) There is freedom criticism by the citizen

Demerits of Mixed Economy are

A mixed economy also has certain defects which are stated below:

- (1) Non-Cooperation between the Two Sectors
- (2) Inefficient Public Sector
- (3) Economic Fluctuations is inevitable
- (4) Decision making can be hampered or delayed
- (5) Resources may not be evenly distributed

Therefore, let it be known to you that a mixed economy contains all the features of a welfare state. There is no exploitation either by the capitalists as under a free enterprise economy or by the state as under a socialist economy. The United States, Nigeria and India are said to have a mixed economic system because privately owned businesses and government both play important roles in the economy.

SELF ASSESSMENT EXERCISE:

Briefly explain your understanding of mixed economic system

4.0 CONCLUSION

From our discussion so far on the classification of the economy according to ownership of resources, we can conclude as follows:

- That capitalism is an economic system based on private ownership of the means of production and their operation for profit. It is an economic system in which the free market alone controls the production of goods and services.
- That socialism is an economic and political system based on public or collective ownership of the means of production. It emphasizes the steps as to how much to produce, which methods of production to employ and for whom to produce are taken by the planning authority.

- That communism, also known as a command system, is an economic system where the government owns most of the factors of production and decides the allocation of resources and what products and services will be provided. It is a political and economic ideology based on communal ownership and the absence of class.
- That mixed economy refers to market economies with strong regulatory oversight and governmental provision of public goods, although some mixed economies also feature a number of state run enterprises.

5.0 SUMMARY

In this unit, we have attempted to show the classification of the economy according to ownership of resources, covering Capitalism and its features, Socialism and its features, Communism and its features and mixed economy and its features, showing their contributions to resources ownership in the economy and the countries that practice them. You have learnt that an economic system consists of the institutions and the method by which resources are allocated and products and services are distributed. Economic systems differ primarily in who owns the factors of production, how the allocation of resources is directed and the method used to direct economic activity and how the government participates in the economy. Your understanding of this unit should encourage you to be familiar more with the topics in this module as you read ahead against the next unit.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss briefly the meaning and features of capitalism, socialism, communism and mixed economy.

7.0 REFERENCES/FURTHER READING

- Adewunmi, D. O., (2014). Introduction to Comparative Economics, a textbook, 1st Edition, Mill world Publication Limited.
- Sanya, K. Y., (2016). Comparative Economics System, a broader Perspective, 2nd Edition, DDT Press limited, Lagos.
- Quenton, A. O., (2017). Impact of Capitalist of Developing Economy, a Journal of Social Sciences, vol 2, pg 21-43, Mill Screen Publication Limited.

UNIT II: Classification of the economy according to decision making

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Market economy
 - 3.2 Command economy
 - 3.3 Planned and unplanned economy
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

It is good that we have familiarized ourselves with the understanding of basic economic system of capitalism, socialism, communism, and mixed economy was all about in the preceding unit which provides a basic foundational platform that we shall be looking at in this unit. In this unit, we shall be looking at the market economy, command economy, Planned and unplanned economy and how economic decisions are made in these economies. An in-depth explanation of the above topics shall be provided. It is advisable that you critically concentrate as we move along with explanations that will be given.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Understand better, what market, command, planned and unplanned economy is
- Draw comparisons between market and command economy's decision making.
- Mention the features, advantages and disadvantages of planned and unplanned economies.

3.0 MAIN CONTENTS

3.1 Market economy

Our discussion under capitalism leads us to what we shall talk about here which is market economy due to their synonymous nature. The duo has similar economic system features but slight differences due to little government intervention in the market system. You shall understand more about this as we go on.

A market economy is an economic system in which economic decisions and the pricing of goods and services are guided solely by the aggregate interactions of a country's citizens and businesses and there is little government intervention or central planning. This is the opposite of a centrally planned economy, in which government decisions drive most aspects of a country's economic activity. A market economy is a type of economic system where supply and demand regulate the economy, rather than government intervention. A true free market economy is an economy in which all resources are

owned by individuals. Markets are merely places where buyers come to buy and sellers come to sell. The market may be a physical place, such as the Nigeria Stock Exchange, or it may not be a physical place; for example, foreign exchange market transactions take place through communications via telephone and computers between banks and other dealers around the world. Market economies work on the assumption that market forces, such as supply and demand, are the best determinants of what is right for a nation's well-being. These economies rarely engage in government interventions such as price fixing, license quotas and industry subsidizations. In a market economy, it is through the interaction of the buyers and the sellers in markets that the questions of "what to produce", "how to produce", and "for whom to produce" are answered. Because private companies determine what to produce according to their assessment of the goods and services from which they can earn the most profit, it is the buyers who ultimately decide what is produced. Private companies also decide how to produce according to the method that is the most efficient that is the cheapest. And the question 'for whom' is decided according to which potential buyers have the strongest desire for the product and which potential buyers have the greatest incomes.

More so, most developed nations today could be classified as having mixed economies, they are often said to have market economies because they allow market forces to drive most of their activities, typically engaging in government intervention only to the extent that it is needed to provide stability. Although the market economy is clearly the system of choice in today's global marketplace, there is significant debate regarding the amount of government intervention considered optimal for efficient economic operations.

There has been a major change in the world since the late 1970s: market economies have replaced command economies. Countries such as Mexico and Japan are using market mechanisms to a greater extent. This theme will be explored throughout the course. We will consider why this shift has taken place and whether or not it is a good thing. As discussed under capitalism, certain features or characteristics of this economic system are also embedded in the characteristics of market economy. The following are the characteristics of market economy.

Characteristics of Market Economy

1. Free-enterprise
2. Free-market
3. Self-adjusting
4. Self-interests
5. Self-regulating economy
6. Market rivalry and competition
7. Little government intervention
8. Private ownership of resources
9. Private and public resource allocation
10. Consumer Sovereignty
11. Price mechanism

SELF ASSESSMENT EXERCISE:

Market economy is synonymous to capitalism in nature. Discuss

3.2 Command Economy

It should be noted that another advanced type of socialist economic system is regarded as command economy. Just like our earlier discussion under socialism and communism, similar features will be considered and discussed. A command economy is a system where the government, rather than the free market, determines what goods should be produced, how much should be produced and the price at which the goods will be offered for sale. The command economy is a key feature of any communist society. China, Cuba, North Korea and the former Soviet Union are examples of countries that have command economies. It is also known as a planned economy, command economies are unable to efficiently allocate goods because of the knowledge problem that is the central planner's inability to discern how much of a good should be produced. Shortages and surpluses are a common consequence of command economies.

A free-market price system, on the other hand, signals to producers what they should be creating and in what quantities, resulting in a much more efficient allocation of goods. A commander, usually the government, decides what will be produced, how it will be produced, and who will get the goods and services that are produced. As we will see the former Soviet Union was a good example of a command economy. The government decided which goods or services would be produced (for the most important products). This came as an annual plan. The plan would be very detailed. So, for example, if you managed a shoe company, the plan might specify how many size 6 of black shoes you must produce, how many size 8 of green shoes you must produce, and so on. The plan was more than a goal; there were significant penalties to the company management for failing to meet the plan quotas and significant rewards for succeeding. The plan also specified how the goods and services were to be produced. Again, if you were the manager of a shoe company, you might be told how much leather you could have and where you must get it, how many workers you may have, how much machinery you may have, and so on.

However, one feature of the former USSR economy was that the 'what' and the 'how' often did not reconcile. For example, it might not have been possible to produce the number of size 6 shoes that you were required to produce with the amount of leather you were allowed to have. This led to behaviors that were not intended by the government. Even in the former Soviet Union, the government did not decide the 'for whom' question. Generally, people would stand in queue for the goods and services; those in the queue first would have their desires met first and many would be disappointed and forced home. In the United States, a good example of such a command economy is the military: the commanders give the orders on most matters and others are merely expected to follow. Many large companies in the United States and in Europe copied this military command principle. Another example of a command economy involves the control over land in the United States. In the eleven western states, more than 40% of all land is under the control of the United States government (most commonly the Forest Service or the

Bureau of Land Management). These agencies determine who is allowed to graze animals on the land, how much grazing can be done, and what price is to be paid for grazing rights. The Forest Service also determines how many trees can be cut, who can cut them, and the price to be paid to cut them. Hunting, fishing, access to national parks, and so on are also controlled mainly by this command economy principle.

We shall now examine the features of command economy. The main features of this system are detailed below.

Features of command economy

1. Public Ownership
2. Central Planning
3. Definite Objectives
4. Freedom of Consumption
5. Equality of Income Distribution
6. Planning and same pricing process
7. Government owns land
8. Government owns capital
9. Government allocates all scarce resources.
10. Government controls prices for labour and goods.
11. Government determines what, how and for whom to produce.
12. It is authoritarian in nature
13. There is no class in the society

SELF ASSESSMENT EXERCISE:

Explain briefly your understanding of command economy

3.3 Planned and Unplanned Economy

Our discussion here is centered on new nomenclature given to command and market economies known as planned and unplanned economies. Globalisation, market competitions, efficient allocation of resources among citizens as well as taken economic decision has forced many countries of the world to adjust their economic system to suite their taste and as such given it names. This is also a reflection as to the contributions of reputable scholars in the field of economics. Hence our discussion shall be on planned and unplanned economy.

Under a Planned economy which sometimes referred to as a command economy, governments own all of the factors of production such as land, capital and resources, and government officials determine when, where and how much is produced at any one time. The most famous contemporary example of a command economy was that of the former Soviet Union, which operated under a Communist system. Since decision-making is centralized in a planned economy, the government controls all of the supply and sets all of the demand. Prices cannot rise naturally like in a market or unplanned economy, so prices in the economy must be set by government officials. In a planned economy, macro-economic and political considerations determine resource allocation, whereas in a market economy, the profits and losses of individuals and firms determine resource

allocation. Therefore, in a planned economy, the factors of production are owned and managed by the government. Thus the Government decides what to produce, how much to produce and for whom to produce. The following are the features of planned economy.

Features of planned economy:

1. All resources are owned and managed by the government.
2. There is no Consumer or producer sovereignty.
3. The market forces are not allowed to set the price of the goods and services.
4. Profit is not the main objective.
5. The government aims to provide goods and services to everybody.
6. Government decides what to produce, how much to produce and for whom to produce.

Advantages of planned economy

1. Prices are kept under control and thus everybody can afford to consume goods and services.
2. There is less inequality of wealth.
3. There is no duplication as the allocation of resources is centrally planned.
4. Low level of unemployment as the government aims to provide employment to everybody.
5. Elimination of waste resulting from competition between firms.

Disadvantages of planned economy

1. Consumers cannot choose and only those goods and services are produced which are decided by the government.
2. Lack of profit motive may lead to firms being inefficient.
3. Lot of time and money is wasted in communicating instructions from the government to the firms.

Examples of Planned economies are;

North Korea, Cuba, Turkmenistan, Myanmar, Belarus, Laos, Libya, Iran

In some instances, the term planned economy has been used to refer to national economic development plans and state-directed investment in market economies.

Unplanned economy

An unplanned economy on the other hand is an economy where economic decisions regarding production, investment and resource allocation are not linked together through conscious economic planning. This may refer to subsistence-level economies, systems of barter or to more complex arrangements such as market economies, although there may be a significant amount of planning within firms in market and mixed-market economies., Market economies and command economies occupy two polar extremes in the organization of economic activity. The primary differences lie in division of labor or factors of production and the mechanisms that determine prices. The activity in a market economy is unplanned; it is not organized by any central authority and is determined by the supply and demand of goods and services. Alternatively, a command economy is organized by government officials who also own and direct the factors of production.

The two fundamental aspects of market economies are:

1. Private ownership of the means of production
2. Voluntary exchanges of values

The most common title associated with a market economy is capitalism. Individuals and businesses own the resources and are free to exchange and contract with each other without decree from government authority. The collective term for these uncoordinated exchanges is the "market." Prices arise naturally in a unplanned economy based on supply and demand. Consumer preferences and resource scarcity determine which goods are produced and in what quantity; the prices in a market economy act as signals to producers and consumers who use these price signals to help make decisions. Governments play a minor role in direction of economic activity. Therefore the central thought of this system is that it should be the producers and consumers who decide how to utilize the resources. Thus, the market forces decide what to produce, how much to produce and for whom to produce. Let us now look at the features, merits and demerits of Unplanned economy.

Features of unplanned economy

1. All resources are privately owned by people and firms.
2. Profit is the main motive of all businesses.
3. There is no government interference in the business activities.
4. Producers are free to produce what they want, how much they want and for whom they want to produce.
5. Consumers are free to choose.
6. Prices are decided by the Price mechanism i.e. the demand and supply of the good/service.

Advantages of unplanned economy

1. Free market responds quickly to the people's wants: Thus, firms will produce what people want because it is more profitable whereas anything which is not demanded will be taken out of production.
2. Wide Variety of goods and services: There will be wide variety of goods and services available in the market to suit everybody's taste.
3. Efficient use of resources encouraged: Profit being the sole motive, will drive the firms to produce goods and services at lower cost and more efficiently. This will lead to firms using latest technology to produce at lower costs.

Disadvantages of unplanned economy

1. Unemployment: Businesses in the market economy will only employ those factors of production which will be profitable and thus we may find a lot of unemployment as more machines and less labour will be used to cut cost.
2. Certain goods and services may not be provided: There may be certain goods which might not be provided for by the Market economy. Those which people might want to use

but don't want to pay may not be available because the firms may not find it profitable to produce. For example, Public goods, such as, street lighting.

3. Consumption of harmful goods may be encouraged: Free market economy might find it profitable to provide goods which are in demand and ignore the fact that they might be harmful for the society.

4. Ignore Social cost: In the desire to maximized profits businesses might not consider the social effects of their actions.

Countries like the USA, Canada, UK, Germany, France, Japan, China, South Korea, South Africa, Singapore, Malaysia, Hong Kong, Egypt, Nigeria, to mention but few, are few examples of economies with an unplanned system

SELF ASSESSMENT EXERCISE:

Highlight and explain the features of planned and unplanned economy.

4.0 CONCLUSION

From our discussion so far on classification of the economy according to decision making. We can conclude as follows that:

Under a Planned economy which sometimes referred to as a command economy, governments own all of the factors of production such as land, capital and resources, and government officials determine when, where and how much is produced at any one time.

Prices arise naturally in an unplanned economy which is also market based on supply and demand. Consumer preferences and resource scarcity determine which goods are produced and in what quantity; the prices in a market economy act as signals to producers and consumers who use these price signals to help make decisions. Governments play a minor role in direction of economic activity

5.0 SUMMARY

In this unit, we have seen the classification of the economy according to decision making under Market economy, Command economy, Planned and unplanned economy.

You have learnt the decision making technique in market and unplanned economy as well as the command and planned economy, and that each countries adjust to any economic system that suite them. Your understanding of this unit will usher you into the next unit which discuss comparison of economic ownership of resources and decision making. I expect you to read ahead against the next unit.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss in detail the decision making process as witness under market, command, planned and unplanned economies.

7.0 REFERENCES/FURTHER READING

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UNIT III: Comparison of ownership of resources and decision making

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Capitalism, capitalist and non-capitalist market
 - 3.2 Planned and command economies
 - 3.3 centralization and decentralization of economies
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit, attention will be given to little comparisons between capitalistic market versus non capitalistic market, planned versus command economy and decision making under centralization and decentralization of economy drawing differences in these systems as pointed out by critics or scholars of economics and showing different countries economic system.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Know the distinctions between planned and command economies
- Explain the differences between capitalistic market and non-capitalistic market
- Understand the decisions making in centralize and decentralize economy.

3.0 MAIN CONTENTS

3.1 Planned and command economies

In spite of the similar features of planned and command economies, there has been criticism arising from the way it is been perceived in some economies meaning that it has certain differences. Ownership of resources and decision making may sometimes be jeopardize by certain factors which may not want the economic system to work.

Planned economies are held in contrast with command economies, where a planned economy is "an economic system in which the government controls and regulates production, distribution, prices, but a command economy, while also having this type of regulation, necessarily has substantial public ownership of industry. Therefore, command economies are planned economies, but not necessarily the reverse.

Whereas most of the economy is organized in a top-down administrative model by a central authority, where decisions regarding investment and production output requirements are decided upon at the top in the chain of command, with little input from lower levels. Advocates of economic planning have sometimes been staunch critics of

these command economies. For example, Leon Trotsky believed that those at the top of the chain of command, regardless of their intellectual capacity, operated without the input and participation of the millions of people who participate in the economy and understand/respond to local conditions and changes in the economy, and therefore would be unable to effectively coordinate all economic activity.

Another key difference is that command economies are usually authoritarian in nature, whereas economic planning in general can be either participatory and democratic or authoritarian. Indicative planning is a form of planning in market economies that directs the economy through incentive-based methods. Economic planning can be practiced in a decentralized manner through different government authorities. For example, in some predominately market-oriented and mixed economies, the state utilizes economic planning in strategic industries such as the aerospace industry. Mixed economies usually employ macroeconomic planning, while micro-economic affairs are left to the market and price system. According to studies of Eastern European, planned economies in the 1950s and 1960s by both American and Eastern European economists found that, contrary to the expectations of both groups, they showed greater fluctuations in output than market economies during the same period and even in this 21st century, economies are fast changing to centrally planned market system

SELF ASSESSMENT EXERCISE:

Identify and explain differences synonymous to planned and command economic system

3.2 Capitalism, capitalist and non-capitalistic market

From our previous discussion on capitalism and market economy, we are concerned here with drawing a difference from the two economic model. According to Steven Nickolas, a capitalist system and a free market or non-capitalistic system are economic environments where supply and demand are the main factors of price and production of goods and services. Although the two economic systems are based on the law of supply and demand, these systems are different. Capitalism is an economic system based on ownership of the factors of production. Some key features of capitalism are competition between companies and owners, private ownership and motivation to generate a profit. The production and pricing of goods and services is determined by the free market, or the supply and demand. A free market system is an economic system based solely on demand and supply, and there is little or no government regulation. In a free market system, a buyer and a seller transact freely only when they voluntarily agree on the price of a good or a service. For example, suppose a seller wants to sell a toy for N500 and a buyer wants to buy that toy for N300. A transaction will occur when the buyer and the seller agree on a price.

It should be noted that a major distinction or difference is that the economic model of capitalism is focused on the creation of wealth and ownership of capital and factors of production, whereas a free market system is focused on the exchange of wealth, or goods and services. Invariably, a free market or non-capitalistic system is based solely on supply and demand and leads to free competition in the economy, without any intervention from outside forces. On the other hand, a private owner in a capitalist system

can have a monopoly on the market and prevent free competition. For example in the USA where pure capitalist emerged from, the capitalist main concern is to exploit labour that is using workers and not given them enough for the labour supply. For government to therefore play their role, they have to intervene to reduce the exploitation of these capitalist through legislative policies and laws that protect labour.

SELF ASSESSMENT EXERCISE:

Capitalist and non-capitalist market system have certain distinctions. Discuss

3.3 Centralization and Decentralization of economy

It is imperative to note here that centralization means being at the center that is there is a control force that can be seen in the economy which is the government. On the other hand, decentralization reflects the non-control force of the government but the control force of the invisible hands which is the market force of demand and supply. We shall again look at how decisions are taken in both centralized and decentralized economies irrespective of the names given to such economic system.

In a market economy which is decentralize in nature, decisions as to what to produce, how to produce, for whom to produce, and how much to invest in the future are made through arms-length, impersonal transactions involving large numbers of buyers and sellers in markets with no government interference. Obligational contracting is similar to a market economy, except that sellers and buyers expect to maintain stable relationships over time. This desire for long-term relationships leads to decisions that are different from those that occur in pure markets.

In a command economy which is centralize in nature, decisions are made by government agencies. Companies typically produce all parts of the product within the company, based on orders from the government agencies. They operate with strict bureaucratic procedures with an emphasis on rules, supervisory procedures, and incentives. Most economies have some elements of each type. However, economies tend to be oriented more in one direction or the other. Let us consider some of the countries studied in this course:

The United States is basically a capitalist, market economy. The Former Soviet Union was basically a socialist, command economy. Russia is moving toward being market economy, with private ownership. Japan is basically a capitalist economy based on obligational contracting. The government is more involved with private owners of capital than is found in the USA. Most European countries are capitalist and market economies.

However, government ownership is more extensive than is true in the United States. Interference with free markets is also more extensive. There was considerable privatization in the 1980s and 1990s. China was a socialist and command economy. It has been moving toward greater use of markets and more (although little) private ownership of capital. Mexico was a country with considerable government ownership and interference with markets. In the 1980s, there has been privatization and less interference with markets. Likewise the Asian tigers of Singapore, Malaysia, Hong Kong, Taiwan and others like India, South Africa and Nigeria are all moving towards a market based economy with minimal government interference.

SELF ASSESSMENT EXERCISE:

Briefly explain your understanding of centralized and decentralized economy with relevant examples.

4.0 CONCLUSION

From our discussion so far on the comparison of economic ownership of resources and decision making. We can conclude that: Command economies are usually authoritarian in nature, whereas economic planning in general can be either participatory and democratic or authoritarian. Indicative planning is a form of planning in market economies that directs the economy through incentive-based methods. Economic planning can be practiced in a decentralized manner through different government authorities.

One major distinction or difference of capitalistic and non-capitalistic economy is that the economic model of capitalism is focused on the creation of wealth and ownership of capital and factors of production, while a free market system is focused on the exchange of wealth, or goods and services. However, economic decisions are made based on the economic model suitable for each country's economy.

5.0 SUMMARY

In this unit, we have examined the comparison of economic ownership of resources and decision making, capitalist market versus non-capitalist market, Planned versus command economies, decision making under centralization and decentralization of economies. It can therefore be concluded that although there are similarities and differences in economic system but economic decisions are made based on the economic model suitable for each country's economy. I strongly believe that your understanding of this unit and module will usher us into the next module which is the theory of Marxian economics. I expect you to read ahead as you prepare for the next module.

6.0 TUTOR-MARKED ASSIGNMENT

Government intervention is inevitable in the economy; explain this in line the USA economic system.

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MODULE 3

THE THEORY OF MARXIAN ECONOMICS

Unit 1	Perspective of Marxian Theory
Unit II	Economies of USSR and China
Unit III	Economics of Yugoslavia, Hungary and Cuba

UNIT 1: PERSPECTIVE OF MARXIAN THEORY

CONTENTS

1.0	Introduction
2.0	Objectives
3.0	Main Contents
3.1	Short history of Karl Marx
3.2	Classical and Marxist theories of Economic Change
3.3	Evaluation of Marxism
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
7.0	References/Further Readings

1.0 Introduction:

Our discussions so far from preceding modules had introduced to us what we need to know about country's economic systems. There is no country, whether developed or Less developed that has not in one way or the other made use of economic models or systems to suite their society as clamored for by their citizens or by scholars of repute who are known to be critics of any government or leadership that is not answering the basic economic questions and tackling the problem of the society. A prominent German scholar known as Karl Marx is our focus in this module. Therefore, our discussion in this module will describe the basic concept of communist and socialist society as advocated by the likes of Karl Marx who believe in an egalitarian society devoid of cheating, class and exploitations.

2.0 OBJECTIVES

At the end of this unit, you should be able to;

- Write the history of Karl Marx as a social crusader.
- Determine the view of Classical and Marxist of economic change.
- Evaluate the arguments and criticisms of Karl Marx.

3.0 MAIN CONTENTS

3.1 Short history of Karl Marx

Karl Marx, a German was an historian, a sociologist, a philosopher, a radicalist, and also an economist who lived from 1818 to 1883. It was this uniting of theory and political action that separated him from the other economists of his generation. He spent his early life in Germany, but was expelled from that country in 1848 after a series of uprisings. He spent the rest of his life in England where he often collaborated with another German juggernaut named Friedrich Engels. It is reasonable to argue that no economist had as much influence on the subsequent history of the world as Marx, for good or bad. The communist countries of the former Soviet Union, Eastern Europe, and China were “Marxist”. The social market economies of Western Europe were strongly influenced by his ideas and that is why he is a school of thought when comparing economic system of countries. His influence was also important in the policies of the countries that today are called the emerging nations. He might be considered “the father of socialism” although, as we will see, the word “socialism” means different things to different people. In fact, Marx wrote very little about socialism, his most famous work on the subject being “The Communist Manifesto”, published in 1847. Nearly all of Marx’s writings were about capitalism and the most famous work was called Das Kapital, which was published in 1867.

SELF ASSESSMENT EXERCISE:

Write short notes on the history of Karl Marx.

3.2 Classical and Marxist Theories of Economic Change

According to Professor Elliott Parker in a ‘lecture note of EC 301’ Comparative Economic Systems, says Karl Marx viewed economic change as a revolutionary process, and one which determined social and political structures. He was influenced by Georg Hegel's philosophy of the dialectic, describing all events as a struggle between opposites, between a thesis and its antithesis, resulting ultimately in a synthesis. Hegel, however, believed that reality was idealistic rather than materialistic, and this was challenged by the philosopher Ludwig Feuerbach. Marx saw history as determined by materialism and the struggle between socioeconomic classes. In the Marxian approach, known as historical materialism, productive forces that is economics such as technology, accumulated capital, and labour determine the relations of production (how the economy is organized), which in turn determines the superstructure (including the structure of society, art, religion, politics, and other formal and informal institutions). Weak productive forces might lead to a Feudal economy, for example, complete with a cultural, ideological, and religious framework sustaining the serf-lord relationship. Not only are economic forces primary in this view, but ideology, religion and culture are reflective of the productive forces rather than influential in changing them.

Marx saw capitalism as an economic system defined by the exploitation of the working class that is labourers called “proletariat” by the capitalist class that is employers called (bourgeoisie) through the latter's ownership of the means of production, alienating labour

from its product. He predicted that capitalism's own contradictions would lead to a revolution destroying it. Chief among these was the prediction that competition among capitalists would drive them to accumulate more capital, and drive profits down. Marx believed that all value comes from labour, and thus all profit is the surplus value not paid to workers. As capitalists accumulate capital to stay competitive, they use relatively less labour and must therefore exploit that labour at higher rates. Increased rates of exploitation, combined with cycles of overproduction and under consumption, will ultimately push the proletariat to the wall, until they gain class consciousness, unite, and revolt against the capitalist system.

It is important to understand that Marx saw capitalism as a necessary step on the road to socialism and eventually communism. Capitalism was, in his view, an engine of progress because it promoted rapid capital accumulation, which would continue until scarcity was eliminated. However, he also saw it as very wasteful, because it produced unnecessary products as capitalists competed for customers, and because competition forced bankrupt firms to shut their doors, leaving their productive capital assets unused by society. Factories stood empty, machines rusted in the corner, and unemployed workers sat home. Let us also consider the following points as argued by Karl Marx.

3.2.1 Alienation and Freedom

To Marx, the pursuit of profit under capitalism became associated with specialization. As a result, workers lose the satisfaction from work that used to exist when most workers were craftspeople. Since the worker does not see the result of his or her own labor, he or she loses connection with it. This loss of psychological satisfaction from work is one meaning of what Marx called “alienation”. A worker becomes alienated from his or her own labor. In addition, under capitalism, workers are totally dependent on capitalists in order to make a living. It is much easier for the capitalist to withdraw the capital from the worker than it is for the worker to withdraw the labour from the capitalist. This means that the balance of power in the relation between the capitalist and the worker is always with the capitalist. Workers are treated as mere commodities. Companies are totally authoritarian. This feeling of having one’s life totally under the control of others is another meaning of “alienation”. To Marx, capitalism increased the alienation of workers.

Moreover, rather than show their anger in revolt, workers repressed their anger and shifted into other activities. One is the drinking of large amounts of alcohol. Another, to Marx, was religious practice and ritual. This is the origin of Marx’s famous line: “religion is the opiate of the masses. Leadership would be needed to mobilize the alienated workers and channel their energies into political action in order to change the conditions of their lives.

That view of freedom is “freedom from government action”. I am free as long as government does not restrict me from doing as i wish. Marx accepted this but add to it that freedom also requires empowerment. Let us take an example of an American woman of Mexican descent works in a sweatshop in the garment district of downtown Los

Angeles. The pay is low, the work is long and hard, and the working conditions are terrible. The woman works there because, with her personal background and with discrimination against women and against people of Mexican ancestry, she can't find anything better and she needs the money. To him the question is, is this woman free? Traditional American thinking would answer yes; she is free because no government policy is preventing her from leaving this bad job. She is there by her own choice. Marx would answer no; she is not free because she is involuntarily restricted from being able to act in the world so as to meet her personal needs. She is not empowered.

3.2.2 The Role of the Government

The government which Marxists refer to as the "state" was seen as a role player in a negative way. To Marx, the "state is but a committee for managing the common affairs of the whole bourgeoisie". Marxists usually refer to the capitalists as the "ruling class". Even in a democracy, those with access to the financial support of the rich capitalists and corporations will have the only chance of being elected. The newspapers and television networks are owned by large corporations. Therefore, the "news" will reflect their corporate perspectives. Those placed in appointive positions in government will have gone to the "best schools" such as "Harvard and Yale". These best schools are expensive and out of the reach of ordinary people who have neither the funds nor the connections to gain entrance to them.

In the 1930s, it became apparent that the government of the United States and also of all Western European countries acted in the interest of the workers. Unions were legitimated and even helped. Many social welfare programs were enacted. At that time, the Marxist interpretation changed slightly. The government was now seen as acting in the long-run interests of the capitalist class, but not necessarily in its short-run interest. The long-run interest of the capitalist class involved preserving the system of capitalism and the dominant role of the capitalists in that system. By allowing workers more income through their unions and more economic security, the workers became part of the capitalist system.

Today, most American workers support the institutions of capitalism very strongly. Unions have been allowed to push for better wages and benefits but were not allowed to threaten the authority of management over corporate decisions. Marx saw the state as hostile to the proletariat. As he stated, "workingmen have no country" Workers have common interests only with other workers, not with their country. Therefore, the approach of Marxists has always been international to unite workers of many countries according to their common class interest. One still sees this in the names of many unions, which start with the word "International".

SELF ASSESSMENT EXERCISE

Elucidate on the view of classical and Marxist theory as to how the society should be. .

3.3 Evaluation of Marxism

While Marx did not like capitalism, he saw it as having an historical function. The capitalist stage of history was to raise the standard of living to high levels. The socialism and communism of which he wrote were to come in rich countries. In fact, the revolutions that created communist societies have all come in relatively poor countries. It would probably not surprise Marx that these revolutions led to such disappointing results. Some of Marx's statements about capitalism were accurate. Capitalist countries have been subject to periods of recession and depression.

Indeed, the great depression of the 1930s was the high period in the acceptance of Marx's theories. Companies have indeed grown into large corporations. Ownership of capital seems to have become concentrated into fewer hands (although this is debatable). The high unemployment that often exists in capitalist countries and the high amount of immigration from poor countries provide what might be called a reserve army. Capitalist countries do indeed experience high levels of inequality. This inequality tends to increase in periods when the influence of the government is less (as since the 1980s). Although it is hard to measure, it is easy to argue that much work is alienating. And capitalist countries have engaged in frequent wars some of which can be argued to fit Marx's description of imperialist wars.

On the other hand, Marx's theory can be subjected to a large number of criticisms. Some people criticize the theory itself the labor theory of value, the difficulty of specifying surplus value what happens to it? The loose specification of subsistence, and so forth. Others focus on certain of the predictions. For example, competition in American industry actually increased for a time, contrary to Marx's prediction. Also, the profit rate has shown no tendency to fall over the long term. But these criticisms seem minor in relation to others. Let us consider four of the more important criticisms here.

Firstly, Marx failed to see the ability of capitalism to transform itself that is, to maintain the important elements of the system while mitigating the worst problems. This failure results from Marx's failure to understand that once all adults had gained the right to vote, the working classes would form political parties and non-revolutionary labour unions. In a democracy, these institutions would make the state responsive to the interests of the working class. As a result, rather than increasing immiserating, wages tended to rise and bring much of the working class into the middle class. Also, the growth of the welfare state reduced some of the inequalities and insecurities that exist under capitalism. And government policies have been able to moderate but not yet eliminate the business cycle; recessions exist but they have not been as devastating as in the past. Workers have become a conservative force supporting the institutions of capitalism. There has never been a proletarian revolution.

Secondly, Marx failed to understand the important role of nationalism in the conduct of people internationally and the important role of ethnicity in determining one's identity. The working class in America has consistently been divided by ethnicity and has been weakened by ethnic prejudices. Class, as defined by Marx, has not played an important

role in determining one's identity, especially in the United States. In fact, in the United States, we define class more by one's income than by one's relation to the means of production. White-collar and blue-collar workers seem to have little in common in America and seem to not identify with each other.

Thirdly, Marx failed to understand the famous dictum of Lord Acton: "Power corrupts and absolute power corrupts absolutely." He believed that, after the revolution, the Communist Party would act as a vanguard for the working classes during the transition to pure communism. Instead, communist parties usually used their position of unchallenged power to act in their own interests, including enriching the leaders of the party. Marx never even began to consider the question of how to guarantee basic liberties, civil rights, and human rights.

Finally, Marx's assertion that the individual is nothing more than a product of the society leads to the belief that the society is more important than the individual. Certainly the basic philosophy of America begins with the belief in the primary importance of each individual. In communist countries, and especially in Mao's China, Marx's belief led to attempts to try to remake people that is to use what are called "moral incentives" instead of material incentives. Marx's theories were a great influence on the so-called communist countries. They were also a great influence on much of democratic Western Europe. We will see this influence as we study the history of the countries discussed in this course. Marx's influence has been greatly reduced, if indeed there is any influence left at all. As we examine the various countries, we will have to try to explain why Marx's influence declined so greatly and why the model of liberal market capitalism replaced it so thoroughly.

SELF ASSESSMENT EXERCISE:

Evaluate in your own words the position of Marxist of what a society should look like.

4.0 CONCLUSION

From our discussion so far on perspectives of Marxian theory, we can deduce the following facts: That socialist society as advocated by the likes of Karl Marx should be an egalitarian society devoid of cheating, class and exploitations.

That Karl Marx dislikes capitalism as an economic system because to him, it is not an economic system that is fair on the people.

5.0 SUMMARY

In this unit, we have attempted to show perspectives of Marxian theory, discussed the history of Karl Marx identify the Classical and Marxist theories of Economic Change and the evaluation of Marxism. I believe your understanding of this unit has given you a basis to understand the next unit. I expect you by now to be anxious of reading more about economies of USSR and China which will be duly served in the next unit.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss vividly the ideology of Karl Marx as to how a decent society's economic system should be.

7.0 REFERENCES/FURTHER READING

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UNIT II: ECONOMIES OF USSR AND CHINA

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Economy of the Soviet Union
 - 3.2 The Economy of China
 - 3.3 The Similarities and differences of USSR and China economic revolutions
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

Having familiarized ourselves with the Marxian school of thought as to how the society should exist, this brought us to what we shall discuss in this unit as advocated by Karl Marx. The rise and subsequent collapse of communism must certainly be one of the major events of the 20th century. As a matter of fact, communism came into full existence in the 19th century but did not become a major force in the world until the creation of the Soviet Union following the Russian Revolution of (1917). During World War II, the Soviet armed forces brought communism by force to much of Eastern Europe. Political revolutions also brought communism to China, North Korea, Vietnam, and Cuba. The result of this was the Cold War and in the 1980s, communism began to change considerably. Communist countries took on more and more of the characteristics of market economies. By the early 1990s, communism had collapsed completely in the former Soviet Union and in Eastern Europe. At the moment, China, Vietnam, North Korea and Cuba still have communist economies but they are very different from the period before 1980. Indeed, China has become basically a market economy, as we will see later in this unit. At the beginning of the new millennium, market economies have become totally dominant among the countries of the world

2.0 OBJECTIVES

At the end of this unit, you should be able to;

- Appraise the success and failure of the Soviet Union economy as a communist country.
- Understand the movement of China as a communist country to market economy.
- Discuss the similarities and differences of USSR and China economic revolutions

3.0 MAIN CONTENTS

3.1 Economy of USSR

In module 2 of this course, the terms “socialism” and “communism” was discussed. By our definitions, socialism occurs where the government owns and controls most of the capital goods. A socialist economy becomes “communist” when the government is not a democratically-elected one. The former Soviet Union can be used as the best example of

a prototype communist economy from its inception in 1918 until its collapse in 1991. Indeed, most of the other communist countries patterned their economies on what had been done in the former Soviet Union. For us to analyze communist economies like that of Soviet Union in detail, we shall focus on a few key components which are 1. The Components of a Communist Economy, 2. Economic Performance of the Former Soviet Union and 3. The Reform of the Soviet Communist Economy . Let us examine each of these one by one.

3.1.1 The Components of a Communist Economy

1. The big push

All of the countries that adopted communist economies did so at a time of considerable economic backwardness. Upon taking power in the Soviet Union in 1929, ‘Stalin’ who was the leader at that time, saw the reason for a big push through industrialization within 10 years to overcome 100 years of backwardness in order to survive. In order to industrialize quickly, the focus therefore was to be on large, capital-intensive projects in “heavy industry” and so goods and housing had to be discouraged. The need to channel resources into these priority areas required the government to have considerable control over the economy. This was accomplished through a highly centralized Communist Party who made all major appointments, promotions, and dismissals in the enterprises that came to comprise the Soviet economy.

2. State owned enterprises with a soft budget constraint

As discussed above, in a socialist economy, capital goods are owned by the government. In the former Soviet Union, all enterprises including all land were indeed owned by the government. Those who managed the enterprises were bureaucrats. They were most likely to have been members of the Communist Party, as this was the path to any career success. As with all decision-makers, incentives were given to enterprise managers for meeting their plan targets. There were many plan targets to meet, but the one with the greatest rewards was the target for production. Meeting the production target would bring the managers of the enterprises considerable financial reward. For the manager of the enterprise, power and prestige increased as the size of the enterprise increased thereby leading to a budget constraint which has to be given a preference for their operations to be successful.

3. Central Planning

In the former Soviet Union, central planning largely replaced the market. Planners’ preferences replaced consumers’ preferences. Generally, there was a five-year plan to set major goals and priorities and an annual plan. The annual plan would set the plan targets that were discussed above. This annual plan began with targets for production for the entire economy. These targets were then broken down by sector, such as agriculture, industry, transportation, and so on to be executed by the central planners which sometimes get to enterprise level.

4. Collective Farming

When a country is beginning to develop economically, the agricultural sector must meet the goals of food and raw materials productions, export income earnings, grow manufacturing sector, reduce unemployment.

To achieve these results, the former Soviet Union decided to have agriculture collectivized. Collectivization was done in a very bloody and destructive manner in the 1930s, throughout most of the Soviet period, agriculture which rarely performed as intended never changed the basic character of Soviet agriculture. Let us examine how Soviet agriculture performed based on the functions specified above.

(a) Soviet agricultural production rarely reached the goals of the planners. Indeed, the growth rate of agricultural production was quite low by any standard. In the 1970s, it was estimated that agricultural production per worker was only 6% that of the United States and that production per machine was only 33% that of the United States.

(b) The labour force in agriculture did fall, as intended, to provide workers for the growing industries. But it did not fall very much. For example, from 1970 to 1983, the agricultural labour force fell by only 700,000 people out of a total of 26.8 million. The labour force for the growing industries had to come from forcing almost all married women to work.

(c) The Soviet government tried to extract savings from farm workers through high taxes. This money was to be invested in industry, not agriculture. Because of this policy, agricultural infrastructure was poor. About one-fifth of all grain, fruit, and vegetables would perish due to poor storage facilities. At least 20% of all tractors would be out of service at any given time.

(d) Lastly, rather than provide export products, Soviet agriculture performed so poorly that large quantities of meat and grain had to be imported. In the mid-1970s, the Soviet Union and the United States agreed to two large sales of wheat to the Soviet Union known to some in the United States as the “Great Grain Robbery”.

5. A Shortage Economy

In the former Soviet Union, prices were not determined by demand and supply. Indeed, in most cases, prices were set below market-level prices and were rarely changed. The result was shortages of most consumer goods. The shortages were most commonly resolved by distribution on a first-come, first served basis. Long lines were pervasive throughout the former Soviet Union. It was common for people who had worked a full day to spend two more hours in line shopping 5 or 6 days a week. For example, if one had a recipe that required three or more ingredients, one could be assured that at least one of these ingredients would not be available at all. The average waiting time for housing was ten to fifteen years, likewise the average waiting time for an automobile or a telephone was over three years. The pervasiveness of shortages led to forced savings called a “monetary overhang”. This means that people had income but could not find anything to spend it on, therefore they saved it unwillingly.

A shortage economy also leads to black markets. In the former Soviet Union, this was called the Second Economy. For example, large amounts of clothing and housing services such as repairs were sold in the black market at high prices. It now became obvious that bribery of government officials was a fact of everyday life. There were also shortages in the labour market whereby workers were free to move between jobs. Workers were generally hard to find while jobs were easy to find.

3.1.2 Economic Performance of the Former Soviet Union

This description of the economy of the former Soviet Union is a description of an economy modeled on the military. Those at the top gave the orders and others obeyed. The use of markets was more limited than in most other countries. The economic performance of this type of economic system was generally unsatisfactory. Let us examine its performance.

There are many measures of economic performance. But since the goal of the planners was economic growth, let us focus just on this measure. According to official Soviet statistics, from 1950 to 1984, production in the former Soviet Union grew at an annual rate of 7.6%. American estimates had this growth rate much lower at 4.4%. This would mean that, each year, the former Soviet Union would produce 4.4% more goods and services than the year before. During the same period, the American economy grew at an annual rate of 3.4%. Especially during the 1950s, when Americans thought that the former Soviet economy was growing at an annual rate of 6%, there was great fear that the Soviet Union would catch up with, or even overtake, the United States.

Moreover, while the Soviet rate of economic growth in this period looks very good, two important points need to be noted. First, according to American estimates, the growth of the economy of the former Soviet Union slowed consistently over this time. From 6% in the 1950s, the Soviet economy grew 5.1% in the 1960s, 3.7% in the 1970s, and only 2% from 1980 – 1984. The second point is that, after communism ended and Soviet records were made available to Americans, we learned that American estimates of Soviet growth were too high. The economy of the former Soviet Union was actually performing more poorly than we had thought. By the mid-1980s, production in the Soviet Union may not have been growing at all. The relatively high growth rates of the 1950s and 1960s reflected extensive growth. By 1970, the ability to grow by through extensive growth was beginning to run out as the quantities of both labour and capital were growing slower than previously. The low growth rates after 1970 indicate that the Soviet economy was not doing a good job at increasing the productivity of its workers nor of improving its technologies. The best measure we have of this is quantity produced per unit of input, where “input” includes both labour and capital.

In the 1950s, this measure rose at an annual rate of 1.7% per year in the former Soviet Union. From 1960 to 1981, it rose at an annual rate of only 0.8%. And from 1983 to 1987, it actually fell at an annual rate of 0.7%. The former Soviet Union was not only behind the countries of the West, it was losing ground. By the middle of the 1980s, the

leaders of the former Soviet Union had come to believe that their country had little chance of achieving a desirable rate of economic growth without making fundamental changes in the economic system.

3.1.3 Reforms of the Soviet Communist Economy

The last half of the 1980s was a period of perestroika, meaning restructuring. This was the plan of the Soviet leader, Mikhail Gorbachev who was the then leader, to reform the economy without changing its basic communist character.

It is important to note what perestroika did not do.

(1) It did not allow for a change in property arrangements. Enterprises were still owned and controlled by the government. State farms and collective farms in agriculture were retained.

(2) It did not create prices that were determined by demand and supply.

(3) It reduced, but did not eliminate, central planning.

(4) It did not open the country to international trade, although it did allow enterprises, for the first time, to enter into foreign trade agreements on their own. In all, perestroika only made marginal changes in the economy. And it was implemented slowly over time. The government sends an emissary to Britain to try to discover why the traffic accident rate is so low in Britain. The emissary returns and reports to the Minister of Transportation that the reason is that the British drive on the left side of the road. “Good”, say the Minister. “We will do that too. But we’ll start with just the trucks.” If one can imagine the trucks on the left side and the cars on the right side, one gets a good sense of the confusion caused by the slow implementation of reform).

Enterprises could now make deals with each other. But there was no legal system to enforce the deals. And there were no wholesale markets to reduce the transactions costs of making the deals. Some prices were freely negotiated and some were set by the government. Some production had to be sold to the government while other production did not. The rules were constantly changing. Because perestroika was resisted by those in high government positions, no one could be sure that the reforms would last. This confusion caused production to actually fall in 1989 and 1990. And between 1985 and 1989, the budget deficit more than doubled. This means that the government was spending much more than it was taking in as tax revenues. Rubles were being created at very rapid rates to pay for these budget deficits. This increase in money available, at a time production was falling, created very great shortages. In response, many of the changes of perestroika were reversed. It was an admission of failure.

In August of 1991, communism collapsed completely after a failed coup against Gorbachev by hardline party members. The former Soviet Union broke into different countries. After the cold war was over in 1991, Boris Yeltsin took over as the leader of Russia, the largest part of what had been the Soviet Union. Since that time, Russia has attempted a rapid transition to a market, capitalist country. Nothing like this had ever been attempted. So far, there have been some clear successes and some clear failures in that attempt.

SELF ASSESSMENT EXERCISE

Critically assess the success and failure of communism using the Soviet Union economy as a reference point.

3.2. THE ECONOMY OF CHINA

Like the Soviet Union that we considered earlier, China was also a communist country that adopted all the characteristics of a communist country like the former Soviet Union. Our discussion will center on four specific sub-periods: (1) 1949 to 1958, (2) The Great Leap Forward (1958 to 1961), (3) 1961 to 1978 interrupted by the Cultural Revolution (1966 to 1969), and finally (4) the Reform Period (1978 to the present day China). The first three of these periods comprise what we can call “the Socialist period.” With its victory over the Nationalist government in 1949, the Chinese Communist Party came to power. The communist party leaders agreed that the country needed to develop economically and that such development was to occur within a socialist framework. Let us carefully discuss them.

(1) 1949-1958 CHINA

The first decade following the Communists coming to power was a period of recovery from the destruction caused by years of war and revolution. It should not be too surprising that at this time the Chinese attempted to create an economic system similar to that of the Soviet Union. In fact, aid from the Soviet Union helped finance Chinese industry in this period and the Soviet Union provided important technical assistance. The influence of the economic system of the Soviet Union in this period is shown in three important ways. Firstly, agriculture was collectivized i.e. it involved the participation of everybody collectively. A land reform took place between 1949 and 1952 that virtually eliminated the landlords and rich peasants as social classes. This was followed by the merging of the rural population into more advanced types of cooperatives until finally, in 1958, most of the rural population were organized into communes. Secondly, wholesale trade, retail trade, and most of industry came under complete government control by 1956. Enterprises “belonged” to a Ministry, as in the Soviet Union. Thirdly, in 1953, China launched its first five-year plan, modeled on the Soviet materials balance planning system. China adopted the “Big Push” strategy.

Investment spending was promoted greatly while consumption was restricted. Large industrial projects were favored despite China’s large number of workers and shortage of capital goods. Between 1952 and 1978, the share of Chinese GDP accounted for by industry rose from 18% to 44%. Fourthly, through the planning system, prices were artificially set by the government that is, prices did not reflect demand and supply. Prices were artificially high for industrial goods and artificially low for agricultural goods. Fifthly, wages were also set by the government. They were low and were rarely changed.

(2) The Great Leap Forward, 1958 to 1961

The first important manifestation of Mao’s belief in what could be accomplished by sheer human willpower came with the Great Leap Forward. In agriculture, the Great Leap Forward is associated with the rapid establishment of the commune. The communes were extremely large and had both economic and governmental functions. Mao had advocated

the rapid establishment of communes as a way to overcome the tendencies to revert to capitalism. The “pragmatists” had opposed it, believing that collectivization in agriculture should come after the country industrialized. The commune was an organizational form that was intended to increase agricultural production significantly while requiring fewer agricultural workers. These surplus agricultural workers were then to be shifted to industry. Nearly 30 million new workers were absorbed into the urban government owned factories in 1958 alone, with millions more taken out of agriculture to work in rural factories. Mao believed that this organizational change alone, without increased state investment spending, would be capable of increasing industrial production while also increasing agricultural production enough to feed the population and provide the raw materials needed by industry and increasing industrial growth. A rift later ensued between china and Soviet Union which resulted into the great leap failure.

(3) 1961-1978

The failure of the Great Leap Forward and the split with the Soviet Union reduced the influence of Mao. At this time, the “pragmatists”, led by Liu Shaoqi and Deng Xiaoping, became major influences on Chinese policy-making. These pragmatists believed that economic development was more important than political considerations at this early stage of China’s development. They believed that, with the elimination of the capitalist and rich peasant classes, the class struggle in China was over. They thought that industrial growth and efficiency through modern technology and modern management were the goals that China ought to be pursuing. To achieve these goals, the “pragmatists” relied heavily on material incentives. In the early 1960s, profits became more important incentives for enterprise directors in industry and wage bonuses became more important incentives for workers. It should be stressed that, in this period, profits and bonuses were still of secondary importance. The government agreed to spend more on agriculture and agricultural-related industries. About 20 million workers were sent back to work in agriculture. Industrial production almost doubled while agricultural production rose almost 50%. The period of the late 1960s was one of widespread unrest. Various factions fought (often with each claiming itself as the only one true to Mao’s thought). Millions of paramilitary troops, organized as Red Guards, caused widespread disruption.

In 1965, with the American escalation in Vietnam, the recent split with the Soviet Union, and the weakness caused by the failure of the Great Leap Forward, China felt militarily threatened. From 1965 to 1971, China tried to develop a “Third Front”. The Third Front was a massive construction project to create an entire industrial system in remote sites in the interior of China. Many of the excesses of the Cultural Revolution were ended by 1970. In the early part of the 1970s, the pragmatists regained control of most of the government administration. Material incentives were re-established. Central planning was re-instituted with even greater decentralization to lower levels of government. Relations with the United States were opened in 1972 with the visit of President Nixon. This led to a greater openness to trade and to the importation of Western equipment and technology.

(4) The Reform Period: 1978 to the Present

The recent reform period began in 1978. The reform period has been noted for the limited importance of any ideological considerations. The goal has been economic development and the leadership has embraced whatever means it believed were necessary to achieve that end. As you will see in unit, this has meant an expansion of markets, an expansion of production from companies not owned by the central government, and an opening to the global economy that would have been unthinkable prior to 1978. By the mid-1990s, China had moved away from being a command economy and had become basically a market economy. China's strategy of reform was one of gradualism, in contrast to the reforms of Russia and Eastern Europe. The earliest aspect of this reform period was the restructuring of the agricultural economy and the elimination of the communes. In the reform period, agriculture was greatly changed by the introduction of the household responsibility system and the growth of township and village enterprises. A second aspect of the reforms was a change in the planning system.

At first, central planning was greatly reduced in importance but by 1993, central planning had been phased out completely. A third important aspect of the reform period was the dramatic enlargement of the importance of markets. Consistent with the growing importance of markets, there were major changes which led to the growth of rural industry (called township and village enterprises), and new large companies emerged. A fourth important aspect of the reform period was the decentralization of decision-making. Enterprises, local governments, and peasant households now have much more decision-making power than they did prior to 1978 and by 1995 creation of a modern tax collection system surfaced. And a fifth important aspect of the reform period has been an enormous increase in Chinese integration into the global economy. This began with the creation of Special Economic Zones and then culminated in China's entry into the World Trade Organization (WTO) in 2001.

China restructured its banking system with its central bank, the People's Bank of China, coming to resemble the American Federal Reserve System and with its commercial banks cut off from government subsidies. By 2004, nearly twice as many urban workers worked for private enterprises than worked for state-owned enterprises. Finally, the growth of GDP per capita in China averaged an astonishing 8.5% per year between 1978 and 2009. No other country has ever achieved growth rates of GDP per capita that is high for such a long period of time. The moderate reformers based their proposals on Deng's four cardinal principles: commitment to Marxism-Leninism and Maoism, leadership by the Communist Party, socialism, and the maintenance of the existing state structure. They saw reform as a slow process, taking perhaps 30 years. They desired to maintain central planning as the heart of the economy who oppose to capitalism. As you can see, China's reforms did not follow the ideas of the moderate reformers except for the opposition to political pluralism.

On the other hand, the radical reformers favored a much greater role for the market, with the plan to be secondary. They favored the development of true markets for labor, natural resources, and capital goods. They saw reform as occurring relatively rapidly.

Let us now take a closer evaluation of the Chinese economy based on the following summarized economic indicators.

(1) Economic Growth

If we take the period since reform began (1978 to 2005), GDP grew at an average annual rate of 9.6%. Since the population was only growing at 1.1% per year during this period, this means that GDP per capita increased at an average annual rate of 8.5%. No country in history has experienced growth rates of per capita GDP this high over such a long time period. At 8.5% per year growth, GDP per capita will double roughly every 8 ½ years.

While the relation between buying of capital goods and economic growth is complex, there is no doubt that the high rate of spending on capital goods is a major factor in China's high rates of economic growth.

(2) Efficiency

One reason for this increased productive efficiency has been "industrial clustering". This means that most enterprises in an industry's supply chain are located close to each other similar to "Detroit" for automobiles. China has several "supply chain cities" each focusing on a single product. This form of industrial location reduces transportation costs and allows information to be widely and quickly disseminated.

One way of evaluating allocative efficiency whether China is producing the right goods and services is to look at inventories. The accumulation of excessive inventories is wasteful. In market economies, inventories usually equal about 1% of GDP. Prior to 1978, inventories in China amounted to some 5% of GDP. This resulted because companies would accumulate worthless, low-quality products that no one would buy. High levels of inventories continued into the 1990s. But after that, inventories fell to less than 1% of GDP. This is an indication of improved allocative efficiency in the Chinese economy.

(3) The Distribution of Income in China

But overall inequality within China has not changed much; the increased equality within urban areas and within rural areas has been offset by the widening inequality between urban and rural areas. This presents a major problem for the Chinese leadership. It also illustrates a theme we have seen with other countries: reducing the influence of government in the direct management of the economy seems to necessitate an increase in government spending in other areas, notably those related to the Welfare State.

(4) The Standard of Living in China

China is a very large developing country. According to one estimate, its GDP per capita in 2003 (at purchasing power parity) was about \$5,788. This would allow China to be categorized as a middle-income country. Its GDP per capita is below developing countries such as Mexico, Brazil, Thailand, and Colombia. But its per capita GDP is above developing countries like the Philippines, India, Indonesia, and Vietnam. Of course, China's per capita GDP is well below that of the United States (at about \$44,000). As noted above, China's per capita GDP grew at an annual rate of almost 10% per year from 1978 to 2005, the fastest growth over this long of a period ever recorded.

(5) Social Welfare

Social welfare refers to education, health care, and overall economic security. In the area of education, China seemed like a country much richer than it actually is. The percent of the Chinese population who are literate rose from about 20% in 1949 to over 70% by 1978. By the mid-1970s, nearly all those eligible were going to elementary school and also to lower-middle school, compared to only 25% in 1949. Of those who went to lower-middle school, about 60% went on to the upper-middle school (basically similar to an American high school). But only a small portion went on to higher education.

In the pre-reform period, the quality of the education was questionable. China devoted a relatively small amount of its GDP to education (less than 3%). Families bore a high burden of the cost of education. Teacher-student ratios were high (over 40 students per teacher), buildings were of poor quality, and teaching often emphasized rote memory.

Indeed, the government has focused its resources on universities. Most university training is scientific and technical in nature. The rate of return to education has been rising in China since the 1990s.

(6) Control of Population Growth

The Chinese population has grown rapidly to some 1.3 billion people (about 1/5 of all of the people on earth). In 1980, China adopted the single-child family campaign. The desirability of one child per family began with an educational/propaganda campaign. While the policy applied to the entire country, there was no problem in the cities. Birth rates in the cities are low, constrained by inadequate housing and inadequate child care facilities. The real focus of the single-child family campaign has been in the countryside, where birth rates have traditionally been high. By 2050, it is estimated that 45% of Chinese will be seniors and 25% will be children (the number of Chinese over age 60 will almost triple between 2000 and 2030).

Conclusively, prior to the reform period, China was able to achieve a reasonable rate of economic growth by international standards, although the rate of growth did not meet Chinese goals. The growth was basically extensive growth, achieved in large part by a very high investment rate. Through its policies, China was able to achieve a very equal distribution of income and very high standards of educational attainment, health, and reduction of poverty for such a poor country. However, China's performance in relation to productivity and efficiency were poor. Its standard of living was very low, especially in terms of consumption. And it faced considerable problems of under-employment and macro-economic instability. However, China began to experience much greater inequality, educational attainment, health care, and welfare for all

SELF ASSESSMENT EXERCISE

Analyze the basic change technique adopted by China to move from communism to market economy.

3.3 SIMILARITIES AND DIFFERENCES BETWEEN RUSSIA AND CHINA REVOLUTIONS

Our earlier discussion in the last section of this unit, will make us focus on the differences and similarities between these great communist nations and how they fair recently in the global economic watch.

There were similarities between the Chinese and Russian revolutions as discussed below:

1. The two communist revolutions both occurred around the World War period with the Russian revolution occurring in 1917 just a year before the end of World War I and the Chinese revolution occurring in 1949 just after World War II.
2. The two countries had charismatic leaders who led the campaigns with China under Mao Zedong and Russia under Vladimir Lenin.
3. They were able to convince the populace of the need to change their political and social structure to improve their living standards.
4. The main agenda of both countries was to spread the communist ideologist to the rest of the world in order to increase their global influence
5. They also want to fulfill their quest for power in the world.

There were also differences in the revolutions as discussed below.

1. The Chinese revolution lasted longer than the Russian revolution because the Russians had a substantial amount of knowledge about socialism and the ideas of Karl Marx, making it easier for them to achieve success faster.
2. On the other hand it took the Chinese a while longer to gather this information and build the party.
3. The revolutions focused on the impoverished members of the populace with Russia focusing to engage the industrial workers
4. China on the other hand focused on the peasant farmers.
5. Russia revolution was faster while China's own was gradual

Both the Chinese and Russian revolutions applied the theories of Karl Marx to situations Marx himself had not anticipated. For Marx, communism was a form of social organization that would arise in highly developed wealthy nations after internal tensions and growing inequality led to the self-immolation of late capitalism. Both the Chinese and Russian revolutions were not transitions from late capitalist democracies but instead located in the context of agricultural nations with autocratic leaders, the warlords who followed upon the collapse of the Qing Dynasty in China and the Russian tzars. In Russia, after a period of devastating oppression under Stalin, there was a gradual movement towards democracy and capitalism, but an even greater trend towards kleptocracy, crony capitalism, and oligarchy. In China, after the Cultural Revolution “a period similar in humanitarian tragedy to Stalinist Russia”, the planned economy is gradually creating a unique model of state capitalism mixed with limited private

enterprise resulting in a level of economic prosperity, despite lack of individual freedom, that has eluded Russia.

However, the economy overview of both countries is now a major force to reckon with in the world and both having their influence in the world. Since the late 1970s China has moved from a closed, centrally planned system to a more market-oriented one that plays a major global role - in 2010 China became the world's largest exporter. Reforms began with the phasing out of collectivized agriculture, and expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, growth of the private sector, development of stock markets and a modern banking system, and opening to foreign trade and investment. China has implemented reforms in a gradualist fashion.

In recent years, China has renewed its support for state-owned enterprises in sectors considered important to "economic security," explicitly looking to foster globally competitive industries. After keeping its currency tightly linked to the US dollar for years, in July 2005 China moved to an exchange rate system that references a basket of currencies. From mid-2005 to late 2008 cumulative appreciation of the renminbi against the US dollar was more than 20%, but the exchange rate remained virtually pegged to the dollar from the onset of the global financial crisis until June 2010, when Beijing allowed resumption of a gradual appreciation and expanded the daily trading band within which the RMB is permitted to fluctuate. The restructuring of the economy and resulting efficiency gains have contributed to a more than tenfold increase in GDP since 1978.

Measured on a purchasing power parity (PPP) basis that adjusts for price differences, China in 2013 stood as the second-largest economy in the world after the US, having surpassed Japan in 2001. The dollar values of China's agricultural and industrial output each exceed those of the US; China is second to the US in the value of services it produces. Still, per capita income is below the world average. The Chinese government faces numerous economic challenges, including:

- (a) reducing its high domestic savings rate and correspondingly low domestic consumption;
- (b) facilitating higher-wage job opportunities for the aspiring middle class, including rural migrants and increasing numbers of college graduates;
- (c) reducing corruption and other economic crimes; and
- (d) containing environmental damage and social strife related to the economy's rapid transformation. Economic development has progressed further in coastal provinces than in the interior, and by 2011 more than 250 million migrant workers and their dependents had relocated to urban areas to find work. One consequence of population control policy is that China is now one of the most rapidly aging countries in the world. Deterioration in the environment - notably air pollution, soil erosion, and the steady fall of the water table, especially in the North, is another long-term problem. China continues to lose arable land because of erosion and economic development.

The Chinese government is seeking to add energy production capacity from sources other than coal and oil, focusing on nuclear and alternative energy development. Several

factors are converging to slow China's growth, including debt overhang from its credit-fueled stimulus program, industrial overcapacity, inefficient allocation of capital by state-owned banks, and the slow recovery of China's trading partners. The government's 12th Five-Year Plan, adopted in March 2011 and reiterated at the Communist Party's "Third Plenum" meeting in November 2013, emphasizes continued economic reforms and the need to increase domestic consumption in order to make the economy less dependent in the future on fixed investments, exports, and heavy industry. However, China has made only marginal progress toward these rebalancing goals. The new government of President XI Jinping has signaled a greater willingness to undertake reforms that focus on China's long-term economic health, including giving the market a more decisive role in allocating resources

Russia has undergone significant changes since the collapse of the Soviet Union, moving from a globally-isolated, centrally-planned economy towards a more market-based and globally-integrated economy, but stalling as a partially reformed, statist economy with a high concentration of wealth in officials' hands. Economic reforms in the 1990s privatized most industry, with notable exceptions in the energy and defense-related sectors. The protection of property rights is still weak and the private sector remains subject to heavy state interference. Russia is one of the world's leading producers of oil and natural gas and is also a top exporter of metals such as steel and primary aluminum. Russia's manufacturing sector is generally uncompetitive on world markets and is geared toward domestic consumption. Russia's reliance on commodity exports makes it vulnerable to boom and bust cycles that follow the volatile swings in global prices. The economy, which had averaged 7% growth during 1998-2008 as oil prices rose rapidly, was one of the hardest hit by the 2008-09 global economic crisis as oil prices plummeted and the foreign credits that Russian banks and firms relied on dried up. Slowly declining oil prices over the past few years and difficulty attracting foreign direct investment have contributed to a noticeable slowdown in GDP growth rates. In late 2013, the Russian Economic Development Ministry reduced its growth forecast through 2030 to an average of only 2.5% per year, down from its previous forecast of 4.0 to 4.2%. In 2014, following Russia's military intervention in Ukraine, prospects for economic growth declined further, with expectations that GDP growth could drop as low as zero.

SELF ASSESSMENT EXERCISE

In your own words do a comparative analysis between Russia and China revolutions?

4.0 CONCLUSION

From our discussion so far on the economies of USSR and China, we can deduce the following facts:

That the success and failure of the Soviet Union economy as a communist country depend largely on the ideology of radicalist who yearns more for change and a society devoid of cheating, class and exploitation .

That the movement of China as a communist country to market economy is gradual and does not follow the trend of the Soviet Union in their approach which position them as one of the world economic leader.

5.0 SUMMARY

In this unit, we have attempted to show the economies of USSR and China, appraised the success and failure of the Soviet Union economy as a communist country and understand the movement of China as a communist country to market economy. Also, from the point of view of our discussion, we discovered that the economies of Russia and China are now moving towards market oriented economies instead of their previous socialist cum communist economy since globalization is pointing towards market based economies. I believe your understanding of this unit has given you a basis to understand the next unit. I expect you by now to be anxious of reading more about the economies of Yugoslavia, Hungary and Cuba which will be duly served in the next unit.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss in details the similarities and differences between the Russian and Chinese economies.

7.0 REFERENCES/FURTHER READING

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UNIT III: Economies of Yugoslavia, Hungary and Cuba

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
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1.0 INTRODUCTION

This is the third and the last unit in this module. In this unit, we are concerned with the economies of Yugoslavia, Hungary and Cuba. It is good that we have familiarized ourselves with the Soviet Union economic system of which these countries anchor their political, economic and social beliefs. An in-depth explanation of the above topics shall be provided. It is advisable that you critically concentrate as we move along with explanations that will be given.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Understand the success and failure of the Yugoslavia economy as a communist cum socialist country.
- Discuss the workings of the economic system of Hungary as a socialist country.
- Show how Cuba adjusts from communism to socialism and how their economy was opened up to other economies.

3.0 MAIN CONTENTS

3.1 Yugoslavia Economic Experience

The victory of the Yugoslav Partisan army in World War II created many hefty challenges for the newly-liberated Balkan region. After being occupied by the war from 1941-1945, the destruction was severe “the human and material losses were the greatest in Europe after the USSR and Poland”. The former Kingdom of Yugoslavia was virtually left in ruins, being usurped of its raw materials and resources, and stripped of its transport infrastructure, mining, and manufacturing industries.

Being granted the honor of victors after World War II, the Partisans formed their own government, based on the ideology of Southern Pan-Slavism and a socialist economic philosophy in the Marxian tradition. The Socialist Federal Republic of Yugoslavia was established on the 29th of November, 1945 and, after its creation, quickly allied itself

with the Soviet Union. It immediately began to implement programs to rebuild its broken post-war state. Power became strongly centralized, based on the Soviet model of state socialism, and order firmly kept in place by Marshal Josip Broz Tito's Communist Party. Six regions were then created, of relatively equal political power, in the newly drafted Constitution of 1946: Croatia, Montenegro, Serbia, Slovenia, Bosnia & Herzegovina, and Macedonia. Soon after, sweeping restructuring began to take root; property was transferred from its former private owners to the communist-run state, financial capital was expropriated from formerly being privatized, and the means of production was converted to public ownership. Large financial institutions, such as the banks, were nationalized to control the money supply and the flow of financial capital. After that was achieved, large industries were then overtaken by state control to promote industrialization in the war-crippled socialist republic. Then, finally, the smaller transport, commercial, and agricultural industries followed suit; they were also nationalized to increase production.

3.1.2 Deterioration of Yugoslav-Soviet Relations

Edvard Kardelj, is one of the creators of the Yugoslav model of socialist economic system. Although the initial recovery program enacted under Tito's leadership was derived from Stalin's 5-year plan model, significant splits shortly began to ferment between the Soviet leadership and the Yugoslav communists. Economic blockades were being placed on the young socialist state because of their alliance with the Soviet Union, and Tito's independent stance on issues angered Stalin and his associates. Moreover, Yugoslav theoreticians began to formulate their own strains of Marxist thought and began to criticize the internal political and economic structure of the Soviet Union.

Consequently, this gradually led to Yugoslavia's expulsion from the Cominform by the end of the 1940s. It was at this point Yugoslavia began to economically develop differently than its socialist counterparts – creating a unique form of decentralized market socialism based on workers' self-management. Frankly speaking, the idea behind it was simple; the withering of bureaucratic state would only occur if innovative mass-participatory structures were created. Egalitarianism and populism became more of a principle rather than a political tool, contrary to the Soviet Union. Decentralized socialization of industry quickly followed Yugoslavia's alienation from the Soviet Union. Led by the efforts of thinkers by the likes of Edvard Kardelj and Milovan Dilas, the original state control of industry began to be broken down into localities and councils were created for respective industries. The profits were distributed amongst the workers in each individual firm, and some functions of state control were relinquished and allocation became more relied on the basic mechanisms of the market to ensure self-management and proper distribution.

3.1.3 An Economic Revolution of Yugoslavia

Strictly speaking, this economic transformation can be described as taking place in three major stages: Firstly, in the 1950s, workers' collectives were created but were restricted by the state's regulation of capital construction. This was actually a remnant of the Soviet model of socialism. Secondly, the 1960s and 1970s were a radical shift from the aforementioned control that was present in the previous decade; rather than allow the state to control capital allocation and production; socialized markets began allocating it

themselves with a self-managing structure using the labor involved. Thirdly and finally, liberalization reform followed until the ultimate collapse during the 1980s and late 1970s mainly caused by inflation and debt.

The decentralized Yugoslav model mainly employed during the 60s and early 70s was localized, but complex and interconnected. Authorities in certain districts were authorized to oversee consumption and production services, to ensure each commune (the basic local government units) were working in each other's interests. Moreover, each autonomous region in Yugoslavia was different; each had different legislative procedures for planning. However, it did still remain a federalist system of governance most of executive power was exerted in creating land uses, the geographic location of large industries, traffic networking, and grandiose public service projects that required cooperation with different regions. Most of power was derived from the legislative regions, but the localities were actually given little statutory powers. Rather, they were consulted and functioned as "pressure groups" to ensure local interests within the regions are met such as in the areas of housing, settlement, education, national defense, and the likewise. It was a demonstration of a collective economy at work, absent of a real large-scale "free market," where different elements of production were decided by long-term plans, medium-term plans, and annual action plans while also being guided by the mechanisms of the supply and demand curves in a regular market, except profits were socialized as was production.

The economic growth seen during the period of decentralization was upward and dynamic. Comparatively speaking, Yugoslavia experienced the greatest per capita GDP growth out of all the Eastern Bloc economies. It also embraced a tight-controlled policy on imports from developed capitalist countries after the restoration of Soviet-Yugoslav relations in 1954-1955; foreign trade with socialist countries increased from 1.8% to about 28% in the decade following the return of good relations, while the share from Western capitalist nations dropped from 80.9% to 57.7% mostly due to the policies enacted by the Committee on Foreign Trade which was given extra power in 1956 to protect infant self-managing industries in developing Yugoslavia. Equally important, Yugoslavia enjoyed a balance of trade with the socialist nations during this period – amounting to \$176 million of exports and \$169 million of imports in 1962. Manufactured goods, machinery, and equipment were traded with the Eastern Bloc nations, while trade with developed capitalist countries consisted mainly of raw materials, food, and tobacco. Banking was also heavily regulated, but broken down locally. In 1961, it consisted of eight large sub-national banks and over 380 communal banks, all overseen by the National Bank of Yugoslavia, the main credit institution of the country and giver-of-loans. The sub-national bank, granted on a regional basis, served as intermediaries between the National bank and the communal banks. The idea behind this was to encourage development by focusing giving loans to regions in need of aid, and they used communal banking institutions to do so.

3.1.4 The Collapse of Yugoslavia

Despite strong economic growth and potential, experiencing an annual GDP growth of 6.1%, a life expectancy of 72 years, and literacy rate of 91% according to 1991 World Bank Statistics from 1960 to 1980 – the experimental Yugoslav system soon imploded on itself due to a variety of factors. Perhaps more importantly, the Oil Crisis of the 1970s had the greatest impact on Yugoslavia and was a precursor to the catastrophe that would unfold after Tito's death in 1980, ultimately leading to the breakup of the federation in a bloody civil war. The recession in the developed nations in the West severely hurt Yugoslavia, and hindered the economic growth it was experiencing for 30 years. Massive shortages followed in electricity, fuel, and other necessities and unemployment reached 1 million by 1980 due to the energy crisis and the increasing economic embargos imposed by Western powers. Soon, structural economic issues came to light and richer regions became frustrated from over-subsidizing the poorer regions of southern Yugoslavia, called "economic black holes".

Production severely dropped, and conditions only worsened as the decade went on; GDP dropped -5.3% from 1980 to 1989, the regions of Kosovo and Montenegro being hit the hardest. Real earnings dropped 25% from 1975 to 1980, further crushing the poorest regions. In an effort to curb the domestic crisis, Yugoslavia began to take loans from the IMF to boost infrastructure development and bring back production levels to their pre-crisis levels. Soon, its debt skyrocketed – Yugoslavia incurred \$19.9 billion in foreign debt by 1981. As a request for incurring so much IMF debt, the IMF demanded market liberalization and many regions began to implement economic shock therapy: cutting subsidies, privatizing, and quickly opening trade to allow foreign capital, which only worsened Yugoslavia's economic crisis. Inflation rates soared and Yugoslavia entered a period of hyperinflation, unable to cope with the currency crisis because of its complex banking system, it soon began printing large amounts of Yugoslav dinar banknotes, created a new note of 2,000,000 Yugoslav dinars in 1989. As the broken nation spiraled into further calamity, the terrible war, which would be the bloodiest on European soil since World War 2, would soon begin to rear its dark head and finally put an end to the Yugoslav experiment that lasted little over just 40 years. The Yugoslav Partisan Army marching through the city of Bitola, Macedonia.

SELF ASSESSMENT EXERCISE

Discuss briefly your understanding of Yugoslavia economic structure as reflected in this section.

3.2 Economy of Hungary

According to the embassy of Hungary in Beijing China, in a write up, posits that the economy of Hungary is a medium-sized, structurally, politically and institutionally open economy in Central Europe and is part of the European Union's (EU) single market. Like most Eastern European economies, the economy of Hungary experienced market liberalization in the early 1990s as part of the transition from a socialist economy after the fall of communism to a market economy. Hungary is a member of the Organization for Economic Co-operation and Development (OECD) since 1995, a member of the

World Trade Organization (WTO) since 1996, and a member of the European Union since 2004.

Hungary has over 31 thousand km of roads the in which the share of motorways of nearly 1200 km. The total length of motorways has doubled in the last ten years with the most kilometers built and completed in 2006. Budapest is directly connected to the Austrian, Slovenian, Croatian and Serbian borders via motorways. Due to its location and geographical features, several transport corridors cross Hungary. Three Pan-European corridors and 5 European routes lead through Hungary. As a result of its radial road system, all of these routes connect to Budapest the capital city. There are five international, four domestic, four military and several non-public airports in Hungary. The largest airport is the Budapest Liszt Ferenc International Airport (BUD) located at the southeastern border of Budapest. The Hungarian railroad system is 8 thousand km stretched; nearly 3 thousand km of it is electrified.

Along with related businesses, agriculture makes up about 13% of the GDP. Hungarian agriculture is virtually self-sufficient and due to traditional reasons export-oriented: exports related to agriculture make up 20-25% of the total. About half of Hungary's total land area is agricultural area under cultivation; this ratio is prominent among other EU members. This is due to the country's favorable conditions including continental climate and the plains that make up about half of Hungary's landscape. Hungary also has several wine regions producing among others the worldwide famous white dessert wine Tokaji and the red bull's blood.

The main sectors of the Hungarian industry are heavy industry, energy production, mechanical engineering, chemicals, food industry and automobile production. The manufacturing is leaning mainly on processing industry and (including construction) accounted for about 30% of GDP. Following the transition to market economy, the industry underwent restructuring and remarkable modernization. The leading industry is machinery, followed by chemical industry (plastic production, pharmaceuticals). Although it decreased in the last decade, food industry is still giving up to 14% of total industrial production and amounts to 7-8% of the country's exports.

The service sector accounts for over 60% of GDP and its role in the Hungarian economy is steadily growing due to constant investments into transport and other services in the last 15 years. Located in the heart of Central-Europe, Hungary's geostrategic location plays a significant role in the rise of the service sector as the country's central position makes it suitable and rewarding to invest. There is increase economic growth which can be seen in Hungary adequate education, health care and infrastructure. The standard of living in Hungary is also very high thereby attracting migrants from less developed countries.

Tourism employs nearly 150 thousand people. One of Hungary's top tourist destinations is Lake Balaton, the largest warm freshwater lake in Central Europe, with more than a million visitors annually. The most visited region is Budapest, the Hungarian capital attracted over 3 million visitors in each of the recent 5 years. The Hungarian spa culture

is world-famous, with thermal baths of all sorts and over 50 spa hotels located in many towns, each of which offer the opportunity of a pleasant, relaxing holiday and a wide range of quality medical and beauty treatments.

SELF ASSESSMENT EXERCISE

Discuss briefly the structure of Hungarian economy as reflected in this section.

3.3 Economy of Cuba

The Economy of Cuba is a planned economy dominated by state-run enterprises. Most industries are owned and operated by the government and most of the labour force is employed by the state. Following the fall of the Soviet Union, the Communist Party encouraged the formation of cooperatives and self-employment.

In the year 2000, public sector employment was 76% and private sector employment, mainly composed of self-employment, was 23% compared to the 1981 ratio of 91% to 8%. Investment is restricted and requires approval by the government. The government sets most prices and rations goods to citizens. In 2009, Cuba ranked 51st out of 182 countries with a Human Development Index of 0.863; much higher than its GDP per capita rank (95th). In 2012, the country's public debt was 35.3% of GDP. Inflation (CDP) was 5.5%. That year the economy GDP growth was 3%. Housing and transportation costs are low. Cubans receive free education, health care and food subsidies. Corruption is common, although allegedly lower than in most other countries in Latin America.

The country achieved a more even distribution of income since the revolution and the subsequent economic embargo by the United States. Following the collapse of the Soviet Union, Cuba's GDP declined by 33% between 1990 and 1993, partially due to loss of Soviet subsidies and to a crash in sugar prices in the early 1990s. Yet Cuba retained relatively high levels of healthcare and education.

In 1959, Fidel Castro seized assets valued at 9 Billion American dollars. The current value of the assets seized would be approximately 1.89 trillion dollars at the 11.42% rate of growth that the average US Company experienced from 1959 to 2014.

After the 1959 Cuban revolution, citizens were not required to pay a personal income tax “their salaries being regarded as net of any taxes”. During the revolutionary period Cuba was one of the few developing countries to provide foreign aid to other countries. Foreign aid began with the construction of six hospitals in Peru in the early 1970s. It expanded later in the 1970s to the point where some 8000 Cubans worked in overseas assignments. Cubans built housing, roads, airports, schools and other facilities in Angola, Ethiopia, Laos, Guinea, Tanzania and other countries. By the end of 1985, 35,000 Cuban workers had helped build projects in some 20 Asian, African and Latin American countries.

For Nicaragua in 1982, Cuba pledged to provide over \$130 million worth of agricultural and machinery equipment, as well as some 4000 technicians, doctors and teachers.

In 1986 Cuba defaulted on its \$10.9 billion debt to the Paris Club. In 1987 Cuba stopped making payments on that debt. In 2002 Cuba defaulted on \$750 million in Japanese loans. Although the Soviet Union offered subsidies to Cuban beginning shortly after the

Revolution, comparative economic data from 1989 showed that the amount of Soviet aid was in line with the amount of Western aid to other Latin American countries.

Due to the continued growth of tourism, growth began in 1999 with a 6.2% increase in GDP[citation needed]. Growth then picked up, with a growth in GDP of 11.8% in 2005 according to government figures. In 2007 the Cuban economy grew by 7.5%, higher than the Latin American average. Accordingly, the cumulative growth in GDP since 2004 stood at 42.5%. However, from 1996, the State started to impose income taxes on self-employed Cubans.

According to Mesa-Lago, Cuba's economic performance has been overwhelmingly negative. Cuba's position fell within the region for 87% of those indicators and for the rest remained the same. Cuba ranked third in the region in 1958 in GDP per capita, surpassed only by Venezuela and Uruguay. It had descended to 9th, 11th or 12th place in the region by 2007. Cuban social indicators suffered less.

In 2011, "The new economic reforms were introduced, effectively creating a new economic system, referred by some as the "New Cuban Economy" Since then, over four hundred thousand Cubans have signed up to be entrepreneurs. As of 2012, the government lists 181 official jobs no longer under their control—such as taxi driver, construction worker and shopkeeper. Workers may purchase licenses to work as a mule driver, palm tree trimmer, well-digger, button covered and "dandy"—gentleman in traditional elegant white suit and hat. Despite these openings Cuba maintains nationalized companies for the distribution of all essential amenities like water, power, etc and other essential services to ensure a healthy population using education and health care.

In 2008, Raul Castro's administration hinted that the purchase of computers, DVD players and microwaves would become legal. However, monthly wages remain less than 20 U.S. dollars. Mobile phones, which had been restricted to Cubans working for foreign companies and government officials, were legalized in 2008. In 2010, Fidel Castro, in agreement with Raul Castro's reformist sentiment, admitted that the Cuban model based on the old Soviet model of centralized planning was no longer sustainable. They encouraged the creation of a co-operative variant of socialism where the state plays a less active role in the economy and the formation of worker-owned co-operatives and self-employment enterprises. Raul Castro signed law 313 in September 2013 in order to create a special economic zone in the port city of Mariel, the first in the country. On 22nd October 2013 the dual currency system ended and great improvement was seen in energy production, agriculture, economic freedom, Poverty reduction and elimination of rigid socialist/communist policy which brought the US and Cuba together again in 2015 through president Barack Obama of US.

SELF ASSESSMENT EXERCISE

Briefly discuss the economy of Cuba and the recent economic embargo removal by the USA.

4.0 CONCLUSION

From our discussion so far on economies of Yugoslavia, Hungary and Cuba, we can deduce the following facts: That Yugoslavia before disintegration practiced socialism

cum communism after the order of the former Soviet Union which later does not go well with the remaining socialist federating States. That Hungarian economic system was also based on socialist type as advocated by the eastern European nations led by Soviet Union. That Cuba's economic policies were based on socialist/communists ideology and principles.

5.0 SUMMARY

In this unit, we have attempted to understand the success and failure of the Yugoslavia economy as a communist cum socialist country, discussed the workings of the economic system of Hungary as a socialist country and show how Cuba adjusts from communism to socialism and how their economy was opened up to other economies. The bone of contention was that they practice socialism as their economic system. It is my belief that your understanding of this unit has given you a basis to prepare for the next unit. I expect you by now to be anxious of reading more about contemporary economic systems which will be duly served in the next module.

6.0 TUTOR-MARKED ASSIGNMENT

Draw a general comparison between Yugoslavia, Hungary and Cuba economy in your own words.

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MODULE 4

CONTEMPORARY ECONOMIC SYSTEMS

- Unit 1: Economic system of USA, UK and Japan
Unit 2: Economic system of Netherlands, India and Nigeria
Unit 3: Economic system of Brazil and Asian tigers

UNIT I Economic system of USA, UK and Japan

CONTENTS

- 1.0 Introduction
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 - 3.1 Economic system of USA
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- 4.0 Conclusion
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- 7.0 References/Further Readings

1.0 INTRODUCTION

Our discussion here in the last module of this course is to discuss the contemporary economic system of USA, UK, Japan, Holland, Nigeria, India, Brazil and the Asian tigers. However, we shall first consider the major market based economies of USA, UK, and Japan in this unit. Similarly, we shall briefly look at some basic components that made these economies work and their evolving pattern of the economic structure that presently prevail in these economies which position them as advanced and developed economies that other economies are looking up to. Therefore our task in this last module would be to discuss certain important features of these economies and more.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Identify the basic ingredients of the U.S. Economy
- Show how large the UK economy is, with certain key economic indicators
- Explain the transformations of Japan economy into an industrialized one

3.0 MAIN CONTENTS

3.1 Economic system of USA

In every economic system, entrepreneurs and managers bring together natural resources, labour, and technology to produce and distribute goods and services. But the way these different elements are organized and used also reflects a nation's political ideals and its culture. The United States is often described as a "capitalist" economy, a term coined by 19th-century German economist and social theorist Karl Marx to describe a system in which a small group of people who control large amounts of money, or capital, make the

most important economic decisions. Marx contrasted capitalist economies to "socialist" ones, which vest more power in the political system. Marx and his followers believed that capitalist economies concentrate power in the hands of wealthy business people, who aim mainly to maximize profits; socialist economies, on the other hand, would be more likely to feature greater control by government, which tends to put political aims in a more equal distribution of society's resources, for instance ; ahead of profits.

While those categories, though oversimplified, have elements of truth to them, they are far less relevant today. If the pure capitalism described by Marx ever existed, it has long since disappeared, as governments in the United States and many other countries have intervened in their economies to limit concentrations of power and address many of the social problems associated with unchecked private commercial interests. As a result, the American economy is perhaps better described as a "mixed" economy, with government playing an important role along with private enterprise.

Although Americans often disagree about exactly where to draw the line between their beliefs in both free enterprise and government management, the mixed economy they have developed has been remarkably successful.

3.1.1 Basic Ingredients of the U.S. Economy

The first ingredient of a nation's economic system is its natural resources. The United States is rich in mineral resources and fertile farm soil, and it is blessed with a moderate climate. It also has extensive coastlines on both the Atlantic and Pacific Oceans, as well as on the Gulf of Mexico. Rivers flow from far within the continent, and the Great Lakes five large, inland lakes along the U.S. border with Canada which provide additional shipping access. These extensive waterways have helped shape the country's economic growth over the years and helped bind America's 50 individual states together in a single economic unit.

The second ingredient is labour, which converts natural resources into goods. The number of available workers and, more importantly, their productivity help determine the health of an economy. Throughout its history, the United States has experienced steady growth in the labour force, and that, in turn, has helped fuel almost constant economic expansion. Until shortly after World War I, most workers were immigrants from Europe, their immediate descendants, or African-Americans whose ancestors were brought to the Americas as slaves. In the early years of the 20th century, large numbers of Asians immigrated to the United States, while many Latin American immigrants came in later years. The nation prospered as well, so that the economy grew fast enough to absorb even more newcomers. The quality of available labour , how hard people are willing to work and how skilled they are is at least as important to a country's economic success as the number of workers. In the early days of the United States, frontier life required hard work, and what is known as the Protestant work ethic reinforced that trait. A strong emphasis on education, including technical and vocational training, also contributed to America's economic success, as did willingness to experiment and to change. Labour-force quality continues to be an important issue.

Today, Americans consider "human capital" a key to success in numerous modern, high-technology industries. As a result, government leaders and business officials increasingly stress the importance of education and training to develop workers with the kind of nimble minds and adaptable skills needed in new industries such as computers and telecommunications.

3.1.2 The Role of the Market and Government in the economy of US

The United States is said to have a mixed economy because privately owned businesses and government both play important roles. Indeed, some of the most enduring debates of American economic history focus on the relative roles of the public and private sectors.

The American free enterprise system emphasizes private ownership. Private businesses produce most goods and services, and almost two-thirds of the nation's total economic output goes to individuals for personal use (the remaining one-third is bought by government and business). The consumer role is so great, in fact, that the nation is sometimes characterized as having a "consumer economy."

Americans believe, supply and demand determine the prices of goods and services. Prices, in turn, tell businesses what to produce; if people want more of a particular good than the economy is producing, the price of the good rises. That catches the attention of new or other companies that, sensing an opportunity to earn profits, start producing more of that good. On the other hand, if people want less of the good, prices fall and less competitive producers either go out of business or start producing different goods. Such a system is called a market economy

There are limits to free enterprise, however. Americans have always believed that some services are better performed by public rather than private enterprise. For instance, in the United States, government is primarily responsible for the administration of justice, education (although there are many private schools and training centers), the road system, social statistical reporting, and national defense. In addition, government often is asked to intervene in the economy to correct situations in which the price system does not work. It regulates "natural monopolies," for example, and it uses antitrust laws to control or break up other business combinations that become so powerful that they can surmount market forces. Government also addresses issues beyond the reach of market forces. It provides welfare and unemployment benefits to people who cannot support themselves, either because they encounter problems in their personal lives or lose their jobs as a result of economic upheaval; it pays much of the cost of medical care for the aged and those who live in poverty; it regulates private industry to limit air and water pollution; it provides low-cost loans to people who suffer losses as a result of natural disasters; and it has played the leading role in the exploration of space, which is too expensive for any private enterprise to handle. The government also performs the following role.

1. Stabilization and Growth: Perhaps most importantly, the federal government guides the overall pace of economic activity, attempting to maintain steady growth, high levels of employment, and price stability. By adjusting spending and tax rates (fiscal policy) or managing the money supply and controlling the use of credit (monetary policy), it can

slow down or speed up the economy's rate of growth -- in the process, affecting the level of prices and employment.

2. Regulation and Control: The U.S. federal government regulates private enterprise in numerous ways. Regulation falls into two general categories. Economic regulation seeks, either directly or indirectly, to control prices. Traditionally, the government has sought to prevent monopolies such as electric utilities from raising prices beyond the level that would ensure them reasonable profits. At times, the government has extended economic control to other kinds of industries as well. In the years following the Great Depression, it devised a complex system to stabilize prices for agricultural goods, which tend to fluctuate wildly in response to rapidly changing supply and demand. A number of other industries-trucking and, later, airlines-successfully sought regulation themselves to limit what they considered harmful price-cutting.

3. Poverty and Inequality: Americans are proud of their economic system, believing it provides opportunities for all citizens to have good lives. Their faith is clouded, however, by the fact that poverty persists in many parts of the country. Government anti-poverty efforts have made some progress but have not eradicated the problem. Similarly, periods of strong economic growth, which bring more jobs and higher wages, have helped reduce poverty but have not eliminated it entirely.

There is increase economic growth which can be seen in US adequate education, health care and infrastructure. The standard of living in US is also very high thereby attracting migrants from less developed countries

SELF ASSESSMENT EXERCISE

Discuss your understanding of the workings of the USA economy..

3.2. ECONOMY OF UK

The UK, a leading trading power and financial center, is the third largest economy in Europe after Germany and France. Over the past two decades, the government has greatly reduced public ownership thereby opening up the economy to make it market competitive. The economic system of UK is a cynosure of all eyes because of the inbuilt economic mechanism of effective fiscal measures to stabilize the economy. UK economy is known for effective tax system which is in proportion with the income and earnings of all citizens and residents. Agriculture is intensive, highly mechanized, and efficient by European standards, producing about 60% of food needs with less than 2% of the labor force. The UK has large coal, natural gas, and oil resources, but its oil and natural gas reserves are declining and the UK became a net importer of energy in 2005. Services, particularly banking, insurance, and business services, are key drivers of British GDP growth. Manufacturing, meanwhile, has declined in importance but still accounts for about 10% of economic output. After emerging from recession in 1992, Britain's economy enjoyed the longest period of expansion on record during which time growth outpaced most of Western Europe.

In 2008, however, the global financial crisis hit the economy particularly hard, due to the importance of its financial sector. Falling home prices, high consumer debt, and the global economic slowdown compounded Britain's economic problems, pushing the economy into recession in the latter half of 2008 and prompting the then BROWN (Labour) government to implement a number of measures to stimulate the economy and stabilize the financial markets; these included nationalizing parts of the banking system, temporarily cutting taxes, suspending public sector borrowing rules, and moving forward public spending on capital projects. Facing burgeoning public deficits and debt levels, in 2010 the CAMERON-led coalition government (between Conservatives and Liberal Democrats) initiated a five-year austerity program, which aimed to lower London's budget deficit from about 11% of GDP in 2010 to nearly 1% by 2015. In November 2011, Chancellor of the Exchequer George OSBORNE announced additional austerity measures through 2017 largely due to the euro-zone debt crisis.

The CAMERON government raised the value added tax from 17.5% to 20% in 2011. It has pledged to reduce the corporation tax rate to 21% by 2014. The Bank of England (BoE) implemented an asset purchase program of £375 billion (approximately \$605 billion) as of December 2013. During times of economic crisis, the BoE coordinates interest rate moves with the European Central Bank, but Britain remains outside the European Economic and Monetary Union (EMU). In 2012, weak consumer spending and subdued business investment weighed on the economy, however, in 2013 GDP grew 1.4%, accelerating unexpectedly in the second half of the year because of greater consumer spending and a recovering housing market. The budget deficit is falling but remains high at nearly 7% and public debt has continued to increase. There is increase economic growth which can be seen in UK adequate education, health care and infrastructure. The standard of living in UK is also very high thereby attracting migrants from less developed countries. For more elaborate information, you can read more text materials on the subject matter.

SELF ASSESSMENT EXERCISE

Briefly discuss the focus of UK economic system as reflected in this section.

3.3. Economy of Japan

In the years following World War II, government-industry cooperation, a strong work ethic, mastery of high technology, and a comparatively small defense allocation (1% of GDP) helped Japan develop a technologically advanced economy. Two notable characteristics of the post-war economy were the close interlocking structures of manufacturers, suppliers, and distributors, known as keiretsu, and the guarantee of lifetime employment for a substantial portion of the urban labour force. Both features are now eroding under the dual pressures of global competition and domestic demographic change. Japan's industrial sector is heavily dependent on imported raw materials and fuels. A tiny agricultural sector is highly subsidized and protected, with crop yields among the highest in the world. Usually self-sufficient in rice, Japan imports about 60% of its food on a caloric basis. Japan maintains one of the world's largest fishing fleets and accounts for nearly 15% of the global catch. For three decades, overall real economic growth had been spectacular - a 10% average in the 1960s, a 5% average in the 1970s,

and a 4% average in the 1980s. Growth slowed markedly in the 1990s, averaging just 1.7%, largely because of the after effects of inefficient investment and an asset price bubble in the late 1980s that required a protracted period of time for firms to reduce excess debt, capital, and labor. The Japanese financial sector was not heavily exposed to sub-prime mortgages or their derivative instruments and weathered the initial effect of the recent global credit crunch, but a sharp downturn in business investment and global demand for Japan's exports in late 2008 pushed Japan further into recession.

Government stimulus spending helped the economy recover in late 2009 and 2010, but Tokyo is warning that GDP growth will slow in 2011. Prime Minister Kan's government has proposed opening the agricultural and services sectors to greater foreign competition and boosting exports through free-trade agreements, but debate continues on restructuring the economy and funding new stimulus programs in the face of a tight fiscal situation. Japan's huge government debt, which is approaching 200 percent of GDP, persistent deflation, and an aging and shrinking population are major complications for the economy. You should therefore know that Japan is well known for good product quality in all their field of endeavors ranging from automobiles, electronics, machines, to mention but few. This is because of their strategic management technique structure which is embedded in their economic systems and way of life. There is increase economic growth which can be seen in Japan adequate education, health care and infrastructure. The standard of living in Japan is also very high thereby attracting migrants from less developed countries

SELF ASSESSMENT EXERCISE

Discuss your understanding of Japan economic system

4.0 CONCLUSION

From our discussion so far on the economic system of USA, UK and Japan, we can deduce the following facts: that the three economies are highly industrialized with a market and capitalistic economic structure which made them a competitive economies of the world that less developed economies are now looking up to.

5.0 SUMMARY

In this unit, we have attempted to identify the basic ingredients of the U.S. economy, show how large the UK economy is, with certain key economic indicators and explained the transformations of Japan economy into an industrialized one. Also, from the point of view of our discussion, you have learnt that their economic system is capitalistic and market based in nature. I believe your understanding of this unit has given you a basis to understand the next unit. I expect you by now to be anxious of reading more about what will be duly served in the next unit.

6.0 TUTOR-MARKED ASSIGNMENT

The economic system of USA, UK and Japan is capitalistic and market based in nature. Discuss

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UNIT II ECONOMIC SYSTEM OF NIGERIA, INDIA AND NETHERLANDS

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 - 3.1 Economic system of Nigeria
 - 3.2 Economic system of India
 - 3.3 Economic system Of Netherlands.
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1.0 INTRODUCTION

Our discussion in this unit shall focus on the economic system of Nigeria, India and Netherland and we shall draw comparisons as per the workings of these economies and consider some basic indicators in the economy. It is important to take closer attention to the explanations given in this unit for easy assimilation.

2.0 OBJECTIVES

At the end of this unit, you should be able to;

- Understand the Nigeria economic systems and its structures
- Ascertain the type of economic system of India..
- Illustrate the Netherlands economy and its indicators

3.0 MAIN CONTENTS

3.1 Economic system of Nigeria

We all know that Nigeria is a country located in West Africa with a coast on the Gulf of Guinea and Atlantic Ocean. Neighboring countries include Benin, Cameroon, Chad, and Niger. The geography ranges from southern coastal swamps to tropical forests, woodlands, grasslands and semi-desert in the north. The government system is a federal republic. The chief of state and head of government is the president. Nigeria has a mixed economic system which includes a variety of private freedom, combined with centralized economic planning and government regulation. Nigeria is a member of the Economic Community of West African States (ECOWAS). A country with a population of about 180 million people, GDP growth rate of 7.3% and inflationary rate of about 8.5% in 2015.

Nigeria operates a mixed economic system that is a blend of socialism and capitalism. The various private freedoms are still government regulated and are included in centralized economic planning. Nigeria is a middle income, mixed economy and emerging market, with expanding financial, service, communications, technology and

entertainment sectors. It is ranked 2nd largest economy in Africa, behind South Africa and on track to become the largest economy in Africa in 2014, and also becoming one of the 20 largest economies in the world by 2020. Its re-emergent, though currently underperforming, manufacturing sector is the third-largest on the continent, and produces a large proportion of goods and services for the West African region. Previously hindered by years of mismanagement, economic reforms of the past decade have put Nigeria back on track towards achieving its full economic potential. There are three types of economic systems in Nigeria. Nigeria practices the mixed type of economy, Mixed economy is an economy that mixes one type of philosophy with another. Some decisions are taken by the government and some by the private sector.

Nigeria presently is underperforming as said earlier, therefore we need to ask the question, "Is the mixed type of economy suitable for Nigeria, if yes, why? If not, then what economic system is suitable and why?"

As of 2014, Nigeria is considered to have the biggest economy in Africa. It is a country rich in resources, particularly oil. Over the past decade, the country's average economic growth rate has been around 7 percent every year. Despite this, Nigeria is ranked 153rd in the UN's Human Development Index, a comparison among 187 countries. This means that, despite its rapid economic growth, the country is still poor, with a high unemployment rate and an increasing population that lives in poverty.

Nigeria's vast supply of natural resources includes gold, lead, zinc, limestone, oil, gas, salt, cassiterite, clay, dolomite, marble, tantalite, bentonite, gypsum, kaolin, magnesite, silica, iron ore, lignite, phosphate, columbite, wolfram, coal and manganese. Additional resources are diatomite, hydrocarbons, bitumen, feldspar, syenite, marcasite, amethyst, aquamarine, asbestos, graphite, mica, rock crystal, ruby, sapphire, serpentinite, tantalum, topaz, tourmaline, copper, pyrochlore, barite, tin and bismuth.

The present head of Government is President Muhammadu Buhari. The oil sector provides for 95% of Nigeria's foreign exchange earnings and 80% of its budgetary revenues. Top 3 trade partners (2014) are India, Netherlands, and China while top 3 exported goods (2014) were Oil and Mineral Fuels, Ships & Boats, and Explosives. Although Nigeria is said to have a slowed growth which tagged her as a developing country that can still be improved upon. A major setback was also contributed by boko haram attacks. It is discussed below.

Boko Haram's Effect on Nigeria's Economy

Nigeria has one of the largest populations in Africa with over 200 million citizens. Its economy was booming from the oil industry in the Niger Delta, and was said to become the leading economy in Africa by 2020. Although their economy was doing well, 35 percent living in absolute poverty. Approximately 90 million Nigerians believed to live on less than one USD dollar a day. With economic insecurity, high unemployment rates, and poverty the Boko Haram was able to emerge within Nigeria as political protests. Boko Haram is a violent social group that arose, partly in response to the social and economic deprivation of Nigeria's northeastern population. Starting out around 2008, Boko Haram has carried out attacks in order to spread their Islamic influence and defeat

the westernization that began during colonialism. They were able to recruit among the youth population of Nigeria because of youth unemployment; approximately 64 million youths are unemployed with 1.6 million being underemployed. Boko Haram targets individuals or organizations who encourage lifestyles believed to follow western culture, like the US or Europe. One targeted attack was on women who were attacked while attending school, leading to roughly 250 girls being kidnapped.

The Boko Haram are responsible for roughly 10,000 deaths since 2011 and roughly 2.6 million displaced Nigerians. Nigeria's economy suffered when attacks held by the Boko Haram began on local businesses, government buildings, and local facilities such as schools and churches. Local businesses began to migrate south as a result of being attacked or due to fear of the Boko Haram. Roughly 80 percent of the businesses in Kano had to close down due to power failure and security challenges caused by attacks. In the capital city of Borno, Maiduguri, a major market known as Market Monday was drastically hit by the Boko Haram causing over 10,000 shops to have to close down. Banks were even said to be effected by the Boko Haram's violent attacks, and caused them to shorten their hours from eight to three hours to minimize the risk of getting hit by the Boko Haram; limiting citizens to their finances. Citizens and the government had to pay for the retribution of damages caused by the Boko Haram. This stalled the economy in the northeast region because businesses were leaving, people began to lose jobs, and there was less money going into the local economy.

Foreign investors began to withdraw their money from Nigeria because of the state of conflict Nigeria is in and the degrading economy as a result of the Boko Haram; causing Nigeria to lose 1.33 trillion dollars in foreign investments. Nigerian Refugees who were displaced or just seeking refuge from the Boko Haram migrated to neighboring countries such as Cameroon, Ghana, Niger, and Chad. Majority citizens migrated to the southern half of Nigeria where there are more opportunities for work, better economy, and more security. This further plays into the socioeconomic divide between the north and the south of Nigeria where the south is more financially stable from lack of conflict, government funding, and the oil industry in the Niger Delta

SELF ASSESSMENT EXERCISE

Assess the economic system of Nigeria as a third world country and discuss

3.2. Economic system of India

Mixed Economy is neither pure capitalism nor pure socialism but a mixture of the two system. In this system we find characteristics of both capitalism and socialism. Mixed economy is operated by both, private enterprise and public enterprise. Indeed India economic system could be seen to be a mixed economic system which has a trace of both capitalism and socialism as such termed a developing economy. The Economy of India is the seventh-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). The country is classified as a newly industrialized country, one of the G-20 major economies, a developing economy with an average growth rate of approximately 7% over the last two decades. Maharashtra is the wealthiest Indian state

and has an annual GDP of US\$220 billion, nearly equal to that of Pakistan or Portugal, and accounts for 12% of the Indian. India's economy became the world's fastest growing major economy from the last quarter of 2014, replacing the People's Republic of China. The long-term growth prospective of the Indian economy is positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy. The Indian economy has the potential to become the world's 3rd-largest economy by the next decade, and one of the largest economies by mid-century. The outlook for short-term growth is also good according to the IMF, the Indian economy is the "bright spot" in the global landscape. India also topped the World Bank's growth outlook for 2015-16 for the first time with the economy having grown 7.6% in 2015-16 and expected to grow 7.7-8.0% in 2016-17.

India has one of the fastest growing service sectors in the world with annual growth rate of above 9% since 2001, which contributed to 57% of GDP in 2012-13. India has become a major exporter of IT services, BPO services, and software services with \$167.0 billion worth of service exports in 2013-14. It is also the fastest-growing part of the economy. The IT industry continues to be the largest private sector employer in India. India is also the fourth largest start-up hub in the world with over 3,100 technology start-ups in 2014-15. The agricultural sector is the largest employer in India's economy but contributes to a declining share of its GDP (17% in 2013-14). India ranks second worldwide in farm output. The Industry sector has held a constant share of its economic contribution (26% of GDP in 2013-14). The Indian auto mobile industry is one of the largest in the world with an annual production of 21.48 million vehicles (mostly two and three wheelers) in FY 2013-14. India has \$600 billion worth of retail market in 2015 and one of world's fastest growing E-Commerce markets.

India is a member of the Commonwealth of Nations, the South Asian Association for Regional Cooperation, the G20, the International Monetary Fund, the World Bank, the World Trade Organization, the Asian Infrastructure Investment Bank, the United Nations and the New Development BRICS Bank. There is increase economic growth which can be seen in India adequate education, health care and infrastructure. The standard of living in India is improving on the average. India is fast becoming a developed country but some features of a developing or less developed nation is still visible in India.

SELF ASSESSMENT EXERCISE

Discuss the economic system that is practiced in India

3.3. Economic system of Netherlands

We shall be looking at the Netherlands economic system in this section. The Netherlands maintains a flexible and competitive economic systems that benefits from openness to global trade and investment and from an efficient regulatory environment that encourages robust entrepreneurial activity. Monetary stability is well maintained, and the judicial system, independent and free of corruption, provides strong protection for property rights. Fiscal policy remains a concern. Government spending remains high, pushing public debt

to over 65 percent of GDP. Spending on subsidies, unemployment support, and other social transfers has kept the budget balance negative.

According to the World Bank and the International Monetary Fund, the Netherlands was the 18th largest economy of the world in 2012, while the country has only about 17 million inhabitants. GDP per capita is roughly \$43,404 which makes it one of the richest nations in the world. Between 1996 and 2000 annual economic growth (GDP) averaged over 4%, well above the European average. Growth slowed considerably in 2001-05 as part of the global economic slowdown. 2006 and 2007 however showed economic growth of 3.4% and 3.9%. The Dutch economy was hit considerably by the ongoing global financial crisis and the ensuing European debt crisis.

The Netherlands have a prosperous and open economy, which depends heavily on foreign trade. The economy is noted for stable industrial relations, fairly low unemployment and inflation, a very big sizeable current account surplus (compared to the size of the country even more than Germany) and an important role as a European transportation hub, with Rotterdam as far out the biggest port in Europe and Amsterdam as one of the biggest airports in Europe. Industrial activity is predominantly in food processing, chemicals, petroleum refining, high-tech, financial services, creative sector and electrical machinery. A highly mechanized agricultural sector employs no more than 2% of the labour force but provides large surpluses for the food-processing industry and for exports. The Netherlands, along with 11 of its EU partners, began circulating the euro currency on 1 January 2002. Historically, the Dutch introduced and invented the stock market by the merchandise trading through Dutch East India Company. The Netherlands is a founding member of the European Union, the OECD and the World Trade Organization.

The Netherlands has a population of 17 million people, GDP (PPP): of \$798.6 billion, 0.9% growth rate, \$47,355 per capita, 0.3% inflation rate.

The Netherlands is one of the most developed countries of the world. It has many industries and agriculture on a very high level of productivity. The biggest world's companies as Shell and Unilever as well as the banking giants ING Group and ABN AMRO are based in the Netherlands. There is increase economic growth which can be seen in Netherlands adequate education, health care and infrastructure. The standard of living in Netherlands is also very high thereby attracting migrants from less developed countries.

SELF ASSESSMENT EXERCISE

Explain your understanding of Netherlands economic systems in your own words.

4.0 CONCLUSION

From our discussion so far on economic systems of Nigeria, India and Netherlands. We can deduce the following facts:

That Nigeria and India practices the mixed type of economy, Mixed economy is an economy that mixes one type of philosophy with another where some decisions are taken by the government and some by the private sector.

That the Netherlands maintains a flexible and competitive economic systems that benefits from openness to global trade and investment and from an efficient regulatory environment that encourages robust entrepreneurial activity.

5.0 SUMMARY

In this unit, we have attempted to understand the Nigeria economic systems and its structures as well as ascertain the type of economic system of India and illustrate the Netherlands economy and its indicators, you have learnt that the economic systems of Nigeria and India are mixed in nature where decisions are taken by the government and the private sector. On the other hand, the Netherlands maintains a flexible and competitive economic systems that benefits from openness to global trade and investment and from an efficient regulatory environment that encourages robust entrepreneurial activity. I believe your understanding of this unit will prepare you for the last unit of this last module. Therefore, read ahead

6.0 TUTOR-MARKED ASSIGNMENT

Describe the relationship of government and private sector as reflected in Nigeria and India economic systems.

7.0 REFERENCES/FURTHER READING

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UNIT III ECONOMIC SYSTEM OF BRAZIL AND ASIAN TIGERS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Contents
 - 3.1 Brazil economic system.
 - 3.2 The Asian tigers economic system
 - 3.3 Goals by which economies can be evaluated
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 Introduction

This is the last unit of the last module of this course. Our discussion in this last unit is to look at the Brazilian economic system as well as the Asian tiger economic system. Therefore, it is important for us to take closer attention to the explanations given in this unit for easy assimilation and understanding.

2.0 OBJECTIVES

At the end of this unit, you should be able to;

- Understand Brazil economic system.
- Talk about the Asian tiger's economic system
- Highlight the goals by which economies can be evaluated

3.0 MAIN CONTENTS

3.1 Economic system of Brazil

In this unit, we shall be discussing the economic system of Brazil. Brazil has one of the world's largest economies, with well-developed agricultural, mining, manufacturing, and service sectors. It also maintains a robust market based economic system that is opened to the rest of the world. Vast disparities remain, however, in the country's distribution of land and wealth. Roughly one fifth of the workforce is involved in agriculture. The major commercial crops are coffee (Brazil is the world's largest producer and exporter), citrus fruit (especially juice oranges, of which Brazil also is the world's largest producer), soybeans, wheat, rice, corn, sugarcane, cocoa, cotton, tobacco, and bananas. Cattle, pigs, and sheep are the most numerous livestock, and Brazil is a major beef and poultry exporter. Timber is also important, although much is illegally harvested.

Brazil has vast mineral wealth, including iron ore (it is the world's largest producer), tin, quartz, chrome ore, manganese, industrial diamonds, gem stones, gold, nickel, bauxite, uranium, and platinum. Offshore petroleum and natural gas deposits discovered in the early 21st century could also make the nation a significant oil and gas producer, but development has been slow and below expectations. There is extensive food processing, and the leading manufacturing industries produce textiles, shoes, chemicals, steel, aircraft, motor vehicles and parts, and machinery. Most of Brazil's electricity comes from water power, and it possesses extensive untapped hydroelectric potential, particularly in the Amazon basin. In addition to coffee, Brazil's exports include transportation equipment, iron ore, soybeans, footwear, motor vehicles, concentrated orange juice, beef, and tropical hardwoods. Machinery, electrical and transportation equipment, chemical products, oil, and electronics are major imports. Most trade is with China, the United States, Argentina, and Germany.

Brazil, officially known as the Federative Republic of Brazil, or “República Federativa do Brasil ” in Portuguese is the largest as well as the most populous country in the South American continent. Brazil Market is a free market economy organized along capitalist lines. Measured in Purchasing Power Parity (PPP) as of 2006, the Brazilian economy is the ninth-largest in the world and is the largest in South America with the Gross Domestic Product (GDP) aggregating to US \$ 1.813 trillion. The Brazilian economy can now be characterized as a mostly technology driven economy which has experienced tremendous growth in the last few years since the process of industrialization started in the 1930's. This growth has mainly been export-driven. According to government released statistics, Brazil was the first country with a capitalist structure in the world to accommodate the ten largest car assembly companies within its territorial boundaries. Brazil is part of the BRIC (Brazil, Russia, India and China) group of countries and is perceived to a potential economic superpower which would eclipse the present major economies in the future. In this regard, some of the key Brazilian markets can be identified as industries including mining: Brazil has the most industrially advanced economy in South America. The main manufacturing industries include automobiles, petrochemicals, cement and construction and aircrafts.

Brazil occupies nearly half the continent of South America, stretching from the Guiana Highlands in the north, where it borders Venezuela, Guyana, Suriname, and French Guiana, to the plains of Uruguay, Paraguay, and Argentina in the south. In the west it spreads to the equatorial rain forest, bordering on Bolivia, Peru, and Colombia; in the east it juts far out into the Atlantic toward Africa. Brasília is the capital; the largest cities are São Paulo and Rio de Janeiro.

Brazil's economic growth slowed beginning in 2011. In June, 2013, the sluggish economy contributed to nationwide protests lasting several weeks that were sparked by an increase in the cost of public transportation; rising consumer prices generally, congressional corruption, poor public services, and the high cost of holding the 2014 World Cup also stoked the angry demonstrations. Brazil's Congress subsequently passed a number of bills focused on issues that had led to the protests. Brazil is governed under the 1988 constitution as amended. There is increase economic growth which can be seen in Brazil

adequate education, health care and infrastructure. The standard of living in Brazil is also very high thereby attracting migrants from less developed countries

SELF ASSESSMENT EXERCISE

Show your understanding of the Brazilian economic system.

3.2. The Asian Tigers economic system

One wonders how these countries became a transformed countries and economies that is now been copied by some of the less developed countries. The question is how did they achieve their growth?

The Four Asian Tigers or Asian Dragons are the highly developed economies of Hong Kong, Singapore, South Korea and Taiwan. These regions were the first newly industrialized countries. They are known because they had very high growth rates (they became rich very fast) and fast industrialization between the early 1960s and 1990s. Now people say that all four countries are rich countries. All four Asian Tigers have a lot of people who are very educated and good at their jobs. They also did different things, and tried to do them better than other countries. For example, Hong Kong and Singapore became very good at international finance, while South Korea and Taiwan became very good at information technology. The economic success stories of Korea and Taiwan became known as the Miracle on the Han River and the Taiwan Miracle. This helped many developing countries think maybe they could become rich too, especially the Tiger Cub economies. The four tigers grew richer very quickly. Some of this was because these countries let companies compete more, and some of this was because they started to sell more to other countries. The United States helped during the Cold War, because they didn't want these countries to become communist countries.

All the Asian Tigers tried to export (sell) things to rich industrialized nations. They grew rich very quickly, (they had double-digit economic growth) for decades. Each nation was not a democracy, and people were not very free in the early years. All of these countries later became freer, and people now think Taiwan and Korea are liberal democracies.

In 1997, people started to invest (spend) money on things they shouldn't, and that hurt the economies of those countries. But now these countries are getting richer again.

From the 1960s onwards Taiwan, South Korea, Hong Kong, and Singapore followed similar patterns of development. The development process was supposed to have been started by import substitution. Taxes were placed on imports to discourage their purpose and hence allowing their own primary industry to flourish. However, instead they industrialized and developed aiming exports at highly industrialized nations of Europe and North America. All of the countries also had non-democratic political systems, meaning they could drive through plans easily. They also all pursued education as a way of ensuring a labour force, as all students were required to attend primary and secondary school. They further invested in universities and making foreign universities accessible to their own students. Trade unions were also discouraged, and rather reaffirmed job security. The government also offered security of tenure to land owners, encouraging people to invest in their land. All the tigers had a Chinese influence: as follows; South

Korea: 65% Chinese, Singapore: 75% Chinese, Hong Kong: 95% Chinese, Taiwan: 98% Chinese.

An economic miracle is the term given to a period of great change, such as the period of dramatic economic growth the Asian tigers went through from the 1960s to the 1980s due to them pursuing export-driven economic development by exporting to highly-industrialized nations. The growth model has been subject to criticism for not following the typical model of development through import substitution with an aim of becoming self-sufficient. They instead focus on exports, relying on the healthy economic state of their target nations rather than feeding their own consumer market. But the problem came in that they lost their competitive edge over neighbouring markets, such as India, China and much of South-East Asia.

In the 1990s, the economies of the Asian Tigers had expanded too fast, hence the prices of property and stocks and shares had become overvalued. This caused several stock markets to crash and sparked a worldwide financial crisis and even required money from the International Monetary Fund.

Furthermore, as they lost their competitive edge over the likes of India, China and South-East Asia the consequences were potentially devastating as their economy was purely fuelled on this edge. Environmental factors are also an issue, industrialization is often linked with heightening levels of pollution and an ageing population, due to a fall in birth rates for such reasons as women pursuing careers, and a fall in death rates due to a better quality of living and medical advances, hence creating a high dependency level.

Taiwan, Hong Kong, South Korea and Singapore all saw their economies take off during the 1960s and '70s not because of their authoritarian regimes but because they pumped up exports and integrated into the world economy. The main industries behind their economic growth are as follows.

1. Agriculture industry
2. Petrochemical industry
3. The motor industry
4. Consumer goods
5. The steel industry
6. The energy industry

Invariably, their economic system is seriously moving towards market based and capitalistic in nature just like China did. The Asian tigers are the high-growth economies of Hong Kong, Singapore, South Korea and Taiwan. The four Asian tigers consistently maintained high levels of economic growth since the 1960s, fueled by exports and rapid industrialization, which enabled these economies to join the ranks of the world's richest nations. Hong Kong and Singapore are among the biggest financial centers worldwide, while South Korea and Taiwan are important hubs of global manufacturing in automobile/electronic components and information technology, respectively. There is increase economic growth which can be seen in the Asian tiger's adequate education, health care and infrastructure. The standard of living in the Asian tiger's countries is also very high thereby attracting migrants from less developed countries.

Also going by the nickname of Asian dragons, common characteristics of the four Asian tigers includes a focus on exports, an educated populace and high savings rates. The economies of the four tigers have proved to be resilient enough to withstand local crises, such as the Asian financial crisis of 1997, as well as global shocks like the credit crunch of 2008. The IMF includes the four Asian tigers in its category of 35 advanced economies.

SELF ASSESSMENT EXERCISE

Describe the rate of transformation and growth of the Asian tiger's economic systems.

3.3 The goals by which economies can be evaluated

In the final analysis, after discussing the economies of several countries. It has shown that countries have very different economic systems and their economic systems have undergone considerable changes in the last 30 years. The success of these economies can be evaluated based on different goals which are considered below. Therefore, the goals by which economies can be evaluated are as follows:

1. Economic Growth Rate:

The economy (measured by production per person) should grow over time at an acceptable rate. We expect countries to be able to produce more over time. Economic growth requires that people save and that saving be used to pay for investment in capital goods. It also requires adequate education, health care, infrastructure, and so forth.

2. Standard of Living:

The people should have a standard of living as high as possible, given the ability to produce of the country. In measuring this, focus should be on consumer spending per person.

3. Allocative Efficiency:

Society's factors of production are limited. If something is produced, something else is sacrificed (the opportunity cost). "Allocative efficiency" means allocating the factors of production to the "right" goods & services (as determined by consumers).

4. Static and Dynamic Technical Efficiency:

At a particular moment in time, an economy should use the least possible amount of the factors of production to produce its products. Or, it should get the most possible production from its factors of production. For example if i can produce a product with five workers and i choose to hire ten, then five workers are being used inefficiently. This goal is called "static efficiency".

5. Equity:

The distribution of society's production i.e of income should be "equitable" ("fair"). This, of course, is very subjective. What is fair to one person may be unfair to another.

6. Full-Employment:

All of the economy's factors of production, and especially its workers, should be employed or in the process of moving to a better use (for example moving to a new job). Any unemployed workers are not being properly utilized by society. And of course, the unemployed workers could be suffering greatly from the loss of a job.

7. Economic Security:

People should be free of insecurities that result from old-age, health problems, unemployment, and so forth. Consideration should be given to social security, health care, and unemployment insurance among the various countries.

8. Price Stability:

An economy should be able to avoid inflation (a general rise in prices) and especially hyperinflation. Inflation redistributes wealth unfairly and creates incentives that retard economic growth.

9. Military Power:

An economy needs to create the production necessary for the national defense of the country.

10. Environmental Quality:

Production should be free of hazards to air, water, and so forth, and should foster an overall high quality of life.

11. Freedom:

The workings of the economy should be consistent with maximum political and personal "freedom". As we will see, different people have different definitions of freedom. But in the political sphere, this should include freedom of speech, freedom of assembly, freedom to vote, freedom of the press, and so forth. In the economic sphere, this should include freedom to start businesses, freedom to work where one wants, freedom to hire whoever one wants and so on.

We have seen in this course, we have studied different economic systems, we can evaluate each countries based on the country's economy goals. Countries will do better on some of the goals and worse on others. Some are richer than others; some are more efficient than others; some have greater economic security; and some have greater freedom.

SELF ASSESSMENT EXERCISE

Highlight and discuss seven goals by which economies can be evaluated.

4.0 CONCLUSION

From our discussion so far on Brazil and the Asian tiger's economic system, we can deduce the following facts: That Brazil maintains a robust market based economic system that is opened to the rest of the world. That the four Asian tigers consistently maintained high levels of economic growth since the 1960s, fueled by exports and rapid

industrialization, which enabled these economies to join the ranks of the world's richest nations, thereby justifying some of the goals by which economies can be evaluated.

5.0 SUMMARY

In this unit, we have attempted to understand Brazil economic system, talk about the Asian tiger's economic system and the features and characteristics of Asian Tigers. Also, from the point of view of our discussion, you have learnt that Brazil economy is market based and opened to the world and that all the Asian Tigers tried to export i.e sell things to rich industrialized nations which made them grew rich very quickly and also had double-digit economic growth for decades. I believe you have intimate yourself with your course material and have been able to acquire the needed knowledge that is expected of you. I therefore encourage you to read more for proper impartation and assimilation of this course.

6.0 TUTOR-MARKED ASSIGNMENT

Describe the miracle of the Asian tigers that turned their economic systems around.

7.0 REFERENCES/FURTHER READING

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