Economic Systems

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Abstract

Governments worldwide employ various systems to coordinate economic activities. These systems are a network of rules that structure the interactions between economic agents and the environment. Governments use them to organize the distribution and exchange of resources, wealth, goods, and services. However, it is seldom the type of systems (capitalism, socialism, communism, etc.) that determine a country's success. Rather, it is the administrative capacity, ethicality, efficiency, and fairness of officers running the political and economic systems that determine a country's success. Proper allocation of citizens among the production process and a just distribution of products among citizens are essential for optimizing a country's economic systems.

Alchian and Allen (1977) noted that "societies have prospered despite almost universal ignorance of economic analysis."

Keywords: Economic Systems, Administrative Capacity, Socialism, Capitalism, and Communism.

Introduction

Countries organize their resources through economic systems, which are methodologies or rules governing the production, distribution, and consumption of goods and services, as well as political and banking systems. Often, countries use different types of political and economic systems to make rules, create and distribute goods and services. However, political and economic systems by themselves do not guarantee optimal use of resources, a prosperous economy, or full employment. Many democratic, communist, and socialist governments are dysfunctional.

Successful political and economic systems rely on the effective administrative capacity of public and private officials to run the machinery of political and economic systems, including running effective central banks to control inflation, ensure credit availability and maximum employment, as well as facilitating the establishment of robust educational institutions, universal healthcare, and financial institutions for saving, borrowing, and consumption.

We broadly use the term administrative capacity in many contexts (Misener and Doherty, 2009). Here, it entails running the machinery of political and economic systems and translating political and collective will into actions through management and implementation (Farazmand, 2009). Administrative capacity is also the aggregation of the individual capacities of civil and private servants, as it is their capacities that ultimately determine outputs and the delivery of services (Mentz, 1997; North, 1992), as well as job creation.

Capacity is the ability to perform functions, solve problems, set goals, and achieve objectives (Milio, 2007; Fukuda-Parr et al., 2002; Janicke, 2001). Thus, it is a set of attributes embodied within efficient institutions that provides the means to effectively accomplish their missions (Misener and Doherty, 2009).

Lack of administrative capacity leads to mismanaged political, economic, and organizational systems, low levels of productivity, and high unemployment. Productivity is a crucial component of economic activity (Just, Hueth, and Schmitz, 1982). Economic activities create and distribute the wealth that individuals, households, and society use to achieve different social and material goals (Duhaime, 2004).

The optimization of economic systems determines how countries maximize their resources, as well as how they create employment, universal healthcare, educational achievements, and wealth for their citizens. Most citizens seek involvement and rewards for their productive contributions to society. Unfortunately, not all citizens have access to education, vocational training, employment, and healthcare, which often hinders their contributions to society.

Types of Economic Systems

The Corporate Finance Institute (CFI) defines economic systems as a means by which societies or governments organize and distribute available resources, services, and goods across geographic regions or countries. Generally, economists recognize four basic types of economic systems: traditional, command, market, and mixed. Amadeo (2019) noted that economists and anthropologists believe that all economies started as traditional economies. Thus, the expectation is that traditional economies will evolve into market, command, or mixed economies over time. However, the question of which economic system best addresses the challenge of scarcity has not been settled (Shmoop Editorial Team, 2008).

The traditional economic system is an ancient type of economy, and it is the current economy in the world. It is even present in distressed rural sectors and central cities of the United States of America (USA). Traditional economies often lack access to advanced technologies and healthcare. In command economies, a small group of elites centralizes power. However, if command economies are capable and ethical, they can create and distribute resources to citizens. Gaddafi's command economy was becoming the fifth-largest economy in Africa (Gyani, 2023). Gyani noted that Gaddafi introduced and subsidized educational policies, and the poorest Libyan had access to knowledge, per capita income grew, and public healthcare was free. Nonetheless, frequently, the elites in command and market economies distribute most of the goods and services among themselves.

Capitalist governments argue that capitalism is based on a free market economy. But capitalist governments regulate trade (tariffs, and so on). Therefore, a capitalist system is not truly a free-market economy, except for a veneer or pretense of separation between government and business. A free-market economy can only exist under limited government control (Smith, 1776). However, government regulation can lead to corruption, such as bribery of public officials, and money in politics, which can be viewed as wealthy actors subjugating common citizens or as free speech (Kuhner, 2007). Mixed economies combine various economic systems, such as command and market systems. The USA is a mixed economy with regulated markets, therefore subject to bribery, favoritism, and control by the wealthy.

In a free market economy, the market is said to regulate the prices of goods and services. Therefore, in a truly free market economy, there is no government intervention, no taxes or regulations. However, a truly free market economy cannot coordinate a natural defense plan, and it leaves vulnerable citizens without a safety net (Amadeo, 2019) since governments would have no revenue.

Economic sub-systems, such as capitalism, fascism, socialism, democratic socialism, and communism, are generally not well understood. Nonetheless, opponents and proponents believe that the economic system that they prefer is better than all others, even when government officials are corrupt and seldom implement efficient economic systems.

Physical and financial wars also influence the level of success or failure of a country's economic systems. Financial sanctions, tariffs, threats, and other shenanigans adversely affect the ability of targeted countries to trade with the rest of the world (ROW) and hence the performance of their economic system, making their economic system appear suboptimal. For instance, the USA has maintained a comprehensive trade embargo against Cuba since 1962 (The U.S. Department of State), which contributes to its poor economic performance.

Economic System

An economic system refers to the coordination of economic activities. According to Dallago (2002), it is the network of "rules of the game" that structures the interaction of economic actors with other actors and with the environment; it is a way of organizing the distribution and exchange of a country's resources, goods, and services produced. From an economic perspective, an economic system regulates various economic issues, including the quantity of money in circulation, factors of production, the supply of capital, taxation, subsidies, foreign trade, the level of consumption, and so on.

Simon (1991) believed that until we can answer the question of the role markets play in connecting organizations and consumers, it is difficult to conclude the relative efficiencies of different ownership and control of organizations, or the comparative effectiveness of markets versus central planning.

Pham (2024) argued that in the West, many confuse the terms socialism, communism, and Marxism, and that they incorrectly believe that these terms are interchangeable.

Capitalism

Capitalism is known as a free enterprise and private property market system, where private property rights to production and consumption of goods and services exist (Alchian and Allen, 1977; Scott, 2006). Scott "defines capitalism as a system of indirect governance for economic relationships, where all markets exist within institutional frameworks that are provided by political authorities, i.e., governments."

The standard definition of a market economy is that supply and demand determine the prices of goods and services, as in perfect competition. However, the economic virtues of markets only exist in the unrealistic models of neoclassical theory and not in existing markets (Kotz, 2008), since perfect competition does not exist in the real world.

Additionally, markets fail frequently due to inefficient allocation of resources. And governments that allow markets free from regulation and taxes cannot produce public goods or benefit the needy (Andreas, 2012); they cannot reward corporations and the rich either. Andreas noted that it is improper to say that free markets are good or bad since they are only a means of allocating resources among individuals who cooperate.

In a capitalist economy, individuals with sufficient income can freely bid for goods and services; those without income cannot. Thus, the poor will have difficulties paying for healthcare, housing, food, schooling, and so on. Governments with unregulated (untaxed) markets are incapable of allocating goods and services or allocating public goods (roads, airports, clearing waterways, etc.) to their citizens. Only benevolent governments that regulate markets can subsidize their citizens, and many call this type of support socialism when it targets the needy. When it subsidizes corporations and the wealthy, they call it job creation. Only the political authorities (the government) can widely redistribute resources to the most destitute and the rich. When catastrophes occur, capitalists, the wealthy, do not have the coordinating capacity or the desire to rescue citizens or themselves; it’s too costly.

Employers, whether private or governments, own capital and make decisions on productive private and public assets: manufacturing, education, healthcare, utilities, roads, parks, airports, bridges, federal lands and waters, banks, military, police, and so on. Thus, like communist and socialist governments, capitalist governments own properties and employ workers. Moreover, all governments provide the institutional frameworks and regulations for markets (Scott, 2006), which include discriminatory policies, barriers to entry, and favoritism.

Governments also own and control central banks and use them to manipulate the monetary system within their economy. Central banks, like the Federal Reserve (the Fed), use three tools to manage the money supply: the discount rate, reserve requirements, and open market operations (Walbaum, 2012). Central banks' tools and regulations by political authorities (Congress and the executive branch) are a form of government macro planning and control of the economy. For instance, when the Fed removes money from circulation, it slows economic activities. Conversely, when it puts money into circulation, it accelerates the economy. Additionally, capitalists, like communists and socialists' governments, use regulations to socialize costs and taxation or subsidies to redistribute income, particularly to the wealthy.

Beckert and Rockman (2016), in their introduction to "Slavery's Capitalism: A New History of American Economic Development," noted that the brutal system of enslavement was indispensable to the economic development of the USA. Thus, between the American Revolution and the Civil War, USA capitalists kidnapped Africans and forcibly took their labor without compensating them. Enslaved African labor, as well as native lands, was profitable in rice and indigo production (Walton & Shepherd, 1979). Walton and Shepherd noted that white colonists passed laws to reduce

Africans from humans to mere property. In 1705, the slave code defined enslaved Africans as nonhuman and a form of property. Therefore, capitalism, from its inception, has always exploited workers.

Under contemporaneous capitalism, workers and capitalists form contracts in which they exchange labor power for wages, whereby the capitalists keep the products of the workers' labor (Roemer, 2008) in exchange for wages. Thus, most producers are employees of firms, not owners (Simon, 1991). Roemer noted that because capital is scarce relative to the available supply of labor, those with access to capital end up with the workers' surplus, and the workers end up only with wages. He also stated that an abundance of unemployed workers is advantageous to capitalists since workers must bid for the "privilege" of using their labor power on privately and government-owned productive assets. Excess available labor depresses wages and improves profits for the capitalists.

The abundance of unemployed workers occurs when the economy is not operating at full employment (capacity). However, many mainstream economists believe that true full employment is neither possible nor desirable (Tcherneva, 2014). Tcherneva argued that "It is not possible due to automation, outsourcing, and other structural shifts in the economy that prevent the market from creating jobs for all who want them." Moreover, she noted that we cannot count on the private sector to guarantee full employment even in good times.

Economists, such as Malcolm Sawyer (2003), believed that the government should stand ready to provide work to all who seek paid employment but cannot otherwise find a job. Similar to the central bank's willingness to provide reserves to the banking system during market failures. Unfortunately, conservative politicians do not see unemployment as a societal problem.

Fascism and Nazis

Fascism and Nazism were predominant political thoughts in the early 20th century and were very similar; the concept of race was the central tenet of Nazism. However, it was not central to Fascism. The term Fascism comes from the Italian fascio or Latin fasces; fascio and fasces mean bundle, referring to organized political groups (Layton, 2006; Waxman, 2019).

Under the leadership of Benito Mussolini, militants attacked, beat, and killed fellow Italians (Waxman, 2019). Waxman noted that Mussolini directed the brutality in Ethiopia and allied with Hitler to persecute Italy's Jewish population, as well as other populations. Renton (1999) noted that "Capitalism generates the myths of racism and elitism, which fascists use for themselves, p.35."

Fascism is an authoritarian system that promotes nationalism at all costs (Szalay, 2017); it is an aggressive nationalism and imperialism with the domination of the economy by the state. For Szalay, Fascism requires some primary allegiances to the nation, to national grandeur, and a master race or group. He also indicated that one element of Fascism is a collaboration with capitalists and the conservative elites. Thus, Renton (1999) argued that if Fascism is a recurrent feature of capitalism, then Fascism is not just a historical aberration, but a living and dangerous tradition which would repeat the crimes of the past.

Colin Sparks (1980) noted that for the white working class, racism and Fascism offer economic solutions to inadequate housing, unemployment, and falling living standards. He argued that materialist pressures lead some whites towards racism and Fascism and claimed that to destroy these tendencies, it is necessary to remove the drive for materialism or to raise the standard of living. But racism is also prevalent among many well-to-do whites. Therefore, racism is not about economics; rather, it is about ingrained irrational hatred towards non-white neighbors, a rejection of the second greatest commandment, and hence the first greatest commandment. Racists do not love their neighbors and therefore do not love God.

For fascists, groups that impede their views of national unity had to violently disappear (Waxman, 2019). Waxman noted that Mussolini used colonialism to abuse people of color and that the fear of white decline was a component of the abuse. Fascists obtained power by killing and intimidating the Socialist Party; landowners and businessmen supported the suppression of socialism, allowing Mussolini to gain power.

Yad Vashem - The World Holocaust Remembrance Center - defines Nazism as a German political movement led by Adolf Hitler. It noted that in 1919 in Munich, Germans founded an antisemitic right-wing political party called the German Workers' Party, which adopted the combined "national-social" ideology. In 1920, the party added "National Socialist" to its name and became the National Socialist German Workers' Party. Adolf Hitler became the leader or Führer. Yad Vashem also noted that "Nazism brought together the ideas of racial antisemitism (that Jews were inferior by virtue of their race or genetic makeup) …"

In 1924, Adolf Hitler claimed that "Propaganda is truly a terrible weapon in the hands of an expert (un.org)." un.org noted that biased information designed to shape public opinion and behavior is propaganda, which uses truths, half-truths, or lies, selectively omits information, simplifies complex issues or ideas, plays on emotions or advertises a cause, attacks opponents, and targets desired audiences. Thus, the purpose of propaganda is to divide the social fabric of nations. Today, some governments use artificial intelligence to distort images.

The Nazi party carried out a deliberate, calculated attack on European Jewry; it targeted Jews as the main enemy, killing six million Jewish men, women, and children by the time the war ended in 1945 (Meinecke Jr., Zapruder, Kaiser, Glassman, and Hart, 2007).

Contemporary economic analyses of privatization do not account for the privatization policies implemented by the National Socialist (Nazi) Party in Germany (Bel, 2009). Thus, Bel noted that the Nazi government opposed widespread state ownership of firms; this is similar to the position of capitalist governments in the West today. The Nazi drive for privatization was to achieve increased political support and, especially, a combination of increased revenue and expenditure relief for the German Treasury (Bel).

These two ideologies, Nazism and Fascism, had many commonalities, and they were extreme right-wing political ideologies with cult-like leadership and the use of violence. Nazism is a form of Fascism with a stringent concept of white racial superiority.

In Germany, there was a fascination with Hitler, and they consistently described him as given by God (Koehne, 2012). Koehne (2014) noted that a 1935 tapestry made by ordinary Christian women combined the Lord's Prayer, a church, and the swastika flag, in a genuine belief that these three should be interwoven. So, there was a bond between the Christian faith and National Socialists that existed for those who made the tapestry.

However, some, such as Broszat, argued that the Nazis systematically concealed the "Final Solution" from an unperceiving German population (Friedländer, 2009). Friedländer questioned the everyday life in the Third Reich before the onset of the "Final Solution" by showing the extraordinary impact of the regime's anti-Jewish propaganda on the national-racial community, the awareness of the open persecution of the Jews. We see a similar persecution of Hispanics under the second Trump administration.

Communism

According to Engels (1847), "Communism is the doctrine of the conditions of the liberation of the proletariat." He classified the proletariat as that class of individuals in society that lives entirely from the sale of its labor, and does not draw profit from any kind of capital. Profit is the difference between revenue and cost.

Communism is an economic and political system that aims to distribute resources to each person based on their needs, and the government controls all resources.

Bandura and Kosta (2018) stated that "Communism began in Russia in 1917 and spread through Eastern and Central Europe, China, Vietnam, Cambodia, parts of Africa, Afghanistan, Korea, and Cuba." They estimated that communism killed over 100 million people. For Haque (2018), the death toll was awful. However, researchers, to be credible, must present both sides of the "facts." Therefore, Haque noted that 13 million kidnapped and enslaved human beings were sold to the "New World." He also noted that "In the United States, by 1860, just 400,000 North American slaves had become 4 million new ones, born into slavery." That's 17 million enslaved Africans under capitalism.

Haque (2018) also noted that 100 years later, due to capitalism, a global depression emerged, and capitalism poured the fuel of fascism all over the world, in nations like Germany and Italy that had high debts. It only took a handful of demagogues to set the world alight. He conservatively estimated the death toll resulting from World War II to be about 120 million people. Therefore, if communism killed 100 million people, capitalism indeed killed more. In Congo, for instance, Leopold II of Belgium assassinated more than 15 million Congolese (Bates, 1999).

Pure communism is an economic and social system in which a classless society, and not individual citizens, collectively own all (or nearly all) property and resources. It is based on the 1848 publication "Communist Manifesto" by two German political philosophers, Karl Marx and his close associate Friedrich Engels (Philosophy.Institute; Wall, 2011). Wall noted that communism held to the common ownership of all land and capital and to the withering away of the coercive power of the state. It would regulate social relations on the fairest of all principles, according to abilities and needs. He also argued that there has never been a genuinely communist country. Marx believed that individuals' pursuit of self-interest would result in class struggles and increases in income inequality, underemployment of resources, and business cycles (KIM, 2012).

Before Marx and Engels, followers of Christ had all things in common. Acts 2:44-45 (KJV) states, "**44** All the believers were together and had everything in common. **45** They sold property and possessions to give to anyone who had need." Acts 4:32 (NIV) states, "All the believers were one in heart and mind. No one claimed that any of their possessions was their own, but they shared everything they had." Similarly, in Acts, the disciples' economic system was characterized by collective ownership of resources, much like pure communism. Still, even in Acts 5:1-2, Ananias and Sapphira chiseled from their own contributions, a sign of the difficulties between collective ownership and self-interests.

In the parable of the talents in Matthew 25:14-30, Jesus gave the example of the master who had eight talents and, before traveling abroad, distributed them to his servants, expecting that they would invest the talents while he was away. One of his servants received five talents, another two, and another one (Matt. 25:15). Although they received different amounts of talents, the master expected increases from the use of his talents. He expected that they would contribute directly to their self-interest by not shirking their investment responsibilities. The parable states that the unprofitable servant buried the talent and did not deliver a return to his master. Thus, he failed to look out for his self-interest. So, the talent was taken away from him, and he was cast out into outer darkness.

The parable of the talents refers to using our abilities for the prosperity of the Kingdom of God, which is akin to using our capabilities to care for the environment, increasing our productivity, looking out for our neighbors, feeding the hungry, visiting the imprisoned, helping the sick, and so on.

Communism, as often practiced, is devoid of incentives, leading to the shirking of responsibilities and the free-rider problem. Usually, the expectation is to receive the talents without rendering increases for them. Thus, the central concern of communism and socialism is the principal-agency problem; that is, how the communist and socialist states (principal) can motivate managers and employees (agents) to perform as profit maximizers, considering the difficulties of monitoring agents (Sappington, 1991).

When there is no ownership of capital, it is more challenging to devise incentives for the efficient use of capital owned by the state (Layard and Walters, 1978). Sappington (1991) argued that if the principal shared the agents' skills and knowledge, she could induce agents to behave exactly as the principal would. Thus, communist countries with profound administrative capacities can mitigate the agents' disincentive behaviors to perform. However, more often than not, the administrative capacity of government officials, whether communist or not, is lacking.

According to Greaves (1991), "von Mises believed that communism, or socialism, couldn't succeed, von Mises wrote in 1920, because it had abolished free markets so that officials had no market prices to guide them in planning production." Lange (1936), however, disputed this argument in terms of socialism. And, China's economic success appears to prove that a well-managed mixed economy (capitalism, socialism, and communism) can succeed and have market prices to guide it, as well as wage differentials to overcome the free-rider and principal-agency problems.

Communism has not been achieved in any industrial society, though attempts were made (Phan, 2024; Wall 2011), because wherever implemented, it has not achieved the complete abolition of private property or class distinction as called for by Marx and Engels (1848).

Socialism

Socialism is a political and economic theory of social organization that advocates that the means of production, distribution, and exchange should be owned or regulated by the *community;* the means of production are socialized (von Mises). Unfortunately, there are multiple definitions of socialism, which inhibit its comprehension. Both communism and socialism emerged as reactions to the Industrial Revolution and as workers' struggles to reorganize society (Pruitt, 2019). Socialism differs from communism in that it is a theory of social organization; it advocates for the distribution of wealth based on effort, and citizens own the means of production. People manage resources, and private property and capitalism coexist.

The Jamestown colony was the first settlement established by the London Company in 1607, and it initially operated as a collective, but it performed poorly due to disincentives to work and innovate (Walton & Shepherd, 1979). Innovation, however, is not inherent to capitalism. Cuba's pharmaceutical innovations showed the capacity to innovate within a communist system (Kotz, 2008), even while under a Western embargo. Additionally, Reynolds (1998) argued that the collapse of the Soviet Union and its former captive states in Eastern Europe heavily influenced contemporary economists and the public on the historical experiment of socialism (Surbhi, 2018).

Some economists, such as Professor von Mises, argued that socialist economies could not solve the problem of rational allocation of resources, based on confusion concerning the nature of prices (Lange, 1936). Lange argued that public ownership of means of production does not deny the existence of markets for the efficient exchange of capital goods. China and European socialist countries have markets for efficient exchanges. Even in capitalist economies, some markets are inefficient. For instance, Golimowsky (2008) found that the Pentagon overspent on washers.

Anti-socialists argue that central planning does not work. However, all capitalist organizations use some form of central planning and coordination, including capitalist governments. In Japan, the Ministry of International Trade and Industry (MITI), established in 1949, steered economic and social development through a form of centralized planning. The MITI was one of the most powerful agencies in the Japanese government, and its mission was to coordinate trade policy (Howell, 2006). It was also responsible for domestic industries and businesses. Thus, central planning works; any household, institution, or organization that does not operate under some form of central planning is dysfunctional.

Democratic socialism

According to the World Population Review, "Democratic socialism describes a socialist economy where production and wealth are collectively owned, but the country has a democratic system of government. The goal of democratic socialism is to achieve socialist goals of equality while opposing socialist ideologies. Democratic socialism is opposed to the Soviet economic model, command economies, and authoritarian governance."

Democratic socialism is often difficult to define because advocates and scholars have differing and often radical definitions for the term. However, its central tenet is to promote an economy and society run democratically to meet public needs and not to make profits for a few. The World Population Review describes a socialist economy as one with collective ownership of production and wealth, with a democratic system of government.

Democratic socialists believe that achieving a just society requires the radical transformation of many government and economic structures through greater economic and social democracy, allowing ordinary citizens to participate in the decisions that affect their lives (Home | Northern Illinois DSA). Democratic Socialism advocates for democratic employees' ownership and administration of the means of production and distribution of goods, such as employees' cooperatives, and opposes command and authoritarian governance.

Many countries, including the United States of America, are a mix of capitalism and socialism. However, they differ in their latitude of capitalism and socialism. For instance, Scandinavian countries, such as Denmark, Norway, and Sweden, are market economies with a healthy blend of socialist policies; they have comprehensive social safety nets. Thus, countries can simultaneously be capitalist and socialist. However, some countries have a greater emphasis on socialism than on capitalism, which is what democratic socialism represents. For instance, Sweden has more socialism than most countries, because it has more social programs.

Society's Economic Challenge

All societies have a variety of resources at their disposal: land, capital, and the time of their citizens, from which they can generate societal benefits (Layard and Walters, 1978). Modern societies also have monetary (central banks) and financial institutions (banks, insurance companies, credit unions, etc.) for saving and credit purposes. Credit expands the amount of money in circulation (Dornbusch and Fisher, 1978; Ellis, 2009; Xiong et al., 2016), creating more demand for goods and services. Productive societies use credit from central banks and financial institutions to build productive capacity and to allocate citizens among products, which determine the techniques, quantity, and quality of production, as well as the distribution of the products among citizens (wages).

The challenge of economic systems is the effective allocation of credit across communities to create profitable local production and employment. That is, how to best allocate local citizens among local products and services (jobs) and how to equitably distribute products and services among citizens (Layard and Walters, 1978). However, allocation and distributional schemes are seldom, if ever, egalitarian or efficient; not everyone is made better off.

Many government officials administering economic systems are less caring about the fair distribution of economic outputs, as reflected by discrimination, sexism, wage stagnation, non-livable minimum wages, nepotism, corruption, and so on. Furthermore, they allow high remuneration for top corporate officers and low (non-living) minimum for unfavored wage earners. And many government officials lack administrative capacities.

Conservative economists, politicians, and voters argue that there is a tradeoff between equity (fairness) and efficiency and that subsidies to the poor generate disincentives, discouraging them from work. They do not argue the same for more significant subsidies to corporations, farmers, oil extractors, oppressive countries, and so on.

We cannot eliminate the existence of poor people. It is an intractable societal problem due to differential abilities, opportunities, and drives among individuals. However, societies can manage poverty through adequate social programs, including free education, job creation, housing expansion, and universal healthcare. Deuteronomy 15:11 encourages us to support the poor: "For there will never cease to be poor in the land; that is why I am commanding you to open wide your hand to your brother and to the poor and needy in your land." Likewise, Jesus said, "The poor you will always have with you, but you will not always have Me (Matt. 26:11). So, the Bible asserts that the poor will always exist and commands us to help the poor. Unfortunately, many who call themselves Christians despise the poor due to their lack of understanding of the teachings of Christ.

The premise of many economic systems is extreme human selfishness and failure to look out for the poor. The father of capitalism, Adam Smith (1776), claimed: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." KIM (2012) argued that "Adam Smith regarded self-interest as love to oneself without harming others, whereas selfishness refers to self-love that undermines the interests of others." However, selfishness is not inherent to capitalism; many political and private officials who manage other economic systems are also greedy and uncaring. All economic systems can feature these undesirable types of human behavior.

Socialization of Costs

Most economic systems privatize profits and socialize certain business expenses, such as harmful business externalities, fertilizer runoff into streams and oceans, air pollution, and the injection of chemicals into the earth or aquifers. They also socialize some levels of education, roads, air and seaports, police, the military, foreign countries, business bailouts, and so on. Capitalist governments treat business earnings as the rightful property of shareholders while treating some business losses as societal responsibility (Kenton, 2019). Socialization of costs for the wealthy is evident in taxpayers' subsidies to businesses, such as banks, the automobile industry, and bailouts to farmers, tax giveaways to the rich, and so on.

Many elected politicians prefer to funnel taxpayers' money to big businesses and not to citizens in need. Dr. M. L. King, Jr. (1968), in his Minister to the Valley speech, said, "Whenever the government provides opportunities in privileges for white people and rich people, they call it 'subsidized' when they do it for Negro and poor people, they call it 'welfare.'" Thus, the United States of America has a society with free enterprise for the poor and socialism for the rich (King, 1968; Gillespie, 2008; Adams, 2008; Roubini, 2008). Thus, socializing corporate losses through government subsidies does not have the same negative connotations on the public as government subsidies to the poor.

According to Abeel (2013), Gore Vidal claimed that "The genius of our ruling class is that it has kept a majority of the people from ever questioning the inequity of a system where most people drudge along paying heavy taxes for which they get nothing in return." CNBC reported that 100 Fortune 500 companies paid no federal income taxes in 2018; see the Institute on Taxation and Economic Policy report of December 16, 2019.

Business externalities are sources of market failure. They occur when consumption or production decisions of one agent affect the consumption or production opportunities open to others (Layard & Walters, 1978). Their impacts do not operate through the price system (Layard & Walters; Hirshleifer, 1980); if they operated through the price system, the cost of production for many businesses would be higher than the price that they can charge for their products.

Economic Optimality

The critical elements for economic optimality are efficiency in consumption, production, and product mix, as well as the optimal allocation of citizens in the production process and "equitable" distribution of resources produced among citizens (Layard and Walters, 1978). Over time, a skewed distribution of resources towards the rich leads to high borrowing by the poor and the middle class for consumption; if they cannot borrow, consumption and gross domestic product will diminish. High levels of personal credit can potentially cause inflation, and the inability of the individual to borrow in the future, deflation, inventory accumulation, and layoffs, the typical cycle of economic boom and bust. The term equitable is difficult to define, and it is somewhat subjective. Nonetheless, we can define it as the minimum living income for all citizens; it is fairness, treating everyone in the same manner.

Decision-makers in different countries prefer different economic systems, due to tradition and not based on economic optimality. Because, often, they are not seeking societal optimality. Instead, they are trying to optimize their self-interest and that of corporations, with little or no regard for societal optimality. Therefore, many policymakers implement policies that are not socially desirable, their policies do not make everyone better off, and gainers do not compensate losers. Hence, citizens should evaluate the policy record of politicians before electing them to political office and only elect politicians whose record or proposals maximize social welfare.

Moreover, many voters are partisans, and even when the outcome of a policy is beneficial to them, if the candidate is not affiliated with their party, they will find that candidate unacceptable (Ellis, 2016).

The challenge, however, is that the principal-agency theory does not work for government authorities. Once politicians (agents) get elected (hired by voters), most are not accountable to voters (the principals); the elected officials reverse the process and become the principals and treat the voters as their agents. Principal-agency theory is about incentives (Sappington, 1991). In politics, the principals (voters) hire the agents (politicians) through the voting process, but the voters are seldom able to motivate the politicians to do what they want them to do, even when they can monitor what they are doing. There is no expedient mechanism to immediately fire the politicians, like in private industry.

The framers' institutional framework of the U.S. Constitution is a representative republic, not a democracy (Higgs, 2017). The word "representative" implies agents of the people, not bosses. The elected politician works for the citizens and not the other way around. However, Higgs argued that no one could take the "representative" part of the representative republic seriously, and that is the problem.

If, however, there was a legal, contractual agreement that the citizenry established with their political candidates, which specifies remuneration, performance, and dismissal conditions, we would be able to take the representative part of the Constitution seriously. Moreover, candidates (agents) would be unable to make vague and uncorroborated promises to the voters (principals).

Central Planning

Successful institutions/organizations use central planning to maximize output and profits. Layard and Walters (1978) indicated that a robust, centrally planned society aided by artificial intelligence (A.I.) could implement optimal solutions. They also stated that capitalism performs well under certain sweeping assumptions: *perfect competition, no increasing returns to scale, no external technological effects, no market failures connected to uncertainty, and finally, each consumer must be able to purchase the consumption bundle that corresponds to the welfare-maximizing configuration of the economy*. These are unrealistic assumptions by neoclassical economists (Kotz, 2008).

As noted previously, Simon (1991) indicated that it is difficult to conclude the relative efficiency of different forms of ownership and control of organizations, or the comparative effectiveness of markets versus central planning.

Gallant (2019) noted that for perfect competition to exist, the following conditions must be present: (1) all firms sell an identical product, (2) all firms are price-takers, (3) all firms have a relatively small market share, (4) buyers know the nature of the product sold and the prices charged by each firm and (5) freedom of entry and exit characterize the industry. Unfortunately, we rarely observe these five requirements together in any industry. Thus, perfect competition is rarely, if ever, observed in the real world (Gallant). Yet, many government officials in the West believe the false mantra of perfect competition, even when many consumers are not able to purchase the consumption bundle that corresponds to the welfare-maximizing configuration of the economy.

Economic systems are about choices subject to constraints (Layers & Walters, 1978). However, many societal decisions made under any economic system are seldom optimal. For instance, many countries are incapable of allocating the right people among production processes, whether in government, churches, manufacturing, educational institutions, and so on. Misallocation of factors of production cripple economic systems, businesses, and institutions. That is, when policymakers are incapable of, or not interested in, maximizing individuals' and organizational comparative advantages, the operating economic system, whichever it may be, is unlikely to perform at optimal capacity. Many decision-makers allocate jobs based on friendship, likability, homogeneity, racial and gender preferences, and so on. Thus, they inhibit the achievement of optimal outcomes.

The inability to place the right individuals in the right jobs restricts the techniques, quality, and quantity used to produce products and services. Favoritism is an enemy of optimality; it often leads to a lack of administrative capacity and does not lead to Pareto improvements, which is a movement from an inferior to a superior state (Just, Hueth, and Schmitz, 1982). Societies should codify rules to achieve Pareto improvement states to reduce inequality.

In depressed areas, under any economic system, policymakers seldom implement policies that allocate resources, including citizens, into the production and service processes, depriving those citizens of a living income and hence limiting the distribution of goods and services available to them. In the United States, these outcomes are evident in Appalachia, southern states, and central cities, and they are also beginning to affect the middle class nationwide; in China, poverty is evident in rural areas, and Russia's poorest areas are in the south (d'Amora, 2015).

Therefore, it does not appear that decision-makers of any economic system favor uplifting neglected areas. One reason is that the poor cannot purchase the attention of public officials. So, there are seldom educational and financial investments in depressed areas, which prevents individual skills acquisition and bank money creation and expansion.

Individual Well-Being

From an economic point of view, individuals' well-being depends on the amount of income available to them for consumption (Hirshleifer, 1980). Furthermore, in regions without credit creation (borrowing), at any point in time, there is a fixed amount of wealth in the economy, and if there is no production and only consumption, that wealth will diminish over time. Therefore, when the wealth of the owners of capital increases the wealth of workers will decrease. Any decrease in workers' wealth adversely affects the consumption of goods and services by the middle class and the poor, except if they can borrow from the owners of capital to make purchases.

Economic systems that are not ideally configured (optimal) will, over time, begin to experience instability and a vast wealth gap between the rich and the poor, because the income earned by most citizens will not be able to purchase all the goods and services produced. That is, in a competitive economy, wages will equal the marginal revenue product of labor, which is equal to the selling price of goods and services produced. However, because we do not operate under perfect competition, wages are less than the marginal revenue product, since that is the only way that owners of capital can make a profit. Thus, the aggregate selling price of goods and services produced will exceed aggregate wages. Hence, wage earners, over time, will not be able to purchase all the products and services produced, except through borrowing (bank credit) or from savings.

However, when aggregate wages plus aggregate borrowing exceed the selling value of goods and services produced, consumers will bid up prices (inflation). And the central bank will begin to restrict credit (remove money from circulation), inventories will accumulate, and production will slow down, causing employee layoffs—the classic cycle of boom and bust.

Following Layard and Walters (1978), we assume a closed economy with two people, persons A and B, and two fixed factors of production, capital, $\overline{K}$, and labor, $\overline{L}$. Keeping in mind that at any point in time, community resources are fixed. We can use the two factors of production to produce x (wheat) and y (fish). The capital allocated to producing x is K^x, and for producing y is K^y, and likewise, labor allocation for x is L^x, and for y is L^y. So, given the fixity of capital and labor in our closed economy, we have:

$$\overline{K} = K^x + K^y \qquad \overline{L} = L^x + L^y$$

So, the total amount of capital available is $\overline{K}$, and that of labor is $\overline{L}$. The allocation of these factors of production generates outputs. Their production function specifies the maximum output that the closed economy can produce. The production functions for x and y are:

$$x = x(K^x, L^x) \qquad y = \mathrm{y}(K^y, L^y)$$

Thus, society uses the limited amount of $\overline{K}$ and $\overline{L}$ to produce wheat and fish; in a capitalist economy, their allocation in the production functions will depend on consumer demand, from persons A and B, for x and y. That is:

$$x = x^{\mathrm{A}} + x^{\mathrm{B}} \qquad y = y^{\mathrm{A}} + y^{\mathrm{B}}$$

So, we allocate the outputs x and y between the two citizens, A and B, based on their wealth (the price system). They will be able to demand x and y from their disposable incomes, accumulated savings, credit, government subsidy, or private gifts. So, without a safety net, the wealthier individual could purchase more, or all, of x and y, leaving nothing for the less wealthy (the needy).

The theory of choice posits that individuals prefer more to less, up to a point. Therefore, the happiness of A and B depends on how much x and y they can afford. If they are altruistic, each will ensure the happiness of the other; if they are envious or uncaring, the happiness of the other would not be of concern. We seldom see mass altruistic behaviors in capitalist economies; it is more prevalent in socialist economies.

Each citizen has what economists call a utility function, U, which represents their level of happiness or satisfaction:

$$U^{\mathrm{A}} = u^{\mathrm{A}}(x^{\mathrm{A}}, y^{\mathrm{A}}) \qquad U^{\mathrm{B}} = u^{\mathrm{B}}(x^{\mathrm{B}}, y^{\mathrm{B}})$$

In general, more of x and or y leads to more happiness. Nonetheless, we can see from this simple example that there are constraints in every society and that equitable distribution of resources is seldom possible under any economic system without government intervention. Equity, though, is a subjective term. However, it is possible to maximize each citizen's utility based on the citizen's personal view of their utility (or happiness) function. Likewise, governments can use redistribution schemes to improve opportunities and provide safety nets for disadvantaged and indigent citizens. For example, universal healthcare, free education, subsidized housing, and so on.

Layard and Waters (1978) believed that the configuration of the economy is a personal judgment because citizens differ in the importance that they attach to equality versus efficiency. Equality is a contested concept in social and political thought (Arneson, 2013).

We can use mathematics to maximize the *social welfare function*, W:

$$\max W = W(u^{A}, u^{B})$$

Subject to the endowments of technology and taste constraints, as well as four (4) other first-order conditions, which are efficiency in consumption, production, and product mix, as well as social justice.

A situation is efficient or Pareto-optimal when it is impossible to make one person better off, except by making someone else worse off. Even when academics and policymakers design efficient economic systems, government authorities seldom apply them as intended due to human greed or inadequate administrative capacity.

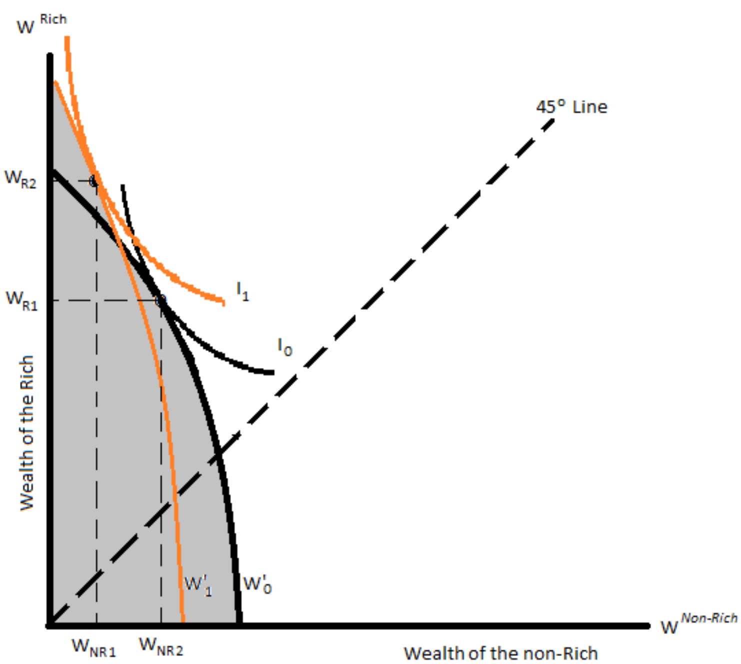

Figure 1 - Wealth Possibility Frontier

Figure 1, on the left, shows that in a closed economy, given a fixed amount of wealth, as the aggregate wealth of the rich (owners of capital) increases, the total wealth of the non-rich decreases (the pink wealth possibility frontier)—the wealth of the non-rich moves from W_{NR2} to W_{NR1}, limiting their consumption possibilities. As the non-rich consume less, inventories accumulate, and employers (capitalists) cut production and lay off workers. Recessions occur during this period, and the Fed pumps money into the economy so that consumers can borrow and purchase goods and services from the owners of capital.

The COVID-19 pandemic showed that it is the consumers who create jobs and not the owners of capital. If there is no consumption, there is no job creation; seventy percent of the U.S. gross domestic product is due to personal consumption. Yet, in capitalist economies, government authorities' bailout corporations and not consumers.

Therefore, the types of economic and political systems appear to be insignificant in achieving economic efficiency. Instead, it seems that any economic system or combination of systems (mixed economy) with proper macroeconomic planning can approach optimality, and with improper macroeconomic planning will be suboptimal. China's economy performs well under a mix of a communist authoritarian and market economy.

Isidro Luna (2016) pointed to the increased rate of poverty in capitalist countries, the United States, and Europe in the 2000s.Thus, the type of economic system does not determine a country's level of satisfaction or poverty rates.

Economic optimality, however, requires government authorities and personnel with robust administrative capacity. We broadly use administrative capacity in many contexts (Misener and Doherty, 2009), and it is essential in the delivery of services to constituents. It entails running the machinery of a political or economic system and translating political and collective will into actions through management and implementation (Farazmand, 2009). However, many decision-makers, regardless of economic and political systems, seldom allocate employees based on their knowledge (capacity). Instead, they assign employees based on favoritism or some other physical characteristics. They select employees based on friendship, likability, homogeneity, racial and gender preferences, and so on, which makes achieving optimality difficult, if not impossible.

Nevertheless, there are many efficient economic configurations for any given economy, and they are subject to technical conditions that must hold at the optimum (Layers & Walters, 1978). Layers and Walters noted that a mixed economy, as well as decentralized socialism, could have the same formal properties of optimality. In decentralized socialism, the state owns all the capital and rents it out to bureaucratic enterprises, whose managers the state instructs to maximize profits. Optimality is also possible with centralized socialism, although it suffers from the problems of information and incentive; nonetheless, if it uses the price system, these problems could be overcome (Layers & Walters).

Unlike communism, which socializes production and consumption, a socialist economy would assure its citizens a given level of income, and they would spend the income as they chose in buying commodities from the state (Taylor, 1929); that is, a socialist economy only socializes production, and not consumption (Lippincott, 1938). The argument that under capitalism, consumers dictate what to produce is not entirely true. Take AI, data centers, and electric vehicles; most consumers did not demand them. Rather, entrepreneurs are attempting to impose them on consumers.

Moreover, in capitalist economies, the selling prices of many goods and services are far higher than the cost of production. Additionally, in capitalist economies, government officials, on both sides of the aisle, often socialize taxpayers' funded research and transfer it to private ownership (Link, Oliver, Jordan, and Hayter, 2019).

Lange (1938) and Taylor (1938) assumed freedom of choice and occupation in their exposition of socialism. Thus, preferences or consumer demand also guide socialized production. Pigou (1937), in Socialism versus Capitalism, believed that a socialist economy based on economic techniques is superior to a capitalist economy.

Some economists, including von Mises (1922), have argued that public ownership of the means of production eliminates markets. von Mises argued that capitalist society is the realization of economic democracy. However, history has documented the brutality and exploitation of capitalists worldwide, such as enslavement, stolen lands, regime changes, bombardments, and so on. Furthermore, Barone (1908), using a Walrasian general equilibrium system, proved that a socialist state obtained the same results as a decentralized economy based on private property (Screpanti and Zamagni, 2005), and contemporary China proved that these economists were incorrect. Lange (1936) also showed that socialist and capitalist economies determine prices in the same way. Additionally, Lange (1938) and Taylor (1938) assumed freedom of choice and occupation in their exposition of socialism. Thus, all economic systems must satisfy the *social welfare function,* which is the happiness of the individuals in society (Layers & Walters, 1978).

However, there is a poverty of thought concerning the economics of socialism in Western societies, although approximately 30 percent of the world population lives under socialism (Bergh et al., 2025). The views of socialism center around emotions, rather than logic and mathematics. Lange noted that economists in capitalistic societies discourage inquiry into socialist economics, but how can we compete with China if we do not understand the productivity of socialist or communist economies? Lastly, Western powers, such as the U.S., isolate socialist countries (Cuba, Libya, Venezuela, and others) with economic, as well as military blockage, to stifle their economies.

In capitalist organizations and institutions, a central management board plans and sets goals to minimize costs and to ensure that the selling price covers production costs. Likewise, in socialist economies, an independent government board would do the same, planning and setting cost-minimizing goals to ensure that the selling price includes production costs.

Japan's Ministry of International Trade and Industry (MITI) steered economic and social development in Japan (Howell, 2006). The MITI, established in 1949, was one of the most potent agencies in the Japanese government. Its mission was to coordinate trade policy. MITI was also responsible for domestic industries and businesses. Therefore, establishing regional non-partisan institutes in the United States could, like MITI in Japan, help steer regional economic and social development, as well as employees' cooperatives.

According to Lang (1936), the West's attachment to capitalism has inhibited scholars from considering socialist institutions that might permit a closer approximation to an optimal economy. He noted that the first to show that the formal principles of economic theory apply to a socialist economy was an orthodox economist, Vilfredo Pareto. Lange also pointed toward Pigou, who, in his Socialism versus Capitalism, argued that on the grounds of economic techniques, a socialist economy is superior in most respects to a capitalist economy.

China proved, beyond any doubt, that different economic systems are not inferior. It is so effective that the Trump administration engaged in a failed trade war to curtail China's productive effectiveness.

In the U.S., socialism is seen as communism. Many U.S. citizens believe that socialist authorities dictate the products that consumers consume. However, a careful examination of Western nations with a high latitude of socialism and even communist China shows that free consumers' choices prevail and that there is a cost-effective allocation of resources that is superior to many economies with a high latitude of capitalism.

Socialist economies, like in businesses and institutions, socialize production, and this is a significant distinction from communist economies that socialize both production and consumption. As a result, citizens of socialist economies, like China, dictate what commodities the authorities will produce, the ones in higher demand, which is the same as what businesses in capitalist economies produce.

If capitalist economies, such as the U.S., had planning boards, it would be more effective in countering Chinese competition. For instance, it would know what products are causing trade deficits with the rest of the world. It could then set up cost-effective employee-owned manufacturing facilities in depressed areas to produce those products, i.e., Appalachia and central cities. Likewise, it could build cost-effective, affordable housing, healthcare systems, and set up processes for effective schools, and so on.

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