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Advantages and disadvantages of mixed economic systems

It encourages private initiative. There is freedom of choice. It ensures that income is distributed equitably. It ensures economic development. It ensures job security and employment. Monopoly is prevented because of the joint participation in economic activities by both the private and public sectors. There is more emphasis on profit at the expense of the welfare of the citizens. There is usually high level of corruption and mismanagement. Wealth is not equitably distributed as there is a gap between the rich and the poor. Efficiency hardly occurs in this type of economy because of involvement of the state. Exploitation of labour. It should be noted that there is no country in the world which practices absolute socialism or capitalism. In each country, there is some private and state ownership of the means of production. It is the level of private and state ownership of the means of production that determines whether such a state is a capitalist state or a socialist state. [Attributions and Licenses] This article is licensed under a CC BY-NC-SA 4.0 license. Please see the details of the license for terms of reuse. Share Tweet Email Google+ WhatsApp Definition – A mixed economy means that part of the economy is left to the free market, and part of it is managed by the government. Mixed economies start from the basis of allowing private enterprise to run most businesses. Then the governments intervene in certain areas of the economy, such as providing public services (health, education, waste management) and the regulation or private business (e.g. legal right to private property, and abuse of monopoly power) In reality, most economies are mixed, with varying degrees of state intervention. Individuals are able to set up business and make a profit. However, usually progressive taxes and means-tested benefits to reduce inequality and provide a safety net. Prices are determined by market forces ‘invisible hand’. But, the government may regulate some goods. For example, placing a higher tax on cigarettes to discourage use. Most businesses are privately owned. However, the government may own or be involved in regulating natural monopolies, e.g. tap water, electricity, gas. Businesses are free to decide what to produce and price to pay, but there are government regulations on the environment, labour markets and abuse of monopoly power – limiting pollution An economy largely driven by private investment and enterprise, but government can intervene to reduce fluctuations in the economic cycle. For example, reduce inflation or boost economic growth (fiscal policy) Share of government spending as a % of GDP All the above economies are mixed. The government manages a section of the economy, and private firms and individuals operate the rest. There are different degrees of state intervention. European economies such as Sweden and France have a generous level of social security spending; in western Europe, education and healthcare are free at the point of use. However, in the US, government spending as a share of GDP is lower, but health care has to be paid for. As economies develop, the government often take a higher share of total spending. Developed countries, such as in Western Europe, often choose to provide state welfare support, and greater government regulation of business and the environment. Developing economies, such as Cameroon and Uganda have government sector which spends less than 20% of GDP Advantages of mixed economies Incentives to be efficient. Most business and industry can be managed by private firms. Private firms tend to be more efficient than government-controlled firms because they have a profit incentive to cut costs and be innovative. Limits government interference. Mixed economies can reduce the amount of government regulation and intervention prevalent in a command economy. Reduces market failure. Mixed economies can enable some government regulation in areas where there is market failure. This can include: Regulation on the abuse of monopoly power, e.g. prevent mergers, prevent excessively high prices. Taxation and regulation of goods with negative externalities, e.g. pollution. Subsidy or state support for goods and services which tend to be under-consumed in a free market. This can include public goods, like police and national defence, and merit goods like education and healthcare. A degree of equality. A mixed economy can create greater equality and provide a ‘safety net’ to prevent people from living in absolute poverty. At the same time, a mixed economy can enable people to enjoy the financial rewards of hard work and entrepreneurship. Macroeconomic stability. Governments can pursue policies to provide macroeconomic stability, e.g. expansionary fiscal policy in times of a recession. Even libertarians who dislike government intervention believe there needs to be legal support for private property and government provision of law and order. Disadvantages of mixed economies How much should the government intervene? Can be difficult to know how much governments should intervene, e.g. discretionary fiscal policy may create alternative problems such as government borrowing. Too much inequality? Mixed economies are criticised by socialists for allowing too much market forces, leading to inequality and an inefficient allocation of resources. Government failure. Mixed economies are criticised by free-market economists for allowing too much government intervention. Libertarians argue that governments make very poor managers of the economy, invariably being influenced by political and short-term factors. Conclusion In reality, it depends on how a mixed economy is managed. Even the most ardent free-market economists will agree we need a degree of government intervention – if only to protect private property. For example, Adam Smith in ‘Wealth of Nations’ argued governments needed to prevent the exploitation of monopoly power. Very few economists would argue that the government should try and intervene in all areas of the economy. Private business and financial incentives play an important role in a well-functioning economy – even if the desire is to promote greater redistribution. Related Command economy Free market economy Advantages And Disadvantages Of a Mixed Economy: Mixed economy is an economic system where both the private sector and the government (public sector) are involved in the means of production in the state. In such a market economy, the government is concerned with the provision of public goods, often with strong regulatory oversight over the private sector. Simply put, a mixed economic system is an economic system that combines both features of capitalism and that of socialism. Ideally speaking, in a mixed economy, there is reduced government regulation, private industries are rendered efficient, there is better stabilization in the free-market, greater equality which reduces the rate of poverty, and government policies which promotes stabilization What are some disadvantages of a mixed economy? A mixed economy is neither wholly socialist nor wholly capitalist, it could be regarded as a hybrid setting. The involvement of public sector helps to stabilize and regularize the loopholes in the economy and aims at providing services which if left singly for the private sector would be produced at a cost unfavourable to the society, such as the public utility. In a mixed economy, it is the government that provides the national infrastructure for the smooth operation of the private sector. Therefore, the government in this system plays important roles categorized as allocation, distribution and stabilization function. Mixed economy runs a free market economy which is similar to capitalism, but the government is fully concerned and involved in the market system for the purpose of protecting the interest of the public. Recommended: Major Tools for economic analysis Advantages (Benefits) of a Mixed Economy1. Private sector participation: Mixed economy encourages the involvement of the private sector in production. They also enjoy the autonomy of running their businesses in their own way, as long as it is in compliance with the regulations of the state. Mixed economy advantages and disadvantages Essay Because private sectors are involved in the field of production, certain decisions concerning the economy cannot be made in their absence. Therefore, they are also involved in the decision making as it concerns the economy. 2. Improvement of Social Welfare: While the government makes rules and regulations, regulating the matters relating to production in the state, the welfare of the citizens is put into consideration. Mixed economy also gives the government the ground to provide goods and services that are of social benefit to the citizens. The private sector relieves the government of the sole duty to plan and manage the economy. Advantages And Disadvantages Of a Mixed Economy The government then channels their strength towards playing supervisory role where necessary, and then towards the interest of social benefits to the citizens. The private sector is also not precluded from providing social benefits. Sometimes they are conditioned by agreement to provide social benefits in exchange of tax reduction or waiver. Also see: Advantages And Disadvantages Of Capitalist system3. Reduction in Market Failure: Because the public and the private sector are involved in the economic system of the state, the chances of market failure are limited. Both sectors serve as aid towards the other. Merits and Demerits of Mixed Economy The government in this setting can make up for the imperfections of the private sector by filling up their loopholes, while the private sector on their own side plays similar complementary role. 4. Efficiency in Production: There is efficiency in production in the sense that goods are continuously available, and the resources are effectively channeled towards satisfying the people’s need. Because every sector is allowed to get involved in the means of production, multiple production industries are established. When products are not available for the flow of market, it brings about increase in price, and this is essentially what the practice of mixed economy system helps to circumvent. Recommended: Countries with the highest currency in the world5. Economy development: Mixed economy practice helps boost the economy of the state. Because there are readily available industries owned by various sectors, employment opportunities are created which rapidly increases the production capacity of the state. 6. Mixed economic system encourages Competition and limits Monopoly: The setting of a mixed economic system provides a ground for competition in the field of production. This is because the system allows for the participation of the private individuals in the means of production and they are free to run their businesses in their own way. Monopoly is the accumulation of the means of production by few individuals. The occurrence of such in a mixed economy is limited because every person is free to participate. Recommended: Advantages and Disadvantages of being a teacher7. Government Intervention, Interference and Regulation: In a mixed economy, the government can intervene to regulate the price system. The government can subsidize the cost of production for the private sector in order for the products to have affordable market price. Also, because the state is concerned with the economy, it has the power to influence production and consumption. This it can achieve either directly or indirectly. For instance, the government can reduce the level of alcohol consumption in the state by levying high taxes on the companies producing alcohol. This will simply increase the price of alcohol and thereby deter people from its frequent consumption. Because the government makes regulations that can affect the private sector, the autonomous influence of the capitalists becomes subjected to regulations. Not just this, by government interference, the public sector can then produce goods which cannot be produced or be efficiently produced by the private sector. Individuals are by this protected from the abuses of private monopolists. When the government is involved, there would be employment opportunities; there would be balanced regional development. The interference of government in the means of production will help regulate the imperfections of the private sector. Recommended: Which Economy System is the best and why? Answered Disadvantages (Weaknesses) of a Mixed Economy1. Profit Inclined: Since the mixed economic system involves the private sector, profit-making becomes the primary objective whereas the citizens’ welfare comes after. This would be worse where the involvement of the private sector outweighs the dominance of the government in the field of production. Mixed Economic System (Definition), Advantages & Disadvantages2. Government Interference: Government interference may bring about bad policies and regulations affecting the private industries. The power of the government to make regulations that can affect the private sector actually gives them certain unwarranted degree of control and management over them. By so doing, the autonomy of the private sectors are tampered with. Merits and demerits of mixed economy system Government interference can as well bring about corruption and mismanagement in all sectors. Individual companies may engage in lobbying to get policies favourable to them at the expense of the citizens’ welfare. And where the individuals in government power are the industrialists, it creates a wide setting for corruption and mismanagement to ensue. Recommended: Difference Between Data Science and Data Analytics3. Tax: Private owners may be imposed exorbitant tax rates which can affect the price of goods generally. When the tax rate is high, the price of the goods would be higher too. In a corporation for instance, tax is levied both at the company and at the individual level. This is clearly double taxation and it counts to the production cost assessment which in turn influences the price of products. On the other hand, tax payment may become compromised by personal relationships and interests. Benefits and weaknesses of a mixed economy4. Decision Making: The decision making process in a mixed economy is usually rigorous, since it involves both public and private sectors. Also see: Most profitable agricultural businesses to start Conclusion There is no country that practice absolute socialism or capitalism. Thus, every country has some elements of socialism and capitalism. It is the degree at which private and public ownership of the means of production operate that defines the economic system practiced. In a mixed economy, both state and private enterprise constitute and drive the market. Both sectors have control of owning, making, selling and exchanging goods in the country. Mixed economy is regarded as the best practice because it encourages competition between socialism and capitalism. Edeh Samuel Chukwuemeka ACMC, is a Law Student and a Certified Mediator/Conciliator in Nigeria. He is also a Developer with knowledge in HTML, CSS, JS, PHP and React Native. Samuel is bent on changing the legal profession by building Web and Mobile Apps that will make legal research a lot easier.

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