The Four Types of Economic Systems

As you probably know, there are countless economies across the world. All of them are unique in their own way, but they still share a significant number of characteristics. Thus, we can categorize them into four types of economic systems; traditional economies, command economies, market economies and mixed economies. All of them rely on a different set of assumptions and conditions and of course, they all have their own strengths and weaknesses. We will look at each of them in more detail below.

1. Traditional Economic System

A traditional economic system focuses exclusively on goods and services that are directly related to its beliefs, customs, and traditions. It relies heavily on individuals and doesn’t usually show a significant degree of specialization and division of labor. In other words, traditional economic systems are the most basic and ancient type of economies.

Large parts of the world still qualify as traditional economies. Especially rural areas of second- or third-world countries, where most economic activity revolves around farming and other traditional activities. These economies often suffer from a lack of resources. Either because those resources don’t naturally occur in the region or because access to them is highly restricted by other, more powerful economies.

Hence, traditional economies are usually not capable of generating the same amount of output or surplus that other types of economies can produce. However, the relatively non-industrialized processes are often much more sustainable and the low output results in much less waste than we see in any command, market, or mixed economy.

Where Tradition Is Cherished: Traditional economies still produce products and services that are a direct result of their beliefs, customs, traditions, religions, etc. Vast portions of the world still function under a traditional economic system. These areas tend to be rural, second- or third-world, and closely tied to the land, usually through farming. However, there is an increasingly small population of nomadic peoples, and while their economies are certainly traditional, they often interact with other economies in order to sell, trade, barter, etc.

Minimal Waste: Traditional economies would never, ever, in a million years see the type of profit or surplus that results from a market or mixed economy. In general, surplus is a rare thing. A third-world and/or indigenous country does not have the resources necessary (or if
they do, they are controlled by wealthier economies, often by force), and in many cases any surplus is either distributed, wasted, or paid to some authority that has been given power.

Advantages And Disadvantages: Certainly one of the most obvious advantages is that tradition and custom is preserved while it is virtually non-existent in market/mixed economies. There is also the fact that each member of a traditional economy has a more specific and pronounced role, and these societies are often very close-knit and socially satisfied. The main disadvantage is that traditional economies do not enjoy the things other economies take for granted: Western medicine, centralized utilities, technology, etc. But as anyone in America can attest, these things do not guarantee happiness, peace, social or, most ironically of all, economic stability.

2. Command Economic System

A command economic system is characterized by a dominant centralized power (usually the government) that controls a large part of all economic activity. This type of economy is most commonly found in communist countries. It is sometimes also referred to as a planned economic system, because most production decisions are made by the government (i.e. planned) and there is no free market at play.

Economies that have access to large amounts of valuable resources are especially prone to establish a command economic system. In those cases the government steps in to regulate the resources and most processes surrounding them. In practice, the centralised control aspect usually only covers the most valuable resources within the economy (e.g. oil, gold). Other parts, such as agriculture are often left to be regulated by the general population.

A command economic system can work well in theory, as long as the government uses its power in the best interest of society. However, this is unfortunately not always the case. In addition to that, command economies are less flexible than the other systems and react slower to changes, because of their centralized nature.

3. Market Economic System

A market economic system relies on free markets and does not allow any kind of government involvement in the economy. In this system, the government does not control any resources or
other relevant economic segments. Instead, the entire system is regulated by the people and the law of supply and demand.

The market economic system is a theoretical concept. That means, there is no real example of a pure market economy in the real world. The reason for this is that all economies we know of show characteristics of at least some kind of government interference. For example, many governments pass laws to regulate monopolies or to ensure fair trade and so on.

In theory, a market economic system enables an economy to experience a high amount of growth. Arguably the highest among all four economic systems. In addition to that, it also ensures that the economy and the government remain separate. At the same time however, a market economy allows private actors to become extremely powerful, especially those who own valuable resources. Thus, the distribution of wealth and other positive aspects of the high economic output may not always be beneficial for society as a whole.

**Capitalism And Socialism:** No truly free market economy exists in the world. For example, while America is a capitalist nation, our government still regulates (or attempts to regulate) fair trade, government programs, moral business, monopolies, etc. etc. The advantage to capitalism is you can have an explosive economy that is very well controlled and relatively safe. This would be contrasted to socialism, in which the government (like a command economy) controls and owns the most profitable and vital industries but allows the rest of the market to operate freely; that is, price is allowed to fluctuate freely based on supply and demand.

**4. Mixed Economic System**

A mixed economic system refers to any kind of mixture of a market and a command economic system. It is sometimes also referred to as a dual economy. Although there is no clear-cut definition of a mixed economic system, in most cases the term is used to describe market economies with a strong regulatory oversight and government control in specific areas (e.g. public goods and services).

Most western economies nowadays are considered mixed economies. Most industries in those systems are privately owned whereas a small number of public utilities and services remain in government control. Thus, neither the private nor the government sector alone can maintain the economy, both play a critical part in the success of the system.
Mixed economies are widely considered an economic ideal nowadays. In theory, they are supposed to combine the advantages of both command and market economic systems. In practice however, it’s not always that easy. The extent of government control varies greatly and some governments tend to increase their power more than necessary.

**Benefits Of A Mixed Economy:** In the most common types of mixed economies, the market is more or less free of government ownership except for a few key areas. These areas are usually not the resources that a command economy controls. Instead, as in America, they are the government programs such as education, transportation, USPS, etc. While all of these industries also exist in the private sector in America, this is not always the case for a mixed economy.

**Disadvantages Of A Mixed Economy:** While a mixed economy can lead to incredible results (America being the obvious example), it can also suffer from similar downfalls found in other economies.

**In a Nutshell**

There are four types of economic systems; traditional, command, market and mixed economies. A traditional economic system focuses exclusively on goods and services that are directly related to its beliefs and traditions. A command economic system is characterized by a dominant centralized power. A market economic system relies on free markets and does not allow any kind of government involvement. Finally, a mixed economic system is any kind of mixture of a market and a command economic systems.