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CHAPTER 19

Converging Economic Systems

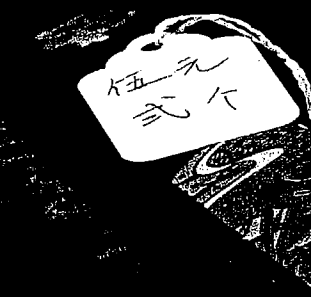
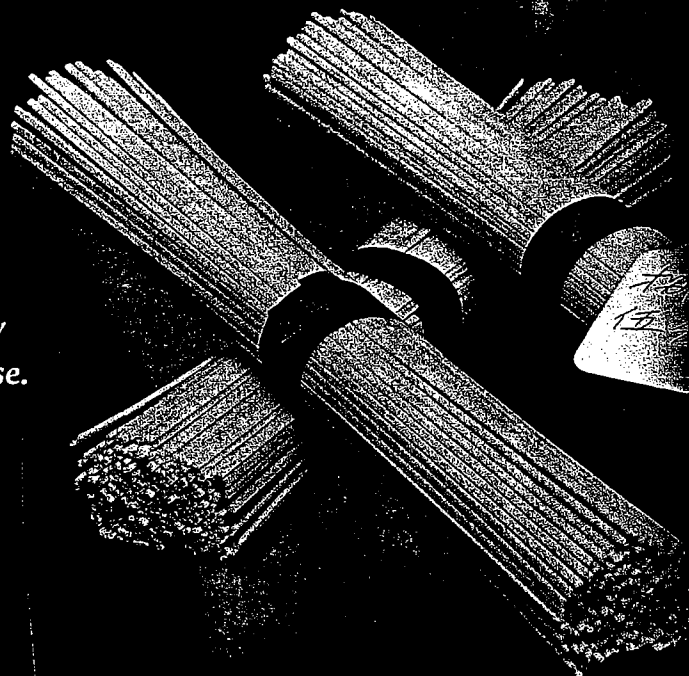
Why It's Important

Why do people in some countries pay much higher taxes than Americans do? How do other nations' economies work? This chapter explains the differences between capitalism and socialism—and why many nations are moving toward free enterprise.

 To learn more about the differences between socialism and capitalism, view the **Economics & You Chapter 25** video lesson: **Comparative Economic Systems**

ECONOMICS *Online*

Chapter Overview Visit the *Economics Today and Tomorrow* Web site at ett.glencoe.com and click on **Chapter 19—Chapter Overviews** to preview chapter information.



Comparing Capitalism and Socialism

COVER STORY

BUSINESS WEEK, JULY 19, 1999

For more than 15 years, the handful of foreign automakers allowed into China have dutifully assembled the cars and trucks prescribed by Beijing [China's capital]—even if those vehicles didn't make the most economic sense.

... For years, China has tightly restricted market access, especially for passenger cars. The government limited the number of players, set production volumes and prices, and dictated what types of vehicles could be made and where. Foreign carmakers have ended up making outmoded vehicles that are too expensive for most Chinese.



READER'S GUIDE

Terms to Know

- proletariat
- communism
- democratic socialism
- authoritarian socialism

Reading Objectives

1. What are the three characteristics of pure market capitalism?
2. What are the key characteristics of pure socialism?
3. How did socialism develop?
4. What are the benefits of capitalism?

Some government intervention occurs in the American economy, but generally the marketplace answers the three basic economic questions of WHAT, HOW, and FOR WHOM goods and services should be produced. In command economies, however, the government (not the market) answers these three basic questions.

In this chapter you will study different economic systems. The system that we know best in the United States is market capitalism. The opposite of this system is pure command socialism.

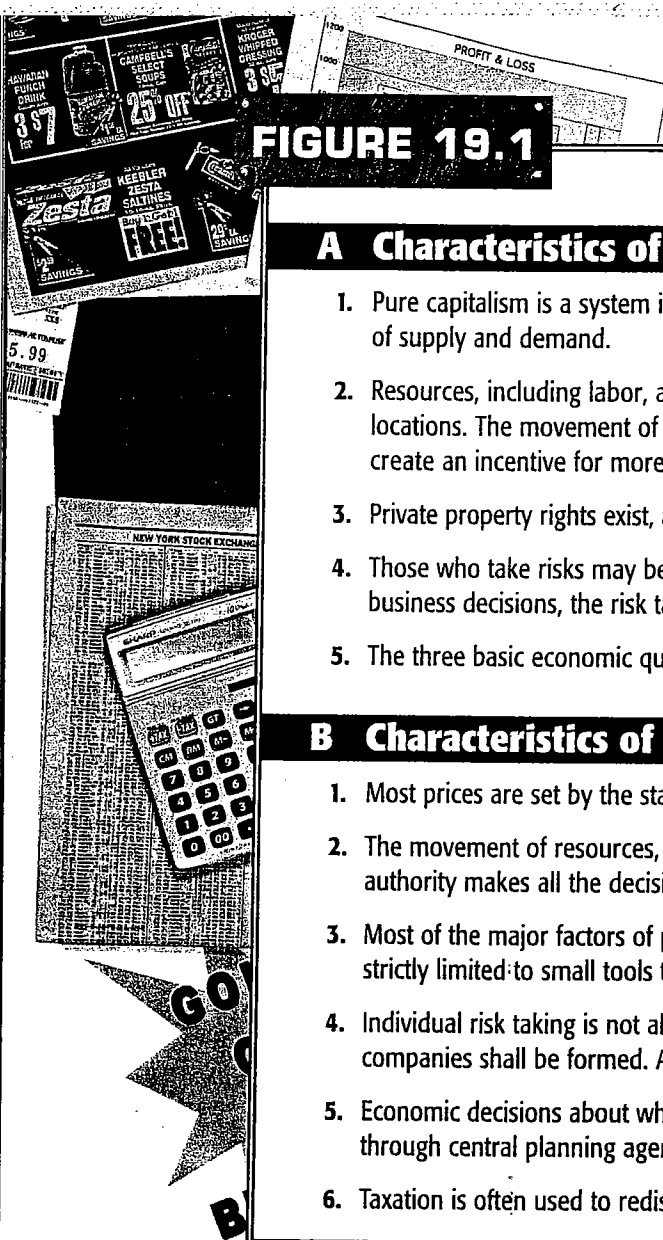


FIGURE 19.1

A Characteristics of Pure Capitalism

1. Pure capitalism is a system in which prices seek their own level as determined by the forces of supply and demand.
2. Resources, including labor, are free to move in and out of industries in competing geographic locations. The movement of resources follows the lure of profits—higher expected profits create an incentive for more resources to go where those profits are expected to occur.
3. Private property rights exist, are legal, and are enforced by the government, or the rule of law.
4. Those who take risks may be rewarded by higher profits. When those risks turn out to be bad business decisions, the risk takers lose money.
5. The three basic economic questions are all decided in a decentralized way by individuals.

B Characteristics of Pure Socialism

1. Most prices are set by the state, rather than by forces of supply and demand.
2. The movement of resources, particularly labor, is strictly controlled. The central planning authority makes all the decisions.
3. Most of the major factors of production are owned by the state. Private property rights are strictly limited to small tools that an individual needs for an occupation.
4. Individual risk taking is not allowed. The state takes all of the risk when it decides which new companies shall be formed. All citizens pay for unsuccessful risk taking.
5. Economic decisions about what, how, and for whom to produce are all made by state officials through central planning agencies and other administrative units.
6. Taxation is often used to redistribute income.

Pure Market Capitalism

In its purest theoretical form, market or pure capitalism operates on the basis of the *three Ps*: Prices, Profits, and Private Property. See Part A of **Figure 19.1**. Government in a pure capitalist system is limited to providing such public goods as national defense and police protection.

Pure Socialism

Pure socialism is an economic system in which there is little private property and the state owns virtually all the factors of production. Few examples of pure command socialism exist. Perhaps the

most extensively controlled economies are in North Korea and Cuba. Part B of **Figure 19.1** lists the characteristics of pure socialism.

The Marxian View of Socialism Socialism as a modern economic system grew out of protests against the problems caused by the Industrial Revolution of the 1800s. Karl Marx viewed history as a continual struggle between various groups, or classes, in society. In his own day, he saw this struggle as going on between capitalists—owners of the land, machines, and factories—and the **proletariat**, or workers. Marx believed capitalists exploited the proletariat, or used them unfairly. According to Marx, the value of goods depends only on how much labor is used in producing them. When capitalists sold a good and kept the profit, they were taking income that rightly belonged to the proletariat.

proletariat: term used by Karl Marx referring to workers

Despite capitalism's dominance in the nineteenth century, Marx believed it was doomed to fail. He outlined the collapse of capitalism, as shown in **Figure 19.2**, and predicted the

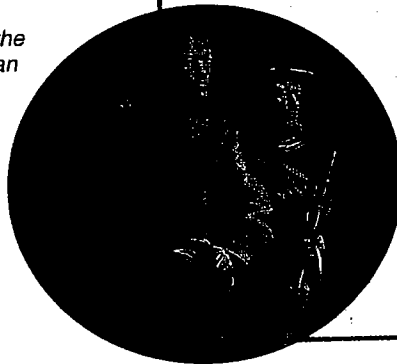
FIGURE 19.2

The Change From Capitalism to Socialism According to Marx

The End of Capitalism

Clearly Marx did not accurately predict what would happen in capitalist nations. Indeed, the opposite has proven to be true.

.....
*Leaders of the
1917 Russian
Revolution*



The Change From Capitalism to Socialism According to Marx

Step 1

Capitalism would suffer extreme recessions and depressions that would harm workers. A few rich capitalists would have all industrial power.

Step 2

The wide gap between the rich and the poor would cause workers to unite and overthrow capitalism.

Step 3

The victorious workers would establish a new socialist system. Workers, through the state, would own and control the means of production.

Step 4

The system would evolve into pure communism. Workers would contribute to society to their full abilities and, in return, take only what they needed.

Socialist Party of America

Several political parties that promoted socialism developed in the United States during the late 1800s and early 1900s. The most successful of these, the Socialist Party of America, was founded in

1901. By 1912 party membership had grown to about 118,000. And in the presidential election of that year, the Socialist candidate, Eugene V. Debs, received more than 900,000 votes. ■

communism: term used by Karl Marx for his ideal society in which no government is necessary

evolution of socialism into **communism**—an ideal system with no need for a government. Today *communism* has come to mean any authoritarian socialist system that supports revolution as a means to overthrow capitalism and bring about socialist goals. Instead of “no government,” communist systems historically have demonstrated that a central government controls the entire economy.

democratic socialism: system that works within the constitutional framework of a nation to elect socialists to office; the government usually controls only some areas of the economy

Socialism Since Marx In the twentieth century, socialism split into two major trends: democratic socialism and authoritarian socialism. **Democratic socialism** is a type of socialist system that works within the constitutional framework of a nation to elect socialists to office. In democratic socialist nations, government usually controls only some areas of the economy.

authoritarian socialism: system that supports revolution as a means to overthrow capitalism and bring about socialist goals; the entire economy is controlled by a central government; also called communism

Authoritarian socialism, in contrast, more closely follows Marx's beliefs. Its supporters advocate revolution as the means to overthrow capitalism and bring about socialist goals. In authoritarian socialist nations, a central government controls the entire economy. *Communism*, the term Marx applied to his ideal society, came to mean any authoritarian socialist system.

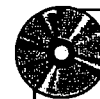
The Benefits of Capitalism

Many economists like to compare the advantages and disadvantages of capitalism and socialism. Often such comparisons are based on individual values. Those who place a high value on personal freedom, initiative, and individuality prefer capitalism. Critics of socialism point out that it brings extensive government intervention in all parts of the economy and, by necessity, in people's personal lives.

Supporters of capitalism point out that capitalism allows for more efficiency in the marketplace and for greater rates of economic growth. Indeed, considerable evidence shows that unregulated economic systems—those that are closer to pure capitalism—have *much higher* rates of economic growth.

All Economies Are Planned It is often said that pure socialism requires centralized planning, and pure capitalism does not. In reality, all economies are planned in one way or another. The United States has a highly planned economy. The difference between economic planning here versus in socialist countries is *who* does the planning. Private firms, individuals, and elected government officials do the planning in the American economy. In pure socialist systems, central planners make decisions on behalf of everyone.

Real-world capitalism has some problems. Critics note that income is unequally distributed throughout the economy. They also say that although capitalist nations have enough government-provided goods such as highways, they do not have enough schools and museums for the general public. Such critics clearly value the political goals of socialism.



Practice and assess
key skills with
***Skillbuilder Interactive
Workbook, Level 2.***

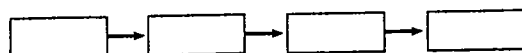
SECTION 1 Assessment

Understanding Key Terms

1. **Define** proletariat, communism, democratic socialism, authoritarian socialism.

Reviewing Objectives

2. What are the three characteristics of pure market capitalism?
3. What are the key characteristics of pure socialism?
4. **Graphic Organizer** Create a diagram like the one below to show the major steps in the development of socialism.



5. What are the benefits of capitalism?

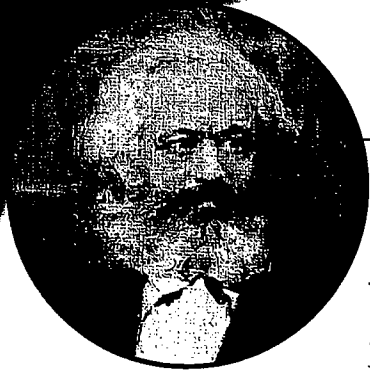
Applying Economic Concepts

6. **Authoritarian Socialism** Imagine that you live in an authoritarian socialist nation. What arguments might you make to change the economic and political systems?

Critical Thinking Activity

7. **Making Comparisons** Create a table that compares how each of the following functions is handled under capitalism and democratic socialism: setting price of goods; ownership of production; economic planning; business failures. *For help in creating tables, see page xvii in the Economic Handbook.*

People & Perspectives



Karl Marx

ECONOMIST (1818–1883)

- Born and educated in Germany, but spent much of his adult life in exile in Great Britain
- Deeply influenced by the German philosopher Georg Hegel
- Publications include *The Communist Manifesto* (1848), *Critique of Political Economy* (1859), and *Das Kapital* (1867)

Karl Marx outlined his view of socialism in *The Communist Manifesto*, a pamphlet that he wrote with colleague Friedrich Engels in 1848. In the following excerpt, Marx answers two questions: Who are the Communists? What is their basic theory?

“The Communists do not form a separate party opposed to other working-class parties. They have no interests separate and apart from the proletariat as a whole.

... The immediate aim of the Communists is the same as that of all other proletarian parties: Formation of the proletariat into a class, overthrow of the bourgeois supremacy, conquest of political power by the proletariat.

... The distinguishing feature of communism is not the abolition of property generally, but the abolition of bourgeois property. But modern bourgeois private property is the final and most complete expression of the system of producing and appropriating products that is

based on class antagonisms, on the exploitation of the many by the few.

In this sense, the theory of the Communists may be summed up in the single sentence: Abolition of private property.

... It has been objected that upon the abolition of private property, all work will cease, and universal laziness will overtake us. According to this, bourgeois society ought long ago to have gone to the dogs through sheer idleness; for those of its members who work, acquire nothing, and those who acquire anything, do not work. The whole of this objection is but another expression of the tautology [needless repetition of an idea]: There can no longer be any wage labor when there is no longer any capital.”

Checking for Understanding

1. According to Marx, what phrase sums up communist theory?
2. Why was the incentive to work an issue Marx had to address?

SECTION
.....

2

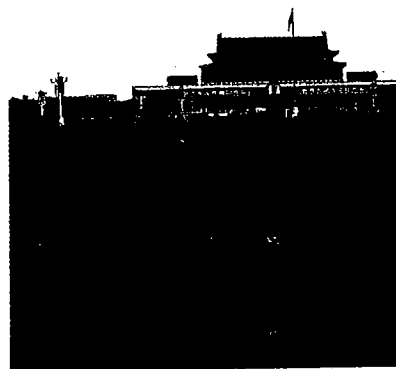
Changing Authoritarian Socialism— The Case of China

COVER STORY

MANCHESTER GUARDIAN WEEKLY, MARCH 21, 1999

China took another big step towards opening itself up to private enterprise last week when it changed its constitution to raise the status of the burgeoning business sector.

The landmark decision by the National People's Congress, the country's parliament, allows the private sector to become an important component of what is still referred to as the socialist economy.



The People's Republic of China remains the largest nation that has some form of command socialism. As you read this section, however, you'll learn that a growing area of China has an economic system that is much closer to that of the United States.

Development of China's Economic System

The Communists won China's civil war following World War II. The new government started an economic system based on

READER'S GUIDE

Terms to Know

- five-year plans
- World Trade Organization (WTO)

Reading Objectives

1. How did the Chinese economic system develop following World War II?
2. What have been two major problems in China's attempt to move to capitalism?

CAREERS

Foreign Correspondent

Job Description	Qualifications
<ul style="list-style-type: none"> ■ Investigate leads, research documents, interview people, and write news stories ■ Report on news occurring in foreign cities 	<ul style="list-style-type: none"> ■ Bachelor's degree in journalism ■ Fluency in a foreign language and excellent writing and communication skills

Median Salary: \$29,110

Job Outlook: Unfavorable

—Occupational Outlook Handbook, 2002–03

so-called **five-year plans**. The first such five-year plan, implemented in 1953, failed to fully meet expectations. Starting in the mid-1950s, the Chinese began to alter their strict centralized planning.

In 1957 they reformed their system to give some decision-making powers to local government rather than restricting them to the central government. The national planning system was transformed into a regional planning system. These reforms did not transform the Chinese economy, however, because it was still not governed by capitalism's *three Ps*—Prices, Profits, and Private Property. Economic conditions worsened after 1958.

In 1978 Chinese leaders designed a reform to motivate people to work harder. Private individuals were permitted to rent land for up to 15 years. Each peasant household became responsible for its own plot of land. Whatever it produced in

five-year plans: centralized planning system that was the basis for China's economic system; eventually was transformed to a regional planning system leading to limited free enterprise

excess of a minimum amount required by the state remained the property of the household. The results were impressive. Between 1979 and 1984, overall farm productivity increased dramatically.

Another set of reforms and a restructuring of the economy occurred in the mid-1980s. These reforms are continuing today. Managers in state-owned businesses are allowed much more decision-making power than before. After they fulfill state production requirements, they can set production according to market demand. They also are allowed to sell part of their output to whomever they choose at market prices. See **Figure 19.3**.

FIGURE 19.3

The Shift to a Free Market
China—after the failure of command economies throughout the world—has begun to allow free enterprise.



The Transition Toward a Mixed Economy

As you may recall, one of the most important aspects of pure capitalism is well-defined private property rights. In China, the state still owns large parts of the economy, especially urban industries. In the countryside, provincial governors are still held accountable for ensuring that each province grow as much grain as it consumes. The government still leases land for 15-year intervals to farmers. Without complete property rights, farmers are therefore not interested in investing in farm equipment and making improvements to the land.

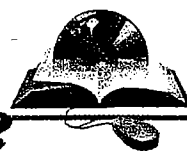
Establishing the Rule of Law Countries shifting from non-capitalist to capitalist systems all face the same problem—how to establish the rule of law. When no specific property rights exist, the unavoidable result is corruption. Throughout China there is an atmosphere of lawlessness and unpredictability for anyone in the business world. This is particularly true for foreign investors. Because army and government officials still control many resources, they continue to seek bribes. Thus, such individuals still influence the way business is conducted in China.

Only very gradually is China becoming a nation of laws, rather than of men and women. The notion of property rights is slow to be accepted because communist dogma has for decades criticized private property as detrimental to the state. For example, compact disc factories in China routinely “pirate” CDs. The Chinese government supported this practice, but at one point shut down the factories because of international pressure. The pirates reopened a few years later, however. Chinese government officials ignored the fact that singers and musicians were being denied royalties. See **Figure 19.4**.

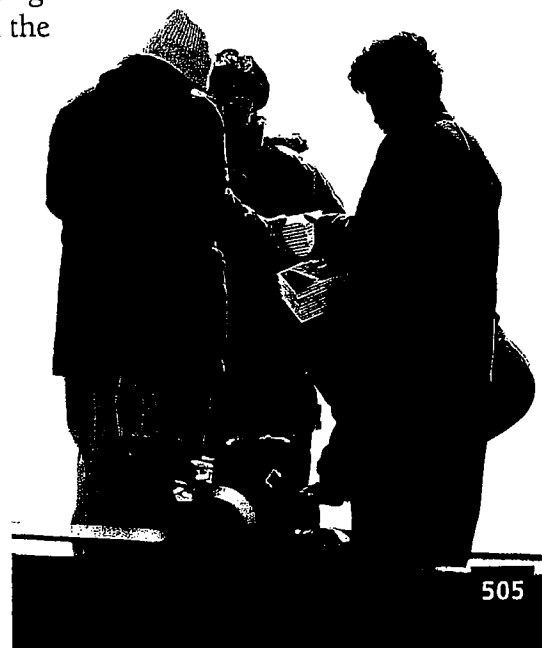
FIGURE 19.4

China's Black Market In China, consumers can buy Nike T-shirts for less than \$2, DVDs for under \$3, and music CDs for a fraction of their cost in the United States. Many Chinese “entrepreneurs” produce and sell American brand-name products very inexpensively because they do not pay royalties on the brands they counterfeit.

ECONOMICS Online



Student Web Activity Visit the *Economics Today and Tomorrow* Web site at ett.glencoe.com and click on **Chapter 19—Student Web Activities** to learn more about China's evolving economy.



Prospects for China's Economic Future

A foreigner visiting Beijing or Shanghai or another large city in China would have difficulty knowing he or she was in the People's Republic of China. There are McDonald's restaurants, business executives with cellular phones and pagers, and advertisements for Levi's clothing, 7Up, Heinz products, and Head & Shoulders shampoo everywhere.

In 2000 that foreign presence began expanding. In that year, the United States agreed to allow China to join the **World Trade Organization (WTO)**, which regulates trade among more than 140 nations. This action had far-reaching effects for both China and the rest of the world.

China is an enormous market for foreign companies eager to sell their products to the nation's 1.3 billion people. As a result of being admitted to the WTO, the inefficient state-owned industries draining China's economy were forced to face many economic reforms. As a member of the WTO, China also has *Normal Trade Relations (NTR)* status with the United States. (formerly called *Most Favored Nation status*). WTO membership has increased the prospects for a more prosperous, democratic, and stable China.

World Trade Organization (WTO): world's largest trade agreement—currently includes more than 140 nations



Practice and assess key skills with **Skillbuilder Interactive Workbook, Level 2.**

SECTION 2 Assessment

Understanding Terms

1. **Define** five-year plans, World Trade Organization (WTO).

Reviewing Objectives

2. How did the Chinese economic system develop following World War II?
3. **Graphic Organizer** Create a diagram like the one below to explain two major problems China is facing in its move toward capitalism.

Problem	Cause	Effect

Applying Economic Concepts

4. **International Trade** Research the World Trade Organization on the Internet. Find and summarize the issues involved in admitting China as a member of the World Trade Organization.

Critical Thinking Activity

5. **Synthesizing Information** Explain how government involvement in setting production quotas for industries could lead to either a surplus or a shortage of goods and services. Incorporate real-world examples in your explanation.

SPOTLIGHT ON THE ECONOMY

China's Transformation to a Market Economy

Check It Out! In this chapter you learned about China's evolving economy. In this article, read to learn about the changes that the Chinese people will need to make as their economy moves toward free enterprise.

Much of what has defined life for China's 1.2 billion people is in flux. [The Premier's] efforts to turn around tens of thousands of money-losing state enterprises will mean the shutting of countless factories. More than 10 million workers . . . will be laid off over the next few years. Some will find jobs in the proliferation of private enterprises, from new computer factories to roadside restaurants.

If they are fortunate, thanks to new social-services programs, they will make up for the perks that they forfeit, from company housing to free cradle-to-grave health care. Private-sector workers, Chinese leaders hope, will form the vast base of middle-class consumers that will power the economy for decades to come.

The other transformation facing China will be its greater

opening to the outside world. . . . [S]ectors from high-tech manufacturing to banking and telecom services will open to foreign investors as never before. Companies will flock to places with the most flexible policies, such as Shanghai.

That is the vision. But for millions of Chinese, the transition will be wrenching. The purging of most of socialism's last vestiges will throw many into a desperate search for work and shelter. The income gap between those with the skills required to thrive in an open economy and those without will widen. But whether the changes bring prosperity or hardship, . . . most Chinese are determined to seize the opportunity.

—Reprinted from June 28, 1999 issue of *Business Week* by special permission, copyright © 1999 by The McGraw-Hill Companies, Inc.

Think About It

1. What changes will Chinese workers face with the transformation to a free enterprise economy?
2. What do you think will change the most as the Chinese have more contact with the outside world?



SECTION 3

Nations Move Toward the Market System

READER'S GUIDE

Terms to Know

- privatization
- welfare state

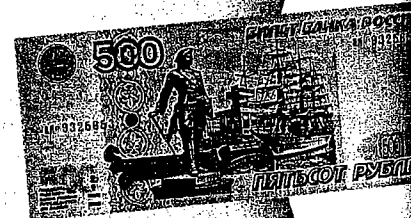
Reading Objectives

1. How has Russia changed since privatization?
2. How has the Swedish economy been changing?
3. What changes have recently occurred in Latin American economies?

COVER STORY

BUSINESS WEEK, APRIL 26, 1999

It's a bizarre and oddly flexible economic model. Some economists call it the "virtual economy," because real money, real goods, and real output play such a small role. It is, in fact, a three-tier economy. The Russian currency, the ruble, is used mainly to buy necessities such as food. IOUs, barter, and "surrogate currencies" are used in most dealings involving companies. Instead of paying cash wages, [one company] issues its employees cards that can be used in company-owned shops and the city department stores. Russians, meanwhile, keep their savings in dollars.



Economics textbooks written 15 or 20 years ago included information on the Soviet Union and its satellite countries in Eastern Europe. The centralized command economy lasted for 74 years in the Soviet Union, and more than 40 years in Eastern Europe. From the revolution in 1917 until the economic and political system collapsed in December 1991, the Soviet Union experienced five-year plans, central-planning commissions, and hundreds of other types of commissions. In this section you'll learn about Russia's—and other nations'—hard road to capitalism.

Privatization in Russia

Privatization simply means the change from state ownership of business, land, and buildings to private ownership. The private owners can be partnerships, domestic or foreign corporations, or individuals, as shown in **Figure 19.5**. Sometimes workers even buy the companies that employ them, and foreign companies have purchased formerly state-owned companies.

privatization: change from state ownership of business, land, and buildings to private ownership

Resistance to Privatization When a state enterprise is sold to a private interest, disruptions can occur. In particular, workers may find themselves out of a job. One of the problems with state-owned firms is that they are inefficiently run. When private owners take over, they often modernize the equipment and streamline the production processes. As a result, they sometimes require fewer workers. Because of the possibility of increased unemployment, many sectors of the population have resisted privatization. Some workers even demanded that old-style centralized planning be brought back to Russia.

Reforming the Price System Until the 1990s in Russia, prices were not determined by supply and demand. Rather, government officials set prices—often too low—which resulted in severe shortages of nearly everything the Russians needed.

Currently, most prices in Russia are set by the forces of supply and demand, just as they are in the United States and other capitalist countries. As you remember, when overall demand increases, the prices of goods and services increase. Consumers in Russia still end up “going without” because now they are unable to afford the high prices that the market system has set.

Challenges Still Remain Besides the inefficiency of many Russian factories, capitalism there is not yet the same as it is in the United States. Private capital is often steered into projects controlled by small groups in power, usually government power.

The Russian economy fell into serious decline in 1998. It was discovered that many formerly state-owned businesses had been sold at bargain-basement prices to “friends” of the government. It was also discovered that at least half of the economy was operating on a barter system. Businesses bartered because they had no faith in the Russian currency. Another reason they bartered was to avoid paying taxes. The expensive Russian tax

FIGURE 19.5 . . .

Russian Economic Changes Russia and the other republics that had centrally planned economies are now all moving at different rates toward market capitalism. One of the ways they are doing this is by privatizing formerly state-owned industries.



Global Economy

Learning About Capitalism

Many Russian children learn about capitalism by reading a textbook that was published in 1997. Its title is *Economics for Little Ones, or How Misha Became a Businessman*. It's a story about a bear that opens a honey, berry, and nut store in the forest. ■

welfare state: country that has a blend of capitalism and socialism, combining private ownership of the means of production with the goal of social equality for its citizens

system prevented businesses from paying all of their legally owed taxes and still staying in business.

Changes in Sweden

Sweden has been labeled a **welfare state**—a blend of capitalism and socialism. It combines private ownership of the means of production and competitive allocation of resources with the goal of social equality for its citizens. The so-called Swedish model helped transform what was an underdeveloped country in 1870 into a modern nation with one of the highest per-capita incomes in the world a century later.

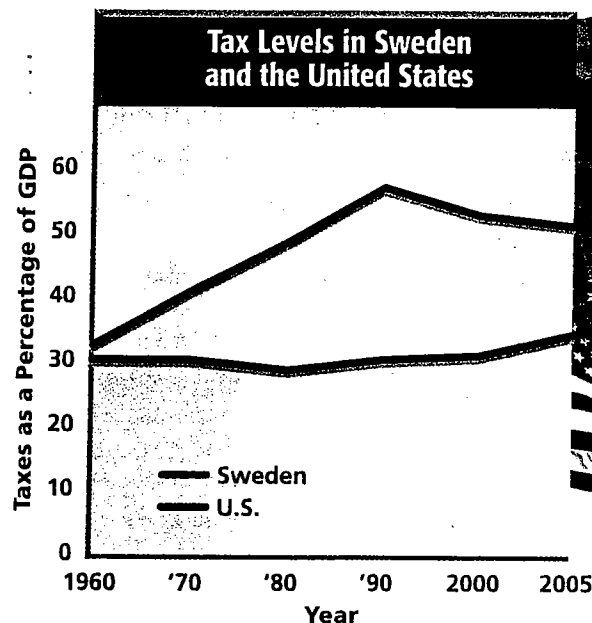
Currently, government expenditures (and taxes) account for about 51.3 percent of Sweden's annual economic activity. As recently as 1960, this figure was little more than 30 percent. See **Figure 19.6**.

The Swedish government passed an employment security bill in the 1970s that almost guarantees lifelong employment. It also passed a law requiring labor union participation in company decision making. Full employment has existed for a number of

FIGURE 19.6

Tax Levels in Sweden and the United States

Tax levels in Sweden in 1960 were about equal to those in the United States, but rose more than 25 percent higher by the 1990s. Despite these high taxes, the Swedes enjoy a high standard of living.



Sources: *Statistical Abstract of the United States*, various years

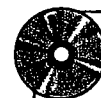
years because the government took over many large industries and firms, such as steelworks.

Now Sweden has initiated changes in its economic system of capitalism combined with welfare socialism. In the 1990s, the government started to cut taxes and eliminate some public jobs. It also eased business regulations and approved foreign ownership of certain companies. The government ended the monopoly in both the taxicab and the airline industries and has plans to move further toward a market system in the future.

Changes in Latin America

Many nations in Latin America—especially Mexico, Venezuela, Chile, Brazil, and Argentina—have experienced high rates of growth since the mid-1980s. Though virtually all Latin American countries have economic systems that operate under market capitalism, most have had large government sectors. Since 1985, however, many government enterprises have been privatized.

Mexico is a good example. Other countries in Latin America are trying to follow the Mexican model, but infighting among various political parties has made this difficult. Nonetheless, Chile has privatized its airlines, phones, utilities, and pension funds. The Argentinean government has sold state-run oil fields, waterworks, petrochemical plants, and even army housing.



Practice and assess
key skills with
*Skillbuilder Interactive
Workbook, Level 2.*

SECTION 3

Assessment

Understanding Terms

1. **Define** privatization, welfare state.

Reviewing Objectives

2. **Graphic Organizer** Create a diagram like the one below to list and explain how Russia's economy has changed since privatization.



3. How has the Swedish economy been changing?

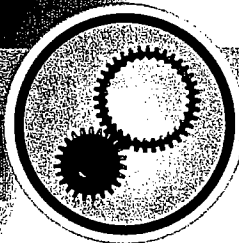
4. What changes have recently occurred in Latin American economies?

Applying Economic Concepts

5. **Welfare State** Explain some of the advantages and disadvantages of living in Sweden prior to reforms that began in the 1990s.

Critical Thinking Activity

6. **Evaluating Primary and Secondary Sources** Use the Internet to find a primary and secondary account of the privatization of Russia's economy. Write a report analyzing and evaluating the validity of information from each source for bias, propaganda, point of view, and frame of reference.



CRITICAL THINKING SKILLS

Making Predictions

Predicting future events can be difficult and sometimes risky. The more information you have, however, the more accurate your predictions will be.

- Gather information about the decision or action.
- Use your knowledge of history and human behavior to identify what consequences could result.
- Analyze each of the consequences by asking: How likely is it that this will occur?

LEARNING THE SKILL

To help you make predictions, follow the steps listed on the left.

PRACTICING THE SKILL

Read the passage below, then answer the questions.

“Anyone who assumes the Internet is still a novelty in China has been asleep at the mouse. The communist giant’s state-owned factories and political system may seem frozen in another era. But when it comes to cyberindustry, China is moving at Net speed. Driven by soaring computer sales, rapid expansion of China’s telecom networks, and the encouragement of reformist leaders, Internet use is growing explosively. Two years ago, only 640,000 Chinese were connected. Now, more than 4 million are. By 2001, estimates International Data Corp., the online population should hit 27 million—perhaps bigger than Japan’s. And while only \$42 million in E-commerce transactions are expected this year, they could near \$4 billion by 2003.”

—Business Week, August 2, 1999

1. What trend does the passage show?
2. Do you think this trend is likely to continue?
3. On what do you base this prediction?
4. What are three possible consequences of this trend?

APPLICATION ACTIVITY

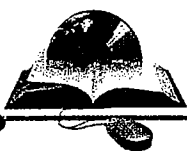
Analyze three articles in the business section of the newspaper. Predict three consequences of the actions in the articles. On what do you base your predictions?

Practice and assess
key skills with
**Skillbuilder Interactive
Workbook, Level 2.**

CHAPTER 19

Summary

ECONOMICS Online



Chapter Overview Visit the *Economics Today and Tomorrow* Web site at ett.glencoe.com and click on **Chapter 19—Chapter Overviews** to review chapter information.

SECTION 1 Comparing Capitalism and Socialism

- Pure capitalism operates on the basis of the *three Ps*: Prices, Profits, and Private Property.
- Pure socialism is an economic system in which there is little private property and the state owns virtually all the factors of production.
- Karl Marx predicted that a class struggle between the capitalists and the **proletariat** would evolve into a system of **communism**.
- In **democratic socialism**, government usually controls only some areas of the economy.
- **Authoritarian socialists** advocate revolution as a means to overthrow capitalism and bring about socialist goals.

SECTION 2 Changing Authoritarian Socialism—The Case of China

- The People's Republic of China remains the largest nation that has some form of command socialism.

- After World War II, the Chinese government based the centralized economy on **five-year plans**.
- Reforms in the 1970s and 1980s gave individuals more decision-making power and the ability to sell part of their goods and services for a profit.
- Incomplete property rights, the lack of the rule of law, and resulting corruption are problems that China faces today.
- China's economy is starting to open to the rest of the world.

SECTION 3 Nations Move Toward the Market System

- When Russia moved toward **privatization**, many workers lost their jobs, prices skyrocketed, and the Russian economy fell into serious decline.
- Many hardships face the Russian people as they make the transition to free enterprise.
- As a **welfare state**, Sweden has very high taxes that support the nation's people from cradle to grave.
- Sweden has recently initiated changes in its welfare socialist economic system.
- Many Latin American countries have privatized their transportation and energy industries.

CHAPTER 19

Assessment and Activities

ECONOMICS *Online*



Self-Check Quiz Visit the *Economics Today and Tomorrow* Web site at ett.glencoe.com and click on **Chapter 19—Self-Check Quizzes** to prepare for the Chapter Test.

Identifying Key Terms

Write a short paragraph about the different types of socialism using all of the following terms:

- communism
- proletariat
- democratic socialism
- authoritarian socialism
- welfare state
- five-year plans
- privatization

Recalling Facts and Ideas

Section 1

1. What is the role of supply and demand in pure market capitalism?
2. Why do we call pure capitalism a price system?
3. Can individuals take business risks under pure socialism? Explain.
4. What term did Karl Marx apply to his ideal society?
5. How do pure market capitalism and pure socialism differ in regard to private property rights?

Section 2

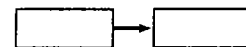
6. What evidence shows that China is moving toward capitalism?
7. What two problems exist in China's movement toward capitalism?

Section 3

8. Describe the main economic change that is occurring in the former Soviet Union.
9. Why has Sweden been labeled a welfare state?
10. In what way have Latin American countries moved closer to market capitalism?

Thinking Critically

1. **Making Comparisons** Compare the type of planning used in a decentralized capitalist system with that used in a centralized command socialist system.
2. **Understanding Cause and Effect** Create a diagram like the one below to explain why farmers generally are unwilling to invest in farm equipment and land improvement in China.



3. **Drawing Inferences** What is the relationship between privatization and decentralization of an economy?

Applying Economic Concepts

Economic Incentives In communist dogma, striving for profits is viewed negatively. Yet free market theory tells us that profits are

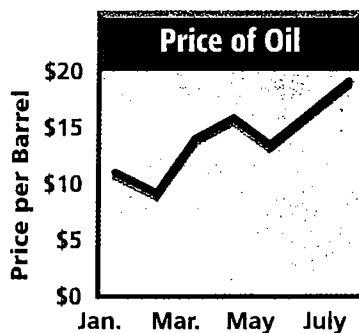
necessary as a type of signal in our economic system. Make a list of what profits signal in our economy and the results of those signals. Then list some of the things that might happen if profits were outlawed or at least severely restricted.

Cooperative Learning Project

Organize into two groups. One group will represent former communist governments attempting to change to a capitalist system. The other group will represent officials from the United States trying to aid the transition. Each group should meet separately to choose a solution. The groups should then meet to implement a solution and evaluate its effectiveness.

Reviewing Skills

Making Predictions Analyze the graph below, then answer the questions that follow.



1. What trend does the graph show?
2. What do you predict will happen to Russia's oil exports as a result of this trend?
3. What do you predict will happen to the amount of oil available to Russian consumers?
4. On what do you base the prediction you made in question 3?

Technology Activity



Using a Database Prepare a database gathering information about the advantages and disadvantages of pure capitalism, pure socialism, authoritarian socialism, and market capitalism. First, reread the chapter and consider the advantages and disadvantages of each economic system. Then use resources at your school or local library or on the Internet to find other characteristics to include in your database. Share your database with the class.

Analyzing the Global Economy

Research privatization efforts in one of the following areas:

- Russia
- the other republics of the former Soviet Union
- Hungary
- Romania
- Bulgaria
- Poland
- Czech Republic
- Slovakia
- European Union
- Latin America
- People's Republic of China

Answer the following questions about your selected area. Report your findings to the class.

- How much of the region's government-owned businesses and property is being privatized?
- How fast it is being privatized?
- What are the benefits of privatization?
- What problems are associated with privatization?
- How popular are the privatization efforts?