

STUDY GUIDE



Chapter 19, Section 1

For use with textbook pages 497–501

COMPARING CAPITALISM AND SOCIALISM

KEY TERMS

proletariat Term used by Karl Marx and by other communists to mean workers (page 499)

communism An economic system in which, in theory, the means of production are owned collectively by all the people and in which there is no need for a government (page 500)

democratic socialism An arrangement in which a socialist economic system exists alongside a democratic government, which controls some areas of the economy (page 500)

authoritarian socialism A socialist system in which the entire economy is controlled by a central government (page 500)

DRAWING FROM EXPERIENCE

What do you want to do after you graduate? Do you intend to go to college or to a vocational school? Perhaps you hope to quit your current part-time job and get a better-paying full-time job doing something that truly interests you. Your ability to make such decisions—and the fact that you have choices—largely results from the benefits of a capitalist economic system. If you lived in an authoritarian socialist nation, the government would make many of these decisions for you. This section focuses on the differences between capitalist and socialist systems.

ORGANIZING YOUR THOUGHTS

Use the chart below to help you take notes as you read the summaries that follow. Think about the differences between socialism and market capitalism.

Under . . .	Prices set by . . .	Factors of production owned by . . .	Decisions made by . . .
Capitalism	a.	b.	c.
Socialism	d.	e.	f.

READ TO LEARN

■ Pure Market Capitalism (page 498)

Pure capitalism operates on the basis of the three Ps: Prices, Profits, and Private Property. Prices seek their own level as determined by the law of supply and demand. Private property rights exist and are enforced by law. People must take risks if they wish to earn profits, and individuals, not government, decide all three basic economic questions. Government's role is limited to providing public goods, such as defense and police protection.

STUDY GUIDE (continued)**Chapter 19, Section 1**

1. What are the three Ps of pure market capitalism?

■ **Pure Socialism** (page 498)

Pure socialism is an economic system in which the state owns most factors of production. There is very little private property. Prices are set by the state rather than by supply and demand, and government officials decide the three basic economic questions. The state takes all the risk and all citizens pay for unsuccessful risk taking. Individual risk taking is not allowed.

Socialism grew out of the problems that resulted from the Industrial Revolution of the 1800s. Karl Marx saw a struggle going on between the owners of the factors of production—the “capitalists”—and the workers, whom Marx called the **proletariat**. Marx believed that it was wrong for the capitalists to keep profits they made from goods the proletariat produced. He argued that these profits rightfully belonged to the workers who produced the goods. Marx called on the proletariat to overthrow the capitalist system and replace it with one in which the workers owned and controlled the means of production. At first, he predicted, the government would exercise this control. Marx believed that eventually, however, this socialist system would change into **communism**—a socialist-type system that had no need for a government.

Marx's predictions did not come true. Instead, in the twentieth century socialism split into two major forms. In **democratic socialism**, an elected government makes the economic decisions, and usually for only certain areas of the economy. Under **authoritarian socialism**, capitalism is overthrown and a central government forces socialism on the entire economy. People today apply the term “communism” to authoritarian socialist systems.

2. What is the difference between democratic and authoritarian socialism?

■ **The Benefits of Capitalism** (page 500)

Economists like to compare the advantages and disadvantages of capitalism and socialism. Critics of socialism note that capitalism stresses personal freedom while socialism requires centralized planning. They point out that to plan the economy, government must affect people's personal lives. All economies are planned, but in capitalist systems individual and private businesses do most of the planning. In socialist systems, central planners make decisions for everyone.

3. How would living in a government-planned economy affect people's daily lives?

STUDY GUIDE



Chapter 19, Section 2

For use with textbook pages 503–506

CHANGING AUTHORITARIAN SOCIALISM— THE CASE OF CHINA

KEY TERMS

five-year plans Centralized planning system that once was the basis for China's economic system (page 504)

World Trade Organization (WTO) A international organization that regulates trade among most of the world's nations (page 506)

DRAWING FROM EXPERIENCE

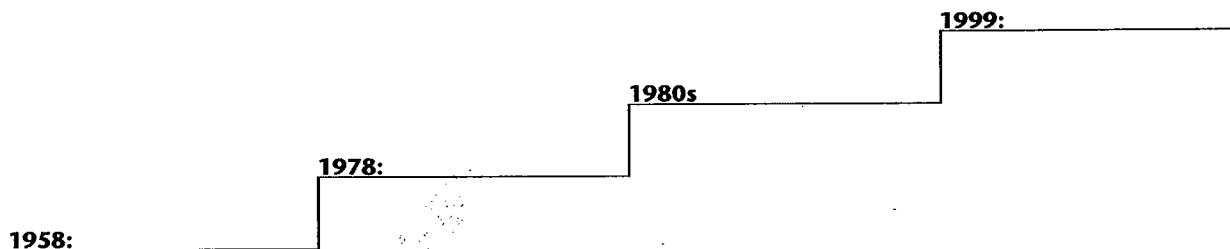
Do you know that plagiarism—claiming a writer's words and ideas as your own—is not only dishonest, it is illegal? In a capitalist system, authors own what they write—or it belongs to the company that publishes their work. If you use that work without acknowledging its ownership in a paper, you are stealing someone's property. These same rights do not exist in communist nations such as China.

This section focuses on communism as it is practiced in China and on the movement toward property rights in that nation.

ORGANIZING YOUR THOUGHTS

Use the diagram below to help you take notes as you read the summaries that follow. Think about the steps that China has taken to move toward a mixed economy.

China's Transition to a Mixed Economy



STUDY GUIDE (continued)**Chapter 19, Section 2****READ TO LEARN****■ Development of China's Economic System** (page 503)

Communists took control of China after World War II. In 1953 they introduced a centralized economic planning system based on what they called **five-year plans**. National planning quickly failed, and in 1957 the Communists moved toward a regional planning system. However, economic conditions worsened. In 1978 the government tried to motivate people to work harder by allowing individuals to rent land. They were required to produce a certain amount for the state. Anything they produced over that amount became their property. The reform worked well. By 1984, farm productivity had increased dramatically.

In the mid-1980s Communist leaders launched more reforms. Managers of state-owned businesses today have much more decision-making power than they did before. After they have met the government's production requirements, they can start producing to meet market demand. They also can sell part of their output at market prices to whomever they choose.

1. Why would the reforms of the 1970s and 1980s cause an increase in productivity?

■ The Transition Toward a Mixed Economy (page 505)

One of the most important aspects of pure capitalism is well-defined property rights. In China, however, property rights remain a problem. The state owns many urban industries. In the countryside, it still rents much of the land to farmers. Because they don't have ownership, farmers are not interested in investing in farm equipment or in improving their land.

Lawlessness and unpredictability are common problems in doing business in China. This is especially true for foreign companies. The state still controls many resources, and government officials continue to seek bribes. Communism shows little respect for property rights. For example, Chinese factories routinely "pirate" compact discs of American musicians.

2. Why would the lack of property rights discourage farm productivity?

■ Prospects for China's Economic Future (page 506)

Many foreign companies are present in China, attracted by its huge market of 1.3 billion people. In 2000 China became a member of the **World Trade Organization (WTO)**, an organization that regulates trade among many of the world's nations. China's inefficient state-owned industries are being forced to face many economic reforms. WTO membership has increased the prospects for a more prosperous, democratic, and stable China.

3. Why would foreign trade force China's state-owned industries to reform?

STUDY GUIDE**Chapter 19, Section 3**

For use with textbook pages 508–511

NATIONS MOVE TOWARD THE MARKET SYSTEM**KEY TERMS**

privatization The process of changing the ownership of the means of production from government ownership to private ownership (page 509)

welfare state A blend of capitalism and socialism that relies on markets to make most economic decisions but which provides government benefits to ensure the social equality of all citizens (page 510)

DRAWING FROM EXPERIENCE

Have you or anyone you know ever been the victim of “downsizing”? This is when companies reduce costs by eliminating jobs that they do not consider to be absolutely necessary. How do you feel about downsizing? Do you think companies should keep competent workers that they can get along without—or should they fire perfectly good employees so that they can lower costs and operate more efficiently? This question has concerned workers and managers throughout the world, as nations privatize sectors of their economy that have long been run by the government. This section focuses on the movement toward free markets in Russia, Sweden, and Latin America.

ORGANIZING YOUR THOUGHTS

Use the chart below to help you take notes as you read the summaries that follow. Circle or check the correct response. Think about how moving toward free markets—and from free markets to a command economy—affects jobs and productivity.

Change	Unemployment	Productivity
From: command economy	<input type="checkbox"/> will increase	<input type="checkbox"/> will increase
To: market system	<input type="checkbox"/> will decrease	<input type="checkbox"/> will decrease
From: market system	<input type="checkbox"/> will increase	<input type="checkbox"/> will increase
To: command economy	<input type="checkbox"/> will decrease	<input type="checkbox"/> will decrease

READ TO LEARN

☒ **Privatization in Russia** (page 509)

A centralized command economy lasted for 74 years in the Soviet Union until that nation's economic and political system collapsed in 1991. Since then, ownership of business and production resources has passed from the state to private hands in a process called **privatization**. When privatization takes place, disruption can also occur. When private owners take over state-run industries, they often make production more efficient. As a result, some workers may lose their

STUDY GUIDE (continued)**Chapter 19, Section 3**

jobs. For this reason, many Russians have resisted privatization. Some have even demanded a return to the old system of centralized planning.

Under the old system, government officials set prices. These often were too low, which resulted in severe shortages of many necessities. Today, the law of supply and demand sets most prices in Russia. High demand has caused prices to increase, causing many Russians to continue going without necessities—this time because they cannot afford them.

In 1998 the Russian economy fell into serious decline. Many state-owned industries had been sold at bargain prices to friends of the government. In addition, at least half the economy was operating on a barter system because businesses had no faith in Russian currency. The barter system also allowed businesses to avoid paying taxes, which were so high that companies could not pay them and still stay in business.

1. Why would a switch to capitalism result in Russian workers losing their jobs?

■ Changes in Sweden (page 510)

Sweden has been a blend of capitalism and socialism known as a **welfare state**. Such a system combines private ownership of the means of production with the goal of social equality for all citizens. In Sweden it has created a nation with one of the highest per-capita incomes in the world. For example, in the 1970s the government passed a law practically guaranteeing lifetime employment. Government takeovers of many large industries also helped to provide full employment.

By the 1990s, however, government spending (and taxes) accounted for about 4 percent of Sweden's economic activity. Sweden began to change its economic and social welfare system. The government cut taxes, eliminated some public-sector jobs, eased regulations, and ended its monopolies in some industries. Sweden plans to move further toward a market system in the future.

2. How would government take-over of industries help guarantee full employment?

■ Changes in Latin America (page 511)

Although the economic systems of most Latin American countries operate under market capitalism, most have had large government sectors. Since 1985, however, many government businesses have been privatized. For example, Chile has privatized its airlines and phones, while Argentina has sold its state-run oil fields and petrochemical plants. Since the mid-1980s these and similar countries have experienced high rates of economic growth.

3. Why would privatization encourage economic growth?
