

Chapter 26

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Development of Economic Systems



Why It's Important

Economic and Political Connections

The world's people function in a variety of economic systems. Understanding the relationship between economic decisions and political freedom will enable you to make better choices as a citizen.



To learn more about world economic systems and how they affect citizens, view the *Democracy In Action* Chapter 26 video lesson:

Comparing Economic Systems

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GOVERNMENT

Online



Chapter Overview Visit the *United States Government: Democracy in Action* Web site at gov.glencoe.com and click on **Chapter 26-Overview** to preview chapter information.

Capitalist and Mixed Systems

Reader's Guide

Key Terms

scarcity, traditional economy, command economy, market economy, factors of production, entrepreneur, monopoly, profit, mixed economy

Find Out

- What are the characteristics of capitalism that differentiate it from socialism and communism?
- Why can the economy of the United States be called a mixed economy?

Understanding Concepts

Free Enterprise What kinds of economic choices do individuals make in a free enterprise system?

COVER STORY

More Millionaires

WASHINGTON, D.C., AUGUST 4, 1997

In 1979 fewer than 14,000 Americans earned \$1 million or more a year. Today the number tops 70,000. The newly rich defy the traditional stereotypes of affluence. Many are average folks who spend their days toiling for wages. The secret of their wealth is that they work for a growing number of businesses that reward employees with company stock in addition to paychecks. "We told them, 'If we make it, you're going to get the rewards,'" says Home Depot co-founder Bernie Marcus of his workers. Marcus estimates that his company's success has made about 1,000 of its employees millionaires. "We should be a model for the free enterprise system," he says.



Home Depot employees

Americans benefit from an economic system that provides great opportunities. However, like all other nations, we must deal with the problem of limited resources. Economic systems have developed in the world to deal with this fundamental economic problem—scarcity. Scarcity is a condition that exists because society does not have all the resources to produce all the goods and services that everyone wants. In dealing with this problem, economic systems address the questions "What should be produced?" "How should it be produced?" and "For whom should it be produced?"

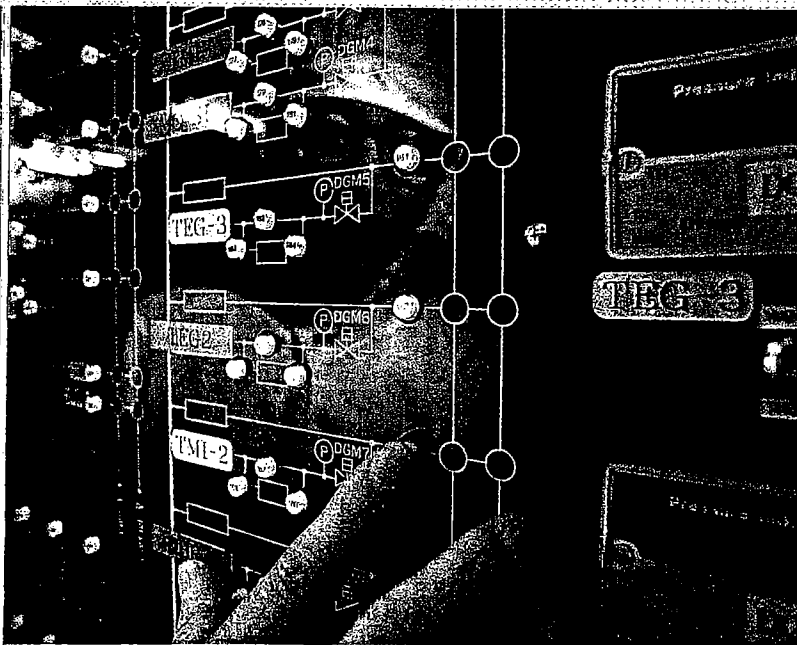
All economic systems can be classified into three major types—traditional, market, and command. In a traditional economy habit and custom dictate the rules for all economic activity, determining what, how, and for whom goods and services are produced. A command economy has a central authority—usually the government—that makes most of these economic decisions. State planning commissions or other agencies determine the needs of the people and direct resources to meet those needs. A market economy allows buyers and sellers acting in their individual interests to determine what, how, and for whom goods and services are produced. In a market economy the individual's decisions are like votes. Consumers "vote" for a product when they purchase it, thus helping producers determine what to produce. Producers determine the best method for producing goods and services.

Factors of Production



The resources of an economic system are called **factors of production** because economies must have them in order to produce goods and services. They may be grouped into four categories: land, capital, labor, and entrepreneurs.

Land includes all natural resources such as soil, water, and air. Minerals such as copper or



Factors of Production A researcher at Fujitsu—a Tokyo-based company—checks data on the control board of a machine used to grow crystals. Fujitsu specializes in creating communications and electronic devices. *Using a product that is familiar to you, explain how each of the factors of production was used in its production.*

iron ore are land resources. Rich soil for farming is a land resource, as are forests that yield timber. **Capital** is the means of production—money, factories, heavy machinery—used to produce other products and goods. The furnaces in a steel mill that convert iron ore to steel are capital. **Labor** is human resources—people who produce goods and services. Factory workers, farmers, doctors, plumbers, teachers, and everyone else who is employed are part of an economy's labor force. Finally, **entrepreneurs**,—risk takers who organize and direct the other factors of production to produce goods and services in search of profit—are the fourth factor of production.

Forms of Economic Organization

Three major forms of economic organization—communism, socialism, and capitalism—represent the range of economic systems that determine how the factors of production are allocated. **Communism** is a command system in

which the central government directs all major economic decisions. **Socialism** is a partial command system in which the government influences economic decisions. Under **capitalism**, consumers and private owners make the economic decisions in free markets.

People have strong opinions about the strengths and weaknesses of the three principal economic systems. The authors of *Comparative Economic Systems* said:

“In evaluating the strengths and weaknesses of capitalism, one is confronted with the possibility that the capitalist system may best sustain the fundamental human values of liberty and freedom of the individual. Indeed, it may even be the only context within which Western democratic political institutions can flourish.”

—William Loucks and William Whitney, 1969

Although people refer to national economies as communist, socialist, or capitalist, most countries in the world today have mixed economic systems. Moreover, at any given time a nation may be moving in the direction of a command economy or a market economy.

Characteristics of Capitalism

In the United States and several industrial countries, capitalism is the economic system. Capitalism is based on private ownership of the means of production—the capital—and on individual economic freedom. A capitalist economic system is often called a **free enterprise system**.

In the free enterprise system, people who own the means of production are called capitalists. The owner of a small corner grocery store, the person who owns a few shares of stock in a huge corporation, industrialists who own large factories or coal mines, and those who own financial institutions are all capitalists.

Most capitalist economies today have five main characteristics. These include private ownership, individual initiative, competition, freedom of choice, and profit (or loss).

Private Ownership Capitalist economies depend on the right of private ownership of property and control of economic resources. Government provides some public services such as road building, water and sewers, parks, and libraries. In addition, the government may own land, as in the case of national parks.

Capitalism also emphasizes respect for personal property not used in production. The Fifth Amendment to the United States Constitution states that the government shall not deprive people of their property "without due process of law; nor shall private property be taken for public use, without just compensation." The right to inherit property is another feature of private ownership in a capitalist system. In a pure capitalist system there would be no limit on this right. In the United States, inheritance taxes limit this feature.

Individual Initiative In a capitalist system, the law does not prevent anyone from trying to be an entrepreneur. Each year thousands of Americans go into business for themselves. In 1998–1999, for

example, Americans started over 500,000 new businesses. Many of these start-ups were in such fast-growing fields as microcomputers, bioengineering, robotics, electronic communication, and energy.

Competition Another essential aspect of capitalism is competition. Competition exists when there are a number of sellers of a product or service and no one seller can exercise control over the market price. For example, competition exists when a city has a large number of gas stations that compete with one another for business. The gas station that offers the best combination of price, quality, and service is likely to get the largest share of the business. Competition helps assure that the consumer will get products of good quality at low prices.

A monopoly is the opposite of competition. Monopoly exists when an industry includes only one seller, resulting in no competition at all. Oligopoly, a situation where there are only a few large firms in an industry, is more common.

Economic Systems

	Communism	Socialism	Capitalism
Ownership of Resources	All productive resources are government owned and operated.	Basic productive resources are government owned and operated; the rest are privately owned and operated.	Productive resources are privately owned and operated.
Allocation of Resources	Centralized planning directs all resources.	Government plans ways to allocate resources in key industries.	Capital for production is obtained through the lure of profits in the market.
Role of Government	Government makes all major economic decisions.	Government directs the completion of its economic plans in key industries.	Government may promote competition and provide public goods.

Critical Thinking The table shows economic systems in theory. In practice there are no pure capitalist or communist systems, and socialist systems vary from nation to nation. *Who or what authority allocates the factors of production in each of the three systems?*

We the People

Making a Difference

Food From the 'Hood



Food From the 'Hood salad dressing label

When biology students at Crenshaw High School planted a small garden next to their football field, they had no idea they were also planting the seeds for a successful business. The first year's harvest of herbs and vegetables, sold at local farmers' markets, generated \$600 for college scholarships. The rest of the produce went to the neighborhood's homeless people.

After a successful first year, students at the Los Angeles high school decided to create their own business. They called it Food From the 'Hood. Using herbs and produce from their garden, they concocted their own all-natural salad dressing called Straight Out 'the Garden. The dressing was a hit and is now found on the

shelves of more than 2,000 natural-food stores throughout the nation.

The company is run just like any other successful company. Students who want to work for the company must apply for jobs just as with any other job. The screening process is rigorous. Applicants must write essays and participate in an internship program to obtain a position.

Profits from the salad dressing are used to run the business and establish scholarships. One-fourth of the vegetables grown each year are donated to the homeless. The student-run company has earned an achievement award from *Newsweek* magazine, and has been visited by such well-known dignitaries as Britain's Prince Charles.

Businesses in such an industry often compete fiercely with each other, but there are also times when they are tempted to limit competition by dividing the market or agreeing to raise prices. To ensure competition in free enterprise economies, governments pass laws against monopolies that try to control their markets.


Freedom of Choice Buyers, sellers, and workers all have freedom of choice in a capitalist system. Consumers can buy the products they can afford from whatever companies they choose. At the same time, businesses are free to provide whatever legal goods and services they think people want. Workers can decide where they will work and what they will do. When new jobs open up at better pay, workers may move from one job to another.

Profit or Loss The capitalist system is based on the profit motive. Profit is the difference between the amount of money used to operate a business and the amount of money the business takes in. Profits are the fuel that keeps a free enterprise economy running.

Profits are part of the reward to the entrepreneur for assuming the risk. They also pay for future expansion and provide for unexpected events. Business owners use some profits for their own income. In addition, they may reinvest some of these profits in their business or in some other company.

In a capitalist economy, the risk of loss accompanies the potential for profits. Entrepreneurs must be willing to take chances and risk losses to be successful in a capitalist system.

Changing Face of Capitalism

 The economic system of the United States is based on capitalism, but it includes elements of a command economy. In the United States, government has played a growing role in the economy as a protector, provider of goods and services, consumer, and regulator.

Regulation and Social Policies For its first 100 years, the United States government played a limited role in the national economy, and business was largely unregulated. By the late 1800s powerful

industrialists began to dominate the economy, squeezing out competitors. Because immigration brought an abundance of laborers, wages fell. Families with low incomes were forced to allow their children to work long hours in terrible conditions.

As a result of these conditions, public attitudes toward business changed. Both the states and the national government began to adopt regulatory legislation to ensure competition and promote public safety. Today the government plays an important role in regulating business, labor, and agriculture.

In the 1930s the federal government began to take responsibility for the well-being of individuals and for the financial condition of the nation through fiscal and monetary policy. Since then the government has assumed increasing responsibility for social policies in housing, transportation, health, education, and welfare. As a result, the United States today has what economists call a mixed economy, or modified capitalism.

Capitalism Around the World In Japan government works closely with business to limit foreign competition in the domestic market. The government of Japan spends relatively little on welfare, and taxes are low.

Singapore, Taiwan, and South Korea are three other Asian capitalist countries that have made remarkable progress in the last 20 years. The governments of Singapore and Taiwan also have a close

TIME

For the Record

Old Money Money can be accidentally torn or damaged, or it can simply wear out from being handled too much. With normal use, \$1 and \$10 bills last on average about 18 months, \$5 bills last about 15 months, and \$20 bills wear out after about 2 years. Higher denominations don't circulate as frequently as lower denominations, so they tend to last longer. For example, a \$50 bill lasts about 5 years, and a \$100 bill wears out in about 8 years. On average, coins last 25 years.

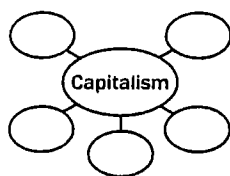
relationship with private business. Government planning redirects resources into target industries.

Generally Western European economies are more controlled and regulated than that of the United States. However, many Western European governments have moved away from central planning toward more free markets in recent years. Eastern European countries have privatized a large percentage of their industries.

Section 1 Assessment

Checking for Understanding

1. **Main Idea** Use a graphic organizer like the one on the right to identify five characteristics of capitalist economies.
2. **Define** scarcity, traditional economy, command economy, market economy, factors of production, entrepreneur, monopoly, profit, mixed economy.
3. **Identify** communism, socialism, capitalism, free enterprise system.
4. What are the three forms of economic organization that have emerged in the world?
5. How has the U.S. government played a growing role in the nation's economy since the late 1800s?



Critical Thinking

6. **Making Inferences** How does the free market system promote freedom of choice for consumers in the United States?

Concepts IN ACTION

Free Enterprise One of the issues debated by advocates of a planned economy and those who support a free market economy is whether there can be democratic freedoms such as freedom of speech without having economic freedom. Write an essay explaining the connection between economic freedom and civil liberties.

Emerging Economies

Reader's Guide

Key Terms

developing nations, newly developed nations, welfare state, nationalization

Find Out

- What are the important economic choices that developing and newly developed nations must make?
- How have economic choices affected the development of nations in Latin America and Africa?

Understanding Concepts

Comparative Government What are the differences and similarities of socialist governments and communist governments?

COVER STORY

Turkish Schools Fall Short

YENIDOGAN, TURKEY, SEPTEMBER 12, 2000

This week 14 million children started the school year in Turkey. But 1 million more went to work or stayed home instead. Why? The World Bank reports that schools in most Turkish villages only go to the fifth grade. Poor village families cannot afford to bus their children to urban schools. Even in urban areas such as Istanbul or Ankara, school expenses are daunting. Mandatory school uniforms cost up to \$80 each, and parents must pay for textbooks and supplies as well. Those who can pay get overcrowded classrooms and underpaid teachers. Education union president Alaatin Dincer says, "Turkey needs 190,000 more teachers and 106,000 more classrooms and only then can we have 30 kids to a class."



Turkish children work in the fields.

By the late twentieth century many developing countries were moving toward industrialization. As these nations developed industry and trade, they faced similar problems but dealt with them in a variety of ways. Turkey, for example, increased its defense spending instead of its spending for education. In 2000 Turkey allotted \$90 per student, far below the level spent by developed countries such as Greece (\$240 per student) and Germany (\$817 per student). Such gaps between rich and poor nations continued to be a concern to world leaders.

Developing and Newly Developed Nations

I Developing nations are states with little or no industry. The majority of these countries are largely agricultural. A few, such as Saudi Arabia and Kuwait, are rich, usually because of oil. Many developing nations are former colonies of Western European nations that gained independence after World War II. Much of the world's population is in developing nations.

Newly developed nations are states that have had significant or rapid industrial growth in recent years. These countries, mostly in Eastern Europe, the Middle East, Asia, and South America, have begun to influence the world economy. They also face economic choices that will determine their rate of growth and the shape of their economic systems.









The Economic Choices

I Some developing and newly developed nations have chosen to rely on free markets, trade, and contacts with the West to develop their economies. Their economic systems lean toward capitalism. The free market determines what goods and services are produced and at what prices. They are open to investment from capitalist countries.



COMPARING Governments

Developing Countries

Country	Percent Urban	GDP per Capita (U.S. \$)	External Debt (billions of U.S. \$)	Adult Literacy Rate	Population Growth Rate
 Bangladesh	24	\$1,700	\$16.5	43.1%	2.06%
 Bulgaria	69	\$6,600	\$10.3	98.6%	-1.09%
 Chile	85	\$10,000	\$40.4	96.2%	1.05%
 Ethiopia	17	\$750	\$5.3	42.7%	1.96%
 Ghana	38	\$2,100	\$7.2	74.8%	1.45%
 Honduras	52	\$2,600	\$5.4	76.2%	2.32%
 Malaysia	57	\$9,300	\$47.6	88.9%	1.86%
 Turkey	74	\$7,000	\$118.3	86.5%	1.16%

Sources: CIA, *The World Fact Book* 2003 (Washington: 2003); *The World Almanac and Book of Facts* 2003 (New York, NY: 2003).

Critical Thinking Changes in development indicators are apparent as countries work toward developing industrial economies. Which measures of development increase as countries become more industrialized?

Other developing and newly developed nations have chosen socialism as a model for their economies. Under socialism, government owns some factors of production. As a result, the government controls the production and distribution of some products. Under communism, the government owns all factors of production and takes a much more direct role in deciding what, how, and for whom to produce. Other important differences distinguish the command elements in democratic socialist economies and communist economies.

One difference is that under democratic socialism the voters can replace those in command of the economy and the government. In a communist country there is only one party, and the people have no control over those who lead the economy.

Another difference is that most socialist countries use the command system to control only parts of their economy. The governments in these countries operate such important industries as mining and transportation. They may not operate industries that produce food, clothing, or household items. In


contrast, in communist economies, government planners control every part of the economy.

Socialists believe that wealth should be distributed as equally as possible. In practice, they have tried to achieve this goal by making basic goods and social services equally available to everyone. Modern socialist governments also provide a wide array of so-called "cradle-to-grave" benefits for their citizens. Usually these benefits include free hospital, medical, and dental care; tuition-free education through college; generous retirement benefits; and low-rent public housing. Other government-provided services may include maternity allowances, free treatment for alcohol and drug abuse, and generous unemployment payments.

Critics of socialism claim it creates a welfare state that discourages people from producing goods and services and makes them overly dependent on government. Socialists answer that every person should be able to receive such basic necessities as food, shelter, clothing, and medical care. Cradle-to-grave services do not come free, however.

Socialist governments require citizens to pay very high taxes to pay for social services. Businesses in socialist economies are also heavily taxed.

Searching for Economic Answers

 Many developing and newly developed nations have sought economic progress by adopting socialist economic policies. These policies, often with little success, aim to raise the standard of living of the large masses of poor people. Socialist governments in these countries often use **centralized planning**, or government control of the economy, to an even greater extent than developed socialist nations do. They believe only centralized planning can achieve rapid industrial growth. In many of these nations, authoritarian governments take over economic planning. Many of these governments focus on welfare and education programs for the poor.

These socialist governments often turn to nationalization of existing industries, redistribution

of land or establishment of agricultural communes, and a welfare system.

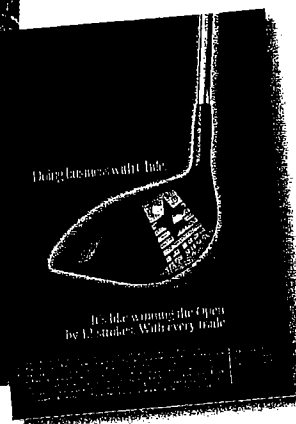
Socialist governments often take control of industry—usually selecting the country's most important industries—through a process called **nationalization**. When nationalization occurs in democratic countries, the government pays private owners of the businesses that it takes over. In less democratic countries, socialist governments have taken over private property with little or no compensation to the owners.

Nationalization in Latin America Because of their colonial history or their reliance on foreign investment, many developing nations have had industries that are foreign-owned. This is especially true in Latin America. Nationalization of these industries by the government has been both an economic policy and a gesture of anticolonialism. In addition to foreign ownership of business, many developing countries have been ruled by wealthy elites. In these states, the poverty of masses of people could ignite revolution and civil war at almost any time.

Open for Business!



Attracting Investors Chilean salmon farmers, such as this one, raise a high quality product. U.S. salmon farmers complain that they are losing market share to the Chilean farmers. The Chilean government promotes ease of accessibility and pro-business economic policies to enhance international trade. ***Why might investors consider a government's stability before doing business with a country?***



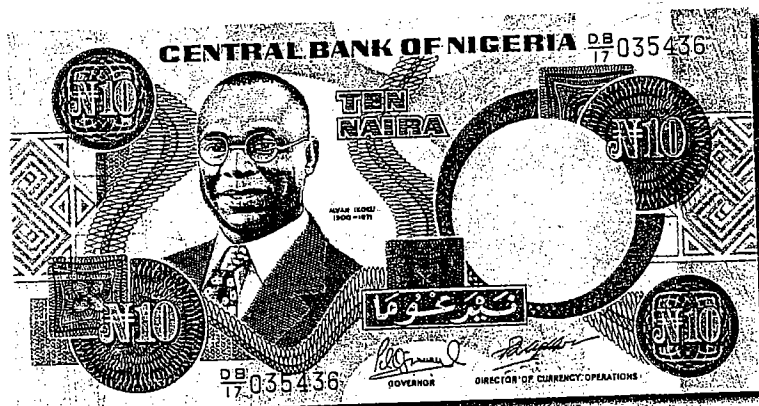
This ad, sponsored by the Chilean Trade Commission, encourages international business investment in Chile.

The nation of Chile reflects the difficulties of a developing nation attempting to build a socialist democracy. In 1970 Chileans elected Salvador Allende as president. Allende, a Marxist socialist, took quick steps to nationalize businesses, including American copper mining companies. Wealthy Chileans, frightened by Allende's ties to Castro's Cuba and the government's efforts to nationalize industries, withdrew their money from Chile and invested it in other countries. As a result, the Chilean economy spiraled downward. In 1973 Chilean military leaders working with the CIA led a coup against Allende.

After Allende was found dead, a new government, led by General Augusto Pinochet, took over. Pinochet dissolved the congress, canceled civil liberties, and issued a new constitution. He also encouraged foreign investment. Inflation fell, consumer goods became available again, and the economy prospered. Mounting popular pressure against Pinochet, however, forced him to hold elections in 1988. The new leaders since then have increased government spending on education, health, and housing. The economy of Chile has improved, and the nation is interested in joining the North American Free Trade Agreement (see Section 4).

Agricultural Communes Until recent government moves toward free enterprise, Israel had a moderately socialist economy. In the early 1900s, Jewish immigrants brought many European socialist ideas to the area that is now Israel. They built collective agricultural communes, or **kibbutzim**. In these communes, wealth was held in common and profits were reinvested in the settlement after members had been provided with food, clothing, shelter, and medical services. Since Israel's founding in 1948, the communes have allowed some private property. Today, the kibbutzim still contribute to Israel's economy, although their members make up a small share of the country's population.

Restructuring and Profiting



Modernization A liberalization of many African economies has opened up those countries to private foreign capital investment. Foreign investors press those African countries, like Nigeria, to establish more efficient financial institutions. **How does modernization of economic infrastructure, such as banks, help African countries to develop?**

Economic Development in Africa After independence, many African nations tried to develop economies based on one cash crop or one resource for trade. Promoting the export of cash crops and raw materials while trying to industrialize did not produce sufficient capital. Seeking more funds for development, African nations turned to foreign governments and banks for loans. Some governments in Africa followed a capitalist model and developed close ties to the West. Others organized socialist economies.

Beginning in the 1970s, droughts, growing populations, lack of capital, and falling world prices for their exports weakened most African economies. African nations south of the Sahara relied heavily on foreign help, accumulating \$130 billion worth of debt by the 1980s. Rising interest rates and economic stagnation compounded the region's debt, which reached \$227 billion in 1996.

The World Bank identification of 33 African countries as Heavily Indebted Poor Countries (HIPC) provides them with some aid, but it is not enough. In 1996, sub-Saharan nations were paying \$1.30 toward debt for every \$1.00 received in aid. A movement to cancel Africa's staggering debt has gained momentum around the world. Supporters argue that most African nations' current


An Ailing Economy



Seeking Investment Moscow's homeless citizens erected tattered tents on the lawn of the Rossia Hotel near Red Square in 1990. Government leaders appealed to the West to save the sinking Russian economy. Western investors hesitated, not knowing how far the Russian officials would move toward free markets. **Why do investors prefer free market economies?**

debt is so large that they will continue to pay more toward debt service than for health care and development unless their debt is canceled. Opponents argue that unless these nations end corruption, debt cancellation will only restart the debt cycle.

Socialism's Practical Problems

 Socialist ideology is losing ground in the developing world because several practical problems have caused socialism to fail to live up to its promises. First, a primary need for developing economies is capital investments. The quickest route to capital is through foreign investors. Yet banks and private investors have been cautious when investing in developing nations. A major concern is whether the emerging economy will honor its obligations. Free market economies without a threat of nationalization of businesses attract capital. Economies based on a Marxist model do not.

Second, the failure of large-scale state planning to meet the needs of the consumers in Eastern European nations raises concern about socialism's ability to do so in other regions. Developing nations have large populations with basic consumer needs. Failure to meet these needs would risk revolt.

Finally, Western governments, particularly the United States, have exercised influence and pressure in favor of a combination of free markets and democracy in developing nations. The growing interdependence of nations in a global economy and a global communications network have made resistance to the West's economic leadership difficult, if not futile. Meanwhile, governments in industrialized nations have been willing to accept some government planning.

Section 2 Assessment

Checking for Understanding

- Main Idea** Create a graphic organizer like the one below. In the left box, identify the economic issues facing developing countries. In the right box, list policies some have adopted to promote economic progress.
- Define** developing nations, newly developed nations, welfare state, nationalization.
- Identify** centralized planning, kibbutzim.
- Why have many Latin American industries been foreign-owned?
- What factor contributes to socialism in Africa?



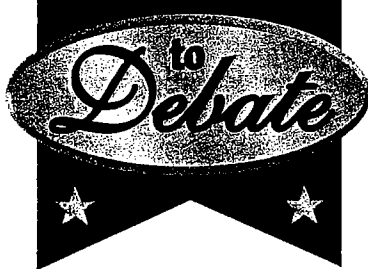
Critical Thinking

- Making Comparisons** Analyze the economic choices that developing and newly developed nations must make in an increasingly interdependent global economy.

Concepts IN ACTION

Comparative Government Review the characteristics of economies under socialist governments and under communist governments. Create an organizational chart that illustrates decision making under each of these types of government.

ISSUES



SHOULD THE UNITED STATES INCREASE FOREIGN AID?

Foreign aid is a very small percentage of the federal budget. However, most Americans believe that we spend too much on foreign aid. When the nation is in an economic recession, foreign aid comes under strong criticism.

FOREIGN AID POLICIES

United States foreign aid policies expanded in 1948 with the Marshall Plan, designed to help Western Europe recover from World War II and to build strong U.S. trading partners that supported democracy.

Most recently the newly free nations of Eastern Europe began to receive American aid. When Russia struggled after the collapse of communism, many believed that the United States had an opportunity to influence the growth of democracy by economic support of that country. Others believed that aid should be given according to Russia's commitment to establishing a free enterprise economy.

Today most people believe that foreign aid is a significant portion of the federal budget, yet it represents less than 1 percent of total federal spending.

RECENT AID ARGUMENTS

Some opponents of foreign aid say that it often goes to foreign governments that provide little relief

for the poor. Other critics point out that aid may actually hinder foreign economic development. For example, food aid may depress the prices of agricultural products, thus ruining the developing nation's farmers. Finally, some critics argue that the United States is no longer an economic giant that can afford foreign aid.

Defenders of foreign aid believe that there is a misconception that foreign aid "represents a massive outflow of dollars from the United States." Actually, most of the money appropriated for foreign aid returns to the United States as foreign nations buy American products. Another argument for foreign aid is that it contributes to the stability of developing nations, thereby protecting the security of the United States.



Debating the Issue

WHAT PERCENTAGE OF THE FEDERAL BUDGET SHOULD BE FOREIGN AID?

How much should Americans be willing to invest in the development of foreign economies? Is foreign aid a necessary investment for world stability?

KEY ISSUES

- ✓ Should foreign aid be an important part of national security policy?
- ✓ How should the nation determine when and for whom foreign aid should be spent?

Debate Divide the class into three to five teams. Have the first team research a recent U.S. foreign aid budget and serve as a panel to decide aid to be given. Each of the other teams should represent a nation seeking aid and present their cases to the panel.

Vote The first team should consider each request individually. After deciding the amount of aid on a case-by-case basis, add up the total assistance.

Major Economies in Transition

Reader's Guide

Key Terms

state farm, collective farm, gross national product

Find Out

- How did economic problems lead to the collapse of the Soviet Union?
- What are some of the obstacles to change faced by Russia?

Understanding Concepts

Comparative Government How did the Communist Party control the government and economy of the Soviet Union?

COVER STORY

Russian Economy Stumbles

MOSCOW, RUSSIA, JULY 14, 2001

Adjustment from a government-controlled economy to a combination of socialism and capitalism has left many Russians in various stages of economic desperation. Over 80 percent of the population makes less than \$70 a month. In buying power, the Russian ruble has lost about 18 percent since 1999. Even when they have the money, the average Russian often finds consumer products, including daily necessities, unavailable.

Signs of progress, however, are beginning to show. Industrial output has grown almost 8 percent in the last two years, unemployment has fallen by 11 percent, and inflation is down by almost 57 percent.



Workers face hardships

Many nations today are attempting to make the transition from command economies to a market economy. The two most significant nations doing so are Russia and China.

Transforming the Russian Economy

The Soviet Union collapsed in 1991 because its Communist leaders could not keep the economy going. Since then Russian leaders have been attempting to build a free enterprise system that can compete effectively in the global economy.

Collapse of Soviet Communism Beginning in 1917 the Soviet Union built the world's leading communist economic system. Although Soviet leaders called their system a socialist economy, the Soviet system was different from the systems of democratic socialist countries. In the Soviet Union, the Communist Party closely controlled the government and made almost all the economic decisions. With few exceptions, enterprises were state-owned and state-operated. The Soviet government also controlled labor unions, wages, and prices.

Under this system, about 98 percent of all Soviet farmland was also under government control. About two-thirds of this farmland consisted of state farms. State farms are farms owned by the government and run like factories, with the farmworkers being paid wages. The remaining one-third of Soviet farmland consisted of collective farms. On a collective farm, the government owns the land but rents it to families. Farmworkers had little incentive to work hard, and inefficiency was widespread.

The huge, oppressive state bureaucracy that managed every detail of Soviet production bred economic stagnation. When the last Communist leader of the Soviet Union,

Mikhail Gorbachev, came to power in 1985, he tried to implement economic reforms while keeping the Communist form of authoritarian government. The Soviet economy, however, continued to decline. Beginning in the mid-1980s, the Soviet Union's gross national product (GNP), the annual sum of all the nation's goods and services, was growing by only 2 or 3 percent a year. In 1991, amidst antigovernment demonstrations, Gorbachev resigned as Communist Party leader. Several Soviet republics seized the opportunity to declare their independence, effectively ending the Soviet Union.

Incomplete Reforms Since the collapse of communism in Russia, the country has tried to move toward capitalism and democracy. Russian leaders have ordered reforms aimed at breaking up the huge, inefficient industries that were owned by the state under the communist system. Stock markets have been created to give people a chance to invest in new companies. The government has also sought to simplify the tax laws and end corruption in banking and finance.

Progress has been slow, however, and even after some reforms the country is being run much as it was during the communist years—and by many of the same people. For example, Russian president **Vladimir Putin**, whom the Russian people elected in 2000, is a former lieutenant colonel of the KGB, the Soviet secret police. After taking office, Putin prescribed the “strengthening of the state” as the cure for many of Russia's economic ills.

In the last few years, efforts at democratization in Russia have slowed. Recently, for example, the government shut down the country's only major independent television station. In December 2003, international observers questioned the results of Russia's parliamentary elections. The Organization for Security and Cooperation in Europe stated that prior to the election, the Russian media granted unequal, favorable treatment to the pro-state United Russia Party. The United Russia Party went on to win more than 37 percent of the parliamentary vote, and therefore it now controls 37 percent of the seats in the Duma, the Russian parliament. This number of seats is approximately twice as large as that held by the United Russia Party prior to the election.

Obstacles to Change Several factors explain the slow pace of change in Russia. One has been resistance to reform by a group of former Communist bureaucrats. As the Soviet Union collapsed, these officials used inside knowledge of policy changes to buy state properties, such as newspapers, banks, and oil and gas companies, at bargain rates. As a result, they became very wealthy and now control many of Russia's resources. Through bribes, mutual favors, and other strategies, they have found ways to slow reform to protect their newly acquired wealth and power.

Another factor may be a lack of commitment to democracy among Russian citizens. Throughout their history, Russians have generally experienced order imposed from above. Public opinion polls have shown that the vast majority of Russians—79 percent in one poll—express regret for the breakup of the Soviet Union and respect for former Communist leaders such as Vladimir Lenin. One member of the Russian Parliament explains that it will not be easy to overcome 70 years of Communist Party authority and centuries of czarist autocracy before that: “The totalitarian mind-set is still an organic part of public consciousness.”

Russia's attempt to transform its economy illustrates the close relationship between capitalism, democracy, and the rule of law. As Nobel Prize-winning economist Milton Friedman states:

“Economic freedom is an essential requisite for political freedom. By enabling people to cooperate with one another without coercion or central direction, it reduces the area over which political power is exercised. . . . I know of no example . . . of a society that has been marked by a large measure of political freedom, and has not also used something comparable to a free market to organize the bulk of economic activity.”

—Milton Friedman, 1982

Changing the Chinese Economy



After World War II, the Chinese Communist government followed the Soviet model and created a planned economy. Over time, however, China found itself unable to compete economically with the market-based economies of its

neighbors like Taiwan, South Korea, Japan, Hong Kong, and Singapore.

In the late 1970s, China's Communist leaders began dismantling the centrally controlled economy and encouraging private enterprise. In recent years the Chinese economy has started to grow between 5 and 8 percent per year, and in 2002 China was estimated to be the world's fifth largest exporter. According to Nicholas Lardy of the Brookings Institute, "The pace of China's industrial development and trade expansion is unparalleled in modern economic history."

Reasons for Rapid Development China's population of 1.3 billion provides a large labor pool. The average factory wage is about 40 cents per hour. As a result, China has become the center for low-cost production for companies all over the world. Eighty percent of the shoes sold in the United States, for example, are made in China.

The Chinese government has promoted manufacturing by giving foreign companies tax breaks and cheap land. The government has also spent billions on highways, ports, and fiber-optic

communications to assist manufacturers. The Pearl River Delta area of China, for example, has been turned into huge manufacturing zones. One of these zones alone has 22,000 factories with more than 4 million workers.

Economic, Not Political, Change The Chinese government is attempting to move from a command to a market economy while maintaining an authoritarian political system controlled by the Communist Party. China's former president, Jiang Zemin, recently stated, "Should China apply the parliamentary democracy of the Western world ... the result will be great chaos."

Experts disagree about whether the current political system can keep up with the dramatic changes in society being created by the economic boom. The nation's middle class is already at 130 million people and is expected to grow to 400 million within a decade. In the old days of communism, such people would be punished by the Communist Party as a "counterrevolutionary" threat. In 2000, the Party's General Secretary stunned party old-timers by officially inviting

GOVERNMENT and You

Hosting a Foreign Exchange Student

Does your school participate in a student exchange program? Has your family or anyone whom you know ever hosted a high school student from another country?

Families who support or participate in intercultural exchange programs believe that the experience promotes understanding and respect among the world's people. Hosting an exchange student provides your family with a chance to learn first-hand about another country, its government, and its culture. It also allows you to share your way of life with the visiting student.

Intercultural programs vary; families may host a student for a summer, a semester, or a year. Visiting students generally are members of the junior or senior class in high school. Some communities, however, participate in exchange programs for

college students, teachers, or elementary school students. Host families may have members who are the same age as the visiting student. Families with young children, couples with no children, and single people, however, also host exchange students.

Organizations that sponsor exchange programs provide orientation meetings and staff to help make the experience valuable for everyone.

Participating IN GOVERNMENT ACTIVITY

Conduct an Interview Ask a foreign exchange student about his or her experiences in the United States and at home. Also discuss differences in forms of government the students have experienced.



A foreign exchange student with his host family

representatives of the new middle class to join the Party. More recently, the Party invited private entrepreneurs to join its ranks.

One danger to the Communist Party is that the growing middle class will want to have more say in how China is governed. Experts note that for the moment there appears to be an unspoken deal. As long as the Party can keep the economy booming, then the Communists can keep tight control over politics. If economic prosperity begins to falter, however, the Party's authority might weaken.

Another danger is that China remains a poor country. Two-thirds of Chinese still must live on less than one dollar a day. In addition, more than 26 million workers have lost jobs as old state-owned industries have closed down. Unemployed workers, as well as farmers who are no longer needed due to new agricultural methods, are pouring into the cities. This is creating a new class of urban poor angry with the government.

Finally, government corruption has become a bigger problem than ever. Without political reform, Communist Party members are able to use their positions to gain unfair advantages in the booming market economy while remaining unaccountable to the people. For instance, officials might buy natural resources at fixed government prices and then sell them at a huge profit on the private market. They might also close a state factory, fire the workers without pay, and then sell the assets. Anyone who objects could be arrested.

Impact on the United States Economic changes in China are having a huge effect on Americans. Trade with China is opening new markets for American goods and new places for American corporations to expand. In 2002 the United States invested over \$3.5 billion in U.S. parent companies and their foreign-affiliates that are operating within China's industrial economy. These changes are also creating new sources of income for American lawyers, shippers, truckers, and many others. At the same time, however, many American manufacturers in areas like textiles, furniture, and electronics have gone out of business or moved abroad because they cannot compete with low Chinese labor costs. One study estimates that at least 760,000 U.S. manufacturing jobs have gone to China in the last decade.

Finally, some experts worry that an economically strong China might become a dangerous political and military rival if the United States does not maintain favorable relations with the Chinese government. China's attraction as a lucrative area of economic investment and the United States' goal to promote democratic political practices to a repressive government creates tension between the United States and China. Other political observers argue that the economic development of China will create new opportunities for American business and could encourage the Chinese government to extend greater rights to its people.

Section 3 Assessment

Checking for Understanding

1. **Main Idea** Use a graphic organizer like the one here to identify four reasons for China's rapid economic growth.
2. **Define** state farm, collective farm, gross national product.
3. **Identify** Mikhail Gorbachev, Vladimir Putin.
4. What was the main source of agricultural problems in the Soviet Union?
5. What events in 1991 led to the collapse of the Soviet Union?



Critical Thinking

6. **Analyzing Information** How does the growing Chinese middle class threaten the current government in China?

Concepts IN ACTION

Comparative Government Before the 1980s, the Soviet economy was under the control of government planners from the Communist Party. Create a political cartoon that illustrates one of the problems that centralized planning created for the Soviet economy. Share your cartoon with your classmates.

The Global Economy

Reader's Guide

Key Terms

comparative advantage, tariffs, quotas, trading blocs

Find Out

- Why do nations develop trading blocs and regional trade agreements?
- What are the four types of trade policy?

Understanding Concepts

Global Perspectives How is the global economy making nations interdependent?

COVER STORY

Stock Exchanges Merge

LONDON, ENGLAND, MAY 4, 2001

The stock exchanges of England and Germany merged yesterday, creating Europe's largest market. Headquartered in London, the exchange will allow equal access to investors from Great Britain and Germany.

The new market will be known as the International Exchange. The merger appears to be the first step in creating a single European stock market. The stock markets of Italy and Spain also have signed preliminary agreements to join the exchange. The International Exchange (iX) will provide a market of near-equal size to that of the New York Stock Exchange.



International stock exchange traders

In today's interdependent world, there are many forms of international economic activity. Participants in the global economy range from individuals who may invest directly in foreign companies or real estate to giant multinational corporations that employ tens of millions of workers. Global economic activities include investments, banking and financial services, and currency exchange. The major activity in the global economy is trade among nations.

International Trade

Since the end of World War II, the United States has been a dominant actor in international trade. Congress and the president are constantly under pressure to manage trade policy in ways that will promote the American economy.

Purpose of Trade Nations engage in international trade for several reasons. One is to obtain goods and services they cannot produce themselves. For example, the United States buys, or imports, industrial diamonds from other countries because we do not have deposits of such minerals. The United States sells, or exports, computers and complex weapons like jet fighters to countries that do not have the technology to make their own.

Another reason nations trade is **comparative advantage**. This economic principle says that each country should produce those goods it can make more efficiently and purchase those that other nations produce more efficiently. When nations specialize in goods they can produce most efficiently, the total world production is greater. This means that the total cost of all products is less, and therefore, the average cost of any product is less, benefiting all consumers.

Finally, nations trade to create jobs. For instance, the global market for automobiles is much larger than the market in the United



COMPARING Governments

Trade in the Global Economy

Country	Trading Partners (3 largest import and export trading partners)		Value of Imports, 2002* (billions of U.S. dollars)	Value of Exports, 2002* (billions of U.S. dollars)
	Imports	Exports		
 United States	Canada, Mexico, Japan (2001)	Canada, Mexico, Japan (2001)	\$1,165	\$687
 Japan	United States, China, South Korea (2002 est.)	United States, China, South Korea (2002)	\$292.1	\$383.8
 South Korea	Japan, United States, China (2002)	United States, China, Japan (2002)	\$148.4	\$162.6
 China	Japan, Taiwan, South Korea (2002)	United States, Hong Kong, Japan (2002)	\$295.3	\$325.6
 Russia	Germany, Belarus, Ukraine (2000)	Germany, United States, Italy (2000 est.)	\$60.7	\$104.6
 Brazil	United States, Argentina, Germany (2001)	United States, Argentina, Germany (2001)	\$46.2	\$59.4
 Jamaica	United States, Caricom*, European Union (1999)	United States, European Union, UK (1999)	\$3.1	\$1.4
 Cote d'Ivoire	Nigeria, France, China (2001)	France, Netherlands, United States (2001)	\$2.5	\$4.4

Source: CIA Factbook, 2003.

*Caribbean Community and Common Market Countries

* Estimated

Critical Thinking The global economy is expanding as more middle- and low-income countries participate in international trade. *What generalizations can you make about the main trading partners of the countries shown here?*

States alone. There will be more jobs for American autoworkers if American automakers can sell their products abroad.

Barriers to International Trade Unrestricted international trade promotes efficient production. At the same time, it can threaten domestic industries and the jobs of workers in those industries. As a result, policymakers in every nation are often under pressure to limit or control international trade. National governments use several methods to restrict international trade.

One trade barrier is tariffs, or taxes placed on imports to increase their price in the domestic market. The United States recently threatened to impose stiff tariffs on some Chinese goods if China did not end the illegal copying and distribution of U.S. intellectual property like music and video compact discs by Chinese bootleggers.

Another barrier is quotas. These are limits on the quantities of a foreign product that may be imported. The United States placed quotas on the importation of Japanese cars in the 1970s in an

effort to protect the jobs of American autoworkers. The United States also has import quotas on such products as peanuts, dairy products, sugar, and textiles.


Countries may also use **non-tariff barriers** (NTBs) to limit or control unwanted imports. These are very strict health, safety, or other regulations that must be met before a foreign product can be offered for sale in a country. The Japanese, for example, have protected their automakers by requiring higher fuel efficiency standards and exhaust emission regulations on imported automobiles. This makes it harder for a U.S.-based car manufacturer to sell a car produced in the United States in Japan. New assembly requirements cut into profits and make Japan a less attractive market for U.S. automobiles.

Finally, countries may use **embargoes** to totally bar trade with a specific country. An embargo is a complete prohibition of trade by law, and the use of one is considered an extreme measure. Embargoes are often employed for political rather than economic reasons.

In addition to using such barriers, countries may sometimes engage in unfair trade practices. The most common is **dumping**, the practice of selling products in another country below their manufacturing cost or below their domestic cost in order to drive other producers out of a market. Once the competition is gone, the price of the goods being dumped is then raised.

Financing Trade Economists and policymakers look at a nation's balance of trade—also called the balance of payments—as an important measure of a nation's overall performance in the global economy. The balance of trade is the difference between the value of a country's imports and exports. Thus, it is a measure of the entire flow of money in and out of a country. A nation has a trade deficit when the value of products it imports exceeds the value of products it exports. A nation has a trade surplus when the value of its exports is greater than the value of its imports.

Trade Agreements

 High tariffs and trade wars between nations contributed directly to the Great Depression of the 1930s and also to World War II. Since the end of World War II, the major nations of the world have created a number of organizations and agreements aimed at limiting unfair trade practices. These agreements have created **trading blocs**, or groups of nations that trade with each other without barriers such as tariffs.

GATT and WTO In 1947, 90 countries subscribed to a treaty, the **General Agreement on Tariffs and Trade (GATT)**, in an effort to reduce trade barriers. Under this agreement and a revised series of trade regulations negotiated between 1986 and 1994, member nations meet in trade “rounds” to reduce or remove trade barriers, such as tariffs. In 1994 GATT was replaced by a regulatory body known as the **World Trade Organization (WTO)** to enforce the provisions of the treaty.

Over 100 nations signed the GATT between 1947 and 1994. Today 147 nations are members of the WTO, which is becoming an important actor in the global economic community. The organization has headquarters in Geneva, Switzerland, with

a staff of over 500 to oversee the various trade agreements signed by its member countries. The WTO calls these agreements “the legal ground rules for international commerce.”

The WTO hears complaints brought to it by member countries and has the authority to assess penalties against nations that violate the terms of the GATT treaty. Since the creation of the WTO, the United States has brought many complaints against other nations and has had to answer hundreds of complaints from other countries on a wide range of trade issues.

Tariffs, import quotas, and subsidies for agricultural products have recently become a major issue within the WTO. A group of less developed nations claim that the United States and Europe are seriously damaging their economies by subsidizing their own farmers and thereby making it impossible for farmers in poorer countries to compete against them.

The European Union The EU has become the world's most important regional economic group. Twenty-five European nations currently make up the EU. Four additional countries—Bulgaria, Croatia, Romania, and Turkey—have applied for membership and will probably join the EU over the next few years. The gross national product (GNP) of the EU is almost as large as that of the United States. The EU imports and exports almost the same value of goods and services each year as the United States.

The European Union has been the means for the various countries of Europe to achieve full economic integration. There are no trade barriers among the EU nations. Goods, services, and workers can move freely between member countries. The EU achieved monetary integration in January 2002, when the euro became the official currency of most of the EU nations. The euro replaced many of the national currencies of Europe,

GOVERNMENT *Online*



Student Web Activity Visit the *United States Government: Democracy in Action* Web site at gov.glencoe.com and click on **Chapter 26—Student Web Activities** for an activity about development of economic systems.


including the German mark, the French franc, and the Italian lira.

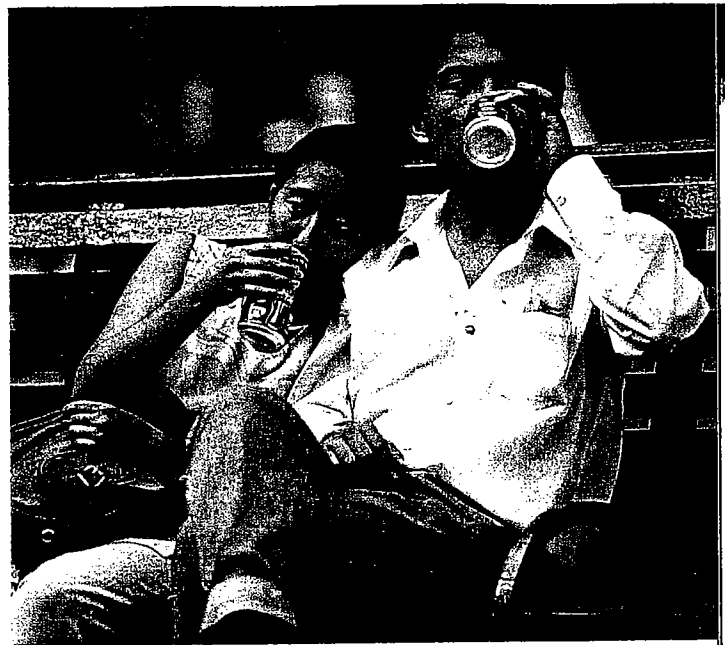
North American Free Trade Agreement

The nations of North America constitute another large trading bloc. In December 1992 the United States, Canada, and Mexico concluded negotiations for the **North American Free Trade Agreement (NAFTA)**. This agreement will eventually remove all trade barriers among the three countries. Further, it ends restrictions on foreign investments among the NAFTA countries and gives shipping companies nearly free access across borders. The agreement established a standing commission with representatives from the member nations to resolve any trade disputes that may arise.

NAFTA created a large regional economic unit with over 400 million people and a combined gross national product in 2002 of over \$12 trillion. Since the start of NAFTA, trade among the United States, Canada, and Mexico has expanded rapidly. At the same time, NAFTA has been controversial in all three countries. In Canada and Mexico, many people are worried about being overwhelmed by American culture and currency. In the United States, opponents of NAFTA fear that American workers will lose jobs as businesses move from the United States to Mexico to take advantage of lower labor costs and less strict environmental and workers' rights laws. Supporters of NAFTA have argued that the agreement provides an increase in lower-cost goods for Americans to buy and thereby decreases their cost of living. They also note that many Americans can take advantage of a growing Mexican market for goods and services.

Trade Alternatives for the United States

 As global interdependence has increased, foreign trade has become ever more important to the American economy. Since World War II, the United States has generally wanted increased trade and fewer trade barriers. Yet lower trade barriers do not always benefit everyone. Sometimes workers in a particular industry may be economically hurt by the freer flow of trade. As a result,



International Business Students in Beijing enjoy an American soft drink while relaxing. Trade policies affect how American products are sold overseas. *Which trade policy is designed to benefit American industry?*

there are sometimes disagreements about the best approach to trade policy. The four major approaches include free trade, fair trade, managed trade, and protectionism.

Free Trade A pure free-trade policy would mean businesses in different nations could buy and sell goods with no tariffs or other limitations of any kind. In theory, free trade would allow the principle of comparative advantage to work without interference. This would mean that all trading nations gain as each uses its scarce resources to produce those things, whether color televisions or bananas, that they produce more efficiently than other countries. The United States has never followed a pure free trade policy because the government is always under pressure to protect domestic workers and industries from foreign competition.

Fair Trade The United States has often advocated fair trade. This is trade regulated by international agreements that outlaw unfair business practices or limit tariffs. American participation in GATT, the WTO, and NAFTA are examples of the United States following a fair-trade policy. The key goal of a fair-trade policy is to create an

orderly world market that does not give an unfair advantage to countries willing to use unfair business practices such as dumping.

Advocates of fair trade claim that open economic exchange promotes economic prosperity by opening up the largest number of possible markets for American goods and therefore creating new jobs for American workers. Supporters of fair trade also claim that foreign competition spurs American manufacturers to modernize their production techniques, which then allows them to offer consumers better products at lower costs. Some also argue that more open trade policies promote economic interdependence around the world, which in turn reduces the chances of military disputes or war.

Managed Trade Another approach to trade policy is managed trade. In this policy strategy, the government intervenes in a trade arrangement in order to achieve a specific result. For example, in recent decades Japan has often used non-tariff barriers such as very strict health, safety, and other regulations to limit or prevent American imports. As a result, the United States has had huge trade deficits with Japan. In order to reduce those deficits, the United States government negotiated trade agreements with Japan that required the Japanese government to allow American businesses to have a larger share of the Japanese market for certain products, such as auto parts.

Protectionism A fourth trade policy is protectionism, the policy of using trade barriers to protect domestic industries from foreign competition and to prevent free trade. Former U.S. trade representative and secretary of commerce Mickey Kantor said the government's goal should be "to nurture American workers and industry. . . not to adhere to some strict [free trade] ideology." Some protectionists worry that foreign investors and companies will gain undue influence in the American economy if measures are not taken to prevent their entrance. Protectionists also argue that participation in international trade agreements is eroding American sovereignty by requiring the United States to accept rules made by organizations like the WTO.

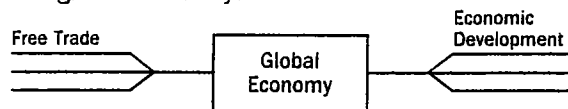
Some advocates of managed trade and protectionism see international trade as a powerful foreign policy tool that should be used to promote American interests. The U.S. embargo on most trade with and travel to Cuba, in place since 1961, is an example of using trade to punish a hostile communist regime.

The globalization of the economy has brought many benefits to the American consumer, including new and more varied products and lower prices for goods. Globalization has also brought its share of challenges. The American worker must now compete with a much wider labor pool for some jobs, and economic and political decisions are now more complicated for the U.S. government.

Section 4 Assessment

Checking for Understanding

1. **Main Idea** Using a graphic organizer like the one below, identify factors that affect the stability of the global economy.



2. **Define** comparative advantage, tariffs, quotas, trading blocs.
3. **Identify** embargo, General Agreement on Tariffs and Trade (GATT), World Trade Organization (WTO).
4. Why do nations trade with one another?

Critical Thinking

5. **Drawing Conclusions** Which type of trade policy do you believe is the most appropriate for the United States to follow? Why?

Concepts IN ACTION

Global Perspectives Trade is becoming more and more international, and countries are linking their economic fortunes with trade agreements. However, there are barriers to international trade. Review these barriers, and then prepare a plan for helping nations to overcome these barriers and build their international trade opportunities.

Skills

Critical Thinking

Making Decisions

A decision is a choice from among two or more alternatives. Decision making is a key part of citizenship. When choosing which candidate to vote for or whether to attend a public hearing, thoughtful decision makers take into account the impact of their choices on themselves and others. Following the steps below will help you make more thoughtful decisions.

Learning the Skill

1. State the situation or define the problem. Gather all the facts. Ask: Why do I have to make a decision on this matter? Whom will my decision affect?
2. List the options. Ask: What are the alternatives? How can I deal with this situation in a different way?
3. Weigh the possible outcomes. What are the positive or negative effects of each?
4. Consider your values. Values are the beliefs and ideas that are important to you. Your values should serve as your guidelines in making all decisions.
5. Make a decision and act. Use all the information gathered to make a decision. Then act on your decision.
6. Evaluate the decision. Ask: How did the outcome affect you and others? Would you make the same decision again? Why or why not?

Practicing the Skill

Answer the following questions about decision making.

1. Why should you consider more than one option when making a decision?



International economic decisions were made at a 1997 Denver, Colorado, summit.

2. How will using the six steps help lessen the possible risks involved in acting on a decision?
3. What might be the result of making a decision that conflicts with your values and beliefs?

Application Activity

Read newspapers for articles about an event that affects your community, such as a decision whether to tear down a historic landmark to build a new shopping mall. Make an educated decision about the event. Explain your reasoning.



The **Glencoe Skillbuilder Interactive Workbook, Level 2** provides instruction and practice in key social studies skills.

Assessment and Activities

GOVERNMENT

Online



Self-Check Quiz Visit the *United States Government: Democracy in Action* Web site at gov.glencoe.com and click on **Chapter 26–Self-Check Quizzes** to prepare for the chapter test.

Reviewing Key Terms

Match the following terms with each of the descriptions given below.

factors of production	developing nations
newly developed nations	trading bloc
command economy	tariffs
gross national product	market economy
comparative advantage	quotas

1. an economy in which the government makes most of the economic decisions
2. an economy in which consumers make most of the economic decisions
3. the resources that an economic system needs to produce goods and services

4. nations with little or no industry
5. nations recently having significant or rapid industrial growth
6. the sum of a nation's goods and services
7. principle that each country should produce the goods it can make efficiently and trade for other goods
8. taxes placed on imports to increase their price in the domestic market
9. limits on the quantities of a product that may be imported
10. a group of nations that trade without economic barriers

Recalling Facts

1. What are the four factors of production?
2. What is the role of competition in the free enterprise system?
3. Where are most newly developed nations located?
4. How has China's growing economy impacted the United States?
5. What are the causes of a lack of national unity in some developing nations?

Chapter Summary

Capitalist and Mixed Economies

- Three major types of **economic systems** are traditional, market, and command.
- **Capitalist** economies have private ownership, individual initiative, competition, freedom of choice, and profit (or loss).
- **Mixed** economies blend capitalism with some government regulation.

Emerging Economies

- Some **developing** and **newly developed** nations build their economies by relying on free markets, trade, and investment.
- Others have chosen a socialist system, but socialism is losing popularity due to the challenges of attracting foreign investors and the influence of Western governments.

Major Economic Transitions

- Since 1991, **Russia** has been working toward capitalism and democracy, but change has been slow.
- **China's** Communist government is trying to develop a market economy but maintain an authoritarian political system.

Global Economy

- The main approaches to trade policy include free trade, fair trade, managed trade, and protectionism.
- Tariffs, quotas, strict health or safety regulations, embargoes, and unfair trade practices are some of the barriers to international trade.
- The World Trade Organization (WTO), European Union (EU), and North American Free Trade Agreement (NAFTA) have formed to encourage free trade.

Chapter 26

Understanding Concepts

- 1. Free Enterprise** How did Soviet agricultural policy differ from the policy practiced in the United States?
- 2. Global Perspectives** What are the differences between the traditional and the new economic goals to promote development in developing nations?

Critical Thinking

- 1. Making Comparisons** Use a graphic organizer like the one below to compare land ownership in a capitalist system with that in a planned economy.

Capitalist System	Planned Economy

- 2. Drawing Conclusions** Why might industrialized nations such as the United States exercise influence on developing nations to develop free market economies and democracy?

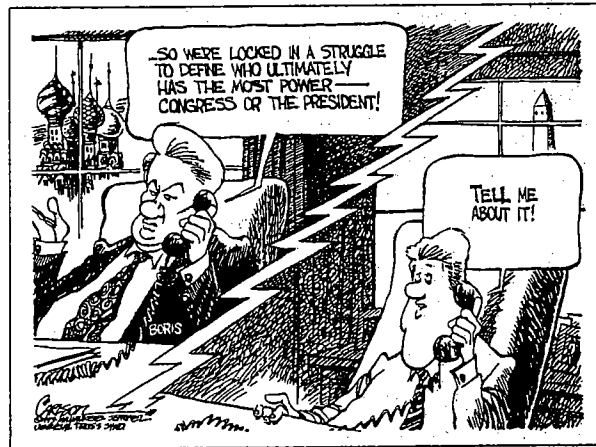
Analyzing Primary Sources

Communist theory, which arose in Europe in the late 1800s, advocated the abolition of private property and government ownership of major industries. Read the excerpt below from Karl Marx and Frederick Engels' 1848 Communist Manifesto and answer the questions that follow.

"Nevertheless, in most advanced countries, the following will be pretty generally applicable.

- 1. Abolition of property in land and application of all rents of land to public purposes.*
- 2. A heavy progressive or graduated income tax. . . .*
- 5. Centralization of credit in the banks of the state, by means of a national bank with state capital and an exclusive monopoly.*
- 6. Centralization of the means of communication and transport in the hands of the state.*

Interpreting Political Cartoons Activity



1. What comparison is the cartoonist making?
2. Do you think the comparison is a valid one? Why or why not?
3. This cartoon was published in 1993. Are the issues it raises still applicable today? Explain.
4. How do you think the economic situation in a country affects its political climate?

7. *Extension of factories and instruments of production owned by the state; the bringing into cultivation of waste lands, and the improvement of the soil generally in accordance with a common plan.*
8. *Equal obligation of all to work."*

1. What type of economy does communism advocate?
2. What elements of this type of economy do you think the United States's capitalist economy has adopted, if any?

Participating in Local Government

Nations of the world are increasingly interdependent. Find out what opportunities your community offers for individual involvement in world issues. For example, are there any organizations or programs that work to end world hunger? Find out how you might contribute to such efforts.

