ESSENTIAL QUESTION
How does an economic system help a society deal with the fundamental problem of scarcity?

Reading HELPDESK

Academic Vocabulary
allocation distribution

Content Vocabulary
mixed economies economic system that has some combination of traditional, command, and market economies; also see modified free enterprise economy
Great Depression worst period of economic decline in U.S. history, lasting from approximately 1929 to 1939
Communism economic and political system in which the state as a whole owns and directs factors of production. It is based on a theoretically classless society in which everyone works for the common good.

TAKING NOTES: Key Ideas and Details

ACTIVITY
Use a graphic organizer like the one below to identify the advantages and disadvantages of a mixed economy. Add lines and boxes as needed under each category.

Characteristics of a Mixed Economy
Guiding Question: What makes an economy mixed?
Textbooks tend to make neat categories like traditional, market, and command or socialist economies. But the real world is not so simple, especially when we consider political systems as well as economic systems.
Why Mixed Economies Exist

Mixed economies seem to form for several reasons. Perhaps the most important is that when people from one type of economy come into contact with other cultures, they often accept technologies and ways of doing things that can benefit them. When the Inuit of northern Canada saw that rifles were more effective hunting tools than spears, they began to use rifles. In a similar way, after the Chinese invented the magnetic compass around the second century, the compass spread to Persia and then to Western Europe.

An economy can also evolve during times of crisis. The United States went through the Great Depression, the worst period of economic decline in U.S. history, from around 1929 to 1939. Conditions were so harsh that the government had to find solutions and established unemployment insurance, the minimum wage, and bank deposit insurance.

The WHAT, HOW, and FOR WHOM Decisions

Some mixed economies have a political system based on democracy, while others do not. And names can be misleading: the official name of North Korea, a command economy, is the Democratic People’s Republic of Korea—despite the fact that there is nearly no democracy there at all.

A state’s involvement in economic decisions can vary greatly. Some governments provide only for basic needs such as defense and a system of justice. Some governments get involved only in certain key sectors or industries and leave the rest to markets. If the government interferes too much, a mixed economy can turn into a command or socialistic economy. The more socialistic a country is, the more likely it is that its government makes major economic decisions. These governments often say they make these decisions for the benefit of their people

Shared Characteristics of Mixed Economies

There are so many different kinds of mixed economies it is difficult to describe them all. But Figure 2.2 shows some of the more important ones.

Perhaps the most distinctive feature of a market or capitalistic economy is the private ownership of productive resources and the freedom to use them as the owner wants. In this system, the personal, freely made decisions of many individuals determine the allocation of resources.

Under socialism, private individuals own only some of the productive resources, while the government owns and uses the rest. The extent of government-owned resources varies from one socialist country to the next. More socialist countries have the highest degree of government ownership. For example, in the former Soviet Union the government owned everything. Yet in the socialist-leaning economy of Venezuela, former president Hugo Chavez nationalized only some of the major industries to help pay for his socialist programs.

In a traditional economy, almost all of the major decisions are made according to tradition. This makes progress and change very difficult. Tradition even determines the ownership of productive resources.

The mixed economies would be represented by the overlapping segments in the center of the diagram in Figure 2.2. Today there are more mixed economies than any other kind, and the majority of them are mostly capitalistic.
Lesson 2  Mixed Economies, *Continued*

Examples of Mixed Economies

Guiding Question: *Why are most economies in the world today considered mixed economies?*

Mixed economies usually share characteristics with all three economic systems—market, socialistic, and traditional.

Communist Economies

The economic historian and social scientist Karl Marx and his partner Friedrich Engels first formed the communist philosophy in the 1800s. Marx saw all of history as a “class struggle” between workers and property owners. This struggle caused times of prosperity and then times of depression, such as the one United States had in the 1930s. Marx thought that the working class would ultimately rise up and overthrow the property owners. Society would then finally reach a theoretical ideal goal, called communism. Communism was supposed to be a state of economic and political activities where everyone would contribute according to his or her abilities and consume according to needs.

In this ideal community, people would not need government and would ultimately get rid of it. But in order to reach this goal, Marx thought that a society would go through a time of socialism, with a strong government that served the needs of the people. Governments in China, the former Soviet Union, Cuba, and other places around the world described themselves as socialist because they considered it a step to the final ideal of communism.

A communist system organizes labor for the common advantage of the community. All people consume according to their needs. In practice, communist governments have created command economies, dictating the big WHAT, WHERE, and FOR WHOM decisions.
Although it remains a theoretical ideal for many revolutionaries, no true communist economy has ever existed. It is unlikely that we will ever see one, given that people have unlimited wants and limited resources.

How can communism be an example of a mixed economy? The governments of Laos, North Korea, and Vietnam describe themselves as communist when they are actually a type of extreme socialism, with slight elements of tradition and sometimes even markets.

Mixed Socialism
According to Karl Marx, a country must first pass through socialism to reach the ideal of communism. Under socialism, the government owns and controls some, but not all, of the basic productive resources. In socialistic economies, the government meets some of the basic needs of its people, such as education, jobs, transportation, and health care.

There are still many mixed socialistic economies. China has a mixture of traditional, command, and market economies. Tradition has a strong influence in rural areas, but the government makes many of the big economic decisions. It also owns many of the factors of production.

Cuba and North Korea today are very similar to the former Soviet Union, where a socialist government controlled most resources in order to provide for its people. But the Soviet Union’s ownership and control of resources were so broad that some economists saw it as more of a command economy.

Mixed Market Economies
There are many examples of mixed market economies, especially in democratic countries, where people can influence the form of the economy. In Norway, the government owns the basic petroleum industry. It uses the income from selling oil to other countries to lower its domestic gas prices, pay for education, fix roads, and provide social welfare for its citizens. Because the government controls just one industry, it is a mixed economy based on capitalism and markets with some elements of socialism.

Sweden was once called the “socialist state that works” because of its combination of a strong private economy and the widest range of social programs in the free world. But the population protested the high taxes needed to pay for its social programs. So the country cut back on these expenses in the 1980s. It is now a mixed market economy because it still has some socialist programs.

Denmark, Germany, and France also have mixed market economies with generous welfare benefits. In fact, we can say that any country that provides major welfare benefits has a mixed market economy, especially if taxpayer dollars pay for them.

South Korea, India, and Thailand also have mixed economies that combine traditional economies with elements of command and market economies.

Finally, the United States belongs in the mixed-market group. We have many free market features and traditional elements, such as children who follow their parents into the same jobs. The United States also has socialist elements, such as federal programs that make disability payments to people hurt on the job or programs that provide health insurance for the poor and the elderly. Programs like these apply to large groups, and taxpayer dollars pay for them. But by themselves they do not make the United States a socialist economy.
Reading Essentials and Study Guide

Chapter 2: Economic Systems and Decision Making

Lesson 2 Mixed Economies, Continued

Evaluating Mixed Economies

Guiding Question: Which members of society benefit from a mixed economy?

Mixed economies are a fact of life. They can be found all over the globe, and they offer advantages and disadvantages to those who live in them.

Advantages of Mixed Economies

There is a wide range of mixed economies today. This range includes China, which is now the second-largest economy in the world behind the United States. While tradition has a strong influence in rural areas, the Chinese government owns many of the factors of production and makes many of the major economic decisions. But China is changing. In recent years the government has allowed some private ownership of resources.

Of course none of these changes would be happening if they did not benefit Chinese authorities. The fact that they are happening is proof that they are useful to leadership. Changes have also occurred in the economies in Cuba, North Korea, and Russia. (Russia replaced the former Soviet Union.) In each of these countries, a socialist or communist government once controlled the great majority of productive resources.

One advantage of a mixed economy is that it provides help for some people who might be left out of the country’s economic progress. All societies have some people who are too young, too old, or too sick to provide for themselves. Societies need some policies that help meet their needs.

If the society has a democracy, voters can use their power to vote to affect the WHAT, HOW, and FOR WHOM decisions even if the government owns no productive resources. For example, the government can pass laws to provide help to those most in need. It can also pass laws to fund public projects like schools and road repairs.

Most mixed economies have grown faster than the former communist or command economies in Vietnam, Cuba, and the former Soviet Union. Even China’s rapid economic growth since 1980 is largely because it began some major market reforms.

Disadvantages of Mixed Economies

Mixed economies usually provide more goods and services, but the costs can be high. Germany and the Scandinavian countries offer many social benefits, but they also have higher taxes than the United States. Also, when these countries have economic downturns, the government collects fewer taxes. Less money is then available for these programs. As a result, some of these governments have considered limiting benefits, especially unemployment and welfare programs.
Chapter 2: Economic Systems and Decision Making

Lesson 2  Mixed Economies, *Continued*

In some socialist countries, services may not always be available or the quality may deteriorate. Today, for example, Cuba claims that it has free health care for everyone. But the quality of care is below U.S. standards for everyone except upper members of the Communist Party and those willing to pay in dollars.

Over time, socialism and communism have been less efficient than capitalism. For example, if a government guarantees jobs for workers, a factory may have to hire more workers than it needs. This drives up production costs. Employing more people than needed is one of the reasons why growth in these countries is slower than in free market countries.

Finally, many of the governments in communist and command economies are likely to see market-based reforms as a threat to their leadership. After all, if the market reforms improve the economy, people may want even more reforms. And these reforms may move their economies further away from communist or command-type leadership.

**Reading Progress Check**

**Identifying** Who are the people that benefit from the structure of a mixed economy?

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