ESSENTIAL QUESTION

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

### 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; 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.

```
Mixed Economies

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
```

### Characteristics of a Mixed Economy

**Guiding Question**  *What makes an economy mixed?*

Textbooks like to use neat categories like traditional, market, and command or socialist economies; but the real world is not so orderly. Even though there are several different kinds of economies, there are more mixed economies—economic systems where tradition, government, and markets each answer some of the WHAT, HOW, and FOR WHOM questions—than any other kind. Sometimes there is so much overlapping that it’s hard to know exactly what kind of economy it is.
Why Mixed Economies Exist

Mixed economies form for several reasons. One reason is that the three major types of economic systems—traditional, command, and market—are extreme cases that are useful for descriptive purposes. There is much more diversity in the real world. A second reason is that a major event like a revolution or a period of severe economic decline may cause change. A third reason is that nations tend to change over time, getting rid of some policies that do not work and adding new ones that do.

Perhaps the most famous example of a revolution causing economic change took place in Russia. In 1929, Joseph Stalin rose to power. He changed a mostly peasant society into a massive command economy. By the 1950s, the Soviet Union was a major industrial and military superpower. Many emerging countries copied the Soviet Union’s socialist economy until its collapse in 1991.

An economy can also change during times of crisis. The United States had become a powerful economy based on free market ideas. Then the country went through the Great Depression. This was the worst period of economic decline in U.S. history, which lasted from approximately 1929 to 1939. Conditions were so harsh that the government created unemployment insurance, the minimum wage, Social Security, price supports in agriculture, and even bank deposit insurance. This was an example of a free market economy changing into a mixed market economy. This change took place because the people demanded changes to the way workers and consumers were treated.

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. The same is true for Laos, or the Lao People’s Democratic Republic. It is also not a democracy because it is ruled by the communist Pathet Lao party.

A nation’s involvement in the three economic decisions can vary greatly. Some governments get involved only in certain key sectors or industries and leave the rest to markets. 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

Because 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 most government ownership of resources. For example, in the former Soviet Union the government owned everything. Another shared feature under socialism is that the political system is more likely to be communist. For example, four of the most socialistic countries today are Cuba, China, Laos, and Vietnam. All of them are communist and have no democracy.
Lesson 2 Mixed Economies, Continued

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. However, when people from a traditional economy come into contact with other cultures, they often adopt technologies and ways of doing things that can benefit them.

The mixed economies would be represented by the overlapping segments in the center of the diagram in Figure 2.2. Those economies with the most significant components of markets and capitalism are likely to be the most economically developed of the group.

Reading Progress Check

Explaining What are the main characteristics of a mixed economy?

Examples of Mixed Economies

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

Mixed economies share characteristics with all three economic systems—market, socialistic, and traditional. Sometimes it is difficult to describe mixed economies as uniquely belonging to one type of economic system or another.

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, HOW, and FOR WHOM decisions. Although it remains a theoretical ideal for many revolutionaries, no true communist economy has ever existed.
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 most socialistic economies, the government meets some of the basic needs of its people, such as education, jobs, transportation, and health care.

There are 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 the major factors of production.

Cuba and North Korea are similar to the former Soviet Union, where a socialist government controlled almost all the resources. But the Soviet Union’s ownership and control of resources were so broad that some economists saw it as more of a command economy.

Venezuela turned suddenly toward socialism when Hugo Chavez became president in 1999. He created a policy of land and wealth redistribution, along with nationalization of national and international corporations. Companies that were nationalized included telephone, electric utilities, leading steel companies, food processing plants, and even banks. Most of the nationalization was done by taking or buying companies from their owners. President Chavez died in 2013 before his nationalization was complete, leaving an economy that had a mix of socialism, capitalism, and tradition.

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 one major 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 category of mixed market economies. 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.
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
Countries with mixed economies seem to have them because of the benefits that mixed economies offer. In the 1970s, China's economic growth was not as good as that of Japan, South Korea, and Hong Kong. After Chairman Mao Zedong’s death in 1976, China’s leaders modernized China’s economy with some capitalism, or "capitalism with Chinese characteristics" as it was often described.

By 1980, China became one of the fastest growing economies in the world. According to the U.S. Central Intelligence Agency, China is now the world’s largest economy. To maintain its growth, it has added some capitalist features such as markets, competition, profit, and international trade. China is still controlled by its communist party, and the country—not its individual citizens—owns all factors of production.

None of these changes would have happened if they did not benefit Chinese leaders. The fact that they are happening is proof that they are useful to leadership. Changes are also happening all over the world, including the countries of North Korea, Cuba, and Russia.

The benefits of mixed economies are not limited to communist-controlled command economies. In the democratic countries of northern Europe, countries like Sweden, Denmark, Germany, and Norway have socialistic programs that offer generous education, employment, and health benefits even though their economies are based on capitalism and free markets. In the United States, socialist-sounding programs like widespread health insurance exist side-by-side with competitive markets and the ownership of private property.
Disadvantages of Mixed Economies
Mixed economies with some socialist programs usually provide more services to people than do traditional command economies. Germany and the Scandinavian countries offer many social benefits like medical coverage, free education, and a lot of vacation time. The problem is that these programs are not free, so the countries must find a way to pay for them.

One way to pay for these programs is through taxes. Almost all major European countries use this option, but taxes are higher than they are in the United States. The other way to cover these costs is to produce less of something else. So, the cost of generous welfare programs can be paid for by moving resources away from other things. Nothing is free in a world of limited resources.

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

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________