

Economic and Political Systems

A **political system** is the type of government by which a country is run. An **economic system** is the way a country organizes its resources and distributes goods and services to its citizens. Economic and political systems are closely linked.

Economic Systems

The answers to the four questions below define a country's economic system:

1. What should the country produce and in what quantities?
2. How should scarce resources such as labour and capital be allocated?
3. How should goods and services be distributed throughout the country?
4. What should be the price of the goods and services?

Market Economy

A **market economy** is also known as capitalism or private enterprise. In a market economy, the above questions are answered by individuals and businesses. Businesses, consumers, and government act independently of one another. Market forces and self-interest determine what goods are created and sold. These market forces ensure that there is variety in goods and services to attract consumers. The government has little direct involvement in business. Its main duty is to create an atmosphere in which citizens and corporations can be successful.

Each economic system addresses the three major components of private property, profit, and competition, but in different ways. The way in which these components are viewed in a market economy are provided below:

- **Private property.** Corporations and people are encouraged to own property, including real estate, buildings, equipment, furniture, and automobiles. Owners can purchase, rent, trade, sell, give, or will their property to whomever they want.
- **Profit.** Profit is the reward for the risks taken. It is encouraged because profitable companies provide employment, create new products, expand, and start new ventures. The profit belongs to the owners of the business, and they can choose how to spend their rewards. They can reinvest in the business or buy personal goods, such as a house or a new car.
- **Competition.** Competition is critical. Companies compete on quality, services, price, reputation, and warranties. Competition encourages companies to provide quality products at a reasonable price so that consumers do not switch to other brands. As a result of competition, consumers have access to greater selection and new products, and companies have an incentive to innovate in order to bring in more profit.

There are no true market economies in the world because every country has some government intervention; the United States comes the closest to having a market economy.



In a market economy, consumers have the opportunity to choose from a wide variety of goods.



Cuba is an example of a centrally planned economy, in which the government determines how income is distributed.

Centrally Planned Economy

At the opposite end of the economic system continuum is a **centrally planned economy**. In a centrally planned economy, also known as communism or command economy, decisions are made centrally by the government. The government controls all elements of the economy and establishes how income is distributed. The government provides education, health care, employment, and housing to all members of society. A centrally planned economy deals with the economic system characteristics in the following ways:

- **Private property.** Ownership of property is restricted. Citizens may own small household items and furniture. The government owns all of the housing and businesses including factories, offices, and farms. The government determines who will work in the businesses and where they will live. All workers are employed by the government, which sets the wages.
- **Profit.** All profit belongs to the government, and citizens do not receive a portion of the profits they help to make. If the government needs to increase its revenues, it raises prices or cuts costs such as wages or capital investment. The profit made by the government is re-invested into the businesses or used for social programs such as education or the military.
- **Competition.** Competition is limited. The government determines the price, quality, style, and amount of goods and services. Consumers have little choice in products sold.


North Korea and Cuba are run as centrally planned economies. Countries which traditionally were thought of as centrally planned, such as Russia and China, are still predominantly centrally planned; however, each has recently adopted some market economy practices.



Mixed Economy

Most economies in the world sit somewhere between a market economy and a centrally planned economy—they have a **mixed economy** (also known as a modified free enterprise system). For example, Sweden offers many social programs, such as an eighteen-month maternity leave, two months of which must be taken by the minority parent (usually the father). Sweden also has successful international businesses, such as IKEA. It has characteristics of both market and centrally planned economies. Canada is also a mixed economy. Canada has strong social programs, such as universal health care, employment insurance, and the Canada Pension Plan. In addition, it has thriving businesses that compete successfully in the world market. A mixed economy has the following characteristics:

- **Private property.** Property is owned by individuals, corporations, or government. The government owns schools, parks, and real estate. It sets regulations that affect private property; in Canada, there are strict regulations regarding ownership of financial institutions and the media. Corporations operated by the Canadian government are called Crown corporations. Examples include Canada Post and the CBC.
- **Profit.** Profit is encouraged, but is taxed to support government projects and provide social assistance. Taxes are collected at the federal and provincial levels through sales tax, income tax, and corporate taxes. Municipal projects are funded through property taxes.
- **Competition.** Strong competition amongst corporations exists; however, the government may also be a competitor. For example, in the Canadian transportation industry, the federal government operates VIA Rail, and municipal governments run their own transit systems. In the overnight delivery industry, Purolator, run by Canada Post (a Crown corporation), competes against FedEx, UPS, and DHL.

 Impact: Society

Should Crown corporations be privatized?

▶ Yes: Crown corporations have traditionally performed poorly. They have limited incentive to be efficient and productive because the government will back them regardless of economic results.

▶ No: Crown corporations provide public accountability for businesses that provide essential services, such as water, electricity, transportation, and culture. No corporation should have control over services that are critical to Canadian lives and culture.

Table 4.1: Advantages and Disadvantages of Different Economic Systems

Economic System	Advantages	Disadvantages
Market Economy	<ul style="list-style-type: none"> ■ Freedom of speech, religion, assembly ■ Efficient use of resources ■ New products ■ Economic growth ■ Good quality products ■ Low prices 	<ul style="list-style-type: none"> ■ Gap between rich and poor expands ■ Lack of consumer education ■ Unhealthy products
Centrally Planned Economy	<ul style="list-style-type: none"> ■ All citizens are assured a minimum standard of living ■ Health, education, and other social programs are provided free to all citizens ■ No unemployment ■ Long-term stability 	<ul style="list-style-type: none"> ■ Restriction of individual freedoms ■ Little motivation to work hard ■ Large military presence ■ Lack of innovation ■ Corruption
Mixed Economy	<ul style="list-style-type: none"> ■ Individual incentive ■ Basic social services ■ Consumer protection 	<ul style="list-style-type: none"> ■ Higher taxation ■ Individuals have little input into how taxes are spent ■ Government intervention may stifle growth ■ Less motivation to work hard

Political Systems

As mentioned earlier, a country's political system is linked in many ways to its economic system. There are many types of political systems in the world. Some are based on religion (theocracy), others on a ruling king or queen (monarchy), while others are governed by the wealthy, educated class (aristocracy). Although these types of government still exist (for example, Jordan is ruled by a king and the Vatican is ruled by the Pope, the head of the Catholic Church), they are not common. The most prevalent forms of government are **democracy** and **autocracy**.

Democracy

The term "democracy" comes from the Greek word meaning "government by the people." A democracy is characterized by free and fair elections, the rule of law, free speech, the right to assembly, a free press, and freedom of religion. In a democracy, all people have the right to govern themselves, and each citizen is entitled to an education. Finally, in a democracy there is economic opportunity for all citizens. If a business is successful, the owners reap the benefits as a reward for the risk they have taken. Democracies are accompanied by a market economy.

Countries such as Canada, the United States, and the countries of the European Union have a representative democracy. Each citizen of legal voting age casts a vote to elect a representative to sit in parliament and vote on their behalf.

Democracy is not a perfect system. Politicians may be more concerned with being re-elected than with what is good for their country. This could lead them to focus on short-term solutions, just in time for another election, rather than taking a long-term perspective. Politicians who rely on funding from large corporations may have in mind the businesses' needs, rather than the needs of the citizens they represent. Many of our politicians come from similar backgrounds and are not representative of groups such as women, minorities, and the poor. Democracies are difficult to establish and expensive to maintain. Many newly emerging economies—for example, those in Latin America—lack the judicial systems and other infrastructure that help maintain political stability.



Think About It!

- 4.1. What are the four questions all economic systems answer?
- 4.2. Define market economy.
- 4.3. Describe how a market economy deals with private property, profit, and competition.
- 4.4. State three advantages and three disadvantages of a market economy.
- 4.5. Define a centrally planned economy.
- 4.6. Describe how a centrally planned economy deals with private property, profit, and competition.
- 4.7. State three advantages and three disadvantages of a centrally planned economy.
- 4.8. Define a mixed economy.
- 4.9. Describe how a mixed economy deals with private property, profit, and competition.
- 4.10. State three advantages and three disadvantages of a mixed economy.

Think About It!



- 4.11. Describe democracy.
- 4.12. What are the drawbacks of a democracy?
- 4.13. Describe autocracy.
- 4.14. Name four countries that have an autocratic government.

Autocracy

An autocracy is ruled by a single individual or a small group of people. Proponents of autocracies believe that one consistent government allows decisions to be rational, in the interests of the entire country rather than special groups, and have a long-term focus.

This political system has many disadvantages. Autocracies usually have a strong military presence to ensure that the leader or leaders stay in power and maintain stability. An autocratic government strives to control all aspects of its citizens' lives, including the media, professions, businesses, and religion. Citizens have no influence on the government and if they disagree with its decisions, they are often dealt with by the military; they also have their ability to travel outside of the country curtailed.

Current examples of autocracies include North Korea and Cuba, each of which is led by a single leader, and China, which is led by a single party. Other examples include Zimbabwe, Indonesia, Egypt, and Libya. The economic system most closely associated with autocracy (or authoritarianism) is a centrally planned economy. However, some countries, such as Egypt and Indonesia, have attracted foreign investment to help stimulate their economies.

Newsworthy: Regulating Happiness**Gross National Happiness**

Bhutan is a country of 700,000 people that sits high in the Himalayan Mountains between the two growing world powers of India and China. It has only one airport, and two commercial airplanes. The capital city has no traffic lights and only one traffic officer is on duty.

Traditionally, the country was ruled by a king. In 2006 King Jigme Singye Wangchuck stepped down to pave the way for the country to have its first democratic elections.

Bhutan's new constitution establishes that the worth of the country will not be measured by gross national product as most other countries are, but rather by the happiness of its citizens. Government programs such as agriculture, transportation, and even foreign trade are to be judged not by economic criteria, but by the happiness they generate in the citizens of Bhutan. The king himself came up with the idea of gross national happiness (GNH) in the 1970s.

Gross national product is easy to measure. It

governance. Each of these is given a weighted GNH index. For example, psychological welfare is measured by time spent meditating and praying, and emotions such as generosity, calmness, and compassion.

Bhutan believes that GNH will help its citizens preserve the country's identity and culture, where cigarettes are banned, television arrived in the 2000s, and traditional dress and architecture are mandated by strict laws. The GNH will ensure that the country can manage the changes brought on by globalization by remaining distinct and different from the rest of the world.

Questions