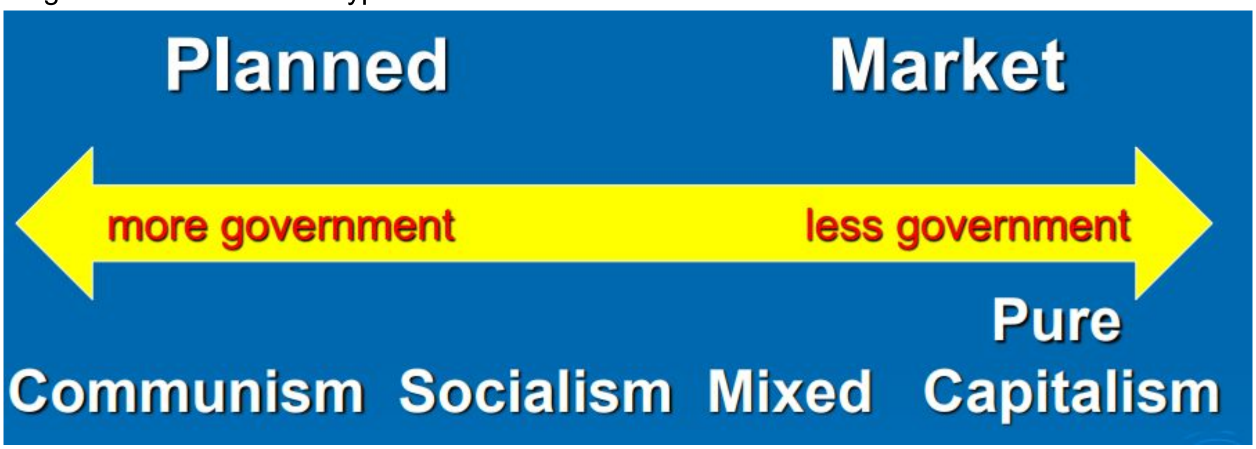
Lecture Notes:

- **Economics** is the study of how people produce the things they need and want.
- An **economic system** is the system that a country uses to answer the following questions:
    - What to produce?
    - What to consume?
    - How to produce it?
    - How to share it?
- Different countries answer these questions differently. Some have governments in control while others have individuals in control. However, in most countries government and individuals share responsibility.
- **Planned systems** is an economic system where the government is mostly or entirely in control.
- **Market systems** is an economic system where individuals are mostly or entirely in control.
- A **state** is a country, its people and its territory. A state is lasting.
  E.g.
  Canada is a state. Canada is 153 years old.
- A **government** is the people who run the state. Governments are temporary. Governments change.
- Advantages of planned economies:
    1. Only the state has the power and resources to direct food, clothing, shelter, jobs to benefit all society.
    2. Only the state has concern for all citizens.
    3. Only the state will ensure fair distribution of goods and services to all citizens.
    4. Planners working for the government will make rational decisions in the best interests of all the nation.
- 2 Types of Planned Economies:
    1. **Communism:** Here, the government owns/controls all the factors of production and makes 100% of all the economic decisions.
       Examples: North Korea (Maybe)
       There are very few, if at all, communist countries left.
    2. **Socialism:** Here, the government owns/controls the majority of the factors of production, including principal industries, and makes most of the economic decisions.
       Example: Cuba (but that's changing)

  The difference between communism and socialism is that governments in communist countries own/control 100% of the factors of production and make 100% of all the economic decisions while governments in socialist countries own/control most of factors of production and make most of the economic decisions.
- Advantages of Market Economies:
    1. Individual business owners are closer to their customers than government planners.
    2. Individual business owners have more current and better information about what people in their towns actually need.
    3. Individual business owners can respond quickly to better satisfy people's needs.
    4. Government control concentrates power and power corrupts.

- 2 Types of Market Economies:
    1. **Pure Capitalism:** Individuals own/control all factors of production and make 100% of all the economic decisions.
       Examples: none
    2. **Mixed Market:** Individuals own/control majority of factors and make most of economic decisions. However, governments still regulate and tax and run some businesses.
       Example: Canada, USA, UK, France
- The difference between pure capitalism and mixed market is that in pure capitalism, individuals own/control 100% of factors of production and make 100% of all the economic decisions while in mixed market, individuals own/control most of factors of production and make most of the economic decisions, but the government can still regulate and tax and run some businesses.
- Diagram of the 4 different types of economies:



<u>**Textbook Notes (Chapter 4):**</u>

- **Introduction:**
- **Economics** is the study of how people produce the things they need and want.
- An **economic system** is the means by which a society produces and distributes the goods and services that its people need.
- Through its choice of economic system, a country determines the following:
    1. Who owns the factors of productions
    2. Who controls the factors of production
    3. Who decides what needs to be produced
    4. Who decides how goods and services are distributed
- **Economic Systems - Planned Economies vs Market Economies:**
- We can divide all the countries of the earth into 2 categories:
    1. **Planned economies:**
    - Are countries in which most of the factors of production are primarily owned, controlled or directed by the state through political leaders or government officials.
    - Those who advocate for a planned economic system base their arguments on 2 points:
        a. Only the state, with its ability to create and enforce the law, has the power and authority necessary to feed, clothe, shelter, educate and employ the nation's entire population.

b. Businesses are primarily concerned with making a profit. Therefore, businesses have no concern for those who aren't customers or do not have the money to buy products. Only the state has a benevolent interest in the welfare of all members of society.

- Countries where the state controls most of the factors of production are called **planned economies**. They are called planned economies because what gets produced and how it gets produced are determined by the state, according to a government plan.
- The planned economy model is based on the assumption that that nation's smartest and best educated can be retained to work for the state.
- The planned economy's weakness is that it depends too much on models, which means that it cannot ensure that its plan will produce the precisely correct quantities of every product.
  I.e. Central planners base their decisions on models. However, not every family has 24 kids. Nar everyone needs a midsized car. Not everyone wears 36" x 32" jeans. Failure to understand this, or to fine tune the models, means government plans may result in the production of houses which are too big, or too small, cars that can't carry an entire family, and jeans that won't fit.
- In addition, government bureaucracies have shown themselves to be slow moving.
- There are 2 types of planned economies:
  a. Communist Economies:
  - What Karl Marx and Frederich Engels envisioned.
  - **Communism** is an economic system where all the factors of production are controlled by the state, and where there is no private property. In the 20th century, the Soviet Union and China were communist countries. Nowadays, the country that's closest to being communist is North Korea. There are no real/pure communist countries.

  b. Socialist Economies:
  - **Socialism** is an economic system where the government owns or controls the majority of the factors of production and directs the majority of productive activity. Examples of socialist countries today are Cuba, China, and Vietnam. However, for much of the 20th century, many countries in Asia, Eastern Europe and Africa were socialist.
  - The distinguishing characteristic of a socialist economy is the lead role played by the government, which intervenes heavily through taxation, regulation, and through its day-to-day management of large and important industries. In many socialist countries the government will own the banks, and principle transportation companies such as railways and airlines. In socialist economies the government may take responsibility for the provision of all utilities (gas, water, electricity), the building of housing and for the distribution of food.
  - The philosophy that guides socialist economies is that only the government has the power, the resources, and the motivation to provide a nation's citizens with the important essentials. However, this does not rule out individual family enterprises providing such goods and services as, for example, neighbourhood restaurants, taxi cabs, and small retail stores.

  - Virtually every constitutionally socialist country on earth that runs a planned economy allows for some private property and some private enterprise. This is what distinguishes it from communism. In communist economies, the government has control of everything and there is no private enterprise. In socialist economies, there are some private enterprises.

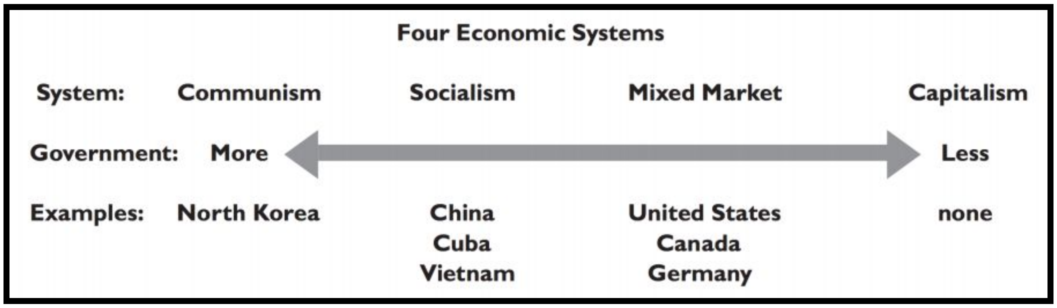
2. Market economies:

- Are countries in which most of the factors of production are primarily owned, controlled or directed by individuals and where entrepreneurship and business ownership are encouraged.
- Those who advocate for market economics argue the following:
  a. While state control sounds good in theory, it tends to work poorly in practice. This is because people need an almost infinite variety of things and this is too much for one entity, even the government, to plan, produce and distribute effectively.
  b. Government bureaucrats, working in offices far removed from the reality of the busy streets, lack the information and the feel for the average person’s changing needs and changing tastes. While it might be true that only the state can mobilise the capital, the people and the other resources needed to fight a war, government officials won't have the skills, the information, or the motivation to effectively run your local barbershop, your neighbourhood pub or an antique store.
  c. A benefit of private enterprise is competition. If you don't like the price, quality or selection of goods on offer from one business, you can generally walk down the street to find another. State run enterprises lack the motivating discipline of having to compete for your patronage. Without that competition, state-run enterprises can become unresponsive, wasteful and inefficient.
  d. Planned economic systems concentrate a great deal of power into the hands of a small number of political elite. History and experience show that power corrupts. History also shows that political leaders can be just as vain, selfish and greedy as anyone else.
- Countries where individuals make the decisions about what gets produced are called **market economies**.
- In a market economy, the government takes a back seat, allowing entrepreneurs and managers to determine what needs to be made and what a nation’s citizens most need and want.
- A theoretical advantage of market economies is that individual business owners, and store and factory managers, are closer to their customers than the government is. These individuals will have more current information, and better information, about what people in the streets of their towns and cities actually need and want. Compared to government officials, private entrepreneurs can respond more quickly to demand on the street, and therefore better satisfy people’s needs. However, even private businesses can get large, bureaucratic and unresponsive.

- There are 2 types of market economies:
  a. **Pure Capitalism:**
  - **Pure capitalism** is an economic system in which all of the factors of production are owned by private individuals. All economic activity is privately run, citizens pay no taxes, and the government imposes no regulations on business.
  - In a purely capitalist economy, in the absence of taxes, wealth will accumulate in the hands of entrepreneurs, business owners, and those who finance enterprises. Those who advocate for a purely capitalist system argue that wealth will flow to the shrewdest, smartest, hard-working people. According to this argument, pure capitalism rewards success. However, others argue that pure capitalism encourages **Social Darwinism**.
  - Today, there are no purely capitalist economies. Countries like the United States and Canada operate nominally capitalist oriented economies. Furthermore, private property and business activity cannot exist without rules and regulations. Without rules and laws, societies are at risk of falling inte anarchy. Societies also need clean and safe streets, health, welfare, and education. To provide all of these socially beneficial things, the state needs finance. Therefore, every country on earth operates some system of taxation.
  - Virtually all capitalist countries operate economic systems where private enterprise is given primary responsibility for producing goods and services, but the government is given the role of imposing and collecting taxes. and creating and enforcing regulations. We call these countries **mixed market economies**.

  b. **Mixed Market:**
  - A **mixed market economy** is a country where ownership and control of most of the factors of production is in the hands of private individuals. However, the government provides a stable and conducive environment by providing public services, enforces laws, and provides regulation and oversight. Examples of mixed market economies include Canada, US, UK, and France.
  - Mixed market economies are countries where control of most of the factors of production is in the hands of private individuals, but it is also acknowledged that there is a positive role for the government. The government collects taxes for the financing of public services such as law enforcement, fire protection, schools, hospitals. The government also creates and enforces the laws that protect the owners of private property and as well as provide regulation and oversight.
    I.e. A mixed market economy is a system in which the production of goods and services is left mainly to private individuals, but the government plays an important role in providing a stable and conducive environment for businesses to thrive.

- In mixed market economies, governments interact with businesses in three main ways:
    a. Governments impose and collect taxes.
    b. Governments pass laws which regulate the conduct of businesses.
    c. Governments provide some products and services, occasionally in competition with private enterprise.
- Picture showing the 4 types of economies:



- **Government as a collector of taxes:**
- The Canadian federal government collects taxes for two main purposes:
    1. To pay for the various services that it provides to Canadians and
    2. To redistribute money from those who can afford it to those in need.
- **Personal income tax:** Canadians pay taxes based on their annual income. The Canadian tax system is a progressive system, meaning that the more income you earn, the larger the percentage of your income you must pay. While most Canadians pay between 20% and 30% of their personal income as taxes, the tax system is designed so that high income earners should pay more. In this way, the state is indirectly redistributing wealth from its richer citizens to services which largely benefit those who are less fortunate. Personal income tax generates about one-half of all the government's revenue. A **progressive taxation** is a tax that takes a larger percentage from the income of high-income earners that it does from low-income individuals. Personal income tax generates about half of all the government’s revenue.
- **Corporate Income tax:** Many Canadian businesses also pay taxes on their profit. Most Canadian businesses pay about 25% of their profit as tax. The revenue raised through corporate income tax is shared between the federal and the various provincial governments. In 2017-2018 corporate income tax raised $48 billion or 15% of the federal government's revenue. .
- **Sales or consumption tax:** When you buy a product anywhere in Ontario, the Harmonised sales tax (HST) is applied at 13%. The revenues are split between the federal (which takes 5%) and the provincial government (which takes 8%). In 2017-2018, HST generated about 12% of the Canadian government’s revenues.
- **Employment insurance:** Working Canadians are taxed roughly 2% of their annual income to pay for the federal employment insurance program. Employment insurance provides temporary financial assistance to unemployed Canadians who have lost their job. EI payments represent about 7% of the government’s tax revenue.

- **Government as regulator:**
- Here are some regulations that every business in Canada must follow:
    1. The **Canadian human rights act** requires employers to ensure that all who are affected by their organization are treated equally regardless of their race, gender, sexual orientation, or any of the other eleven grounds of discrimation. It also specifies that employers cannot discriminate against women by paying them less than men for work of equal value.
    2. The **Canada labour code** sets minimum wages, and limits the number of hours most employees can be required to work in a day (8 hours) and in a week (48 hours). It also dictates that employers must provide employees with a minimum of 2 weeks paid vacation every 12 months.
    3. The **employment insurance act** obliges employers to contribute to the employment insurance (EI) program. In addition, it obliges employers to allow workers up to 52 weeks of maternity or paternity leave. The EI fund provides benefits to new parents taking leave.
    4. The **competition act** prohibits businesses from misleading advertising, or from making misleading claims.
    5. The **consumer packaging and labeling act** requires businesses to provide specified labelling information aimed at assisting consumers to make informed purchasing decisions.
- Some businesses argue that too many complicated and hard to understand regulations interfere with their ability to operate.
- **The government as a provider of services:**
- A **crown corporation** is an enterprise owned and operated by a government (either federal or provincial) in Canada. Crown corporations are given this name because, as publicly-owned enterprises, they are theoretically operated for the benefit of the people on behalf of Canada’s monarch (“the Crown").
- Some examples of federal crown corporations are:
    - CBC
    - Canada post
- Some examples of Ontario Provincial Crown Corporations are:
    - LCBO
    - Hydro one
    - OLGC
- There is no substantial difference between federal and provincial crown corporations. In either case, they are owned by a government.
- **The Bolshevik Revolution in Russia:**
- In Russia, in October 1917, a violent revolution overthrew the Tsar of Russia (Tsar Nicholas II).
- The Tsarist regime had been weak and corrupt. Almost all of the land and capital were concentrated in the hands of a privileged few while many millions lived in dire poverty.
- The Bolsheviks, under Vladimir Lenin, formed a government and immediately issued “The Decree on Land”, which was written by Lenin.
- A year later, the Soviet Union assumed ownership of all banks, and therefore, the distribution of capital.
- Soon after, the Soviet government took control of shipping companies, factories and production and distribution of food.

- Once all the levers of productive activity were controlled by the Soviet government, it created a series of 5-year plans setting targets for the production of food, housing and electricity, among others.
- The process of the state assuming control and ownership of resources, businesses and industries is called **nationalization**. The motivation behind nationalization is that only the state has the motivation to run the economy for the benefit of the entire nation.
- **The USA - Franklin Roosevelt and the New Deal:**
- The Great Depression began in 1929.
- From 1929 to 1933, the total production of manufactured goods fell by one third. Furthermore, the unemployment rate rose from 4% to 25%.
- In the presidential election of 1932, Franklin Roosevelt was elected president. Roosevelt came into office promising to end the depression and cut unemployment by offering "a new deal for the American people."
- Roosevelt's promise gave rise to a series of laws and executive orders that became known as the **New Deal**.
- The New Deal involved government-managed and government-funded programs to provide employment, housing, electricity, improved education, and opportunity for the unemployed and the poor.
- The United States Housing Authority financed and built houses.
- The Works Progress Administration (WPA) employed millions of people to build office buildings, airports, hospitals, schools, roads, bridges and dams. Between 1935 and 1943, the WPA employed almost 8 million people. Currently, the WPA is the largest employer in the US.
- The Agricultural Adjustment Administration (AAA) set targets and limits on the production of corn, cotton, dairy products, hogs, rice, wheat and tobacco.
- Between 1933 and 1937, the unemployment rate fell from 25% to 14% and farm prices nearly doubled.
- **Europe - Mobilization for War:**
- During World War 2, European countries were mobilizing people and resources for the war.
- A key element of most countries' war efforts was conscription. Conscription means compulsory enlistment into state service, usually into the armed forces.
- Another element of most countries' war efforts was rationing. Rationing means limiting the quantity of a good or commodity that each person is allowed.
- **China - Mao's Communists Win the Civil War:**
- In China, the communists under Mao Tse-Tung came to power in 1949.
- The chief goal of the Mao's government was to restore the economy to normal working order. It moved quickly to make all mines, factories, transportation companies and banks into **state-owned enterprises**. A **state-owned enterprise** is a government owned organization that provides goods and services but does not seek to make a profit. The government also took control of about half of all agricultural land.
- By 1956, approximately 67.5% of all Chinese industrial enterprises were state owned and 32.5% were under joint public-private ownership. No privately owned firms remained.
- In 1958, Mao introduced **The Great Leap Forward**. Private ownership of land was entirely abolished and households all over China were forced into state-operated communes that were ordered to meet centrally dictated production targets.

- The **Great Leap Forward** was a policy introduced by Mao Zedong, which abolished private ownership of land and forced the creation of state-owned communes.
- **Planned Economies - Evaluating the Historical Evidence:**
- After Lenin died in 1923, Joseph Stalin took leadership of the Soviet Union. Stalin spent the next 30 years murdering and imprisoning his political rivals. With absolute authority over the production of all goods in the Soviet Union, Stalin engineered artificial famines to starve millions of people, in Ukraine, who he imagined were his political enemies.
- Mao's Great Leap Forward was a catastrophe. As a result of it, tens of millions of people died from starvation.
- The concentration of power into the hands of autocrats has meant that planned economies are often referred to as **command economies**, instead. **Command economy** is a synonym for planned economy, although one which implies a greater degree of authoritarianism. Although planned economy and command economy are often used interchangeably, command economy implies a greater deal of authoritarianism to the economic system.
- However, even in Western democracies, state intervention and public enterprise are criticized. They are often criticized for being inefficient and wasteful.
- In Canada, McLean's Magazine published a series called "99 Stupid Things the Government did with your Money". The magazine reported the following:
    - The Department of National Defence (DND) took eight years to develop a $174 million satellite communications system. When the system was completed, the DND determined that the commercial system it had been using was sufficient to meet existing needs and required fewer staff to operate.
    - Ottawa's National Capital Commission installed seven new ice shacks along the Rideau Canal for skaters. Each shack cost $750,000. By comparison, the average house price in Ottawa was $360,000.
    - The federal government paid consultants $19.8 million, or $90,000 a day, to suggest ways to trim budgets.
- The United States General Accounting Office (GAO) audits US government spending. In a recent audit the GAO reported the following examples of duplication:
    - Ten different federal agencies were operating 92 programs devoted to teacher quality.
    - At least 23 agencies were spending $15 billion on 679 separate renewable energy programs.
    - The Defense Department had 10 sub-agencies spending between $50 million and $200 million with 159 contractors to provide foreign language support to the Pentagon.
- Ronald Reagan, President of the United States from 1981 to 1989, once observed "We don't have a trillion-dollar debt because we have not taxed enough. We have a trillion dollar debt because we spend too much."
- **The 1970s and 1980s - The Pendulum Swings Back:**
- Beginning in the 1970s, leaders all over the world were starting to assess the effectiveness of planned economics.
- In 1978, Mao died and a new leader, Deng Xiaopeng, emerged in China. Deng disbanded the previously nationalized collective farms and returned ownership of the land to individual families.
- In 1985, Soviet leader Mikhail Gorbachev admitted that under its existing, state-dominated economic system, the Soviet Union's people were suffering from

inadequate living standards. Gorbachev and his advisors then introduced a series of reforms, known as **Perestroika**. **Perestroika** is the name given to a series of laws instituted in the Soviet Union in the 1980s. These policies reversed the economic policies of collectivisation and nationalisation put in place after the Russian revolution.
- Margaret Thatcher, the Prime Minister of the United Kingdom from 1979 to 1990, argued against nationalization and for **privatization**. **Privatization** is the process of transferring ownership of a business or an industry out from government control and into the hands of private owners. Her political philosophy is known as Thatcherism.
- Margaret Thatcher was certainly not the only politician who argued for less intensive, and less. intrusive government. Her contemporary, US President Ronald Reagan was another. However, Thatcher was among the most forcefully outspoken of her peers.
- During the decade of the I980s alone the British government sold the following businesses:
    - British Petroleum - an oil company
    - British Aerospace — an aircraft manufacturer
    - British Airways — an airline company
    - British Gas —a gas transmission company
    - Jaguar —an automobile manufacturer
    - British Steel — a steel manufacturer
    - British Sugar - a sugar manufacturer
    - British Telecom — a phone company
    - British Transport Hotels —a chain of hotels
    - Rolls Royce — a manufacturer of engines
    - Rover Group - a manufacturer of cars and trucks
- Britain was not alone in carrying out large scale privatisation. In 1985 the Japanese Government privatised the Nippon Telephone and Telegraph (NTT). At the time, with more than 300,000 employees, NTT was Japan's largest employer, and the largest telephone company in the world. However, the Japanese government felt it was inappropriate that it should be running a telephone company.

Textbook Definitions:
- **Command economy:** A synonym for planned economy, although one which implies a greater degree of authoritarianism.
- **Communism:** An economic system where all the factors of production are controlled by the state, and where there is no private property.
- **Crown corporation:** An enterprise owned and operated by a government (either federal or provincial) in Canada.
- **Economics:** The study of how people produce the things they need and want.
- **Economic system:** The means by which a society produces and distributes the goods and services that its people need.
- **Great Leap Forward:** A policy introduced by Mao Zedong, which abolished private ownership of land and forced the creation of state-owned communes.
- **Market economies:** A country with an economic system in which individuals make the decisions about what gets produced.
- **Mixed market economy:** A country where ownership and control of most of the factors of production is in the hands of private individuals. However, the government provides a stable and conducive environment by providing public services, enforces laws, and provides regulation and oversight.

- **Nationalization:** The process by which a government assumes ownership and control of resources, businesses, or industries, running them with the intention of benefitting the entire nation.
- **New Deal:** A series of laws and executive orders in the 1930s, designed to give the United States governments the power to manage the economy and provide employment.
- **Perestroika:** The name given to a series of laws instituted in the Soviet Union in the 1980s. These policies reversed the economic policies of collectivisation and nationalisation put in place after the Russian revolution.
- **Planned economies:** An economic system where the government takes the lead role in owning and controlling the factors of production. In a planned economy, the decisions about what gets produced and how it gets produced are determined by a government plan.
- **Privatization:** The process of transferring ownership of a business or an industry out from government control and into the hands of private owners.
- **Progressive taxation:** A tax that takes a larger percentage from the income of high-income earners that it does from low-income individuals.
- **Pure capitalism:** An economic system in which all of the factors of production are owned by private individuals. All economic activity is privately run, citizens pay no taxes, and the government imposes no regulations on business.
- **Social Darwinism:** A belief that Darwin's theory of natural selection should apply to society, and that the strong should see their wealth and power increase while the weak should see their wealth and power decrease.
- **Socialism:** An economic system where the government owns or controls the majority of the factors of production and directs the majority of productive activity.
- **State-owned enterprise:** A government owned organization that provides goods and services but does not seek to make a profit.