

# Comparative Economic Systems

*“You do not like communism. We do not like capitalism. There is only one way out—peaceful coexistence.”*

—Nikita Khrushchev (1956)

Capitalism, socialism, and communism are the main types of economic systems, and they have often come into conflict. Which of those systems a nation follows has a major impact on its political system and many other aspects of people’s lives. Many real-world economic systems include some elements of the other two types.



◆ Stock traders and runners on the floor of the Chicago Mercantile Exchange



## Standards Preview

**H-SS 12.2.2** Explain how economic rights are secured and their importance to the individual and to society (e.g., the right to acquire, use, transfer, and dispose of property; right to choose one's work; right to join or not join labor unions; copyright and patent).

**H-SS 12.3.4** Compare the relationship of government and civil society in constitutional democracies to the relationship of government and civil society in authoritarian and totalitarian regimes.

**H-SS 12.9.1** Explain how the different philosophies and structures of feudalism, mercantilism, socialism, fascism, communism, monarchies, parliamentary systems, and constitutional liberal democracies influence economic policies, social welfare policies, and human rights practices.

**H-SS 12.9.7** Describe the ideologies that give rise to Communism, methods of maintaining control, and the movements to overthrow such governments in Czechoslovakia, Hungary, and Poland, including the roles of individuals (e.g., Alexander Solzhenitsyn, Pope John Paul II, Lech Walesa, Vaclav Havel).

# Chapter 23 in Brief

## SECTION 1

### Capitalism (pp. 658–664)

- ★ Capitalism is another name for the free enterprise system.
- ★ Entrepreneurs use land, labor, brain power, and capital to produce goods and services.
- ★ Private ownership, individual initiative, profit, and competition are the fundamental elements of capitalism.
- ★ A mixed economy is one in which the government intervenes to promote and regulate the economy.
- ★ Businesses may be organized as sole proprietorships, partnerships, or corporations.

## SECTION 2

### Socialism (pp. 666–670)

- ★ In a socialist economy, the government strives for social and economic equality for all members of society.
- ★ Karl Marx (1818–1883) and his collaborator Friedrich Engels (1820–1895) laid out the basic tenets of modern-day socialism.
- ★ The British Labour Party and other “Social Democratic Parties” in Europe believe that the ends of socialism can be gained by peaceful, democratic means.
- ★ Socialist economies feature government ownership of industry, high taxes, and generous public welfare programs.
- ★ Although socialism began in industrial countries, many developing nations were attracted to socialism by the promise of equality and economic growth.

## SECTION 3

### Communism (pp. 672–676)

- ★ Karl Marx predicted that the final stage in human history would be a world of peaceful, democratic communes.
- ★ No country has ever created a political/economic system that even remotely resembles Marx's ideal.
- ★ Communist economies depend on a strong central government that owns all industry and farmland and plans all parts of the national economy.
- ★ In the Soviet Union, Lenin and Stalin created a communist dictatorship that controlled all aspects of life.
- ★ China, Cuba, North Korea, Vietnam, and other countries have also experimented with communism.



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## Section Preview

## OBJECTIVES

1. **Identify** the factors of production.
2. **Describe** the free enterprise system and laissez-faire theory.
3. **Analyze** the role of government in a mixed economy.
4. **Compare and contrast** three types of business organizations.
5. **Explain** the role of profit and loss in a free enterprise system.

## WHY IT MATTERS

Although the American free enterprise system is rooted in classic laissez-faire theory, government plays a major role in the nation's economic life—and so in the economic life of every person in this country.

## POLITICAL DICTIONARY

- ★ **factors of production**
- ★ **capital**
- ★ **capitalist**
- ★ **entrepreneur**
- ★ **free enterprise system**
- ★ **laws of supply and demand**
- ★ **monopoly**
- ★ **trust**
- ★ **laissez-faire theory**

**Y**ou have confronted these questions several times in this book: What should a government have the power to do? What should it not be allowed to do? Certainly these questions can be asked of just about all areas of human activity, but they are raised very significantly in the realm of economic affairs.

Questions of politics and economics are inseparable. The most important economic questions

faced by a nation are also political questions. For example: Who should decide what goods will be produced? How should goods and services be distributed and exchanged within a nation? What types of income or property ought to be taxed? What social services should a government provide?

Capitalism provides one response to all of these questions. Many aspects of capitalism will be familiar to you because the United States (along with countries such as Japan) follows this system.

## Factors of Production

Certain resources are necessary to any nation's economy, no matter what economic system it follows. Economists call these basic resources, which are used to make all goods and services, the **factors of production**.

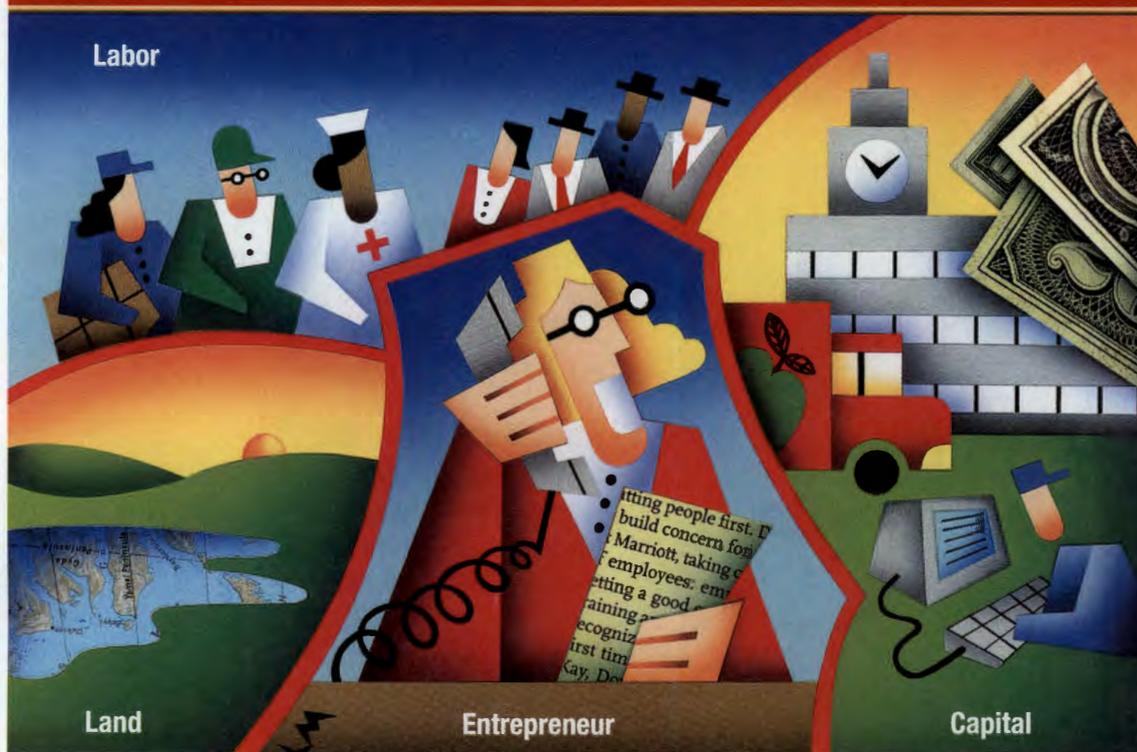
## Land

One factor of production is land, which in economic terms includes all natural resources. Land has a variety of economic uses, such as agriculture, mining, and forestry. Along with farms and property, economists consider the water in rivers and lakes and the coal, iron, and petroleum found beneath the ground to be part of the land.



▲ In a capitalist system, prices are determined by decisions in the market.  
H-SS 12.2.2

## The Factors of Production



**Interpreting Diagrams** Land, labor, and capital are the building blocks of the economy. An entrepreneur uses all three factors to create goods and offer services. *Give specific examples of land, labor, and capital involved in producing a jacket.* **H-SS 12.9.1**

### Labor

A second factor of production is a human resource—labor. Men and women who work in mines, factories, offices, hospitals, and other places all provide labor that is an essential part of a nation's economy. In a free market economy, individuals “own” their labor and can sell it to any employer.

### Capital

The third factor of production is **capital**—all the human-made resources that are used to produce goods and services. Physical capital (also called “capital goods”) includes money, but it also describes the buildings, machines, and computers workers need to turn labor and land into goods and services. Human capital includes knowledge and skills that workers gain from their work experience—an investment in themselves. Note that capital is a product of the economy that is then put back, or reinvested, into the economy.

Someone who owns capital and puts it to productive use is called a **capitalist**. The term is most often applied to people who own large businesses

or factories, but can apply to smaller investors as well. The United States economy is called capitalistic because it depends on the energy and drive of thousands of individual capitalists.

### The Role of the Entrepreneur

To actually produce goods and services, someone must bring together and organize the factors of production. An **entrepreneur**—literally, an “enterpriser”—is an individual with the drive and ambition to combine land, labor, and capital resources to produce goods or offer services. Entrepreneurs start businesses and make them grow, driving the economic growth that contributes to the high standard of living of modern capitalistic societies.

### Free Enterprise System

Capitalism is often called a **free enterprise system**. This is an economic system characterized by private or corporate ownership of capital goods (physical capital) and investments that



▲ **Renewal and Rebirth** In a free enterprise system, entrepreneurs try to put land, labor, and/or capital to the best possible (most profitable) use. Through this process, resources can be put to better use. These unused port buildings in New York City's South Street Seaport have reopened as shops.

are determined by private decision rather than by state control. This system operates in a free market.

A free enterprise system lets consumers, entrepreneurs, and workers enjoy freedom of choice. Consumers can choose from a variety of products and services. Entrepreneurs can switch from one business to another. Workers can quit their jobs and seek new ones.

There are four fundamental factors in a free enterprise system: private ownership, individual initiative, profit, and competition.

### Private Ownership

One distinctive characteristic of capitalism is that private individuals and companies own most of the means of production—that is, the resources used to produce goods and services. They decide how this productive property will be used—for example, individuals may use capital to build a business or invest in technology. What the property produces is theirs, as well. The owners of productive property are sometimes individuals, but often are groups of people who share ownership of a company.

In a free enterprise system, individuals also own the right to their labor. Individuals sell their

labor by taking a job, and the pay they receive represents the price of their work. In other economic systems, workers may have little choice about what kinds of work they will do and little opportunity to change jobs.

Along with private ownership, the protection of people's property rights is also important. The 5th and 14th amendments to the Constitution declare that no person may be deprived "of life, liberty, or property, without due process of law." The 5th amendment also says that "just compensation" must be paid to owners when private property is taken for public use.

### Individual Initiative

In our economy, entrepreneurs are an essential factor in the production of goods and services. Under a free enterprise system, all individuals are free to start and run their own businesses (their own enterprises). They are also free to dissolve those businesses.

That is not necessarily true in other kinds of economic systems. In some places, government officials and public planners make economic decisions about what to produce and how to produce it. There, centralized decision making, not individual initiative, controls the production and distribution of goods and services.

### Profit

Just as individuals are free to choose how they will spend or invest their capital under a free enterprise system, they are also entitled to benefit from whatever their investment or enterprise earns or gains in value. The "profit motive" is the desire to gain from business dealings. It is one reason that entrepreneurs are willing to take risks.

### Competition

The freedom to enter or start a new business at any time leads to competition. Competition is a situation in which a number of companies offer the same product or service. They then must compete against one another for customers. In a free enterprise system, competition often helps to hold down prices and keep quality high. This is because customers are likely to buy from the company with the best product at the lowest price. Competition thus promotes efficiency; the producer has the incentive (more sales) to keep costs low.

Under competitive conditions, the laws of supply and demand determine prices. Supply is the quantity of goods or services for sale. Demand is the desire of potential buyers for those goods and services. According to the **laws of supply and demand**, when supplies become more plentiful, prices tend to drop. As supplies become scarcer, prices tend to rise. By the same token, if demand drops (that is, if there are fewer buyers), sellers will probably lower their prices in order to make a sale. If demand rises, sellers can raise prices.

Competition does not always work smoothly. Sometimes a single business becomes so successful that all of its rivals go out of business. A firm that is the only source of a product or service is called a **monopoly**. Monopolies can be very powerful in the marketplace. Practically speaking, they can charge as much as they want for a product. Since there is no other supplier of that good or service, the consumer must pay the monopoly price or do without.

Political leaders in the United States decided late in the nineteenth century that monopolies were dangerous. American leaders were especially concerned about a type of monopoly called a **trust**. A trust is a device by which several corporations in the same line of business combine to eliminate competition and regulate prices. By the latter part of the nineteenth century, trusts had gained tight-fisted control over the markets for petroleum, steel, coal, beef, sugar, and a number of other commodities.

In response, Congress passed the Sherman Anti-Trust Act of 1890, which remains the basic law against monopolies today. It prohibits “every contract, combination in the form of a trust or otherwise, or conspiracy in restraint of trade or commerce among the several States, or with foreign nations.”

The Anti-Trust Division in the Department of Justice watches business activities to determine whether competition within an industry is threatened. It can, for example, stop the sale or merger of a company if that move threatens competition in a particular market. On rare occasions, the Department has acted to break up a monopoly and restore competition. Thus, in 1911, it won an historic Supreme Court case—*Standard Oil of New Jersey v. United States*. The Court’s decision dissolved John D. Rockefeller’s Standard Oil Trust and, with it, his near-complete control of

the petroleum industry. Similarly, it waged a 13-year court battle that forced the break-up of American Telephone & Telegraph (AT&T) in 1982 and so spurred rigorous competition in the long-distance phone market.

In 2000, a federal district court agreed with the Department that Microsoft Corporation had violated the Sherman Anti-Trust Act in its efforts to control the new market for its browser. The trial court ordered that the computer giant be split into at least two competing companies. Microsoft appealed that ruling and, in 2001, it both won and lost in the Court of Appeals for the District of Columbia. The appellate court found that Microsoft had violated the Anti-Trust Act; at the same time, however, it reversed the lower court’s break-up order. Following that decision, Microsoft and the Justice Department negotiated a settlement of the government’s complaints about the company’s business practices.

## Laissez-Faire Theory

Early capitalist philosophers believed that, if only government did not interfere, the free enterprise system could work automatically. Adam Smith presented the classic expression of that view in his book, *The Wealth of Nations*, in 1776. Smith wrote that when all individuals are free to pursue their own private interests, an “invisible hand”



**Interpreting Political Cartoons** The Federal Government sued Microsoft Corporation in the 1990s to restore competition to the software industry. **How does the absence of competition hurt consumers?**

# Voices on Government

**Sadako Ogata** of Japan headed the United Nations High Commission for Refugees (UNHCR) from 1991 to 2000. This agency works to help the thousands of people uprooted by political and economic conflicts around the world. Ogata sees a direct link between the living conditions of the world's individual communities and the welfare of the global community as a whole.



*“It is essential that political leaders and the civil society in developed countries—including in the United States—be visionary enough to provide support to social and economic reconstruction and to the reconciliation between divided communities, even in countries and regions which are of less immediate strategic interest to them. Only by putting an end to the recurrence of conflicts, and of refugee flows everywhere, will global security be ensured.”*

## Evaluating the Quotation

**How might the plight of refugees in some distant land be disruptive to the peace and security of powerful nations like the United States? Do you agree with Ogata that developed nations should help other countries in need? Why or why not?**

works to promote the general welfare. In short, Smith preached *laissez-faire* capitalism.<sup>1</sup>

**Laissez-faire theory** holds that government should play a very limited, hands-off role in society. Governmental activity should be confined to: (1) foreign relations and national defense, (2) the maintenance of police and courts to protect private property and the health, safety, and morals of the people, and (3) those few other functions that cannot be performed by private enterprise at a profit. The proper role of government in economic affairs should be restricted to functions intended to promote and protect the free play of competition and the operation of the laws of supply and demand.

Laissez-faire capitalism has never in fact operated in this country. Nevertheless, the concept

<sup>1</sup>The term *laissez-faire* comes from a French idiom meaning “to let alone.”

had, and still has, a profound effect on the structure of the American economic system.

## A Mixed Economy

Although the American economic system is essentially private in character, government has always played a large part in it. Economists usually describe an economy in which private enterprise and governmental participation coexist as a mixed economy.

Governments at every level regulate many aspects of American economic life. For example, the government prohibits trusts, protects the environment, and ensures the quality of food.

In addition, government promotes many aspects of American economic life. For example, the government constructs public roads and highways, provides such services as the postal system, the census, and weather reports, operates the Social Security system and other insurance programs, and offers many kinds of subsidies and loan programs that help entrepreneurs and businesses to prosper.

Government also conducts some enterprises that might well be operated privately—for example, public education, the postal system, and municipal water and power systems. And it has assumed some functions that have proved unprofitable to private enterprise—for example, many local transit systems and recycling projects. This latter process is sometimes called “ash-can socialism.”

Mixed economies are common in Europe and in former communist countries. In Britain, the government provides free medical care to all. The government of the People's Republic of China owns steel mills and factories. Germany's federal government requires large companies to give workers representation on managing boards and France forbids most companies from asking employees to work more than 35 hours a week. In each of these mixed economies, government intervention co-exists with independent companies and market forces.

## Types of Business Organizations

The United States economy contains a number of gigantic companies with thousands of employees and with factories or offices all over the world.



Sole proprietorship



Partnership



Corporation

▲ An American firm can organize as a sole proprietorship (left), a partnership (center), or a corporation (right). As a company grows and leaders take on new responsibilities, the company may change from one form to another. **Critical Thinking** Why is a large manufacturer like Ford unlikely to succeed as a sole proprietorship?

Still, most businesses in the United States are relatively small. Some 80 percent of businesses employ fewer than 20 people.

There are three basic types of business organizations: sole proprietorships, partnerships, and corporations. Each has advantages and disadvantages.

### Sole Proprietorships

Businesses owned by a single individual are sole proprietorships. Typical of businesses in this category might be a hair salon, a garage, or an ice cream shop. Three quarters of businesses in the United States are sole proprietorships. However, because most sole proprietorships are small, they produce only a small fraction of annual sales in the United States.

Sole proprietorships are the most flexible form of business organization. A major advantage of sole proprietorships is that the single owner can make decisions quickly. The owner enjoys full control of the company, and can draw a salary or close the business without needing the approval of others. A major disadvantage is that the owner is personally liable for debts the business might build up. Sole proprietorships

are also limited by the owner's ability to contribute resources and manage the business.

### Partnerships

Businesses owned by two or more individuals, called partners, are partnerships. Lawyers and architects are some professionals who often work in partnerships.

An advantage of a partnership is that it can draw on the resources of more than one person for capital to start or expand the business. Different people bring different strengths and perspectives to a business, and a partnership can provide the best framework for entrepreneurs to use their skills to create a small business. A disadvantage is that these differences can also lead to conflict among partners. In addition, partnerships may end if one partner leaves or dies.

### Corporations

Corporations include both small companies and large national firms that people encounter every day. Unlike partnerships, corporations have many owners, called shareholders. A share is a fraction of ownership in the corporation. A corporation can continue indefinitely because a shareholder's



▲ Financial losses are an unavoidable element of the free market system.

death does not affect the legal status of the corporation. In other words, the corporation exists as its own legal entity, independent from the existence of any stockholders. Under the Supreme Court's interpretation of the 14th Amendment, a corporation enjoys the same legal status as a person.

Corporations can draw their capital from hundreds and even thousands of investors. This enables them to finance such costly projects as putting an earth satellite in orbit or building an oil pipeline. Shareholders are responsible only

for the amount of money they have invested. If the business fails, they can lose that amount, but no more. Shareholders have limited liability and are not held responsible for any debts the corporation might have.

One disadvantage of corporations is that their income is taxed twice. First, the corporation pays a tax on its profits. Then, individual shareholders pay a tax on the dividends they are paid.

## Profit and Loss

What drives the capitalist economy? The best answer, most often, is profit.

To understand what profit is, you must first understand the idea of investment. An investment is a sum of money, or capital, that is put into a business enterprise. For example, if you buy a car to start a business delivering groceries, what you pay for the car is an investment.

The profit will be the amount of money you earn from the business, after you have subtracted the costs associated with earning that money—in this case, the purchase of the car and the costs of operating it, plus whatever you pay yourself. If earnings are less than the costs, the business has not made a profit; instead, it has taken a loss.

Taking risks and making investments, therefore, are an essential part of the capitalist system. Every year, many businesses fail for lack of profit. Businesses that survive tend to be those that have learned to make the most efficient use of the factors of production.

## Section 1 Assessment

### Key Terms and Main Ideas

1. What is the difference between physical and human capital?
2. Why are **entrepreneurs** important to a **free enterprise system**?
3. How many companies control a market in a **monopoly**?
4. What is the proper role of government according to **laissez-faire theory**?

### Critical Thinking

5. **Making Comparisons** Of the factors of production, which do you believe is the most difficult to measure? Why?



### Standards Monitoring Online

For: Self-quiz with vocabulary practice  
Web Code: mqa-6231

6. **Drawing Conclusions** Identify two arguments that can be made for and two against government participation in a free enterprise economy.



For: An activity on the Economic Freedom Index  
Web Code: mqd-6231

# Face the Issues

## The Minimum Wage

**Background** *Currently, the federal minimum wage is set at \$5.15 an hour. Only some seven million persons are actually paid that meager amount today. Several million more hold jobs that do not pay much more than that, however. The federal minimum wage does not increase automatically to keep pace with the cost of living. Instead, Congress must act to raise the minimum wage, and it has not done so since 1997.*



Retail workers hold many minimum-wage jobs



Analysis Skill H16

### Raise the Minimum Wage

Inflation has robbed the current minimum wage of a significant share of its value. If that wage had kept pace with the cost of living since 1997, it would now be set at about \$6.35 an hour. Raising the minimum wage would greatly help the poorest households. And an increase would ripple through the workforce, benefiting not only minimum-wage workers, but millions more who are paid at only slightly higher rates.

The benefits of higher wages far outweigh the cost of jobs that might be lost. Some recent studies show that higher wages may actually boost employment, if only slightly. Many economists now reject the view that minimum wage hikes have an adverse effect on the rate of employment.

Raising the minimum wage would stimulate the economy, because most low-income workers spend, immediately, any extra money they receive. Any State can set a minimum wage above that established by Congress. Twelve now do so, and the amounts range from \$6.15 an hour in Delaware to \$7.35 (adjusted annually for inflation) in the State of Washington.

### Let the Market Decide

The market is the best mechanism for setting wage levels. In a free market economy, employers pay workers based on the value of their work. Minimum wage laws force some employers to pay people more than their work is actually worth. Sometimes, when employers must pay out more in wages, they must cut jobs to make ends meet.

Raising the minimum wage could mean fewer jobs for those who are most in need. Teenagers who earn low wages really need the training and the experience offered by entry-level jobs more than they need a higher wage.

Less than a majority of lowest income workers now hold full-time jobs. So, raising the minimum wage would have little impact on poverty. The wage hikes would go to workers with family incomes above the poverty level.

Minimum wage laws provide for what amounts to “a one-size-fits-all” approach. Workers should have the freedom to negotiate with their employers.

### Exploring the Issues

1. Suppose a fast-food restaurant has to increase workers' pay from \$8 an hour to \$12.50. How might the manager respond to the hike in labor costs?
2. Why do you think several States now set a higher minimum wage than that required by federal law?

For more information about the minimum wage, view “The Minimum Wage.”



## Section Preview

## OBJECTIVES

1. **Define** socialism and explain how its growth was spurred by the Industrial Revolution.
2. **Identify** important characteristics of socialist economies.
3. **Describe** socialism in developing countries.
4. **Evaluate** the pros and cons of socialism.

## WHY IT MATTERS

Industrial countries in Western Europe and agricultural countries around the world have developed socialist economies. In these countries, the government plays a major role in managing the economy and protecting the rights and benefits of individual workers.

## POLITICAL DICTIONARY

- ★ **socialism**
- ★ **proletariat**
- ★ **bourgeoisie**
- ★ **welfare state**
- ★ **market economy**
- ★ **centrally planned economy**

**Y**ou know that in the United States all people are entitled to equal protection under the law. Political equality, of course, is not the same as economic equality. The capitalistic system of the United States enables some to achieve greater financial rewards than others. One economic system, socialism, does seek to distribute wealth equitably throughout society, however.

► Britain's Labour Party won control of the government of the UK in the parliamentary elections of 1997. It has remained in power since then by winning the elections held in 2001 and 2005. The Labour Party created a universal health care system and took over key industries when it governed Britain in the late 1940s.

**H-SS 12.9.1**



## What Is Socialism?

**Socialism** is an economic and political philosophy based on the idea that the benefits of economic activity—wealth—should be equitably distributed throughout a society. This fairness is achieved through the principle of collective (that is, public) ownership of the most important means by which goods and services are produced and distributed. Socialist nations are often democratic; still, they must rely on centralized planning to achieve their goals.

Socialists reject the strong emphasis on individualism and competition for profit that lie at the heart of capitalistic thought and practice. Instead, they emphasize cooperation and social responsibility as ways to achieve a more equitable distribution of both income and opportunity, thus reducing great differences between rich and poor. Real equality, they say, requires that political equality and economic equality go hand in hand. Economic equality can come only when the public controls the centers of economic power.

The roots of socialism lie deep in history. Almost from the beginning there have been those who have dreamed of a society built on socialist doctrine. Most earlier socialists foresaw a collective economy that would arise out of, and then be managed by, voluntary private action, without government action. Thus early socialist doctrine is often called “private socialism.”

## The Industrial Revolution

Much of present-day socialism was born in the 19th century. It developed out of the Industrial Revolution—the great social changes that swept western nations as they moved from an agricultural to an industrial economy.

The Industrial Revolution was well under way in Great Britain by the late eighteenth century and spread through Western Europe and to the United States in the nineteenth century. Cities expanded rapidly, and large factories replaced smaller, home-based industry.

Many observers of nineteenth-century British factories and cities were appalled by the conditions they found. Men and women often worked 14- to 16-hour days in filthy, noisy, and unsafe conditions for low pay. Small children regularly worked alongside their parents, for even less pay. Most factory workers and their families lived in dank, crowded, and unhealthy slums.

These conditions led many to seek social and economic reforms. Some argued for much more radical change.

### Karl Marx

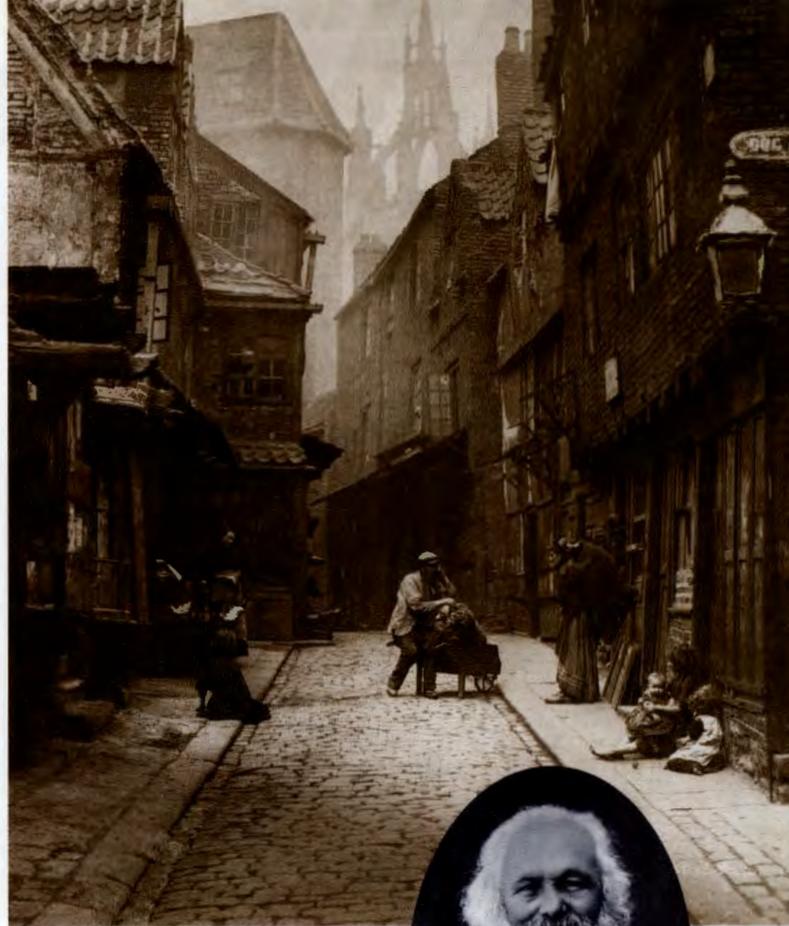
Karl Marx (1818–1883), the father of modern-day socialism, was the most significant critic of capitalism to emerge in the nineteenth century. Much of his work and most of his extensive writings were done in collaboration with Friedrich Engels (1820–1895).

In 1848, Marx and Engels wrote *The Communist Manifesto*, “to do for history,” Engels later said, “what Darwin’s theory has done for biology.” This political document condemned the miseries caused by the Industrial Revolution. It called upon oppressed workers across Europe to free themselves from “capitalist enslavement.”

Marx believed that capitalism was fatally flawed. The **proletariat**—the workers—were being so badly abused by the **bourgeoisie**—the capitalists—that they were certain to rise up and overthrow the capitalistic system. The pamphlet ended with this rallying cry:

**PRIMARY Sources** “The proletarians have nothing to lose but their chains. They have a world to win. Workingmen of all countries, unite!”

—Friedrich Engels and Karl Marx  
*The Communist Manifesto*



▲ Thousands left the British countryside in the 1800s to live and work in dirty, overcrowded cities like Newcastle (above). Their experiences inspired Karl Marx (right) and Friedrich Engels to write of a new “working class.” **Critical Thinking** According to Marx, how would workers eventually react to their working conditions?

### Socialists and Communists

A powerful socialist movement took shape among European workers and thinkers during the middle and late nineteenth century. Almost all socialists accepted Marx’s criticism of capitalism. The movement was deeply split, however, by the question of how best to achieve socialism. Some argued that a socialist society could come only out of a “violent and bloody revolution.” Over time, those who took that view came to be called communists.

Others argued that socialism could be attained by peaceful means through the democratic process. Today, the terms *socialism* and *socialist* are usually used to identify those evolutionary socialists.

The British Labour Party and the major “social democratic” parties in Europe are leading

examples of that brand of socialism. At various times in recent history, those parties have controlled their governments and have instituted many socialist programs through democratic means. In the 1997 elections, however, Labour Party leaders deliberately chose to follow a “third way,” moving away from socialism. Socialist parties in France and Germany have also reconsidered some of the socialist objectives that have become too expensive to maintain.

## Characteristics of Socialist Economies

Countries with a socialist government typically enact one or more of these public policies to achieve the aims of socialism: nationalization, broadening of public services, high taxation, and a centrally planned economy.

### Nationalization

Placing enterprises under governmental control, often by taking over privately owned industries, is called nationalization. In the last chapter you read about the nationalization of the oil industry in Mexico in the 1930s. In a democratic country such as Britain, a government may nationalize an enterprise and pay the former owners what it considers a fair price. Often, however, governments have nationalized industries without paying any compensation.

Nationalization under socialism rarely includes all businesses in a country. Socialist governments usually want to control certain sectors

with many workers and a few dominant firms, such as utilities, transportation, and steel. They allow many smaller companies to remain in private hands. Also, the government may want industries that are based on newly emerging technologies to remain private. This is because individual initiative and entrepreneurial risk-taking are so important during the early phases of a business.

A goal of many socialist governments is to give each company’s workers a say in deciding how the company is run. Sweden’s Social Democratic Party, for example, has a plan for gradually transferring ownership of private companies to their workers. Elected worker representatives now sit on many companies’ boards of directors.

### Public Welfare

Socialists place great importance on assuring that everyone in a society is decently housed and fed. Stated another way, socialists aim to guarantee the public welfare by providing for the equal distribution of necessities and services—including retirement pensions, inexpensive health care, free university education, and housing for the poor.

Countries that provide extensive social services at little or no cost to the users are often called **welfare states**. In such countries, medical and dental services may be provided free or for a small charge. People who lose their jobs or who are physically unable to work receive government payments that are nearly as high as their former wages. All people above retirement age receive government pensions. Parents may receive government payments for each child until the child reaches the age of 18. Workers in Europe receive paid maternity leave and several weeks of paid vacation each year—benefits rarely matched in other countries.

### Taxation

All governments in capitalist and socialist states get their funds from taxation. Because social welfare services are quite expensive, however, taxes in socialist countries tend to be high. Taxes may take 50 or 60 percent of an individual’s total income.

Socialists tend to place most of the burden on the upper and middle classes, consistent with



▲ The French government owns most of that country’s largest airline, Air France. **Critical Thinking** As voters, what power do workers in nationalized companies have over their employer? **H-SS 12.2.2**

their philosophy of achieving a more equal distribution of wealth. Tax rates can amount to 90 percent of a wealthy person's income.

### Centrally Planned Economy

Economies can be divided into several categories, depending on how basic economic decisions are made. Under capitalism, key decisions are made by thousands of private individuals and companies through the give and take of the marketplace. For that reason, a capitalist economy is also called a **market economy**.

Under socialism, economic decision making is more centralized. In a **centrally planned economy**, government bureaucrats plan how an economy will develop over a period of years. They set targets for production and direct investment into specific industries. Because the government, to varying degrees, controls the economy, this is also called a "command economy."

A democratic socialist country may or may not have strict central planning. Market conditions and private businesses are likely to play a role as well as government planning. With a few exceptions, most modern economies are such mixed economies.

### Socialism in Developing Countries

Socialism has won a large following in developing countries. There, public ownership and centralized planning are common.

One reason for socialism's appeal is that most developing countries are starting from scratch at building industry. They have no tradition of locally controlled, large-scale industry. Large existing industries are often owned by foreign companies. By nationalizing a foreign-owned company and placing local people in charge, a political leader can win broad public support.

Socialism also appeals to leaders who want to mobilize an entire nation behind a program of industrial growth. Through central planning, leaders can channel investment into the parts of the economy they think are most essential.

Often, however, guided growth of this sort requires painful sacrifices by a nation's people. High taxes skim off a large part of people's income. The government may devote so much attention to one or two basic industries that the

## Frequently Asked Questions



### Economics

#### What is the future of the American economy?

The economy of the future is hard to predict with any certainty. Yet we can be fairly sure of some changes, based on current trends. Globalization is here to stay. Trade barriers will continue to fall. Innovation and high productivity will keep the American economy strong even as some jobs move to low-wage countries. That economy will have fewer manufacturing jobs and more service jobs.

#### What will be the best jobs in the coming years?

According to the Department of Labor, high-paying occupations with the largest job growth include registered nurses, teachers, truck drivers, sales representatives, general and operations managers, and accountants. The fastest growing occupations, many of them high-paying, are in the medical and computer fields.

#### Any Questions?

*What would you like to know about the American economy? Brainstorm two new questions and exchange them with a classmate. What did you learn?*

production of food or consumer goods may be neglected. Then public unrest may develop.

Political instability is a persistent problem in developing nations. In such nations, this instability is one reason that socialist and other governments often turn to authoritarian methods. Few developing nations have succeeded in establishing the democratic versions of socialism found in parts of the industrial world.

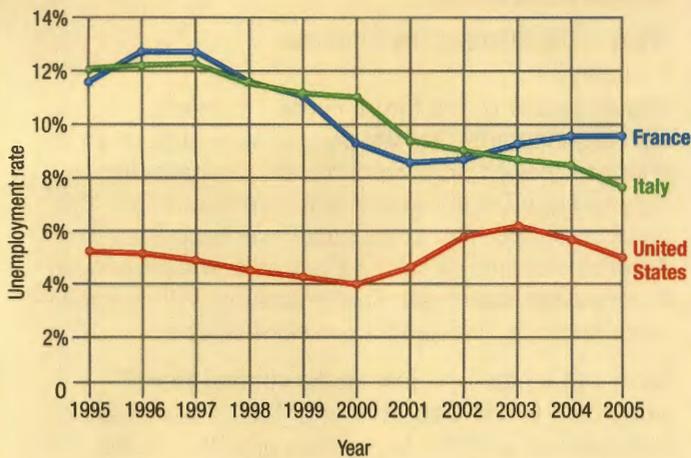
### Pros and Cons

Both capitalistic and socialistic economies have their strengths and weaknesses. For supporters of capitalism, it is easy to see weaknesses in the theory and practice of socialism. For supporters of socialism, on the other hand, capitalism seems filled with faults.

Critics say socialist countries have a tendency to develop too many layers of bureaucracy. They say this complicates decision making and has a



## Unemployment in Selected Countries, 1995–2005



SOURCE: OECD Quarterly Labour Force Statistics



**Interpreting Graphs** Compared to Americans, workers in France and Italy enjoy more vacation days, less expensive health care, and greater legal protection against losing their jobs. One unintended result is that companies hire fewer new workers to avoid paying the high cost of these benefits. **Although France, Italy, and the United States all enjoyed strong economic growth in the 1990s, how did unemployment rates respond differently in these three countries?**

deadening effect on individual initiative. As a result, critics say, socialist economies are slower to take advantage of new technologies.

In the eyes of socialism's critics, the smooth running of an economy is too complex to be directed by central planners. Too many

unpredictable events are involved, and too many clashing interests are at stake. For all its faults, they argue, the invisible hand of the market economy works more efficiently than the visible hand of central planning.

Another criticism is that socialism deprives people of the freedom to decide for themselves how to use their income. Since workers get to keep only a part of their earnings after taxes, they have little incentive to work harder and earn more. Why work hard when your basic needs will be taken care of anyway?

In response, socialists reply that it is fairer to supply everyone with basic needs, such as medical care. They point to the inequalities of wealth and power that exist under capitalism. Socialists argue that socialism is morally superior to capitalism because it evens out inequalities. In their view, socialism makes political democracy work more smoothly by supplementing it with economic democracy.

Defenders of socialism also argue that it gives workers and ordinary citizens more control over their daily lives. Under capitalism, they say, a company's management can abruptly decide to close an unprofitable factory. The company has no obligation to ask its workers' opinions, even though such a decision can throw thousands out of work and disrupt an entire community. This could not happen under socialism, the argument goes. Workers and community leaders would sit on the company's board. They would help decide what was best for the entire work force and community—not just for the company's investors and shareholders.

## Section 2 Assessment

### Key Terms and Main Ideas

- Who is considered the father of **socialism**?
- According to socialist theory, what is the relationship between the **proletariat** and the **bourgeoisie**?
- Describe a **welfare state** in your own words.
- What role does the government play in a **centrally planned economy**?

### Critical Thinking

- Making Comparisons** How might a socialist and a capitalist government differ in treatment of the problem of unemployment?



### Standards Monitoring Online

For: Self-quiz with vocabulary practice  
Web Code: mqa-6232

- Making Decisions** Should the government have the responsibility of providing health care for every citizen? Why or why not?



For: An activity on the Industrial Revolution  
Web Code: mqd-6232

## The Third Way



Analysis Skills HR4, HI3

*After losing four consecutive elections to Britain's Conservative Party, the British Labour Party moved away from its socialist roots to embrace a "third way" between socialism and a free market economy. Party leader Tony Blair issued this statement of party beliefs before the 1997 election. The Labour Party went on to win a landslide victory and has been in power since that time.*

I want a country in which people get on, do well, make a success of their lives. I have no time for the politics of envy. We need more successful entrepreneurs, not fewer of them. But these life-chances should be for all the people. And I want a society in which ambition and compassion are seen as partners not opposites—where we value public service as well as material wealth.

New Labour believes in a society where we do not simply pursue our own individual aims but where we hold many aims in common and work together to achieve them. How we build the industry and employment opportunities of the future; how we tackle the division and inequality in our society; how we care for and enhance our environment and quality of life; how we develop modern education and health services; how we create communities that are safe, where mutual respect and tolerance are the order of the day. These are things we must achieve together as a country.

The vision is one of national renewal, a country with drive, purpose and energy. A Britain equipped to prosper in a global economy of technological change; with a modern welfare state; its politics more accountable; and confident of its place in the world.

. . . a new and distinctive approach has been mapped out, one that differs from the solutions of the old left and those of the Conservative right. This is why new Labour is new. . . .



Prime Minister Tony Blair

The old left would have sought state control of industry. The Conservative right is content to leave all to the market. We reject both approaches. Government and industry must work together to achieve key objectives aimed at enhancing the dynamism of the market, not undermining it.

In industrial relations, we make it clear that there will be no return to [the aggressive labor tactics] of the 1970s. There will instead be basic minimum rights for the individual at the workplace, where our aim is partnership not conflict between

employers and employees.

In economic management, we accept the global economy as a reality and reject the isolationism and "go-it-alone" policies of the extremes of right or left.

### Analyzing Primary Sources

1. Describe Tony Blair's vision for a new Britain in your own words.
2. How does Tony Blair try to distance the Labour Party from its past socialist policies? Why did he do so?
3. What is the Labour Party's view of the global economy and world trade?
4. Do you believe Blair's Third Way between socialism and free market capitalism is practical? Explain.

## Section Preview

## OBJECTIVES

1. **Summarize** the theories of Karl Marx.
2. **Outline** the characteristics of communist economies.
3. **Describe** communism in the Soviet Union, China, and other nations.

## WHY IT MATTERS

Karl Marx once predicted that the workers of the world would overthrow capitalism and create an ideal communist society. Although communist governments emerged in Russia and China in the last century, the reality of communism rarely matched Marx's theory.

## POLITICAL DICTIONARY

- **communism**
- **five-year plan**
- **collectivization**
- **Gosplan**
- **privatization**
- **Great Leap Forward**
- **commune**

**M**odern communism is a political, economic, and social theory developed by Karl Marx in the mid-1800s.<sup>2</sup> Nearly one third of the world's people once lived under communism, but since the collapse of the Soviet Union, it is the guiding economic principle in only a handful of countries. Almost every one of those countries, in fact, is taking steps toward a free market system.

## Karl Marx's Theory

**Communism** is often called a collectivist ideology, which calls for the collective, or state, ownership of land and other productive property. Karl Marx

and Friedrich Engels first set out its basic concepts in *The Communist Manifesto* (1848).

In his major work, *Das Kapital* (1867), Marx analyzed the workings of capitalism. He based the work on four closely related concepts: his theory of history, the labor theory of value, the nature of the state, and the dictatorship of the proletariat.

1. *Marx's View of History.* To Marx, all of history was a story of class struggle—of social classes competing for the control of labor and productive property. One class was the oppressors; the other, the oppressed. In the Middle Ages, the struggle was between the nobility and their serfs. In the modern world, the bourgeoisie oppressed the proletariat.

According to Marx, the class struggle in the modern era would become so intense that the masses would revolt and bring down the bourgeoisie. The communists' political role was to hasten the revolution, by violence if necessary.

2. *The Labor Theory of Value.* Marx rejected the free enterprise ideas of profit and competition. In his view, the value of a commodity was set by the amount of labor put into it. A pair of shoes or a rebuilt bicycle is worth a certain



▲ **May Day Parade** On the first of May, people in the Soviet Union celebrated the workers of their country and the world. The banner depicts the revolutionary founder of the Soviet Union, V. I. Lenin (left), as well as Friedrich Engels (center) and Karl Marx (right). **H-SS 12.9.7**

<sup>2</sup>The word *communism* comes from the Latin *communis*, meaning “common, belonging to all.” The idea of communal property dates back at least to the early Greeks. In the fourth century B.C., Plato proposed a system of communal property in *The Republic*.

amount because it takes that much labor to produce it. Therefore, communists say, the laborer should receive that value in full.

3. *The Nature of the State.* Marx saw the state and its government as the tools by which the capitalists maintained their power and privileges. Other social institutions also played a role in enforcing capitalist control over the masses. Marx described religion as “the opiate of the people”—a sort of drug that persuades workers to tolerate their harsh lot in this life in the hope that someday they will gain what Marx called a “fictional afterlife.”

4. *The Dictatorship of the Proletariat.* Marx did not believe that revolution would bring the final form of communism—the classless society. First, he predicted a transitional phase during which an authoritarian state would represent and enforce the interests of the masses. This he called the “dictatorship of the proletariat.” Once the goal of classlessness was realized, the state would “wither away.”

Based on these four concepts, Marx envisioned a “free, classless society.” Social classes would vanish and the people in common would own all property. Exploitation of labor and unemployment would disappear. Abundant goods would be available to all according to their needs.

Marx also expected that workers in different countries—for example, France and Germany—would share a bond far stronger than national loyalties. Thus, communism would also end nationalism, a major cause of European wars.

## Characteristics of Communist Economies

Marx believed that the revolution would come first in industrialized countries with large working-class populations—in particular, France, Germany, Great Britain, and then the United States. Ironically, the revolution occurred first in Russia, then a backward, mainly agricultural nation, in 1917, and later in largely agricultural nations in Asia.<sup>3</sup>

Marx’s theories did not provide even a rough blueprint for the formation of a communist society. Communism has taken different forms in different places, but certain characteristics are common.



▲ When northern Vietnam became a communist state, most people lived in the countryside and worked on farms, as they still do today. **Critical Thinking** How well did Vietnam fit Karl Marx’s description of a country ready for communism? **H-SS 12.9.1**

1. *Role of the Communist Party.* In any communist-run nation, the Communist Party holds the decision-making power in both the government and the economy. Party leaders also hold the top government positions. From top to bottom, the two institutions run parallel to each other. Inevitably, such centralized political and economic control means control over social, intellectual, and religious life as well.

2. *Central Planning.* Because government makes all the economic decisions, bureaucrats must plan and supervise production in factories, farms, and stores. Typically, a **five-year plan** plays a key role in this economy. The plan shows how leaders want the economy to develop over the next five years. It sets economic goals that dictate where to emphasize growth in industry or agriculture and what each individual factory and farm must produce. The plan also sets prices and decides how goods and services will be distributed.

<sup>3</sup>In his later years, Marx did recognize the possibility that his theories might first be tested in Russia. Lenin also took the Russia-first view, in the early 1900s. He thought that less advanced countries, with their comparatively small industrial populations, offered certain advantages to a revolutionary movement—notably, the effectiveness with which workers could be organized and controlled.



▲ Typical of Soviet art, *Builders of Communism* glorifies Soviet workers, including a farmer, a welder, a miner, and an architect. **Critical Thinking** According to this picture, what were some roles of women in the Soviet Union?

3. **Collectivization.** Collective or state ownership of the means of production is one pillar of communism. One major step in creating a communist economy is the merger of small private farms into large government-owned agricultural enterprises. This process of **collectivization** may be voluntary in theory, but in many countries peasant farmers have been coerced into giving up land. Millions died while resisting collectivization in the Soviet Union.

4. **State Ownership.** Industrial enterprises, transportation, and other parts of the economy are also state-owned. This part of the system varies greatly from country to country. In China, for example, provincial and municipal governments, not a central government ministry, own enterprises such as housing, banks, hospitals, and stores.

## The Soviet Union

Lenin and his followers took power in Russia in 1917 and began immediately to build a communist state. After a difficult transition, the Soviet Union became a one-party state, with communists in control of the country's social, political, and economic institutions by the time of Lenin's death in 1924. Lenin's successor, Josef Stalin, tightened that control into an authoritarian dictatorship.

## The Five-Year Plans

Stalin introduced centralized planning, run by a large agency, **Gosplan**. The First Five-Year Plan (1928–1933) demanded collectivization of agriculture and higher production of chemicals, petroleum, and steel. Later five-year plans also emphasized heavy industry, and the Soviet Union achieved rapid, if uneven, industrialization. Unfortunately, those advances came at the cost of scarce consumer goods, housing, and urban services. Housing, food, and goods were rationed, and sewers, water systems, and other needs lagged behind a dramatic growth in urban population.<sup>4</sup>

## Social Policies

The Soviet Union gave its citizens free education, medical care, and even youth summer camps. It was far from a classless society, however. To spur production, economic incentives, cars, and vacation homes went to party officials, bureaucrats, and factory managers. Artists, musicians, and athletes also were rewarded with special privileges. Thus, Stalin created an elite class that owed its privileged status to the Communist Party. He also corrupted the Marxian ideal of economic and social equality.

## Gorbachev's Reforms

When Mikhail Gorbachev became Soviet leader in 1985, he inherited an economic system that had changed little since the Stalin years. Economic growth and productivity had declined sharply.

Under *perestroika*, leaders gave more authority to local farm and factory managers, loosened price controls, linked salaries to performance, and allowed some profit incentives. *Perestroika* raised expectations, but it did not increase output. Bureaucrats resisted change, and poor harvests, strikes, and shortages of food and consumer goods made conditions worse. Gorbachev and the Communist Party gave up their leadership of the economy when the Soviet Union collapsed in 1991.

<sup>4</sup>The First Five-Year Plan, launched in 1928, was declared completed in 1932, nine months ahead of schedule. The second plan ran from 1932 to 1937 and the third from 1937 until it was interrupted by the German invasion of the Soviet Union in 1941. The Twelfth Five-Year Plan was in place when the Soviet Union collapsed in late 1991.

## Transition to a Free Market

Clearly, Russia's transition to a free market system and its moves toward democracy were closely linked. The economic plans that Russian President Boris Yeltsin put in place in 1991 and 1992 called for radical changes, including the lifting of price controls and the privatization of farms and factories.

**Privatization** is the process of returning nationalized enterprises to private ownership.

The transition to a market economy has not been easy. Thousands of enterprises were put into private hands, sometimes by giving shares or vouchers to workers, but many are still badly run.

A new elite class of entrepreneurs has made a fortune in today's Russian economy. At the same time, many ordinary Russians have suffered the effects of high inflation, a fall in the value of Russian currency, and the loss of their state pensions. Corruption is rampant, and most people have grown poorer. A complete transition to a market economy awaits strong leadership willing to enforce laws and thoroughly reform the system.

## China

Mao Zedong, the founder of the People's Republic of China, was a Marxist. Mao departed from Marx's theory that a workers' revolt would lead to communism. He believed the peasantry would be the key to a communist revolution in China.

After Mao took control of the country in 1949, China developed its own version of a planned economy. Despite its huge population, it lacked skilled workers. The government improved technical and scientific education and then assigned workers to jobs in the state sector. Government regulated the labor market, giving workers little choice about where they worked.

## The Great Leap Forward

The five-year plan for 1958, the **Great Leap Forward**, was a drastic attempt to modernize China quickly. All elements of free enterprise, such as rural markets, were eliminated. Collective farms were brought together into a larger unit, the **commune**.

Communes grew into self-sufficient bodies run by party officials. These officials oversaw farms, industries, and government in a region as well as managed social policy. Workers received the same rewards no matter how much they produced, so there were few incentives to work hard. The Great Leap Forward was a disastrous failure, followed by severe famine.

## Deng Xiaoping's Reforms

A new leader, Deng Xiaoping, came to power in 1977 and made great changes in the economy. Deng's program of the "Four Modernizations" aimed to improve agriculture, industry, science and technology, and defense. He wanted "socialism with Chinese characteristics."

Deng was more practical and far less ideological than Mao and his dedicated followers. He began to move China from central planning to a market economy and invited foreign investors into China.

Today, China's economic system is a maze of different levels of government bodies and economic units. The state-owned sector is shrinking, while collective enterprises owned and managed by the people of a workplace or residential unit are growing. Private enterprises—mostly small shops and businesses—are also flourishing, as is investment from other countries.

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Часы работы: 7:00 - 4:00
- Сенная пл., 4/1  
Часы работы: 8:00 - 23:30

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Часы работы: 6:00 - 4:00

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- Средний пр., 29а
- Загородный пр., 45а
- наб. Черной речки, 53
- пл. Стачек, 9

**МАКАВТО**  
Часы работы: 6:00 - 4:00

- ул. Савушкина, 119а
- пр. Энгельса, 116

▲ American cultural and economic influence can be seen throughout the world, including in Russia and China. **Critical Thinking** (a) How does this photo show the influence of the American free market system? (b) How does it show American cultural influence? (c) In your opinion, are these influences good or bad?



▲ Fidel Castro watches a May Day parade in Havana, Cuba. Cuba remains the only communist country in the Americas. Castro has ruled Cuba as a personal dictatorship for over 40 years.

## Other Communist Nations

Several other countries, mainly in Asia, have centrally planned economies. Most, however, are bringing in some free market elements. Other communist economies have not lasted. Those in the Soviet satellites of Eastern Europe disappeared in the upheavals of 1989–1990.

In Cuba, Fidel Castro led a revolution that overthrew the corrupt rule of Fulgencio Batista in 1959. After Castro nationalized American holdings, the United States broke with him. The Soviet Union supported Castro, and in 1961, he declared himself a Marxist.

Cuba depended heavily on Soviet economic aid. As a result, the fall of the Soviet Union caused an economic crisis in Cuba. In response, the government relaxed economic controls, encouraging tourism and some small businesses.

Communism also took root in Southeast Asia. At the end of World War II, Ho Chi Minh, a communist who had studied in Moscow, fought for Vietnam's independence from French colonial rule. Two wars—one against the French, one against the United States—left the communists in control. Vietnam's government uses five-year plans to guide the economy, and like China, it has made market-oriented reforms.

Communist influence spilled over from Vietnam into neighboring Laos and Cambodia. Laos adopted communism in 1975, and Cambodia had a communist government under Vietnamese control from 1979 to 1993.

One of the last communist countries is North Korea. At the end of World War II, the Korean peninsula was divided between a Soviet-backed regime in the north and an American-backed government in the south. After the Korean War (1950–1953), the peninsula remained divided, and North Korea retreated into isolation.

North Korea's centrally planned economy has not achieved much growth. Agriculture was collectivized in the 1950s, although small private plots can grow food for rural markets. Severe food shortages plague the country today. Recently, North Korea thrust itself onto the international scene and shocked world leaders by announcing that it possesses "several" nuclear weapons.

## Section 3 Assessment

### Key Terms and Main Ideas

1. Describe **communism** in your own words.
2. What was the purpose of **Gosplan**?
3. What happens during **collectivization**?
4. Which country experienced the **Great Leap Forward**?

### Critical Thinking

5. **Drawing Inferences** How well did Soviet communism follow the communist ideal of economic and social equality?

6. **Drawing Conclusions** Is a dictatorship necessary to the existence of a communist society? Why or why not?



### Standards Monitoring Online

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## May Courts Enforce Discriminatory Private Agreements?



Analysis Skills HR4, HI3, HI4

*The Equal Protection Clause of the 14th Amendment bars States from discriminating against people based on their race or color. What happens if private individuals make an agreement that discriminates, and one of them later breaks that agreement? Should a court enforce the agreement?*

### **Shelley v. Kraemer (1948)**

In 1911, thirty property owners in St. Louis, Missouri, signed a restrictive covenant (an agreement limiting the ways in which a piece of property can be used). In this agreement, the property owners promised not to sell their property to non-whites during the next 50 years. The agreement did not restrict the use of the property in any other way.

In 1945, a black family, the Shelleys, bought one of the properties that was subject to the covenant. Kraemer and other property owners governed by the covenant brought suit in the circuit court, seeking to block the Shelleys from taking possession of the property and to reverse the sale. The trial court refused to do so. It concluded that the agreement was not intended to become effective until signed by all the property owners in the district, and that some owners had never signed.

The Missouri Supreme Court reversed the trial court opinion, ruling that the agreement was effective and that it did not violate the Shelleys' constitutional rights. The Shelleys then appealed to the United States Supreme Court.

### **Arguments for Shelley**

1. It would be unconstitutional for States to pass laws or ordinances restricting property ownership or occupancy based on race or color. Therefore, the courts should not enforce any agreement that imposes such restrictions.
2. Although the Equal Protection Clause of the 14th Amendment applies only to "State action" and does not restrict actions by private individuals, judicial enforcement of private

agreements is "State action" within the meaning of the 14th Amendment.

3. The purpose of the 14th Amendment was to establish equality of basic rights and to preserve those rights from discrimination by the States based on race and color. For the courts to enforce the restrictive covenant would not be consistent with that purpose.

### **Arguments for Kraemer**

1. This case does not involve action by State legislators or city councils. Private individuals entered into the agreement at issue.
2. The Equal Protection Clause of the 14th Amendment applies only to "State action" and does not restrict actions by private individuals. Judicial enforcement of private agreements does not amount to "State action" within the meaning of the 14th Amendment.
3. There is no discrimination because the Missouri courts would equally enforce covenants that exclude white people from property ownership.

### **Decide for Yourself**

1. Review the constitutional grounds on which each side based its arguments and the specific arguments each side presented.
2. Debate the opposing viewpoints presented in this case. Which viewpoint do you favor?
3. Predict the impact of the Court's decision on discrimination. (To read a summary of the Court's decision, turn to pages 799–806.)

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## Standards Review

## Political Dictionary

**factors of production** (p. 658), **capital** (p. 659), **capitalist** (p. 659), **entrepreneur** (p. 659), **free enterprise system** (p. 659), **laws of supply and demand** (p. 661), **monopoly** (p. 661), **trust** (p. 661), **laissez-faire theory** (p. 662), **socialism** (p. 666), **proletariat** (p. 667), **bourgeoisie** (p. 667), **welfare state** (p. 668), **market economy** (p. 669), **centrally planned economy** (p. 669), **communism** (p. 672), **five-year plan** (p. 673), **collectivization** (p. 674), **Gosplan** (p. 674), **privatization** (p. 675), **Great Leap Forward** (p. 675), **commune** (p. 675)

**H-SS 12.2.2** Explain how economic rights are secured and their importance to the individual and to society (e.g., the right to acquire, use, transfer, and dispose of property; right to choose one's work; right to join or not join labor unions; copyright and patent).

**H-SS 12.3.4** Compare the relationship of government and civil society in constitutional democracies to the relationship of government and civil society in authoritarian and totalitarian regimes.

**H-SS 12.9.1** Explain how the different philosophies and structures of feudalism, mercantilism, socialism, fascism, communism, monarchies, parliamentary systems, and constitutional liberal democracies influence economic policies, social welfare policies, and human rights practices.

**H-SS 12.9.7** Describe the ideologies that give rise to Communism, methods of maintaining control, and the movements to overthrow such governments in Czechoslovakia, Hungary, and Poland, including the roles of individuals (e.g., Alexander Solzhenitsyn, Pope John Paul II, Lech Walesa, Vaclav Havel).

## Practicing the Vocabulary

**Matching** Choose a term from the list above that best matches each description.

1. An organization of several firms that controls the only source of a product or service
2. In Marxist terms, the capitalists
3. Economic system in which individuals are free to start and run their own businesses
4. A government that assumes the role of promoter of citizen welfare through programs that provide health care, education, and pensions
5. Central institution that planned the economy of the Soviet Union

**Fill in the Blank** Choose a term from the list above that best completes the sentence.

6. Marx believed the \_\_\_\_\_ would one day rise up and overthrow the capitalist system.
7. An economy in which the government directs factories and farms and decides what to produce and how much is a \_\_\_\_\_.
8. \_\_\_\_\_ consists of the wealth and tools used to produce goods and services.
9. During \_\_\_\_\_, many individual farms are combined to create one giant farm.
10. If existing companies do not see and meet demand, a(n) \_\_\_\_\_ may start a new business and do so.
11. \_\_\_\_\_ recommends that government play a very small role in the economy.

## Reviewing Main Ideas

### Section 1

12. (a) What are the factors of production? (b) What role do the factors of production play in an economy?
13. What are the hallmarks of a free enterprise economy?
14. (a) Why is competition important to a free enterprise economy? (b) What will happen to a market without competition?
15. According to laissez-faire theory, what are the three duties of government?
16. (a) What are the advantages of a sole proprietorship? (b) What are the advantages of a corporation?

### Section 2

17. (a) What is the purpose of socialism? (b) How did events in the 19th century contribute to socialism's popularity?
18. (a) Briefly describe Karl Marx's basic ideas about the capitalist system. (b) What is the major difference between socialism and communism?

19. Describe three characteristics commonly found in socialist countries.
20. (a) Why has socialism been popular in developing countries? (b) How successful has socialism been in these countries?
21. What are the major criticisms of socialism?

### Section 3

22. Briefly describe Marx's view of history and the labor theory of value.
23. Describe four characteristics of communist countries.
24. In what ways did the Soviet Union fail to meet Marx's predictions?
25. Describe the problems facing the Soviet economy under Gorbachev and the Russian economy today.
26. (a) What changes did Mao make as leader of the People's Republic of China? (b) How did Deng Xiaoping differ from Mao?

## Critical Thinking Skills

### Analysis Skills CS1, HR4, HI6

27. **Face the Issues** Consider a clothing store in your community. In your opinion, would the store hire more sales people if the minimum wage were abolished? Why or why not?
28. **Recognizing Propaganda** Mao Zedong renamed his country the “People’s Republic of China” after the communist takeover in 1949. (a) How did this new name reflect the theories of Karl Marx? (b) Based on your reading in this chapter, is this an appropriate name for a communist state? Explain your answer.
29. **Drawing Inferences** Consider the common criticism of socialism on the grounds that it discourages individual initiative. (a) What assumption about initiative underlies this criticism? (b) Is this assumption valid? Why or why not? (c) How does a free enterprise system differ from socialism in its treatment of individuals?

## Analyzing Political Cartoons

Using your knowledge of economic systems and this cartoon, answer the questions below.



30. What does this cartoon imply about Russia’s experiences since the end of communism?
31. How do “Russian communism” and “Russian capitalism” compare with ideal forms of communism and capitalism?



## You Can Make a Difference

Help educate your classmates about child-labor laws. Contact the U.S. Department of Labor or your State’s department of labor to learn more about current U.S. child-labor laws. Then create a poster or display sheet that could be posted in the school guidance office, outlining the hours children are allowed to work and any types of jobs they are not allowed to perform. Your poster should also note whether the hours and types of jobs vary depending on the age of the child.

## Participation Activities

### Analysis Skills CS4, HR4, HI3

32. **Current Events Watch** Review newspapers and magazines from the past month and find articles that discuss businesses or the economy in China, Russia, and Germany. Are these countries described as communist, socialist, capitalist, or a combination? Based on your reading in this chapter, how would you categorize these three economies?
33. **Graphing Activity** Choose one country from each of the following continents: Africa, Asia, Europe, and South America. Research how much the United States and those four countries spend on health care per capita and as a share of Gross Domestic Product (GDP). Using this data, create a bar graph. Which country spends the most on health care per person? Which country spends the most on health care as a share of GDP? Which country spends the least per person?
34. **It’s Your Turn** It is 1932. The world is in the midst of the Great Depression, and you are a young politician running for office. You must convince people that you have the best solution for the country’s economic problems. Write a speech in which you explain why you have chosen your particular party and describe the goals of your party. What legislation will you support? Why should people vote for your party instead of the alternatives? After you have written your speech, present it to your class. (Writing a Speech)



## Standards Monitoring Online

For: Chapter 23 Self-Test Visit: PHSchool.com  
Web Code: mqa-6234

As a final review, take the Magruder’s Chapter 23 Self-Test and receive immediate feedback on your answers. The test consists of 20 multiple-choice questions designed to test your understanding of the chapter content.