

Modern Global Economies

In general, there are three economic theories that countries around the world use to administer their economy. And while the goals and values behind these theories are quite different, in reality, most economies operate as a mix of economic theories with one school of thought being dominant. Which kind of economy do you think we have here in Korea? Read the following definitions and complete the exercise to find out.

Capitalism

Capitalism is an economic system in which a country's trade and industry are controlled by private owners for profit, rather than by the government. In other words, the economy exists primarily to make *individuals* money. In this economic system, taxes are generally kept very low so that businesses can grow without having to pay money to the country in which they operate. Because of these low taxes, governments often have little money for public works projects like highways, trains, airports, and other infrastructure. Also because of these low taxes, there is little money for government administered social programs like healthcare, welfare (programs to help poor people), and public pensions (money set aside for people to use after they retire). Instead, businesses are expected to fill the role of government in completing public works projects or offering programs to improve society. On the whole, capitalist societies tend to provide a fertile environment for businesses to grow thanks in large part to these low taxes, however governments in capitalist countries often have to rely on private businesses to provide essential services for their citizens.

Capitalists follow the ideals of **Laissez-faire** economics which means there are few rules and regulations placed on businesses by the government. Laissez-faire literally means "hands off" as in the government is meant to keep their hands off of business. Those opposed to capitalism often argue that this economic system is too focused on making money and that it does not ensure the safety of society, the environment, or other common interests of the people. Instead, they argue, capitalism results in the rich becoming even richer while the lower and middle classes are left behind.

Social Democracy

A **social democracy** is an economic system in which a country's trade and industry are controlled collectively by the people through the government. People elect their government and then that government makes rules and regulations to outline what businesses can and cannot do with regards to workers' rights, the environment, public safety, and other societal concerns. Taxes in social democracies are often quite high with richer people and businesses often paying more taxes than poorer people. The government then uses the money that it collects in taxes to build infrastructure and to run societal support programs such as health care and welfare. In social democracies, it is the government's responsibility to work to improve society. Businesses operate to both make money for their owners as well as to serve the good of the country through the tax dollars they generate.

Those opposed to social democracy argue that taxes are too high making it difficult for individuals to become wealthy on their own. Oftentimes detractors of social democracies argue that the government does not spend the money collected through taxes wisely and that government officials may even be corrupt taking the money collected for their own personal gain. Detractors may further argue that that private businesses can improve society more efficiently than can the government.

Communism

Communism is an economic ideology that is essentially the direct opposite of capitalism. Communism aims to create a *classless* system in which all businesses are owned communally through the government and in which private property does not exist. Taxes in communist systems are extremely high with nearly all money going to the government. In theory, the government is then supposed to use this money for the good of all people. In practice however, most communist states throughout history have been extremely corrupt with the ruling class spending the huge majority of the money owned by the state on themselves rather than on helping the people. North Korea is a classic example of a communist country where the government owns all of the wealth and uses it for their own comfort rather than the needs of the people. Despite the idealistic appeal of communism, most communist societies do not fulfil the promise of treating all citizens equally or providing an equal share of property to the people.

Three Types of Modern Economies

Goods – objects that can be bought or sold

Services – Activities or actions that can be bought or sold

Producer – a person, group, or business that makes or sells goods or services

Means of Production – tools, machines, buildings, and labor used to produce goods/services

Consumer – a person, group, or business that buys goods or services

Market – any place where you buy or sell goods or services

Government Regulation – any law about how to make, buy, or sell a good or service

Supply – the amount of a material, natural resource, good, or service

Demand – how much people or businesses want or need something

Union-An organization of workers formed to collectively protect and promote the rights of workers

Efficiency – producing things with the fastest speed and least waste of time and energy

Market Recession-A time where the market declines causing businesses and people to lose money

Market Crash-A sudden dramatic decline of markets affecting all aspects of the economy. People, businesses, and governments lose a lot of money.

	Capitalism	Socialism/Mixed Economy	Communism
How goods are produced	<ul style="list-style-type: none"> • Markets can operate freely with few rules • Efficiency 	<ul style="list-style-type: none"> • Markets are regulated by government laws • Efficiency 	<ul style="list-style-type: none"> • Government control of nearly the entire economy
How prices are formed	<ul style="list-style-type: none"> • Supply and demand 	<ul style="list-style-type: none"> • Supply and demand • Taxes 	<ul style="list-style-type: none"> • Government sets the prices
Major Ideas	<ul style="list-style-type: none"> • Laissez-faire (No rules for businesses) • Businesses are mainly focused on profits • Taxes are kept low with the idea that business can best address the needs of society (rather than the government) 	<ul style="list-style-type: none"> • Workers form unions to get rights and protections • Government makes laws to protect businesses, workers, the environment, and the economy • Taxes are higher and used for public works and improvements to society (the government is trusted to improve society rather than business) 	<ul style="list-style-type: none"> • Government controls the means of production and should always protect equality among workers • Theoretically, all profits are shared amongst the government and the people equally • Taxes are extremely high, and there is little private ownership of property
Results	<ul style="list-style-type: none"> • Ultra-small elite class • Small upper class • Medium-sized middle class • Large lower class • Workers have few rights • Economy may expand and earn money or crash or go into a recession 	<ul style="list-style-type: none"> • Large middle class • Small lower class • Small upper class • Unions obtain workers' rights • Government protects workers and businesses • Economy is more stable and less dynamic with fewer recessions and crashes 	<ul style="list-style-type: none"> • Workers are treated equally with some only earning more because they work harder and for more hours • Government is the top social class, everyone else is below them