

Economic and Political Systems

**BEFORE
YOU
READ**

Reach Into Your Background

Many schools are polling places where people vote. You may have seen adults going into the gym or another part of your school to use a voting machine or mark a ballot.

Signs nearby often urge people to vote for a candidate or a certain way on an issue. Perhaps your student body holds elections, too. They are part of the political process in many places in the United States.

Questions to Explore

1. What is an economic system?
2. How do governments differ in their structure?

Key Terms

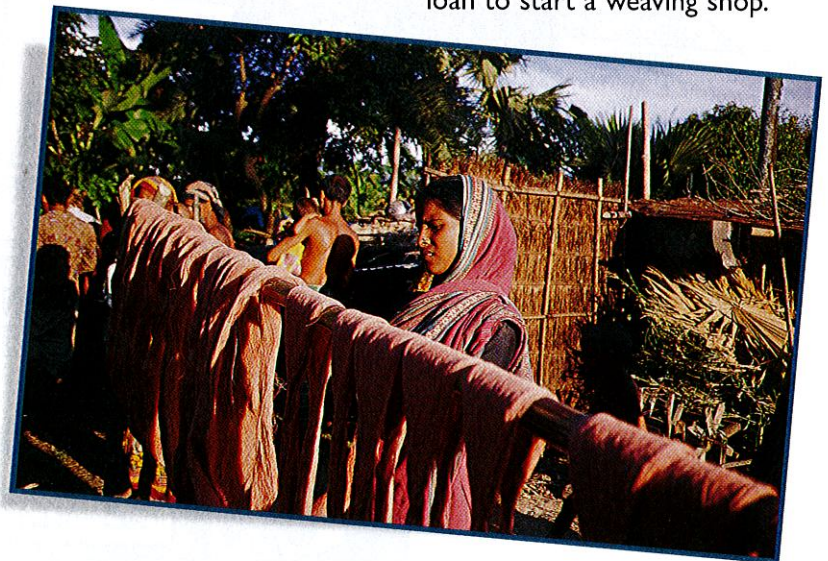
economy	government
producer	direct
goods	democracy
services	monarchy
consumer	constitution
capitalism	representative
socialism	democracy
communism	dictator

Muhammad Yunnus is a professor of economics in the country of Bangladesh. Bangladesh (bahng gluh DESH) is a very poor nation in South Asia. Yunnus wanted to understand how the people in his country really lived. His goal was to help them. He knew Bangladeshis ate only one or two meals a day. Though many had not gone to school, they were intelligent. Yunnus knew they were hard-working and could be trusted.

In the early 1970s, Yunnus met Sufiya Khatun. She made bamboo stools. But she earned only two cents a day because she had so few stools to sell. If she had more money for supplies, she could make more. But Sufiya had no way to borrow money to buy supplies. At first, Yunnus thought he would simply give her the small sum she needed. Then he wondered if others in the village were also like Sufiya. He found 42 people that needed to borrow about \$26 each for their businesses.

Yunnus was shocked. So little money meant the difference between success and failure. But banks would not

▼ Most of Muhammad Yunnus's customers are women seeking to open small businesses. This woman used her loan to start a weaving shop.



bother with such small loans. In 1976, Yunnus decided to do something about this situation. He started up a bank to loan small amounts of money only to poor people. Every borrower must join a group of five people. Every group member is responsible for the loans of every other member, so members must all trust and help each other. To build trust, they meet once a week to talk over their problems.

Yunnus's bank is called the Grameen Bank, which means "village bank." Today, the Grameen Bank has more than 1,000 offices and has loaned money to 2 million customers. Its interest rates are fairly high, but 98 percent of its loans are paid back. People in other countries are starting banks like Grameen. There are even some in the United States.

READ ACTIVELY



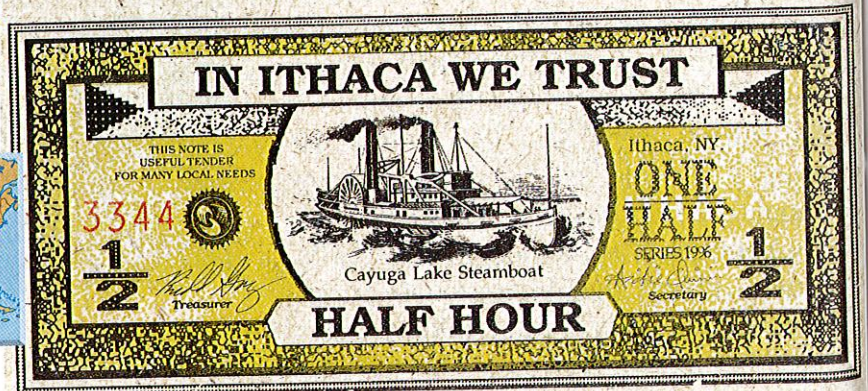
Connect Think about each member of your family and what he or she does. Is each a consumer, a producer, or both? Explain why.

Economic Systems

Banks like the Grameen help people become productive members of their nation's economy. An **economy** is a system for producing, distributing, and consuming goods and services. Owners and workers are **producers**. They make products, such as bamboo baskets or automobiles. Those products are called **goods**. Some products are really **services** that producers perform for other people. They may style hair, provide hotel rooms, or heal diseases. **Consumers** are people who buy and use the goods and services.

There are two categories of businesses. Basic businesses are essential for a nation to function. They include things like transportation, communication, and electricity. Non-basic industries are "nice but not necessary." They may make products such as compact disks or sports equipment. Services can also be basic or non-basic businesses. Hospitals are basic businesses. Singing telegram companies are non-basic businesses.

◀▼ Neighbors in the New York town of Ithaca have a very interesting system of exchange. Instead of paying dollars, they trade "Ithaca Hours" for goods like fresh bread, as well as for services like baby-sitting. Each hour is worth \$10—the average hourly wage in Ithaca. "Prices" depend on the amount of labor involved in producing the good or service.



Capitalism Replaces Communism



This photograph was taken in Berlin shortly after Communist East Germany united with capitalist West Germany. These East German children had never seen so many different school supplies before. The supplies came from the West, where the free market forces businesses to compete for customers.

Cultures choose the way they want to organize their economies. Today, most cultures choose from three basic systems: *capitalism*, *socialism*, and *communism*.

In **capitalism**, most basic and non-basic businesses are privately owned. Workers produce the goods or services. When a company sells its products, it earns profits, or money. The owners decide how much to pay workers and how to use profits.

The consumer is important in capitalism. Companies make products, but consumers might refuse to buy them. Successful companies supply goods or services that consumers need, want, and can afford. Capitalist countries include the United States, South Africa, and Japan. Capitalism is also called a free-market economy.

In **socialism**, the government owns most basic industries. It runs them for the good of society, not for profit. The government decides how much to pay workers and how much to charge for goods. It uses profits to pay for services such as health and education. Non-basic industries and services follow the capitalist model. They are privately owned, and consumers decide which products to buy. A few countries follow socialism or have socialistic programs. These countries include Spain, Portugal, and Italy.



Predict What do you think the three basic types of economic systems are?

LINKS ACROSS THE WORLD

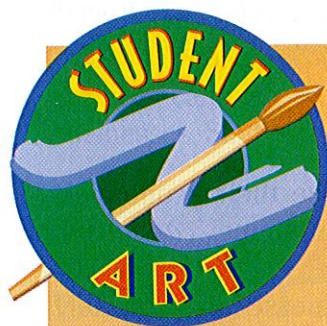
Quebec In Quebec, a province in Canada, many people are descendants of French settlers. So, they speak both French and English. Some residents want Quebec to become a separate nation. This has led to much political debate. Canada is a democracy, so residents of Quebec could vote on the issue. For now, Quebec has decided to remain part of Canada, but the argument continues.

In **communism**, the central government owns all property, such as farms and factories, for the benefit of its citizens. It controls all aspects of citizens' lives, including prices of goods and services, how much is produced, and how much workers are paid. Today, only a few of the world's nations practice communism. They include Cuba, China, and North Korea.

Hardly any nation has a "pure" economic system. For example, the United States has a capitalistic economy. However, state, local, and federal governments provide educational services, build and repair roads, and regulate product safety. In communist countries, you will find some private businesses such as small farms and special stores.

Political Systems

Small groups of people can work together to solve problems that affect them all. But that is impossible in complex cultures. Still, they also have to resolve conflicts between individuals and social groups. People also need protection from other countries and cultural groups. Communities need laws, leaders, and organizations that make decisions. **Government** is the system that sets up and enforces a society's laws and institutions. Some governments are controlled by a few people. Others are controlled by many.



Olga Loceva

Age 14

Russia

Under communism, traditional Russian arts and crafts, such as lacquer painting of boxes and vases as shown here, were discouraged. Since the collapse of the Soviet Union, many Russians have begun to practice these arts once again. What traditions do you value? How would you feel if the government banned those traditions?

Lacquer Painting



READ ACTIVELY



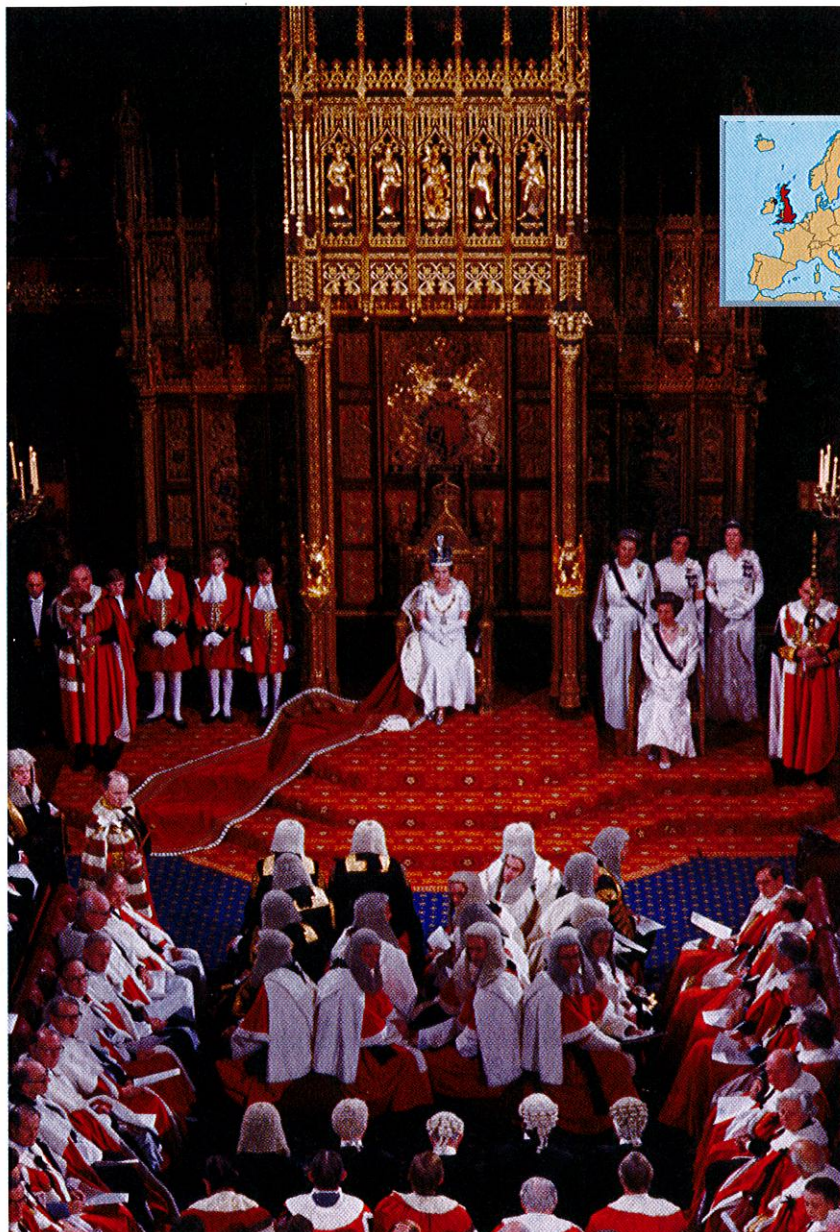
Ask Questions What would you like to find out about different kinds of government?

Direct Democracy The earliest governments were probably simple. People lived in small groups and practiced **direct democracy**. That means everyone participated in running the day-to-day affairs of the group. Chiefs or elders decided what was right or what to do. Decisions were based upon the culture's customs and beliefs. Today, government plays much the same role for complex cultures.

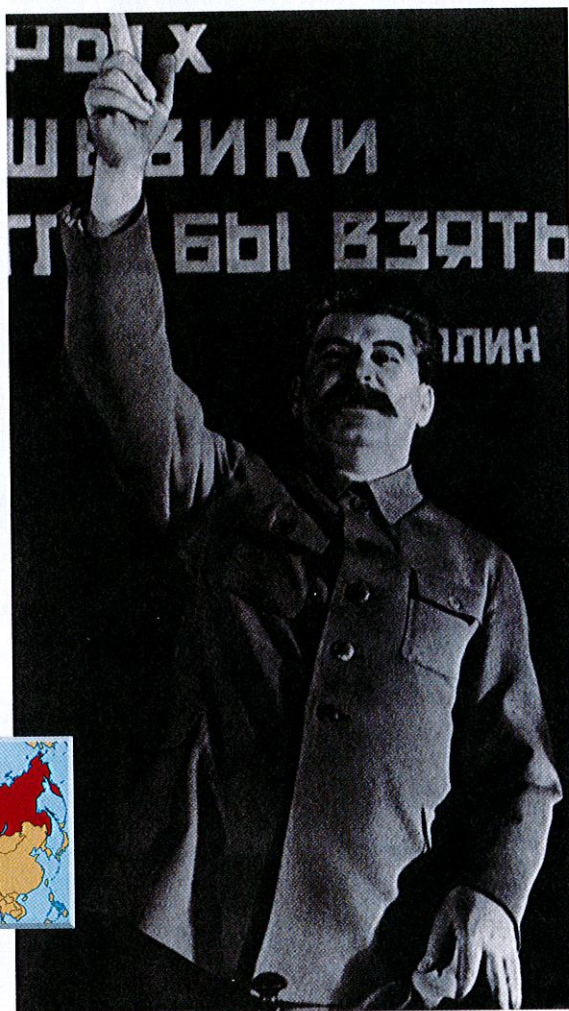
Monarchy Until about 100 years ago, one of the most common forms of government was a **monarchy**. In this system, a king or queen rules the government. The ruler inherits the throne by birth. Monarchies still exist today. Sweden, Denmark, the United Kingdom, Spain, and Swaziland are examples. But the rulers of these countries do not have the power their ancestors did. Instead, they are constitutional monarchs. Their countries have **constitutions**, or sets of laws that define and often limit the government's power. In a constitutional monarchy, the king or queen is often only a symbol of the country.

Representative Democracy A constitutional monarchy usually is a **representative democracy**. That means citizens elect representatives to run the country's affairs. Democracy comes from the Greek word *demos*, which means "common people." In a representative democracy, the people indirectly hold power to govern and rule. They elect representatives, who create laws. If the people do not like what a representative does, they can refuse to re-elect that person. They can also work to change laws they do not like. This system ensures that power is shared. The United States, Canada, and Israel are examples of representative democracies.

Dictatorship "If I ruled the world. . . ." Have you ever said or heard those words? It's fun to think about. You could give away free ice cream. You could give 12-year-olds the right to vote. Maybe you could end war and poverty.



▲ In the United Kingdom's constitutional monarchy, the monarch has little authority. The real power is wielded by Parliament, an elected body similar to our Congress.



◀ Josef Stalin was one of the world's cruelest dictators. He ruled the former Soviet Union from 1929 until 1953. He controlled every aspect of Soviet life and jailed or executed anybody who opposed him.

Of course, no one person rules the world. There are some countries, though, where one person rules. A government leader who has almost total power over an entire country is called a **dictator**.

Dictators decide what happens in their countries. They make the laws. They decide if there will be elections. When dictators take over, they often make promises that sound good. They may promise to end crime or to make a country strong. Sometimes they keep their promises. More often, they do not. Either way, people lose the right to make their own decisions.

SECTION 3 REVIEW

- 1. Define** (a) economy, (b) producer, (c) goods, (d) services, (e) consumer, (f) capitalism, (g) socialism, (h) communism, (i) government, (j) direct democracy, (k) monarchy, (l) constitution, (m) representative democracy, (n) dictator.
- 2.** Describe the three main types of economic systems.

- 3.** Which form of government gives power to make decisions to the greatest number of people—a monarchy, a democracy, or a dictatorship?

Critical Thinking

4. Drawing Conclusions

You hear on the news an announcement from the newly elected leader of a foreign country. The announcement states that the country's representatives will not meet. It also says that no elections will be held until further notice. What kind of government does this country have? How do you know?

Activity

- 5. Writing to Learn** You are working on a project to increase voting in your community. A statewide election is approaching. On behalf of your project, write a letter to a newspaper. In it, describe two reasons why people who are eligible to vote should do so.