

Command Economies

OBJECTIVES

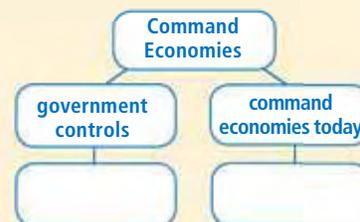
- In Section 2, you will
- describe the main features of a command economy
 - note how socialism and communism differ
 - identify modern examples of command economies
 - explain the advantages and disadvantages of a command economy

KEY TERMS

- centrally planned economy, p. 42
 socialism, p. 43
 communism, p. 43
 authoritarian, p. 43

TAKING NOTES

As you read Section 2, complete a hierarchy chart to categorize information about command economic systems. Use the Graphic Organizer at **Interactive Review @ ClassZone.com**



Government Controls

KEY CONCEPTS

QUICK REFERENCE

A **centrally planned economy** is a system in which central government officials make all economic decisions.

In command economies, leaders decide what should be produced and how it should be produced. They also decide for whom it should be produced, in part by setting wages. By determining who earns the highest wages and who the lowest, these leaders decide who has the money to buy available products. A system in which the society's leaders, usually members of the central government, make all economic decisions is called a **centrally planned economy**.

EXAMPLE Government Planning

Think for a moment about how the federal government affects you. If you work, you have to pay taxes. If you're 18 years old and male, you have to register with the Selective Service System. State and local governments exert somewhat more control over your day-to-day life. State laws set both speed limits and the age at which people can drive. Local laws set standards for cleanliness in food stores and restaurants and for honest business practices. And state and local taxes are collected to support such services as police and fire departments and public education.

However, what if the government went further? Suppose that bureaucrats in a government office in Washington, D.C., had the power to decide which businesses could operate in your city. Further, these bureaucrats decided not only what these businesses should produce, but also how much each business should produce each month. Finally, they also decided who could have jobs and set work hours and pay scales for workers. Government controls of this type are a feature of a command, or centrally planned, economy.

EXAMPLE Socialism and Communism

Modern societies that have adopted command economies have done so largely because of the influence of Karl Marx, a 19th-century German philosopher, historian, and economist. According to Marx's analysis, all of history is a struggle between classes. In his own time, the struggle was between the owners of the great industrial factories and the workers who exchanged their labor for wages. While the industrialists grew rich, the workers remained relatively poor. Marx predicted that in time the workers would overthrow this system and transfer ownership of the factories to public hands. With the means of production owned by the government, the class struggle would be resolved and all citizens would share in the wealth.

FIGURE 2.1 Comparing Economic Systems

	Communism	Socialism	Market System
Who owns resources?	Government	Government owns basic resources; the rest are privately owned	All resources privately owned
How are resources allocated?	Government planners decide how resources are used	Government planners allocate basic resources; market forces allocate privately-owned resources	Market forces allocate resources
What role does government play?	Government makes all economic decisions	Government makes decisions in the basic industries	Government's role limited—mostly to ensure market forces are free to work

ANALYZE TABLES

Government involvement varies among economic systems. How do communist systems answer the three basic economic questions?

Socialism, an economic system in which the government owns some or all of the factors of production, developed from the ideas of Marx. **Communism**, a more extreme form of socialism in which there is no private ownership of property and little or no political freedom, also grew out of Marx's thinking. Essentially, it is authoritarian socialism. An **authoritarian** system requires absolute obedience to authority. Figure 2.1 lists the major characteristics of socialism and communism.

Democratic socialism is established through the democratic political process rather than through the violent overthrow of the government. In this form of socialism, the government owns the basic industries, but other industries are privately owned. Central planners make decisions for government-owned industries. Central planners might also control other sectors—health care, for example—to ensure that everyone has access to these important services.

QUICK REFERENCE

Socialism is an economic system in which the government owns some or all of the factors of production.

Communism is an economic system in which the government owns all the factors of production and there is little or no political freedom.

Authoritarian systems require absolute obedience to those in power.

APPLICATION Comparing and Contrasting

A. How are socialism and communism similar yet different?

Karl Marx: Economic Revolutionary

Millions of lives were affected by the work of Karl Marx. Governments were toppled and new political alliances were forged on the strength of his arguments. What was it in the thousands of difficult-to-read pages he wrote that fueled revolutions?

FAST FACTS

Karl Marx

German philosopher, historian, and economist

Born: May 5, 1818

Died: March 14, 1883

Major

Accomplishment:

Detailed analysis of capitalism and foundation for socialist economic theory

Famous Quotation:

Workers of the world unite; you have nothing to lose but your chains.

Influenced:

Russian Revolution, 1917
Chinese Revolution, 1949

A New View of Economics

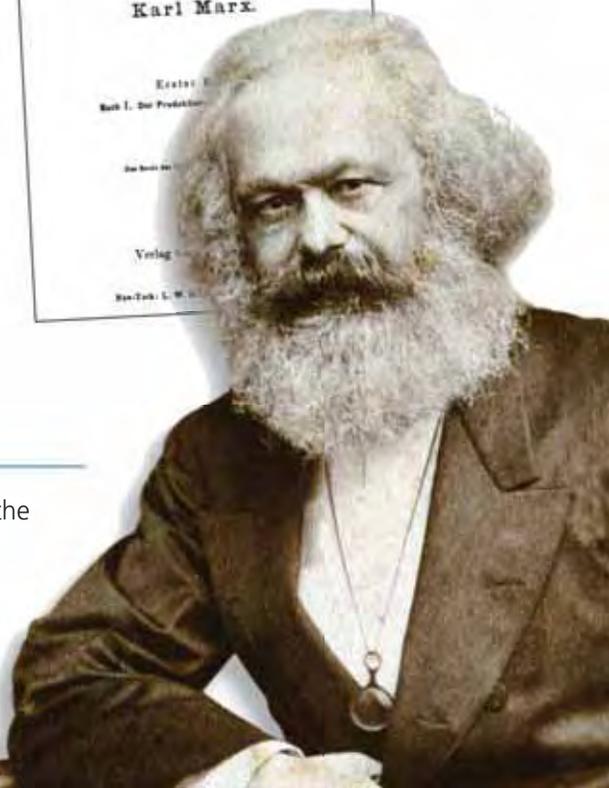
Marx was born in what is now Germany in 1818 and grew up in middle-class comfort. In college, however, he became involved in radical politics. In time, his political activism led to his exile from his homeland. He moved from country to country, eventually settling in London. During his travels, he met Friedrich Engels, the son of a factory owner. Through Engels, Marx became aware of the struggles of the working class and he undertook a deep study of economics. He concluded that the Industrial Revolution had created a system of wage slavery.

Factory owners, Marx said, looked upon labor as just another commodity that could be bought. They then used this labor to convert other productive resources into products. The factory owners made a profit by selling products at a higher price than the cost of labor and other resources. By keeping wages low, they could make ever greater profits. The whole industrial system, Marx reasoned, was based on this exploitation of workers.

To Marx, rising tension between worker and owner was an inevitable development in economic history. Over time, more and more wealth would be concentrated in fewer and fewer hands, and dissatisfied workers would revolt and create a new society without economic classes. Marx, assisted by Engels, laid out these ideas in *The Communist Manifesto* (1848). Marx discussed his economic ideas more fully in his enormous study *Das Kapital*, which was published in three volumes between 1867 and 1894.

Because of the way that communist economies worked in practice and the eventual collapse of communism in the early 1990s, Marx's theories have fallen into disfavor. Even so, few people had more impact on 20th-century economic and political thinking than Karl Marx.

Communism Marx's writings influenced revolutionary leaders such as V. I. Lenin in Russia and Mao Zedong in China.



Economics Update

Learn more about Karl Marx at ClassZone.com

APPLICATION Drawing Conclusions

- B. What did Marx think was the logical outcome of the struggle between owners and workers?

Command Economies Today

KEY CONCEPTS

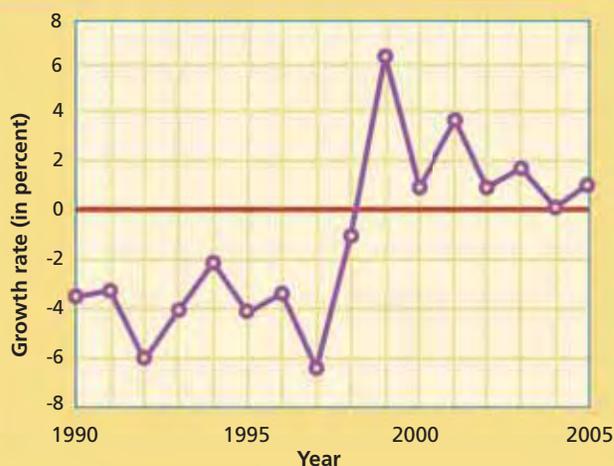
There are no examples of pure command economies today. The forces that have brought changes to traditional economies are also transforming command economies. However, some countries—North Korea, for example—still have economies with mostly command elements.

North Korea

Once under the control of China and later Japan, Korea was split into North Korea and South Korea following World War II. North Korea came under communist control. The government controlled every economic decision. For example, it diverted many of the country's resources to the military, building up an army of more than 1 million soldiers—out of a population of about 22 million. It also developed a nuclear weapons program. However, this military buildup came at the expense of necessities. During the late 1990s and early 2000s, food was so scarce that millions of North Koreans died from hunger and malnutrition. Many North Koreans survived only because of food aid from other countries, most notably South Korea.

The failure to provide food and other important products was just one result of a flawed economic plan. For much of the 1990s, North Korea produced less and less each year, and its economy actually shrank. (See Figure 2.2 below.) In 2003, however, central planners relaxed some restrictions on private ownership and market activity. North Koreans hoped that this experiment with free markets would revive the country's ailing economy. (For more information on North Korea's economy, see the Case Study on pages 64–65.)

FIGURE 2.2 NORTH KOREA: ECONOMIC GROWTH



Source: United Nations

North Korea had a negative growth rate for much of the 1990s. (The red line on the graph marks 0 percent, or no growth.) The average yearly growth rate for all economies during this time period was about 3 percent.

ANALYZE GRAPHS

1. The North Korean economy began to show positive growth after 1999. To what might this development be attributed?
2. During the 1990s, some newspaper reports noted that the North Korean economy was "shrinking." How is this shown in the graph?



Meeting Demand (Left) In communist East Germany, government planners' decisions left this butcher with just one goose to sell. (Right) In West Germany, a market economy, store shelves were laden with consumer goods.

Impact of Command Economies

In theory, command economies have some advantages. For example, they seek to provide for everyone, even the sick and the old who are no longer productive economically. Also, leaders in a command economy can use the nation's resources to produce items that may not make money in a market economy—certain medicines, for example.

In practice, however, the disadvantages of command economies are abundantly clear. To begin with, central planners often have little understanding of local conditions. Because of this, their economic decisions are frequently misguided or wrong. Also, workers often have little motive to improve their productivity, since they know they will be paid the same wages regardless of their output. And because there is no private property, there is no motivation for workers to use resources wisely.

Centrally planned economies often set prices well below those that would be established in a market system. As a result, command economies face shortages. One scene repeated in many command economies is people standing in long lines waiting to buy goods. Such shortages often lead to creative behavior. In the former Soviet Union, for example, light bulbs were almost impossible to buy for home use. However, burned-out bulbs in factories were regularly replaced. Some people took and sold these burned-out bulbs. Why? Other people would buy them and use them to switch out with working bulbs in their factories. They then took the working bulbs to light their homes.

Perhaps the greatest failing of strict command systems is the great suffering that people living under them endured. Carrying out centrally planned economic policies requires that individual rights—even the right to life—be subordinate to the needs of the state. Millions of people died in the efforts to build huge collective farms in China and the Soviet Union. Millions more were imprisoned for exercising their political or economic rights. Estimates suggest that the deeply flawed policies of command economies are responsible for more deaths than two world wars.

APPLICATION Applying Economic Concepts

C. Why are consumer goods often in short supply in a command economy?

SECTION 2 Assessment

REVIEWING KEY CONCEPTS

- Write a brief paragraph explaining the links between the following three terms.
 - centrally planned economy
 - socialism
 - communism
- Why do communist countries use authoritarian methods to maintain their economic and political system?
- List and describe some advantages of centrally planned economies.
- What are some disadvantages of centrally planned economies?
- What is the relationship between the individual and the state in a communist nation?

- 6. Using Your Notes** Write a sentence that makes a generalization about the nature of command economies. Refer to your completed hierarchy chart to complete this question.



Use the Graphic Organizer at **Interactive Review @ ClassZone.com**

CRITICAL THINKING

- 9. Making Inferences** Look again at the sentences about Thomas More's *Utopia* on page 38. Do you think that Karl Marx, like Thomas More, was trying to imagine a utopia in his writings? Give reasons for your answer.
- 8. Explaining an Economic Concept** How do command societies address the problem of scarcity? Illustrate your answer with examples.
- 9. Analyzing Cause and Effect** Read again the information about the North Korean economy on page 45. What factors caused North Korea's serious economic problems? What steps has the North Korean government taken to improve the dire economic situation?
- 10. Challenge** Adam Smith used the "invisible hand" as a metaphor for the forces that balance a free market. What might be a good metaphor for the forces at work in a command economy? Explain your answer.

ECONOMICS IN PRACTICE



Celebration of communism in the Soviet Union

Using Graphs

Presenting information in a graph shows economic changes more clearly.

Create a Graph Use the following data to create a line graph.

Household Expenditures in the Soviet Union (\$)	
1979	825.2 million
1981	934.7 million
1983	966.7 million
1985	1,017.1 million
1987	1,064.7 million
1989	1,152.3 million

Source: United Nations

Challenge During the 1980s, Soviet leaders introduced market elements into the economy. How might this explain the increase in household expenditures?

Use **SMART Grapher @ClassZone.com** to complete this activity.