Europe’s Economic Systems
United Kingdom, Germany, & Russia
STANDARDS:

SS6E7 Analyze different economic systems.

a. Compare how traditional, command, and market economies answer the economic questions of 1-what to produce, 2-how to produce, and 3-for whom to produce.

b. Explain that countries have a mixed economic system located on a continuum between pure market and pure command.

c. Compare the basic types of economic systems found in the United Kingdom, Germany, and Russia.
Do you remember the three questions that every country must answer when developing its economic plan?

1. What goods/services will be produced?
2. How will goods/services be produced?
3. Who will consume the goods/services?

The way a country answers these questions determines what kind of economic system it will have:

Traditional  Command  Market
• All economic decisions are based on customs, traditions, & beliefs of the past.

• People will make what they always made and do the same things their parents did.

• The exchange of goods is done through bartering.
  • Bartering = trading without using money

• Some examples: villages in Africa & South America, the Inuit in Canada, Aborigines in Australia
• **All** economic decisions are made by the Government.

• The government owns most of the property, sets the prices of goods, determines the wages of workers, plans what will be made...everything.

• This system has not been very successful. More and more countries are abandoning it.
This system is very harsh to live under; because of this, there are no PURE command countries in the world today.

Some countries are close: Cuba, former Soviet Union, North Korea, former East Germany, etc.

All of these countries have the same type of government: Communist! The government is in control of everything.
Economic decisions are made based on the changes in prices that occur as buyers & sellers interact in the market place.

The government has no control over the economy; private citizens answer all economic questions.

In a truly free market economy, the government would not be involved at all. Scary...

- There would be no laws to make sure goods/services were safe. *Food! Medicine!*
- There would be no laws to protect workers from unfair bosses.

Because of this, there are no PURE market economies, but some countries are closer than others.
Hmm...

• Since there are no countries that are purely command or purely market, what does that make them?

• Most democratic countries have some characteristics of both systems, so we keep it simple and call them: MIXED.

• Of course, most countries’ economies are closer to one type of system than another.
UNITED KINGDOM
The United Kingdom has a **Mixed economic system**.

It’s actually closer to a Market economy than any other European country.

UK is economically strong; it’s one of the world’s leading industrial powers.
Over the last thirty years, UK’s government has given up control of many of the country’s state-run companies.

Since 1979, these companies, such as British Steel, British Coal, and British Airlines, are now under private ownership.

This has set up free market competition throughout the country instead of government control.
1. **What to Produce?** Individuals and corporations

2. **How to Produce?** Individuals and corporations

3. **For Whom to Produce?** Individuals and corporations
Economic Struggles

- Unemployment
- Over depletion of natural resources (pollution)
- Improving public services (which forces the country to raise taxes)
UK’s government plays a limited role in the country’s economy.

It regulates trade and collects taxes, but it also gives citizens a lot of economic freedom.

Individual citizens and private businesses own most of the UK’s land, factories, and resources.

They can decide what to produce, how to produce, and what prices to charge.
• Germany has a **Mixed economic system**.

• After reunification in 1990, East Germany had to move away from a Command economic system and slowly towards a Market System.

• West Germany’s market system experienced a huge set-back when it absorbed East Germany’s command system.
1. **What to Produce?** Individuals and corporations; government has some regulation on agriculture, telecommunications, & energy

2. **How to Produce?** Individuals and corporations; government has some regulation on agriculture, telecommunications, & energy

3. **For Whom to Produce?** Individuals and corporations; government has some regulation on agriculture, telecommunications, & energy
• Modernizing the former East German economy (annual transfers from west to east of $80 billion)
  • The former East Germany’s decayed economy continues to be a burden on the country

• Unemployment

• Over depletion of natural resources (pollution)

• Improving public services (which forces the country to raise taxes)
In Review...

• Even though Germany’s mixed economy has many market elements, the government still plays a significant role in the country’s economy.

• The government collects high taxes to pay for services for its poorer citizens.

• It also heavily regulates certain industries.

• Even still, Germany citizens have a high level of economic freedom.
RUSSIA
Russia

• Russia has a **Mixed economic system**.

• Russia’s economy has been moving away from a Command economy and more towards a free Market economy since the fall of the Soviet Union in 1991...not there yet.

• Even though many government-owned companies are being sold to private businesses, Russia still faces many financial problems.
1. **What to Produce?** Individuals and corporations in most cases; government has many restrictions on businesses and controls many of the larger ones.

2. **How to Produce?** Individuals and corporations in most cases; government has many restrictions on businesses and controls many of the larger ones.

3. **For Whom to Produce?** Individuals and corporations in most cases; government has many restrictions on businesses and controls many of the larger ones.
Russia’s economy has struggled as it transitions out of a command economy into a mixed market one.

Upgrading old manufacturing plants and industries to modern, more efficient standards has been a burden to the economy.
In Review...

- Today, Russia’s citizens have a moderate degree of economic freedom.
- They can own property and run their own businesses.
- Russia’s government still controls many of the country’s resources and major industries.
- The government also makes laws to regulate the prices of goods & services.