

Globally Free Markets for the Twenty-First Century

PURPOSE

The purpose of this final chapter of the book is to raise the question with students as to whether the worldwide movement toward free markets will continue and whether it will be successful, and whether the nationalistic-populism of Donald Trump is spreading in other parts of the world (yes, it is). The success of policy will hinge not only on economic variables, but also on social indicators that reflect the standards of living of each country's residents. This chapter presents the opportunity for students to synthesize what they have learned about economic liberal and economic conservative philosophies and policies. It also helps students understand the role of nationalistic-populism and whether or not they approve of this. They need to form their opinions in a context in which we make it clear that nationalistic-populism is not based on economic, and indeed is considered to be based on racism and bigotry.

LEARNING OBJECTIVES

The learning objectives for this chapter are:

1. to contribute to the student's awareness of global conditions and policies.
 2. to reinforce for students the entire discussion throughout the text of economic conservative versus liberal philosophies, this time in a truly global context.
 3. to reinforce for students the difference between capitalism and socialism.
 4. to help students understand the economic growth process in the Western industrialized world and policies designed to achieve growth.
 5. to enable students to understand the most significant global phenomenon over the last 25 years of so; i.e., the economic transition still taking place in the formerly socialist industrialized world. (Alternatively, the nationalistic-populism we are now experiencing may come to be viewed as the most significant.)
 6. to help students understand the legacy of the international debt crisis, its impact on the standards of living of residents in developing countries, and its repercussions for developing countries' finances and subsequent structural reform.
 7. to enable students to intelligently formulate their own opinions of the global movement toward free markets and to determine whether their own economic philosophy is economic liberal, conservative, or in-between.
 8. to assist students in understanding the meaning of nationalistic-populism, as it applies to Donald Trump, Brexit, and governments and movements in parts of the rest of the world.
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LECTURE SUGGESTIONS

- Students have now had the opportunity to discover a little bit about the rest of the world. They've had the opportunity to think beyond the usual countries they may have already been acquainted with (Germany, France, etc.) and move on to the Eastern European countries and the developing countries. Now is a wonderful time for you and your students to share experiences and knowledge about various countries of the world. If students have traveled to other countries, they may wish to tell about it and even share photos.

- This chapter presents a great opportunity to tie in all the previous discussion of conservative versus liberal economic philosophies (and the perspective of nationalistic-populism) within the context of the global economic transformation that has been taking place. It is important that students realize how all three major regions of the world have been moving in the same general direction of freer markets until very recently. They should also be made aware that there have been reversals of the conservative shift in some countries, especially in Eastern Europe and Latin America. Nevertheless, they should also realize that the Latin American countries that have recently elected socialist presidents do not have purely socialist economies, but rather a workable mix of capitalism and socialism.
- Students should now have a context within which to identify their viewpoints as economic liberal or economic conservative or in-between. Are any students willing to share their viewpoints with the rest of the class? Have any students changed their minds about various policies? Would it be a good idea for students to write a two-page paper about their viewpoints within the context of the global economy? Would it be a good idea to have a class debate on these issues?
- It would also be good to discuss the concept of nationalistic-populism with the students, reminding them that this view is not based on economic theory. What do they like about it? What do they dislike? Do they agree that nationalistic-populism is based on racism and bigotry?
- We also need to remind students about terminology. There is a difference between the words *liberal* and *liberalism* (or *liberalization*). Socialism and capitalism refer to economic systems, which may co-exist with any form of political system. Being an economic liberal or conservative may be very different from being a social liberal or conservative. (You may also want to reassure students that they can be an economic liberal and social conservative, or vice versa.)
- Lastly, this textbook has focused on the economics of social issues. The ultimate purpose of an education about such issues is, in my opinion, the ability to make a better world in which we live. I challenge my students to think about what they can do to make a difference, and you might wish to do the same. Be sure to encourage students to read the epilogue to this book, which gets them started thinking what they can do to achieve greater economic and social justice and wraps up the entire book.

ADDITIONAL DISCUSSION AND ACTION QUESTIONS

Some of the following additional discussion questions may be helpful in preparing lectures.

1. Consider the graph of the United States macroeconomy. Draw the shift that will occur if cuts in tax rates and cuts in transfers successfully create incentives for greater work effort by American citizens. What is the effect on GDP? Is this change in GDP realistic? Is it sustainable?
2. Consider a graph of production possibilities for the United States economy, with quantities of agricultural goods and manufactured goods on the two axes. Draw the change that will occur if the size of the capital stock increases. What economic concept does this represent? What would be the effect of an improvement in human capital? What about an increase in infrastructure? What other factors could also result in economic growth?
3. What problems did the Russian economy face when it suddenly reversed socialist economic policies to policies of price decontrol and privatization? Previously, Russian businesses displayed monopoly and monopsony—though students will be unfamiliar with this latter term. (Russia had the classic examples of the “company town”; and the problems of outmoded technology; defense conversion; inflation; unemployment; unequal income distribution; and high priced necessities out of reach for many Russian citizens.)
4. How does the international debt crisis differ from the United States national debt? (Developing countries are often poor, must make the payments in foreign currency, and owe their money to foreigners.)
5. What are examples of policies for economic reform in developing countries? (such as reduced government spending on social programs, increased taxes, elimination of “safety nets,” decontrol of prices, privatized government enterprises, devalued exchange rates, free trade, and removal of restrictions on foreign investment — some of these are not discussed in the text). What have been the outcomes of these “reforms”?

SOME ANSWERS AND COMMENTS ON THE TEXT DISCUSSION AND ACTION QUESTIONS

1. Student answers will vary. Look for comprehensive descriptions discussing multiple issues covered in the text.
2. You might consider some of the textbook discussion of the effects of supply-side policies in the 1980s, along with more recent “supply-side” types of policies such as tax cuts for capital gains, dividends, personal income, corporation profits, and the estate tax. These and the policies mentioned in Question #3 would redistribute income toward higher income people.
3. Look for economic analysis in answers. Are suggested policies evaluated in terms of benefits and costs?
4. Student opinion, but make sure they understand the economics of their views.
5. The United States government might offer tax incentives or subsidies to encourage greater research and development (R&D); or alternatively, the government might support research activities at universities or enter directly into the market place by its own research and development. Presumably greater R&D will enable greater economic growth.
6. Assuming that the prices of food and other necessities do rise (because some countries have exempted these products from price decontrol), the government might assist low-income people directly through welfare payments, food stamps, and the like.
7. Despite privatization in Russia, problems of monopoly will exist. There is also the problem that huge individual enterprises hire many workers in a geographical area—monopsony (thereby at least theoretically restricting employment and the wages of workers).
8. Student activity.
9. By the early 1980s, U.S. interest rates rose, the value of the dollar rose, U.S. (and Western European) recession occurred, OPEC and Western industrialized country market power created high oil and manufactured good prices, and declining terms of trade took place. These were all out of the control of the developing countries.
10. Student activity.
11. Student activity.
12. Student activity.
13. Market-based economies do not necessary meet the needs of all people. Some policies might include unemployment compensation and disability insurance, social security, health coverage, welfare, food stamps, child care, housing assistance, and so on.
14. Student opinion.
15. Student opinion.

SUGGESTED TEST QUESTIONS

Multiple-Choice Questions

1. Which of the following is true? Economic conservatives believe that the marketplace:
 - a. is efficient.
 - b. provides incentives.
 - c. encourages economic growth.
 - d. All of the above**

2. Which of the following is true? Economic liberals believe that the marketplace:
 - a. is imperfect.
 - b. entails market failures.
 - c. is not necessarily equitable.
 - d. All of the above**

3. Which of following is true about pure socialism?
 - a. Economic decisions are made by the government.
 - b. The means of production (land and capital) are owned by the government.
 - c. Prices are set by the government.
 - d. All of the above**

4. In terms of the categories defined in the text, Russia belongs to:
 - a. the Western industrialized world.
 - b. the Eastern industrialized world.**
 - c. the developing world.
 - d. None of the above

5. Which of the following *is not* part of the developing world (as described in this text)?
 - a. Eastern Europe**
 - b. Latin America
 - c. Asia
 - d. Africa

6. Which of the following countries had the highest average annual economic growth rate among the Western industrialized countries in 2016?
 - a. the United States
 - b. Iceland**
 - c. Norway
 - d. Greece

7. Production possibilities:
 - a. shows alternative combinations of the maximum amounts of output an economy can possibly produce.
 - b. assumes resources are fully and efficiently used.
 - c. assumes technology is fully and efficiently used.
 - d. All of the above**

8. Economic growth is displayed in a production possibilities graph as:
 - a. a movement along the curve.
 - b. a movement to a point below the curve.
 - c. an inward shift of the curve.
 - d. an outward shift of the curve.**

9. Labor productivity depends on:
 - a. investment in human capital.
 - b. investment in physical capital used in conjunction with labor.
 - c. training and education programs.
 - d. All of the above**

10. Which of the following *is not* listed in the text as a means of achieving economic growth?
 - a. increase in capital
 - b. improvement in technology
 - c. improvement in labor productivity
 - d. increase in monopoly**

11. Policy proposals to increase the United States savings rate include which of the following?
 - a. decrease in the capital gains tax
 - b. increase in tax breaks for various types of savings, such as IRAs
 - c. a consumption tax to replace the personal income tax
 - d. All of the above**

12. Income earned when selling an asset at a higher price than when it was purchased refers to:
 - a. research and development (R&D).
 - b. capital flight.
 - c. capital gains.**
 - d. liberalism.

13. The artificial prices traditionally set by socialist countries had created:
 - a. low prices and shortages.**
 - b. high prices and shortages.
 - c. low prices and plentiful supplies.
 - d. high prices and plentiful supplies.

14. The transition from socialism to capitalism in the Eastern industrialized world has often resulted in:
 - a. unemployment.
 - b. inflation.
 - c. inequality.
 - d. All of the above**

15. Petrodollars are:
 - a. the name given to Russian currency.
 - b. the vouchers given to Russian citizens for the purchase of shares of enterprises.
 - c. the money earned from the sale of petroleum.**
 - d. the export earnings that leave the country in capital flight.

16. The United States responded to the high inflation caused by escalating petroleum prices in the early 1980s by engaging in:
 - a. expansionary monetary policy.
 - b. contractionary monetary policy.**
 - c. expansionary fiscal policy.
 - d. contractionary fiscal policy.

17. Capital flight occurs when funds in developing countries are:
 - a. used to purchase domestically produced luxury goods.
 - b. used to invest in factories and equipment.
 - c. used to invest in foreign countries.**
 - d. saved at home rather than in banks.

18. Economic reform in developing countries typically includes:
 - a. price decontrol.
 - b. privatization.
 - c. cuts in government spending.
 - d. All of the above**

19. The International Monetary Fund (IMF):
 - a. imposes conditionality.
 - b. lends to countries in financial need.
 - c. requires economic reforms of borrowing countries.
 - d. All of the above**

20. A movement toward free markets has been underway in:
- the Western industrialized world.
 - the Eastern industrialized world.
 - the developing world.
 - All of the above**

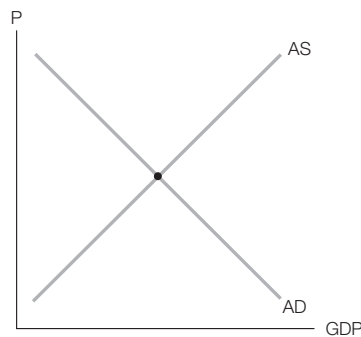
True-and-False Questions

- Economic conservatives generally favor a very limited role for government in the economy. (T)
- Economic liberals believe that the marketplace is not always fair. (T)
- Under capitalism, economic decisions are primarily made by the government. (F)
- Countries with capitalist economic systems always have democratic political systems. (F)
- “Liberalism” means a philosophy of being an economic liberal. (F)
- Technology can be thought of as ways of using available resources to produce output. (T)
- Under socialism, the means of production (land and capital) are owned by the private sector. (F)
- Economic growth may occur if there is a sustained increase in the quantity of physical capital and other resources. (T)
- Improved technology can lead to economic growth. (T)
- The United States savings rate is among the highest in the Western industrialized world. (F)
- Capital gains refers to the income earned when an asset is bought at a particular price and sold at a higher price. (T)
- The United States has the world’s largest internet quality as defined in the text table. (F)
- Generally speaking, economic conservatives prefer more government regulation than economic liberals. (F)
- The tax rate, as specified in the text table, places the United States as the highest in the Western industrialized world. (F)
- U.S. labor productivity has increased 2007 to 2016. (T)
- Decontrol of prices in the Eastern industrialized countries generally led to inflation. (T)
- Russia 2016 average annual growth of GDP per capita is remarkably high. (F)
- Price controls in the Eastern industrialized world had previously caused surpluses. (F)
- Privatization refers to the sale of private enterprises to the government. (F)
- Price decontrol and privatization are examples of economic reform. (T)
- When developing countries borrowed money that ultimately was reinvested in financial markets or real estate abroad, this was referred to as “conditionality.” (F)
- The roots of economic reforms in developing countries are in the 1980s international debt crisis and 1970s oil crisis. (T)
- The savings rate is defined as total savings (private plus public) divided by gross national income. (T)
- The United States had the highest economic growth rate among the Western industrialized countries for 2016. (F)
- The average annual growth rates of GDP per capita for the Western industrialized world, as shown in the text table, were all positive in 2016. (T)

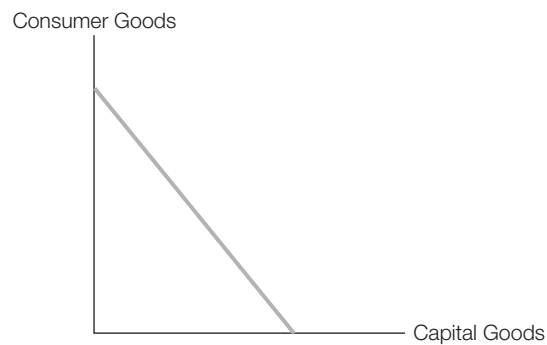
26. The average annual growth rates of GDP per capita for the Eastern industrialized world, as shown in the text table, were all positive in 2016. (F)
27. The average annual growth rates of GDP per capita for the developing world, as shown in the text table, were all positive in 2016. (F)
28. Based on the text table, the 2016 average annual growth rate of GDP per capita was among the highest for Iran and Iraq. (T)
29. The Mexican president elected in 2006 is an economic liberal. (F)
30. Latin American countries that have recently elected socialist presidents include Ecuador, Nicaragua, Bolivia, Nicaragua, and Venezuela. (T)
31. Nationalistic-populism strongly supports free trade and immigration. (F)

Short-Answer Questions

1. Consider the graph of the macroeconomy. Draw the shift that will occur if a reduction in tax rates and transfers successfully result in incentives for increased work effort. What is the effect on GDP? (increase)



2. Consider the production possibilities curve for the United States with the quantity of capital goods and consumer goods on the two axes. Draw the shift that will occur if there is an increase in the quantity and quality of productive resources. What is the economic term for the change that occurs? (economic growth)



Critical Thinking Question

You now have a much better understanding of the economic systems of capitalism and socialism and the philosophical viewpoints of conservative and liberal as they apply to economics throughout the world. What are your views about the world movement toward conservative and capitalist policies? Explain. What is your view toward nationalistic-populism?

INTERNET RESOURCES

The times they are a-changin'! Students may be reading newspapers, but will also be looking at other news media on the Internet. Some of these websites are listed here.

<http://www.msnbc.msn.com> (MSNBC — includes audio headlines)

<http://www.abcnews.com> (ABC News)

<http://www.cbsnews.com> (CBS News)

<http://www.npr.org> (National Public Radio)

<http://www.cnn.com> (CNN Interactive)

Other useful websites include some that have been mentioned before, especially the following:

<https://www.cia.gov/library/publications/the-world-factbook/index.html>

(This CIA site provides useful statistical and textual discussion on a country-by-country basis.)

<http://www.imf.org>

(The International Monetary Fund site provides information about structural adjustment policies, conditionality, and so on, as well as other types of information, such as the history of the IMF.)

<http://www.worldbank.org>

(The World Bank site provides extensive economic and socioeconomic data, include the topic of international debt, for the countries of the world.)