

## What values shape the mixed and market economies of Canada and the United States?

**economy:** the resources and processes involved in the production, distribution and consumption of goods and services



What role do you believe

economic systems play in supplying you with things you use everyday?

### WHAT'S IN THIS SECTION

This section begins with a comic that presents a situation you may have encountered. It then explores the roots of this situation in economic decision making. It describes:

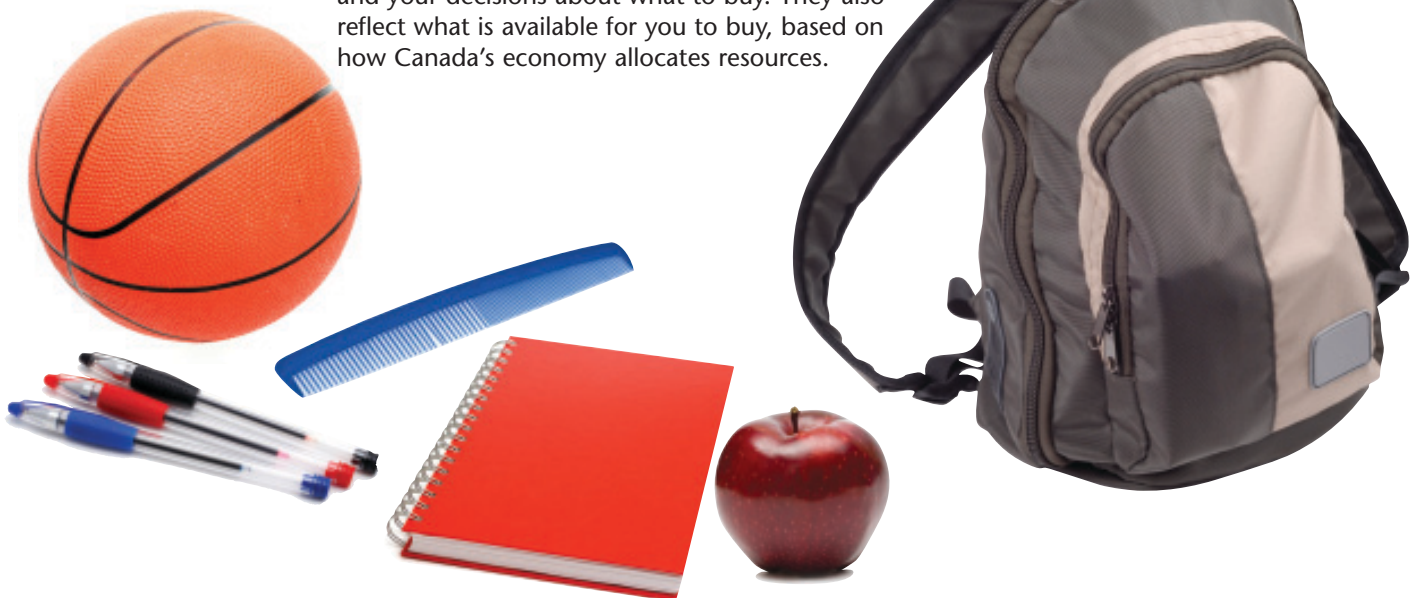
- The principles within an economic system.
- The differences between the principles and values underlying mixed and market economies in Canada and the U.S.

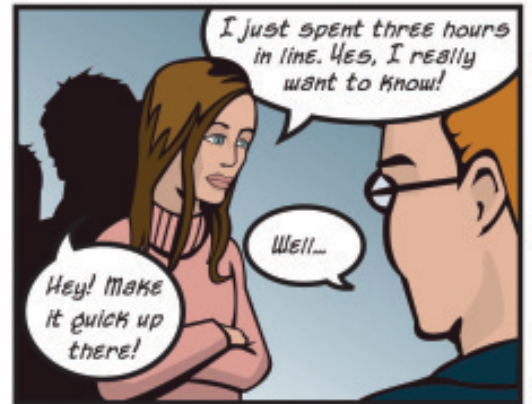
### What are you looking for?

As you read this section, think about how economic decision making affects your quality of life. Look for examples of how it influences:

- The variety of products and services available to you.
- The price of products and services.
- The quality of products and their impact on the environment.

As a consumer, you are part of Canada's **economy**. The things you own, such as the items in this photograph, reflect what you value and your decisions about what to buy. They also reflect what is available for you to buy, based on how Canada's economy allocates resources.







Sorry. Next!

Frank

EVERYTHING  
EL

Super Cyborg City, please.

Why would someone want two copies of Super Cyborg City?

Are you looking for Super Cyborg City? I've got two copies here only \$99.99 each!

**WHAT DECISIONS HAVE LED TO THIS SITUATION?**

- Why didn't the game manufacturer make more games?
- Why did the truckers go on strike?
- Why did the store decide to sell the games for less?
- Why would anyone buy it for \$99.99?

Why? Time for a little economics...

**scarcity:** in economics, the idea that land (materials), labour and capital (money) limit the supply of what people want and need

## What's scarcity?

In the comic you just read, you saw scarcity at work. The demand for the hit game Super Cyborg City was so great — so many people wanted it — that the store could not supply enough copies to meet the demand. **What could be done about this situation? What do you believe should be done?**

Some things people need are unlimited. For example, people need air. Air is usually freely available, unless — for example — you happen to be scuba diving.

Most things that people need or want, however, are limited. This is because resources are limited. In economics, resources include the money, labour, and materials to supply what people want and need.

Resources can be limited for a number of reasons. For example, think of things you buy at the grocery store, like fresh berries. Many factors can limit the supply of fresh berries — for example, the growing season in Canada and trade agreements with other parts of the world.

In economics, the idea that resources are limited is called **scarcity**.

The basic questions of economics are about how to solve scarcity:

- **What is needed or wanted?**
- **How will it be produced?**
- **Who will get it?**

The decisions we make about these questions create issues that affect our quality of life.



**CRITICAL THINKING CHALLENGE** How might Canada's government get involved in situations where people's wants and needs are not being met?

Fresh berries are delicious, but there aren't always enough to go around. **Think critically:** How does economic decision making allocate the fresh berries available?



## WHAT CREATES SCARCITY?

The three basic “factors of production” interact to limit the supply of what people need and want. These include land, labour and capital.

### Land

Land consists of all the materials found in the natural environment needed to produce goods and services, such as renewable resources (e.g., trees, raspberries) and non-renewable resources (e.g., oil, gold). **Think critically: What impacts might this decision about using the land have on the land?**



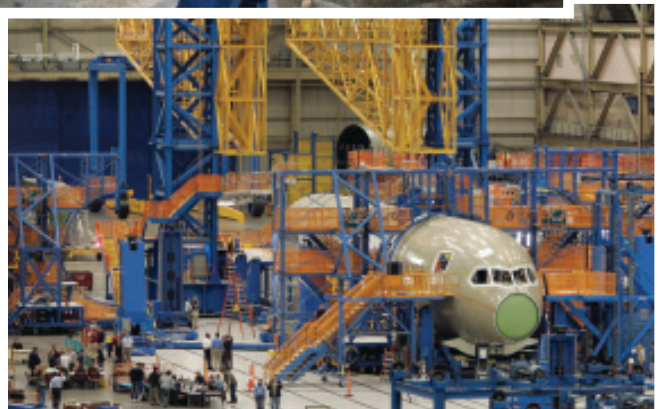
### Labour

Labour consists of the physical and mental effort needed to produce goods and services (e.g., agricultural workers to produce foods, servers to staff restaurants). In this photo, construction workers are building a house. If they find other jobs, or if there aren't many qualified construction workers available, fewer houses will get built. **Think critically: How do choices concerning jobs affect the workforce?**



### Capital

Consists of the money that people own or borrow, used to purchase equipment, tools and other resources to produce goods and services. This photo shows an airplane manufacturing plant. Setting up such a plant requires billions of dollars in specialized equipment and specialized workers. **Think critically: What if the capital that built this airplane plant were invested in something else? What impact might this have on airports and air services?**



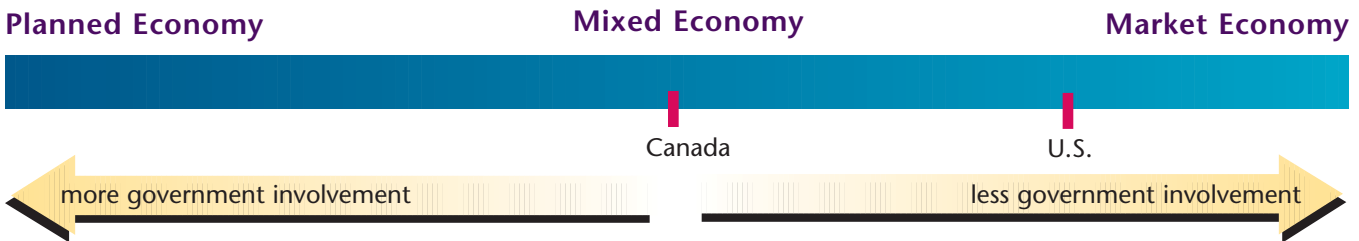
## What’s an economic system?

**privately owned:** in economics, the part of the economy owned and controlled by businesses and individuals

**publicly owned:** in economics, the part of the economy owned and controlled by government and paid for by taxes

An economic system is a way to solve the basic problem of scarcity. Different ideas about how best to organize an economy result in different economic systems. You can put them on a continuum, like the one below. An economic system’s position on the continuum is dynamic, and depends on the underlying values of a society and its government. The positions of Canada and the U.S. on the continuum below reflect a traditional perspective on differences between their economies. Their actual positions on the continuum shift right and left, depending on the political party in power. **Examine the continuum below. How do the different positions of Canada and the U.S. reflect different values?**

## THE ECONOMIC CONTINUUM



### Planned Economy

At this end of the spectrum, government makes all the decisions about how to solve scarcity. It owns and manages the resources needed to produce things. It plans what will be produced and decides how to use limited resources.

#### Characteristics

- Resources are **publicly owned**.
- Government makes decisions on how to use resources.
- Individual consumers have little influence on economic decision making.

### Mixed Economy

A mixed economy combines private ownership and government control. For example, private businesses own some resources and the government owns others. In mixed economies, the level of government involvement fluctuates depending what political party is in power.

#### Characteristics

- Some resources are publicly owned and some are privately owned.
- Individuals and government both make decisions about what to produce.
- Individual consumers and government influence economic decision making.

### Market Economy

At this end of the spectrum, the choices of individuals solve scarcity. Private businesses own and manage resources. They sell their products to consumers, who make their own decisions about what to buy. Businesses succeed if they produce what consumers want. Otherwise, they fail. The government does not get involved.

#### Characteristics

- Resources are **privately owned**.
- Individuals make decisions on how to use resources.
- Individual consumers drive economic decision making by choosing what to buy.

CASE STUDY

## Canadian Economic History versus U.S. Economic History

The economies of Canada and the U.S. are similar in many ways, but they developed from different starting points. Their starting points involve different answers to this fundamental question of values:

### What's the best way to achieve the **public good**?

The public good is about what's best for society as a whole. Worldviews differ on how best to achieve it.

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**public good:** what's best for society as a whole

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### The Public Good and Cooperation

Some people believe that individuals must consider each other and set aside their individual interests to achieve what's best for society. This worldview values equity: responding to others in a way that recognizes their needs and circumstances.



### The Public Good and Individualism

Some people believe that what's best for each person individually adds up to what's best for society. This worldview values individual creativity and independence.



Examine the information on Canada and the U.S. on pages 206 to 208. How do the founding principles of Canada and the U.S. answer the question of the public good differently? How have Canada and the U.S. answered the question differently at different points in their histories? Why?



## Canada's Economy

**shift left:** a shift on the economic continuum towards more government involvement in the economy. A shift left is usually described as taking a more liberal position.

**shift right:** a shift on the economic continuum towards less government involvement in the economy. A shift right is usually described as taking a more conservative position.



Prime Minister Lester Pearson, a leader of the Liberal Party of Canada, supported more government involvement in the economy.



Prime Minister Brian Mulroney, a leader of the Progressive Conservative Party of Canada, supported less government involvement in the economy.

### Founding principle: “peace, order and good government.”

- The founding principle of Canada reflects the idea of cooperation. It connects to an agreement between Francophones and Anglophones that established Canada (see page 146).
- The idea of cooperation affects Canada’s economic system. For example, government plays an important role in the economy, making decisions on behalf of everyone.
- Canada is said to have a mixed economy because of the role government plays, and because individuals still own private property.
- Canada’s position on the economic continuum is not static. It shifts left and shifts right depending on the political party that forms the government.

### 1963–1968: An Example of a **Shift Left**

Lester Pearson became prime minister of Canada in 1963, when the Liberal Party of Canada won an election and formed a minority government. (Remember minority governments in Chapter 1? See page 28.) To stay in power, the Liberals cooperated with the New Democratic Party. This resulted in legislation that gave government a larger role in the economy, including:

- Publicly funded health care.
- Pensions for senior citizens.

### 1984–1993: An Example of a **Shift Right**

Brian Mulroney became prime minister in 1984 as leader of a majority government of the Progressive Conservative Party of Canada. He took steps to reduce government involvement in the economy, including:

- Cuts to government spending.
- Privatizing government-owned corporations, called Crown corporations. For more on Crown corporations, see the next page.
- The North American Free Trade Agreement (NAFTA) with the U.S. and Mexico, which increased the influence of the market in shaping Canada’s economy.



**CRITICAL THINKING CHALLENGE** How might the history of Canada shape values and attitudes in Canada?

## What's a Crown corporation?

A Crown corporation is a company owned by Canada's government to provide products and services to Canadians. The reasons for government to create Crown corporations include:

- To provide essential services.
- To promote economic development.
- To support Canadian culture and identity.

Economists say Canada has a mixed economy partly because of its Crown corporations. The United States also has some publicly owned corporations, but not as many as Canada. Here are some examples of Crown corporations from Canada's past and present.

Air Canada was originally Trans-Canada Airlines, established by Canada's parliament in 1936, and owned and managed by the federal government. Parliament decided to privatize the airline — sell it to private investors — in 1988.



### CRITICAL THINKING CHALLENGE

What Crown corporations does Canada have today? Why does Canada's government assess the value of Crown corporations differently at different times?



### SPOT AND RESPOND TO THE ISSUE

To what extent should Crown corporations play a role in Canada's economy?

Petro-Canada was established by Canada's parliament in 1975. The purpose of Petro-Canada was to compete with foreign-owned companies in developing Canada's oil and gas resources. Today, Petro-Canada is owned by private investors.

This is a poster advertising a radio show in Alberta on Radio-Canada. CBC/Radio-Canada is Canada's public broadcaster, with an English-language network and a French-language network. CBC/Radio-Canada was created to promote bilingualism in Canada, and to promote Canadian culture as distinct from American culture. **Think critically:** What's the connection between CBC/Radio-Canada and collective rights in Canada? What's the connection to identity?

Franklin Roosevelt was a member of the Democratic Party. Roosevelt supported more involvement of the government in the economy to combat the effects of the Great Depression.



Ronald Reagan was a member of the Republican Party. Reagan supported less involvement of the government in the economy.

## The U.S. Economy

### Founding principle: “life, liberty and the pursuit of happiness.”

- The founding principle of the U.S. reflects the idea of individualism. It connects to the roots of the U.S. as a colony of Britain from the 1600s until 1776, and in fighting to become independent of Britain from 1776 to 1783.
- The idea of individualism influences the economic system of the U.S. For example, the U.S. generally values individual economic decision making, with little involvement of the government.
- The U.S. is often said to have a market economy, because of its emphasis on the role of the individual, versus the government, in economic decision making.
- The position of the U.S. on the economic continuum shifts right and left, depending on the political party that forms the government.

### 1933–1944: An Example of a Shift Left

Franklin Roosevelt became president of the United States in 1934, during a worldwide economic crisis called the Great Depression. The Depression put millions of people out of work. In the U.S., Roosevelt responded with a policy called the New Deal, which established:

- Pensions for senior citizens.
- Funds to support farmers.
- Corporations funded and run by the government. These created jobs and built projects to strengthen the economy, such as dams and roads.

### 1980–1988: An Example of a Shift Right

Ronald Reagan became U.S. president in 1980. He wanted government less involved in the economy. He took steps such as:

- Reduced government spending.
- Reduced government regulation of corporations, for example on environmental standards.



**CRITICAL THINKING CHALLENGE** How might the history of the U.S. shape values and attitudes in the U.S.?

## How do market economies work?

Mixed and market economies are different, but related, economic systems. In both systems, the individual choices of consumers are an important economic force. They add up to create overall economic decisions for society.

In pure market economies, consumer choices drive all economic decision making. In mixed economies, they drive a lot of economic decision making.

**How do consumer choices “add up” in mixed and market economies?** This section investigates the mechanisms — or principles — of market economics, including:

- Supply and demand.
- Competition.



As you read this section, think about the advantages and disadvantages of market economics as a way to make economic decisions. What challenges and opportunities might it create for people with different incomes and different needs?

## HOW DO OTHER KINDS OF ECONOMIES WORK?

Investigate the economic systems of other countries. Decide where they fit on the economic continuum, based on current information.



Pemex is Mexico’s government-owned oil company. It dates from 1938, when Mexico took control of its oil resources — and took control away from private companies. **Think critically:** Why might the current status of Pemex be an indicator of Mexico’s position on the economic continuum?

Shanghai, China, is a much different place today than it was twenty years ago. China used to have a planned economy. Its government now promotes many principles of a market economy. **Think critically:** Why might countries change economic systems? Why might Canada?



## Supply and Demand

**consumers:** those who use products and services

**demand:** the wants and needs of consumers for products and services

**producers:** those who create products and services

**supply:** the products and services created by producers

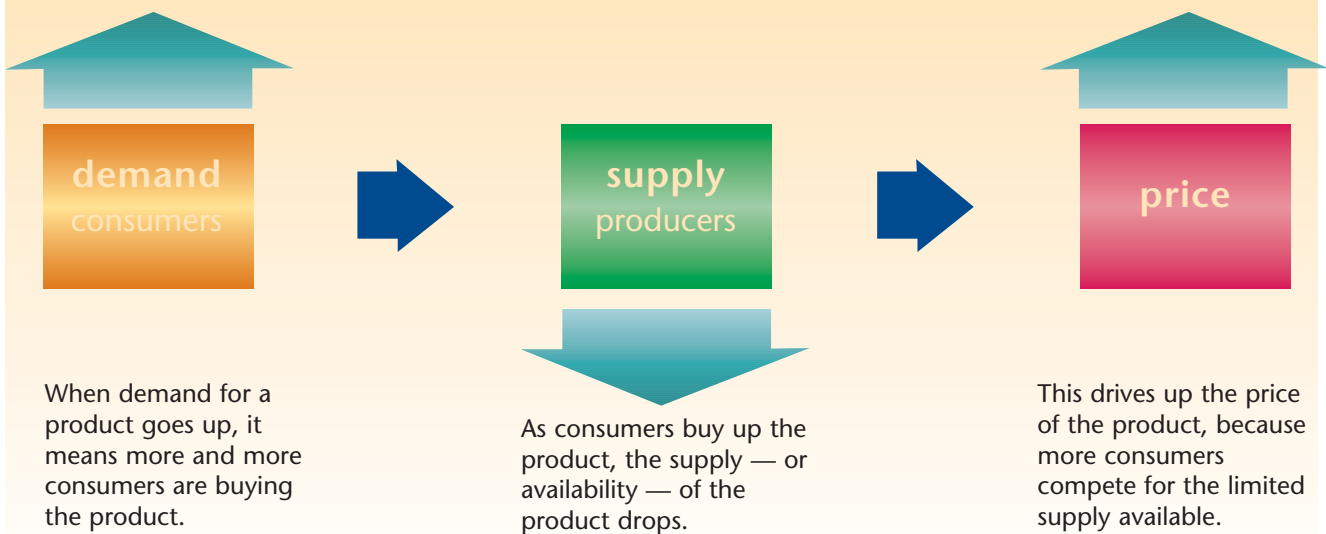
- The diagrams on this page illustrate the basic principles of supply and demand.
- Supply and demand connect through a cause-and-effect relationship related to price. Each diagram shows an example of this relationship and describes how it affects the economy.
- Supply and demand affect quality of life because they affect the prices of products we buy, the availability of products, and jobs connected to creating products.
- **Supply** is about producing things people want. It involves **producers**.
- **Demand** is about what people want. It involves **consumers**.

### Let's start with a state of equilibrium.

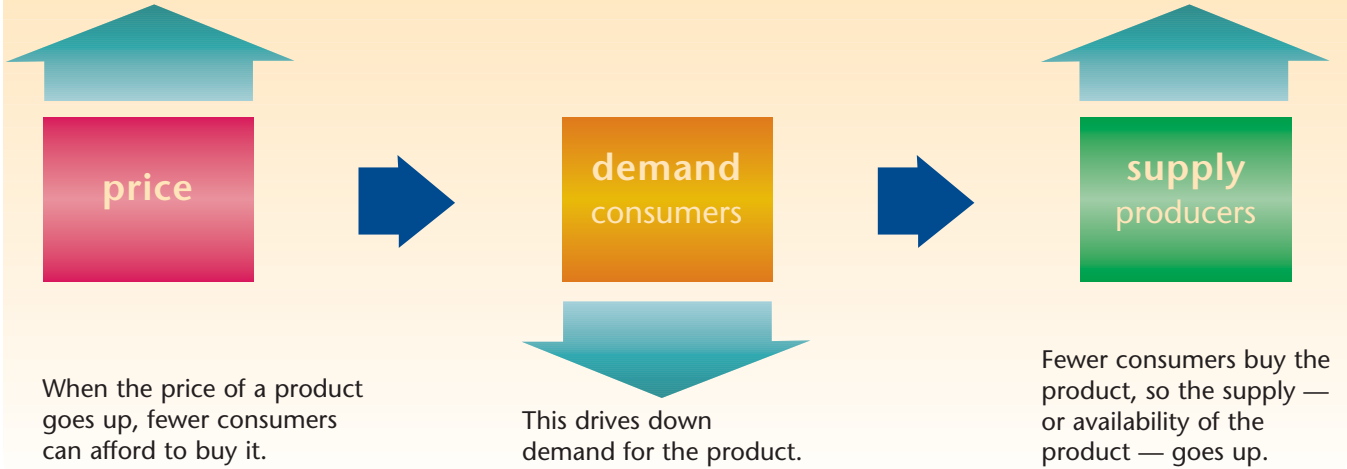
- In a state of equilibrium, the supply of a product can meet the demand for a product at a particular price.



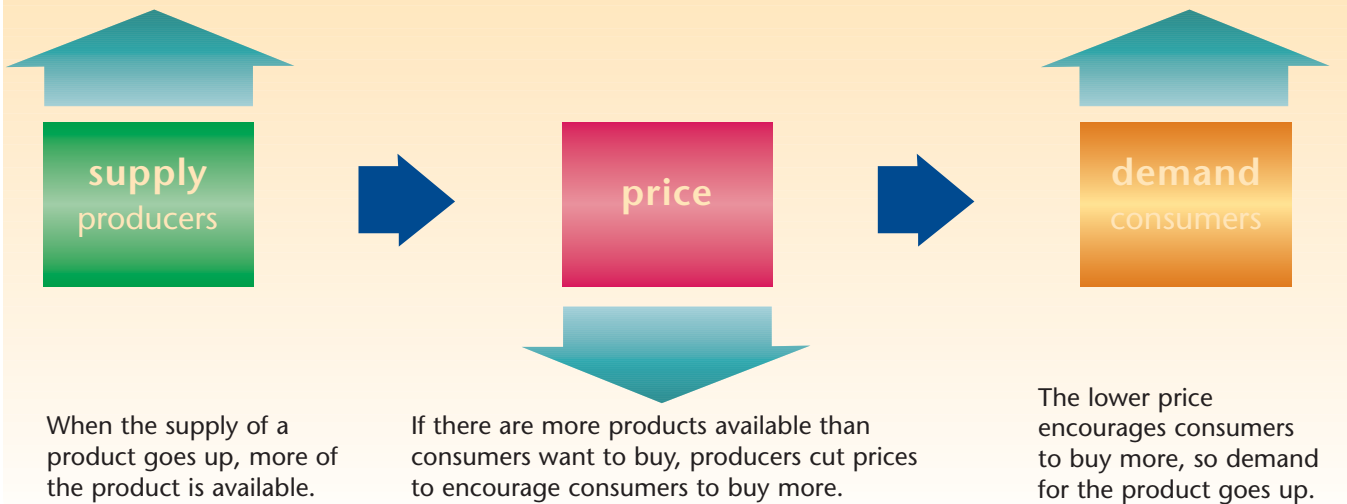
### Demand goes up. What happens to supply? What happens to price?



**Price goes up. What happens to demand? What happens to supply?**



**Supply goes up. What happens to price? What happens to demand?**



**Equilibrium is restored.**

- Generally, producers want to supply as much of a product as consumers will buy, at a price that allows producers to make the most profit possible. This tends to make supply, demand and price stable over time.



**CRITICAL THINKING CHALLENGE** What if the supply of a product went down? How would that affect price and demand? What might cause the supply of a product to drop?



**CRITICAL THINKING CHALLENGE** Why might demand for a product go up? For example, what role might marketing play in demand?

**competition:** in economics, rivalry among producers to sell products to consumers

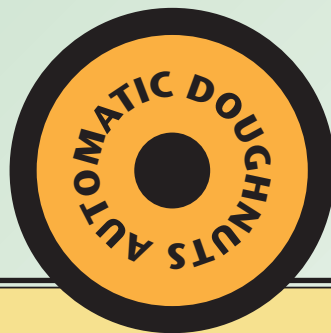
## Competition

Competition is about producers striving to get consumers to buy their products. Producers attract consumers in a variety of ways — through different prices and product quality, for example. Many factors can affect **competition** in an economic system, including the values of consumers and decisions by government to become involved in decisions about supply and demand.

### CASE STUDY

## Two Doughnut Shops


Imagine there are two doughnut shops in your neighbourhood. Each wants your business. What can they do?




This shop specializes in cheap, plentiful doughnuts. It makes large quantities of doughnuts — five kinds — with a machine. It uses bargain ingredients.



This shop specializes in hand-made doughnuts. It employs a staff of bakers and uses high-quality ingredients. It makes thirteen kinds of doughnuts for higher prices.

 How has competition between the shops affected the variety and price of doughnuts available to you? How might this affect your quality of life?

 How has competition affected the decisions the shops have made about resources — for example, ingredients and labour? What impacts might these decisions have on you and your family or friends?



## What are some other examples of competition?



In a mall, many different kinds of stores compete for your business. The stores are owned by individuals or companies that seek to make profits, so they want you to buy things. Consider the last time you shopped at a mall. **Think critically: How do stores in a mall try to influence your ideas about what you need and want? How does this connect to the variety and quality of services a mall offers?**



This shop sells skateboards. To make a profit, it needs to encourage consumers to buy skateboards rather than making other decisions about spending or saving their money. **Think critically: How might this skateboard shop compete for your business? If you own a skateboard, what might influence you to buy another? If you don't own a skateboard, what might persuade you to try one?**

## DID YOU KNOW?

### Monopoly versus Competition

In an economic system, the opposite of competition is monopoly. A monopoly happens when one producer controls all supply of a product or service. Governments sometimes create monopolies as a way to provide essential services that require expensive infrastructure, such as water lines or sewer lines. In Canada, the Canadian Wheat Board is a government agency that some consider a monopoly because it markets wheat in western Canada on behalf of all wheat growers. This means the Wheat Board sets the price of wheat — the price is not set by competition among wheat growers or their customers. The purpose of the Wheat Board is to protect wheat growers from low market prices. Some Canadians support the role of the agency, and some oppose it.

In some cases, governments intervene to prevent monopolies and restore competition among producers. In the United States, for example, Microsoft Corporation had to adjust its software product Windows to allow compatibility with browsers other than its own Internet Explorer.



How do government decisions

that affect competition in an economy reflect values? Describe an example based on the information on this page.





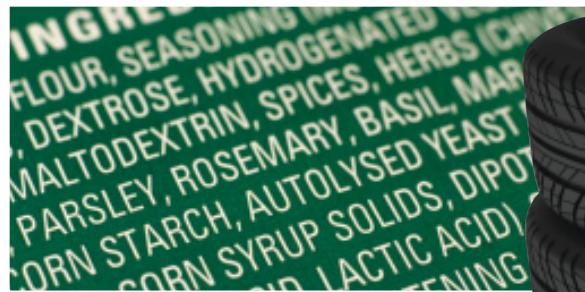
How would you summarize the reason for government involvement in each example on pages 214 and 215? Think of a title to go with each photo.

## Why do governments get involved in market economics?

Market economics relies on the decisions of individual consumers and producers. Sometimes governments get involved to inform, protect or ensure good practices. They may intervene if they feel consumers are not being fairly treated. For example, the B.C. government started its own auto insurance program because it believed private insurers were making auto insurance too expensive.

Take a look at the examples on this page and page 215. What conclusions can you draw about why governments intervene in these circumstances?

Both Canada and the U.S., and many other countries, have laws requiring products, such as foods and cosmetics, to carry labels listing ingredients. These laws often came about because of lobbying by groups concerned with public health and safety. **Think critically: How might information about ingredients influence supply and demand? How might they affect quality of life?**



Many governments require consumers to pay a “tire tax” when they buy new tires. The tax helps pay for recycling the tires, so they don’t go landfills. Instead, recyclers make them into other useful products such as mats and roofing. **Think critically: Why might governments want to encourage consumers and businesses to recycle? How does the decision to recycle or not affect quality of life?**



Governments have laws to ensure competition among producers, such as oil and gas companies. Because of competition, many producers offer products for the same price. It’s illegal for producers to “fix prices” — agree among themselves on what to charge for a product they all supply. **Think critically: When producers compete for your business as a consumer, why does this keep prices down?**



## DID YOU KNOW?

In 2007, Canada's government launched an investigation, under the Competition Act, into price fixing among chocolate manufacturers. The objective of the Competition Act is to "maintain and encourage competition in Canada in order to... provide consumers with competitive prices and product choices." Consider how the price of chocolate could affect your quality of life.



The education of these high-school students comes from money collected and distributed by the government — from taxes. Governments often fund products and services they consider essential for the public good, such as education. Postal services are another example. **Think critically:** What else might be considered a public good? Why might the public good need government support in market economies?



**CRITICAL THINKING CHALLENGE** To what extent do you agree with the involvement of government in each of the examples on pages 214 and 215?

## connect to the big ideas

1. Using electronic drawing or organizational tools, create a graphic or other visual that illustrates how supply, demand and competition work together in a market economy. Make a presentation explaining your graphic to a partner or small group. What opportunities and challenges do these create for producers and consumers?
2. Find examples in the media of government involvement in the Canadian or U.S. economies. What circumstances have triggered the government to be involved? What impact does the government involvement have on citizenship, identity and quality of life for you and others?



## Steps to Writing for Different Purposes and Audiences

So far, you have explored the characteristics and some of the decision making involved in mixed and market economies. You have done some research and gathered information. You're ready to start planning your position paper answering the question:

**Should Canada and the United States have a common economic system with little government involvement?**

For your plan, you need to first figure out who and what your position paper is for. **Who is your audience? What's your purpose?** This section will help you practise writing for different purposes and audiences.



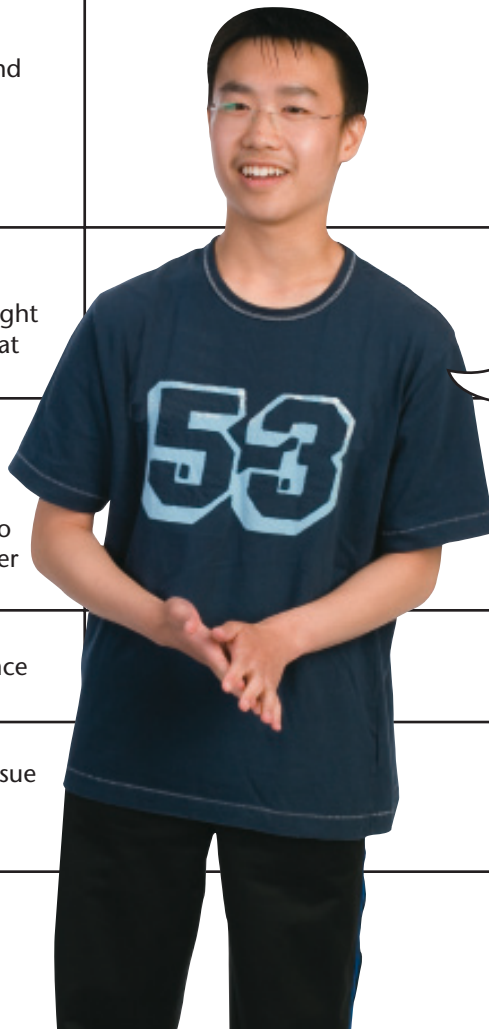
Before I begin to write, I think about what I want to achieve with my writing. Is my writing going to inform people of my ideas or persuade people of my position? Once I have decided that, I can begin.

I try to think about the people who will be reading my paper. I find out what their views and experiences might be on the issue, and how I can convince them of the validity of my ideas. I know my ideas are valid when I can support them with strong facts and evidence.

## Try this!

Practise writing for different audiences using the following scenarios. **What is the main purpose for each one? What evidence would you use to help persuade each audience of your ideas?** Use what you learn here to help you write the position paper for the Minister of Finance in your chapter task.

	<b>Scenario 1</b>	<b>Scenario 2</b>
	Your principal has asked you to write an article for the school newsletter asking for donations for a local charity.	You are an MP writing a speech for the House of Commons defending a bill to privatize a Crown corporation.
<b>Determine the question or issue of each scenario...</b>		
<b>Purpose</b> Decide what your main purpose is: To persuade? To enlist support on an issue? To provide background information on an issue or topic?		
<b>Audience</b> Decide who will read the information, their interests and what issues they will need to respond to...  Determine how the issue will affect their quality of life...		
<b>Views and perspectives</b> Research some views and perspectives the audience might have about the issue and what questions they might ask.		
<b>Position</b> State your position...  Give some opposing arguments to your position to show that you recognize other points of view...		
<b>Evidence</b> Make a list of possible evidence supporting the issue...		
<b>Conclusion</b> Summarize and restate the issue or question and supporting evidence...		



Understanding purpose and audience is part of responding to an issue. It's part of making your views and perspectives understood, and understanding the views and perspectives of others. It connects to taking action as a responsible citizen.