

# 4 Political Economies and Policy Goals

## INTRODUCTION

Economic systems rarely exist today outside a government framework, which means that political and economic decision making are closely connected. No study of an economic system is complete without an introduction to the political system that exists alongside it. Political systems can be broadly classified as either democracies or dictatorships. A **democracy** is a political system characterized by a freely elected government that represents, for a set term of office, the majority of citizens. It is open to many parties and political views. A **dictatorship** is a political system in which a single person or party exercises absolute authority over an entire country. There are no free elections to allow the people to change their leadership.

When you integrate these two types of political systems with market and command models of economic systems, four distinct political economies or “-isms” result. These -isms represent distinct politico-economic ideologies known as socialism, capitalism, communism, and fascism. As Figure 4.1 on the following page indicates, communism is a political economy featuring dictatorship within a command economy. By contrast, capitalism is a political economy featuring democracy within a free-market economy.

To better understand how the four -isms relate to one another, we must factor in the concept of **political orientation**. The political spectrum ranges from extreme-left thinking (represented by communism) to extreme-right thinking (represented by fascism). This is why these two ideologies are often considered mortal enemies. Socialism and capitalism, because they favour free elections, are considered to be moderate orientations. Extreme political orientations favour dictatorship, believing that people need to be controlled for their own good. Ask your teacher for a copy of the -isms survey to discover where your views fit among the -isms.

In this chapter, we will also investigate the main economic goals of the Canadian political economy and explore how governments make difficult decisions to set economic priorities and address economic challenges.

## LEARNING GOALS

Once you have completed this chapter, you should be able to:

- Describe different political economies, their economic goals, and their approach to producing and sharing wealth, respecting individual economic freedom, and promoting the common good
- Provide examples of economic choices (both individual and collective) that Canadians must make as a result of scarce economic resources
- Recognize the advantages of cost-benefit analysis and how it is used to weigh economic options and make sound choices
- Understand how governments set economic priorities and respond to economic challenges
- Identify Canada’s 10 principal economic goals and describe the links and trade-offs among them
- Conduct research using a variety of reliable sources (such as media, institutions, businesses, and interest groups) to address an inquiry question, and communicate economic information, research findings, analysis, and conclusions clearly, effectively, and accurately

## KEY TERMS

democracy  
dictatorship  
political orientation  
capitalism  
communism  
socialism  
nationalization  
fascism  
propaganda  
public debt  
economic growth  
transfer payments  
inflation  
deflation  
balance of payments  
accounts  
consumer sovereignty

**democracy**

A political system characterized by a freely elected government that represents the majority of its citizens.

**dictatorship**

A political system in which a single person exercises absolute authority over an entire country.

**political orientation**

The placement of specific ideas within a spectrum of political views ranging from extreme far-right thinking (fascism) to moderate views (capitalism and socialism) before extending to far-left thinking (communism).

**capitalism**

An economy characterized by private ownership of business and industry, the profit motive, and free markets.

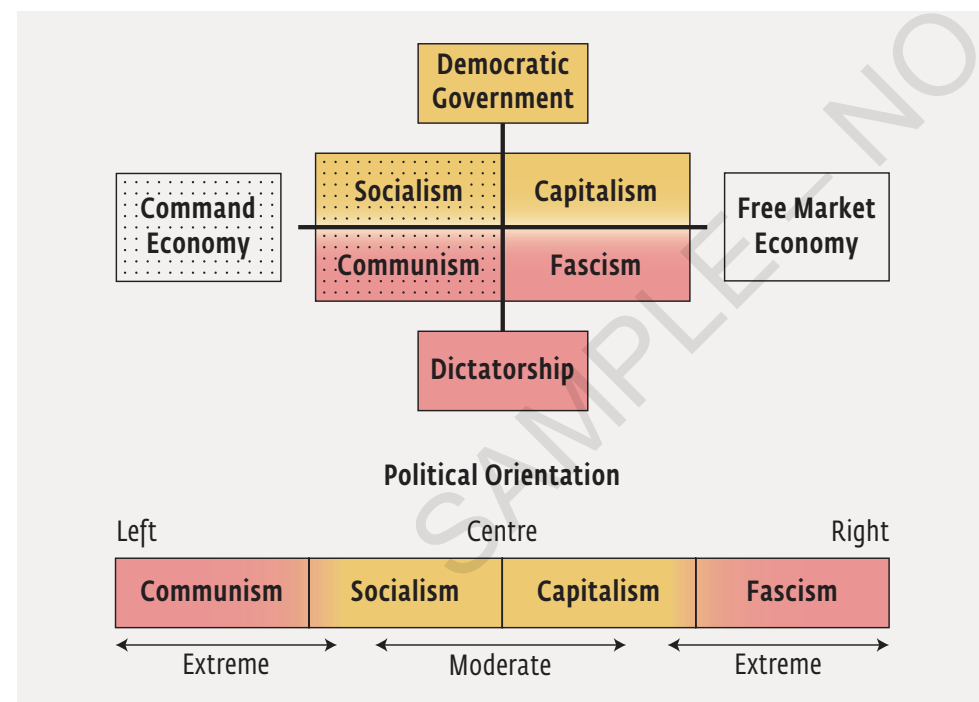
# Understanding Political Economies

## CAPITALISM

When German philosopher Karl Marx called the free-enterprise system with democratic government **capitalism**, he meant to criticize its tendency to stress the accumulation of capital resources as a means to greater individual wealth and power. Capitalism requires a freely elected government to maintain public order and to keep competition free and fair. The private ownership of industry operating under free-market conditions is essential to capitalism. Producers are motivated to produce by the desire for profit. A business can maximize profits by making products that consumers are willing and able to buy. The opportunity for profit and the threat of loss, therefore, play the same role in capitalism that a dictator's edicts play in a command economy. Adam Smith (1723–1790), often called the father of capitalism, used the term *natural order* to describe this politico-economic system because he thought it was based on natural laws.

Capitalism occupies the moderate-right position on the political spectrum, although democratically elected governments can range from a moderate-right orientation (where free-enterprise is prioritized) to a moderate-left orientation (where social welfare is prioritized). Capitalist systems operate today in places such as Hong Kong, Singapore, the United States, and New Zealand. Since assuming control in 1997, the communist government of China has allowed Hong Kong's healthy free-market system to continue to operate. Countries such as Canada, Germany, France, Great Britain, and Italy have primarily capitalist systems blended with some socialist characteristics, such as welfare programs and government-owned enterprises. Economists often categorize these mixed systems as socially responsible "welfare capitalism."

**FIGURE 4.1**  
An overview of politico-economic models making up the political spectrum (from extreme left to extreme right)



## COMMUNISM

**Communism** is a politico-economic model based on the theory of Karl Marx. Communism grew out of the need for exploited working classes to rise up against their capitalist oppressors. It calls for government or community ownership of all means of production and wealth. Under communism, private property and free enterprise are abolished. Ideally, individuals produce according to their ability and consume according to their need. The communist ideology calls for an uncontested government with complete authority to plan for maximum economic growth. Opposition is often illegal. To safeguard the common good, opposing political parties and special interest groups (such as labour unions) have no part in the decision-making process. Since communists have historically used force to achieve their goals, they are seen as occupying the extreme-left wing of the political spectrum.

Under communist rule, the Soviet Union developed from a war-shattered Russian economy in the early stages of industrialization in 1917 into a military superpower 50 years later. This transformation was accomplished primarily through a series of five-year plans requiring citizens to make major personal sacrifices to help build the state. Government planning prioritized the manufacture of capital goods over consumer goods to expand the country's future capacity to produce.

By 1991, the Soviet economy had suffered a series of major economic setbacks. For decades, the quality of Russian goods was in sharp decline, and inefficient production processes failed to meet government targets. Citizens grew tired of the constant need to make personal sacrifices. As a result, the increasingly corrupt Communist Party lost its absolute power and the Soviet Union was dismantled. Today, the Russian economy continues the painfully inequitable transition to a market economy, while the government is controlled by a dictator and his closest associates. Communist systems are still in place in China, Cuba, North Korea, and Vietnam.

**communism**

A political system on the extreme left, founded on the theory of Karl Marx, that calls for government or community ownership of the means of production.

A commemorative military parade from 2018 in Moscow's Red Square, in Russia.



**socialism**

A political system of the moderate left that calls for public ownership of the principal means of production, to be achieved in a democratic and peaceful manner.

**nationalization**

Another term for state ownership of business enterprise.

**SOCIALISM**

**Socialism**, too, is based on public ownership or control of the principal means of production. However, unlike communists, socialists favour democratic and peaceful methods to achieve their goals. Once they have been elected, socialists do not ban opposition parties. For this reason, they are often called *social democrats* and are considered to occupy the moderate-left position on the political spectrum.

Socialists aspire to the fair and equal distribution of available goods and services through a democratic decision-making process. They claim that free enterprise is inefficient, wasteful, and prone to conflicts between workers and capitalists resulting in exploitation. Under socialism, co-operation and worker solidarity theoretically replace the capitalistic ideals of self-interest and competition. Experiments with socialism in Britain and France in the 1970s and 1980s produced a measurable decline in national productivity. Some critics use such results to question whether human self-interest makes socialism ultimately unworkable.

The politico-economic systems in the Nordic (Scandinavian) countries of Norway, Sweden, Denmark, Finland, and Iceland have undergone a substantial transformation since 1950. They began under “free-enterprise socialism,” the most moderate of socialist philosophies, and slowly evolved into a mixed capitalist system that attempts to balance free enterprise with social responsibility. In these countries, the focus is no longer on increasing state ownership (the **nationalization** of enterprise), but rather on private enterprise balanced by socialist government policies that address collective needs. As noted in Chapter 3, a key characteristic of the Nordic economic model is an arrangement whereby economic stakeholders work together to negotiate wages, working conditions, and market policies. National production levels and living standards in Norway and Sweden continue to grow under a free-enterprise system modified by a socialist perspective. Today, living standards in Nordic countries are among the highest in the world, while rates of government corruption are among the lowest.

**DID YOU KNOW?**

Did you know that French Prime Minister Georges Clemenceau (1917–1920) once stated: “If you are not a socialist at the age of 20 you have no heart; if you are still a socialist by the age of 40 you have no brain.” What was his perspective on socialism as an ideology?

Pictured here at the height of the financial crisis in 2008 is a demonstration in London, England, by the Socialist Worker group of newspapers, with a distinct anti-capitalist message.

**FASCISM**

**Fascism**, occupying the extreme-right position on the political spectrum, combines a free-market economy with a non-democratic, or authoritarian, form of government. Fascist governments use force as a means of political and social control. They believe that individuals need to be controlled for the collective good. As with the politics of the extreme left, fascist governments do not usually tolerate political opposition. Citizens are free to own property and businesses as long as they comply with all government dictates. There are clear restrictions on individual freedom. Military dictatorships that allow private ownership and enterprise can be categorized as fascist systems. Italy (1922–1945), Nazi Germany (1933–1945), Spain (1936–1975), Japan (1931–1945), Brazil (1937–1945), and Argentina (1946–1983) are historical examples of this ideology. The Second World War (1939–1945) was fought to repel the advancing forces of fascism in Europe and Asia.

Capitalists in a fascist state are very careful to fulfill the wishes and production demands of the government. In this manner, capitalists protect their privileged role in society. Fascist leaders expect industrialist and business leaders to promote economic growth and productivity. For this reason, fascist systems are sometimes referred to as “dictatorial capitalism.” Often, these dictators are supported by sympathetic military leaders. **Propaganda** (grossly one-sided messaging intended to influence popular thinking) is heavily used to promote the greatness of the uncontested ruler and the fascist state. Capitalist systems that venture too deeply into uncontested rule, either by rigged elections where the ruling class always wins, or by suppressing the voices and rights of the opposition, can easily evolve into fascist states.

**fascism**

A political system on the extreme right, combining a free-market economy with a non-democratic form of government.

**propaganda**

Concerted messaging efforts used to influence thoughts and opinions by repeated emphasis, distortion, deception and misinformation.

General Francisco Franco (centre) stands with his senior officers before leading the 1936 coup d'état against the Republican Government in Spain and establishing a totalitarian military dictatorship.

**Self-Reflect**

- 1 What two factors are used to classify political economies? Explain how they help differentiate political economies.
- 2 Explain the difference between an extreme and a moderate political orientation.
- 3 What is the principal difference between socialism and communism?
- 4 Why is the Canadian system often referred to as “welfare capitalism”?

## Setting Economic Goals: A Canadian Model

Every politico-economic system attempts to establish economic goals as targets to focus the use of productive resources. Some economic goals are *complementary*; that is, achieving one economic goal makes it easier to achieve another economic goal. For example, to reach employment rate targets, a government may lower interest rates on business loans to promote the creation of new jobs. In turn, the creation of new jobs will automatically help improve income levels in an economy and encourage consumer spending.

Unfortunately, some economic goals are *conflicting*; that is, achieving one economic goal makes it harder to achieve another economic goal. For example, government strategies to keep the economy's prices stable often have an adverse effect on employment rates and national production. Governments can promote price stability by raising interest rates to control the amount of money in circulation; as it becomes more expensive to borrow money for investment, businesses hire fewer workers and their production levels either remain constant or decline. Government policy-makers have to recognize this trade-off and decide whether the current priority is to achieve price stability or to put more people to work. They can't count on being able to have both. In this situation, increases in employment and production are the opportunity costs of stable prices.

The setting of economic goals, therefore, is a matter of normative, or policy, economics. In other words, governments must make value judgements when they set priorities for conflicting goals. On the whole, the economic goals that countries strive for are often similar. However, how each country prioritizes its conflicting goals will determine how it distributes its productive resources.

Since the 1960s, 10 economic goals have emerged as priorities in Canada (Figure 4.2). The following sections identify and explain each of them. The order of their appearance in the text does not indicate their order of priority. Each government has re-examined these economic goals and set its own priorities. In later chapters, we will examine these goals in greater detail.

**FIGURE 4.2**  
Ten economic goals in Canada



### ① Political Stability

A stable government can help long-term planning and investment to flourish. Consistency in policy-making promotes both investor and consumer confidence and provides a climate conducive to economic growth. For example, each time a sovereignty referendum is conducted in the province of Quebec, consumer confidence (both foreign and domestic) is shaken, and the Canadian economy suffers. Similarly, in the United States, a political crisis in the White House usually upsets US stock markets. More often than not, political uncertainty has an adverse effect on a country's economy.

### ② Reduced Public Debt

With very few exceptions, since 1970, government spending in Canada has increased at a faster rate than the revenues being collected through taxes. Governments have had to borrow money to cover the difference. This has meant

that Canada's **public debt** (and the interest payments to service it) has grown larger year after year. Just as individuals cannot continue to incur large personal debt without suffering for it economically, governments cannot continue to add to the public debt without adversely affecting the economy. Inevitably, interest rates climb higher, as do prices for consumer goods. As well, there is the moral issue involved in running up a debt that future generations of Canadians will have to pay. Concerned Canadians have begun to demand more balanced budgets from their elected governments.

### ③ Economic Growth

**Economic growth** is defined as an increase in the economy's total production of goods and services. Theoretically, it represents an outward shift in the economy's production possibilities frontier. This growth can result from the discovery of new natural resources, an increase in the skilled labour force, technological innovations, and more efficient production processes. As economic production expands, Canadians have more goods and services at their disposal, thereby increasing the average standard of living.

As a result of the periods of substantial growth that the Canadian economy has enjoyed since the Second World War, Canadian workers now have access to three times as many goods and services as they did in 1945. In addition, as the economy expands, the public debt (if held in check) becomes less significant and easier to manage. However, the sustainability of continued growth must be questioned in light of the limited quantity of productive resources ultimately available to the Canadian economy.

### ④ Increased Productivity and Efficiency

Maximizing productivity means that scarce productive resources are put to efficient use to get as much as possible out of them. Economic efficiency is often the result of healthy competition. As Canadian firms struggle to be competitive in both local and global markets, they must make their production processes more efficient. The companies with the most efficient practices will maximize profits, prevail in the marketplace, and set new standards for others. Increased productivity will allow these firms to get more out of existing resources. Workplace training programs, incentives, and bonuses (such as profit-sharing plans where workers receive a portion of the extra profits that their effort and efficiency have generated) are used by some progressive companies to improve the productivity of their workforce. Although increased productivity is generally good for the economy, it can also have negative consequences. For example, if worker productivity is increased, fewer workers will be needed to produce the same quantity of goods and services.

### ⑤ Equitable Distribution of Income

The equitable, or fair, distribution of income may be the most value-laden of all economic goals; it is certainly the most controversial. When it comes to dividing up total national output, there can be as many interpretations of what makes for a fair division of wealth as there are stakeholders. Is it fair that the annual income of a corporate executive in North America is many times higher than that of the

#### public debt

The total debt held by federal and provincial governments accumulated from their past borrowings, on which interest must be paid.

#### economic growth

An increase in an economy's total production of goods and services.

**transfer payments**

Direct payments from governments to other governments or to individuals; a mechanism for providing social security, income support, and alleviation of regional disparities.

**inflation**

A general rise in the price levels of an economy.

**deflation**

A general fall in the price levels of an economy.

average salaried worker in the same company? How much income should be taken away in taxes from someone who earns \$10 million a year and redistributed among families whose gross annual income is less than \$10 000?

In Canada, the issue of income equity is further complicated by regional differences. For example, average employment incomes for residents of Ontario are statistically higher than for people who live in the Atlantic provinces, a situation that has existed for years. Through **transfer payments** (using revenues from one province to make additional social program payments in another), the federal government attempts to redistribute national wealth.

Socialists advocate a more equal distribution of wealth. Others argue that income equalization will only reward inefficiency and remove the personal incentive to work harder and take risks. As the debate continues, more and more Canadians are forced to use food banks or live on the street. Canada is not alone in this regard; no country, not even the most affluent, has completely solved the problem of poverty. The Canadian model uses a social welfare system anchored on socialized health care, free public education, and social services for needy citizens to distribute national wealth more equitably. However, this social welfare system is sustained by a larger amount of government spending each year.

**6 Price Stability**

Stable prices generally indicate that an economy is healthy. Fluctuating prices complicate planning and discourage investment. Both **inflation**, a general rise in prices, and **deflation**, a general fall in prices, are symptoms of an unhealthy economy. Periods of price inflation erode the dollar's purchasing power and raise the cost of living for Canadians on fixed incomes. Deflation, though rare in Canada, is commonly associated with periods of great economic crisis, such as the Great Depression of the 1930s. It should come as no surprise, then, that government economic policy seeks to promote and maintain stable price levels.

**7 Full Employment**

In an attempt to reach their optimal production targets, governments try to promote the full employment of the labour force. Unemployed workers result in total output levels well below the national production possibilities curve. An unemployed labour force also represents a waste of human potential and can cause economic hardships for unemployed workers and their families. Sustained periods of high unemployment usually indicate that a country is in poor economic health. During the Great Depression, Canadian unemployment rates approached 20 percent, and during economic downturns in the 1980s and 1990s, rates were more than 10 percent.

"Full employment" is usually defined as between 6 and 7 percent of the labour force being out of work. However, full employment has become increasingly difficult to achieve in Canada: machines continue to replace people on production assembly lines, computers now perform tasks that were once performed by people, and many jobs have been outsourced to countries where labour costs are a fraction of Canadian costs. Since the late 1990s, unemployment rates in Canada have remained above 7 percent, despite sustained economic growth.

**8 Viable Balance of Payments and Stable Currency**

Canada is a major trading country. The annual dollar value of trade per person is higher in Canada than in any other country in the world. In a global economy, the international flow of goods and currency in transactions such as importing, exporting, borrowing, and lending has become increasingly more important. The **balance of payments accounts** summarize all currency transactions between Canadian and foreign economies. If Canadians import significantly more than we export, there will be a negative effect on employment rates in Canada as well as the foreign exchange value of the Canadian dollar. It is important, therefore, that imports and exports roughly balance one another. Similarly, money that flows in and out of the country needs to be balanced to foster a stable Canadian dollar in foreign money markets. As the value of the Canadian dollar declines in foreign money markets, Canadians will find that imported goods will become more expensive and their cost of living will rise.

**9 Economic Freedom**

Economic freedom refers to the freedom of choice available to workers, consumers, and investors in the economy. Canadian workers who want to improve their working conditions and income should be free to find and take another job. In a market economy, consumers should be free not only to purchase the goods and services of their choice but also, through their purchasing decisions, to determine what goods and services are produced. This is known as the principle of **consumer sovereignty**. In a market economy, people should be free to choose when and how to consume, save, or invest. Canadian public policy generally promotes economic freedom.

**10 Environmental Stewardship**

Economic activity must be carried out without significantly harming the natural environment. We have come to realize that the pollution of the air, water, and earth, the depletion of our natural resources, the destruction of the ozone layer that protects us from ultraviolet light, and the gradual warming of the planet are all additional costs of the decisions we make about economic development. If we wish to be more responsible stewards of our planet and protect it for future generations, we have to adjust the way we carry out our economic activities. Even if this means higher prices for consumers and lower profits for producers, we must find a way to reduce the negative effects we are having on the natural environment.

Potential problems can arise if Canada enacts environmental laws (such as a tax on carbon emissions) that make its products more expensive and its trading partners do not follow suit. This situation can make Canadian goods less competitive in world markets. It also raises a moral issue: If Canada trades with a country that has low environmental standards, does this mean that we are condoning the other country's harmful environmental policies? Clearly, on the normative side of economics, there is more to consider than just price!

**balance of payments account**

National account of international payments and receipts, divided into current account, and capital and financial account.

**consumer sovereignty**

A principle of market economies that the production choices of the economy are ultimately made by the buying decisions of consumers.

**Self-Reflect**

- 1 Explain why full employment and price stability can be conflicting goals for the Canadian economy.
- 2 Explain how both inflation and deflation are generally bad news for the Canadian economy.
- 3 Explain why the principle of consumer sovereignty is important in a market economy.

# Thinking like an Economist

## Using Cost-Benefit Analysis to Prioritize Difficult Choices

The cost-benefit analysis (also referred to as a *CBA*) is one example of disciplined economic thinking. This type of analysis is used to compare the benefits (advantages) and costs (trade-offs) of available options to determine the best course of action. When benefits are seen to outweigh costs, an option is seen to be economically viable. The option with the best benefit-to-cost ratio is said to represent the most economic choice. Cost-benefit analysis is often used early in a decision-making process to establish priorities and assess available options.

In a cost-benefit analysis, costs and benefits are converted to dollar values so that they can be compared and assessed. Let's say that a company wants to improve productivity by making workers more efficient (see Figure 4.3). One strategy for improving worker productivity is an efficiency

training program. The training program fee multiplied by the number of participating workers would be the cost, while a 5 percent reduction in material waste and a 5 percent reduction in unit assembly time would be the benefits. Boosting worker morale is also recognized as helpful in improving productivity, so the costs and benefits of a suggestion box program and social events are also considered. From the available options, an economist may consider the costs of placing suggestion boxes around the plant and offering monthly cash prizes for the best ideas to improve efficiency to be the most economic choice. The option of social events for workers and their families might also be added to morale-building costs, but in this case the benefits are only slightly higher than the actual costs.

**FIGURE 4.3**  
Sample cost-benefit analysis

Goal: To improve company productivity by making workers more efficient.			
Option	Associated Costs (c)	Associated Benefits (b)	Net Benefits (b - c)
1 Efficiency training	\$500 training fee × 26 workers = \$13 000	5% reduction in material waste = \$13 000 5% reduction in unit assembly time = \$12 000	\$25 000 - \$13 000 = \$12 000
2 Suggestion box program	Purchase and installation of three boxes = \$500 \$500 monthly prizes = \$6 000	Thinking and feedback about efficiency = \$1 000 4% reduction in material waste = \$10 400 4% reduction in unit assembly time = \$9 600	\$21 000 - \$6 500 = \$14 500
3 Social events	Christmas party (venue, entertainment, food, and gifts for 100 guests) = \$5 000 Summer picnic (venue, activities, food, and prizes for 100 guests) = \$4 000	1% reduction in material waste = \$2 600 1% reduction in unit assembly time = \$2 400 1% reduction in material waste = \$2 600 1% reduction in unit assembly time = \$2 400	\$10 000 - \$9 000 = \$1 000

**FIGURE 4.4**  
Steps in a cost-benefit analysis

Step	Focus Questions
1 Define a need, issue, or goal.	• What needs our attention to achieve established targets?
2 List available alternatives.	• What options are realistically available?
3 Identify and consult stakeholders.	• Who will be affected by this decision? • What are their interests and views regarding this decision?
4 Establish priorities for common and conflicting interests and goals.	• How can common interests be addressed? • How can conflicting views be reconciled or prioritized?
5 Select measurement criteria.	• What considerations will help identify and value relevant costs and benefits?
6 Measure all costs and benefits associated with each alternative.	• What are the benefits (positives) and costs (negatives) for each alternative or option?
7 Convert all benefits and costs to a common currency (or tangible value).	• What dollar value can be determined for each benefit and cost?
8 Compare alternatives to find the most favourable benefits-to-costs ratio.	• Which alternative maximizes benefits while minimizing costs?
9 Implement the "most economic" option and assess outcomes.	• How is the decision working out? What adjustments are needed to address consequences or improve implementation?

When dollar values can be attributed to specific benefits and costs, a relative significance can be accurately determined. Often, especially when dealing with policy matters, a more normative value judgement is required when assessing costs and benefits. In these cases, individual costs and benefits are assessed as being highly, moderately, or minimally significant. When such value judgements are made in a cost-benefit analysis, they should be noted in the final decision.

Cost-benefit analysis can be used by a company to make economically viable business decisions and by government policy advisers to advocate for a particular prioritization of goals and strategies. Although cost-benefit analyses are sometimes customized to suit the programs, initiatives, or options being assessed, the general steps in Figure 4.4 are usually involved.

### APPLYING ECONOMIC THINKING

- 1 How would you prioritize the three available options given a budget of \$15 000? Explain your choice.
- 2 How would your decision change if your budget is expanded to \$20 000?
- 3 Benefit calculations for options are based on the effect this strategy has had on other companies with similar workforces. To what degree can similar outcomes be guaranteed for this company?
- 4 How might government goals affect your productivity gains positively or negatively?

## Setting Economic Priorities When Stakeholder Interests and Policy Goals Conflict

Finding common ground among people with different interests and viewpoints is challenging at the best of times. However, governments regularly consult with diverse stakeholders to determine shared public interests and set economic priorities. They also carefully assess what economic policies are most needed and what must be given up to achieve them. In both the political and economic worlds, every choice has consequences.

### A GOVERNMENT PERSPECTIVE ON RESPONDING TO ECONOMIC CHALLENGES

Most governments equate economic growth with prosperity. Therefore, economic policies often include strategies intended to promote economic growth. For example, if a government wants to prioritize job creation to combat an unemployment rate approaching 9 percent of the workforce, it may decide to lower interest rates to encourage borrowing and investment spending. By increasing the circulation of money, both the demand for products and the labour required to produce them will increase. However, if production does not increase proportionately, the extra money in circulation can lead to higher prices. This price instability is just one trade-off that could result from a government job-creation policy.

Increased government spending on infrastructure projects (for example, highways, roads, bridges, schools, and public transit systems) will create jobs, but the trade-off will be increased public debt, unless taxes are also increased to pay for these new spending projects. Increasing taxes will take more money out of circulation and reduce both spending on consumer goods and investment spending by businesses. The consequences will generally be a negative effect on production and employment levels. As you can see, it is not easy to make economic policy decisions.

University students are seen protesting Canada's rapidly increasing federal government debt in 2016. At the time the accumulated federal debt was almost \$620 billion, or \$17 500 per person in Canada.



**FIGURE 4.5**  
Unemployment rates for selected provinces, 1990, 2000, 2010, and 2017

Province	Unemployment Rate (%)			
	1990	2000	2010	2017
Alberta	6.9	5.0	8.1	7.8
British Columbia	8.4	7.2	7.6	5.1
New Brunswick	12.1	10.0	9.2	8.1
Newfoundland	17.0	16.6	14.7	14.8
Nova Scotia	10.7	9.1	9.6	8.4
Ontario	6.2	5.7	8.7	6.0
Quebec	10.4	8.5	8.0	6.1
<b>Canada</b>	<b>8.1</b>	<b>6.8</b>	<b>8.1</b>	<b>6.3</b>

To further complicate matters, some provinces or regions in the country will experience higher and more persistent unemployment rates than the rest of the country. Any economic priority with a trade-off of increased unemployment will have more severe consequences in provinces or regions where unemployment rates are already quite high.

Given the unemployment rates reflected in Figure 4.5, national economic policies to reduce public debt and to promote stable prices will have more serious consequences in provinces with relatively higher unemployment rates (such as Newfoundland, New Brunswick, and Nova Scotia). In addition, economic policies that prioritize job creation would have been more popular across Canada in 1990 and 2010, than in 2000 and 2017. Can you see why? It is important to note that policy priorities need to adapt to changing economic conditions. Provincial governments can help address regional issues and concerns. Intergovernmental co-operation is essential, since federal policy initiatives can be rendered less effective by the conflicting initiatives of provincial governments.

One of the traditional policy debates in Canada is centred on the economic trade-offs between debt reduction and the preservation of the national welfare safety net. Since welfare programs require increasing amounts of government spending, unless taxes are increased proportionately, these programs generally contribute to an increase in national debt. To illustrate the impact of this policy on future generations of Canadians, university students from British Columbia posed for a photo, struggling with a debt clock that travels across the country to draw attention to Canada's growing national debt and how much it will cost individual Canadians to repay it. This debt clock is funded by a special-interest group known as the Canadian Taxpayers Association, which is interested in reducing public debt.

Economic policy choices are so complex and value laden that Unit 5 has been reserved to investigate this topic much more closely.

### Self-Reflect

- 1 What effect do regional differences have on the equitable distribution of income in Canada?
- 2 Explain how a government policy to reduce public debt will have more serious consequences in New Brunswick than in Ontario.
- 3 Identify the economic benefits and costs of a government policy to expand social welfare programs and create jobs for unemployed people in Canada.

## Chapter 4 Consolidation Activities

### KNOWLEDGE

- 1 Why has fascism historically been a bitter rival of communism? What makes them both extreme ideologies?
- 2 Explain why each of the following pairs represent either complementary or conflicting economic goals:
  - a) Economic growth and reduced public debt
  - b) Political stability and economic freedom
  - c) Environmental stewardship and economic growth
  - d) Reduced public debt and equitable distribution of income

### THINKING & INQUIRY

- 3 Is the Nordic (Scandinavian) model primarily socialist or capitalist? Conduct Internet research to collect evidence to support your conclusion.
- 4 What economic problems led Sweden down the road of reform, ultimately creating one of the healthiest economies in the world? Conduct Internet research to investigate and explain this transformation.
- 5 Compare and assess the ability of capitalism, socialism, and communism to satisfy needs and achieve economic goals in a way that is consistent with human nature.
- 6 Using the Venn diagram in Figure 4.6 and a job search site, answer the following questions
  - a) What kind of local job opportunities are there for people with a background in economics? At a job search site, find local job openings using three job titles that appear in Figure 4.6. Create a table with the following headings to summarize your findings:
 

• Company	• Skills Required
• Job Title	• Background Required
• Salary	• Nature of Work
• Education Required	
  - b) Why are companies willing to pay for expertise in economics? What makes a job related to economics both challenging and interesting?
  - c) What kind of job opportunities related to economics most interests you? Why?

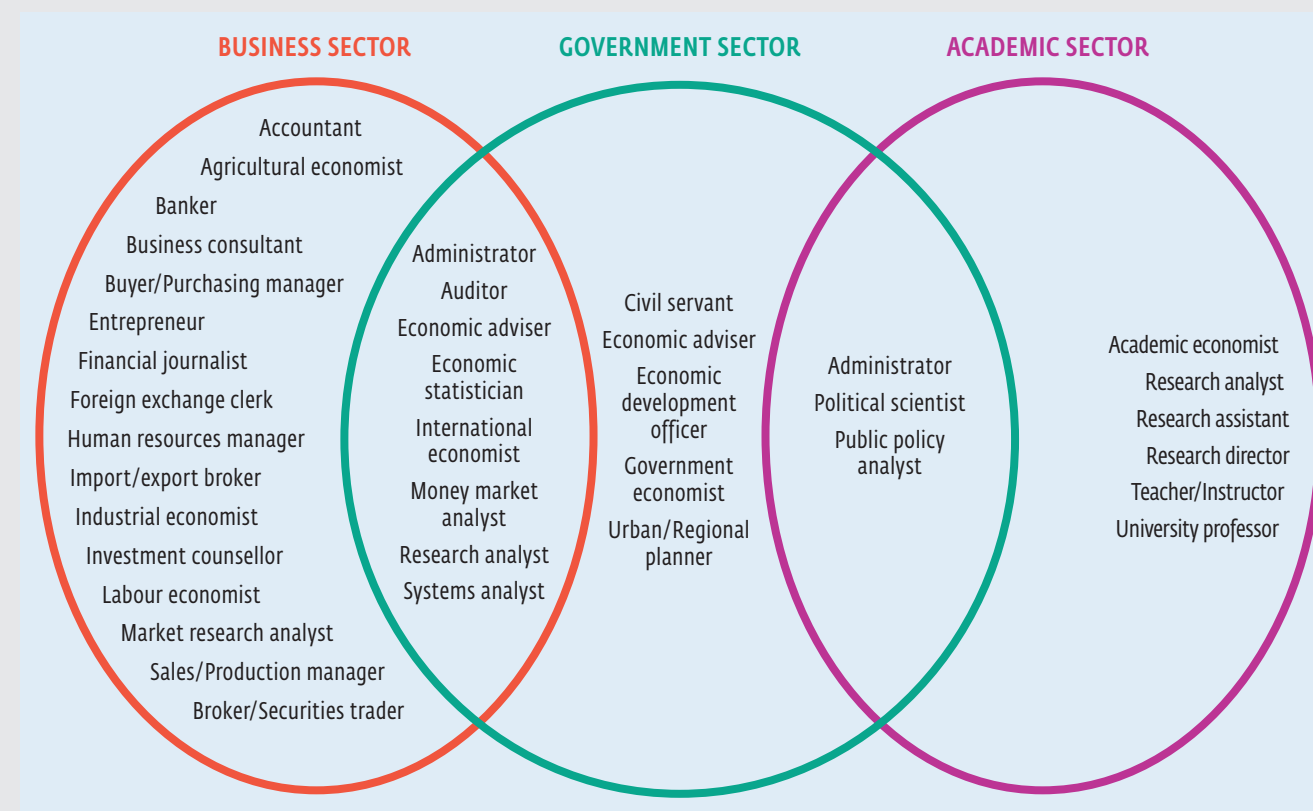
### COMMUNICATION

- 7 As a study guide, create a comparison chart of political economies using the following headings: Government, Economy, Production Decisions, Strengths, Limitations, and Specific Examples.
- 8 Which political economy do you prefer? Explain and justify your choice.
- 9 How would you explain how cost-benefit analysis can be a useful decision-making or priority-setting tool to a schoolmate who is not taking this economics course?

### APPLICATION

- 10 Collect several (6 to 10) articles from newspapers and magazines that reflect normative (or policy) decisions that the Canadian government has made. Using the 10 economic goals we considered in this chapter, identify the economic goals with which each article deals.
  - a) Arrange the 10 economic goals in what you think is their order of importance, 1 being the most important and 10 being the least important. Justify your priorities by referring to the articles you have collected. Be sure to reassess these priorities once you have completed Unit 5.
  - b) In the list of economic goals, identify those that conflict with each other. For each conflicting goal, identify the opportunity cost involved.
- 11 Explain the goal of environmental stewardship as it applies to three economic examples of responsible decision making based on research or personal experience.
- 12 Consider what would happen if the Canadian dollar plummeted to a new record low on world currency markets.
  - a) Why does an unstable dollar create problems for the Canadian economy?
  - b) What are the most likely causes of a declining dollar?
  - c) What is the best way to achieve the economic goal of stable currency? Justify your decision.
  - d) How important a priority is currency stability? Explain your answer.

**FIGURE 4.6**  
Career opportunities related to economics exist in the business, government, and academic sectors of the economy





# Unit 1 Performance Task

## Developing a Strategy to Reach a Performance Target

Economists use their knowledge and skills to help clarify complex choices, explain human behaviour, evaluate available options, and support responsible decision making. At the start of this unit, you were asked “How do you determine the most productive use of your time, and what can be done to improve your productivity?” Now that you have completed

the foundational learning activities in this first unit, your challenge is to put your knowledge and skills to effective use. The following task presents you with a realistic challenge, very much like the work carried out by many Canadians with a background in economics or related fields.

### YOUR TASK

You are the manager of human resources for the Acme Sunshine Corporation, a young and growing Canadian company specializing in the design, manufacture, and installation of rooftop solar panels for homes and businesses. Acme is interested in expanding its business to other parts of Canada. To achieve this goal, the owners have set the following performance target to improve competitiveness.

#### PERFORMANCE TARGET

To position itself so that it can compete favourably in more markets, Acme Sunshine Corporation must generate efficiencies in all departments to achieve a 20 percent increase in corporate productivity within three years.

The four owners of the company are divided with regard to the best course of action for achieving this important target. The following four options have been identified:

- 1 Require all employees to work 10 hours longer per week, while freezing wages and salaries at current levels.
- 2 Reinvest a portion of corporate profits to fund ongoing employee training.
- 3 Pay employees in ownership shares in the company, instead of money, for all overtime work.
- 4 Start a profit-sharing plan to reward all employees for reaching productivity targets and for their direct contribution to higher profits for the company.

As manager of human resources, you are required to prepare a report to the owners that weighs the costs and benefits of each proposed option and makes a specific recommendation regarding the most appropriate course of action to make employees more productive and the company more competitive.

You have been promised a big bonus, depending on the outcome of your recommendation—not to mention that your job is on the line! Your report can be either a written report, documenting a thorough analysis and persuasive argument, or an oral report, visually supported by a presentation program such as PowerPoint or Prezi.

### STEPS AND RECOMMENDATIONS

- 1 Review all the work you have done in this unit to refresh your understanding of related concepts and skills.
- 2 Use a decision-making model and include an analysis of both costs and benefits to make a sound decision.
- 3 In preparing your report, be sure to include the economic concepts, principles, and theories most appropriate to your analysis and most useful in supporting your recommendation.
- 4 Strive for high-quality economic thinking, thorough attention to detail, and a persuasive argument to support your recommendation.
- 5 Keep the language appropriate for a report to the owners of your company, your bosses.

### ADAPTING THE TASK

Discuss format options for your report with your teacher. Select a format that capitalizes on your strengths. Interview local business leaders for practical input and suggestions. Share drafts with your teacher, classmates, and parents or guardians to obtain useful feedback.

### ASSESSMENT CRITERIA

The following criteria will be used to assess your work:

- **Knowledge:** accurately using economic concepts, principles, and theories
- **Thinking and Inquiry:** using sound economic reasoning and thorough analysis; using a decision-making model effectively
- **Communication:** presenting economic information and analysis clearly and accurately, and in an appropriate format and style
- **Application:** presenting a persuasive argument to inform decision making

Use the rubric provided by your teacher as a coaching tool to help complete this task successfully.

