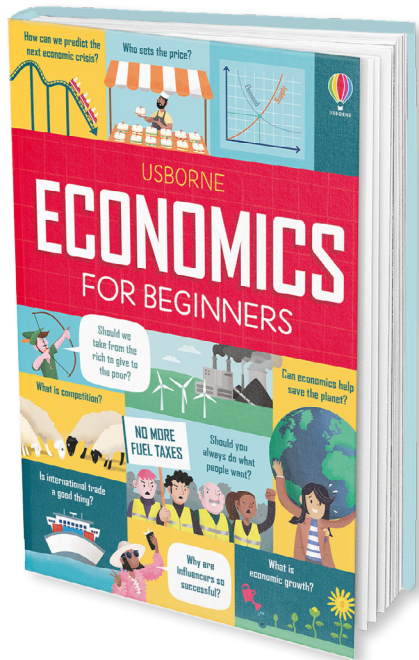


USBORNE

ECONOMICS

FOR BEGINNERS



Review the template below on 'How to Debate'.



Divide the class up into two groups. Each group should then come up with opposing opinions on the topics below using information in the extracts from Economics for Beginners:

- Are big businesses good or bad? Think about what makes them good or bad. Support your opinion with real examples.
- Is inequality ok in our society? Is it acceptable that some people are richer and some people are poorer?
- What do you think a perfect economy looks like? What would you prioritise? More jobs, better schools, more beds in hospitals, business growth, environmental improvements.
- What taxes do you think are fair and should people who earn the most money pay the most tax?
- If you were the Government, what would you borrow money from a bank to fund and why?
- What is a market economy? Do you think it is a good or bad way for a government to run an economy?
- What kind of government do you think is best for a country - big or small?

Each group to select representing either a left-wing government or a right-wing government. How would these beliefs influence what policies and issues would be prioritised?

Economics is an argument

Even though all economists study data – sometimes exactly the same data – they often come to different conclusions about what it's saying.

Rice rations prevented many families from starving! It's really good that the government took control of the situation.



I think rationing made no difference. Over time, prices would've gone down without government interference.



Just like everyone else, economists often have different ideas about how societies *should* work, or a different sense of what's fair. Even in this book, the way we describe economics and the examples we've chosen show our **biases** – the things *we* think are important. Here are some different ways of seeing the world. You might strongly agree or disagree with some of them.

The world is too unequal. It's not fair that anyone is richer than anyone else.



I think big businesses are bad! They make so much money because they can push smaller companies out of the way.



I think big businesses are good! They only become rich and successful if they're better than their competitors.



There are economists to back up all of these opinions.

British economist Joan Robinson once said...

The purpose of studying economics is to learn how to avoid being deceived by economists.



Is inequality ok?

Economists aren't the only ones who can answer economic questions. For example, American philosopher John Rawls explored people's feelings about inequality by getting them to imagine an ideal world.

1 In this world, there will be two groups of equal sizes, called 'richer' and 'poorer'.

2 YOU will get to live in this world, *after* you've answered the question – 'how rich should each group be?'.

3 Then, a flip of a coin will determine which group you go in.

In lots of countries, people taking part in the exercise tend to design a world with inequality, where the rich earn a bit more than the poor – but not too much more. Here are some of their reasons.

It's only *fair* if people who work harder or better are rewarded for it.

Yes but, when a company's managers earn hundreds of times more than an unskilled worker, that's *unfair*. There's only so much more a manager can achieve in a day!

Inequality is also *motivating*. Hard work, good ideas and taking risks needs to be rewarded, otherwise people wouldn't bother.

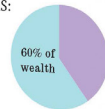
But knowing you're at the bottom can be *demotivating*, especially if you think you'll never do well, however hard you work.

Ok so *some* inequality is good, but not too much.

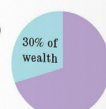


Interestingly, these imaginary, but still unequal, worlds were much more equal than the *real* world is. And more equal than most people realize, too. A 2017 study in the US showed that people thought the richest 20% of the population...

HAS:



And SHOULD HAVE:



BUT THEY ACTUALLY HAVE:



Even if people think *some* inequality is ok, this seems unfair. Do you think everyone in your country has a fair chance to become rich, successful or happy?

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What can governments do?

Governments can use certain tools, such as **taxes**, to try to manage the economy. It's up to a government to decide what to tax and how much to collect.

In most countries today, individuals and businesses pay tax on what they *earn* – whether that's wages or profits.

They may also pay tax on what they *own*, such as property, and what they *buy* (the price of most things you buy includes a sales tax).

Governments use taxes to try to make the economy...



...greener, safer, healthier.

Taxes can be used to increase the price of things that might be damaging to society, and discourage buyers.



Finding the right **BALANCE** with tax is tricky.

TOO MUCH and people will try to find ways of not paying it – such as moving to another country.

...bigger.

Cutting taxes, for example for businesses, means they have more money to spend, make and hire. Helping businesses can make the economy grow.



...fairer.

Most governments charge higher earners more tax, to pay for things that mostly help poor people (see more on the next page).



TOO LITTLE and there won't be enough money to pay for things such as new roads or better schools.

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Government spending

A major job of government is to choose how to spend its money. These are some of the things they can spend it on.

Social protection

Supporting people struggling due to unemployment, disability, old age or all sorts of other reasons.

Public services

Services everybody needs such as education, healthcare, policing.

Infrastructure

Building and maintaining things such as roads, bridges and internet cables.



Governments can use spending as a tool to make the economy...

...greener.

The government can spend money on things that do not cause pollution, such as wind turbines.



...fairer.

Spending money on things that give all people better opportunities and good quality public services, whether they are rich or poor.

...more productive.

For example, by spending money to improve internet speeds.

Government borrowing

Governments often want to spend more money than they can collect in taxes, so they increase their funds by *borrowing* money, often from a bank or another country. But a government can only afford to borrow so much, because they have to pay that money back, including extra money, known as **interest**.

In 2018, the US Government spent **\$4.1 trillion...**

...of which **\$390 billion** was spent paying back interest it owed.

Can't the government just print **MORE** money?

We can print a little, but too much and the money becomes worthless.

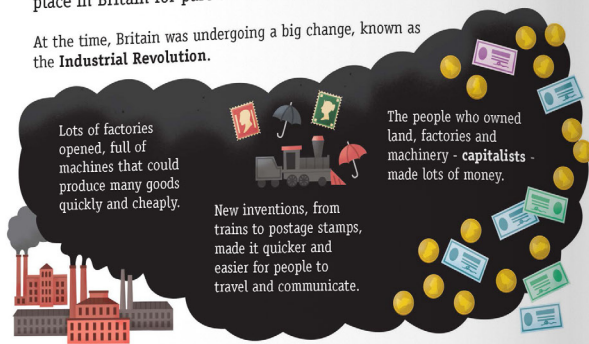


All governments borrow money and over time this can get *really* expensive. So governments have to find a balance between spending, printing and borrowing.

Markets in charge

One way for a government to run an economy is *not* to get involved at all. This is known as a **market economy**, and it was the system in place in Britain for part of the 19th century.

At the time, Britain was undergoing a big change, known as the **Industrial Revolution**.



The industrial revolution brought prosperity for some, but by the beginning of the 20th century, a quarter of the country was living in poverty. The government's policy was described as *laissez-faire* - which meant 'leaving capitalists alone to run their businesses as they like'. The system was later named **capitalism**.



The government's decision not to help didn't resolve problems - if anything they got worse. It became clear that the system needed reform.

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Government in charge

To try to fix capitalism, people around the world experimented with giving governments more power. One of the places that made the most drastic changes was Cuba in the 1960s.

A group of revolutionaries overthrew the Cuban government. They set up a system known as **communism**, with the goal of sharing the country's resources equally between Cubans.

They were inspired by the ideas of the German economist Karl Marx.



Education for all!

Nobody will be jobless or hungry again.

From each according to his ability, to each according to his need.



The new government created lots of economic plans - including one to manage food production. This is known as a **planned economy**.

The government also took over all the land, factories and businesses, which helped put the plan into action.

For everyone to have enough to eat, the farmers need to produce...

Cuban Food production (tonnes)

1,000 t. rice
1,500 t. beans
2,000 t. potatoes



Although resources were mostly shared fairly, there were huge problems too...

It was hard to motivate people to work for the common good...

...and even harder to plan for all the things millions of people might want or need.

Why are we producing less food than we used to?

What's the point of me doing all the work if you're just going to take it all!

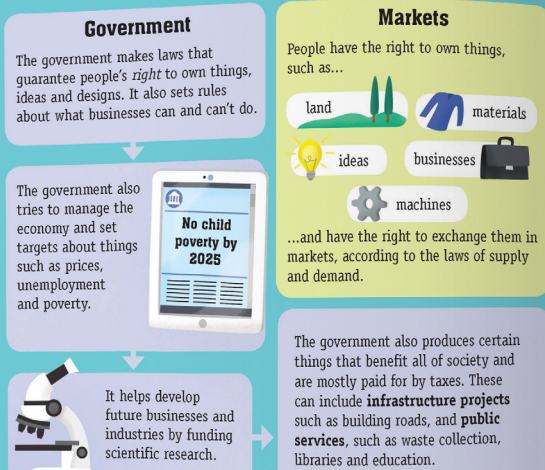


In practice, giving full control to governments or markets hasn't worked. Most countries have since tried to find a more balanced system.

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Mixed economies

Nowadays, most countries around the world have some kind of **mixed economy** - where the government is responsible for some things, and the market for others. Here's *roughly* how it works.



What kind of government?

In practice, mixed economies vary country by country, depending on whether the government that's in power is 'big' or 'small'. This describes how much control a government takes over its economy, businesses and even individuals.

BIG government often means **MORE...**

Small government often means **LESS...**

...money spent on public services

...regulation of businesses

...laws about what people can and can't do

...taxes

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How a government acts also depends on its beliefs about the best way to organize a society. The words **left-wing** and **right-wing** are sometimes used to describe these beliefs.



Most people *and* governments support a mixture of left-wing and right-wing ideas, and prefer a big government approach for some issues, but not others.

Left out

Governments often have to try to please different groups, who want or need different things, with a limited amount of money. Usually, they end up helping some groups, while others get left out - whether that's families, pensioners, students, people out of work or refugees like this family...



No country's economic system is perfect. You'll find some ideas for improving them in chapters 6 and 8.