

8.9: Reading- Control of Economic Decisions

What Countries Are Considered Economically Free?

Who is in control of economic decisions? Are people free to do what they want and to work where they want? Are businesses free to produce when they want and what they choose, and to hire and fire as they wish? Are banks free to choose who will receive loans? Or does the government control these kinds of choices? Each year, researchers at the Heritage Foundation and the *Wall Street Journal* look at 50 different categories of economic freedom for countries around the world. They give each nation a score based on the extent of economic freedom in each category.

The 2013 Heritage Foundation's Index of Economic Freedom report ranked 177 countries around the world: some examples of the most free and the least free countries are listed in the table below. Several countries were not ranked because of extreme instability that made judgments about economic freedom impossible. These countries include Afghanistan, Iraq, Syria, and Somalia.

The assigned rankings are inevitably based on estimates, yet even these rough measures can be useful for discerning trends. In 2013, 91 of the 177 included countries shifted toward greater economic freedom, although 78 of the countries shifted toward less economic freedom. In recent decades, the overall trend has been a *higher level of economic freedom around the world*.

Economic Freedoms, 2013	
Most Economic Freedom	Least Economic Freedom
1. Hong Kong	168. Iran
2. Singapore	169. Turkmenistan
3. Australia	170. Equatorial Guinea
4. New Zealand	171. Democratic Republic of Congo
5. Switzerland	172. Burma
6. Canada	173. Eritrea
7. Chile	174. Venezuela
8. Mauritius	175. Zimbabwe
9. Denmark	176. Cuba
10. United States	177. North Korea
Source: The Heritage Foundation, 2013 Index of Economic Freedom, Country Rankings, http://www.heritage.org/index/ranking	

Regulations: The Rules of the Game

Markets and government regulations are always entangled. There is no such thing as an absolutely free market. Regulations always define the “rules of the game” in the economy. Economies that are primarily market-oriented have fewer regulations—ideally just enough to maintain an even playing field for participants. At a minimum, these laws govern matters like safeguarding private property against theft, protecting people from violence, enforcing legal contracts, preventing fraud, and collecting taxes. Conversely, even the most command-oriented economies operate using markets. How else would buying and selling occur? But the decisions of what will be produced and what prices will be charged are heavily regulated. Heavily regulated economies often have **underground economies**, which are markets where the buyers and sellers make transactions without the government's approval.

The question of how to organize economic institutions is typically not a black-or-white choice between all market or all government, but instead involves a balancing act over the appropriate combination of market freedom and government rules.

The Rise of Globalization



Figure 8.9.1: Cargo ships are one mode of transportation for shipping goods in the global economy. (Credit: Raul Valdez/Flickr Creative Commons)

Recent decades have seen a trend toward **globalization**, which is the expanding cultural, political, and economic connections between people around the world. One measure of this is the increased buying and selling of goods, services, and assets across national borders—in other words, international trade and financial capital flows.

Globalization has occurred for a number of reasons. Improvements in shipping, as illustrated by the container ship shown in Figure 4, and air cargo have driven down transportation costs. Innovations in computing and telecommunications have made it easier and cheaper to manage long-distance economic connections of production and sales. Many valuable products and services in the modern economy can take the form of information—for example: computer software; financial advice; travel planning; music, books and movies; and blueprints for designing a building. These products and many others can be transported over telephones and computer networks at ever-lower costs. Finally, international agreements and treaties between countries have encouraged greater trade.

The table below presents one measure of globalization. It shows the percentage of domestic economic production that was exported for a selection of countries from 1970 to 2010, according to an entity known as The World Bank. **Exports** are the goods and services that are produced domestically and sold abroad. **Imports** are the goods and services that are produced abroad and then sold domestically. The size of total production in an economy is measured by the **gross domestic product (GDP)**. Thus, the ratio of exports divided by GDP measures what share of a country's total economic production is sold in other countries.

The Extent of Globalization (exports/GDP)					
Country	1970	1980	1990	2000	2010
Some High Income Countries					
United States	6%	10%	10%	11%	13%
Belgium	52%	58%	71%	86%	80%
Canada	23%	28%	26%	46%	29%
France	16%	21%	21%	29%	26%
Italy	16%	22%	20%	29%	27%
Japan	11%	14%	10%	11%	15%
Sweden	24%	29%	30%	46%	49%
Some Middle Income Countries					
Brazil	7%	9%	8%	11%	11%
Mexico	8%	11%	19%	31%	30%
South Korea	14%	32%	28%	41%	52%
Some Low Income Countries					

Source: <http://databank.worldbank.org/data/>In recent decades, the export/GDP ratio has generally risen, both worldwide and for the U.S. economy. Interestingly, the share of U.S. exports in proportion to the U.S. economy is well below the global average, in part because large economies like the United States can contain more of the division of labor inside their national borders. However, smaller economies like Belgium, Korea, and Canada need to trade across their borders with other countries to take full advantage of division of labor, specialization, and economies of scale. In this sense, the enormous U.S. economy is less affected by globalization than most other countries.

The Extent of Globalization (exports/GDP)

Chad	16%	17%	13%	17%	41%
China	3%	11%	19%	23%	31%
India	4%	6%	7%	6%	22%
Nigeria	8%	29%	43%	53%	35%

Source: <http://databank.worldbank.org/data/>In recent decades, the export/GDP ratio has generally risen, both worldwide and for the U.S. economy. Interestingly, the share of U.S. exports in proportion to the U.S. economy is well below the global average, in part because large economies like the United States can contain more of the division of labor inside their national borders. However, smaller economies like Belgium, Korea, and Canada need to trade across their borders with other countries to take full advantage of division of labor, specialization, and economies of scale. In this sense, the enormous U.S. economy is less affected by globalization than most other countries.

The table above also shows that many medium and low income countries around the world, like Mexico and China, have also experienced a surge of globalization in recent decades. If an astronaut in orbit could put on special glasses that make all economic transactions visible as brightly colored lines and look down at Earth, the astronaut would see the planet covered with connections.

KEY TAKEAWAYS

- Economies address these three questions: (1) What goods and services should be produced to meet consumer needs? (2) How should they be produced, and who should produce them? (3) Who should receive goods and services?
- The answers to these questions depend on a country's **economic system**. The primary economic systems that exist today are command (planned) and free market systems.
- In a planned system, such as **communism** and **socialism**, the government exerts control over the production and distribution of all or some goods and services.
- In a **free market system**, also known as **capitalism**, business is conducted with only limited government involvement. Competition determines what goods and services are produced, how they are produced, and for whom.
- More countries' economies are evolving into a **mixed-economy** which has characteristics of more than one system.
- The last few decades have seen **globalization** evolve as a result of growth in commercial and financial networks that cross national borders, making businesses and workers from different economies increasingly interdependent.

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in this section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

<https://assessments.lumenlearning.com/assessments/158>

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