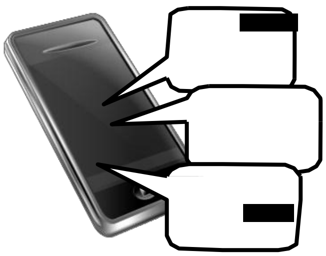
Government & the Economy Class Copy

Your Cell Phone: A Line Into the Economy

If you've got a cell phone, you probably get your service through one of these wireless providers:

The U.S. has a **market economy**, which means that most goods and services, such as cellular service, are offered by private companies. These companies compete against each other for your business. The result? You have lots of choices when you shop for cell phone service.



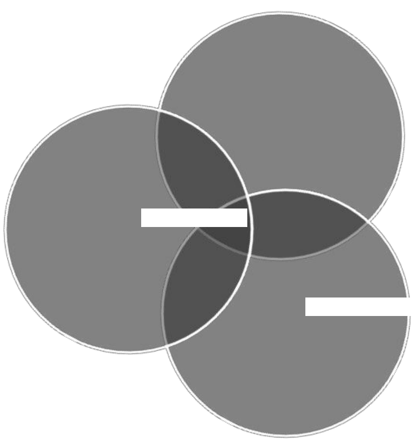
You've probably seen more than one ad for cell phone service on TV. (Okay, you've probably seen hundreds.) In all of these ads, the cell phone companies are trying to convince you that their cell service is better than everyone else's. Have you ever seen them try to tempt you with any of these promises? Because of competition among all the companies, prices are lower and services are better than they would be if there was only one cell phone provider.

The Official Cell Phone Provider?

So let's talk about that for a minute. What if there was only one cell phone provider: the government? What if the government controlled production of everything else, too--cars, shoes, cereal, and even television sets? In that case, we would have what is called a **command economy**, in which the government owns and offers all the goods and services and decides what those goods and services will cost. When you went looking for cell phone service, there would only be one choice and one set of prices.

For years, China's only 3 wireless companies have been owned by the Chinese government.

Mixing Government and Business

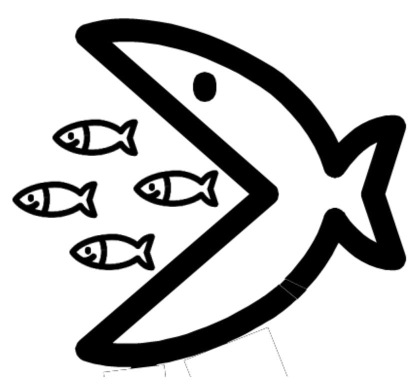


A true "free market" economy would be just the opposite. Companies would compete against each other with no government interference at all. Not just cell phone providers and grocery stores would be private companies—everything would be privately owned. The police force, the space program, nuclear waste storage… All of it. The government would make no rules that might interfere with how companies do business.

But that's not how it works either. What the U.S. and most other countries actually have is a **mixed economy** — a market economy in which the government owns some property, offers some kinds of goods and services, and makes some rules that affect how businesses can compete. In a mixed economy, the government also owns some property and is responsible for providing certain goods and services to the public.

The Only Cell Phone Provider?

In a market or mixed economy, there is still a danger of having just one provider for a good or service. It just wouldn't be the government. Ideally, your phone company would like to be the only phone company. It could do that by buying up the other companies until there was only one monster company left. This monster company would not have to worry about competition anymore. That means it could set whatever prices it wanted for whatever services it wanted, and consumers would have to take it or leave it. Talk about a mega-bad-deal for consumers. That's why it's illegal.



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Monopoly: Not Just a Board Game

In the business world, a **monopoly** is when one company controls an entire industry without any competition. Over a century ago, the United States started passing **anti-trust laws** that prohibit monopolies and other activity that reduces competition. If your cell service comes from T-Mobile, you're receiving the benefit of U.S. anti-trust laws. In 2011, AT&T made a bid to buy T-Mobile. Buying T-Mobile would have made AT&T the nation's largest cell phone provider. But AT&T ran into a few problems.

Competition With Other Countries

The government also works to help U.S. companies compete with foreign products. **Tariffs** are taxes on goods from other countries. Tariffs make a foreign item more expensive, encouraging citizens to buy products made in their own country. To help U.S. companies, the government works with other countries to reduce their tariffs on U.S. goods. It also puts tariffs on foreign goods being sold in the U.S. at unfairly low prices. But tariffs slow down trade between countries. That's why the U.S. and many other countries have agreed to have zero tariffs on cell phones. This has helped information and communication technology develop more easily around the world.

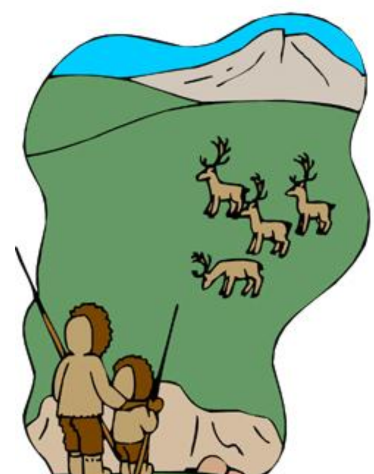
Container ships carry goods all around the world.

Other Economic Systems

A **traditional economic system** is—here's a shocker—shaped by tradition. The work that people do, the goods and services they provide, how they use and exchange resources… all tend to follow long-established patterns. These economic systems are not very dynamic—things don't change very much. Standards of living are static; individuals don't enjoy much financial or occupational mobility. But economic behaviors and relationships are predictable. You know what you are supposed to do, who you trade with, and what to expect from others.

In many traditional economies, community interests take precedence over the individual. Individuals may be expected to combine their efforts and share equally in the proceeds of their labor. In other traditional economies, some sort of private property is respected, but it is restrained by a strong set of obligations that individuals owe to their community.

Today you can find traditional economic systems at work among Australian aborigines and some isolated tribes in the Amazon. In the past, they could be found everywhere—in the feudal agrarian villages of medieval Europe, for example.



Most traditional economies rely on agriculture and community-based.