REALITIES OF SOCIALISM

RELYING ON EXAMPLES FROM ESTONIA AND SINGAPORE

Classroom Lesson Plans

Created by
The Foundation for Teaching Economics in Partnership with the Fraser Institute

Overview

In partnership with Foundation for Teaching Economics, in the lesson plan set, Realities of Socialism: Relying on Examples from Estonia and Singapore, you will be able to identify the major themes and shortcomings of socialism, using examples from Estonia and Singapore. These lessons will cover the questions of what socialism is, how it's understood today, and its impacts in the past. These lessons include resources such as slide decks, activities, extended learning assignments, and more to assist in the classroom, whether it be in person or virtual. Lesson content can easily be integrated with economics courses, business courses, social studies courses, and more. These lessons are catered to a Canadian, high-school level curriculum.

Curriculum Table of Contents

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Lesson 6: Estonia

Introduction

In this lesson, students learn how Estonia is a testament to the productive and ennobling power of freedom. After waves of successive invasions from East and West, the small and fledgling country on the Baltic Sea was dragooned into the Soviet Union in 1940. There its people, about 1 million in total, were trapped for five decades as unwilling subjects of the socialist experiment. The experiment proved a failure. Eventually, Estonia's workers and intellectuals decided they had nothing to lose but their chains. So, they joined hands in revolt. In its place, the Estonians created one of the freest nations on Earth.

Materials

Lesson 6 slide deck:
https://docs.google.com/presentation/d/1K2-RNwqcxaARttiwkeKEPTS4dJB9maoZ/edit?usp=sharing&ouid=116660462288476410506&rtpof=true&sd=true

Optional: Lesson 6 **Background Information**. 1 copy per student (if assigned as student reading)

Key Terms

Control Problem	The difficulty central planners have in controlling human wants and desires.
Incentive Problem	The problem that occurs with central planning when individuals and central planners are not incentivized to serve the general interest.
Inflation	A general increase in the price level.
Knowledge Problem	The idea that the information for economic planning is distributed across individual members of society and cannot be known by central planners.
Market Economy	An economy that relies on a system of interdependent market prices to allocate goods, services and productive resources and to coordinate the diverse plans of consumers and producers, all of them acting according their self-interest.
Pathologies of Privilege	The problem that occurs in central planning when bureaucrats gain power, and some are privileged over others.
Price System	A decentralized system in which the forces of supply and demand determine the prices of goods and services.
Property Rights	Legal protection for the ownership of tangible or intangible resources. Property rights give the holder the ability to do with that property what they choose, including holding on to it, selling it or transferring it to someone else.
Shortage	When the quantity demanded of a good or service exceeds the quantity supplied at the prevailing price.

Tariff	A tax on an imported good or service.
Totalitarianism	A form of government that attempts to assert total control over its citizens' lives.
Tragedy of Commons	The overuse, waste or mistreatment of things owned in common.

Objectives

Students will be able to

- Define shortage.
- Explain the relationship between shortages and black markets.
- Identify the institutions necessary for the Estonian economy to recover after totalitarian socialist rule.

Time Required

45 minutes

Learning Objectives

Markets and Prices

Students will understand that a market exists when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.

- A shortage occurs when buyers want to purchase more than producers want to sell at the prevailing price

Role of Prices

Students will understand that prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

- Government-enforced price ceilings set below the market-clearing price and government-enforced price floors set above the market-clearing price distort price signals and incentives to producers and consumers. Price ceilings can cause persistent shortages, while price floors can cause persistent surpluses.

Institutions

Students will understand that Institutions evolve and are created to help individuals and groups accomplish their goals. Banks, labour unions, markets, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and enforced property rights, is essential to a market economy.

- Property rights, contract enforcement, standards for weights and measures, and liability rules affect incentives for people to produce and exchange goods and services.

Government Failure

Students will understand that the costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

- Price controls, occupational licensing, and reductions in antitrust enforcement are often advocated by special interest groups. Price controls can reduce the quantity of goods and services produced, thus depriving consumers of some goods and services whose value would exceed their cost.

Procedures

- Prepare by reading the **Background Information** included at the end of this lesson.
- Use the **Lesson 6 slide deck** to teach about Estonia's shortage economy under totalitarian rule and its successful recovery thereafter.
- Alternate Activity: Assign the **Background Information** as a student reading.

Background Information

The following background information is taken directly from the Fraser Institute publications of "The Road to Freedom: Estonia's Rise from Soviet Vassal State to One of the Freest Nations on Earth" published as a part of the Realities of Socialism materials. For a complete copy of the readings please go to RealitiesofSocialism.org.

Introduction

Estonia is a testament to the productive and ennobling power of freedom. After waves of successive invasions from the east and west, the small and fledgling country on the Baltic Sea was dragooned into the Soviet Union in 1940. There its people, about 1 million in total, were trapped for five decades as unwilling subjects of the socialist experiment. That experiment proved a failure. Eventually, Estonia's workers and intellectuals decided they had nothing to lose but their chains. So, they joined hands with Lithuanians and Latvians—literally—in revolt. In its place, the Estonians created one of the freest nations on Earth.

In contrast with others who had been trapped behind the Iron Curtain, the Estonian break from socialism was swift and bold. It avoided the long, fitful, and often corrupt transition that bogged down so many other nations. Despite the widely held belief that freedom and equality are incompatible, something of the opposite is true: government dominion and discrimination often go together.

Historical Background

The small country of Estonia sits at a literal crossroads. On the eastern shore of the Baltic Sea and the western edge of the East European Plain, it is where ancient north-south and east-west trade routes meet. In the Middle Ages, its largest communities, Tartu and Tallin, were focal points for international trade under the protection of the Hanseatic League. Its location has made it the locus of both peaceful and violent exchange.

Tsarist Russia had conquered most of present-day northern Estonia in 1710 in the Great Northern War. And Russia was still in control in the 1850s when a movement known as the Estonian National Awakening began. The movement encouraged national consciousness, and eventually led to a push for political self-determination.

In the early 1860s several teachers and peasants founded an Estonian-language school in Viljandimaa County. They named it Aleksandrikool (Alexander's School) after Tsar Alexander I. The name reflects two important facts. First, it was an homage to freedom and the tsar, whom Estonians credited for liberating them from serfdom in 1816. Second, it indicates that the Estonians saw no contradiction in emphasizing their national identity while remaining a part of the Russian Empire. The efforts to educate Estonians paid off. By 1897, ninety-six percent of all Estonians ten years of age and older could read, and the literacy rate of males and females was roughly equal.

Beginning in the 1880s, the Tsarist Empire moved to take over Estonian schools, courts, and local governments. Their campaign of "Russification" extended to civil society as well. They pressured national organizations, the Lutheran church, and the press to emphasize Russian rather than Estonian identity. This, however, only emboldened a younger and more radical generation of Estonian national movement leaders.

Independence

In February 1917 Russians were in revolt. As Russia's losses in World War I continued to mount, 40,000 Estonians gathered in Petrograd in March 1917 to demand greater autonomy for their region. It worked. The region was granted a degree of autonomy over its own affairs and was organized into the autonomous Governate of Estonia, which was now expanded to the south, swallowing up what had previously been Livonia.

In February of 1918, the Imperial German Army forced the Russians out of Estonia. Taking advantage of the power vacuum in Russia, the Estonians declared their independence from Russia on February 24, 1918, and formed the Estonian provisional government. The very next day, however, the German army moved in. In November 1918, Germany accepted defeat in World War I and transferred power to the Estonians.

Just days later, on November 28, 1918, the Soviet 6th Red Rifle division attacked the border town of Narva, initiating what became known as the Estonian War of Independence. With the help of Finland and the United Kingdom, the Estonians fought Soviet Russia. They finally exhausted the Red Army and in 1920 Estonia and the Soviets signed a treaty recognizing the independence and sovereignty of Estonia.

Land Reform

Before they had even established a constitution, the Provisional Government moved to address the land problem through redistributive land reform. The reform expropriated 1,065 of the large estates, including private estates of the Baltic German nobility, tsarist state lands, and agricultural lands owned by the churches. The expropriated land was then redistributed to peasants, transforming large estates into small family farms and creating close to 56,000 more small holdings.

The Interwar Economy

The economy of Estonia faced many challenges throughout its 19 years of independence. It was suddenly cut off from Russia, its main trading partner. And the assets of many of its companies, held in

Russian banks, had been confiscated when Russia nationalized the banks. Estonia's leaders were tasked with formulating new economic policies.

Although Estonia's early leaders spoke favourably of free trade, they maintained a high protective **tariff** throughout the interwar period. Then, with the onset of the authoritarian era in 1934, government leaders explicitly embraced protectionist tariffs, economic nationalism, corporatism, and planning.

Estonians enjoyed a degree of economic freedom. Domestically, they were able to trade with whomever they wanted to, on whatever terms they wanted. They were able to acquire and use property without much government interference, and they could count on courts to recognize their **property rights**. Estonians were able to start and run their own businesses, and they had developed a reputation for entrepreneurial spirit.

Between Two Wolves: 1940-1944

In August of 1939 the Molotov- Ribbentrop Non-Aggression Pact was signed between the Soviets and the Nazis. Deep in its secret protocols, denied by the Soviets for a half century, it reshaped the Eastern Europe. The new allies carved up Eastern Europe, splitting Poland down the middle, and granting Finland, Estonia, Latvia, Lithuania, and Romania to the Soviets.

In June 1940, Soviets accused their Baltic "friends" of plotting against them. The Soviets demanded that the Baltic nations form pro-Soviet cabinets and permit unlimited entry of Soviet troops. All three nations capitulated, and two months later Estonia was annexed to the Soviet Union. Estonia was now the Estonian Soviet Socialist Republic (ESSR), a territory of the Soviet Union. During the first occupation the Soviets capped the size of each farm at 30 hectares, expropriating, without compensation, all land in excess of that amount. They also took any land belonging to cities or to churches. Private noncommercial property was also taken, including the contents of safes, houses that were larger than 2,000 square feet, and bank accounts that had more than 1,000 rubles (about US$834 today). Dwelling spaces, which in 1940 had averaged about 15.5 square meters per person, were now limited to no more than 9 square meters per person. Families who had larger living spaces than this were forced to let strangers into their homes.

By forcing people to share communal apartments, the Bolsheviks believed that they could make them communistic in their basic thinking and behaviour. Private space and property would disappear, the individual ('bourgeois') family would be replaced by communistic fraternities and organizations, and the life of the individual would become immersed in the community. In a word, their aspirations were totalitarian. The twentieth century's most sophisticated student of **totalitarianism** was the German American historian and philosopher Hannah Arendt. In her penetrating analysis, the goal of such a state is to create a "totalitarian personality," a "completely isolated human being who, without any other social ties to family, friends, comrades, or even mere acquaintances, derives his sense of having a place in the world only from his belonging to a movement, his membership in the party,"

The Soviets, however, only managed to hold on to Estonia for a year. In June 1941, the Germans turned on their erstwhile allies and invaded the Soviet Union and by October the Germans were in control of all of Estonia. The Germans consolidated all three Baltic states into a single occupied German territory they called Ostland which they occupied until 1944 when the Soviets retook the Baltics. Estonia lost about a quarter of its population through death, deportation, and exile during World War II.

The Socialists Retake Control of The Economy

During this second occupation, the Soviets, initiating a new round of expropriations. All commercial enterprises were taken over by the government, with only state and co-operative stores permitted. Nationalized firms were subordinated to one commissariat or another, and all operations were directed in accordance with the overarching all-Soviet economic plans. These plans dictated "the quantity and assortment of output, purchases of inputs (from whom, and in what quantities), the delivery obligations of the enterprise, prices, wages, staff establishments, costs, and much else besides, depending on the industry in question".

Blinded by the **knowledge problem** and hamstrung by the **incentive problem**, central planners had a difficult time knowing how and where to direct hundreds of thousands of workers and assets. This just meant that they doubled down on totalitarianism to implement their plans (the **control problem**). Now, fully impacted by the failures of socialism Estonia was subjected to rampant **shortages**, misallocation of workers and raw materials and the absence of market prices to signal true human desires. As in so many socialist experiments, unable to control the economy, the government turned to controlling the populace.

One way to control the populace is to isolate an individual and turn him against his family. To that end, the state poured enormous time and attention into re-educating the young. Socialists believed that human nature could be remade, and that education was the key to this transformation. The three instruments of change were public schools, the Pioneers (which had replaced the outlawed boy scouts), and the Komsomol (officially, the All-Union Leninist Young Communist League, a sort of youth division of the Communist Party).

As was the case across the Soviet Union, receiving foreign mail or listening to radio stations became a crime. This was especially concerning to the Soviets in Estonia because Finland lay just 50 miles across the water from Estonian shores. Much like in Berlin, the Soviets constructed a coastal defence series of watch towers and fences to keep the enemy out and the citizens locked in.

Through the 1970s and into the 1980s as the socialist plans continued to be a drag on economies across the Soviet Union Estonia managed to be slightly more productive and better off than their Soviet counter parts. This was in part because of the stronger economy they had decades before and in part because of their proximity to the west. By 1984 Estonian income per capita was about 16 percent greater than Russian income per capita.

However, the story was significantly different when Estonia was compared with Finland. In 1934 the average Estonian earned about 84 percent more than the average Finn, but by 1984 the Estonia earned just 22 percent of what a Finn earned. And these figures do not account for the shoddy products Estonians had to buy as compared to the products the Finns could purchase.

Aside from falling output and incomes other facets of Estonian life were also in dismal shape by the 1980s.

Social Services

Surprising as it sounds, socialist governments typically devoted a smaller share of their economies to the provision of social services than did Western capitalist governments. Most of the government's energies were devoted to running factories and farms. And since it ran those factories and farms so inefficiently, few resources were left for social services. Even if they had more resources, however, it isn't clear that socialist planners were interested in spending much more on social services. As an example, in 1990 the Finns devoted more than 41 percent of their economy to public services while the Estonians devoted a little over 23 percent of their economy to public services.

Housing

Housing in late socialist Estonia was limited, cramped, and mediocre. the socialist dream of communal living had corralled Estonians into small, shared spaces, abused and neglected through a decades-long demonstration of the **tragedy of the commons**. Adult children often still lived with their parents. Strangers who often didn't get along had to live together. Divorced couples who more than likely did not get along often had to live together. For the first several decades of the socialist reign, planners had simply neglected housing, just as they had neglected consumer goods. To top it off rents had been set in 1928 and remained the same for five decades.

Health

Both Finland and Estonia offered state-subsidized and state-provided health care services to their citizens, either free of charge or for nominal fees. Compared with Finnish health care, Estonian care was generally characterized as backward and inferior: the facilities were dated, there wasn't enough support staff for the number of physicians, doctors were poorly compensated, and shortages of diagnostic equipment, surgical instruments, and medicines were common. The consequences such underfunded healthcare was that while Finnish life expectance increased by six years between 1970 – 1994, Estonian life expectance declined by more than three years. By 1994, Finns could expect to live 10 more years than their Estonian neighbours.

The Environment

Marx had once declared that capitalist progress was "progress in the art, not only of robbing the worker, but of robbing the soil." Yet by almost any measure, socialist states were more rapacious environmental bandits than capitalists. Indeed, the deplorable state of the Estonian environment likely contributed to the population's declining health. In a market economy with well-defined **property rights**, the **price system** encourages efficient and responsible stewardship of resources. This was not the case in Estonia. The biggest causes of pollution were the lack of sewage treatment, phosphate mining, and thermal power plants. Ironically, it was protests over plans for expanded phosphate mining that united Estonians in a spirit of protest against the Soviet government

From Singing to Revolution

After the protests against phosphate mining and protests over the hidden protocols of the Molotov-Ribbentrop Non-Aggression Pact of 1939, the country united through song at the national song festival. Over 100,000 Estonians showed up to challenge Soviet control.

The Estonian desire to be independent grew quickly over the next couple of years in Estonia and the other Baltic states. By 1991 Gorbachev was ready to make the USSR into a confederation of independent states. But on the eve of signing a treaty that would bring that into being a coup took place in Moscow that threw Gorbachev out of office.

At the same time the Estonians were declaring their own independence and broke free from the decades of socialist rule.

The Challenges of a Free Society

With independence came the challenges of tearing down old institutions and building up new ones. The need for a constitution, a court system, a banking system, establishment of property ownership and protection of property rights along with the establishment of a **market economy** all had to be addressed. Not all were in favour of change, those who had profited from the **pathologies of privilege** of the Soviet era resisted policy and institutional change.

It was not an easy transition, shortages of goods and services, misallocation of labour and resources and sky rocketing **inflation** all hit Estonia head on. Estonia turned to the West for help in many areas of the economy but went their own way in others. The establishment of the world's first flat rate income tax was opposed by the IMF but has proven to be a success.

Estonians Just Do It

Estonia is known for pushing forward rapidly with a number of reforms. Perhaps because of the market economy they had enjoyed in the 1920s they had the confidence to "Just Do It" when it came to economic and political reforms. These reforms included monetary, tax, regulatory reforms as well as spending restraint, fiscal balance, establishment of free trade, privatization of state-owned firms and establishment of the **rule of law**.

The results by 2020 were dramatic. They have maintained balanced budgets more often than other economically developed countries and have kept their ratio of government spending and debt to GDP much lower than those same countries. Privatization of formally state-owned businesses and assets has been completely accomplished and at the same time the social safety net has been expanded without increasing social spending as a share of GDP. This has included education reform that has produced very good results and choice in, and private funding of, many social services.

In 1990 Estonia's ranking on the Economic Freedom Index was 92nd, by 2020 it had risen to 8th. Other indicators of growth include a tripling of economic output per person, a drop from 54% to 2.6% of the population making less than $10 per day, increasing life expectancy, and falling infant mortality rates. And perhaps most telling of all is the fact that by 2020 they had more business start-ups per million persons than any other European country.

But economies don't run on formal rules and institutions alone. They also require certain habits of thought, cultural norms, and shared understandings (McCloskey, 2011; Storr, 2013; Mitchell and Boettke, 2017). The economist Deirdre McCloskey has argued that a thriving market depends on the "bourgeois virtues" of courage, justice, temperance, prudence, faith, hope, and love. Like all peoples, Estonians had the capacity for these virtues. But they hadn't been used in quite some time.

Conclusion

What lessons can we learn from this history? The first and most important is that socialism does not work. The reality of socialism is far from the promised ideal of material abundance and social equality.

As the Estonians can attest, when the state owns and controls the means of production, real incomes stagnate. Workers are exploited. The soil is exploited. Goods and services—including social services—disappear. Unable to find what they want in the state stores, people commodify their relationships, using friends and family to obtain what the command economy will not give them. While official incomes may grow more equal, new pathologies of privilege arise.

It is possible to turn back. Even in a society where the state controls nearly everything, it is possible to return power to the people—to permit them to control their own lives, their own labour, and their own property. The last 30 plus years of Estonian independence are testament to the transformative power of economic freedom. By embracing private property, rule of law, international trade, fiscal responsibility and entrepreneurship, Estonians now enjoy significantly longer life spans, lower infant mortality, and better healthcare than they did under stifling socialist system of the Soviet Union.

ACTIVITY 6 – Will the Real Socialism Please Step Forward?

Introduction

In this activity student will use their knowledge of socialism to examine country profiles in the CIA World Factbook for evidence of socialism. After their examination they will decide how many steps forward to take for each country in answer to the question "will the real socialism please step forward?"

Materials

Activity 6 Slide Deck - https://docs.google.com/presentation/d/1hNa-3PsQJiqv30GkpNnhppvrDwvi5cFEUetgnC-jtWY/edit?usp=drive_link

Handout 1: 1 copy per group of 4 students

One internet accessible device (phone, table, computer) per group of 4 students.

Key Terms

Socialism	A society in which the state controls resources and makes decisions about production and equitable distribution.
Control Problem	The difficulty central planners have in controlling human wants and desires.
Incentive Problem	The problem that occurs with central planning when individuals and central planners are not incentivized to serve the general interest.
Knowledge Problem	The idea that the information for economic planning is distributed across individual members of society and cannot be known by central planners.
Pathologies of Privilege	The problem that occurs in central planning when bureaucrats gain power, and some are privileged over others.

Objectives

Students will be able to:

- Identify examples of the control problem in country profiles.
- Identify examples of the knowledge problem in country profiles.
- Identify examples of the incentive problem in country profiles.
- Identify examples of the pathologies of privilege in country profiles.
- Analyze country profiles to determine to what degree a country is socialist.

Time Required

50 minutes

Learning Objectives

Role of Price

Students will understand that prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

- Scarce goods and services are allocated in a market economy through the influence of prices on production and consumption decisions.

Competition and Market Structure

Competition among sellers usually lowers costs and prices, and encourages producers to produce what consumers are willing and able to buy. Competition among buyers increases prices and allocates goods and services to those people who are willing and able to pay the most for them.

- The pursuit of self-interest in competitive markets usually leads to choices and behavior that also promote the national level of well-being.
- The introduction of new products and production methods is an important form of competition and is a source of technological progress and economic growth.

Entrepreneurship

Entrepreneurs take on the calculated risk of starting new businesses, either by embarking on new ventures similar to existing ones or by introducing new innovations. Entrepreneurial innovation is an important source of economic growth.

- Productivity and efficiency gains that result from innovative practices of entrepreneurs foster long term economic growth.

Procedures

1. Divide students into groups of 4 and assign a recorder to record the group's work on Handout 1.
2. Give a copy of Handout 1 to each group.
3. Use the slide deck to remind students of the traditional definition of socialism and the more modern definition of socialism.
    - Traditional Socialism: The State controls resources and makes decisions about production and equitable distribution.
    - Modern definition of Socialism: The state provides more government services, a guaranteed annual income, or both.
4. Explain that students will be examining country profiles in the CIA World Factbook for evidence of socialism.
5. Use the slide deck to review the problems with socialism and potential questions they might ask as they are examining the country profiles.
    - **Control Problem**: The difficulty central planners have in controlling human wants and desires. Questions: Do you see evidence of the state trying to control human behavior? What Economic System is prevalent?
    - **Knowledge Problem**: The idea that the information for economic planning is distributed across individual members of society and cannot be known by central planners.

    Questions: Is there evidence of free markets that help overcome the knowledge problem?
  - **Incentive Problem**: The problem that occurs with central planning when individuals and central planners are not incentivized to serve the general interest. Questions: Is there evidence or a lack thereof of entrepreneurship?
  - **Pathologies of Privilege**: The problem that occurs in central planning when bureaucrats gain power, and some are privileged over others. Questions: Is there evidence of corruption?
6. Assign each group two countries to examine as outlined below. Make sure each group has a computer or internet accessible device.
   - Poland, Turkmenistan
   - Cuba, Denmark
   - Estonia, North Korea
   - Sweden, Venezuela
7. Instruct students to fill out handout 1 as they find evidence for or against socialism. When they finish examining each country they should decide how socialist the country is by deciding how many steps forward to take in answer to the question, will the real socialism please step forward? Zero steps would indicate not socialist at all and 4 steps would be very socialist.
8. Give each group 3-5 minutes to share their findings for each country and tell how many steps forward they would take.

Conclusion

Many countries that are considered "socialist" today had experiments with socialism but have moved toward more market-oriented economies. While they may provide more government services, through more economic freedom they have overcome the problems of control, knowledge and incentives that continue to plague modern socialist countries today.

Handout 1

Directions: Search the CIA World Factbook for evidence of Socialism for your assigned countries. Fill in the table below with the evidence you find. https://www.cia.gov/the-world-factbook/

Country:		
	Evidence for/against Socialism	Evidence for/against Socialism
Control Problem (What economic system is present? Do you see evidence of the state trying to control human behavior?)		
Knowledge Problem (Is there evidence of free markets that help overcome the knowledge problem?)		
Incentive Problem (Is there evidence or a lack thereof of entrepreneurship?)		
Pathologies of Privilege (Is there evidence of corruption?)		
Other		

Lesson 7: Singapore

Introduction

In this lesson, students learn about the strong economic growth of the Singapore economy since achieving national sovereignty in 1965 and examine the unique mixed economy that brought about that growth.

Materials

Lesson 7 slide deck:
https://docs.google.com/presentation/d/1mK3cdwy0H1t-S9w9EHWDa9FMZSpB_sdI/edit?usp=sharing&ouid=116660462288476410506&rtpof=true&sd=true

Optional: Lesson 7 **Background Information**. 1 copy per student (if assigned as student reading)

Key Terms

Incentives	A factor that influences behavior. Incentives can be rewards or punishments, monetary or non-monetary.
Institutions	Laws, customs, moral principles, superstitions, and cultural values influence people's choices. The institutions of an economy set out and establish the incentive structure and the basic design of the economic system.
Laissez-faire	A French phrase that means "let people do as they choose." Laissez-faire economies allow private transactions of individuals without government interference.
Market Economy	An economy that relies on a system of interdependent market prices to allocate goods, services and productive resources and to coordinate the diverse plans of consumers and producers, all of them acting according their self-interest.
Mixed Economy	An economy that combines elements of both market and socialist economies.
Property Rights	Legal protection for the ownership of tangible or intangible resources. Property rights give the holder the ability to do with that property what they choose, including holding on to it, selling it or transferring it to someone else.
Socialist Economy	An economy in which the state controls resources and makes decisions about production and equitable distribution.

Objectives

Students will be able to

- Define Mixed Economy.
- Explain the paradox of Singapore's market economy with strong government controls.
- Identify the institutions of the Singapore Economy: property rights, rule of law, open markets, and strong cultural norms of self-reliance.

Time Required

45 minutes

Learning Objectives

Incentives

Students will understand that People usually respond predictably to positive and negative incentives.

- Acting as consumers, producers, workers, savers, investors, and citizens, people respond to incentives in order to allocate their scarce resources in ways that provide them the highest possible net benefits.

Institutions

Students will understand that Institutions evolve and are created to help individuals and groups accomplish their goals. Banks, labour unions, markets, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and enforced property rights, is essential to a market economy.

- Property rights, contract enforcement, standards for weights and measures, and liability rules affect incentives for people to produce and exchange goods and services.

Procedures

- Prepare by reading the **Background Information** included at the end of this lesson.
- Use the **Lesson 7 slide deck** to teach about the unique mixed economic system of Singapore.
- Alternate Activity: Assign the **Background Information** as a student reading.

Background Information

The following background information is quoted directly from the Fraser Institute publications of "Meritocracy, Personal Responsibility, and Encouraging Investment: Lessons from Singapore's Economic Growth Miracle" published as a part of the Realities of Socialism materials. For a complete copy of the readings please go to RealitiesofSocialism.org.

Introduction

Commentators and scholars ranging from classical liberals such as Milton Friedman to social democrats such as Joseph Stiglitz have admired and praised Singapore's record of economic growth from 1965, when it achieved national sovereignty, to the present. The remarkable growth in the standard of living of Singaporeans is well illustrated through a comparison with the United States. In 2020, the real per capita Gross Domestic Product (GDP) for Singapore (US$58,057) was virtually identical to the real per capita GDP of the United States (US$58,190). By comparison, in 1961, Singapore's real per capita GDP (US$3,727) was only about 20 percent of the United States' real per capita GDP that year (US$19,271). In a wider comparison, in 2020 Singapore's real per capita GDP was substantially higher than Canada's (US$43,258) and the United Kingdom's (US$41,098) and slightly higher than Australia's (US$57,952).

Economic Growth

Relatively strong economic growth has always been a public policy priority in Singapore. Successive governments have emphasized the importance of growing the "economic pie" in order to broadly raise standards of living rather than relying heavily on government transfer payments financed by high taxes on economically successful individuals and companies.

Singapore has strong **institutions** that are favourable to investment including an independent judiciary, a legal system inherited from the British that protects **property rights**, and a government bureaucracy that has an international reputation for its lack of corruption.

Singapore is a small city-state in Southeast Asia with a population of about 5.7 million (in 2019) that has undergone significant changes over the years. Founded in 1819 as a British colony, it experienced more than a century of colonial rule that emphasized economic openness. After a brief period under the Japanese occupation from 1942 to 1945, Singapore started on a gradual process of self-government which took about two decades to unfold. During that time, from 1963 to 1965, Singapore tried merging with Malaya—an idea that ultimately proved to be unsuccessful. It finally achieved national sovereignty in 1965 when the Republic of Singapore was born.

Since its inception as a sovereign state, Singapore has been open to international trade and international investment, and to immigration. Singapore's openness to the international economy has been a major source of competition for domestic producers, thereby encouraging them to be very efficient. Its openness to inward foreign direct investment and immigration has encouraged Singaporean companies to invest in physical and human capital which, in turn, largely underlies Singapore's real economic growth. A well-educated and hard-working labour force has been a particularly prominent contributor to Singapore's impressive record of economic growth.

Singapore's growth is not just a happy accident for a once-developing country. Its growth has been sustained by a general commitment to a pro-market, pro-business, pro-competition environment. Singapore inherited modern institutions from the British, institutions that have presided over a relatively tolerable administration of justice. Second, the Singapore government prioritized pragmatic goals centred around economic growth, market efficiency, and self-reliance over unrealistic socialist ideals.

A former British colony, Singapore inherited an enviable set of institutions even before it became independent. In the early years of its self-government (1945-1965), prior to its achieving full independence, Singapore was already a thriving commercial hub with all the institutions and infrastructure needed to support a thriving economy.

Industrial Policy

Singapore's economic strategy has always relied heavily on interventionist industrial policy— and continues to do so (Lim, 1993). In Singapore, industrial policy involves 1) government subsidies to firms so they can upgrade their technology, human capital, and business processes, 2) government investments in specific industries, 3) government provision of industrial facilities to specific companies, and 4) maintaining government-linked corporations (Chia, 2005). This naturally leads to questions about whether Singapore is a free-market success story, or whether its success was largely brought about by government intervention.

Self-Reliance

An emphasis on individual self-reliance and a belief in the importance of economic **incentives** are prominent features of Singapore's political governance. The emphasis on individual self-reliance and a related concern that universal government programs to fund social services will undermine that self-reliance help explain Singapore's approach to funding health care, education, employment insurance, and retirement that, while not unique to Singapore, is an important feature that differentiates Singapore from most other countries.

This sentiment is well documented the quote from Lee Kuan Lew, Singapore's first and longtime Prime Minister. "Watching the ever-increasing costs of the welfare state in Britain and Sweden, we decided to avoid this debilitating system…..Welfare undermined self-reliance. People did not have to work for their families' well-being. The handout became a way of life. The downward spiral was relentless as motivation and productivity went down…. They became dependent on the state for their basic needs."

The rejection of a welfare state does not mean that the Singapore government does not care about its people. Rather, it strongly believes that the best way to help the least-well off is not by reallocating shares of a fixed pie, but rather to grow the economic pie for all. This conviction explains why the Singapore government cares less about inequality and more about **income mobility**, a lesson that other countries should learn. The current prime minister remarked recently: "if the economy was stagnant, it doesn't mean everybody's going to be happy, and it may be equally unequal," adding also that "if I can get another 10 billionaires to move to Singapore and set up their base here, my Gini coefficient will get worse but I think Singaporeans will be better off, because they will bring in business, bring in opportunities, open new doors and create new jobs, and I think that is the attitude with which we must approach this problem."

Central Provident Fund

The main feature of Singapore's income support system is the Central Provident Fund (CPF), a compulsory program that requires workers and their employers to contribute a given percentage of their gross income into personal savings accounts and allows contributors a fair degree of autonomy over how they can use their savings. The savings can be used to pay for housing, education, health care, unemployment assistance, and retirement income. The system has several beneficial features. One is that Singaporean pension payouts depend almost exclusively on the amount of savings in the pensioner's account. The defined contribution design ensures that Singapore's pension system is sustainable.

The fact that residual savings from contributions to CFP accounts to pay for health care, education, and unemployment can be used to fund retirement and to leave as bequests mitigates people's incentives to use health care and related services more intensively and perhaps unnecessarily than they otherwise would. One might therefore expect to see evidence of relatively economical expenditures on social services such as health care and education in Singapore, as well as more consistent employment of workers. One observation that indirectly supports this latter inference is Singapore's relatively low unemployment rate compared to other wealthy countries. For example, Singapore's average annual unemployment rate from 1981 to 2019 was 2.74 percent. By comparison, Korea's average annual unemployment rate was 3.53 percent over the same period, while the rates for Australia and the US were 6.80 and 6.17 percent, respectively.

Mixed Economy

As is the case for all wealthy economies, Singapore has a **mixed economy** to a greater or lesser extent in that government has had and continues to play a significant role in market activities. In particular, the government has employed industrial policies to direct Singapore's economic development, including providing subsidies to private sector firms for the purposes of upgrading technology and business processes, making government investments in specific industries deemed important, and overseeing so-called government-linked corporations (GLCs). At the present time approximately 20 of Singapore's largest corporations are GLCs. The latter are akin to state-owned enterprises, except in Singapore's case GLCs are indirectly controlled through a sovereign wealth fund called Temasek Holdings. The reality of industrial policy as practiced by Singapore's government is nuanced. Specifically, even though there are numerous GLCs in Singapore, the government has always sought to maintain an element of market discipline. To this end, GLCs are expected to provide commercial returns commensurate with investment risk. Furthermore, they are not favoured with special privileges and hidden subsidies.

The use of market incentives is also a feature of public policy in Singapore—and not just industrial policy. One prominent example is the use of road pricing, another is housing policy. The government supplies the market with most of the housing in Singapore, and the government's sovereign wealth fund is a large investor in domestic construction companies. However, Singaporeans can be bona fide owners of property that they can rent or resell.

Yet another example is unemployment payments. Singapore's Workfare program seeks to encourage low-skilled individuals to find work and upgrade their skills. It consists of an income supplement that tops up a low-wage worker's monthly income, but the supplement is unavailable to the unemployed

One important lesson to which other countries should pay attention is Singapore's judicious combination of pragmatism, economic growth, and equity. Social provision is present, but it never overwhelms individual self-reliance and community-based mutual aid. In those cases where the government must provide social services, it never dismisses market efficiency but, rather, appreciates it.

Public policy particularly makes considerable use of market incentives. Singapore is famously the first nation in the world to have adopted road pricing, an innovative model that allows it to limit congestion effectively. More significant is its housing policy, which has enabled Singaporeans to enjoy one of the highest rates of homeownership (over 85 percent) in the world, a great achievement considering the problems of access to affordable housing in many Western countries. Housing policy provides an interesting case study. It should be noted at the outset that most housing in Singapore is provided by the state, and more than two thirds of Singaporeans live in government apartments.

First and most significantly, government apartments in Singapore can be resold on the market subject to certain limitations. Singaporeans are bona fide owners or renters. So even though the Singapore state holds a monopoly on land (land was forcibly acquired in the country's early years and housing is largely state provided), Singaporeans nonetheless hold considerable property rights in their homes. This in turn means that residents benefit from the rising asset value of their homes and have a stake in the country's economic growth.

Workfare

The centrality of work is not mere rhetoric in Singapore but is reflected in many of its key social policies. One of the most striking examples is encapsulated in the name of a key piece of the transfer payment scheme: Workfare. Workfare payments are conditional on the individual being employed, and for those who struggle to do so, on upgrading their skills. While in typical social policies the focus of welfare seeks to provide temporary relief for the unemployed or the least well off, workfare—with the emphasis on work—seeks to encourage low-skilled workers to find work and to upgrade themselves in order to increase their earning power. It has two components. The first is an income supplement that tops up a low-wage worker's monthly income, a supplement that is unavailable to the unemployed (Singapore, 2023). The second component, Workfare Skills Support, encourages low-wage workers to undertake training by providing them with training allowances for selected courses and a cash reward for completing training.

A Free Market Paradox

Singapore's record of economic performance is one of the strongest in the world. GDP, Per Capita GDP, unemployment, and employment rates as well as the size of government all support such a statement. To what extent has Singapore followed a free market economic model? Many will point to the fact that despite its high economic freedom rankings there has been substantial government intervention into markets in the form of the government-linked corporations (GLCs), sovereign wealth funds, and a range of other industrial policy initiatives. While this is the case, throughout Singapore's economic history, the size of the GLC sector has been a source of contention, such that the government decided to embark on a privatization exercise in the 1980s in order to maintain commercial discipline. Nevertheless, industrial policy has been a prominent government practice in Singapore, with substantial subsidies, loans, and incentives given to foreign multinationals, as well as to domestic businesses for economic upgrading purposes. Indeed, one of Singapore's leading economists, Linda Lim, wrote that the free market is a myth in Singapore, where the visible hand of the government has been more significant than previously realized (Lim, 1983).

What explains why an economy ranked as one of the freest in the world is also one that has numerous GLCs in operation? Why is it that an open economy that relies on markets, globalization and private investment simultaneously engages in intrusive industrial policy by the state? Within the specific area of social policy, the Central Provident Fund (CPF) policy is itself a paradox. While it is based on the principle of self-responsibility, it relies on coercion. Individuals are forced to be self-reliant. One can ask if the CPF is a free market policy, and (more broadly) the degree to which Singapore follows a free-market model. These are legitimate questions without easy answers. The best way to understand these apparent contradictions is with reference to the worldview of Singaporean policy officials, who primarily adopt an elite-driven, pragmatic outlook.

Reliance on elite decision-making reflects the technocratic, as opposed to democratic, characteristics of Singapore politics. At the same time, government elites believe that they make decisions on purely neutral, technical grounds that best serve the people. Government officials claim to be pragmatic and free from ideological blinders and rigid political positions. The current Prime Minister Lee Hsien Loong says it best: "A government that is pragmatic—it looks for solutions that work, rather than starting out from any ideological presumptions. It depends to a considerable degree on the free market because markets make economies efficient. But at the same time, the government is not shy to play a very active role—in public housing, education, healthcare, infrastructure."

Market institutions are seen as beneficial because of their consequentialist benefits in terms of economic growth and efficiency and not because of moral considerations such as individual freedom. Markets in Singapore are accepted only to the extent that they achieve goals of economic growth and efficiency. It should also be noted that historically, Singapore was not born out of revolution, or out of a resistance against established authority, as was the case in Western Europe and the United States.

Restrictions on the sale of certain items, such as drugs, cigarettes, pornography, and alcohol—commonplace in Singapore—are all justified on grounds of ensuring a society that is stable, well-ordered, and free from the vices typically seen in the Western world.

Market competition was also justified on the grounds that local enterprises need to be competitive in order to successfully compete on a global level. Thus, Singapore's embrace of markets was and is driven by economic survival, and not based on a deeper socio-cultural appreciation of the moral virtues of freedom on which market capitalism is based. What this means once again is that other demands which are deemed pressing at any given moment—whether they involve national security, political control, or social stability—may, as part of some broad cost-benefit rationalization, trump markets.

Like begets like, and this system has perpetuated itself from the beginning. Significantly, the public administration apparatus has consciously developed human resource policies to attract the best talents from the private sector to join the government (Quah, 2010). Government scholarships to top universities are generously offered to the best performing students, who in turn are attracted to government careers due to its high status. With doctors, engineers, lawyers, and various professionals forming the government, there is also a strong conviction in the power of big data and the technological sciences to understand and plan society.

Importantly, it should be noted that because Singapore is not a **laissez-faire** utopia does not mean that there are no important lessons to be learned from its use of market-based institutions in policymaking, which is nevertheless significant. The fact that Singapore is a mixed economy does not detract from the fact that in social policy for instance, there exists a high degree of reliance on personal responsibility, community self-help and private mechanisms, all of which are typically downplayed in welfare states. The goal of equity, which many would accept as an important plank of government policy, is pursued in Singapore in ways that are compatible with meritocracy, personal responsibility and the work ethic, a praiseworthy approach worth considering elsewhere.

Far from a vulgar commitment to materialism, Singapore's prioritization of economic growth reflects a modern pragmatic outlook centred on social progress. This is consistent with the classical liberal belief that economic growth produces win-win opportunities for all.

Critics

Some critics would object that the Singapore model may not be worth emulating. For all its achievements, especially in the economic realm, there is a dark side to Singapore that should be acknowledged. Here, critics of the Singapore model would point to its political system, specifically the way in which it falls short of the liberal democratic ideal favoured in the West. Such criticisms range from the moderate to the scathing. Singapore is known for its paternalism, most famously for banning bubble-gum. The passing of L Kuan Yew led many to reflect on his rule as a “benevolent dictator.”

Therefore, whether Singapore should be emulated will also depend on who is the one doing the learning. Clearly, Singapore has much to learn from the West in terms of how political freedoms and civil liberties are prioritized, not just as a pragmatic benefit, but as a cardinal virtue. When it comes to achieving material welfare and personal safety, developing countries have much to learn from Singapore.

The second important factor to consider is the culture. In Singapore, the reason why many of its social policies work is because people genuinely share in a culture of self-responsibility. This is not merely the rhetoric of government leaders or elite propaganda. Citizens genuinely believe that dependence on the government is a failing to be avoided, and that the individual and the family should be the first source of help. Singaporeans are also fiercely meritocratic and imbibe in the shared value “work for reward, reward for work.”

Conclusion

We are left with the question of whether Singapore is a **market economy** or a **socialist economy**. Because of the intertwined nature of a market economy in function, whose structure is carefully planned and the virtue of self-reliance is championed it is a question that does not illicit a clear answer.

ACTIVITY 5 – The Shortage Economy

Introduction

As countries like Estonia and Poland were occupied by the Soviet Union during World War II, private industry was nationalized, prices and production were controlled, and shortages ensued. This activity allows students to participate in a market before and after the controlled prices and production. As they struggle with fulfilling their wants and needs amidst a shortage, they discover ways to alleviate the struggle by going around the law and participating in black markets.

Materials

Activity 5 Slide Deck - https://docs.google.com/presentation/d/1vMZTT2CWa8kELONZ2XY00rxrreIjs1Q3fL0wvNAHCs4/edit?usp=sharing

Handout 1 "How To Play" – 1 copy per student (copy on the backside of Handouts 2 and 3 to save paper)

Handout 2 "Seller Transaction Record" – 6 copies

Handout 3 "Buyer Transaction Record" – 1 copy per student minus 6

Handout 4 "Seller Role Card A" – 1 copy on light yellow cardstock, cut apart to make 6 cards.

Handout 5 "Seller Role Card B" - 1 copy on dark yellow cardstock, cut apart to make 6 cards.

Handout 6 "Buyer Card" – 8 copies on blue cardstock, cut apart to make 64 cards.

Handout 7 "Chickens" – 30 copies on tan cardstock, cut apart to make 240 chicken cards.

Visual 1 "Tally Sheet" – 1 copy to project with document camera or recreate on white board.

Preparation

Prepare the 64 Buyer Cards by writing the following values on the number of cards indicated.

Buyer Card Value	Number of Cards with that Value
$3.50	4
$3.70	4
$3.90	4
$4.10	4
$4.30	8
$4.50	8
$4.70	12

$4.90	12
$5.10	8

Key Terms

Black Market	The exchange of goods and services in an illegal, uncontrolled and unregulated manner.
Incentive	A factor that encourages people to do something.
Market	A places, institution or technological arrangement where or by means of which goods or services are exchanged.
Shortage	The situation that arises when buyers want to purchase more than producers want to sell at the prevailing price.

Objectives

Students will be able to:

- Define shortage.
- Provide examples of black markets.
- Explain why black markets arise.

Time Required

45 minutes

Learning Objectives

Incentives

People usually respond predictably to positive and negative incentives.

- Acting as consumers, producers, workers, savers, investors, and citizens, people respond to incentives in order to allocate their scarce resources in ways that provide them the highest possible net benefits.

Trade

Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations.

- When people buy something, they value it more than it costs them; when people sell something, they value it less than the payment they receive.

Markets and Prices

A market exists when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.

- Market outcomes depend on the resources available to buyers and sellers, and on government policies.

- A shortage occurs when buyers want to purchase more than producers want to sell at the prevailing price.

Role of Prices
Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting incentives.

- Government-enforced price ceilings set below the market-clearing price and government-enforced price floors set above the market-clearing price distort price signals and incentives to producers and consumers. Price ceilings can cause persistent shortages, while price floors can cause persistent surpluses.

Procedures

1. Clear the center of the room, and set up 6 "stores" around the perimeter to create a marketplace.

2. Select 6 sellers and seat them in their "stores" along the edge of the class. (Leave enough room between the desks for buyers who will be coming into the stores.) Give each seller **a Seller Role Card - A**, a **Seller Transaction Record**, a "**How to Play**" handout and **30 Chicken cards**. (Tell sellers they have an allotment of 10 chickens per round.)

3. Give a **Buyer Transaction Record**, a **"How to Play"** handout and one **buyer card** to each of the remaining students.

4. Explain to students that they are going to take part in a market simulation. Read the handout, "How To Play," or have students read silently and then review the procedures and answer student questions.

5. Make sure both buyers and sellers understand how to calculate "gain" on their **Transaction Records**. Announce the incentive - that students will be able to spend their "gains" on candy at the end of the game. (You may also want to add a prize for the top seller and top 2 buyers who make the most gain.)

6. Encourage students to make as many deals as they can in the time permitted.

7. Explain that you will conduct a number of rounds of trading sessions of approximately the same length.

8. Tell sellers to count out their inventory of chickens for Round 1.

9. Open round 1. Monitor the market and end the round before the sellers have time to run out of their 10 chicken cards for the round. (Expect some confusion, especially if students have not played market games before. Also expect that they will sort out the process and transactions will be made. You may wish to play the first round as practice, and "start over" after it appears that most students have figured out their roles.)

10. If you ran a practice round, collect the chicken cards from buyers and replenish the sellers' inventory before starting Round 2.

11. Collect any unsold chickens from the sellers' Round 1 inventory.

12. Give students time to figure their gains (or losses). Display the transaction record and tally the total number of chickens sold.

13. Before the next round hand out the **"Seller Role Cards – B"** and announce a change. Explain that their country has a new government that will be controlling the markets. The 6 sellers are authorized sellers and chickens cannot be sold for more than $3.50 per chicken. Since this is below the seller cost, assure sellers that the government will subsidize them $0.60 per chicken sold at the conclusion of the round, so they will not make a loss.

14. Instruct sellers to count out their allotment of 10 chickens for the round.

15. Tell the buyers that they are not authorized sellers and therefore are not allowed to resell the chickens they purchased. However, if they do happen to sell a chicken, they should still record it on their transaction record using the "purchase price" and "sell price" columns.

16. Remind everyone that they can use their gains to buy candy at the end of the activity.

17. Begin the round. Sellers should run out of chickens pretty quickly. Expect that sellers might try to sell some of their inventory from the next round or they may sell chickens above the controlled price of $3.50. You may even see some buyers resell their chickens to other buyers. Do not try to stop this behavior. Instead, make note of these types of transactions to discuss during the debrief.

18. Call an end to the round when all the stores have run out of chickens. Have students calculate their gains (or losses) on their transaction record. Tell each seller to add in their subsidy of $6.00 (10 x $0.60).

19. If there were several examples of black-market transactions, you can end the activity here (examples: sellers selling above the controlled price, sellers selling extra chickens, buyers reselling their chickens, etc.). If not, run one additional round. Before the additional round ask who made big gains and who got a lot of chickens. Compliment those students. Tell sellers they can really help their families with those gains and remind them they can only buy candy with gains at the conclusion of the activity. Tell buyers that their families are hungry and it's really important that they buy chickens in this next round. For buyers that didn't get chickens or didn't get enough, encourage them to find ways to get chickens as their families depend on it.

20. Conclude the activity and debrief with the following questions.

    - Were there any sellers that sold more than 10 chickens when the price was controlled? Why? (*To make a gain*)

- Were there any sellers that sold above the controlled price? Why? (*To make a gain. The controlled price with the subsidy only allowed them to break even.*)
- Were there any buyers that re-sold a chicken? Why? (*They could sell it for more than they paid and add to their gain*.)
- Who bought a chicken from another buyer instead of an authorized seller? Why? (*There were no chickens in the stores. There were long lines at the stores. It was easier, etc.*)
- For those that bought chickens from other buyers, what price did you pay? (They likely paid a higher price than the controlled price).
- Explain that all of these transactions are examples of **black-market transactions**. Black market transactions are illegal, meaning they happen outside the controlled and regulated market.
- Why were some people willing to engage in these illegal transactions? (*They had an incentive to do so. For gains. The benefit was greater than the cost*.)
- Explain that a **shortage** occurred when sellers ran out of chickens and there were still lots of buyers wanting to buy chickens. Ask students why the shortage occurred. (*The controlled price was too low*.)
- Explain that when buyers and sellers can't meet their needs in legal markets, they turn to black markets to fulfill those needs.

Conclusion

Price controls create shortages. During its years of central planning, Estonia faced shortages of everything from shoes to meat. As citizens were unable to fulfill their wants and needs through the legal controlled markets, they turned to black markets to purchase such goods. Consumers sold to consumers at prices above the controlled price and even managers learned they could personally profit by selling in the black market as opposed to the legal market. A "shortage economy" developed wherein basic items like flour, meat, shoes, soap, chocolate and toilet paper could only be found on the black market. To get anything required friendships, personal contacts and familial relationships. As a common proverb put it, "One must have not a hundred rubles, but a hundred friends."

Handout 1

How to Play

1. Players' goal in the activity is to make as much **gain** as they can over the course of the game.

2. **BUYERS:** Each buyer will have only one buyer card at a time. The card will allow you to buy **ONE** chicken and will tell you how much you value it. To make a "gain," buy at a price lower than the price shown on your card. If you buy at a higher price, you suffer a loss. **DO NOT REVEAL THE PRICE. Record the buyer card price on your Buyer Transaction Record.**

3. When the round starts, try to buy below your buyer-card price – *the lower, the better.* If you buy at a price higher than that on your buyer card, it will reduce your gain.

4. When you make a purchase, you will be given a chicken card. Record the **purchase price** on your score sheet. Then exchange your buyer card for another card from the buyer pile and try to make another transaction.

5. Buyers will be rewarded based on the gain on their Buyer Transaction Record.

6. **SELLERS:** At the beginning of each round, each seller will be given an inventory of chickens and a role card with the cost per chicken. To make a gain, sell at a price higher than the cost. If you sell at a lower price, you suffer a loss. **DO NOT REVEAL THE PRICE. Record the seller cost and the sale price on your Seller Transaction Record.**

7. Sellers will be rewarded by the gain on their Seller Transaction Record.

8. **EVERYONE**: When the round opens, all stores are open to all buyers. When a buyer and seller agree on a price, they record the price on their transaction records, and the seller gives the chicken to the buyer.

9. When the teacher says "Start," buyers are free to move around the room and to make transactions with any seller.

10. Both buyers and sellers are free to make as many transactions as they want in a round.

11. During the game, keep track of your progress on your Transaction Record. Compute your gains and losses in between rounds by taking the difference between the price on your buyer or seller card and the price of the transaction.

Handout 2

Transaction Record – SELLER

Round	**Sale Price**	**Cost**	**Gain** Sale Price – Cost = Gain

Handout 3

Transaction Record – BUYER

Round	**Value**	**Purchase Price**	**Sale Price**	**Gain** Value – Purchase Price = Gain Sell Price – Purchase Price = Gain

Handout 4

Seller Role Card - A You just received your usual monthly order of whole chickens and have 10 on the shelves. Your cost = $4.00 per chicken.	**Seller Role Card – A** You just received your usual monthly order of whole chickens and have 10 on the shelves. Your cost = $4.00 per chicken.
Seller Role Card – A You just received your usual monthly order of whole chickens and have 10 on the shelves. Your cost = $4.00 per chicken.	**Seller Role Card – A** You just received your usual monthly order of whole chickens and have 10 on the shelves. Your cost = $4.00 per chicken.
Seller Role Card - A You just received your usual monthly order of whole chickens and have 10 on the shelves. Your cost = $4.00 per chicken.	**Seller Role Card - A** You just received your usual monthly order of whole chickens and have 10 on the shelves. Your cost = $4.00 per chicken.

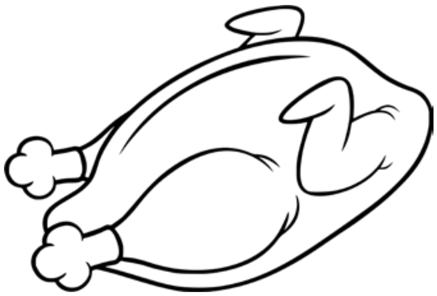
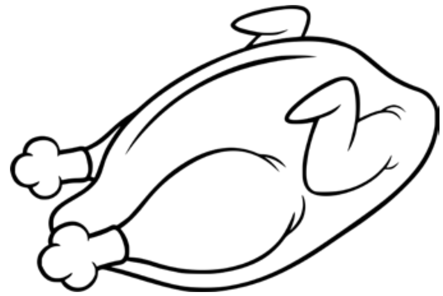
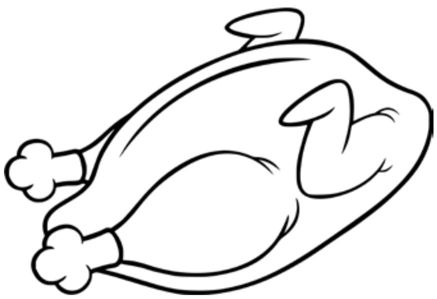
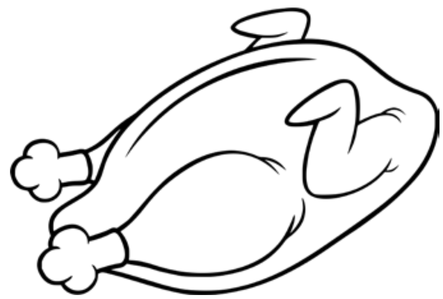
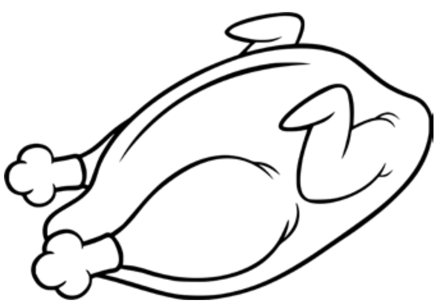
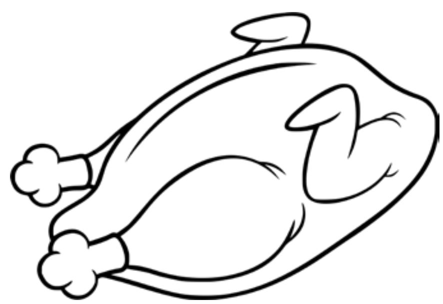
Handout 5

Seller Role Card – B You have an allotment of 10 chickens to sell per round. Regulated Sale Price = $3.50 per chicken. You will receive a $0.60 subsidy per chicken sold to cover your cost of $4.00 per chicken.	**Seller Role Card – B** You have an allotment of 10 chickens to sell per round. Regulated Sale Price = $3.50 per chicken. You will receive a $0.60 subsidy per chicken sold to cover your cost of $4.00 per chicken.
Seller Role Card – B You have an allotment of 10 chickens to sell per round. Regulated Sale Price = $3.50 per chicken. You will receive a $0.60 subsidy per chicken sold to cover your cost of $4.00 per chicken.	**Seller Role Card – B** You have an allotment of 10 chickens to sell per round. Regulated Sale Price = $3.50 per chicken. You will receive a $0.60 subsidy per chicken sold to cover your cost of $4.00 per chicken.
Seller Role Card – B You have an allotment of 10 chickens to sell per round. Regulated Sale Price = $3.50 per chicken. You will receive a $0.60 subsidy per chicken sold to cover your cost of $4.00 per chicken.	**Seller Role Card – B** You have an allotment of 10 chickens to sell per round. Regulated Sale Price = $3.50 per chicken. You will receive a $0.60 subsidy per chicken sold to cover your cost of $4.00 per chicken.

Handout 6

Buyer Card Purchase 1 Chicken Value to you: ___________	**Buyer Card** Purchase 1 Chicken Value to you: ___________
Buyer Card Purchase 1 Chicken Value to you: ___________	**Buyer Card** Purchase 1 Chicken Value to you: ___________
Buyer Card Purchase 1 Chicken Value to you: ___________	**Buyer Card** Purchase 1 Chicken Value to you: ___________
Buyer Card Purchase 1 Chicken Value to you: ___________	**Buyer Card** Purchase 1 Chicken Value to you: ___________

Handout 7

Visual 1

Tally Sheet

Round / Seller	1	2	3	4
1				
2				
3				
4				
5				
6				
Total Sold				