



Chapter

22

Business and Labor



Why It Matters

Businesses and labor organizations play a major role in our nation and communities. They work separately, as well as together, to make people's lives better by keeping the economy as healthy as possible.

BIG Ideas

Section 1: Types of Businesses

Market economies rest upon the fundamental principle of individual freedom for consumers, producers, and workers. The three basic types of business organizations in the United States are sole proprietorship, partnership, and corporation.

Section 2: The American Labor Force

Market economies rest upon the fundamental principle of individual freedom for consumers, producers, and workers. Labor unions represent about 14 percent of U.S. workers and play an important role in the nation's economy and political life. They negotiate wages and workplace agreements with management.

Section 3: Businesses in Our Economy

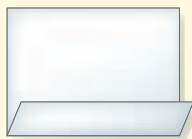
Market economies rest upon the fundamental principle of individual freedom for consumers, producers, and workers. Businesses play many different roles in our economy, including that of consumer, employer, and producer. Businesses also have responsibilities to their consumers, owners, employees, and communities.

◀ Technician works on jet engine compressor

FOLDABLES™ Study Organizer

Comparing Information Study Foldable Make the following Foldable to help you compare the differences and similarities between business and labor practices.

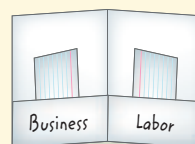
Step 1 Fold a two inch tab along the long edge of a sheet of paper.



Step 2 Fold the paper in half so the tab is on the inside.



Step 3 Open the paper pocket Foldable and glue or staple the edges together. Store note cards in the pockets.



Reading and Writing

As you read the chapter, collect information about business and labor practices. Write a summary paragraph about each using your note cards.



Section
1

Types of Businesses

Guide to Reading

Big Idea

Market economies rest upon the fundamental principle of individual freedom for consumers, producers, and workers.

Content Vocabulary

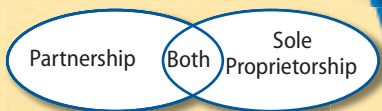
- sole proprietorship (p. 601)
- financial capital (p. 601)
- partnership (p. 602)
- articles of partnership (p. 602)
- corporation (p. 603)
- charter (p. 604)
- stock (p. 604)
- stockholder (p. 604)
- board of directors (p. 604)
- cooperative (p. 606)

Academic Vocabulary

- sole (p. 601)
- consult (p. 601)
- clarify (p. 602)

Reading Strategy

Organizing Create a diagram like the one below, then analyze the similarities and differences between partnerships and sole proprietorships. Where the ovals overlap, write the characteristics that both share.



Real World Economics Small businesses are very important to the American economy and employ thousands of young people. Many teens, such as this girl who works in a small market, put in hours on the job after school and on weekends. Without these workers, small businesses could not survive. Support also comes from the U.S. Small Business Administration (SBA). It has been guaranteeing loans to businesses that are high-risk, not traditional, or are competing with much larger competitors.

▼ **New York teen works after school in neighborhood market**





Proprietorships

Main Idea The most common, and simplest, form of business organization in the United States is the sole proprietorship.

Economics & You What kind of business could you start right now? Read to find out how you would organize that business.

There are three main kinds of business organizations in the economy today—the sole proprietorship, the partnership, and the corporation. Each offers its owners important advantages and disadvantages.

The most common form of business organization in the United States is the **sole proprietorship**, or simply, proprietorship—a business owned and operated by a **sole**, or single person. You have seen such businesses in your neighborhood—beauty salons, cleaners, and pizza restaurants.

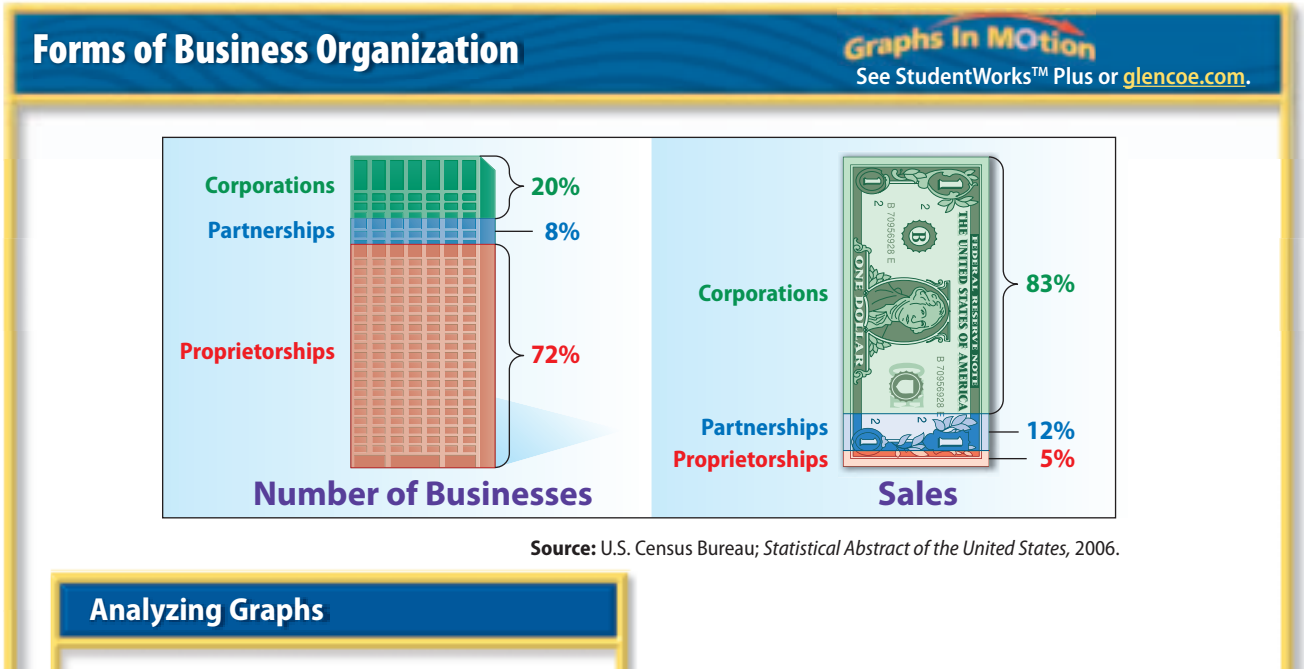
Have you ever earned money mowing lawns or babysitting? If so, you were a sole

proprietor. Important advantages of sole proprietorships are that the proprietor has full pride in owning the business and receives all the profits. The proprietor can make decisions quickly, without having to **consult**, or check with, a co-owner or boss.

The biggest disadvantage is that the proprietor has unlimited liability, or complete legal responsibility for all debts and damages arising from doing business. If the business has debts, the owner’s personal assets, such as houses, cars, and jewelry, may be seized to pay the debts.

Sole proprietors also find it difficult to raise **financial capital**—the money needed to run a business or enable it to grow larger. Another disadvantage is the difficulty of attracting qualified employees. Many high school and college graduates are more likely to be attracted to positions with larger firms that can offer better benefits—paid vacations, sick leave, and health and medical insurance.

Reading Check Identifying Who makes the decisions in a sole proprietorship?



- Analyzing Graphs**
- Identifying** What percentage of businesses are proprietorships?
 - Analyzing** Which business organization accounts for the largest amount of sales?



Partnerships

Main Idea A partnership is a business owned by two or more people.

Economics & You Can you think of someone with whom you would be willing to go into business? Read to find out more about this type of organization.

Suppose you are a proprietor, and your workload increases so much that you have little time to do anything else. You could expand your business by hiring an employee. However, you also need money to buy new equipment, and you would rather not take out a loan. You decide to take on a partner.

The best solution is to look for someone who can keep books, order supplies, handle customers, and invest in the business. You offer to form a **partnership**, a business that two or more people own and operate.

Structure

When you start the business, you and your partner draw up a legal agreement called **articles of partnership**. This document identifies how much money each of you will contribute and what role each partner will play in the business. It **clarifies**, or spells out, how you will share profits or losses. Finally, the document describes how to add or remove partners, or even how to break up the business if you want to close it down.

Kinds of Partnerships There are two kinds of partnerships. The most common form of partnership is a *general* partnership, one in which all partners are responsible for the management and financial obligations of the business. In a *limited* partnership, at least one partner is not active in the daily running of the business, although he or she may have contributed funds to finance the operation.

Partnerships Many small businesses like this New York City bodega are owned by more than one person. **Analyzing** Why would a business owner want to share ownership?





Justin Sullivan/Getty Images

Advantages Much like sole proprietorships, an advantage of partnerships is the pride of sharing ownership in a business. Partnerships also overcome some disadvantages of a proprietorship. Because there are multiple owners, partnerships can usually raise more money. If money cannot be borrowed, the partners can always take in new partners to provide funds. Like sole proprietors, partners pay no corporate income tax.

Another advantage of partnerships is that each owner often brings special talent to the business. If, for example, one partner in an advertising agency is better at public relations and another is better at artwork, each can work at the tasks for which he or she is most capable. The ad agency then has a better chance of succeeding than if only one person ran it.

Another advantage of a partnership is the slightly larger size, which often makes for more efficient operations. In some areas, such as medicine and law, a relatively small firm with three or four partners may be just the right size for the market. Other partnerships, such as accounting firms, may have hundreds of partners offering services throughout the United States.

Disadvantages One disadvantage of the partnership is that the legal structure is complex. When a partner is added or removed, a new agreement has to be made.

The main disadvantage is that the owners have unlimited liability. This means that each owner is fully responsible for all the debts of the partnership. Suppose that you and four others form an equal partnership. The articles of partnership state that you own one-fifth of the business and have the right to one-fifth of its profits. Suppose, though, that someone was injured by the company and sued for damages. If the other owners cannot pay, you could be required to pay 100 percent of the damages.

Reading Check **Describing** What is the main disadvantage of a partnership?

Corporations

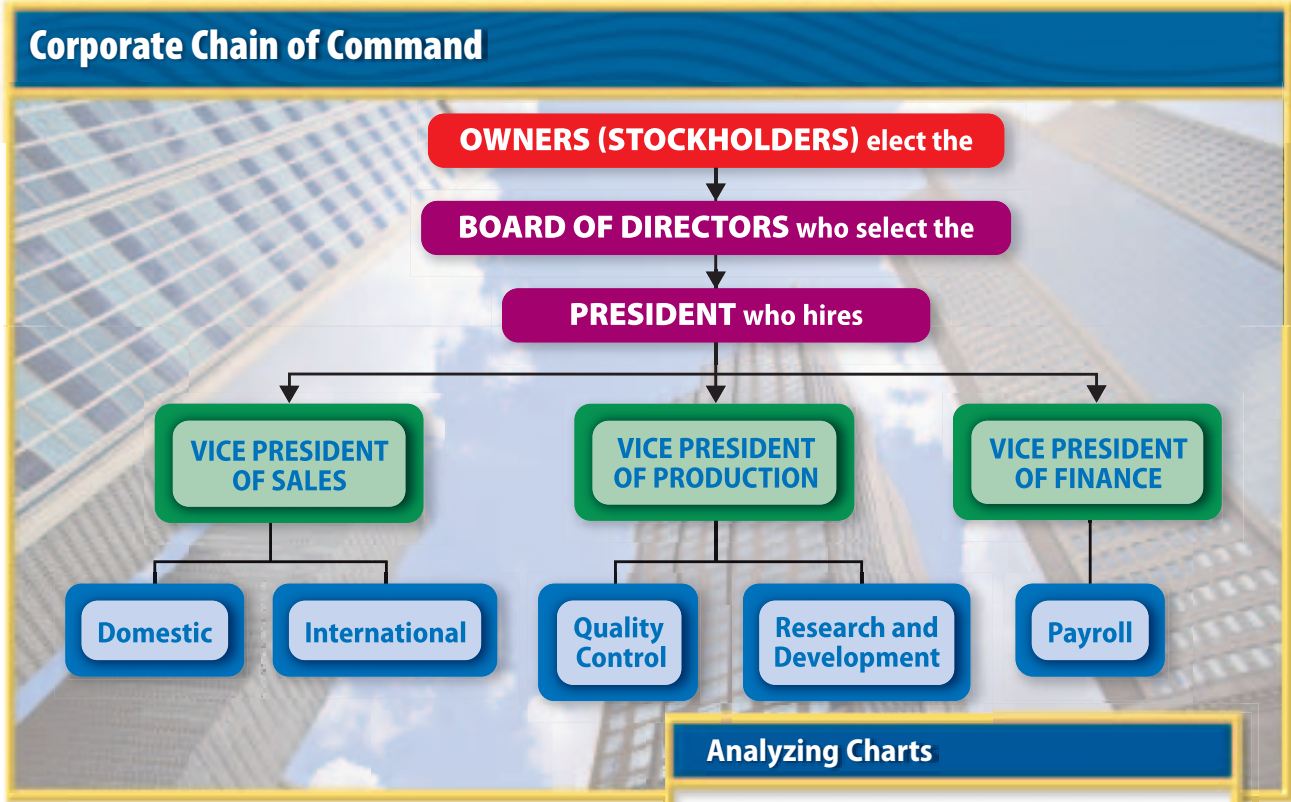
Main Idea The corporation is a business recognized by law and is the most complicated of the three main types of business.

Economics & You Think of a big company whose name you see everywhere. Chances are, it is organized in the manner you are going to read about.

The **corporation** is an organized business recognized by law that has many of the rights and responsibilities of an individual.

Successful Corporation Yahoo!’s corporate headquarters in California often holds meetings with the board of directors of this fast-growing Web provider.
Explaining What is the role of a board of directors?





Analyzing Charts

1. **Identifying** To whom does the Director of Quality Control report?
2. **Analyzing** If the board of directors needed to raise capital, to whom would it appeal?

In fact, a corporation can do anything a person can do—own property, pay taxes, sue or be sued—except vote. One-fifth of all businesses are corporations.

Structure

Someone who wants to start a corporation must get a **charter**—a government document granting permission to organize. The charter includes the name, purpose, address, and other features of the business. The charter also specifies the amount of **stock**, or ownership shares of the corporation, that will be issued. The people who buy this stock—the **stockholders**—become part owners of the corporation. The corporation uses the money received from selling the stock to set up and run the business.

The stockholders elect a **board of directors** to act on their behalf. The board hires managers to run the corporation on a daily basis. The chart above shows the relationship of these groups. As you can see, the business owners and the managers of a corporation are different groups of people.

Advantages The first advantage of the corporation is the ease of raising financial capital. If it needs additional money to expand, for example, the corporation can sell new shares of stock. Corporations also find it easier than the other types of businesses to borrow large sums of money.

The second advantage results from the ease of raising capital. This allows corporations to grow to be huge. Today’s large corporations employ thousands of workers and carry out business around the world.

Civics ONLINE
 Student Web Activity Visit glencoe.com and complete the Chapter 22 Web Activity.



Carlos Osorio/AP Images

The Largest Corporations A recent study found that some corporations are bigger than the economies of many countries. Of the world's largest 150 economic entities, 95 are corporations, according to data released in 2005 by *Fortune* magazine and the World Bank. The ranking is based on corporations by revenue and countries by GDP. Wal-Mart is the world's largest corporation and ranks number 22. Other high ranking corporations are BP at 23, Exxon Mobil at 24, and General Motors at 33. Each of these corporations was larger than the domestic economies of Finland (34th), Ireland (35th), and Argentina (48th).

A third advantage of corporations is that the board of directors can hire professional managers to run the business. Many corporations hire professional managers. If those managers do not succeed, the board can replace them.

A fourth advantage is that ownership of the corporation can be easily transferred. If you own shares in one corporation and would rather have shares in another, you simply sell the first stock and buy the second.

A final advantage of the corporation is limited liability. Only the corporation, not its owners, is responsible for the debts of the corporation. For instance, if you paid \$1,000 for stock in a corporation that later went bankrupt, you would lose your \$1,000 investment—but no more than that. Unlike the proprietorship or the partnership, you would not be liable for the company's debts.

Disadvantages Corporations have their disadvantages as well. First, they often are expensive and complex to set up. In addition, the business owners have very little say in the management of the business. Millions of people own the shares of major corporations, but it is difficult for them to unite to force the managers to act in a particular way.

Third, corporations are subject to more regulation by government than the other forms of business. They must release certain reports on a regular basis. These reports give detailed financial information about the company. The reports are designed to keep potential and current shareholders informed about the state of the business.

Profit Sharing This assembly worker at Ford Motor Company may also be a stockholder in the corporation. **Explaining** How are the funds raised by stock used?





Finally, stockholders are subject to double taxation, or paying taxes twice on corporate profits. First, the corporation pays a tax on its profits. Then, when the profits are distributed to the stockholders, the stockholders have to pay tax on those earnings. Because of double taxation, corporations are required to keep detailed records of sales and expenses so that it can compute and pay taxes on its profits. Sole proprietors and partners also must pay taxes on the profits they earn. However, proprietorships and partnerships do not pay a separate profit tax.

Other Business Organizations

Profit-seeking proprietorships, partnerships, and corporations are not the only types of business organizations. Other organizations operate on a “not-for-profit” basis. Examples of nonprofit institutions include churches, hospitals, and social service agencies.

What Are Cooperatives? Another example of a nonprofit organization is the **cooperative**, a voluntary association of people formed to carry on an economic activity that benefits its members. Consumer cooperatives buy bulk amounts of goods on behalf of their members. Members usually help keep the cost of the operation down by devoting several hours a week or month to the operation. Service cooperatives provide services, such as insurance and credit, rather than goods to their members.

Producers can also have cooperatives. A producer cooperative helps members promote or sell their products. For example, farmers cooperatives help members sell their crops directly to central markets or to companies that use the products.

 **Reading Check** **Describing** Why is double taxation a disadvantage for corporations?

Section Review 1

Vocabulary

- Define** these terms from the section and make a set of flash cards to help you learn them: *sole proprietorship, financial capital, partnership, articles of partnership, corporation, charter, stock, stockholder, board of directors, cooperative.*

Main Ideas

- Explaining** Why is a proprietorship the easiest form of business to set up? What is the most complex form?
- Comparing** What are the advantages and disadvantages of forming a partnership?

Critical Thinking

- Evaluating** If you were planning to open your own business, which form of business organization would you prefer—sole proprietorship, partnership, or corporation? Justify your answer.
- BIG Ideas** On a chart similar to the one below, identify the advantages of the corporation.

Corporation Advantages

- Analyzing Visuals** Study the graphs on page 601. What can you conclude about the form of business having the largest number of organizations and sales generated by that form of business?

CITIZENSHIP Activity

- Persuasive Writing** Write a paragraph either supporting or disagreeing with this statement: The sole proprietorship is the basis of U.S. business. Give reasons for your opinion.



Study Central™ To review this section, go to glencoe.com.



The Job Interview: First Impressions Count

If your résumé is what opens the door to job opportunity, keep the door open by making a good first impression. Do your homework by researching information about the company before you arrive. Have specific job goals in mind. Then practice interviewing with a friend or relative.

On the day of the interview, plan to arrive early. Dress to impress—nothing flashy, just well-groomed clothes suitable to the job.

When you meet the interviewer, shake hands firmly. Address the person as Mr., Mrs., or Ms. unless told otherwise. Relax promptly and use good manners. Maintain eye contact throughout the interview, be enthusiastic, and answer questions clearly and honestly. Focus on the training or experience you can bring to the job. Ask questions about the organization and the position. Thank the interviewer when you leave, and as a follow-up, send a thank-you note.



The company offered me the job. Now what?

- Take time to make your decision.
- Consider the salary and benefits of the job. If you have not already done so, research the job turnover of the company. High turnover might reveal employee dissatisfaction or a lack of job stability.
- Confirm the opportunities open to you, such as chances for advancement or additional training.
- Create a balance sheet weighing the pros and cons of the job. If the pros outweigh the cons, take a deep breath and jump into the job market. You are on the way to building your career!



Analyzing Economics

1. **Summarizing** What can you do to prepare for a job interview?
2. **Hypothesizing** What should you do if an employer asks you a question you cannot answer? Explain.



Section
2

The American Labor Force

Guide to Reading

Big Idea

Market economies rest upon the fundamental principle of individual freedom for consumers, producers, and workers.

Content Vocabulary

- labor union (p. 609)
- right-to-work law (p. 610)
- collective bargaining (p. 611)
- mediation (p. 611)
- arbitration (p. 611)
- strike (p. 612)
- boycott (p. 612)

Academic Vocabulary

- comprise (p. 609)
- technique (p. 611)
- option (p. 611)

Reading Strategy

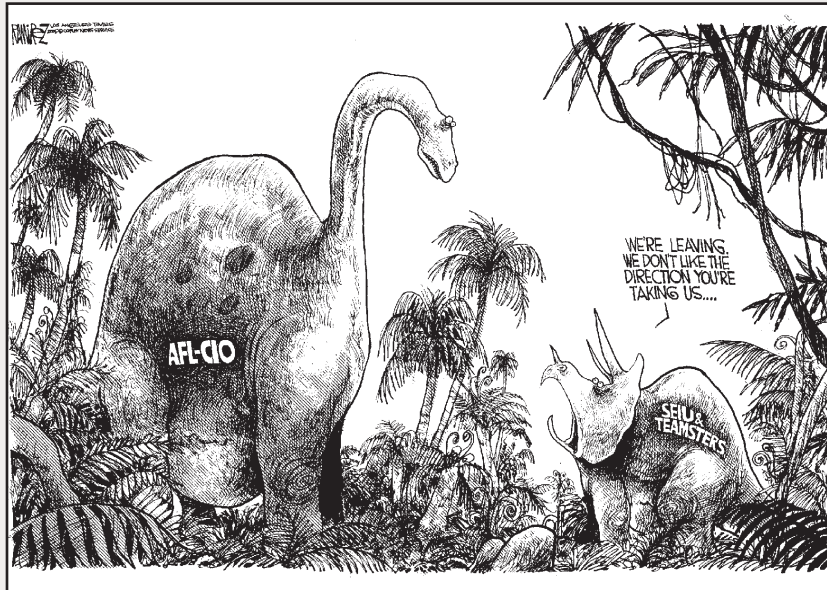
Organizing As you read the section, complete a diagram like the one below that shows the goals of collective bargaining.



Real World Economics Since the first immigrants came to America and formed a huge labor force, unions have played a part in American industry. These AFL-CIO members are raising their voices in Pittsburgh to draw attention to national union issues. Unions represent more than 15 million workers in the United States and offer a powerful voice for workers to negotiate for better wages and working conditions. Some economists believe that unions are good for the economy, as they produce members who are better trained and stay on the job longer than employees who are not union members.

▼ Union members showing support at a labor rally





Michael Ramirez/Copley News Service

This cartoon, by Michael Ramirez, makes a statement about unions in the United States.

1. What animals does Ramirez use to represent unions?
2. Why do you think he selected these symbols?
3. Do you think Ramirez believes the SEIU and Teamsters' decision to break away from the AFL-CIO will be effective? Explain.

Every year, more than half of all Americans do volunteer work. One of the responsibilities of citizens is to help make their communities better. One of the responsibilities of volunteer groups is to help make their communities better. Perhaps the most important role in it. One of the responsibilities of citizens is to help make their communities better. One of the responsibilities of volunteer groups is to help make their communities better. Perhaps the most important role in it.

Organized Labor

Main Idea Labor unions play an important role in the nation's economy and political life.

Economics & You Do you think people working together have a greater chance of success than individuals? Read to find out how American workers put this idea into action.

The population of the United States by October 2006 was approximately 300 million people. Slightly more than half, or about 151 million, belonged to the civilian labor force—men and women 16 years old and over who are either working or actively looking for a job.

Some workers choose to organize. They form **labor unions**, groups of workers who band together to have a better chance to obtain higher pay and better working conditions. Only about 14 percent of American workers belong to unions. The percentage

of U.S. workers who are union members has fallen since the 1980s. One of the major reasons for the decrease is the shift from a manufacturing to a service economy. Still, unions play an important role in the nation's economy and political life.

Types of Unions

There are two types of unions. Workers who perform the same skills join together in a craft or trade union, such as a printers' union. Industrial unions bring together different types of workers from the same industry. An example is the United Auto Workers. In the past, unions were formed mainly by workers in industry. Today, though, people in jobs as different as airline workers, teachers, and professional athletes join unions.

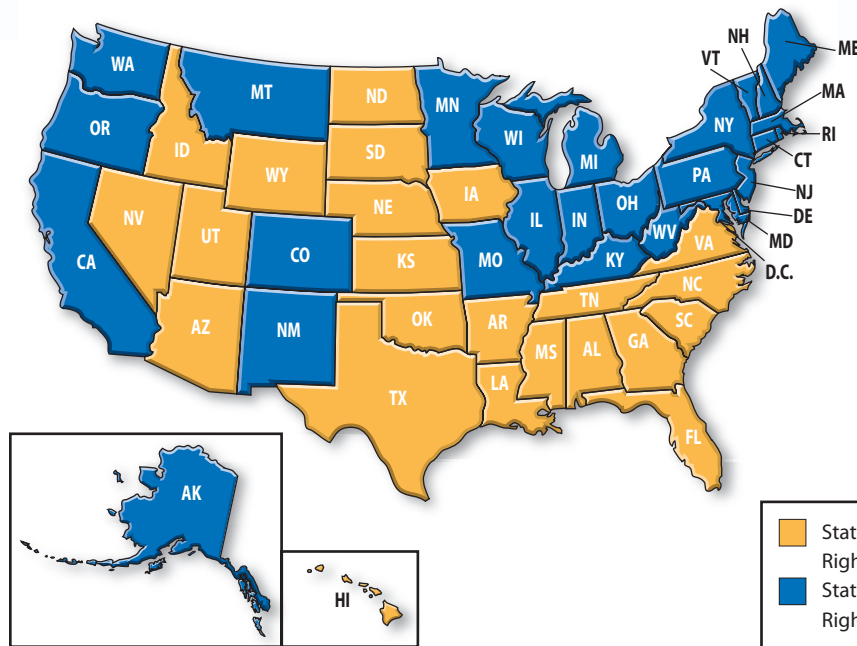
Local Unions A local union is **comprised** of, or includes, the members of a union in a factory, company, or geographic area. Unions that also have members in Canada or Mexico are often called international unions.



Right-to-Work States

Maps in Motion

See StudentWorks™ Plus or glencoe.com.



Detroit teen serves up ice cream

Source: National Right-to-Work Foundation.

Analyzing Maps

- Identifying** How many states have right-to-work laws?
- Speculating** If you could choose, would you want to live in a state with or without right-to-work laws? Why?

National Unions Above the locals are the national unions. These organizations are the individual craft or industrial unions that represent locals on a nationwide level. The American Federation of Labor-Congress of Industrial Organizations, or AFL-CIO, is a national union. The federation represents more than 13 million working men and women nationwide.

Union Arrangements

Before they were declared illegal in 1947, closed shops were one kind of union arrangement. In closed shops, a worker had to first join a union in order to be hired by a company. A common arrangement today is the

union shop, which allows companies to hire anyone as long as they join the union shortly after they begin working.

However, 22 states have passed **right-to-work laws**, which prevent mandatory union membership required by the union shop. This led to the modified union shop, which does not require a worker to join a union to be hired or keep the job. Workers must, however, remain in the union if they decide to join. Finally, the agency shop requires workers to pay a fee to the union for representing them even if they do not join the union.

A union cannot be brought into a workplace unless a majority of the workers votes in favor of it. A federal government agency, the National Labor Relations Board (NLRB), makes sure that these union elections are carried out fairly and honestly.

Reading Check Summarizing Is the union shop illegal in right-to-work states? Explain.



Arthur Schatz/Time Life Pictures/Getty Images

Negotiations

Main Idea Labor and management negotiate workplace agreements.

Economics & You Have you ever had a third person help you and a friend reach a compromise? Read to find out how labor and management use this method.

Once workers choose to be represented by a union, the union carries out **collective bargaining** for them. Officials from the union and the company meet to discuss the workers' new contract. The negotiations focus on wages and benefits, including health care, holidays, working conditions, and procedures for changing rules.

Getting Outside Help

If the parties cannot agree on the terms for the new contract, they have different **options**, or choices. They might try **mediation**, in which they bring in a third party who tries to help them reach a compromise agreement. In some cases, the two sides choose **arbitration**: A third party listens to both sides, then decides how to settle the disagreement. Both parties agree in advance to accept the arbitrator's decision.

Labor-Management Conflict

Most contracts are settled at the bargaining table. Sometimes, however, negotiations break down. Unions and management use different **techniques**, or methods to pressure the other side to accept their positions.

American Biography

César Estrada Chávez (1927–1993)

César Chávez knew the suffering of farmworkers. He had labored in the fields since age 10, when his family lost their Arizona farm during the Great Depression. Like thousands of other farmers, the Chávez family became migrant workers, constantly moving to be near work. Chávez attended some 65 schools before dropping out at the end of eighth grade.



After serving in World War II, Chávez took a paid job with a Latino civil rights group to win greater rights for Mexican Americans. However, he could not forget the migrant workers. In 1962, with the support of his wife, Helen Fabela Chávez,

he returned to the fields and his dream of organizing farmworkers into a union.

In 1965, Chávez launched La Huelga—"the strike"—in which he battled the power of grape growers in the San Joaquin Valley. Chávez, who lived on a salary of \$5 a week, asked Americans to boycott grapes until growers signed union contracts. Some 17 million Americans stopped buying grapes, and industry profits tumbled. "For the first time," Chávez said, "the farmworker got some power." The power came in the form of the United Farm Workers, the first successful farmworkers union in the nation's history.

Making a Difference



Explaining Chávez spent much of his life trying to help farmworkers. How did Chávez force grape growers to sign union contracts with farmworkers?



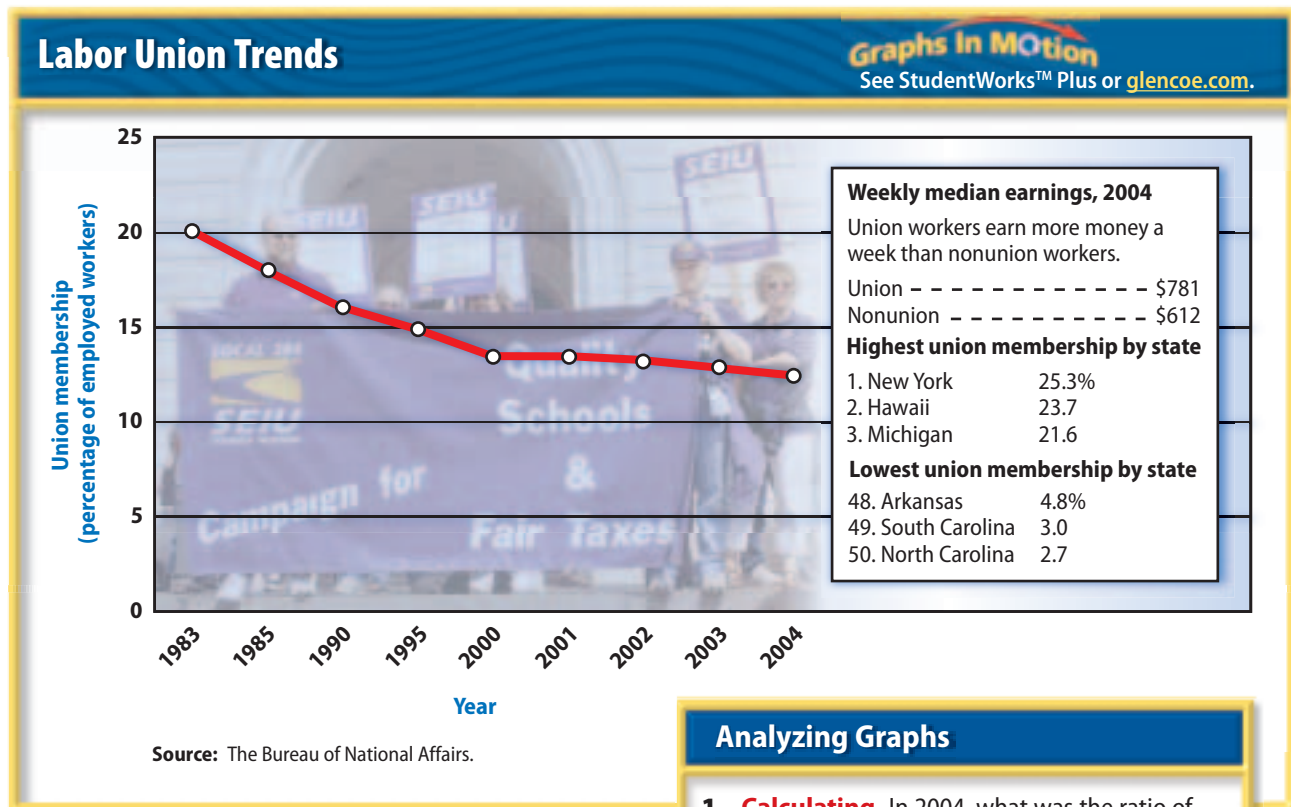
Labor Tools Workers can call a **strike**, in which all workers in the union refuse to go to work. The workers hope that the business will have to shut down without any employees, forcing the company to accept the union's contract terms. Strikers usually walk up and down in front of their workplace carrying picket signs that state their disagreement with the company. Picketing is meant to discourage workers from crossing the picket line to work for the employer. It is also aimed at embarrassing the company and building public support for the strike. Unions can also encourage members and the public to **boycott**, or refuse to buy, the business's products.

Strikes can drag on for months and even years. After a long period of time, strikers sometimes become discouraged. Some may decide to go back to work without gaining

what they wanted. In most cases, however, strikes are settled as management and labor return to the negotiating table and work out an agreement.

Management Tools When faced with a strike by its workers, management has methods of its own to use against strikers. Its strongest tool is the lockout. In a lockout, the company prevents workers from entering its buildings until they accept its contract terms. The business hopes that the loss of income will convince workers to accept the company's position.

Injunctions Management sometimes requests a court injunction to limit picketing or to prevent a strike from continuing or even occurring. An injunction is a legal order of a court preventing some activity.



Analyzing Graphs

- Calculating** In 2004, what was the ratio of nonunion to union workers?
- Analyzing** Describe the trend in percentage of union workers from 1983 to 2004.



In the early days of the labor union movement, the courts had treated unions as illegal conspiracies. Union leaders were regularly prosecuted and sued for damages. Even up to the early 1900s, injunctions were used against labor unions to prevent strikes and some other activities. Because of the use of injunctions by employers during this period, labor unions found it very difficult to strike.

Both companies and unions may ask for an injunction. If issued against a union, the injunction may direct the union not to strike. If issued against a company, it may direct the company not to lock out its workers. In 1995, after professional baseball players ended their strike and went back to work, the owners promptly called a lockout. The players then went to court and got an injunction against the owners, and the 1995 baseball season began—without a labor agreement between the two sides.

Seizure Under extreme circumstances, the government may resort to seizure—a tem-

porary takeover of operations—to allow the government to negotiate with the union. This occurred in 1946, when the government seized the bituminous coal industry. The government felt the welfare of the entire country was at stake because of its need for coal. While operating the mines, government officials worked out a settlement with the miners' union.

Public Employee Unions

An important development in the labor movement in the 1960s and 1970s was the growth in public employee union membership. A public employee union is a union whose members work for the local, state, or federal government. The American Federation of Government Employees (AFGE) is the largest federal employee union representing 600,000 workers.

Reading Check **Contrasting** What is the difference between a strike and a lockout?

Section Review 2

Vocabulary

- Write** a true statement *and* a false statement for each of the following terms: *labor union, right-to-work law, collective bargaining, mediation, arbitration, strike, boycott*. Indicate which statements are true and which are false. Below each false statement explain why it is false.

Main Ideas

- Comparing** What is the difference between a union closed shop and a union shop?
- Explaining** When is mediation used with labor unions? What are its goals?

Critical Thinking

- Summarizing** How does a right-to-work law protect independent workers?
- BIG Ideas** Assume that you have been given the job of mediating a strike between the workers in a print shop and its management. On a diagram like the one below, identify three things you would want to know before you suggested a solution.

What I need to know		

CITIZENSHIP Activity

- Persuasive Writing** Write a newspaper editorial supporting or opposing one of the following practices: closed shop, right-to-work laws, boycott, or lockout. Give reasons, and if possible, cite examples to support your position.



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Issues to Debate



Should Congress raise the minimum wage?

Minimum wage is a term that identifies the hourly income that employers must pay their workers. Congress established a minimum wage of 25 cents per hour in 1938. It applied only to those employees engaged in interstate commerce. Congress revised the law in 1961 and 1968, extending coverage to most workers. Every few years thereafter, Congress raised the rate. For many years, the minimum wage of \$5.15 remained unchanged. Some states passed higher minimum wage rates than the federal government. When a minimum wage issue appears on a state ballot, voters often approve it. Should Congress respond to the people's desire for a higher minimum wage?



Minimum wage jobs include retail and service jobs, such as poultry processing, fruit and vegetable picking, and restaurant service.

YES

One reason that the minimum wage should be raised every few years is because inflation gradually erodes the wages of everyone. If the purpose of the minimum wage is to lift the earnings of low-wage workers, the delay in raising it defeats the original intent of the law. The AFL-CIO, a major labor union, reported, "If the minimum wage had just kept pace with inflation since 1968 when it was a \$1.60 an hour, minimum wage would have been \$8.88 (an hour) in 2005." Supporters believe that raising the minimum wage would help women and children, and also have a ripple effect throughout the whole economy, improving the purchasing power of consumers.

—AFL-CIO, 2006

NO

The main argument against minimum wage laws is that raising minimum wages forces employers to dismiss low-productivity workers. This policy negatively affects those with the least education, job experience, and maturity. Teenagers are likely to face unemployment when the minimum wage is increased. According to Tim Kane of the Heritage Foundation, most economists believe a minimum wage does not work in free markets. Kane says, "Although the minimum wage will not work according to economic theory—and it has not worked in reality—what makes it especially tragic is that it hits poor Americans hardest. . . . Average pay in America has been increasing steadily in recent years, despite the fact that the minimum wage has not changed since 1997. Real wages rise when productivity rises."

—Tim Kane, PhD, March 4, 2005

Debating the Issue

- 1. Describing** What is the purpose of a minimum wage law?
- 2. Recalling** When did Congress begin passing minimum wage laws?
- 3. Explaining** What workers are most likely to be affected by an increase in the minimum wage?
- 4. Concluding** Why do you think Congress refused to increase the minimum wage for several years?



Jeff Greenberg/PhotoEdit

Section 3

Guide to Reading

Big Idea

Market economies rest upon the fundamental principle of individual freedom for consumers, producers, and workers.

Content Vocabulary

- transparency (p. 617)
- discrimination (p. 618)
- social responsibility (p. 618)

Academic Vocabulary

- foundation (p. 616)
- crucial (p. 617)
- reveal (p. 617)

Reading Strategy

Organizing As you read the section, complete a diagram like the one below by identifying at least one responsibility of business in each category.

Responsibility of Business	
To consumers	To employees

Businesses in Our Economy

Real World Economics Have you ever thought about starting your own business? These plumbers are fulfilling that dream as they service homes in the Miami, Florida, area. They promote their own business and welfare by running an honest company while at the same time being part of America’s construction industry—a booming industry that fuels America’s economy. Businesses like theirs have a responsibility to provide quality service to consumers. They also have a responsibility when hiring others, to pay a fair wage.

▼ Adjusting the plumbing on a Florida condominium



NORTH CAROLINA STANDARDS
Civics and Economics

8.07 Identify and describe the roles and functions of various economic institutions and business organizations.



Roles of Business

Main Idea Businesses play many different roles in our economy. Businesses also have many responsibilities.

Economics & You Have you ever played in a park that was paid for by a local business? Read to find out other ways businesses assist our economies.

You may have eaten a square, onion-smothered White Castle hamburger. But did you know that the Ingram family, founders of that fast-food chain, have given \$11 million to support education through its family **foundation** (an institution created to promote the public good)?

Businesspeople such as the Ingrams can be very generous. This generosity comes not only from major corporate givers like the Ingrams. Many local businesses, also, make similar efforts. They donate money or

supplies to school fund-raisers. They give money to support children’s athletic teams. This community involvement is just one way that business plays a role in society.

Businesses play many different roles in our economy. Sometimes businesses act as consumers—they buy goods and services from other businesses. Manufacturers buy energy and raw materials, while insurance companies buy office furniture and supplies. Stores purchase computers and software to track sales. Businesses are also employers. They provide jobs to millions of workers.

Of course, businesses are also producers. Businesses large and small produce the food, clothing, and shelter that meet people’s basic needs, as well as the cars, movies, and appliances that make life more enjoyable and comfortable.

Business Wire/ Getty Images

Reading Check Explaining Businesses are producers. In what way are businesses also consumers?

Generosity Many businesspeople, such as James H. Quigley, the CEO of the North Carolina-based Deloitte & Touche USA, participate in community service. **Describing** How else can businesses help a community in addition to donating employees’ time?





Responsibilities

Main Idea Businesses have responsibilities to their consumers, owners, employees, and communities.

Economics & You Can you think of anything in your school that was donated by a local company? Read to find out why more and more businesses feel a responsibility to their communities.

As they carry out their roles, businesses have different responsibilities. Sometimes laws spell out those responsibilities. Business managers may suffer serious consequences if they do not act responsibly.

Responsibilities to Consumers

Businesses have the responsibility of selling products that are safe. Products and services should also work as promised. A new video game should run without flaws. An auto mechanic should change a car’s oil correctly. Businesses also have the responsibility of being truthful in their advertising. Finally, businesses should treat all customers fairly.

Responsibilities to Owners

Another responsibility is to the owners of the business. This is especially **crucial**, or key, in corporations, in which the managers and owners are different groups of people. To protect stockholders, corporations are required to release important financial information regularly.

Revealing, or making public, this information is called **transparency**. The purpose of publishing this information is to provide investors with full disclosure before they choose to invest, or continue to invest, in the company.

Sometimes the managers of a corporation are not completely honest in what they say about the business. When that happens, the government can prosecute them for breaking the law.

Brittany Clifford



Brittany Clifford, 16, of Scottsdale, Arizona, does not have cold feet when it comes to soliciting businesses for donations. A few companies foot the bill for Fuzzy Feet, Clifford’s foundation that provides children with slippers to warm their feet during hospital stays.

QUESTION: Why did you start Fuzzy Feet?

ANSWER: My friend Michael had heart surgery. In the hospital, he always seemed to be cold. I found out that most of the children in the hospital wore only socks, and many had bare feet. I had an idea to establish a program that would donate slippers to sick children to ease their hospital stay.

Q: How many kids have you reached?

A: Through the generosity of businesses that donate slippers, Fuzzy Feet brings comfort and smiles to hospitalized children across the United States. We delivered our first slippers on Valentine’s Day, 2002. Since then, Fuzzy Feet has given away more than 8,000 slippers to sick children in Phoenix, Los Angeles, and New York City.

Q: What kind of reaction do you get when you give kids the slippers?

A: Tons of smiles and lots of laughter. Some people have even cried.

Q: What about the future?

A: My goal is to have different chapters all around the U.S. and maybe in other countries. I want to go to Kenya, Africa, and give out slippers to the kids there. I want to go everywhere to give slippers to everyone!

ACTION FACT: Clifford loves to dance and cheerlead. She has a terrier named Tinker Bell.

Making a Difference

CITIZENSHIP

Describing How did Brittany get the idea for Fuzzy Feet?



The scandal involving bankrupt energy company Enron showed the damage that can be done to investors when critical financial information is not reported by auditors.

Responsibilities to Employees

Businesses also have responsibilities to their employees. Businesses are required to give their workers a safe workplace and to treat all workers fairly and without **discrimination**. This means that they cannot treat employees differently on the basis of race, religion, color, gender, age, or disability.

Some companies are recognized for working hard to meet the needs of their employees. Johnson & Johnson, which makes baby and health care products, takes an active role in fulfilling its responsibilities to its employees. *Latina* and *Working Mother* magazines cited Johnson & Johnson as one of the best U.S. companies in this area.

Responsibilities to the Community

More and more businesses are emphasizing their **social responsibility**—the obligation to pursue goals that benefit society as well as themselves. Gifts to charities are one example of how businesses meet this social responsibility. Many businesses take an active role in meeting the needs of their communities. The retail store Target, for example, promotes programs of community and national volunteering.

American Express has a tradition of responding to emergencies and providing assistance to disaster victims through grants to relief agencies. Another company program promotes historical and environmental preservation.

 **Reading Check** **Defining** What is social responsibility?

Section 3 Review

Vocabulary

- Write** a paragraph describing the social responsibility of businesses using the following terms: *transparency*, *discrimination*.

Main Ideas

- Describing** How do businesses act as producers?
- Explaining** Why is it important for corporations to publish their financial information regularly?

Critical Thinking

- Evaluating** Which of the business responsibilities described in this section do you feel makes the biggest impact on your community? Why?

- BIG Ideas** On a diagram like the one below, identify as many of the responsibilities of businesses to consumers as you can.



CITIZENSHIP Activity

- Analyzing** Contact a local business and ask how the business contributes to the community. Describe the actions of the business and what you think the effects are. Share your findings with the class.

Writing

- Descriptive Writing** Research on the Internet and describe the corporate responsibility program of a large, well-known U.S. company. Share your findings with the class.



Study Central™ To review this section, go to glencoe.com.



Mine workers support those pursuing safety laws

Business

- Sole proprietorships are small, easy-to-manage enterprises owned by one person.
- Proprietorships are relatively numerous and profitable.
- Disadvantages include raising financial capital and attracting qualified employees.
- Partnerships are owned by two or more persons.
- Corporations are owned by shareholders.

Independent beekeeper in North Carolina



- One of the major advantages of a corporation is limited liability.
- A major disadvantage of corporations is that they are taxed more heavily than other forms of business organizations.

Responsibilities

- Businesses have a responsibility to provide safe, working products to their customers.
- Businesses have an obligation to pursue goals that benefit society as a whole as well as themselves.

Labor

- For much of its history, organized labor in the United States has been split into two groups: craft unions and industrial unions
- Organized labor operates at three levels:
 - local union
 - national union
 - federation
- The closed shop (now illegal) required that employers hire only union members.



Small businesses employ local workers

Collective Bargaining

- Collective bargaining is the process by which unions and employers negotiate the conditions of employment.
- When collective bargaining fails, several other methods are available to settle labor disputes.



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North Carolina End-of-Course Test Civics and Economics Practice

TEST-TAKING TIP

Question 8 asks you about mediation. Reading all the answer choices may help you remember information about this topic.

Reviewing Vocabulary

Directions: Choose the word(s) that best completes the sentence.

- Among the advantages of corporations are the ease of raising financial capital, professional management, and _____.
A rapid promotions **C** limited liability
B lower taxes **D** specialization
- The stockholders of a corporation elect a _____ to act on their behalf.
A board of directors **C** manager
B vice president **D** proprietor
- Union and management discussion about wages and working conditions is an example of _____.
A arbitration **C** conflict
B collective bargaining **D** open shop
- The purpose of _____ is to provide investors with full disclosure before they choose to invest.
A insurance **C** arbitration
B insight **D** transparency

Reviewing Main Ideas

Directions: Choose the best answer for each question.

Section 1 (pp. 600–606)

- The most common form of business organization in the United States is the _____.
A sole proprietorship
B limited partnership
C department store
D corporation

- At least one partner is not active in the daily running of the business in a _____.
A proprietorship
B limited partnership
C general partnership
D corporation

Section 2 (pp. 608–613)

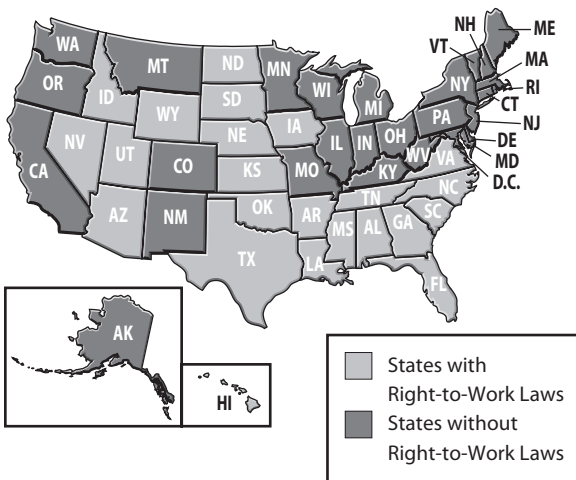
- In a union shop, workers are required to join a union _____.
A before they begin working
B after their first paycheck
C after they begin working
D before arbitration
- Mediation is used in negotiations over wages and benefits when _____.
A a strike is about to occur
B the parties cannot agree
C the government orders it
D everything else has failed

Section 3 (pp. 615–618)

- Businesses have the obligation to pursue goals that benefit society as well as themselves. This is called _____.
A transparency
B full disclosure
C social responsibility
D unlimited liability
- Corporations are required to release important financial information regularly to _____.
A citizens
B employees
C competitors
D stockholders

Critical Thinking

Directions: Base your answers to questions 11 and 12 on the map below and your knowledge of Chapter 22.



Source: National Right to Work Foundation.

11. What statement best explains the map's division of states in the eastern half of the United States?
- The northern states have more people than the southern states.
 - Right-to-work laws are popular in vacation areas.
 - Union influence is stronger in the industrial Northeast.
 - The closed shop is more popular in the South.
12. Which of the following states does not permit union shops?
- Idaho
 - Ohio
 - California
 - Missouri

Document-Based Questions

Directions: Analyze the following document and answer the short-answer questions that follow.

The Securities and Exchange Commission is the federal government's agency that regulates the sale of securities, such as stocks and bonds. Recently its chairman, William H. Donaldson, talked about business ethics to the Caux Roundtable in Minnesota.

As we all know, much of American business is defined by its dynamism and frequent change—new products, new systems, and vigorous competition. In this climate, business practices will frequently outpace any government regulator's ability to develop specific rules governing these practices. . . .

This is where having a culture of doing what is right—in the absence of specific rules and even in the face of your competitors' choosing a different path—is vital. This is where the courage and commitment of the firm's leaders is needed to question whether a particular firm practice—no matter what the lawyers say—is truly ethical or is truly in the best interests of client and customers. . . . What I'm talking about is creating a renewed culture of compliance in American business.

13. According to William H. Donaldson, why is it difficult for regulators to govern everyday business practices in America?
14. What is a "culture of compliance," and why is it needed?

Informational Writing

15. The free market has its own way of weeding out bad businesses. Should government also have a role in that process? Explain your answer.

STOP

Civics ONLINE

For additional test practice, use Self-Check Quizzes—Chapter 22 on glencoe.com.

Need Extra Help?

If you missed question. . .	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Go to page. . .	605	604	611	617	601	602	610	611	618	617	610	610	617	617	617



Analyzing Primary Sources

Economic Concepts

Reading Focus

Capitalism is a system in which government plays a limited role in the nation's economic activity. Demand and supply have an important effect on production and pricing.

Read to Discover

As you read, think about the following:

- How do freedom of enterprise and freedom of choice apply to the American economy?
- How can prices serve as signals to both producers and consumers?

Reader's Dictionary

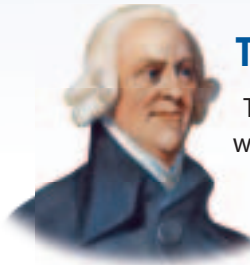
endeavours: makes an effort

effectually: fully adequately

monopolist: one who has exclusive control or ownership

affluence: wealth, abundance

brevity: shortness



The Invisible Hand

The central principles of capitalism are found in the words of Scottish economist Adam Smith.

[E]very individual, therefore, **endeavours** as much as he can [to direct his resources toward his own business so] that its produce may be of the greatest value; every individual ... neither intends to promote the public interest, nor knows how much he is promoting it ... he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. ... By pursuing his own interest he frequently promotes that of the society more **effectually** than when he really intends to promote it.

—from *The Wealth of Nations* by Adam Smith

The Free Market

Economists and political philosophers Friedrich Hayek and Henry Hazlitt were strong defenders of free market capitalism.

Our freedom of choice in a competitive society rests on the fact that, if one person refuses to satisfy our wishes, we can turn to another. But if we face a **monopolist** we are at his mercy. And an authority directing the whole economic system would be the most powerful monopolist imaginable.

—from *Road to Serfdom* by Friedrich A. Hayek

Benefits of Capitalism

Capitalism, the system of private property and free markets, is not only a system of freedom and of natural justice—which tends in spite of exceptions to distribute rewards in accordance with production—but it is a great co-operative and creative system that has produced for our generation an **affluence** that our ancestors did not dare dream of.

—from *Man vs. the Welfare State* by Henry Hazlitt

Supply and Demand and Prices

British economist Alfred Marshall popularized the idea that prices are determined by *both* supply and demand.

The remainder of the present volume will be chiefly occupied with interpreting and limiting this doctrine that the value of a thing tends in the long run to correspond to its cost of production. In particular ... [we will consider] the controversy whether “cost of production” [supply] or “utility” [demand] governs value.

We might as reasonably dispute whether it is the upper or the under blade of a pair of scissors that cuts a piece of paper, as whether value is governed by utility or cost of production. It is true that when one blade is held still, and the cutting is effected by moving the other, we may say with careless **brevity** that the cutting is done by the second; but the statement is not strictly accurate, and is to be excused only so long as it claims to be merely a popular and not a strictly scientific account of what happens.

In the same way, when a thing already made has to be sold, the price which people will be willing to pay for it will be governed by their desire to have it, together with the amount they can afford to spend on it. Their desire to have it depends partly on the chance that, if they do not buy it, they will be able to get another thing like it at as low a price: this depends on the causes that govern the supply of it, and this again upon cost of production. ...

—from *Principles of Economics* by Alfred Marshall



Photographs as Primary Sources What do you know for sure by looking at the photograph? What can you infer by looking at the photograph? Write a caption explaining how this photograph can be used to illustrate the effect that supply and demand have on price.

DBQ Document-Based Questions

- Analyzing** Would Adam Smith agree that the benefits of free enterprise are a consequence of people’s desire to make life better for others? Explain.
- Explaining** What does Hayek say is an important benefit of a free market economy? What benefit does Hazlitt stress?
- Connecting** What example does Marshall use to depict the workings of supply and demand on price? Do you think this is a good example? Explain.
- Categorizing** Some prices in our economy very seldom change, whereas others change all the time, even daily. Make a list of products whose prices change slowly, if at all. Make another list of products whose prices you think change quickly. Write a paragraph explaining in your own words why the price of some items is unchanging while the price of others changes often.