

Business and Labor

★ CITIZENSHIP AND YOU ★

In the United States, many important decisions are made by economic institutions. Do you work at a business? Participate in a club? Chances are these businesses and economic institutions play a significant role in your life.



To learn more about how business organizations and economic institutions operate, view the *Economics & You* video lesson 4: Business Organizations.

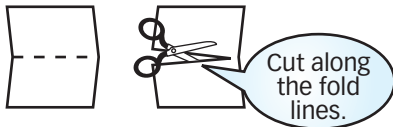


FOLDABLES™

Study Organizer

Know-Want-Learn Study Foldable Make this foldable to help you organize what you know, what you want to know, and what you learn about business and labor.

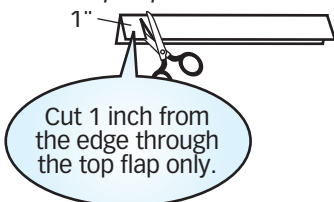
Step 1 Fold two sheets of paper in half from top to bottom. Cut the papers in half along the folds.



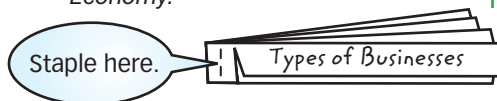
Step 2 Fold each of the four papers in half from top to bottom.



Step 3 On each folded paper, make a cut 1 inch from the side on the top flap.



Step 4 Place the folded papers one on top of the other. Staple the four sections together and label the top three tabs: Types of Businesses, Labor Unions, and Business in Our Economy.



Reading and Writing Before reading the chapter, write what you already know about the types of businesses, labor unions, and businesses in our economy under the tabs of your foldable. Also write one question you have on each tab. As you read, summarize what you learn under each tab.

Running a business involves risks as well as expectations. ▶

Chapter Overview Visit the *Civics Today* Web site at civ.glencoe.com and click on **Chapter Overviews—Chapter 22** to preview chapter information.



1892

RICCOTA
MOZZARELLE

BURRO E UO

3 lb TIN 599

FRESH HOMEMADE
SPECIAL BRISCI
CUCCHIELLI INVICI
\$3.79/lb

RICCONELLI
DI BRASILE
\$3.99/lb

RICCONELLI
DI BRASILE
\$3.99/lb

SWEET DRY
SALISAGE
& TOILE

HOT DRY
SALISAGE
& TOILE

NO SALT

RICCONELLI
DI BRASILE
\$5.99/lb



SECTION

1

Types of Businesses

GUIDE TO READING

Main Idea

Sole proprietorships, partnerships, and corporations are the three common forms of business organizations.

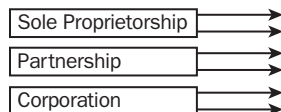
Key Terms

sole proprietorship, unlimited liability, financial capital, partnership, articles of partnership, corporation, charter, stock, stockholder, board of directors, limited liability, double taxation, cooperative

Reading Strategy

Classifying Information

As you read the section, complete a diagram like the one below by identifying at least two real-life examples in each of the categories.



Read to Learn

- What are the different ways in which businesses are organized?
- What are the advantages and disadvantages of each type of business organization?



Americans in Action

Almost every day of your life you come into contact with some kind of business. Businesses can be organized in a number of ways. Some are corporations, while others are small companies, owned and operated by one individual or by a few people. The small business remains the main economic force in many American communities:

“Small businesses employ the bulk of the workers in New Orleans and spell the future of the area economy, a local economist said. . . . In his latest study, Timothy Ryan, dean of the University of New Orleans College of Business, found that over the past decade, there had been a 36 percent increase in the number of businesses that employ fewer than 100 employees. The number of firms with more than 100 employees had declined by 6.4 percent. . . . But, the bulk of the growth has been in sole proprietorships, which are up 74.6 percent. . . .”

—The *Times-Picayune* (New Orleans),
June 21, 2001



A small restaurant in New Orleans

Proprietorships

It is one thing to dream about running your own business, but it is something quite different to actually do it. Many people think of business ownership in terms of independence, freedom, and profits. They tend to overlook competition, responsibility, and the possibility of failure. In this section, you will study the different types of business organizations that are common in the American economy. You will discover that each type of business organization has advantages and disadvantages in different situations.

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

Look at the graphs of business organizations on page 481. You'll see that there are more proprietorships than any other type of business.



Structure

A proprietorship is the easiest form of business to set up. Have you ever earned money mowing lawns or babysitting? If so, you were a sole proprietor. Generally, anyone can start a sole proprietorship whenever they want to.

Advantages

The biggest advantages of sole proprietorships are that the proprietor has full pride in owning the business and receives all the profits. In addition, the proprietor can make decisions quickly, without having to consult a co-owner, boss, or “higher-up.” This flexibility means that the owner can make an immediate decision when problems arise.

Disadvantages

Sole proprietorships have several disadvantages, though. First, the owner is financially responsible for any and all problems related to the business. This is called **unlimited liability**. If the business has debts, the owner’s personal assets, or items of value such as houses, cars, jewelry, and so on, may be seized to pay the debts.

Second, sole proprietors find it difficult to raise **financial capital**—the money needed to run a business or enable it to grow larger. Most sole proprietors use their own savings or credit cards or borrow from friends and family when they need money for their businesses.

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 fringe benefits—paid vacations, sick leave, and health and medical insurance—in addition to wages and salaries.

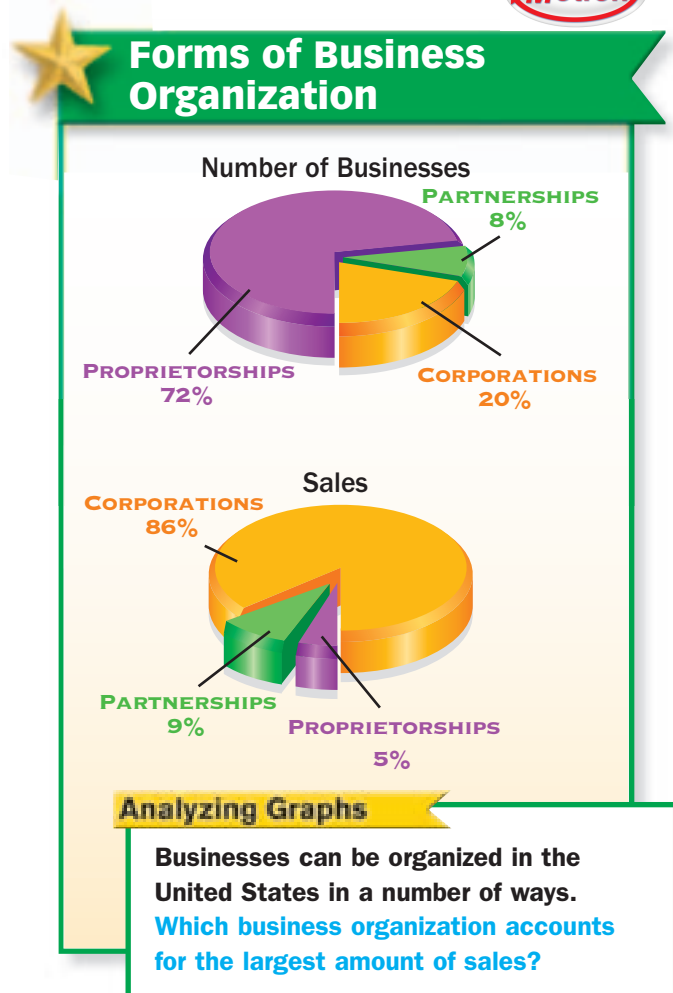
Reading Check **Identifying** Who makes the decisions in a sole proprietorship?

Partnerships

A **partnership** is a business owned by two or more people. As you see on the graph, there are fewer partnerships than any other form of business.

Structure

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





Partnership When two or more people pool their resources, they may form a partnership. **Who assumes the risk in a partnership?**

Advantages

Partnerships 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 proprietors, partners pay no corporate income tax. In addition, each owner often brings special talents to the business. As a result, each can oversee a particular part of the business, which helps the business succeed.

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, however, 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. You would own one-fifth of the business and have the right to one-fifth of its profits. Suppose, though, that someone

was hurt by the company and sued for damages. If you were the only owner who had any money, you could be required to pay 100 percent of the damages.

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

Corporations

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

First, 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 the 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 on page 484 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.

Many modern corporations are huge. A recent study found that some of these corporations are bigger than the entire economies of many countries. General Motors had the world's 23rd largest economy, followed by Wal-Mart (25th), Exxon Mobil (26th), Ford Motor (27th) and DaimlerChrysler (28th). Each of these corporations was larger than the domestic economies of Poland (29th), Norway (30th), Indonesia (31st), Saudi Arabia (33rd), or Finland (34th).

Third, the board of directors can hire professional managers to run the business. If those managers do not succeed, the board can replace them with a new team.

A fourth advantage is that ownership of the corporation can be easily transferred. For example, if you own shares in one

Michael Chait has always loved making movies. First, he made 5-minute films; then, 30-minute films. When TIME caught up with him, Chait was about to wrap his first two-hour feature, a '70s-style action film that took two years to make.

Chait doesn't know where his latest movie will end up—perhaps at video stores or even a film festival. But he does know where he wants to be 10 years from now: behind the camera.

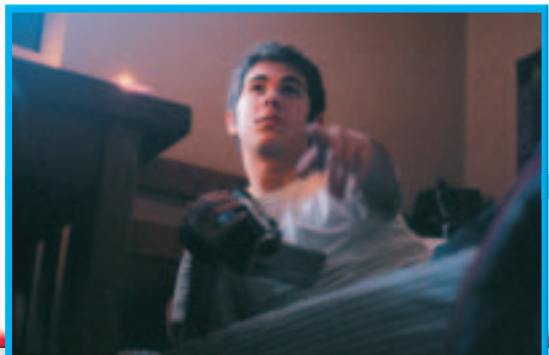
"I've decided that no matter how long it takes, that's what my career is going to be," Chait told TIME.

Meantime, Chait has made a name for himself—and a bit of cash—as a movie extra. Sheer luck and persistence won him a nonspeaking role when Billy Crystal was in Detroit making a film.

Still, Chait wouldn't recommend working as an extra for the money—or the acting experience. His first movie took some nine hours, and he was on screen for only 13 seconds. For the Billy Crystal film, he worked 12-hour days in 90-degree heat.

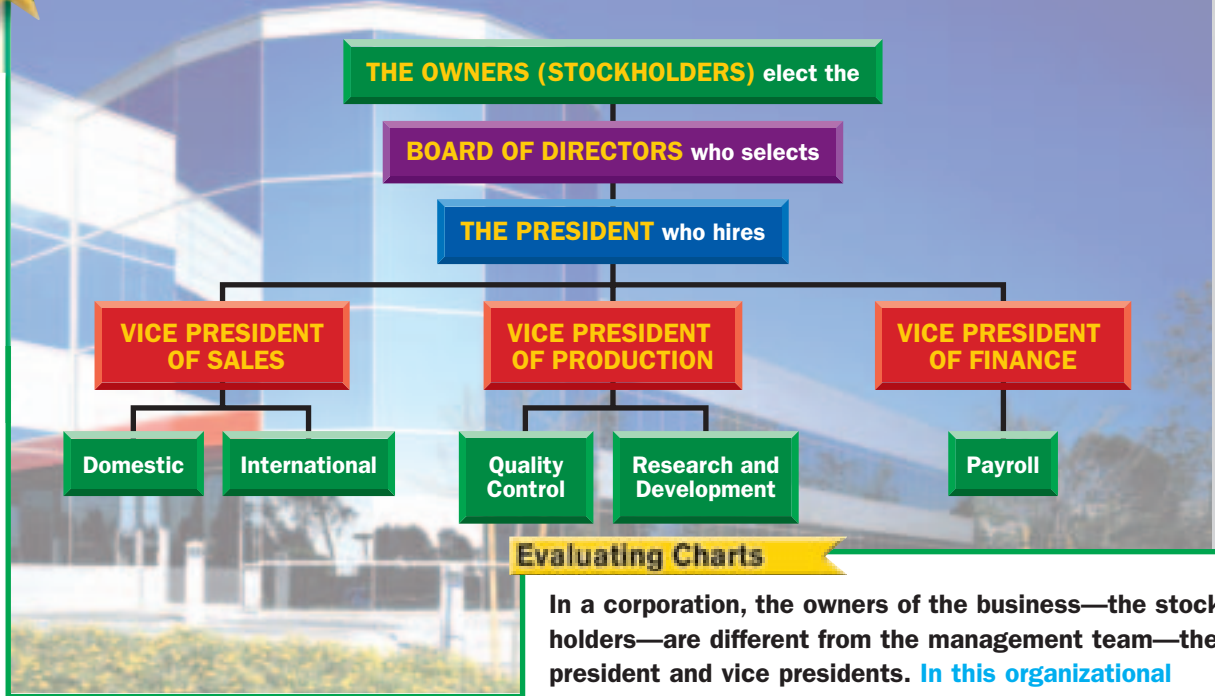
"For anyone who wants to act, [working as an extra] would be extremely disappointing," says Chait. "But for someone who is interested in being behind the camera, it's a great experience—you get to see them do it. There were certain shots that took two hours to get right. It's very rewarding, but it's not for everybody."

Michael Chait from Michigan





Corporate Chain of Command



Evaluating Charts

In a corporation, the owners of the business—the stockholders—are different from the management team—the president and vice presidents. In this organizational chart, who reports to the vice president of production?

corporation and you 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.

These advantages have combined to make corporations very successful. As the graphs on page 481 show, they account for about 90 percent of all sales by all businesses.

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. 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.

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 income tax on those earnings. 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. A nonprofit organization operates in a businesslike way to promote the interests of its members. Examples of nonprofit institutions include churches, hospitals, and social service agencies.

Another example of a nonprofit organization is the cooperative. A **cooperative** is a voluntary association of people formed to carry on some kind of economic activity that serves to benefit its members. Cooperatives provide a variety of services. Consumer cooperatives buy bulk amounts of goods on behalf of their members. Service cooperatives provide services such as insurance and credit to their members rather than goods.



Fact Fiction Folklore

Franchising is a recent phenomenon.

A franchise is a contract in which a franchiser sells to another business the right to use its name and sell its products. Today, many motel, gas station, and fast-food chains are franchises. Franchising, however, began in the mid-1800s when inventor Isaac Singer allowed several merchants to market his sewing machines.

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

Reading Check Describing Is it the duty of the board of directors to run the corporation’s day-to-day operations? Explain.

SECTION



ASSESSMENT



Study Central™ To review this section, go to civ.glencoe.com and click on **Study Central™**.

Checking for Understanding

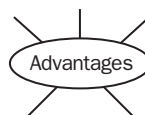
1. Key Terms Use the following terms in complete sentences that demonstrate each term’s meaning: **sole proprietorship, partnership, corporation.**

Reviewing Main Ideas

- 2. Describe** What are the advantages of a partnership over a sole proprietorship? What are the advantages of a sole proprietorship over a partnership?
- 3. Compare** Name three kinds of cooperatives and describe what they do for their members.

Critical Thinking

- 4. Making Comparisons** 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.
- 5. Organizing Information** On a diagram similar to the one below, identify the advantages of the corporation.



Analyzing Visuals

- 6. Interpret** Study the circle graphs on page 481. Is any single form of business organization responsible for more than one-half of the nation’s sales? What percentage of businesses are partnerships?

★ BE AN ACTIVE CITIZEN ★

- 7. Classify** Keep a record of all the businesses you visit during a week. Classify each as a sole proprietorship, partnership, or corporation. Compare your lists in class.



SECTION

2

Labor Unions

GUIDE TO READING

Main Idea

A labor union is an organization that seeks to increase the wages and improve the working conditions of its members.

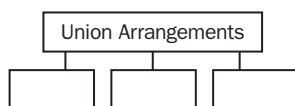
Key Terms

labor union, closed shop, union shop, right-to-work laws, modified union shop, collective bargaining, mediation, arbitration, strike, lockout

Reading Strategy

Organizing Information

As you read the section, complete a diagram like the one below by identifying three kinds of union arrangements.



Read to Learn

- What are the different types of unions?
- How are negotiations between unions and management conducted?



Americans in Action

To have some control over the wages they receive as well as over other working conditions, American workers form labor unions.

Unions are based on the idea that workers as a group will have more influence on management than will individual workers acting alone. The AFL-CIO agrees:

“Union membership helps raise workers’ pay and narrow the income gap that disadvantages minorities and women. Union workers earn 28 percent more than nonunion workers . . . The union wage benefit is even greater for minorities and women. Union women earn 34 percent more than nonunion women, African American union members earn 29 percent more than their nonunion counterparts, for Latino workers, the union advantage totals 59 percent and for Asian workers, the union advantage is 11 percent.”

— AFL-CIO
June 2005



Union workers

Organized Labor

Some workers choose to organize. They join together to 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. Still, unions play an important role in the nation’s economy and political life.

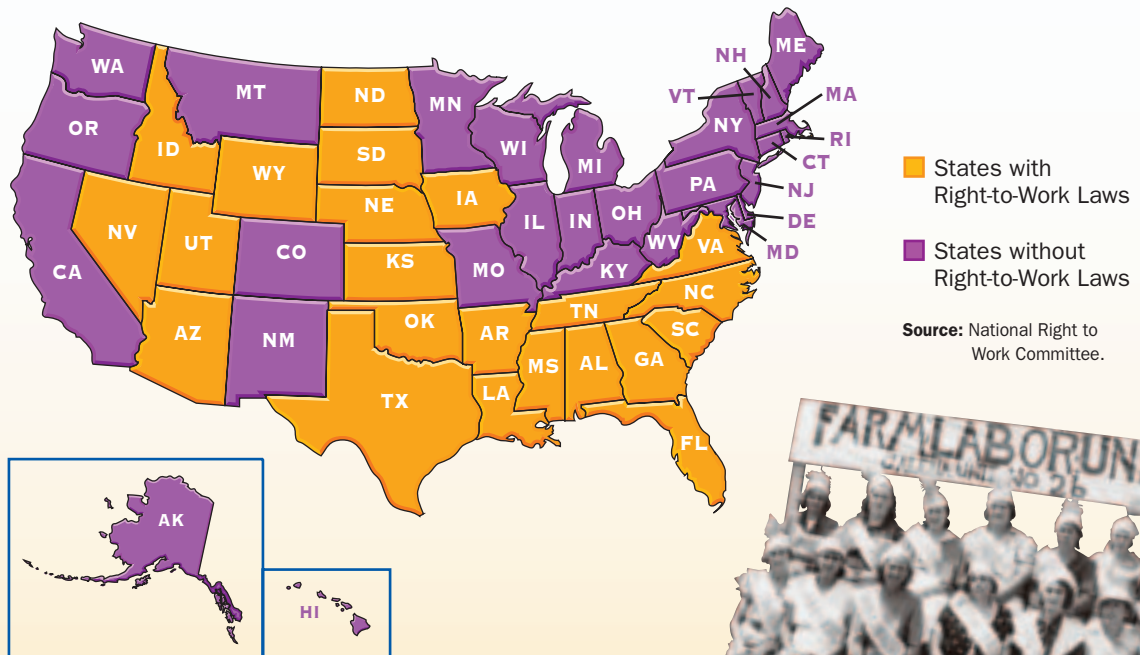
Types of Unions

There are two types of unions. Workers who perform the same skills join together in a craft or trade union. Examples are the printers union or the plumbers union. Some unions bring together different types of workers who all belong to the same industry. These are called industrial unions. An example is the United Auto Workers, which includes many different kinds of workers in the auto industry.

In the past, unions were formed mainly by workers in heavy industry. Today, though, people in jobs as different as airline workers, teachers, and professional athletes belong to unions.



Right-to-Work, State by State



Interpreting Maps

Today, 22 states have right-to-work laws allowing workers a choice about joining a union. In which U.S. regions are most right-to-work states?

How Unions Are Organized

Organized labor operates at three levels; the local union, the national or international union, and the federation.

A local union is comprised of the members of a union in a factory, company, or geographic area. The local union deals with a company by negotiating a contract and monitoring the terms of the contract.

Above the local unions are the national unions. These organizations are the individual craft or industrial unions that represent local unions nationwide. Unions that also have members in Canada or Mexico are often called international unions.

National unions send organizers to help employees campaign to set up local unions. To help in negotiating a contract

between a local union and a particular company, the national unions provide lawyers and other staff members. In certain industries such as steel and mining, the national union negotiates the contracts for the entire industry. After the majority of union members accepts the contract, all the local unions within the industry must work under that contract. Some of the largest unions are the United Automobile Workers (UAW) and the United Steelworkers of America (USWA).

At the federation level is the AFL-CIO, formed in 1955 by the merger of the American Federation of Labor and the Congress of Industrial Organizations. The federation represents more than 13 million working men and women nationwide.



Union Arrangements

Some people criticize labor unions for trying to control the supply of labor. In the past some unions supported the **closed shop**. This means that a worker had to belong to the union in order to be hired by a company. This arrangement was more common in the past than today. When the government passed the Taft-Hartley Act in

1947, closed shops became illegal for any company that makes goods that are sold in states other than the state in which the company is located. Since most businesses make goods for interstate sales, there are few closed shops today.

More common now is the **union shop**. Under this arrangement, companies can hire nonunion people, but those workers must join the union once they begin working. One part of the Taft-Hartley Act allows individual state governments to ban this kind of arrangement. Twenty-two states have passed **right-to-work laws**, which prevent unions from forcing workers to join. The map on page 487 shows the states that have right-to-work laws.

In a **modified union shop**, workers do not have to join the union after they are hired but they can choose to do so. If they do, they must stay in the union as long as they work for that employer.

A union cannot be brought into a workplace unless a majority of the workers votes in favor of it. They might join an existing union or form a completely new one. 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.

Negotiations

Once workers choose to be represented by a union, the union carries out collective bargaining for them. Under **collective bargaining**, officials from the union and from the company meet to discuss the terms of the workers' new contract. Each contract typically covers a few years. As the contract nears its end, labor and management meet to negotiate a new contract.

American Biographies



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. Chávez attended some 65

schools before dropping out at the end of 8th grade.

After serving in World War II, Chávez took a paid job 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 responded. "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.





Student Web Activity Visit civ.glencoe.com and click on **Student Web Activities—Chapter 22** to learn more about labor unions.

The negotiations focus on how much the workers will receive in wages and benefits. They also talk about how long the workday is and

how many holidays the workers will have. The two sides discuss rules for working and procedures for changing those rules.

Getting Outside Help

At times the two parties cannot agree on the terms for the new contract. When that happens, they have different options.

They might try **mediation**, in which they bring in a third party who tries to help them reach an agreement. The mediator meets with both sides and tries to help labor and management reach a compromise.

In some cases, the two sides choose **arbitration**. In this situation, a third party listens to both sides and then decides how to settle the disagreement. Both parties agree in advance to accept whatever the arbitrator decides.

Labor-Management Conflict

Unions and management can also use different tools to try to pressure the other side to accept their positions. Workers can call a **strike**, in which all workers in the union refuse to go to work. Workers who choose to go on strike often picket the business, marching in front of company buildings while holding signs. The signs explain what the strike is about. The workers hope that the business will have to shut down without any employees to do the work, forcing the company to accept the union's contract terms. If striking and picketing do not settle the dispute, unions can encourage members and the public to boycott, or refuse to buy, the business's products. The strongest tool that management has is the lockout. In a **lockout**, the company blocks workers from entering its buildings until they agree to accept its contract terms. The business hopes that the loss of income will cause difficulties for the union members and convince them to accept the company's position.

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

SECTION 2 ASSESSMENT



Study Central™ To review this section, go to civ.glencoe.com and click on **Study Central™**.

Checking for Understanding

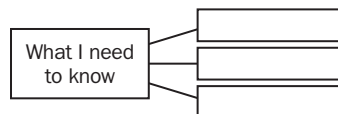
1. Key Terms Write a true statement *and* a false statement for each of the following terms: **closed shop, mediation, lockout**. Indicate which statements are true and which are false. Below each false statement explain why it is false.

Reviewing Main Ideas

- Identify** What are the two kinds of labor unions?
- Identify** What is the process through which unions and management negotiate contracts called?

Critical Thinking

- Summarizing Information** How does a right-to-work law protect independent workers?
- Analyzing Information** Assume that you have been given the job of mediating a strike between the workers in a grocery store and its management. On a diagram, identify three things you would want to know before you suggested a solution.



Analyzing Visuals

- Identify** Study the map on page 487. Does North Carolina have a right-to-work law in place? Does Colorado?

★ BE AN ACTIVE CITIZEN ★

- Research** Contact a firm in your community that has a union. Ask if all workers in the company are required to join or if only some are. Based on your information, determine if the union arrangement is a closed shop, a union shop, or a modified union shop.

Critical Thinking SKILLBUILDER

Making Generalizations

Why Learn This Skill?

Every day you observe people and events or read facts and information. In the process you make generalizations. That is, you reach broader conclusions derived from a number of facts or details. Making valid generalizations can lead you to new facts and insights.

Learning the Skill

To make generalizations, follow these steps:

- Review the facts or particulars available to you, separating facts from opinions.
- Look for trends or patterns that could be applied to several points of information.
- Ask yourself if you have enough information to draw accurate conclusions. Incomplete or inaccurate data may cause incorrect conclusions.
- Formulate a general statement that makes a point and check your backup facts.

Practicing the Skill

Read the account of the Homestead Strike on this page.

On a separate sheet of paper, copy the valid generalizations among the following statements. Then tell how you can support the generalizations you select.

- 1 Americans of the 1800s generally supported union workers.
- 2 Both Carnegie and Frick wanted to crush the union at the Homestead Mill.
- 3 Labor disputes could turn violent in the early years of the labor movement.
- 4 The Pinkerton Detective Agency opposed labor unions.

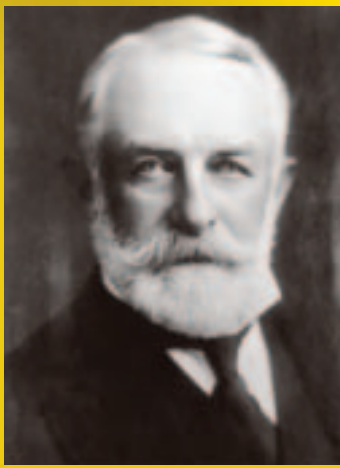
Homestead Strike, 1896

In 1896, iron and steel workers at the Homestead Mill, owned by Andrew Carnegie, near Pittsburgh, Pennsylvania, wanted to negotiate with the owners for higher wages and greater recognition.

Carnegie's partner, Henry Frick, responded to the union request by ordering a lockout and calling in strikebreakers. The company hired the Pinkerton Detective

Agency to protect its factories. Several people were killed when violence broke out between the strikers and the guards.

At Frick's request, the governor sent in the Pennsylvania National Guard to subdue the workers and the townspeople. Frick reopened the mill with 1,700 nonunion workers. "I will never recognize the union, never, never!" he said.



Henry Frick

Applying the Skill

Research some recent data on women in the workforce, such as the kinds of jobs they hold, salaries and wages, number employed, and so on. Write two generalizations based on the facts.



Practice key skills with Glencoe's **Skillbuilder Interactive Workbook CD-ROM, Level 1.**

Businesses in Our Economy

GUIDE TO READING

Main Idea

In a free enterprise economy, businesses have responsibilities as well as rights.

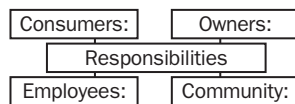
Key Terms

transparency,
discrimination,
social responsibility

Reading Strategy

Organizing Information

As you read the section, complete a diagram like the one below by identifying one or more responsibilities of businesses in each category.



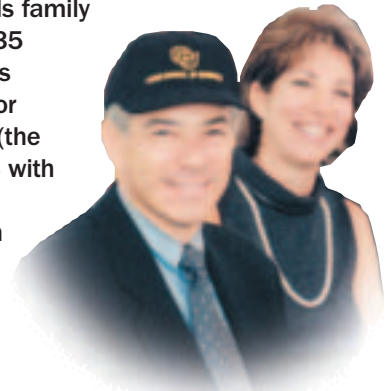
Read to Learn

- What does social responsibility entail?
- What are the responsibilities of businesses to consumers, owners, employees, and their communities?



Americans in Action

Equality for women, educational opportunities for the disenfranchised, and corporate responsibility [of business] are not new concepts for the family behind the largest gift ever to the University of Colorado at Boulder. . . . On Wednesday, university officials hailed the New York-based Gerry and Lila Leeds family for giving Colorado University a record \$35 million gift, the sixth-largest to a business school nationwide and the largest ever for the Boulder campus. . . . Michael Leeds (the Leeds's son) graduated from CU in 1974 with a degree in business administration. His brother, Richard, graduated from CU with a degree in computer science the following year. "I am very grateful to my professors for giving me the educational background to help me drive a business forward into great success," Richard, 49, said.



Leeds family members

—*Rocky Mountain News*, October 4, 2001

The Roles of Business

As the story about the Leeds's gift to the university reveals, businesspeople can be very generous. This generosity comes not only from major corporate givers like the Leedses. Local businesses, too, 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 like steel, plastic, and glass. Insurance companies buy office furniture and supplies like paper. Stores purchase computers and software to track sales.

Businesses are also employers. They provide jobs—and pay wages—to millions of workers across the country.

Of course, businesses are also producers. Businesses produce a wide variety of goods and services for people with many



Effects Many economic activities may create unintended effects.
Do you think the nearby railroad line had positive or negative effects on people living in this neighborhood? Why?

different tastes, levels of income, and locations. Businesses large and small produce the food, clothing, and shelter that meet people's basic needs. They also create the cars, movies, CDs, appliances, banking services, air conditioning, and amusement parks that make life more enjoyable and more comfortable.

Reading Check Explaining How do businesses act as consumers?

The Responsibilities of Business

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

Responsibilities to Consumers

One set of responsibilities is to consumers. Businesses have the responsibility of selling products that are safe. Products and services should also work as they are promised to work. A new video game should be

undamaged and 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.

Of course, it is good business to meet these responsibilities. Doing so makes customers happy, and happy customers are more likely to come back to the business again. Still, the government is sometimes forced to step in when a business does not meet one of these responsibilities. It might require a manufacturer to remove a product from the market because the product is unsafe. It might prosecute a business for violating customers' rights. These cases are infrequent, however.

Responsibilities to Owners

Another responsibility is to the owners of the business. This is especially important 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. As a result, shareholders get



income statements—reports on sales, expenses, and profits—several times a year along with reports from auditors to see that the information is accurate. Corporations even post this information on the World Wide Web for everyone to examine.

Revealing 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. With full disclosure, it becomes the responsibility of the investor to choose whether the cost of the investment is worth the risk. 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. 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

Of course, businesses also have responsibilities to employees. They are required

Economics and You

Business Philanthropy

A desire to make reading material available to people at no cost led industrialist Andrew Carnegie to found libraries. In the late 1800s and early 1900s, Carnegie donated more than \$55 million to build 2,500 libraries in the United States and many other countries. An immigrant from Scotland, Carnegie believed that people with the desire to learn should be able to educate themselves. Chances are you've been in a library founded by Carnegie.

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, or age. The 1990 Americans with Disabilities Act barred employers from treating workers unfairly who had mental or physical disabilities. Some companies are recognized for working hard to meet the needs of their employees. Johnson & Johnson, which



Analyzing Visuals State-sponsored activities, such as exploration of new territories and scientific research, not only yield exciting new discoveries, but also foster economic growth. What argument is the speaker making to win support for his voyage?



Social Responsibility Responsible companies provide help to organizations that help victims of disasters. **What is social responsibility?**

makes baby and health care products, takes an active role in fulfilling its responsibilities to its employees. *Latina* and *Working Mother* magazines cite Johnson & Johnson as one of the best U.S. companies in this area.

Workers at the retail company The Container Store are enthusiastic about good pay and first-rate benefits, and they believe they are a valued part of the company—in a survey 94 percent of the employees feel they make a difference.

Responsibilities to the Community

More and more businesses are emphasizing their **social responsibility**—the obligation they have 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. These projects range from delivering food for Meals on Wheels to cleaning up playgrounds and shores. In 2003, Target donated more than \$27 million to support education in the form of scholarships, grants, and other programs.

American Express has built a tradition of responding to emergencies and providing assistance to disaster victims through grants to relief agencies. Another significant company program involves raising public awareness of historical and environmental preservation. American Express also funds a variety of performing arts, including children’s theaters.

Reading Check **Defining** What is discrimination?

SECTION 3 ASSESSMENT

CIVICS Online | **Study Central™** To review this section, go to [civ.glencoe.com](http://www.civ.glencoe.com) and click on **Study Central™**.

Checking for Understanding

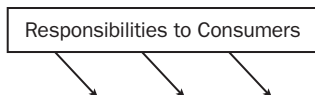
1. Key Terms Write a paragraph relating to the social responsibility of businesses using the following terms: **discrimination**, **transparency**.

Reviewing Main Ideas

- 2. Describe** What does the Americans with Disabilities Act state?
- 3. Explain** Why is it important for corporations to publish their financial information regularly?

Critical Thinking

- 4. Making Judgments** Do you think “truth-in-advertising” laws should be strengthened? Explain.
- 5. Organizing Information** On a diagram like the one below, identify as many of the responsibilities of businesses to consumers as you can.



Analyzing Visuals

6. Interpret Study the cartoon on page 493. Who are the figures in the cartoon?

★ BE AN ACTIVE CITIZEN ★

7. Analyze 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.

Issues to Debate

Should the Government Create Personal Retirement Accounts?

The Social Security system works on a pay-as-you-go plan. Payroll taxes go into a trust fund, which is used to pay the benefits for current retirees. However, the number of retirees is growing faster than the number of people paying taxes to support them.

Many people predict that Social Security payments will exceed tax revenues by 2017. They also think the system will go broke by 2041.

In order to solve the problem, the federal government must increase the program's income (raise taxes), decrease its expenses (reduce benefits), or find a new source of funding to supplement the system. Some support the creation of personal retirement accounts (PRAs). This plan would allow workers to invest a percentage of their payroll taxes in stocks, bonds, or funds. Are PRAs a solution to the Social Security problems?



A Social Security card

Yes

People say fix Social Security, but don't reduce my benefits; fix Social Security, but don't increase my taxes; fix Social Security, but don't increase my age eligibility. That's a pretty big challenge.

One of the things a commission that I served on recommended was individual retirement accounts; carve out 2% of the payroll tax to allow people to invest. The stock market has never had a 20-year negative return. . . . The baby boomers are already in fact experienced in investing.

—former Louisiana Senator John Breaux,
former chairman,
Special Committee on Aging, 2001

No

Privatization would add huge costs to Social Security, because any scheme has to pay full benefits to boomers who are about to retire while also prefunding the private accounts of younger workers. To pay for these costs, any privatization plan would require deep cuts in benefits, increases in the retirement age and a dramatic increase in insecurity. . . .

In exchange, . . . what do we get? We get a chance to gamble on the stock market with money needed to create a secure floor under our families.

—Jesse Jackson, founder, Rainbow Coalition
and Operation PUSH, 2001

Debating the Issue

1. Why does Breaux think PRAs are safe?
2. Why does Jackson oppose PRAs?
3. This issue will affect the taxes you'll be asked to pay. What questions would you need answered before deciding whether you are for or against PRAs?

Assessment & Activities

Review to Learn

Section 1

- Sole proprietorships are small, easy-to-manage enterprises owned by one person.
- Partnerships are owned by two or more persons.
- Corporations are owned by shareholders.

Section 2

- A labor union is an organization of workers formed to represent its members' interests.
- Unions participate in collective bargaining when they negotiate with management.

Section 3

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


FOLDABLES™
Study Organizer

Using Your Foldables Study Organizer

Your completed foldable should have three labeled tabs with information written under each tab. On the last tab of your foldable, write one question or concept that you would like to investigate further. Research and write the information you find under the tab.

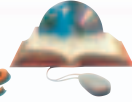
Reviewing Key Terms

Write the key term that matches each definition below.

1. a business that is owned by one individual
2. the stage in contract negotiations in which a neutral person tries to get both sides to reach an agreement
3. union and management submit issues on which they cannot agree to a third party for a final decision
4. one of the owners of a corporation
5. a situation that occurs when management prevents workers from returning to work until they agree to a new contract
6. the legal responsibility of corporations to release financial information regularly
7. union arrangement that hires only union members
8. a nonprofit association that performs some economic activity for the benefit of its members
9. the deliberate refusal to work by workers
10. the process of negotiations between union and management representatives

Reviewing Main Ideas

11. What is the most common form of business organization?
12. What are the disadvantages of a sole proprietorship?
13. Which type of business organization accounts for the smallest proportion of sales?
14. What is unlimited liability?
15. What is the structure of every corporation?
16. Which group within a corporation chooses the board of directors?
17. Identify the purpose of cooperatives.
18. What are craft unions?
19. What kind of workers make up an industrial union?



Self-Check Quiz Visit the *Civics Today* Web site at civ.glencoe.com and click on **Self-Check Quizzes—Chapter 22** to prepare for the chapter test.

Critical Thinking

- 20. Drawing Conclusions** Why would a person decide to be part of a partnership rather than a sole proprietorship?
- 21. Making Comparisons** Create a table like the one below and indicate the single most important advantage that you believe this form of business organization has.

Business Organization	Advantage
Sole Proprietorship	
Partnership	
Corporation	

Practicing Skills

- 22. Making Generalizations** Read the following excerpt, then make a generalization based on the reading.

Henry Ford introduced the first moving assembly line in 1913 at his Model T plant in Highland Park, Michigan. Different conveyor systems carried subcomponents to the main assembly line in a finely orchestrated manner. Before the advent of the assembly line, a Model T took more than 12 hours to produce and cost \$950. By 1927, after numerous refinements, Model Ts were being turned out in less than half that time, with a price tag of \$290 apiece.

—*Business Week*: “100 Years of Innovation,” Summer 1999

★ CITIZENSHIP COOPERATIVE ACTIVITY ★

- 23.** Work in small groups to draw up a report on a sole proprietorship and a partnership in your community. Include in your reports such information as goods and services provided; number of factories, stores, or offices; number of employees; and so on. Conclude your report with observations on whether the businesses chose the most appropriate form of organization for their operations.

Analyzing Visuals

- 24.** In states that have right-to-work laws, new workers have the choice to join or not to join a union. Study the map on page 487. Is the Northeast a stronger region for right-to-work laws than the Southeast? Explain.



Technology Activity

- 25.** Congress set out to protect small businesses by passing the Small Business Act. This act set up the Small Business Administration. Visit the SBA at <http://www.sba.gov/>. How does the SBA help small businesses?

Standardized Test Practice

Directions: Choose the *best* answer to the following question.

How do right-to-work laws affect workers who do not belong to unions?

- F** These laws force workers to join unions.
- G** They affect only workers who belong to craft unions.
- H** They are an essential part of collective bargaining.
- J** They protect the right of the worker to continue working at a job without joining a union.

Test-Taking Tip

This question requires you to know the definition of *right-to-work*. Even if you are unsure of the phrase’s meaning, try to determine the definition. Which answer fits best with this information?