

McAdams • Dosanjh Zucker • Neslund • Smoker

A photograph of the Chicago skyline, featuring several prominent skyscrapers. On the left is the ornate, historic Chicago City Hall. Next to it is the modern, glass-clad Willis Tower. To the right of Willis Tower is another modern skyscraper with a distinctive grid-like facade. In the foreground, a bridge with ornate stone railings spans a body of water, likely Lake Michigan. The sky is clear and blue.

# Law, Business, and Society

Thirteenth Edition

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Hill**

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*Thirteenth Edition*

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LAW, BUSINESS, AND SOCIETY, THIRTEENTH EDITION

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Tony McAdams is Professor of Management Emeritus at the University of Northern Iowa. He earned a BA in History from the University of Northern Iowa, a JD from the University of Iowa, and an MBA from Columbia University. Professor McAdams' primary teaching interests include government regulation of business, business and society, and employment law. Professor McAdams' research interests include managerial accountability, business ethics, and employment law. His scholarly articles have appeared in such journals as *The Harvard Business Review*, *The Academy of Management Review*, *The Journal of Business Ethics*, and *The American Business Law Journal*. Professor McAdams received the Iowa Board of Regents Award for Faculty Excellence, the Distinguished Teacher of the Year Award from the student government at the University of Kentucky, and the University of Northern Iowa College of Business Administration Excellence in Teaching Award.

### **Kiren Dosanjh Zucker**

Kiren Dosanjh Zucker, author of Chapters 2, 4, 6, 12, 13, and 14, is a Professor of Accounting at California State University, Northridge (CSUN). She earned a BA in Political Science from Syracuse University and a JD from the University of Michigan. A member of the State Bar of California, she has served on its Committee of Bar Examiners and Committee on Professional Responsibility and Conduct. Her teaching and research interests focus primarily on employment law, pedagogy, and accounting ethics. In 2001, she was selected as a Master Teacher by the Academy of Legal Studies in Business, and in the academic year 2004 to 2005, she received the Outstanding Faculty Award from CSUN's Students with Disabilities Resources Center. In 2004 and 2006, she also received a CSUN University Ambassadors' Polished Apple Award. In 2014, CSUN Accounting students named her the Harvey A. Bookstein Accounting Professor of the Year, and in 2015, she received the Master of Science in Accountancy Program's Outstanding Teaching Award.

### **Nancy Ganong Neslund**

Nancy Ganong Neslund, author of Chapters 8, 9, and 18, is a Visiting Associate Professor of Taxation and Law at St. John Fisher College in Rochester, New York. She holds a BA in Economics from Willamette University, a JD from Columbia University, an LLM from New York University, and is a member of the Oregon bar. Prior to entering academia, Professor Neslund was a partner in two law firms, with a focus on business and estate planning for entrepreneurs. She was a member of the Research Board for City Club of Portland, Oregon and a state board member of the Women Entrepreneurs of Oregon. She was the founding Academic Director of the Master of Taxation program at Portland State University. During the academic year 2004 to 2005, Professor Neslund was a visiting professor of law at

the Europa Universität Viadrina in Germany. During her over 20 years in academia, she has been a visiting professor at the law schools of the University of Nevada-Las Vegas, the University of New Hampshire, and Lewis & Clark College in Portland, Oregon. She was an invited speaker at Singidunum University's Conference on the Impact of the Internet on Business Activities Worldwide in Belgrade, Serbia in 2014, where she discussed the status of Bitcoin worldwide. Professor Neslund developed and for a number of years taught Financial Literacy for Lawyers to help students become practice-ready. She is also a co-author of the LexisNexis, *Q&A: Taxation of Business Entities*.

### **Kari Smoker**

Kari Smoker, author of Chapters 5, 16, and 17, is an Assistant Professor of Accounting and Business Law at Ithaca College. She teaches legal environment of business and commercial law, as well as forensic accounting, fraud law, government and nonprofit accounting, and managerial accounting. Previously, she was an Associate Professor of Accounting at the State University of New York, The College at Brockport. She earned a BA in Mathematics-Statistics and Economics from the University of Rochester, a JD from The Ohio State University, and a Master's of Taxation from Golden Gate University's School of Taxation. She is also a Certified Fraud Examiner. Prior to entering academia, she worked in public accounting at Arthur Andersen and also as an associate attorney at two law firms. She served as president of the Greater Rochester Association for Women Attorneys and as a committee member for the Rochester Business Ethics Foundation. In 2009, she received the *Rochester Business Journal's* Forty under 40 Award, and in 2014 and 2015, she received the Faculty of the Year Award from SUNY Brockport's School of Business and Management. In 2017, she received the President's Award for Excellence in Teaching at SUNY Brockport and, in 2018, the SUNY Chancellor's Award for Excellence in Teaching.

# Preface

## Approach

Our primary goal is to provoke student thought. To that end, we place heavy emphasis on analysis. We consider the questions we ask more important than the answers to those questions. We introduce the student to existing policy in the various substantive areas to encourage understanding and retention, as well as careful thought about the desirability of those policies.

Our book takes a strong public policy orientation. Attention in Unit I to political economy and ethics is a necessary foundation on which the student can build a logical understanding of the regulatory process. Thereafter, those business and society themes persist throughout the book. In virtually every chapter, we look beyond the law itself to other social and environmental forces. For example, in the antitrust chapters, economic philosophy is of great importance. Antitrust is explored as a matter of national social policy. We argue that antitrust has a good deal to do with the direction of American life generally. Law is at the heart of the fair employment practices section, but we also present material from management, sociology, history, and popular culture to treat fair employment as an issue of public policy rather than as a series of narrower technical legal disputes. The law is studied in the economic, social, and political context from which it springs. These multidimensional approaches characterize most chapters as we attempt to examine the various topics as a whole and in context. At the same time, the law remains the core of the book.

Broadly, our adjustments for this thirteenth edition were designed to refresh the book and achieve increased reader interest. This edition again directs attention to the nation's ongoing debate about how much government we need in our lives, often in the context of our challenges in addressing the imperatives and impacts of the COVID-19 pandemic. This edition also includes coverage of many recent U.S. Supreme Court cases on a wide variety of subjects. It looks more deeply at the shifting of business purpose, moving away from Milton Friedman's asserted singular focus on increasing profits towards a commitment to all stakeholders, as reflected in the 2019 statement by the prestigious Business Roundtable, as well as in the rise of ESG (environmental, social, and governance issues) considerations in boardrooms. The impacts major Internet-based companies are having, not just on our individual lives, particularly with regard to personal privacy, but also on the fabric of our society, are explored. Thus, although the general structure and philosophy of the book are unchanged, we have made significant revisions, including many new questions and several new law cases. Law cases are long enough to clearly express the essence of the decision while challenging the reader's intellect.

## WHAT'S NEW

Chapter 1 includes an updated overview of economics and politics in China, Russia, and the EU, and the United States' relationship with each. The COVID-19 pandemic provides a new lens from which to consider the relationship between regulation and the free market.

Privatization is considered with looks at the aggressive privatization program in Greece and the privatization and commercialization of space in the United States.

Chapter 2 offers a few vignettes of ethics in America, starting with the age-old problem of cheating, using the 2019 college admissions scandal as an illustration. On the upside, it highlights Gen Z's move beyond diversity to inclusion and both Gen Z members' and Millennials' beliefs that business needs to be involved in improving society. It also notes that the United States' ranking in Transparency International's Corruption Perceptions Index dropped from 16th in 2015 to 23rd in 2019.

Chapter 3 raises the question of whether America's great tech companies—Amazon, Apple, Facebook, Google, and Microsoft are simply too big and foreclosing the possibility of real competition, in part by buying out startups that might become future competitors. It discusses the Business Roundtable's 2019 statement, signed by 181 the nation's top CEOs, which renounced the primacy of shareholder interests by a commitment to serve all stakeholders.

Chapter 4 takes a look at such things as the political process of confirming new U.S. Supreme Court Justices, which can lead to the public believing the Justices are ruling as Democrats or Republicans. Also discussed is a Ninth Circuit case, which held that even flattering inaccuracies, such as a false age and an unearned graduate degree, returned by a “people search engine” could harm a job seeker, meeting the “concrete and particularized” injury required for standing to sue. A 2019 update is given in the on-going saga of female employees suing Walmart for gender discrimination; a 2019 Fifth Circuit case, *Sandifer v. Hoyt Archery, Inc.*, which considers the credibility of expert witnesses has been included; and two 2019 U.S. Supreme Court cases on the enforceability of arbitration clauses against employees are discussed.

Chapter 5 discusses the Constitution's provision for the separation of powers within the federal government, adding issues that have arisen during the Trump Administration to augment the description of those during the Obama White House. Changes in 2019 to state voter rights laws have been added. The tension between federal laws and conflicting state laws is illustrated by the 2019 action of the Trump Administration to roll back the higher auto emission standards applied by California. The discussion of search and seizure has been updated by the 2018 Supreme Court decision in *Carpenter v. United States*.

Chapter 6 begins with a contemporary fact pattern involving a talent contract between a top online gamer of Fortnite and the esports organization FaZe Clan, which can be used to explore various contract law principles covered in this chapter. Another boxed item showcases an inventive approach to contracts where parties are depicted and basic contract terms conveyed through characters in a comic strip. A 2018 Seventh Circuit case has been added, exploring the perils of unwritten contracts. Whether a failing grade can be a breach of contract is also explored.

Chapter 7 starts the exploration of torts by posing questions of an ethical nature surrounding a Walmart customer who was displaying aberrant behavior, including the purchase of about 60 aerosol cans of dust remover over 27 hours, who then died in the parking lot from inhaling the product. Defamation is explored through a tweet sent by President Trump about adult entertainer Stormy Daniels' claim of a sexual affair with him, as well as a 2014 *Rolling Stone* story about an alleged gang rape at a university fraternity house and a suit against Walt Disney Co. over an ABC News story referring to a South Dakota meat processor's ground beef as “pink slime.” The issues surrounding the dangers of Monsanto's Roundup weedkiller

open the discussion of product liability, which is also explored in the context of Apple's liability for deaths caused by a driver using FaceTime while driving. A new First Circuit case explores both design defect and failure-to-warn product liability claims. Arguments for and against tort reform are explored through issues surrounding the use of talc in Johnson & Johnson baby powder and Big Pharma's responsibility for the opioid epidemic in America, as well as statistics on lawsuits and survey data.

Chapter 8 has been substantially modified. Using the challenges arising during the current COVID-19 pandemic as a backdrop, a discussion of why, when, how government regulation of business is appropriate or even necessary is undertaken. Updates of the ongoing challenges to the constitutionality of Obamacare are noted. A specific application of the Supremacy Clause is illustrated in the boxed item on the history of Congress's regulation of in-state betting on sporting events, culminating with the Supreme Court's 2018 decision holding a 1992 statute unconstitutional as an attempt by Congress to *commandeer* a state's legislative function. The continuing saga associated with the federal-state battle over legalizing marijuana is updated. The 2019 Supreme Court case, *Tennessee Wine and Spirits Retailers Association v. Thomas*, illustrating the application of the dormant commerce clause, has been added. As has a look at how tobacco is regulated, in the context of the outbreak of vaping-related lung illnesses in 2019. The FAA's proposed regulations for drones are mentioned. Procedural, interpretive, and legislative rules are identified and distinguished. Additional information on the public comment requirement for rulemaking is provided, and the battle over the EPA's revocation of California's long-standing waiver under the Clean Air Act to set higher standards for vehicle emissions is presented. A boxed item on *Chevron* deference to legislative regulations of agencies is new. Part Four returns to an overall look at the importance of regulation in both day-to-day contexts and national emergencies.

Chapter 9 is also substantially modified. Only some of the changes are identified here. New is the 2019 Delaware Supreme Court case *Marchand v. Barnhill*, one of two shareholder derivative cases that year in which boards of directors lost the shield of the business judgment rule. The dangers of the current excessive levels of corporate debt are covered in a new boxed item. Part Two, covering corporate governance, includes a new boxed item, "WeWork: A Modern Corporate Governance Failure," which catalogs events from its founding in 2010 through its failed public offering in 2019. Nearly all of the content on cybersecurity is new. The revised discussion of corporate income taxes notes how aggressive tax avoidance arrangements are shifting the tax burden off of the most profitable large U.S. corporations. The growth in executive compensation has continued unabated, and the failures in corporate governance that have led to this are discussed. A Practicing Ethics box, "Pacific Gas & Electric: A Fundamentally Unethical Company?," leads into materials on "Rethinking Corporate Purpose and the Rise of ESG." Here the shifting paradigm is set forth, starting with Milton Friedman's 1970 assertion that the only social responsibility of business is to generate profits. It then moves to the 2018 annual letter to CEOs from Lawrence Fink, CEO of Blackrock, and culminates with the August 2019 "Statement on the Purpose of a Corporation" from the Business Roundtable, which attests to a "commitment to all of our stakeholders," including customers, employees, suppliers, the communities in which they work, and generating "long-term value for shareholders." The World Economic Forum's similar statement in December 2019 is also noted. A completely new section on the incorporation of environmental, social, and governance (ESG) factors into business and



investment decisions has been added. Part Three covers the securities markets. The text box on crowdfunding has been updated based on experience since its May 2016 effective date. There is a new Practicing Ethics piece on Theranos, addressing both securities fraud and the endangerment of the public health.

Chapter 10 adds coverage of a number of recent cases involving restraint of trade, including price-fixing of fees by Visa and Mastercard, and the cost of chickens by Tyson, Pilgrim's Pride, and Sanderson Farms. It discusses the 2018 U.S. Supreme Court case holding that American Express could forbid sellers who accept AmEx from encouraging customers to use other cards that charged lower fees to merchants. Materials on the European Commission's \$9 billion antitrust action against Google for illegal tying have been added, as has a text box covering Ozzy Osbourne's suit for illegal tying against AEG, which attempted to require Osbourne to perform in the Los Angeles Staples Arena if he wanted to perform in London's O2 Arena. The chapter also considers whether Uber's "route-based pricing" (where prices vary, for example, based on pick-up and drop-off neighborhoods) and "personalized pricing" (which modifies the quoted prices based on individual data, such as type of credit card, brand of phone, and riding history) are lawful. The chapter ends with a new discussion about whether current antitrust law is sufficient to deal with anticompetitive behavior of a few large technology companies who collect and use big data and artificial intelligence so effectively that smaller companies simply cannot compete.

Chapter 11 refocuses the discussion of the benefits and evils of monopoly and oligopoly on the Frightful Five high-tech colossuses: Alphabet (Google's parent), Amazon, Apple, Facebook, and Microsoft. The pendulum may well be swinging. These previously admired market disrupters may be becoming objects of distrust and anger. A new text box explains these changing views. Also added is a discussion of the 2019 U.S. Supreme Court case that allows individual Apple app consumers to sue Apple for antitrust violations by requiring all apps to be purchased in its App Store. A new Practicing Ethics feature considers a challenge to the currently dominant "consumer welfare" test for antitrust violations in favor of a "structural dominance" test, which would look beyond the price charged, to such externalities as wealth polarization, excessive political power, and employee abuse. The pros and cons of horizontal mergers are newly explained in the context of huge companies that play a role in the food and agriculture markets. The claim that top companies have achieved abusive market power is contrasted with the claims of greater efficiency and innovation through such mergers. New concerns about vertical mergers are considered from the vantage of combining pay television providers and media content providers. A new Practicing Ethics box asks whether testing for the existence of excessive market concentration by focusing almost exclusively on price should yield to a focus on the general welfare of workers and consumers. The use of U.S. antitrust law by the Trump Administration in its trade war with China has been added. Allegations of price-fixing of Vitamin C exports by Chinese companies is used as the illustration, based on a U.S. Supreme Court ruling in 2018.

Chapter 12 updates the issues and trends touching on employee rights. Throughout the chapter, implications of the COVID-19 pandemic on U.S. workers are noted, including the immediate and potential long-term impacts of work-from-home arrangements, the use of employee medical screening when entering the workplace, and dramatically expanded unemployment compensation benefits. A text box describes the criteria used by the California Supreme Court in its 2018 decision in *Dynamex Operations West* for distinguishing between

an employee and an independent contractor. The current use by employers of monitoring systems to track workers' movements, activities, efficiency, and the use of safety gear is described, and increased coverage of the "public policy" exception to at-will employment is provided. For example, a Virginia court held there is no free-speech public policy exception for a government contractor's employee's vulgar gesture directed at the presidential motorcade. The impact that policies of the Trump Administration are having on immigration are described.

Chapter 13 begins with a Practicing Ethics piece, which considers the termination in 2017 of a male Google software engineer for violating policies against harassment and discrimination, after he circulated a memo that asserted men to be biologically superior to women in tech jobs. Also mentioned are the pair of cases that were before the U.S. Supreme Court, when this text went to publication which raised the issue of whether lay teachers may bring employment discrimination claims based on age or disability against Catholics or if their claims are barred under the ministerial exception. In June 2020, the Supreme Court held that employment discrimination based on sexual orientation or gender identity is covered by Title VII's prohibition of discrimination based on sex. The events of the spring and summer of 2020, including the disproportionate impact of the COVID-19 pandemic on Black communities and the killing of yet more Black men and women by police, have forced us to recognize that racial discrimination is still prevalent in the U.S. Gender balance on public company boards of directors is also considered, as is a 2020 federal circuit court ruling on pay discrimination. The chapter ends with a mention of another U.S. Supreme Court decision, which held that "but for" causation is not needed to prove a federal employee's age discrimination case under the ADEA.

Chapter 14 starts with a discussion of the plight of workers in essential food industries who stayed on the job during the lockdown phase of the COVID-19 pandemic despite severe safety risks. Coverage has been added regarding the new NLRB rule for determining when a worker is a "joint employee" of multiple entities. Employers trying to preserve their reputations and minimize employment-related liabilities by establishing social media policies for employees are discussed, and the NLRB's standards and concerns about such policies are explored. Also discussed are protests made by employees when Facebook allowed a copy of President Trump's twitter, "When the looting starts, the shooting starts," to be posted on its platform. A number of new rulings on labor unions are discussed, including a 2017 Fifth Circuit opinion concerning T-Mobile's employee handbook, a 2019 NLRB adjudication of employee use of employer-provided technology for union-related activities, a 2018 U.S. Supreme Court decision regarding dues and fees paid by non-members of public unions, and a look at police unions in light of their members' repeated use of lethal force against Black Americans.

Chapter 15 updates various statistics appearing in the 12th edition, such as numbers on consumer complaints, identity theft, food-borne illnesses, drug approval rates, student loan and other debt levels, and bankruptcy filings. It adds coverage on the impact COVID-19 is having on various aspects of the consumer protection regulatory system. For example, the problems faced by the most financially vulnerable, who have lost their employment and are often overwhelmed with credit card and other debt, in securing relief from creditors, some of whom are pursuing aggressive collection strategies. There is also a discussion of the disappointing performance of the FDA in ensuring food safety. A theme explored throughout the chapter is the shift in regulatory philosophy as a Republican-dominated federal

government took over from a Democrat-dominated government. Conservatives generally believe in a lighter-touch for market regulation, and this has led to significant changes in agency rules and enforcement activities.

Chapter 16 begins by discussing Brexit, which is expected to fully take effect in January 2021. It updates the statistics on governmental requests to block content, which can raise free speech issues, directed at companies like Google and Facebook. Progress on the CISG is described. Uruguay's 2016 legal victory over tobacco company Philip Morris, which was using aggressive tactics to acquire new customers, is presented. Also explored is the growing problem of effectively regulating multinational enterprises, especially those that are state-owned companies, and most particularly those based in China. The United States' reaction in 2020 to China's refusal to allow inspectors of the financial statement audits performed on corporations based there and to allow the SEC to pursue fraud investigations involving Chinese actors is described. The antitrust section adds a discussion of Google's 2019 \$1.7 billion fine by the EU.

Chapter 17 describes several recent environmentally damaging events, such as the 2020 Siberian oil spill into the Arctic Circle and a 2017 air quality crisis in London. The chapter documents the continuing environmental crises resulting from the 2011 meltdown of Japan's Fukushima nuclear power plant and the severe risks still presented by the World War II-era Hanford nuclear facility's underground toxic waste storage tanks. Statistics about the state of the environment have been updated, such as the percentage of the world's food irrigated with wastewater, the number of people living in water-stressed areas, and the proportion of the planet's species headed for extinction, to name a few. The D.C. Circuit's 2019 ruling that the EPA's regulations governing the movement of air pollution across state borders were too lax is discussed. As with other chapters, the anti-regulatory orientation of the Trump Administration has had impacts on various laws, a number of which are described. The EPA's budget has been significantly reduced, fuel economy standards for vehicles have been scaled back, the Obama-era extension of the EPA's jurisdiction to non-navigable waters has been repealed, the U.S. will be withdrawing in November 2020 from the 2015 Paris Agreement to limit global temperature increases, and the 2016 Clean Power Plan rules have been withdrawn, although 30 states and cities are suing to reverse that repeal.

Chapter 18 catalogs numerous recent and significant events involving the Internet, including the Chinese company Huawei's proposal to replace the present "worldwide web" with its "New IP," featuring a "top-down" design that gives governments "absolute control" over its infrastructure. Our digital divide became widely visible as the COVID-19 pandemic forced the closure of schools, and we saw education largely continue in wealthier districts and effectively stop for the poorest among us. We also saw the FCC's stance on net neutrality reverse with the arrival of the Trump Administration, leaving the issue to the states, 25 of which have already passed or introduced net neutrality legislation. Freedom of speech continues to challenge the Internet because, for example, the anonymity that makes some willing to contribute to the marketplace of ideas allows others to fill that marketplace with hate speech. Facebook settled a suit brought by the National Fair Housing Alliance by agreeing to pay about \$5 million and to remove "ethnic affinity" markers that facilitate race-based housing advertising. It also agreed to pay a \$5 billion penalty and to substantially change its corporate governance structure for deceiving its users about the control they have over their personal information, in violation of its 2012 consent decree with the FTC. A Practicing Ethics box

presents what is likely the most invasive form of data mining: the hundreds of mobile phone apps that track our phones' every movement capture their precise geographic locations at precise times and sell that information to others. Some additional covered topics include the use and abuse of facial recognition software, the multitude of ways employers can track their employees' activities, and the \$6 trillion that cybercrime will be costing us by 2021. The chapter closes with a Practicing Ethics box, *The Dark Side of Social Media*, which discloses that the human interface with social media was made addictive by design, specifically to capture vast amounts of personal information for the purpose of selling it and enabling precisely targeted advertising.

## OVERVIEW

This text is directed to courses at both the upper-division undergraduate and masters levels in the legal environment of business, government and business, and business and society. Authors of textbooks in these areas often rely on a single discipline (for example, law, economics, or management) as the foundation for their efforts. In this text, we take an interdisciplinary approach, using elements of law, political economy, international business, ethics, social responsibility, and management. This large task necessarily requires certain trade-offs, but we hope the product will more accurately capture the fullness of the business environment.

Our primary goal is to produce an interesting, provocative reading experience. Naturally, accuracy and reasonable comprehensiveness cannot be sacrificed. Our feeling, however, is that a law text can be both intellectually and emotionally engaging without sacrificing substantive ends. To meet our objective, we have presented the bulk of the book in the form of contemporary legal and ethical conflicts emerging from today's news. We have provided scholarly results, surveys, polls, data, anecdotes, and other specific details that lend credibility, immediacy, and interest to the reading experience.

The book is divided into five units, as follows:

*Unit I—Business and Society.* We do not begin with the law. Rather, in Chapter 1 (Capitalism and the Role of Government), Chapter 2 (Business Ethics), and Chapter 3 (The Corporation and Public Policy: Expanding Responsibilities), we describe some of the economic and social forces that shape our legal system.

The goals of Unit I are to (a) enhance student awareness of the many societal influences on business; (b) establish the business context from which government regulation arose; and (c) explore the roles of the free market, government intervention, and individual and corporate ethics in shaping business behavior.

The student must understand not merely the law, but the law in context. What forces have provoked government intervention in business? What alternatives to our current "mixed economy" might prove healthy? These considerations help students respond to one of the critical questions of the day: To what extent, if any, should we regulate business?

*Unit II—Introduction to Law.* Chapter 4 (The American Legal System) and Chapter 5 (Constitutional Law and the Bill of Rights) survey the foundations of our legal system. Here we set out the "nuts and bolts" of law, combining cases and narrative. Then with Chapter 6 (Contracts) and Chapter 7 (Business Torts and Product Liability), we examine the foundations of business law.

*Unit III—Trade Regulation and Antitrust.* Chapter 8 (Government Regulation of Business) raises the book's central policy inquiry: When should the government intervene in business practice? Chapter 9 (Business Organizations and Securities Regulation), Chapter 10 (Antitrust Law—Restraints of Trade), and Chapter 11 (Antitrust Law—Monopolies and Mergers) survey the core of government oversight of business.

*Unit IV—Employer-Employee Relations.* Chapter 12 (Employment Law I: Employee Rights), Chapter 13 (Employment Law II: Discrimination), and Chapter 14 (Employment Law III: Labor-Management Relations) are intended not only to survey the law in those areas, but also to introduce some of the sensitive and provocative social issues that have led to today's extensive government intervention in the employment relationship.

*Unit V—Selected Topics in Government-Business Relations.* Two of the closing chapters of this book—Chapter 15 (Consumer Protection) and Chapter 17 (Environmental Protection)—emphasize the dramatic expansion of the public's demands for socially responsible conduct in business. Chapter 16 (International Ethics and Law) provides an overview of the legal and ethical issues arising out of the reality of our inextricably intertwined national economies, and Chapter 18 (Internet Law and Ethics) explores the many ethical and legal issues that arise when people can and do connect instantaneously, without the impediments or protections of location or borders.

## ACCREDITATION

Our text conforms to Association to Advance Collegiate Schools of Business (AACSB) International accreditation standards.

Two chapters are devoted exclusively to ethics, and ethics themes emerge throughout the book. The chapter on employment discrimination should be quite helpful in aiding students' understanding of diversity issues. Ethics and social responsibility are at the heart of the text rather than an afterthought to meet accreditation standards.

Furthermore, as required by the rapidly changing nature of commerce and as recommended by the AACSB, the text devotes extensive attention to legal and ethical issues arising from international business. Various topics throughout the text (for example, comparative economic systems, the Foreign Corrupt Practices Act, and global pollution) afford the student a sense of the worldwide implications of American business practice, and Chapter 16 is entirely devoted to international themes.

## KEY FEATURES

Approximately 180 boxed features and ethics vignettes place the law in a practical context and offer many provocative opportunities for discussion. Here are two examples.



**Room for Big Ideas**

The Boring Company, founded by Elon Musk (the co-creator of PayPal and the founder of Tesla, the electric car company, and SpaceX), is one of several enterprises developing Hyperloop technology that envisions passenger pods, propelled by electromagnets through a near-vacuum tube, are projected to be capable of moving people from New York City to Washington D.C. in 30 minutes at perhaps 700 miles per hour. Boring’s first project is a \$48 million people mover and tunnel of less than one mile under the 200-acre Las Vegas Convention Center.

**Question**

Is a market-based culture of freedom and risk taking necessary to the creation and sustenance of these very big ideas, or is a blend of the market and government more likely to succeed? Explain.

**PRACTICING ETHICS**

**Individual Social Responsibility to Humanity?**

Consider the following excerpt from a speech delivered September 28, 2001, by Jose Ramos-Horta, Nobel Peace Prize Laureate (1996) and Minister for Foreign Affairs and Cooperation for the East Timor Transition Government:

There is no dispute that abject poverty, child labor, and prostitution are a moral indictment of all humanity.

However, poverty should not only touch our conscience: It is also a matter of peace and security because it destabilizes entire countries and regions. In turn it threatens the integration of the global economy that is vital if the rich are to stay rich or if the poor are to move up, if only an inch.

Peace will be illusory as long as the rich ignore the clamor of the poor for a better life, as long as hundreds

of millions of people live below the poverty line, cannot afford a meal a day, do not have access to clean water and a roof.

**Question**

Should most of us, not just active international businesses, accept a social responsibility to humanity? If we answer yes to this question, how might our actions as students, educators, employees, employers, and investors change?

Jose Ramos-Horta, “Speech to the Northern Medical Foundation Tribute to Military Medicine and Lt-Gen. P. Cosgrove,” Sydney, Australia, September 28, 2001.

Approximately 200 selected websites appear throughout this edition to which students can turn for more information on many of the topics discussed, including related videos.

Each chapter concludes with a Research Exercise suitable for either individual or team projects.

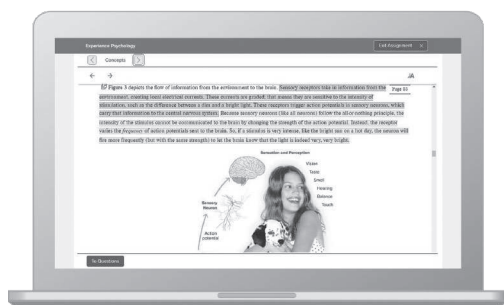


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A package of supplementary materials is included in the instructors manual. Those materials include (1) chapter outlines, (2) general advice regarding the goals and purposes of the chapters, (3) summaries of the law cases, and (4) answers for the questions raised in the text.

### **PowerPoints**

This edition's revised PowerPoints contain an easy-to-follow lecture outline summarizing key points for every chapter.



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*Nancy Ganong Neslund*

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## **Case Index 910**

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## Links to Brief Videos for Classroom Use

The following video links appear in the body of the text in conjunction with the subject matter of the videos.

### Chapter 1

2016 Oscar-nominated movie, *The Big Short*, at [[www.youtube.com/watch?v=LWr8hbUkG9s](http://www.youtube.com/watch?v=LWr8hbUkG9s)] Trailer, 2011 Oscar-winning best documentary, *Inside Job*, at [[www.youtube.com/watch?v=FzrBurlJUNk](http://www.youtube.com/watch?v=FzrBurlJUNk)]

Steve Croft, “The Case Against Lehman Brothers,” *60 Minutes*, CBS News, April 22, 2012, at [[www.cbsnews.com/news/the-case-against-lehman-brothers-23-04-2012](http://www.cbsnews.com/news/the-case-against-lehman-brothers-23-04-2012)].

Martin Smith, “The Untouchables,” *Frontline*, PBS, January 22, 2013, at [[www.pbs.org/wgbh/pages/frontline/untouchables](http://www.pbs.org/wgbh/pages/frontline/untouchables)].

“Martin Shkreli on Drug Price Hikes and Playing the World’s Villain” at [[www.youtube.com/watch?v=2PCb9mnR1g](http://www.youtube.com/watch?v=2PCb9mnR1g)].

Trailer, *Atlas Shrugged* documentary movie [<https://youtu.be/L-clEcBqgaA>].

Jane Mayer, “Ayn Rand Joins the Ticket,” *The New Yorker*, August 11, 2012, at [<https://youtu.be/L-clEcBqgaA>].

“Is Finland Really the Happiest Country in the World?” [[www.youtube.com/watch?v=9FPU4F-Ajh8](http://www.youtube.com/watch?v=9FPU4F-Ajh8)].

### Chapter 2

2009 Harvard MBA Ethics Oath, *The Daily Show with John Stewart* [[www.cc.com/video-clips/dc3rq6/the-daily-show-with-jon-stewart-mba-ethics-oath](http://www.cc.com/video-clips/dc3rq6/the-daily-show-with-jon-stewart-mba-ethics-oath)].

Trailer, “The Company Men” [[youtube.com/watch?v=Pie66GR63Fc](http://youtube.com/watch?v=Pie66GR63Fc)].

Carol Gilligan’s theory, see [[www.youtube.com/watch?v=HctzZwwueL4](http://www.youtube.com/watch?v=HctzZwwueL4)].

Trailer, *Wall Street: Money Never Sleeps*, at [[www.youtube.com/watch?v=HcMFA2SHES4](http://www.youtube.com/watch?v=HcMFA2SHES4)].

### Chapter 3

Senator Bernie Sanders’ brief 2016 speech criticizing corporate tax loopholes at [[www.youtube.com/watch?v=Sknt-UBRhxo](http://www.youtube.com/watch?v=Sknt-UBRhxo)].

2004 movie documentary, *The Corporation*, at [[www.youtube.com/watch?v=xHrhqtY2khc](http://www.youtube.com/watch?v=xHrhqtY2khc)].

Trailer, 2018 documentary, *Dark Money*, examining how “untraceable corporate money” influences the political process, at [[www.darkmoneyfilm.com](http://www.darkmoneyfilm.com)].

Trailer for documentary, *Starving the Beast*, at [[www.starvingthebeast.net](http://www.starvingthebeast.net)].

2014 Flashmob performance of Beethoven's Ode to Joy, at [[www.youtube.com/watch?v=a23945btJYw](http://www.youtube.com/watch?v=a23945btJYw)].

Trailer, 2014 movie, *Bhopal: A Prayer for Rain*, at [[www.youtube.com/watch?v=rO6xCAsv4s4](http://www.youtube.com/watch?v=rO6xCAsv4s4)].

Trailer, *Wal-Mart: The High Cost of Low Price*, at [www.bravenewfilms.org/walmartmovie](http://www.bravenewfilms.org/walmartmovie)].

Christine Wang, brief video of Dan Price, "\$70K CEO: I Wasn't Ready for the Attention," *CNBC*, April 18, 2016 at [[www.cnn.com](http://www.cnn.com)].

## Chapter 4

"What Is Mediation?", a brief overview of mediation and arbitration, at [<https://www.youtube.com/watch?v=KLdia39awI0>].

## Chapter 5

Trailer, 1996 movie, *The People vs. Larry Flynt*, at [[www.youtube.com/watch?v=fR6l4D47fW8](http://www.youtube.com/watch?v=fR6l4D47fW8)].

Trailer, 2016 feature movie, *Loving*, at [[www.youtube.com/watch?v=zRXuCY7tRgk](http://www.youtube.com/watch?v=zRXuCY7tRgk)].

## Chapter 6

A video of the Pepsi ad that was the basis of the *Leonard v. Pepsi* lawsuit [[www.youtube.com/watch?v=ZdackF2H7Qc](http://www.youtube.com/watch?v=ZdackF2H7Qc)].

## Chapter 7

Trailer for documentary movie, "Hot Coffee," at [<http://hotcoffeethemovie.com>].

## Chapter 8

Trailer, 2018 Academy Award winning movie, *The Green Book*, at [[www.youtube.com/watch?v=QkZxoko\\_HC0](http://www.youtube.com/watch?v=QkZxoko_HC0)].

## Chapter 9

Ship attempting to dock in 69 mph winds, at [<https://youtu.be/gclwCFpV5IM>].

## Chapter 10

Trailer, *The Informant!* movie about the ADM whistleblower, at [[www.traileraddict.com/trailer/the-informant/trailer](http://www.traileraddict.com/trailer/the-informant/trailer)].

## Chapter 11

"Top Ten Disastrous Mergers and Acquisitions," at [www.youtube.com/watch?v=9dFvhq2sKfM](http://www.youtube.com/watch?v=9dFvhq2sKfM)].

## Chapter 12

Trailer, *Deepwater Horizon*, at [www.youtube.com/watch?v=8yASbM8M2vg](http://www.youtube.com/watch?v=8yASbM8M2vg)].

## Chapter 13

Testimony on the disproportionate impact of COVID-19 on communities of color before the House Committee of Ways and Means on May 27, 2020, at [<https://waysandmeans.house.gov/legislation/hearings/disproportionate-impact-covid-19-communities-color-0>].

“People in All 50 States Show Up for BLM Protests,” see [[www.youtube.com/watch?v=SG4LiBwtWCY](http://www.youtube.com/watch?v=SG4LiBwtWCY)].

## Chapter 14

Kimberlé Crenshaw’s TED video recognizing Black women killed by police [[www.youtube.com/watch?v=akOe5-UzQ2o](http://www.youtube.com/watch?v=akOe5-UzQ2o)].

## Chapter 15

A Consumer Financial Protection Bureau video explaining the Bureau’s mission [[www.consumerfinance.gov/the-bureau](http://www.consumerfinance.gov/the-bureau)].

2011 ABC News Visit to Consumer Product Safety Commission Testing Lab [<http://abc-news.go.com/GMA/video/consumer-product-safety-commission-test-lab-13827984>].

## Chapter 17

Ray Anderson, 2009 TED Talk in which he shares his story, at [[www.raycandersonfoundation.org/butterfly-effect](http://www.raycandersonfoundation.org/butterfly-effect)].

Trailer, 2015 documentary, *The True Cost*, at [<https://truecostmovie.com>].

Trailer, 2019 movie, *Dark Waters*, at [[www.youtube.com/watch?v=RvAOuhyunhY](http://www.youtube.com/watch?v=RvAOuhyunhY)].

Trailer, 2000 movie, *Erin Brockovich*, at [[www.youtube.com/watch?v=jjqUUxly\\_yk](http://www.youtube.com/watch?v=jjqUUxly_yk)].

Trailer, 1998 Disney movie, *A Civil Action*, at [[www.youtube.com/watch?v=fHRXGQhpiB8](http://www.youtube.com/watch?v=fHRXGQhpiB8)].

NASA video showing the decline in Arctic ice cover at [[www.youtube.com/watch?v=qHE0n5c6-6g](http://www.youtube.com/watch?v=qHE0n5c6-6g)].

2012 Sundance Film Festival documentary, *Chasing Ice*, at [[www.chasingice.com](http://www.chasingice.com)].

## Chapter 18

For a creative way to provide widespread Internet access in developing countries, see the TEDx talk available at [www.ted.com/talks/aleph\\_molinari\\_let\\_s\\_bridge\\_the\\_digital\\_divide.html](http://www.ted.com/talks/aleph_molinari_let_s_bridge_the_digital_divide.html).

For a humorous explanation of net neutrality, see [<https://abovethelaw.com/2018/01/burger-king-explains-net-neutrality-better-than-a-million-tech-journal-articles>].

For a one-minute explanation of the new California Consumer Privacy Law, see CalMatters video at [www.youtube.com/watch?v=Xwt02jnLvKI&feature=youtu.be](http://www.youtube.com/watch?v=Xwt02jnLvKI&feature=youtu.be).

U N I T O N E

# Business and Society

- 1 CAPITALISM AND THE ROLE OF GOVERNMENT
- 2 BUSINESS ETHICS
- 3 THE CORPORATION AND PUBLIC POLICY: EXPANDING RESPONSIBILITIES

## CHAPTER ONE

# Capitalism and the Role of Government

**After completing this chapter, students will be able to fulfill the following learning objectives:**

- 1-1. Describe capitalism and its relationship to individual rights.
- 1-2. Discuss the theory and practice of privatization.
- 1-3. Compare and contrast capitalism and collectivism.
- 1-4. Differentiate between communism and socialism as collectivist philosophies.
- 1-5. Discuss the current state of capitalism in China and Russia.
- 1-6. Evaluate arguments regarding government's proper role in the American economy.
- 1-7. Describe the primary characteristics of a "mixed economy."
- 1-8. Analyze the impact of capitalism on equality, fairness, and community in American and global society.
- 1-9. Describe the income and wealth gaps in America.

## Part One—Introduction

Capitalism is an economic system in which business and industry are privately owned and operated for profit.

Are you a capitalist? If so, what role, if any, should the law play in your business life? How much government does America need? Is capitalism, as currently practiced, the best economic system for the challenging problems facing American society? These themes, examining the relationship between government and business in America, are the core of this text and especially this first chapter.

Since the fall of the Soviet Union and the general decline of communist influence, free-market reasoning has dominated worldwide economic discourse. Indeed, noted political theorist Francis Fukuyama argued in 1989 that capitalism and Western democracy had so thoroughly proven their worth that the capitalism/collectivism debate was over. Free-market liberal democracy, Fukuyama claimed, was so clearly triumphant that it would be the world's "final form of human government." Thus, he famously said, we are at the end of history. He has also acknowledged, however, the possibility of uncertainty and crisis that might lead to a "re-start" of history.<sup>1</sup>

Fukuyama's bold thesis continues to be widely discussed, but as he acknowledges, events have called into question the victory of free-market liberal democracy. The COVID-19 pandemic, the Great Recession of 2008, including the subprime mortgage crisis, the stunning power of the Wall Street banks (and hedge funds), along with globalization have shaken our faith in conventional capitalism. Questionable Wall Street behavior, rampant managerial greed, growing gaps between America's rich and poor, and climate change (see Chapter 17) have magnified long-standing doubts about the morality of capitalism.

Likewise, the power of markets has not always produced democracy, as events in China, Russia, and the Middle East have demonstrated. Donald Trump's ascendance to power in America seemed to spring, in part, from doubts about the success and fairness of free-market liberal democracy. Those nationalist/populist sentiments favoring the "common people" and pushing back against the "elite" have also blossomed in other democratic strongholds, including the United Kingdom, France, Italy, Spain, and Austria.

## American Capitalism Challenged: Economics

To put the concerns of capitalism's critics in context, we will briefly examine the recent economic turmoil that has increased doubts about the effectiveness and fairness of contemporary American capitalism. More detail will follow in Chapter 2 and occasionally thereafter.

### A False Promise?

Renowned French economist Thomas Piketty has recently strengthened the anticapitalist argument by attacking the crucial claim that a healthy market generates a rising economic tide inevitably lifting the welfare of all.<sup>2</sup> Piketty's careful analysis of historical data, while challenged by some, finds that the rate of return on capital investments generally has been several times larger than the rate of general economic growth. Hence, the gap between the rich (investors) and poor (wage earners) likely will continue to expand, thus threatening social justice and democracy itself. Yet Piketty has acknowledged that markets are vital to efficiency and freedom.

### Financial Crises: COVID-19 and The Great Recession

**COVID-19** At this writing, the federal government is pouring several trillion dollars in aid into the coronavirus-crippled American economy. Some big businesses and many small enterprises face ruin. State and local governments are reeling from sharply reduced tax revenue and the heavy costs of dealing with the pandemic. Clearly, the market alone could not adequately respond to the crisis, and federal intervention came very quickly.

**Great Recession** In late 2008, America faced another financial crisis; this one spurred not by disease but by financial markets seemingly near collapse. Lending had essentially frozen. A powerful Wall Street investment bank, Lehman Brothers, went broke, while Bear Stearns and Merrill Lynch, also Wall Street titans, faced failure and were sold. American and global financial markets panicked and appeared unable to correct themselves. Fearing another Great Depression, the George W. Bush and Barack Obama administrations flooded the market with cash, took on much of the debt held by endangered banks, and, through the Troubled Asset Relief Program (TARP), bailed out failing giants such as Goldman Sachs,



General Motors, and Chrysler: companies deemed “too big to fail.” The ultimate cost of government expenditures to prop up the endangered economy was recently calculated at over \$1.6 trillion, but the study’s authors, Alan Blinder and Mark Zandi, estimate that the government’s interventions reduced the length of the recession and its job losses by about half and reduced gross domestic product losses from 14 to 4 percent.<sup>3</sup> Critics, however, say the bailouts were illegal extensions of federal power, dramatically increased the federal deficit, expanded the size of the federal government, set the stage for inflation, and encouraged other businesses to believe they would be bailed out if necessary.

### Subprime Mortgages

The nation’s housing bubble burst.

The financial community’s near collapse in 2008 was most directly ignited by the subprime mortgage crisis, a situation in which the nation’s housing bubble burst and millions of Americans were no longer able to pay their home mortgages. Instead of continuing their

sometimes meteoric rise in value, those homes plunged in price, and much of the total real estate market essentially imploded. The resulting mountain of bad debt could not be managed by the American financial institutions that held it; fear paralyzed the lending markets, and the government felt obliged to step in to prevent a greater financial tragedy.

Bankers’ greed and inept management, along with consumers’ excessive borrowing, certainly were instrumental in the subprime debacle, but financial fraud (e.g., lenders conspiring with borrowers to overstate borrowers’ incomes in order to qualify for larger loans) played an important role in the collapse. Conservatives, however, place much of the blame on the federal government for its policies encouraging banks to make loans to unqualified low-income buyers.



[For a cynical look at the subprime bubble, see the trailer for the 2016 Oscar-nominated movie, *The Big Short*, at [www.youtube.com/watch?v=LWr8hbUkG9s](http://www.youtube.com/watch?v=LWr8hbUkG9s)]. [For a critical examination of the broader financial meltdown, see the trailer for the 2011 Oscar-winning best documentary, *Inside Job*, at [www.youtube.com/watch?v=FzrBurlJUNk](http://www.youtube.com/watch?v=FzrBurlJUNk)].

### Banks Too Big?

America’s biggest banks were deemed “too big to fail.”

America’s biggest banks were among the corporations deemed “too big to fail” during the subprime mortgage crisis. Today, the four biggest American banks—JPMorgan Chase, Bank of America, Wells Fargo, and Citigroup—control about 42 percent of America’s bank assets,<sup>4</sup> and their stability remains worrisome should the economy falter again.

Some political leaders and economic policy experts favor breaking up the biggest banks, but reforms—including Federal Reserve rules requiring some banks to increase the amount of capital they hold (thus giving them a bigger cushion in troubled times)—have enabled the big banks to pass annual government “stress tests” indicating they may now be better situated to deal with disaster. The 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act also includes provisions designed to reduce the likelihood of big bank failures.

### Globalization

As French President Emmanuel Macron said in 2018, “Globalization is undergoing a major crisis.”<sup>5</sup> In a “hyper-connected,” “flat” world, we are all linked together in an economic and

cultural intimacy scarcely imaginable a few decades back. Largely unanticipated challenges have emerged; most recently the COVID-19 pandemic facilitated by globalization.

Donald Trump's 2016 presidential election, Brexit, and rising nationalism all seem to be, in considerable part, angry reactions to globalization. The loss of American manufacturing jobs, flat or reduced wages, and the general redistribution of wealth from American and European working-class people to China and other low-wage, developing nations have provoked a globalization backlash. However, some of that anger may be misplaced, in that de-industrialization, automation, and other factors have also challenged western economies.

In a positive light, globalization has significantly elevated living standards while facilitating an unprecedented sharing of cultures and lifestyles around the world. Consumers everywhere have benefited from better, cheaper products. At the same time, critics lament the government's failure to better prepare citizens, particularly blue-collar workers, for the dislocations that have accompanied globalization. Now the COVID-19 tragedy has renewed arguments for rebuilding American manufacturing and reducing dependence on foreign nations, particularly China.

### American Capitalism Challenged: Morality

While challenging capitalism's economic performance, critics also condemn alleged indecencies in capitalist culture, as described below. In reading the criticisms that follow, keep in mind the powerful moral arguments that favor capitalism. For example, the great capitalist investor Warren Buffet recently affirmed his view of the fundamental morality of the capitalist system in that it produces prosperity and progress, even if it also produces inequality and is sometimes managed by unprincipled actors.<sup>6</sup>

#### Wall Street Abuses

The banks proved to be  
“too big to jail.”

Following the 2008 financial collapse, Wall Street banks paid tens of billions of dollars in penalties for their subprime misconduct, currency manipulations, and other wrongs. Despite evident fraud, however, the banks and bankers proved to be “too big to jail.” The government criminally indicted neither major banks nor the senior executives of those banks. Indeed, in his recent, colorfully titled book, *The Chickenshit Club: Why the Justice Department Fails to Prosecute Executives*,<sup>7</sup> author Jesse Eisinger details a general decline in white-collar prosecutions—although occasionally big banks and high-level executives have been pursued.

#### Fairness in Pay

**Greed** CEO salaries for the Standard & Poor's 500 averaged more than \$12 million in 2018, or more than 300 times the median worker's pay. According to a *Wall Street Journal* analysis, the biggest companies have set pay records for their CEOs in recent years, often regardless of whether the company was performing well. As to Wall Street banks specifically, the average annual bonus for New York City-based employees was over \$138,000, and the total bonus payout of \$23.9 billion was 1.6 times the combined annual earnings of all of America's more than one million full-time minimum wage workers.<sup>8</sup>

**Inequality** The CEO–worker pay gap is illustrative of broader income and wealth gaps that continue to grow. We discuss the theme in more detail later, but note here the questionable fairness of an economy that seems, as Piketty charges, to reward the wealthy with economic growth that rather consistently exceeds that of the working class.

Superior performance doubtless accounts for some of the inequality, but less defensible forces also seem to be at work. Economist Jonathan Rothwell, for example, joins other experts in pointing to government interference in the market as a powerful source of inequality. Rothwell shows that much of our income inequality stems from just three economic sectors: professional services, finance and insurance, and health care. These areas are significantly protected from competition by government rules.<sup>9</sup> So government regulation, the core subject of this textbook, may in some ways undermine economic fairness. Perhaps you are not surprised that our laws often primarily benefit the rich.



[For an overview of the Lehman Brothers banking collapse and a critique of the government’s regulatory oversight, see Steve Croft, “The Case Against Lehman Brothers,” *60 Minutes*, CBS News, April 22, 2012, at [www.cbsnews.com/video/the-case-against-lehman-brothers-2/](http://www.cbsnews.com/video/the-case-against-lehman-brothers-2/)]. [For an investigation of “why (few) Wall Street execs have been prosecuted for the financial crisis,” see Martin Smith, “The Untouchables,” *Frontline*, January 22, 2013, at [www.pbs.org/wgbh/pages/frontline/untouchables](http://www.pbs.org/wgbh/pages/frontline/untouchables)].

## Questions

1. Thomas Hoenig, a former member of the board of directors of the Federal Deposit Insurance Corporation, observed: “[Americans] realize that more must be done to address a threat that remains increasingly a part of our economy: financial institutions that are ‘too big to fail.’”<sup>10</sup> Do you agree that our concentrated financial sector is a threat that must be addressed? Explain.
2. Journalist and lecturer Richard Doak laments what he believes to be unfair and excessive pay to executives: “Executive greed has perverted risks, rewards. . . . The American system has been rigged to over-enrich those at the top.”<sup>11</sup> What do you think? Is greed the culprit? Has the system been “rigged,” or can we continue to count on the market to distribute pay properly? Explain.

## American Capitalism in Decline?

Steven Pearlstein, *Washington Post* columnist and George Mason University professor, recently raised concerns about our contemporary economy in his book: *Can American Capitalism Survive?: Why Greed Is Not Good, Opportunity Is Not Equal, and Fairness Won’t Make Us Poor*.<sup>12</sup> Pearlstein supports capitalism, but he thinks changes are necessary. Jamie Dimon, capitalist icon and JPMorgan Chase CEO, warned in his annual letter to investors that “something is wrong” in America, even though our nation is “exceptional.”<sup>13</sup> *Vox Magazine* in early 2019 pointedly asked: “Is Capitalism Worth Saving?”<sup>14</sup> *Vox* reports that Americans’ belief in the free-market economy fell from 80 percent a decade ago to about 60 percent today.<sup>15</sup> As we document later in this chapter, young people, in particular, seem to be losing faith in capitalism. Perhaps the COVID-19 crisis will raise further doubts.

Some critics attribute the nation's problems to fundamental flaws in capitalism and in the American character. Michael Moore's 2009 documentary movie *Capitalism: A Love Story* assails capitalism as "evil."<sup>16</sup> Moore was questioned about his movie:

*Wall Street Journal*: Why call the movie "Capitalism: A Love Story?" You don't seem to love very much about capitalism.

Moore: It is a love story about the well-to-do. They happen to love their money very much. Now they love our money and they want all our money and our homes. It's about their love.<sup>17</sup>

### American Capitalism: Ample Reason for Optimism

America has been shaken by the pandemic, terrorism, the Great Recession, and political gridlock, but we remain dominant in economic, military, and international affairs. The U.S. ranks first in the world in economic competitiveness (a measure of business climate, innovation, strength of public institutions, and so forth).<sup>18</sup> Particular United States strengths include our labor market, financial system, and entrepreneurial culture. In advising its clients, Goldman Sachs a few years ago pointed to America's attractiveness to investors: the nation's vast natural resources (especially oil, gas, and arable land), a workforce that is younger and more energetic than those of our chief rivals, and our continuing leadership in innovation.<sup>19</sup> Noted *New York Times* columnist David Brooks has summarized our fundamentally commercial nature:

The U.S. ranks first in the world in economic competitiveness.

Walt Whitman got America right in his essay, "Democratic Vistas." He acknowledged the vulgarity of the American success drive. He toted up its moral failings. But in the end he accepted his country's "extreme business energy," its "almost maniacal appetite for wealth." He knew that the country's dreams were all built upon that energy and drive, and eventually the spirit of commercial optimism would always prevail.<sup>20</sup>

### Questions

1. Critics argue that the growing economic gap between the wealthy and all other Americans has resulted in a "rigged" economy that unfairly favors the wealthy and the big corporations.
  - a. Do you agree? Explain.
  - b. Does that economic gap threaten American democracy? Explain.
2. Quoting a fourth-century bishop, Pope Francis in 2015 referred to the unfettered pursuit of money as "the dung of the devil," but some months thereafter he referred to business as "a noble vocation, directed to producing wealth and improving the world."<sup>21</sup> As you study business, do you think you are primarily preparing yourself for an honorable, productive role in life or for the "evil" pursuit of money? Explain.

### Purpose: What Do We Hope to Accomplish with This Textbook?

To this point, we have provided a brief reminder of some of the big challenges facing America's capitalist system. The balance of this chapter more carefully examines the philosophical nature of free-market capitalism, introduces some alternatives to the free market,

and asks where America's political economy is headed. Chapter 1 thus serves as a foundation for the book's detailed investigation of the following questions:

1. What are the proper ethical and social roles of business in American life?
2. How much, if any, government regulation of business is necessary to fulfill that role?

### **Markets and Governments (Laws)**

We certainly cannot understand America's system of laws without a firm appreciation for the principles of capitalism from which those laws spring. We have embraced an evolving capitalist, democratic approach to life. Other cultures have placed less faith in the market and more in government planning.

In this chapter, we will explore the full economic spectrum, moving from a *laissez-faire*, free-market approach on the extreme right to a brief reminder of command economy principles on the far left. The bulk of our attention, however, will rest where the world is at this moment. Most nations are practicing varying combinations of markets and government rules that we can label *mixed economies*.

The pure free-market approach assumes that we can operate our business system and our society at large free of all but foundational legal mechanisms such as contract and criminal law. The wisdom of the market—our individual judgments, in combination with our individual consciences—would “regulate” American life. Most forms of government intervention, including regulatory agencies, consumer protection, environmental rules, occupational licensure, zoning restrictions, antitrust law, and all but the most basic government services, would be eliminated.

***Downsize Government?*** Should America shrink the size of government? What combination of capitalism and government best serves the needs of America and the world? Substantially open markets have shown themselves to be the stronger vehicle for productivity, efficiency, and personal freedom. Are open markets also the stronger vehicle for improving living conditions for all citizens, for maximizing democracy, for discouraging crime and corruption, and for building strong communities? Are America and the world best served by the speed and efficiency of largely unrestrained markets, or do we still need significantly interventionist governments to correct the market's failures?

### **Questions—Part One**

1. The John Templeton Foundation asked a number of prominent thinkers the following question: “Does the free market corrode moral character?” Answer that question. [See [www.templeton.org/grant/markets-and-morality-do-free-markets-corrode-moral-values](http://www.templeton.org/grant/markets-and-morality-do-free-markets-corrode-moral-values)].
2. Do you think higher taxes on the rich would be the best solution for closing the wealth gap in America? Explain.
3. Scholar Robert Skidelsky applauds capitalism for overcoming scarcity, organizing production, and lifting many out of poverty, but he thinks capitalism, at least in rich countries like the United States, has also produced a culture where our main occupation has become the production and consumption of unnecessary goods. He asks whether capitalism can succeed if it continues to produce “more of the same, stimulating jaded appetites with new gadgets, thrills, and excitements? . . . Do we spend the next century wallowing in triviality?”<sup>22</sup> What do you think?

## Part Two—Capitalism: Reduce Government?

**LO 1-1**

Describe capitalism and its relationship to individual rights.

Personal freedom and private property rights, combined with extraordinary human and natural resources, ignited a great American economy. Fraud, monopoly behaviors, and abuse of employees followed, however, and government regulations grew, in part, to curb the power of big business. The proper balance between open markets and government intervention remains perhaps the central public policy debate in American life. The disturbing example of young entrepreneur, eSports and music enthusiast, and pharmaceutical executive Martin Shkreli, sometimes referred to as “Pharma Bro,” illustrates both the power and the limitations of the market.

*Shkreli and the 5,000 Percent Price Rise*

Despite building successful drug companies while yet in his early 30s, Shkreli’s exploitation of the drug market outraged the public and some members of Congress. In 2015, his company, Turing Pharmaceuticals, bought the rights to a 50-year-old, life-saving parasitic infection medication, Daraprim, which can be produced for pennies per pill. Patients typically need two to three pills daily for weeks or months. Shkreli soon raised the Daraprim price from \$13.50 to \$750 per pill. Shkreli then called a journalist a “moron” for asking why the price was inflated so dramatically. Rejecting charges of greed, Shkreli has said he cares deeply about others, and the price increase was necessary to provide funds for research.

Shkreli, age 37 in 2020, is serving a seven-year sentence in federal prison for securities fraud unrelated to Daraprim. He also must pay \$7.36 million of his \$27 million net worth in penalties to the government. Reportedly he spent some time in solitary confinement when authorities discovered that he was using a contraband cell phone in prison to continue running his drug company, Phoenixus AG (formerly Turing).

The price of Daraprim, which benefits only about 2,000 Americans annually, reportedly remains in the \$750 per pill range with no generic equivalent in the United States.

[For a 2016 interview with Shkreli, see “Martin Shkreli on Drug Price Hikes and Playing the World’s Villain” at [www.youtube.com/watch?v=2PCb9mnrU1g](https://www.youtube.com/watch?v=2PCb9mnrU1g).]

*Ayn Rand and Objectivism*

Should we embrace Shkreli’s Daraprim example and strive for a purer form of capitalism, largely free of government oversight and moral uncertainty? The controversial philosopher and novelist Ayn Rand (1905–1982) was an uncompromising advocate of capitalist, free-market principles. Rand’s philosophy, labeled Objectivism, contends that only free market principles can produce a rational, moral life. Her moral message is summarized in the challenging phrase, “The Virtue of Selfishness,” the title of one of her books and an expression of her view that our own happiness is our highest moral purpose. Rational selfishness, that is, maximizing one’s own interests through reliance on reason and rejection of sacrifice, is the only path to a just, meaningful life, according to Rand. In every dimension of our lives, we should operate as traders giving value for value. In doing so, all would be free to achieve to their maximum capacity, and all would earn what they deserve; that is, what the market rewards. We would have total responsibility for our own actions and no responsibility for others (except our children). Rand advocated complete individual freedom so long as we do not violate the rights of others.



***Government and Objectivism***

To Rand, the purpose of government is to protect individual rights. Therefore, the only necessary components of government are the police, the armed services, and the law courts. Governmental regulation of business would be dramatically reduced or eliminated. Agencies such as the Federal Trade Commission, the Federal Communications Commission, and the Food and Drug Administration would be eliminated. Free-market processes, along with individual and organizational morality, would guide decision making and provide the consumer protection currently afforded by those agencies. Similarly, market forces and charity would replace government in providing social security, education, welfare, and housing. Taxation would be voluntary.

***Rand's Influence***

Rand's views and her writing style are heavily criticized, and most philosophers seem to be dismissive of her work, but she has been cited as a powerful influence by some of America's leading corporate and political figures, including President Trump and many of his advisers. Her books, including *Atlas Shrugged* and *The Fountainhead*, are among the best-selling novels of all time. Indeed, *Atlas Shrugged* is one of the most influential business books in history, and according to a national survey, over 8 percent of American adults have read it.<sup>23</sup>

[For the trailer of a 2011 documentary treatment of *Atlas Shrugged*, see <https://youtube/L-cIEcBqgaA>].



Big business leaders are the great heroes in Rand's writings.

Big business leaders, who are often seen as villains of contemporary American life, are the great heroes in Rand's writings in which she champions selfishness and rejects self-sacrifice. To Rand, big government suppresses individual rights and personal freedom and improperly transfers wealth from the highly productive to those who are less so. Commentator Stephen Moore explained Rand's *Atlas Shrugged* argument that big government threatens the creative and productive power of the market:

Politicians invariably respond to crises—that in most cases they themselves created—by spawning new government programs, laws and regulations. These, in turn, generate more havoc and poverty, which inspires the politicians to create more programs . . . and the downward spiral repeats itself until the productive sectors of the economy collapse under the collective weight of taxes and other burdens imposed in the name of fairness, equality and do-goodism.<sup>24</sup>



[See the Center for the Moral Defense of Capitalism at [www.moraldefense.com](http://www.moraldefense.com)]. [Former U.S. Speaker of the House, Paul Ryan, acknowledged an intellectual and inspirational debt to Ayn Rand. For an explanation, see Jane Mayer, "Ayn Rand Joins the Ticket," *The New Yorker*, August 11, 2012, at [www.newyorker.com](http://www.newyorker.com)].

**Questions**

1. Mark Zuckerberg and his wife Priscilla Chan announced in 2015 they would donate 99 percent of their worth, about \$45 billion, to charitable purposes. Similarly, the Bill Gates/Warren Buffett Giving Pledge asks wealthy people worldwide to give half or more of their money to philanthropy while they are alive. German billionaire Peter Kramer objected to the private gifts, encouraged by charitable deductions in computing donors' taxes, because the donors and their preferences take the place of the collective judgment of the state, which could capture at least a portion of that money through

taxes. Thus, wealthy, private Americans, rather than the government, determine what is good for the people. Should that donated money be in the hands of the government rather than the donors and their charitable foundations? Explain. See Jeff Guo, “Why a German Billionaire Says That Pledges Like Mark Zuckerberg’s Are Really Bad,” *The Washington Post*, December 2, 2015 [[www.washingtonpost.com](http://www.washingtonpost.com)].

2. Sandy Banks, wrote in the *Los Angeles Times*:

The boys’ faces brightened when they got to the front of the line. We’re next! They’d been waiting to say it. But their smiles faded when another family was ushered in from the side-lines and slid into “their” Legoland ride. We’d been waylaid by the Premium Play Pass, Legoland’s wristband version of the front-of-the-line pass.<sup>25</sup>

Banks asked her readers what they thought of the fairness of paying to jump to the front of the line. Some said it was no different than flying first class or choosing to drive on a toll road. One thought the kids received a good lesson in the competitiveness of capitalism. Legoland, in Carlsbad, California, said they sell only about 65 of the Premium Play wristbands daily, but those who buy them value the time saved.

- a. What do you think of the fairness of paying to jump to the head of the line at amusement parks?
  - b. Do you think that drivers who pay more should be entitled to drive in a faster lane? Explain.<sup>26</sup>
3. Elementary schools sometimes ban tag, dodge ball, touch football, kickball, and other vigorous games from the playgrounds. One school banned touching altogether. Administrators fear physical injuries, students’ reduced self-esteem, and lawsuits. As the *Los Angeles Times* editorialized, “It’s hard sometimes to tell whether schools are graduating students or growing orchids.”<sup>27</sup> Ayn Rand argued for reduced rules in life, thus relying on the market to address virtually all problems.
- a. From Rand’s free-market point of view, explain why we should reduce playground rules as much as possible, even at the risk of children being hurt.
  - b. Would you follow the rules approach or Rand’s free-market approach in managing a playground? Explain.

### Free Market Solution to the Baby Shortage?

The following ad appeared in the *Stanford Daily* (Stanford University):

EGG DONOR WANTED \$35,000 (PLUS ALL EXPENSES) Ivy League Professor and High-Tech CEO seek one truly exceptional woman who is attractive, athletic, under the age of 29. GPA 3.5+, SAT: 1400+.

Experts estimate that about 10,000 babies annually are born in the United States from “donated” eggs and about \$80 million is spent on those eggs. Fees range from a few thousand dollars to \$50,000 or more. The U.S. fertility industry is lightly regulated, but most industrial nations have banned paid “donations.”

### Questions

1. Barnard College president Debora Spar has said, “We are selling children.”
  - a. Is she correct? Explain your response.
  - b. Should we be doing so? Explain.

2. A recent *Washington Post* headline read: “How the Rise of Commercial Surrogacy Is Turning Babies into Commodities.”
  - a. Does capitalism encourage us to treat people as products? Explain.
  - b. Are people, in fact, products? Explain.

**Sources:** Claire Achmad, “How the Rise of Commercial Surrogacy Is Turning Babies into Commodities,” *The Washington Post*, December 31, 2014 [[www.washingtonpost.com](http://www.washingtonpost.com)]; Jim Hopkins, “Egg-Donor Business Booms on Campus,” *USA TODAY*, March 16, 2006, p. 1A; and Tamar Lewin, “Egg Donors Challenge Pay Rates, Saying They Shortchange Women,” *The New York Times*, October 16, 2015 [[www.nytimes.com](http://www.nytimes.com)].

## Capitalism in Practice—“Privatization” in America and Abroad

### LO 1-2

Discuss the theory and practice of privatization.

Should we sell our struggling postal system to private investors? Should we convert our interstate highway system into tollways, leased or owned by private interests? What about “contracting out” our prison systems, schools, libraries, and parking lots? Should we turn more of the Afghanistan War over to private military contractors who would replace U.S. troops? Should we replace public libraries with Amazon? In general, should we shrink our governments and *privatize* as much as possible in order to increase efficiency, save money, and diminish the role of government in our lives?

Most commonly, privatization follows two patterns: (1) *contracting out*, where government, in effect, turns over a portion of its duties, such as garbage collection, to a private firm; and (2) the sale or lease of public assets, such as an airport, to a private party. Privately operated prisons, now rather common across America, are a primary example of the privatization movement. Of course, privatization also brings worries about job losses, reduced services, reduced responsiveness to consumers, corruption, and so on.

### *Abroad*

Greece is pursuing the world’s most aggressive privatization program. Facing a collapsing economy, Greece has been forced by its foreign lenders to sharply reduce government spending while also selling and leasing billions of euros of public property, such as land, ports, airports, roads, water utilities, the national lottery, and banks. Whether the program will be economically successful while continuing to serve the needs of the Greek people will be unclear for years to come, but at this writing, improvement is evident with a falling unemployment rate (pre-COVID-19) and climbing GDP.

### *Save money?*

Struggling American governments likewise see privatization as a solution to financial distress. Louisiana, for example, has largely privatized its government-run hospitals, and a number of states have at least begun to privatize management of their Medicaid programs (low-income health care). State officials say privatization saves millions of dollars while improving medical care, but that claim is contested.

### *Sell organs?*

Citing free-market efficiency and personal freedom while challenging moral conventions, privatization supporters envision major changes to daily life. Some doctors and others, for example, are arguing for lifting the federal ban on organ sales as a way of addressing the current donor shortage. One recent, but admittedly imprecise, estimate is that some 30,000 Americans die annually from kidney failure because of the federal government ban on organ

sales.<sup>28</sup> Critics, however, fear the privatized approach would exploit the poor and vulnerable and discourage altruistic donors.

### ***Marriage?***

Cambridge University lecturer Clare Chambers pushes the free-market argument in a personal direction by challenging the need for a state role in marriage. She says the state should entirely remove itself from the marriage institution, thereby declining to elevate one form of personal relationship above all others and allowing everyone to build relationships that best suit their interests. Chambers notes that marriage was a private contract commitment for most of Western history.<sup>29</sup>

In each of these examples, the underlying idea is that the market can make decisions more efficiently and effectively than government while also maximizing personal freedom. [For a large database supportive of privatization, see <http://reason.org/areas/topic/privatization>].

### **Space Travel**

In a remarkable and revolutionary privatization development, entrepreneurs working with the federal government are taking private enterprise to space. Private companies with their own rocket systems are re-supplying the International Space Station (ISS) and planning dramatic new low orbit, entrepreneurial ventures, including space tourism and medical research. Private companies such as Elon Musk's SpaceX and Jeff Bezos' Blue Origin are showing they can carry out enormously complex space missions and do so at a reduced cost.

The U.S. government has retired its space shuttles, but the National Aeronautics and Space Administration (NASA) expects to continue deep space exploration with a heavy-lift rocket, the Space Launch System.

The privatization movement has pushed America's space program forward in ways that the government alone likely would have failed to attain. For example, SpaceX sent two astronauts to the ISS in 2020 and has completed dozens of other space missions. America's private rocket companies will play a crucial role in the race to Mars and the commercialization and colonization of space.

### **Question**

1. Do you think privatizing and commercializing space is the best approach for the good of the world?

#### **Room for Big Ideas**

The Boring Company, founded by Elon Musk (the co-creator of PayPal and the founder of Tesla, the electric car company, and SpaceX), is one of several enterprises developing Hyperloop technology that envisions passenger pods, propelled by electromagnets through a near-vacuum tube, are projected to be capable of moving people from New York City to Washington D.C. in 30 minutes at perhaps 700 miles per hour. Boring's first project is a \$48 million people mover and tunnel of less than one mile under the 200-acre Las Vegas Convention Center.

#### **Question**

Is a market-based culture of freedom and risk-taking necessary to the creation and sustenance of these very big ideas, or is a blend of the market and government more likely to succeed? Explain.

## Toll Roads and Parking Meters

**Infrastructure Rebuild** America's crumbling infrastructure needs trillions of dollars in investments, but taxpayers do not want to bear that burden. A number of jurisdictions have turned to private companies or public-private partnerships to build toll roads or to convert existing roads to toll arrangements. As would be expected, some of those projects have been highly successful while others have led to bankruptcy.<sup>30</sup>

Privatization critics worry about declining service, excessive tolls, too much profit for the investors, pricing poorer drivers out of access to the roads, and trading secure government jobs with benefits for low-wage private-sector jobs without benefits.<sup>31</sup> Nonetheless, increasing government revenue problems suggest that infrastructure privatization will continue.

**Bad Deals?** Chicago in 2006 leased four downtown parking garages to Morgan Stanley for \$563 million.<sup>32</sup> Then, in 2008, the city entered a 75-year lease arrangement (recently renegotiated) with Morgan Stanley and others who paid about \$1.2 billion upfront to control 36,000 parking meters, after which they raised rates.<sup>33</sup> An inspector general's report concluded that the parking meter lease was worth nearly one billion dollars more than Chicago received.<sup>34</sup> On the other hand, Morgan Stanley apparently overpaid for the garage deal and decided to turn the lease over to its lender, which subsequently sold its rights to another operator.

## Questions

1. Author Joan Didion referred to our highways as America's only communion. Would it be a social or ethical wrong to adopt widespread privately operated toll roads and "Lexus lanes" that would permit those with money to avoid the democracy of the highways? Explain.
2. *Governing Magazine* labeled golf courses "perhaps the most non-essential of the non-essential public services."<sup>35</sup> Studies show that payrolls for city-operated golf courses are about 13 percent higher than for privately operated courses.<sup>36</sup> Why do we subsidize golf, and should we continue doing so? Explain.

## Schools

### Is capitalism the answer?

Is capitalism the answer to poor K-12 school performance? Free-market methods, unthinkable a few decades ago, are now a powerful force in education reform. Public school systems are experimenting with market-based approaches such as vouchers (parents of students "spend" their taxpayer-provided dollars on the school of their choice), charter schools, for-profit web-based classes, and open enrollment. The hope is that free-market competition will push all schools to higher achievement levels.

**Vouchers** A key ingredient in the free-market approach to educational improvement is government-issued vouchers to pay for a family's school of choice. Several recent studies, however, have found that voucher programs do not result in improved student performance and may, in fact, lead to reduced performance.<sup>37</sup> Further study is likely.

**Charter Schools** Over three million students enroll annually in charter schools largely financed by public funds and managed privately. They are typically nonprofits, although about 15 percent are profit-seeking businesses. Charter schools operate independently, thus

enabling experimentation, but they remain accountable, to varying degrees, for student performance. The current evidence about charter school performance is mixed, but broadly, charter school students seem to be performing much like nearby public school students and appear no more likely to attend college or graduate from college than their public school counterparts.<sup>38</sup> Advocates argue, however, that charter schools result in improved discipline, higher graduation rates, and increased student safety.

### **Privatize Higher Education?**

The Anderson School of Management at the University of California at Los Angeles (UCLA) decided in recent years to decline state aid and fully self-fund its prestigious MBA program. Anderson expects to strengthen its already formidable academic profile to better compete with Harvard, Stanford, and the like. Other academic institutions, including the University of Virginia, have been significantly privatized in recent years.

Those opposed to Anderson's privatization feared that the university's responsibilities for the general welfare would be replaced by the more self-interested goals of those running the MBA program, its donors, and the business community. They argued that a self-sustaining program might be more likely to allow admission to a major donor's child, shape its research agenda to conform to the interests of corporate donors, diminish its attention to community needs, or eventually replace merit-based admission with an auction allowing space to the highest bidders.

### **Question**

If it is not already, should your college or university become financially self-sustaining or even move to a for-profit approach? If it did, how might your education change?

## **Privatization a Success?**

Studies examining privatization performance have generated mixed results, but under the right conditions, privatization can operate in the public interest. Look, for example, at private prisons, where we find cost savings that remain attractive, particularly to state governments. On the other hand, the Department of Justice (DOJ) in the Obama Administration announced that it would begin phasing out the use of private prisons for federal inmates. The DOJ noted increased security and safety risks in private prisons with only modest cost savings.<sup>39</sup> That Obama-era policy change was, however, reversed by the Trump Administration and private federal prisons persist.

Putting aside efficiency and dollars for a moment, you might think about an interesting observation from writer and journalist Brian Alexander who warns that privatization may convert us from citizens to mere customers who pay our water bill to a private company, but who no longer engage in thinking about and participating in the process of building a community, a state, or a nation. Our vital citizenship decisions would be reduced to mere consumer decisions.<sup>40</sup>

### **Question**

Alan W. reportedly forced Carole M. to perform oral sex. Alan W. pleaded no contest to sexual battery and was sentenced to a year in jail (his second sentence for sex crimes). Rather than serving time in the Los Angeles county jail, the court permitted him to pay \$100 per



night for serving his time in a city jail where he enjoyed a flat-screen TV, a computer room, and a new bed. Upon learning of her attacker's comfortable conditions, Carole M. said, "I feel like, 'Why did I go through this?'" These "pay-to-stay" jails number at least two dozen in the Los Angeles area.

Should criminals be able to purchase comfortable jail time? Explain. See Alysia Santo, Victoria Kim and Anna Flag, "Afraid of Jail? Buy an Upgrade," *The Marshall Project*, March 9, 2017 [[www.themarshallproject.org/2017/03/09/afraid-of-jail-buy-an-upgrade](http://www.themarshallproject.org/2017/03/09/afraid-of-jail-buy-an-upgrade)].

### Firefighters Watch a House Burn

Rather than impose a fire tax, Obion County, Tennessee, contracts with local municipal governments to provide fire protection in rural areas. Those firefighters drew national attention in 2010 and 2011 when they allowed two rural family homes to burn to the ground because the families had not paid their \$75 annual subscription fee to the city-operated fire department in nearby South Fulton. Apparently, no one was seriously injured in either fire. The homeowner in the 2010 blaze, Gene Cranick, said that he offered to pay the fee on the spot, but the fire department declined and engaged the fire only to the extent necessary to protect the property of a neighbor who had paid the fee.

### Questions

- Why did the fire department decline Cranick's money at the time of the fire?
  - Do you think the fire department should have extinguished the fire even though Cranick had not paid? Explain.
- In 2012, South Fulton decided to respond to all reported fires and bill nonsubscribers \$3,500 for the response. Do you think the new policy is an improvement over the original? Explain.
- Should fire service be privatized across the nation? Explain.

**Sources:** Jason Hibbs, "Firefighters Watch as Home Burns to the Ground," *WPSD Local 6—News, Sports, Weather*, Paducah, KY, September 30, 2010 [[www.wpsdlocal6.com](http://www.wpsdlocal6.com)]; Timothy W. Martin, "Putting Out Fires for a Fee," *The Wall Street Journal*, March 12, 2012 [[www.wsj.com](http://www.wsj.com)].

### Questions—Part Two

- From the capitalist viewpoint, why is the private ownership of property necessary to the preservation of freedom?
- Ayn Rand argued: "Altruism is incompatible with freedom, with capitalism, and with individual rights."
  - Define altruism.
  - Explain why Rand rejected altruism.
- Responding to extreme drought conditions in 2015, California governor Jerry Brown ordered a mandatory 25 percent reduction in water use for most Californians. Commenting on the order, Steve Yugas, a resident of the wealthy San Diego suburb Rancho Santa Fe, reportedly said: "[People] should not be forced to live on property with brown lawns, golf on brown courses or apologize for wanting their gardens to be beautiful. We pay significant property taxes based on where we live. And, no, we're not all equal when it comes to water."

- a. Should the wealthy be able to buy as much water as they wish? Explain.
  - b. Explain Yuhas's argument that we're not all equal when it comes to water. See Rob Kuznia, "Rich Californians Balk at Limits: 'We're Not All Equal When It Comes to Water,'" *The Washington Post*, June 13, 2015 [[www.washingtonpost.com](http://www.washingtonpost.com)].
4. Assume the federal government removed itself from the purchase and maintenance of our national parks.
  - a. Left to the private sector, what sorts of parks would develop under the profit incentive?
  - b. Would Yellowstone, for example, survive in its present state? Explain.
  - c. Make an argument that the federal parks are an unethical, undemocratic expropriation of private resources.
5. Assume the abolition of the federal Food and Drug Administration. How would the free market protect the citizenry from dangerous food and drug products?
6. Puritan leaders felt concern over the morality of merchants who sold goods at prices exceeding the goods' "worth." That concern was particularly grave when the goods were scarce or in great demand.
  - a. Should our society develop an ethic under which goods are to be sold only "for what they are worth"? Explain.
  - b. Can a seller make an accurate determination of worth? Explain.
  - c. Does a product's worth differ from the price that product will bring in the marketplace? Explain.
  - d. Personalize the inquiry: Assume you seek to sell your Ford car for \$10,000. Assume you know of several identical Fords in a similar state of repair that can be purchased for \$9,000. Assume you find a buyer willing to pay \$10,000. Will you unilaterally lower your price or direct the purchaser to the other cars? Explain.
  - e. If not, have you acted justly? Explain.
7. Sports columnist Skip Bayless has argued for allowing university sports boosters to bid for the best football recruits: "Boosters should be allowed to entice recruits with whatever they want to offer—cars, signing bonuses, annual salaries, annuities." Do you agree? Explain. See Skip Bayless, "Unleash the Boosters," ESPN.com, July 25, 2014 [[www.espn.com](http://www.espn.com)].
8. Gregg Williams, former defensive coordinator for the New Orleans Saints National Football League (NFL) team, was suspended for one year by the league as punishment for his alleged role in establishing a bounty system that paid players for injuring other players. Allegedly many NFL teams had employed similar schemes. Williams has apologized for his "previous actions" and was hired for the 2013-2014 season to be a defensive assistant for the Tennessee Titans. In a free market, rewards for performance are helpful as an incentive and as a measure of contribution. Do you think bonuses for injuring opposing players should be permissible in the NFL? Explain.
9. Professor Robert E. Lane argued that the person who is motivated by needs for affiliation, rather than by needs for achievement, does less well in the market. Such a person is not rewarded as well as autonomous, achievement-oriented people.
  - a. Is Lane correct? Explain.
  - b. Is capitalism, in the long run, destructive of societal welfare in that achievement is better rewarded than affiliation? Explain. See, Robert E. Lane, *The Loss of Happiness in Market Democracies* (New Haven: Yale University Press, 2000).
10. How would poor people be cared for in a wholly free-market society?

11. Critic William Deresiewicz said, “Wall Street is capitalism in its purest form, and capitalism is predicated on bad behavior.” Do you agree that capitalism is built on bad behavior? Explain. See William Deresiewicz, “Capitalists and Other Psychopaths,” *The New York Times*, May 13, 2012 [[www.nytimes.com](http://www.nytimes.com)].
12. James Shaw Jr. disarmed a gunman at a Nashville, Tennessee, Waffle House. The gunman killed four people in the 2018 attack. Shaw dived toward the bathroom when the shooting started. With no other available exit, Shaw took a momentary opportunity to run out of the bathroom and wrestle away the weapon. When asked about his motivation in advancing on the gunman, Shaw said: “I did that completely out of a selfish act. I was completely doing it just to save myself.” Later he elaborated: “I’ll say it again: I didn’t really fight that man to save everybody else. . . . I took the gun so I could get myself out.”
  - a. Do you think acts that we label heroic are usually selfish in nature? Explain.
  - b. When you help others are your motivations primarily selfish or selfless? Explain. See Bill Chappell, “I’m Not a Hero,” Says James Shaw Jr., Acclaimed as Hero of Waffle House Attack,” *The Two-Way: National Public Radio*, April 23, 2018 [[www.npr.org](http://www.npr.org)].

### Part Three—Collectivism: Increase Government?

#### LO 1-3

Compare and contrast capitalism and collectivism.

The term *collectivism* embraces communism, socialism, and associated philosophies on the left side of the political/economic spectrum. Collectivist systems feature economic cooperation and varying degrees of centralized ownership and control of the means of production as contrasted with capitalism’s economic individualism and political freedom.

#### Communism

Although China, Cuba, North Korea, Vietnam, and Laos continue to practice communism, the balance of the world has clearly rejected Marxist-Leninist totalitarianism. Indeed, China has embraced free-market practices within a communist umbrella.

#### Communist Principles

Despite the decline of communism, we need to briefly remind ourselves of some Marxist fundamentals, among which the core promise of economic justice for all remains a particularly powerful motivator. Centralized government decision making, along with full or partial government ownership and control of the means of production, are employed to achieve that economic fairness.

Karl Marx, despite fatal errors in his theory and his many flaws as a human being, is among history’s most influential thinkers. For our purposes, Marx’s central message concerns the severe abuses that can accompany unrestrained capitalism. Marx was particularly concerned about the growing imbalance between rich and poor, an issue increasingly familiar to Americans. He also felt that the pursuit of wealth and self-interest would erode society’s moral core. More broadly, Marx built an economic interpretation of societal development, arguing that “the mode of production in material life determines the general character of the social, political, and spiritual processes of life.”<sup>41</sup>

Severe abuses can accompany unrestrained capitalism.

Marx's philosophy was then embraced by totalitarians, most notably Joseph Stalin in the Soviet Union and Chairman Mao in China, both of whom took millions of lives through dictatorial implementation of their versions of communism. [For an introduction to Marxist thought, see [www.cla.purdue.edu/English/theory/marxism](http://www.cla.purdue.edu/English/theory/marxism)].

### Was Marx Correct in Some Ways?

*The Economist* recently pointed to some of Marx's criticisms of capitalism: 1) Capitalists basically expropriate the wealth of others; 2) Capitalism is global by its nature and thus must "nestle everywhere, settle everywhere, establish connections everywhere,"; 3) Capitalism has an inherent tendency toward monopoly; and 4) Capitalism produces an army of laborers basically scrambling from one job to another. *The Economist* also noted that "Marx's errors far outnumbered his insights."

### Question

1. Do you agree with these assertions? Explain your answer.

*Source:* "Second Time, Farce; Reconsidering Marx," *The Economist*, May 5, 2018 [[www.economist.com](http://www.economist.com)].

**Cuba** Fidel Castro, communist leader of the 1959 Cuban Revolution and long-time Cuban president, died in 2016. Fidel's brother, Raul, assumed the presidency for a time, but now is the leader of the Communist Party and as such remains the most powerful figure in Cuban life. A new constitution was overwhelmingly approved (although critics claim the election was undemocratic) in 2019. In it, the roles of communism and socialism are affirmed, but for the first time in the communist era, the right to private property is officially recognized, and foreign investment is encouraged. Centralized economic planning and state dominance over the means of production are retained in the new constitution.<sup>42</sup>

Planned market reforms have been slow in emerging, but Cubans are allowed to buy and sell houses and used cars freely. Cubans own cell phones and other electronic devices, Internet access is expanding, state land is being distributed for private farming, and private-sector jobs such as scooter mechanic, barber, and produce vendor are increasing. While restaurants, snack bars, and other small shops are springing up, the government recently put at least a temporary halt on issuing licenses for some of those opportunities.

Most of the more than 11 million Cubans continue to lead spare, government-supported lives, much of the nation is in physical decline, and political liberty is nonexistent, although open disagreement with government policy seems to be growing. Standing in line for government rations, food, banking service, and almost everything else remains a fact of life. Nonetheless, Cubans value the security provided by communism. Gangs, guns, and drugs are uncommon in even the most impoverished neighborhoods. Cuban life expectancy and literacy are comparable to those in developed nations.

Everyone is cared for in Cuba, but maintaining satisfactory health and education services looks to be very difficult in a struggling economy. Opening trade relations with the U.S. during the Obama years helped Cuba considerably, especially in the tourism industry, but the Trump administration partially rescinded the Obama-era ties to Cuba. American travel to the country, in particular, is now much more restricted.

## Socialism

### LO 1-4

Differentiate between communism and socialism as collectivist philosophies.

Communism appears to have largely run its course philosophically and pragmatically, but the problems that generated its appeal—poverty, oppression, the gap between rich and poor, and so on—remain. Socialism seeks to attack those problems without engaging in communist extremism. Socialism is often associated with democratic governments and peaceful change rather than the totalitarianism and violent revolution that have characterized communism.

Historically, collective ownership of the means of production was a central socialist remedy for societal problems, but today's democratic socialists tend to accept private property and market-based economic practices while calling for government intervention to correct the market's failures. Contemporary democratic socialist governments, therefore, are likely to be directly involved in economic planning—regulating growth, inflation, and unemployment and using progressive taxation that results in redistribution of income.

In the contemporary Western world, Germany, Norway, Denmark, Sweden, South Africa, Finland, and France are among the nations where democratic socialist principles have maintained a significant presence.

### Traditional Socialist Goals

A critical distinction between socialists and capitalists is that the former believe a society's broad directions should be carefully planned rather than left to what some take to be the whim of the market. Socialists are convinced that the free market is simply incapable of meeting the needs of all segments of society. The traditional socialist agenda, which is embraced to varying degrees by today's democratic socialists, includes these elements:<sup>43</sup>

1. **Liberty.** To the capitalist, individual freedom suffers under socialism. To the socialist, the freedoms of capitalism are largely an illusion, accessible only to the prosperous and powerful.

2. **Social welfare.** Socialists reserve much of their concern for the harsh conditions of the lower class—poverty, exploitation, cultural deprivation, and more. Socialists believe that the economy must be guided by the government toward the general interest rather than left free to expand the welfare of successful capitalists. Hence, socialists tend to tolerate high taxes in order to provide income supports, free education, free health care, generous sick pay, family planning, and the like to correct what they believe to be the failures of capitalism.

3. **Fulfilling work.** Socialists object to the harshness of working life where a large segment of society is chained to degrading labor.

4. **Community.** Socialists seek a communitarian approach to life where the excessive individualism of capitalism is muted by a concern for the welfare of all.

5. **Equality.** Class distinctions are anathema to the socialist. All humans are equally meritorious, and distinctions among them are inherently unjust.

6. **Rationality.** Socialists fear the “irrationality” of a society based on competition and unrestrained pursuit of industrial growth.

All humans are equally meritorious.

**Young Socialists in America?**

As we noted in the beginning of this chapter, Americans—and especially young people—seem to be losing confidence in capitalism. A 2018 poll of Americans between ages 18 and 29 found 45 percent holding a positive view of capitalism while 51 percent felt positively about socialism. Fifty-six percent of Americans overall have positive views of capitalism and 37 percent feel positively about socialism, according to the same poll.

Certainly we are not on the cusp of a socialist revolution, but many young people seem to think a form of democratic socialism that retains a less harsh free market system and asks more of government may be more effective than our current approach to attacking social problems, including their own economic prospects. What do you think?

*Source:* Frank Newport, “Democrats More Positive About Socialism than Capitalism,” *Gallup*, August 13, 2018 [<https://news.gallup.com>].

## Coping with Capitalism—China and Russia

**LO 1-5**

Discuss the current state of capitalism in China and Russia.

**China—Economics**

China, firmly committed to communist principles, practices what is officially called “Socialism with Chinese Characteristics” and is sometimes labeled “state capitalism.” The Chinese government is the nation’s dominant economic force as it maintains state enterprises and intervenes in and shapes the market to further the state’s political goals. The result has been something of an economic miracle as China has blended its large system of state-owned enterprise with the explosive power of the free market (guided by the government) to become the globe’s first- or second-ranking economy (behind the United States) depending upon the measurement employed.

State-owned firms account for about 25 percent of the Chinese economy, particularly in vital and high-profit industries.<sup>44</sup> China routinely affirms its commitment to private-sector growth as well as open markets for western firms, but reforms seem to have stalled.<sup>45</sup> The government apparently is trying to acquire a greater direct voice in the nation’s biggest tech companies. Still, China’s economic growth has produced notable results as *The New York Times* summarized recently:

China now leads the world in the number of homeowners, internet users, college graduates, and, by some counts, billionaires. Not so long ago, three-quarters of its population endured extreme poverty: Now it’s less than 1 percent.<sup>46</sup>

The Fortune 500 list of global corporate giants now includes 120 Chinese companies, just short of the 126 from America.<sup>47</sup> And China is aggressively expanding its worldwide commercial and political influence. China’s One Belt, One Road initiative involves trillions of dollars in loans and investments to fund infrastructure projects, including roads, harbors, and railroads in some 70 mostly underdeveloped nations around the world. China hopes to knit together a global trading network as it also builds its military and offers other countries an alternative to western-dominated capitalism.



**Problems** Notwithstanding its remarkable progress, China and its 1.4 billion people face significant problems, including reduced economic growth (but still averaging four to six percent or more annually), rising labor costs, crippling pollution and corruption, a shrinking working-age labor pool, and a slower-than-hoped-for transition toward a consumer-driven growth model. Of course, COVID-19 apparently originated in China, casting a shadow over trade, travel, and other global interactions.

**Law?** From a Western perspective, an underdeveloped ingredient in Chinese economics and governance is the stability, predictability, and fairness that comes with a comprehensive, broadly respected legal structure. China has made progress in creating a creditable legal system, but a great deal of work remains, particularly in addressing the problem of offering one set of laws for citizens and another for the Communist Party.<sup>48</sup>

Chinese legal protection for intellectual property is particularly vital to American business interests. China has both cybersecurity and intellectual property laws, but reluctant enforcement leaves American businesses vulnerable. Pirated movies and video games, software and trade secret theft, patent infringement, and counterfeiting fashion designs are commonplace Chinese business assaults on American interests.

### China—Politics

**Freedom** Government repression remains routine in China. The government controls the media, as evidenced by censorship battles between the Chinese government and Internet news sources such as Google and *The New York Times*, as well as social media sites such as Facebook and Twitter, each of which is blocked to the Chinese public as of this writing. China uses its “Great Firewall” of Internet censors to filter search results, particularly those addressing politically sensitive themes such as official corruption, democracy, Hong Kong, Tibetan freedom, Taiwan, and the 1989 Tiananmen Square crackdown (during which troops killed many protesters engaged in pro-democracy demonstrations in Beijing).

China uses its “Great Firewall” of Internet censors to filter search results.

**Religion** While the Communist Party is officially atheist, the Chinese government permits religious practice, but that practice is subject to government approval and is expected to be submissive to the Communist Party. Christian religious services in unregistered “underground” or “house” churches are forbidden, and those churches are sometimes forced to close. In 2018, the government banned the online sale of the Bible. In western China, Muslim Uyghurs are reportedly being subjected to a government campaign of religious suppression, cultural destruction, and labor camp “re-education.”

**Social Credit** To further its official goals of trust and social stability, China’s government is building a nationwide surveillance network to monitor the behavior of businesses and citizens with the goal of a massive social credit (reputation) system with rewards for good deeds and punishments for disfavored deeds. Technology monitors individuals’ conduct from the mundane (jaywalking and horn-honking) to the revolutionary (the Uyghur separatist movement).<sup>49</sup>

China has rejected calls to guarantee freedom of speech.

**Reforms?** Although China has rejected calls to guarantee freedom of speech and move toward democracy, the Communist Party



leadership reportedly recognizes the need for some forms of change. Curbing corruption in a nation in which bribes are routine is a major element of President Xi's reform efforts. Drug use, gambling, and even golf (seen as a millionaires' playground and a convenient breeding ground for insider deals and official graft) are among the government's crack-down targets. At the same time, presidential term limits have been abolished. Mr. Xi is now allowed to remain president indefinitely, and recent constitutional changes have firmly entrenched Communist Party power.

Even as the government attacks corruption and misconduct, it appears to be stifling citizen dissent. For example, in 2017, President Xi called for universities to become "strongholds that adhere to party leadership."<sup>50</sup> Government observers are sent to universities to monitor classroom fidelity to Party ideology. [For the latest Chinese news, see <http://thebeijingnews.net>].

**China and America** United States' dominance in global trade and economic affairs has receded in recent decades in significant part because of China's remarkable emergence. President Trump responded in part by engaging in a trade war with China and by more directly confronting China's unfair trade practices. The consequences of that aggressiveness remain to be seen, but in recent years China's state capitalism has, in some ways, outperformed America's democratic capitalism.<sup>51</sup>

**Get Along?** Can the two countries build a comfortable, mutually sustainable economic and political future? The Chinese people mistrust American global intentions and policies and see a new day approaching. According to a 2015 survey, 67 percent of Chinese respondents said their country would replace, or already had replaced, the United States as the world's dominant power.<sup>52</sup> At the same time, the United States is favorably viewed, at least among the young. They admire America's free-speech tradition, and they are avid consumers of American movies, music, professional basketball, and other forms of popular culture.<sup>53</sup> Perhaps the current American-Chinese geopolitical rivalry is unavoidable; American fear of Chinese dominance may be inflated, as suggested by civics educator and author Eric Liu:

America has an enduring competitive advantage over China: America makes Chinese Americans; China does not make American Chinese. China does not want to or know how to take people from around the world, welcome them, and empower them to change the very fabric of their nation's culture.<sup>54</sup>

But Liu, the son of Chinese immigrants, says that America can profit from a "corrective dose" of Chinese values. He argues that Americans suffer from excessive individualism, short-term thinking, and exalting rights over duties—qualities that might be improved by embracing Chinese values of shared responsibility, long-term thinking, humility, and others. Liu says that Chinese culture can bring to America "a better balance between being an individual and being in a community."<sup>55</sup> Do you agree with Liu?

## Question

In assessing emerging economic trends, technology entrepreneur and academic Vivek Wadhwa asked, "Does China own the future—or does the United States?"<sup>56</sup> Answer Wadhwa's question.

## Russia—Economics

Russia's commodity-based economy has struggled for the past decade as oil and natural gas prices have stalled worldwide, and Western nations have imposed economic sanctions on Russia for its Crimean annexation and its intervention in Ukraine. Given its nuclear, military, and geopolitical might, we would expect Russia to be a dominant economic power, but in fact, the Russian economy, in nominal terms, is a bit smaller than that of Canada or Texas. National economic growth is expected to remain at an anemic one or two percent in years to come. The average real income for Russians has been in decline for several years. Life expectancy at birth ranks 153rd in the world.<sup>57</sup>

**Former Soviet Union** Notwithstanding Russia's struggles, Western visitors to modern Moscow must be hard-pressed to imagine that this energetic, consumption-happy, competitive city was once the global center of communism, the dour capital of the Union of Soviet Socialist Republics (USSR), and the home of America's primary nuclear enemy. After the fall of the USSR and the ideological defeat of communism, Russia was pushed by America and Europe toward rapid privatization. Russia developed its own form of state capitalism, featuring a new reliance on market forces blended with state intervention and direction, including extensive nationalization of industry and comprehensive economic planning. The Russian government controls about 55 percent of the nation's economy,<sup>58</sup> a presence that many economists believe must be reduced if Russia is to increase foreign investment and achieve a vibrant economic future.

**Crony Capitalism** Russia's rapid privatization program, lacking legal and regulatory institutions to guide it, opened the door to the capture big pieces of the economy by politically well-connected, super-rich oligarchs and criminal elements. Thus, in some respects, Russia is a developing nation, but it remains a superpower in terms of nuclear weaponry and rocketry, and in its very formidable national natural resources.

## Russia—Politics

Russia exhibits democratic features such as elections and multiple political parties, but in practice, President Vladimir Putin and his allies exert authoritarian dominance on all important matters. Freedom of speech and assembly have been curtailed, and honest treatment by the legal system often is missing. Chilling numbers of journalists and other dissenters have been imprisoned or found dead.

Russia's future economic success is intimately tied, of course, to its political processes. The state needs to win over foreign investors, but they fear political tyranny and domestic corruption. According to *Transparency International*, Russia is the world's most corrupt major economy, ranking 137th out of 183 countries (ranking 1st meaning the least corrupt).<sup>59</sup>

**Russia and America** Russian American journalist and author Masha Gessen argues that "Russia is remaking itself as the leader of the anti-Western world."<sup>60</sup> Russian military intervention in Ukraine and Syria intensified concerns about Russian global intentions. A 2019 Pentagon study concluded that the United States is failing to fully counter Russia's efforts to undermine democracy in the United States and elsewhere. Russia's intervention in America's 2016 elections through cyberattacks, organizational interference, and

"Russia is remaking itself as the leader of the anti-Western world"

disinformation demonstrated its determination to sow discord and achieve increased influence across the globe. The Pentagon report also noted the risk that Russia and China may become more closely aligned, which would raise grave risks for the United States.<sup>61</sup>

**Values Clash** Anti-Americanism is a common sentiment in Russia, a view that seems to be encouraged by the Russian government. President Putin and his government defend “traditional values,” while fending off the “tolerance” and “diversity” of Western nations and the United States in particular. Gay rights are a matter of special concern in Russia. Recent legislation bans the “propaganda of nontraditional sexual relations” and imposes fines for holding gay pride rallies or providing information about the gay community to minors.<sup>62</sup> The Russian people express general support for President Putin, but critics question whether state capitalism as practiced in Russia can succeed in the face of political repression, routine corruption, and abuse of the rule of law.<sup>63</sup>

### Questions

1. *New York Times* columnist David Brooks wrote recently about Russia’s great intellectual and spiritual traditions (think of Tolstoy, Dostoyevsky, and Chekhov):

The Russian ethos was not bourgeois, economically minded and pragmatic. There were radicals who believed that everything should be seen in materialistic terms. But this was a reaction to the dominant national tendency, which saw problems as primarily spiritual rather than practical, and put matters of the soul at center stage.<sup>64</sup>

Today, Brooks thinks Russia’s cultural impact has been diminished, as grasping for power and money have become dominant motives. In adopting elements of a more market-based economy, has Russia (as with capitalist nations) doomed its intellectual and spiritual life? Explain.

2. Can China maintain its closed, centrally controlled political system while enjoying the benefits of its somewhat open economic markets? Explain.

## Part Four—Middle Ground? A Mixed Economy (The Third Way)

### LO 1-6

Evaluate arguments regarding government’s proper role in the American economy.

### LO 1-7

Describe the primary characteristics of a “mixed economy.”

Pure communism has failed. Socialist principles, to the extent they require central planning, bloated bureaucracies, and restraints on personal freedom, are discredited. The state capitalism of China, Russia, and other nations has little appeal in America and Western Europe, and yet America’s brand of free-market capitalism lost a great deal of luster following the Great Recession. Some left-of-center combination of free-market and welfare-state principles may be the next step. For years, the Nordic states of Sweden, Norway, Denmark, and Finland (Iceland might also be included) have practiced a form of market socialism (or social democracy) with such success that it has been labeled a “Third Way” between the harsher extremes of capitalism and communism. Their welfare states have provided generally healthy economic conditions with cradle-to-grave social care for all, in a system emphasizing the collective welfare over individual preferences. We should note, however, that the Nordic states are facing great challenges as welfare needs increase beyond the pace of economic growth.

## Sweden

Sweden provides free or substantially free education, health care, and child care.

Life expectancy in Sweden as of 2019 was estimated at 82.72 years, as compared with 78.87 in the United States.<sup>65</sup> The government provides free or substantially free education, health care, child care, parental leave, unemployment protection, and more. Incentives promote preferred behaviors. The government will pay, for example, 80 percent of a parent's salary (with a cap) for up to 480 days of paid parental leave per couple, with 90 of those days reserved for fathers. Budget concerns have, however, forced Sweden to cut back a bit in financial protections, such as public pensions and unemployment insurance.

### Gender Equality

Sweden aggressively encourages gender equality.

Swedish schools strive to eradicate gender stereotypes. At Stockholm's "Egalia" (equality) preschool, for example, the staff avoids using the words "him" or "her" and addresses children as "hen" (an alternative to the male pronoun "han" and the female "hon") or as "friends." Children's books often feature gay couples, single parents, or adopted children; classics like *Cinderella* are shunned. Egalia's methods are controversial, even in Sweden.

Some Swedish theaters identify sexism in movies through the "Bechdel Test," which asks if the film in question has (A) at least two named female characters (B) who talk to each other (C) about something other than men.

**Sources:** Katy Scott, "These Schools Want to Wipe Away Gender Stereotypes from an Early Age," *CNN Health*, November 1, 2018 [[www.cnn.com](http://www.cnn.com)]; and "Putting 2017 Oscar Nominees to the 'Fun Home' Memoirist's Bechdel Test," Center Theatre Group, March 3, 2017 [[www.centertheatregroup.org](http://www.centertheatregroup.org)].

**Taxes** To pay for its cradle-to-grave welfare benefits, high taxes are required. Sweden takes about 44 percent of its gross domestic product (GDP) in taxes. The United States, in contrast, has one of the developed world's lowest total tax burdens at about 27 percent of GDP.<sup>66</sup> To keep its economy healthy, Sweden has followed a policy of a comparatively low corporate tax rate of 22 percent, consistent with the U.S. rate of 21 percent at the federal level.<sup>67</sup>

**Performance** Sweden's economy has been generally strong, although some strain has emerged in recent years. One of the results of that generally strong economy is a healthcare system that exceeds its U.S. counterpart on almost all performance measures but costs less than half as much per person (although many Swedes are now supplementing state care with private insurance, often because of frustration over waiting times).<sup>68</sup>

**Politics** Worries about high taxes and heavy welfare costs led the Swedes to turn for a time to center-right political leadership, resulting in tax cuts, reductions in welfare generosity, and expanded private enterprise. In recent years, the center-left has narrowly regained leadership, but Sweden's longer-term political course is unclear as the economy slows and welfare needs increase.

**How to Explain Sweden's Success?** Active government intervention has been cleverly combined with free-market principles in Sweden. Swedish expert Nima Sanandaji argues, however, that Sweden's prosperity and social justice cannot be attributed to the nation's socialist inclinations. Rather, her research indicates that the Nordic nation's prosperity developed in periods when free-market principles were ascendant. Furthermore, centuries of commitment to healthy values including hard work, egalitarianism, and social cohesion have been crucial to Sweden's success.<sup>69</sup>

**In America?** We should remember that Sweden is a small, largely homogeneous nation. Replicating its policies in the United States would be difficult. And as noted, problems seem to be mounting for the Swedes. Far-right, anti-immigration political forces have gained significant strength. The country's admission of Middle East refugees, along with anger over alleged discrimination, crime, and expanding income inequality, are some of the challenges facing the nation. Some experts think Sweden will not be able to sustain its current welfare model given its aging population and increasing need for public services.<sup>70</sup>

#### Speeding Ticket

Businessman Reima Kuisla threatened to leave his homeland in Finland after he was fined about \$58,000 for driving at 14 miles over the posted 50 miles per hour speed limit. Kuisla's steep fine was based on his 2013 income of more than \$7 million. Finland and some other European nations impose progressive fines based upon income and/or wealth. Perhaps Kuisla felt better about Finland after an appeal which resulted in a reduced fine of about \$5,500.

#### Question

Would you favor penalties in America based on income and wealth? Explain.

*Source:* Editorial, "Can't Drive 55? Then Don't Make \$\$," *The Des Moines Register*, May 1, 2015, p. 14A.

## American Capitalism in Europe?

### LO 1-8

Analyze the impact of capitalism on equality, fairness, and community in American and global society.

Do the European Union and its 27 member nations have a better long-term vision for personal and societal welfare than the United States? Is America's more libertarian "cowboy capitalism" better adapted to the globe's demands than the "coordinated, stakeholder capitalism," with its Scandinavian Third Way ingredients, that is characteristic of much of Europe? The evidence is mixed. In building entrepreneurial spirit, personal freedom, and personal wealth and income, the United States is the clear world leader, but the EU's powerful, 446-million-person bloc is an economic engine in many ways competitive with that of the United States. For Europeans, however, quantity seems to be less important than quality. Europeans choose to work less than Americans and, as they see it, enjoy life more. Their economy is less flexible than ours and typically produces fewer jobs, but it is also less harsh. Universal healthcare, job protection, and strong unemployment benefits are part of the European identity. Of course, the EU also benefits from the security shelter provided in great part by America's military.<sup>71</sup>

***Building a Union***

From its inception, the EU successfully abolished trade barriers, energized markets, harmonized laws, and utilized a common currency (the Euro), while at the same time extending protection to farmers and other weaker economic entities. Money in historically unprecedented quantities (nearly one trillion dollars) has been shifted from wealthy nations like Germany and France to struggling localities or nations like Poland to build infrastructure and support innovation, small businesses, transportation, training, and much more.<sup>72</sup> As a result, most European nations have been doing well. In recent years, however, a variety of problems have challenged the EU, including Brexit (see below), refugees from North Africa and the Middle East, nationalist and authoritarian resurgence in Hungary and other states, and economic sluggishness.

***Slow Growth***

Economic growth continues but at a modest rate. Prior to COVID-19, EU unemployment had been declining and was down to about 6.3 percent (as compared with under four percent in the United States). Pre-COVID-19 youth unemployment (under age 25), particularly in southern Europe, was at crisis levels, including rates sometimes exceeding 30 percent in Greece, Italy, and Spain.<sup>73</sup> Those conditions may not improve a great deal in the near future. Certainly, the EU economy is not showing the entrepreneurial vitality that has marked the United States. Europe has many great companies, but as *The Guardian* observed, none of them have emerged in the past 25 years. Europe does not have a Google, Facebook, or Amazon; and development initiatives in emerging technologies like artificial intelligence have been limited.<sup>74</sup>

***France and Germany***

Some nations have instituted austerity policies in the form of higher taxes and sharp cut-backs in government spending. In France, for example, significant government welfare cuts have been implemented and privatization of state assets (such as the French National Railways) is being pursued, although resistance has slowed the process. Government spending of more than 50 percent of GDP had produced a protected population with strong family support, low poverty, and generous pensions, but for the present at least, the French government has concluded that some trimming is necessary.

Germany, on the other hand, has been able to balance a rather generous social safety net (long-term care, vacations, pensions, and more) with a very robust and highly skilled manufacturing sector. Government policies have produced job security and a comfortable life. Germany has managed its budget carefully, adopted reforms such as an increased retirement age, and maintained a strong market-based economy to support its social programs.

One measure of German excellence is its ranking as the number one “brand” among nations. The rankings are built from interviews with over 20,000 people in 20 nations asking about their views of 50 leading nations based on governance, exports, culture, and more. The top seven nations, according to the 2019 Anholt Nation Brands Index, were: 1) Germany, 2) France, 3) Canada, 4) United Kingdom, 5) Japan, 6) United States, and 7) Italy. The United States has often led the Index, but recent rankings in governance, in particular, have caused a decline.<sup>75</sup>

***Brexit***

Struggling to assimilate migrants, chafing under European Union regulatory oversight, and perhaps seeking a renewed sense of the United Kingdom as a proud nation state, the British



people voted by a narrow margin in 2016 to break from the EU (“Brexit”). After some 47 years of membership, the UK officially departed on January 31, 2020. At this writing, the United Kingdom and the European Union are in a transition period attempting to work out difficult details about the new EU-UK relationship, particularly as to trade matters. Both Brexit in the UK and Donald Trump’s political movement in America seem, in part, to be the result of deepening unease over globalization, which critics blame for the economic decline of blue-collar workers.<sup>76</sup>

Contrasting Values

Can the EU remain united? Can its system persist in a harsh, globalized world? Which vision of life, America’s or Europe’s, seems most promising over the long term? American commentator and social activist Jeremy Rifkin contrasted the American and European “Dreams”:<sup>77</sup>

American Dream	vs.	European Dream
Wealth/Individual success	vs.	Quality of life
Growth	vs.	Sustainable development
Property/Civil rights	vs.	Social/Human rights
Live to work	vs.	Work to live
Religiosity/Piety	vs.	Declining faith
Strong military	vs.	Build peace

Rifkin argues that the European “Dream” is the better one. What do you think? Which of these two lists of values is more comfortable and inspiring for you? Which is more likely to meet the demands of vigorous global competition, climate change, and race relations evolution?

Is the Welfare State a Key to Personal Happiness?

Finland turns out to be the happiest place on Earth, according to a 2019 United Nations global study. The top five countries on the happiness list are European states with strong welfare principles: 1) Finland, 2) Denmark, 3) Norway, 4) Iceland, and 5) The Netherlands.

The United States ranks 19th on the UN list. Surveys show that only about one-third of Americans consider themselves happy. Why Americans consistently report rather low levels of happiness is unclear. Experts point to overly busy lives, decreasing trust, addictions, and financial struggles, among other forces.

What qualities lead to happiness? Broadly speaking, good health, education, freedom, and wealth are associated with happiness. But wealth, at least for “average” people, seems to have a diminishing influence on happiness after incomes reach about \$75,000 annually in the United States. On the other hand, a recent study suggests that the very wealthy (worth roughly \$10 million or more) are modestly happier than those worth “only” one or two million dollars.

**Community/Hygge** Why are the Scandinavian people particularly happy? Denmark has often been at the top of the happiness reports. Danes seek what they call “hygge,” which may be thought of as coziness, intentional intimacy, trust, and the like. Simply “hanging out” with friends and family seems to be critical to happiness in Denmark. Ninety-two percent of Danes belong to some kind of social club, and the government encourages these





get-togethers by helping to pay for them. Likewise, while Danes value nice things, they are said to be a “post-consumerist” society where consumption is not a high priority. Their extraordinarily high taxes (around 50 percent of income) may also play a role in the happiness quotient in that income is substantially leveled, allowing careers to be chosen more on the basis of interest rather than money and also allowing everyone to “hold his/her head high” regardless of occupational status. Finally, experts point particularly to the Danes’ very high quotient of trust, which may be a product of the cradle-to-grave security provided by the government. Mothers, for example, commonly leave their babies unattended in strollers outside shops and restaurants. Of course, Denmark has the advantage of being a small, homogeneous nation largely free of America’s worldwide responsibilities.

[For a skeptical view of Finnish happiness, see “Is Finland Really the Happiest Country in the World?” [\[www.youtube.com/watch?v=9FPU4F-Ajh8\]](https://www.youtube.com/watch?v=9FPU4F-Ajh8).

**Sources:** Grant E. Donnelly and Michael Norton, “Even for the Very Rich, More Money Brings Happiness,” *Wall Street Journal*, December 11, 2017 [\[www.wsj.com\]](http://www.wsj.com); Josh Fiallo, “U.S. Falls in World Happiness Report, Finland Named Happiest Country,” *Tampa Bay Times*, March 20, 2019 [\[www.tampabay.com\]](http://www.tampabay.com); Marie Helweg-Larsen, “Why Denmark Dominates the World Happiness Report Rankings Year after Year,” *The Conversation*, March 20, 2018 [\[https://theconversation.com\]](https://theconversation.com); Christopher Ingraham, “Americans Are Becoming Less Happy, and There’s Research to Prove It,” *Los Angeles Times*, March 23, 2019 [\[www.latimes.com\]](http://www.latimes.com); and Alexandra Sifferlin, “Here’s How Happy Americans Are Right Now,” *Time*, July 26, 2017 [\[www.time.com\]](http://www.time.com).

### Questions—Parts Three and Four

1. Billionaire investor George Soros, in his book *Open Society*, saw “market fundamentalism as a greater threat to open society today than communism.” Soros feared contemporary capitalism’s extreme commitment to self-interest, which results, he said, in our greatest challenge: “to establish a set of fundamental values.”<sup>78</sup>
  - a. Explain what Soros meant.
  - b. Do you agree with him? Explain.
2. At a time when many Americans are questioning the free market because of societal problems like environmental damage and income inequality, Warren Buffett, Berkshire Hathaway CEO, regularly affirms his faith in capitalism, as he did at the 2019 shareholder meeting: “I believe we wouldn’t be sitting here except for the market system. I don’t think the country will go into socialism in 2020 or 2040 or 2060.”<sup>79</sup> Do you agree that socialism is not in America’s future? Explain.
3. Writing in *Dissent*, Joanne Barkan said, “[A]lmost all Swedes view poverty, extreme inequalities of wealth, and the degradation that comes with unemployment as unacceptable.”<sup>80</sup>
  - a. Do you agree with the Swedes? Explain.
  - b. Why are Americans more tolerant of those conditions than the Swedes?
4. Scholars Daron Acemoglu, James A. Robinson, and Thierry Verdier have argued that the United States would hurt world growth if it adopted the “cuddly capitalism” of Scandinavia. For the United States to maintain its vital role of chief global innovator, Acemoglu and Verdier say that America must maintain an economic system that generously rewards successful innovators, which “implies greater inequality and greater poverty (and a weaker safety net) for a society encouraging innovation.”<sup>81</sup> Do you agree? Explain.

5.
  - a. Should an American citizen's primary duty be to herself or himself, or to all other members of society? Explain.
  - b. Should all humans be regarded as of equal value and thus equally worthy of our individual support? Explain.
  - c. Can social harmony be achieved in a nation whose citizens fail to regard the state as a "super-family"? Explain.
6. According to a 2014 Pew Research survey examining opinions about the role of government, younger Americans (Millennials) favor bigger government and more services by a 53 to 38 margin, while older Americans (Gen X and Boomers) prefer smaller government and fewer services.<sup>82</sup> How do you account for that difference of views by age?
7. In questioning Oakland Athletics general manager Billy Beane, the *Wall Street Journal* described professional football as "socialist" and baseball as "capitalist":

The NFL (National Football League) has been successful as a socialist league, equally divvying up the league's revenue among all the teams. Major league baseball, on the other hand, is a capitalist league, with a clear divide between big-market and small-market teams.<sup>83</sup>

- a. Do you think some of major league baseball's financial rules have to be changed to better balance the playing field? Explain.
  - b. Is "socialism" or "capitalism" the better system for professional sports? Explain.
8. Swedes pay close attention to work-life balance. In 2017, Per-Erik Muskos, a politician, suggested that Overtornea, his small town in northern Sweden with a dwindling population, should provide paid one-hour sex breaks for the town's approximately 500 employees. Muskos suggested that the one hour of the workweek already set aside for subsidized fitness activities could be devoted instead to sex. The town council rejected the proposal saying, among other things, that the proposal was too much of an intrusion into personal lives. Do you think government policy in the United States should be more committed to encouraging and subsidizing desirable personal activities such as fitness, sex, family time, children's welfare, and so on? Explain. See Dan Bilefsky and Christina Anderson, "Swedish Town Rejects Plan to Let Workers Take a Break for Sex," *New York Times*, May 18, 2017, p. A10 [[www.nytimes.com](http://www.nytimes.com)].

## Part Five—America's Economic Future: Where Are We Going?

### ***How Much Government?***

Should we maintain or expand our faith in free-market capitalism, or do we need to move our present mixed economy a bit closer to the welfare state model, which itself is under great pressure? Or must a new model emerge? In sum, how much government do we need? To think further about those questions, let's briefly examine some of the key indicators of America's economic and social health.

### ***Good News***

We are a prosperous country, although race and gender disparities are of great concern and impacts from COVID-19 are as yet unknown. Median household income increased 21 percent between 1990 and 2018, and median household wealth rose 52 percent from 1990 to 2019.<sup>84</sup> The representation of women and minorities in political office, while still

greatly below a presence proportional to population, has improved maningfully. Women now hold 25 percent of the Congressional seats (two percent in 1965) and 29 percent of the seats in state legislatures (four percent in 1971). Minority holder of Congressional seats have risen from four percent in 1966 to 22 percent in 2020.<sup>85</sup>

Much of the world strives to achieve America's blend of entrepreneurial capitalism along with intellectual and pop culture leadership. And we should not forget that capitalist America is among the most generous of global cultures. Indeed, Americans gave a record \$410 billion to charity in 2017,<sup>86</sup> and Gallup polling data examining donations, volunteering and aiding strangers ranked the United States first in the world in the decade from 2009 to 2018.<sup>87</sup>

## The American Dream at Risk?

### LO 1-9

Describe the income and wealth gaps in America.

America has strengths, but we are struggling in some important ways. Globalization and new technology, in the short run at least, have chipped away at our blue-collar job market. Labor unions have lost much of their power. Our multinational corporate giants often seem to be more interested in investing abroad than in America.

A 2019 Pew Research Center report found significant pessimism among Americans about what they think America will be like by the year 2050. Seventy percent are unhappy with the general direction of American life today; anxiety is increasing about retirement security, the impact of automation on jobs, and the cost of health care, among other things.<sup>88</sup>

American family income has stagnated for years even though overall productivity is generally up. Wages for college graduates, averaging \$51,347 for 2019 graduates, rose only 14 percent between 1989 and 2019.<sup>89</sup>

The core of America—the middle class—and the very idea of the American Dream seem at risk. The portion of Americans living in middle-class circumstances declined from 61 percent in 1971 to 51 percent in 2011, although that portion did rise to 52 percent in 2016.<sup>90</sup> Many Americans have moved up economically, but an increase in those falling to the bottom rungs appears to be the biggest reason for the middle-class shrinkage.<sup>91</sup> Other advanced nations face similar problems, but the middle class in America is simply smaller than in almost all of western Europe, while both our upper and lower economic classes are larger.<sup>92</sup>

## Overall Quality of Life

America ranks first in world-ranked universities.

According to a U.N. 2018 report on overall quality of life (based on income, life expectancy, and education), America is doing relatively well, ranking 13th among all nations with the Scandinavian and Western European nations generally leading the list.<sup>93</sup> A similar but broader study, the 2019 Social Progress Index, ranked the United States 26th in the world in general quality of life, with Norway at the top.<sup>94</sup> America ranked first in adult literacy and world-ranked universities, but only 57th in personal safety, 40th in inclusiveness, and 30th in nutrition and basic medical care.<sup>95</sup>

### *Economics*

Broadly, the United States compares well on standard economic measures and not so well on standard social measures. Our 2017 estimated GDP per capita of \$59,800 ranked 19th in the world behind smaller, more specialized economies, such as Liechtenstein (1st at

\$139,100) and Norway (11th at \$72,100), but well ahead of our chief industrial rivals such as Germany (27th at \$50,800) and Japan (42nd at \$42,900).<sup>96</sup>

### *Well Being*

The United States leads the world in producing prisoners.

Among the most disappointing areas of U.S. social performance is infant mortality (the probability of dying between birth and age one per 1,000 live births). Infants in 55 nations have a better chance of survival than in the United States.<sup>97</sup> And the United States leads the world in producing prisoners, with nearly seven million incarcerated, on parole, or probation.<sup>98</sup> That number has been declining in recent years, however.

A record 41 percent of households with children under 18 include a mother who is either the sole or primary source of income as of 2017.<sup>99</sup> Marriage itself is in decline, with 48 percent of American adults married in 2017, down from 58 percent in 1990.<sup>100</sup> The economically and socially productive institution of marriage with children is apparently becoming a luxury for growing numbers of Americans. In part because of fewer marriages, sexual activity is also declining. Even young people are having sex less frequently. Some experts think, this suggests declining social connections, influenced perhaps by increasing time spent with video games, social media, pornography, and so on.<sup>101</sup>

### **Poverty**

Prior to COVID-19, the number of Americans in poverty had been declining significantly, but 11.8 percent of the population, or about 38 million people, still fell below the official government poverty line (\$25,750 annually for a family of four in 2019).<sup>102</sup> Economic insecurity often reaches even those who are working hard, but at a low wage. About two-thirds of those living in poverty who are eligible to work are, in fact, working.<sup>103</sup>

A 2016 Stanford Center on Poverty and Inequality study ranked the United States 10th of 10 developed countries on measures of poverty and inequality.<sup>104</sup> The result of these difficult economic conditions is that poor people, as commentator Paul Krugman explained, live in a separate America:

Living in or near poverty has always been a form of exile, of being cut off from the larger society. . . . To be poor in America today, even more than in the past, is to be an outcast in your own country.<sup>105</sup>

#### **Pets or People?**

We may not take the best care of our disadvantaged fellow Americans, but we seem to be unstinting in generosity toward our pets. In 2018, Americans spent nearly \$73 billion on their pets, a sum that exceeds the gross domestic products of all but about 70 nations.

#### **Question**

Would our money for pets be more wisely spent on impoverished children? Explain.

**Sources:** American Pet Products Association, "Americans Are Spending More on Pets than Ever Before," *PR Newswire*, March 21, 2019 [[www.prnewswire.com](http://www.prnewswire.com)] and World Bank Group, "GDP Ranking," *Development Data Hub*, 2019 [<https://datacatalog.worldbank.org>].

## The Wealth and Income Gaps

Extravagant wealth, coexisting with punishing poverty, is perhaps the greatest disappointment and injustice, from the critics' point of view, in the global advance of capitalist principles.

According to an Institute for Policy Studies report, America's three wealthiest people (Jeff Bezos, Bill Gates, and Warren Buffett) are now worth more than the entire bottom half of the nation's population (over 160 million people), and the wealthiest 400 Americans now own more wealth than the nation's total African-American population.<sup>106</sup> On a global scale, the upper one percent controls about one half of the world's wealth.<sup>107</sup> The wealth gap is fueled by a giant divide in income earned. Fifty years ago in America, the ratio of CEO pay to average worker pay, for example, was about 20 to 1; today it is about 300 to 1.<sup>108</sup>

Those wealth and income disparities raise concerns about a fundamental unfairness in American life that might undermine democracy and public health, reducing overeconomic strength and social cohesion. These concerns might be diminished if the American Dream of upward mobility was flourishing, but the evidence suggests that such mobility has, at best, remained unchanged over the past half century.<sup>109</sup> Further a 2019 Georgetown University study indicates that Americans are better off being born rich than smart. The study found that 70 percent of kindergartners with low test scores but from wealthy families were affluent by age 25, while only 30 percent of kindergarten students with high test scores but from poor families reached affluence by their early adulthood.<sup>110</sup> From a free-market perspective, one would argue that the wealth and income gaps, to a significant extent, reflect productivity differences and are important spurs to excellence. [For a discussion of recent research challenging the mainstream findings on income inequality, see Thomas B. Edsall, "What If We're Looking at Inequality the Wrong Way?" *The New York Times*, June 26, 2013, at <http://opinionator.blogs.nytimes.com>].

## PRACTICING ETHICS

### Moral Decay in White Working-Class America?

What forces have caused the growing income and wealth gaps in America? Libertarian scholar Charles Murray, in his controversial book *Coming Apart: The State of White America, 1960–2010*, looked at the blue-collar, white working class for some answers. He pointed to declining moral values in that group as a crucial factor in American inequality and reduced mobility. He provided evidence of an alarming fall in white working-class social capital (neighborliness and civic engagement) prompted by decreasing industry, community, religion, and marriage. Murray did not ignore similar problems in the **Black** working class, but his focus was on white people.

#### Questions

1. Do you agree with Murray that the erosion of traditional middle-class morals and values helps explain inequality in contemporary America? Explain.
2. What other forces might have contributed to increasing inequality in American life?
3. Based on your personal sense of fairness, is a large and growing gap in income and wealth in America an ethical wrong? Explain.

**Sources:** Charles Murray, *Coming Apart: The State of White America, 1960–2010* (New York: Crown Forum, 2012); and Thomas B. Edsall, "What to Do about 'Coming Apart,'" *The New York Times*, February 12, 2012 [<http://campaignstops.blogs.nytimes.com>].

**Community**

Spending money on others rather than on oneself produced greater levels of happiness.

suggest that spending money on others rather than on oneself produces greater levels of happiness.<sup>112</sup>

Whether a product of capitalist impulses or not, we do have evidence of declining social connections. Forty-six percent of Americans, according to a 2018 report, said they feel lonely sometimes or always, and younger adults were particularly lonely.<sup>113</sup> Only 30 percent of Americans, according to a 2008 study, reported having a close confidant at work, down from nearly 50 percent in 1985, and American workers report inviting only 32

Only 30 percent of Americans reported having a close confidant at work.

percent of their “close” colleagues to their homes, while Polish and Indian workers report inviting more than double that percentage.<sup>114</sup> Similarly, Scandinavians, with their strong communitarian social welfare commitment, tend to be less troubled by social isolation than Americans.<sup>115</sup>

**Individualism Up, Morality Down?**

Making use of giant, digitized databases such as Google Books, scholars can type a word in a search box and learn how frequently that word has been used in publications over the years. One study looking at 1960 to 2008 found individualistic words (such as self, standout, unique) increased in use over those 48 years, whereas communal words (such as collective, common good, band together) declined in use. Another study found that general moral terms (like virtue, decency, conscience) and words associated with moral excellence (like honesty, patience, compassion) receded in use over the course of the 20th century.

**Questions**

1. Do you see a link between increasing attention to individualism and declining attention to morality? Explain.
2. Do you think government can or should do anything about these changing social conditions? Explain.

*Source:* David Brooks, “What Our Words Tell Us,” *The New York Times*, May 20, 2013 [[www.nytimes.com](http://www.nytimes.com)].

### Shrinking Social Capital?

In his now-famous book, *Bowling Alone*, Robert Putnam meticulously documented the decline of what he labeled “social capital,” the community and commitment bonds that seem to emerge in a culture where people regularly interact with one another.<sup>116</sup> Putnam’s book explains that virtually every measure of social interaction, from voting to picnics to playing cards to church attendance to membership in social clubs, fell significantly from roughly 1975 to 2000. The most vivid example was a decline of 40 percent in league bowling from 1980 to 2000, although the total number of bowlers increased by about 10 percent; thus the notion of “bowling alone.”

Recent evidence supports Putnam’s findings. Much like bowling in previous years, today we find that movie viewing by teens is increasingly a solitary process or at least one not consumed in the shared space of a movie theater. Prior to Netflix, 70 percent of 8th and 10th graders went to the movies once a month or more, but today only about half do so.<sup>117</sup>

According to a 2019 poll, Americans overwhelmingly (82 percent) say that people in their neighborhoods get along well and are willing to help each other (75 percent), but only 51 percent actually talk to their neighbors weekly or more, and only 12 percent actually help their neighbors at least weekly.<sup>118</sup> Only one-third of Americans say most people can be trusted, down from one-half in 1972.<sup>119</sup> United States Senator Ben Sasse (R - Nebraska) in his 2018 book, *Them: Why We Hate Each Other—And How to Heal*,<sup>120</sup> points to loneliness and division in America and a resultant decline in civility. Sasse then argues that Americans should desist from demonizing their political opponents and instead join together in the common pursuit of freedom and justice. Do you think you are guilty of “demonizing” those who do not share your political views?

### Questions

1. Is Putnam correct about declining social capital in America? Explain.
2. *New York Times* columnist David Brooks says that “excessive individualism” is eating away at Americans’ “uniting faith,” while damaging our relationships with each other. The result, he says, is that we are “distrustful and alone,” opening the door to the identity politics and tribalism that divide Americans.<sup>121</sup>
  - a. Do you practice “excessive individualism” or are you more communitarian in values and behavior?
  - b. Does it matter? Explain.
3. American Dan Lawton commented on his first trip to Africa:

In Ghana, I have danced, eaten, and spoken with more strangers in six weeks than I would have in America in six years. And this paradox—that despite its material wealth and technological might America is so standoffish and lonely—has been burning a hole in my head.<sup>122</sup>

- a. Do you agree that Americans are “standoffish and lonely”?
- b. If so, do you have any explanation for that condition?



## PRACTICING ETHICS

## Technology and Loneliness

Since publishing *Bowling Alone*, Robert Putnam has said we need to develop new kinds of connections when old ones die. Electronic links often are considered part of the problem, but he believes they could also be part of the solution. Indeed, psychology professor Jean Twenge's analysis of survey results from one million American teens led her to conclude that the happiest teens are those who make use of digital media, but do so for only a limited amount of time.

The risks of extensive social media use are illustrated by a 2017 University of Pittsburgh national study of adults ages 19 through 32. The study found that "the more time a young adult uses social media, the more likely they are to feel socially isolated," and that "frequency of use was [also] associated with increased social isolation."<sup>123</sup> [Note that the study could not establish whether increased use *caused* social isolation or whether those who were already socially isolated made more extensive use of social media.]

## Questions

1. On balance, do you think social media use builds social relationships or increases social isolation? Explain.
2. Facebook insiders acknowledged it was designed to be addictive. In your experience is that so? Is that strategy unethical? Explain.
3. How might our ethical standards and performances be affected by excessive reliance on social technology?

**Sources:** Tim Betler, "More Social Connection Online Tied to Increasing Feelings of Isolation," University of Pittsburgh Schools of the Health Sciences *Public Release*, March 6, 2017 [[www.eurekalert.org/pub\\_releases/2017-03/uops-msc022817.php](http://www.eurekalert.org/pub_releases/2017-03/uops-msc022817.php)]; Catherine Price, "Trapped - The Secret Ways Social Media Is Built to Be Addictive (and What You Can Do to Fight Back)," *Science Focus*, October 29, 2018 [[www.sciencefocus.com](http://www.sciencefocus.com)]; Jean Twenge, "What Might Explain the Unhappiness Epidemic," *The Conversation*, January 22, 2018 [<https://theconversation.com>]; and David Lee, "Facebook founding president sounds alarm," *BBC*, November 9, 2017 [[www.bbc.com](http://www.bbc.com)].

## Too Much Capitalism? Or Too Little?

Has America placed too much faith in the market and too little in government? Is the alleged decline in community in some sense a product of capitalism itself? Are poverty, political corruption, and the Wall Street collapse inevitable by-products of a "selfish, greedy" market? Can we sustain an economy where a handful at the top reap enormous rewards while at least half of the population struggles for financial survival? Was a 20-year-old Cuban student and communist organizer correct when he argued: "Capitalism is more efficient. . . . But it is not more fair."<sup>124</sup>

Many corporations practice ethical, socially responsible behavior.

Interestingly, capitalism seems to be gradually evolving in response to those criticisms. Merely maximizing short-term profits, as the best measure of business success, is increasingly criticized. Many corporations practice ethical, socially responsible behavior that values communities, workers, the environment, and the general welfare while maintaining the necessary commitment to profits. Perhaps the force of changing managerial ethics (See Chapter 2) and corporate social responsibility (See Chapter 3) is gradually developing a new, more just form of capitalism?

But ethical, socially responsible business practice in America cannot be achieved without a fair, effectively functioning market. Critics argue the efficiency and fairness of the market is being challenged by growing market concentration leading to monopoly and

oligopoly conditions that crush the market's biggest strength: competition. What does it mean to Americans when only four airlines dominate airline traffic, where five banks hold over half of the industry's assets, or where 90 percent of the beer is controlled by two companies?<sup>125</sup> To the critics, it means that consumers pay more and quality does not climb as it would in a competitive market. More alarmingly, those giant companies and industry oligopolies try to capture government, the critics say, in order to shape the law to benefit their interests.

Much of this text is devoted to questions of when we need government intervention to correct market failures (See Chapter 8) and counteract corporate power (See Chapter 3). Antitrust law (See Chapters 10 and 11) attempts to restore the market to competitive conditions when corporations have employed monopoly practices, engaged in harmful mergers and price fixing, and the like to distort the market in ways that harm consumers.

### **A “Remix” Needed?**

America's economy is remarkable in many ways, but don't you agree that we could still do better? Can we count on socially responsible business practice and current government oversight of business to strengthen productivity while enhancing justice and fairness? Or do we need more profound adjustments? Socialism, as noted earlier in the chapter, seems increasingly attractive to Americans, especially younger adults, but we still remain very much a free-market economy and culture. According to a 2019 Gallup Poll, 62 percent of the public, wants the overall economy guided by the market rather than the government.<sup>126</sup>

We have many ideas, from dramatic to measured, for some kind of “remix” of the American economy. United States Senator Elizabeth Warren, for example, proposed legislation, the Accountable Capitalism Act, requiring corporations to consider the interests not only of shareholders, but of a broad range of stakeholders including customers, employees, and communities. To achieve that goal, she called for, among other things, a revolutionary change in American corporate governance wherein 40 percent of board members in large corporations would be elected by employees. Germany has successfully practiced a similar shared-governance approach for many years, but whether that system would be functional in America is entirely speculative at this moment.<sup>127</sup>

But perhaps wrenching change is not required? Journalist Anatole Kaletsky, author of *Capitalism 4.0: The Birth of a New Economy*,<sup>128</sup> reminds us that capitalism is adaptive, reinventing itself through crises.<sup>129</sup> Kaletsky thinks the capitalism of the future—his Capitalism 4.0—will involve closer government-business relationships with markets operating in a context prescribed to a greater extent by public officials. The business community will need to acknowledge duties beyond profit maximization. Nonetheless, Kaletsky is still a strong believer in markets.

### **A New World Consensus?**

Whether we need big, abrupt change as Warren contends, or whether we can count on gradual adaptation as Kaletsky expects, we should recognize that the global economic system seems to be reshaping itself perhaps into two conflicting forms of capitalism or, triggered by the pandemic, perhaps something as yet unimagined.

In his book, *The End of the Free Market*,<sup>130</sup> political scientist Ian Bremmer says capitalism may have established its claim as the best economic system, but the world is still in conflict over whether capitalism is the best political, social, and economic system. As *New York Times* columnist David Brooks explained in reviewing Bremmer's work, the world now seems to be divided into a pair of general camps. *Democratic capitalism*, in the United States and other nations, respects business as the best wealth creator while employing government to regulate as needed. *State capitalism*, in countries such as China, Russia, and Saudi Arabia, employs market principles to build wealth. The state then controls or guides the distribution of that wealth for its sociopolitical purposes. State capitalism is often criticized for its inefficiency, but some scholars argue that "new varieties of state capitalism are . . . often performing at least equal to, if not better than, their private counterparts."<sup>131</sup>

**Serve All?** Former U.S. Secretary of Labor Robert Reich argues that Western capitalism will prevail, but he also says we cannot have a free market without government setting the rules. The real debate, as he sees it, is about whether capitalism can be good for all:

Capitalism is going to become the universal system of economic organization. The real issue isn't capitalism versus some other "ism." The real issue is whether capitalism is organized for the benefit of the society as a whole or for the benefit of a small group at the top.<sup>132</sup>

### Questions—Part Five

1. As you see it, is Western democratic capitalism or state capitalism more likely to prevail over the long term? Is it necessary that one or the other prevail? Explain.
2. Citing a United Nations study, columnist Roger Cohen made the interesting point that India, as of 2010, had more cell phones than toilets; 563.7 million people were connected to modern communication, but only 366 million had access to modern sanitation. He says this imbalance could be seen as "skewed development" favoring private goods over public necessities. In India and in America, he sees a kind of schizophrenia where we are increasingly autonomous, with private connections through technology. Thus, we feel no need for government until a crisis, like the Great Recession (or a pandemic), strikes. During the Great Recession many desperately plead for the government to save us.<sup>133</sup> (Subsequent to that UN report, India's government launched a program that reportedly has resulted in building tens of millions of new toilets.)
  - a. Are we giving too much attention to private needs and too little, via government and taxes, to public goods? Explain.
  - b. Can we have an autonomous, free-market culture that is substantially contemptuous of government and still maintain a stable, healthy, and fair national and global community? Explain.
3.
  - a. Is America deliberately seeking to convert the balance of the globe to American, free-market, democratic values? Explain.
  - b. Would all nations be well-served if they adopted American, free-market, democratic values? Explain.

**Research Exercise**

The Global Policy Forum provides a broad overview of the globalization movement. Go to the Forum's "Globalization of Law" page [[www.globalpolicy.org/globalization/globalization-of-law.html](http://www.globalpolicy.org/globalization/globalization-of-law.html)]. Briefly explain what the forum says about how globalization is changing international legal systems. Who or what is the Global Policy Forum? Is the Forum in favor of the globalization of law? Can you find other significant sources that have a different view of the process the Forum describes?

**Chapter Questions**

1. The gravestone of the late baseball great Jackie Robinson is inscribed with this advice: "A life is not important except in the impact it has on other lives." Will your life be meaningful only if you contribute to the well-being of others? Explain.
2. Commenting in *Newsweek*, journalist Robert Samuelson said, "The . . . pervasive problem of capitalist economies is that almost no one fully trusts capitalists."<sup>134</sup>
  - a. Do you agree? Why?
  - b. Do you think free-market capitalism is the best economic system? Explain.
  - c. Do you think that multinational companies have more power than national governments? Explain.
  - d. If you go into business as a career, do you think you will be trusted? Explain.
3.
  - a. In your mature years, do you expect to be as wealthy as your parents? More so? Less so? Explain.
  - b. Do you think you deserve to be as wealthy as your parents? More so? Less so? Explain.
4.
  - a. Interest in privatizing the United States Post Office seems to have grown in recent years. USPS revenue is down about 35 percent in real terms since 2008.<sup>135</sup> USPS employee pension and health care funding deficits now exceed \$100 billion.<sup>136</sup>

Raise some of the arguments both for and against privatizing the Post Office. What would you do? Explain.
  - b. In a *Washington Post* opinion piece, Long Island University economics professor Panos Mourdoukoutas argued that public libraries should be replaced by Amazon.<sup>137</sup> Explain his argument. Do you agree with Mourdoukoutas? Explain.
5.
  - a. Noted economist Lester Thurow argued that the economic demands of the market are destroying the traditional two-parent, nuclear family. Explain his argument.
  - b. Child development authority Benjamin Spock likewise blamed capitalism for the "destruction of the American family," but his reasoning differed from Thurow's:

The overriding problem is excessive competition and our glorification of it. It may contribute to our rapid technological advancement, but it has done so at a great price. We are taught to be rugged individualists, and we are obsessed with getting ahead. The family gets lost in this intense struggle. In a healthy society, family should come first, community second, and our outside jobs third. In this country, it is the other way around.<sup>138</sup>

Comment.

- c. If Spock was correct, how did we reach this condition?

6.
  - a. Scholars Jacob Hacker and Paul Pierson argue in their book *American Amnesia*<sup>139</sup> that a strong government is crucial to American economic growth. Do you agree? Explain.
  - b. Hacker and Pierson note that Americans have historically been, on average, the tallest people in the world, but in recent decades Scandinavian and Dutch citizens have passed Americans. Genetics and immigration cannot account for the change.<sup>140</sup> Hacker and Pierson theorize that strong governments in those nations explain their citizen's robust growth. Why might strong government produce taller citizens?
7. We often read that college professors criticize capitalism and support welfare state principles.
  - a. Has that been your experience? Explain.
  - b. If that assessment of college professors is accurate, how do you account for their leftist inclinations?
8. Norway took only 109 athletes to the 2018 Winter Olympics in South Korea but won 39 medals, 14 of them gold. That performance easily exceeded every other nation's medal totals, so much so that Norwegians worried they were winning too many medals. Norwegian Olympic athletes do not receive prize money when they win medals, although many nations, including the United States, do offer cash. In their youth sports programs, Norwegians do not allow score keeping until age 13. Do you think Norway's preference for sharing victory and de-emphasizing competition, especially among children, would be a healthy direction for sports in the United States? Explain.
9. Finland's government, in 2017, began a two-year experiment of giving an additional \$635 per month (beyond the recipients' regular welfare assistance) to a group of 2,000 unemployed Finns. The government wanted to see if giving money to unemployed citizens would encourage them to get jobs. Preliminary results showed those receiving the money were neither more nor less likely to go to work. On the other hand, they reported a better sense of their own well-being than the study's comparison group. Recipients felt happier and less stressed. Other jurisdictions, including a few in the United States, are experimenting with similar cash handouts. If it were affordable, do you think the United States should give money to its unemployed citizens? Explain.
10. About 57 percent of American college students are female. In 2014, 37.5 percent of women ages 25 to 34 had earned a bachelor's degree, as compared with about 29.5 percent of males of the same age.<sup>141</sup> How do you explain those gaps and what, if anything, do they portend for the future of America?
11. *New York Times* columnist Nicholas Kristof wrote what he called a "blunt" and "politically incorrect truth" about global poverty:
 

If the poorest families spent as much money educating their children as they do on wine, cigarettes and prostitutes, their children's children's prospects would be transformed.<sup>142</sup>

He told about one Congolese family that was eight months behind on their \$6 per month rent and was unable to pay for mosquito netting (\$6 each) or the \$2.50 per

month school tuition for each of their three school-age children. But the parents spent \$10 per month on cell phone expenses, and several dollars weekly on alcohol.<sup>143</sup>

- a. What solutions would you suggest to protect children from the ill-advised financial choices of their fathers and mothers?
  - b. Do you think poor parental choices are a significant cause of child suffering in the United States? Explain.
  - c. Do you think reduced government in the United States would likely lead to increased personal responsibility? Explain.
12. Commentator Thomas Friedman reflected on the Islamic terrorists' hatred for America as a country of wealth and power but "no values."

The Islamic terrorists think our wealth and power is unrelated to anything in the soul of this country. . . . Of course, what this view of America completely misses is that American power and wealth flow directly from a deep spiritual source—a spirit of respect for the individual, a spirit of tolerance for differences of faith or politics, a respect for freedom of thought as the necessary foundation for all creativity, and a spirit of unity that encompasses all kinds of differences.<sup>144</sup>

- a. Do you agree that the "spiritual source" Friedman cites is the foundation for American success? Explain.
  - b. Does America lack a meaningful "soul"? Explain.
13. a. Make the argument that America's free-market economy is better for children than the welfare-state approach in northern Europe.
- b. Do you think that argument is correct? That is, do you think children are better off in America than in northern Europe? Explain.
14. The intellectual Adolph Berle once said, "A day may come when national glory and prestige, perhaps even national safety, are best established by a country's being the most beautiful, the best socially organized, or culturally the most advanced in the world."<sup>145</sup>
- a. Is government intervention necessary to achieve Berle's goal? Explain.
  - b. If faced with a choice, would most Americans opt for Berle's model or for a nation preeminent in consumer goods, sports, and general comfort? Explain.
15. As noted earlier in this chapter, the United States has often ranked at the top of the Anholt list of most admired nations, but recently the U.S. has fallen to 6th with Germany 1st.<sup>146</sup> Anholt research shows that we can think of countries as being either primarily useful (competent, efficient, smart) or primarily decorative (stylish, sexy, attractive) or both.
- a. List some nations that you take to be primarily useful and some that you believe to be primarily decorative. Which do you prefer?
  - b. Do you regard the United States as primarily useful or primarily decorative or both? Explain.
16. Which is more important to you: "freedom to pursue life's goals without state interference" or "state guarantees that nobody is in need."<sup>147</sup> Explain.

17. Hilda Scott wrote a book to which she affixed the provocative title, *Does Socialism Liberate Women?*<sup>148</sup>
  - a. Answer her question. Explain.
  - b. Are minority oppression and oppression of women inevitable by-products of capitalism? Explain.
18. Economist Tyler Cowen is concerned that our economy is changing in ways that encourage a reduction in personal ownership of physical objects, the “stuff” of our lives. He points particularly to the Internet and software that have allowed us to move away from ownership of reading materials. Similarly, we stream movies and TV shows rather than buying DVDs. Especially among young people, car ownership seems less important than in the past and is now replaced for many by Uber, Lyft, mass transit, and so on. As we move further toward the Internet of Things, he argues, most of the value inside our homes will reside in the companies and government that control the software that manages our homes for us.<sup>149</sup> Why might capitalism be threatened by Americans declining ownership of its “stuff?”
19. a. How do you feel about distinguished economist Gary Becker’s free-market approach to America’s immigration difficulties:
 

In a market economy, the way to deal with excess demand for a product or service is to raise the price. This reduces the demand and stimulates the supply. I suggest that the United States adopt a similar approach to help solve its immigration problems. Under my proposal, anyone willing to pay a specified price could enter the United States immediately.<sup>150</sup>

  - b. What about paying students to improve standardized test score performance?

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