

# CHAPTER 2 Capitalism and Democracy

## CONCEPT MAP

### I. Introduction

- A. The relationship between the state and the market
- B. Capitalism

### II. The Dilemmas of Markets

- A. Dynamism of capitalism
- B. The volatile market
- C. "Affluenza"
- D. Externalities
  - i. Examples of externalities
- E. Private government
  - i. Basis of private government
- F. Consumer democracy
- G. Power in ownership and control of the means of production
  - i. Whether to invest
  - ii. Where to invest
  - iii. What to invest in
  - iv. How production is organized

### III. The Structural Advantage of Business

- A. The structural power of business
  - i. Elements of the structural power of business
  - ii. Checks on the power of business

### IV. The Corporate and Competitive Sectors of the Economy

- A. Corporate capitalism
- B. The competitive sector
- C. Change in economic structure
  - i. Business concentration

### V. Who Owns America's Private Government?

- A. Shareholder democracy
- B. Unequal distribution of stock ownership

### VI. Capitalist Class Cohesion

- A. Peak business associations

## VII. The Changing Structure of Employment

- A. Occupational distribution in the United States since 1950
- B. Social mobility in the United States
  - i. Social mobility in the United States compared with other Western capitalist democracies

## VIII. American Corporate Capitalism

- A. Social spending in the United States
  - i. Social spending in the United States compared with other Western capitalist democracies
- B. Decline of unions in the United States
- C. The small state in the United States
  - i. Minimal regulation
  - ii. Minimal welfare state
- D. Income inequality in the United States
  - i. Income inequality in the United States compared with other Western capitalist democracies

## IX. Conclusion

## MULTIPLE CHOICE

1. According to the text, what accounts for capitalism's dynamism and innovation?

- A. technological change
- B. fulfilling society's needs
- C. competitive drive for profits
- D. the diversity of businesses
- E. government regulation of business practices

ANS: C DIF: Moderate REF: Page 32 TOP: Introduction MSC: Applying

2. In the text, the "Monopoly" game metaphor refers to

- A. the virtues of a self-regulating market economy.
- B. the need for the state to set rules governing the market.
- C. the idea that greed leads to success in the market.
- D. the idea that the rules made by the state make the market unfair and inefficient.
- E. the assertion that market relations are completely voluntary.

ANS: B DIF: Moderate REF: Page 32 TOP: Introduction MSC: Applying

3. According to the text, capitalism is usually defined as a system in which

- A. everyone has the opportunity to succeed.
- B. everyone has the opportunity to start a business.
- C. capital is privately owned and controlled.
- D. capital is controlled and owned by the government.
- E. there is a free market.

ANS: C DIF: Easy REF: Page 33 TOP: Introduction MSC: Understanding

4. The following are all elements of capitalism *except*

- A. the private ownership of the means of production.
- B. wage labor.
- C. without a buyer for their labor, workers have no means of supporting themselves.
- D. peasants are tied to a lord's domain.
- E. production for the market.

ANS: D DIF: Moderate REF: Page 33 TOP: Introduction MSC: Understanding

5. The text makes all of the following claims *except*

- A. capitalism's dynamism is also the source of its instability.
- B. the alteration of boom and bust is a universal characteristic of capitalism.
- C. capitalism is uniquely qualified to promote efficiency and production.

- D. capitalism is an inherently undemocratic form of production.
- E. of all possible economic systems, capitalism is the least dynamic.

ANS: E DIF: Moderate REF: Pages 33–34 TOP: The Dilemmas of Markets MSC: Applying

6. According to the text

- A. what's good for major U.S. corporations always turns out to be good for the public.
- B. capitalism does *not* require a constant expansion of commodity production.
- C. capitalism does require a constant expansion of commodity production, but this expansion has no adverse affects.
- D. capitalism does require a constant expansion of commodity production, and this expansion frequently collides with the fact that the world has finite resources.
- E. of all possible economic systems, capitalism is the most environmentally friendly.

ANS: D DIF: Moderate REF: Page 34 TOP: The Dilemmas of Markets MSC: Applying

7. The costs that firms create but taxpayers and individuals end up liable for are called \_\_\_\_\_.

- A. externalities
- B. investments
- C. public goods
- D. business cycles
- E. subsidies

ANS: A DIF: Moderate REF: Page 34 TOP: The Dilemmas of Markets MSC: Understanding

8. According to the text, the principal cause of the housing crisis in the first decade of the twenty-first century was

- A. too much government regulation.
- B. a severe drop in the stock market.
- C. the government's refusal to bail out Lehman Brothers.
- D. mortgage lenders peddling risky mortgages.
- E. President George W. Bush's firing of the chair of the Federal Reserve.

ANS: D DIF: Easy REF: Page 34 TOP: The Dilemmas of Markets MSC: Applying

9. Of the following, which is the best example of an externality?

- A. a decision made by a U.S. company to move its operations overseas
- B. a decision by a company to fire undocumented workers
- C. the pollution that results from a firm's manufacturing process but for which the firm doesn't have to pay
- D. the share of a firm's profits that are donated to charities
- E. the share of a firm's profits that are paid out as dividends to stock holders

ANS: C DIF: Moderate REF: Pages 34–35 TOP: The Dilemmas of Markets MSC: Applying

10. When critics charge that the bailout package sponsored by President Obama is one in which “losses are socialized and profits privatized,” they mainly mean
- A. the U.S. economy has become a socialist economy in which the government gets all the profits from economic activity.
  - B. taxpayers end up paying for corporate losses, but corporations keep the profits.
  - C. corporate profits eventually go to the government, but losses are borne by the corporations.
  - D. there is too much government regulation of business.
  - E. there is not enough government regulation of business.

ANS: B DIF: Difficult REF: Pages 34–35 TOP: The Dilemmas of Markets MSC: Applying

11. According to the text, government regulation
- A. invariably undermines capitalism.
  - B. is essential to the operation and survival of capitalism.
  - C. is contradictory to the principles upon which a democracy is supposed to operate.
  - D. was the main cause of the economic downturn that began in 2008.
  - E. may have been essential to U.S. capitalism in the nineteenth century but is no longer necessary.

ANS: B DIF: Moderate REF: Pages 35–36 TOP: The Dilemmas of Markets MSC: Applying

12. The term private government refers to
- A. corporations’ charitable donations in national emergencies.
  - B. a corporation’s political campaign contributions.
  - C. a system where a private organization, such as a business firm, exercises power over its members and others.
  - D. a set of institutions that exercises binding legitimate authority within a territory.
  - E. the close relationship between lobbyists, members of Congress, and officials in the federal bureaucracy.

ANS: C DIF: Moderate REF: Page 36 TOP: The Dilemmas of Markets MSC: Understanding

13. Because they own and control the means of production, the prerogative of capitalists includes all of the following *except*
- A. the decision whether to invest.
  - B. the decision where to invest.
  - C. the decision what to invest in.
  - D. the decision to discriminate on the basis of race or gender in hiring a workforce.
  - E. the decision over how production is organized.

ANS: D DIF: Moderate REF: Page 36 TOP: The Dilemmas of Markets MSC: Applying

14. According to the text, corporations have all of the following powers *except*
- A. the ability to choose how production is organized.

- B. the ability to choose where to invest.
- C. the ability to choose what to invest in.
- D. the ability to choose whether to invest at all.
- E. the ability to set their tax rates.

ANS: E DIF: Easy REF: Page 39 TOP: The Dilemmas of Markets MSC: Applying

15. Compared with workers who do the same kind of work but who do *not* belong to labor unions, the wages of union members are approximately
- A. 30 percent lower.
  - B. 10 percent lower.
  - C. the same.
  - D. 10 percent higher.
  - E. 30 percent higher.

ANS: E DIF: Moderate REF: Page 42 TOP: The Dilemmas of Markets MSC: Understanding

16. According to the text, elected officials are under enormous pressure to offer inducements to business primarily because
- A. wealthy business executives provide almost 90 percent of all campaign contributions.
  - B. the country's economic well-being heavily depends on decisions made by businesses.
  - C. high-priced corporate lawyers allow corporate CEOs to break the law without getting caught.
  - D. the vast majority of elected officials previously served as corporate CEOs.
  - E. most elected officials are corrupt.

ANS: B DIF: Moderate REF: Page 43 TOP: The Structural Advantage of Business MSC: Applying

17. In response to the financial crisis that began during his presidency, George W. Bush
- A. fired the secretary of the Treasury.
  - B. fired the chair of the Federal Reserve.
  - C. sponsored a \$700 billion financial bailout package.
  - D. called for tax increases of almost \$1 trillion to stop the federal debt from increasing.
  - E. signed legislation that created approximately 3 million temporary jobs for low-income citizens.

ANS: C DIF: Easy REF: Page 43 TOP: The Structural Advantage of Business MSC: Understanding

18. Which of the following is a reason why, according to the text, business interests are sometimes thwarted in politics?
- A. The Constitution establishes a system of checks and balances.
  - B. Companies have conflicting political interests.
  - C. Contrary to popular belief, there is no tension between democracy and capitalism.
  - D. Most CEOs know they can't get away with trying to buy the votes of members of Congress.

E. Most CEOs are basically honest people.

ANS: B DIF: Easy REF: Page 44 TOP: The Structural Advantage of Business MSC: Applying

19. The main component of the structural bias of business in the political system is

- A. political campaign contributions made by businesses.
- B. business control over the means of production.
- C. the power of business lobbyists.
- D. the weakening of labor unions.
- E. the dismantling of the welfare state.

ANS: B DIF: Difficult REF: Page 44 TOP: The Structural Advantage of Business MSC: Understanding

20. Which of the following is a *second* reason why, according to the text, business interests are sometimes thwarted in politics?

- A. The U.S. political system is a federal one.
- B. The Bill of Rights guarantees all adult citizens the right to vote.
- C. The political clout of labor unions is much greater in the United States than elsewhere.
- D. The public is much more informed about politics than it was a century ago.
- E. Democratic procedures require policy makers to respond to many interests, not just those of business.

ANS: E DIF: Moderate REF: Page 45 TOP: The Structural Advantage of Business MSC: Applying

21. An economy dominated by large firms that produce for national and international markets and are able to dictate prices to suppliers and retailers, as well as wages to their workers, is called \_\_\_\_\_.

- A. monopoly capitalism
- B. corporate capitalism
- C. competitive capitalism
- D. democratic socialism
- E. cartel capitalism

ANS: B DIF: Moderate REF: Page 47 TOP: The Corporate and Competitive Sectors of the Economy MSC: Understanding

22. The competitive sector of the economy refers to

- A. the ten largest U.S. firms.
- B. the companies listed in the Forbes 500.
- C. the competition between the U.S. economy and the economies of other countries.
- D. the firms that operate in many different countries.
- E. small businesses and firms.

ANS: E DIF: Moderate REF: Page 47 TOP: The Corporate and Competitive Sectors of the Economy MSC: Understanding

23. According to the text, the growing concentration of economic power

- A. makes capitalism more efficient than it has ever been.
- B. makes it easier for citizens to hold corporations accountable for their illegal behavior.
- C. facilitates economic equality.
- D. is the main reason for the increase in racism in the United States.
- E. threatens democracy.

ANS: E DIF: Moderate REF: Page 50 TOP: The Corporate and Competitive Sectors of the Economy MSC: Applying

24. According to the text

- A. the notion of shareholder democracy is misleading.
- B. the gap between the pay of CEOs and the pay of average workers has decreased in recent years.
- C. business executives are the most poorly organized group in U.S. society.
- D. as a result of affirmative action, the majority of corporate CEOs are now either women or people of color.
- E. the vast majority of Americans own at least some stock in the form of being shareholders themselves or indirectly through mutual funds or retirement plans.

ANS: A DIF: Moderate REF: Pages 50–51 TOP: Who Owns America's Private Government? MSC: Applying

25. Approximately what percent of all income that is earned in the United States is earned by the top quintile (top 20 percent) of households?

- A. 10 percent
- B. 20 percent
- C. 30 percent
- D. 40 percent
- E. 50 percent

ANS: E DIF: Moderate REF: Page 51 TOP: Who Owns America's Private Government? MSC: Remembering

26. Approximately what percent of all stock that is owned in the United States is owned by the wealthiest 10 percent of the population?

- A. 10 percent
- B. 30 percent
- C. 50 percent
- D. 80 percent

E. 100 percent

ANS: D DIF: Difficult REF: Page 51 TOP: Who Owns America's Private Government? MSC: Remembering

27. Of all current Fortune 500 CEOs

- A. 50 percent are female.
- B. 40 percent are white males.
- C. 20 percent are African American or Latino.
- D. 30 percent are white females.
- E. 90 percent are white males.

ANS: E DIF: Moderate REF: Page 52 TOP: Who Owns America's Private Government? MSC: Remembering

28. All of the following are sources of capitalist class cohesion *except*

- A. the existence of interlocking boards of directors.
- B. membership in exclusive social clubs.
- C. attendance at public colleges and universities.
- D. membership in peak business associations such as the Business Roundtable.
- E. membership in other business associations such as the U.S. Chamber of Commerce.

ANS: C DIF: Moderate REF: Page 53 TOP: Capitalist Class Cohesion MSC: Applying

29. When political scientists and economists say that the U.S. economy has been "financialized" over the past generation, they most nearly mean that

- A. ATMs are in greater use than ever before.
- B. more citizens are using banks than ever before.
- C. more than 90 percent of the U.S. population now owns stock in a large corporation.
- D. fewer people than ever before are paying for things in cash.
- E. the business of moving money around has increased in importance compared with the manufacture and production of goods.

ANS: E DIF: Moderate REF: Pages 54–55 TOP: The Changing Structure of Employment MSC: Applying

30. In the year 2000, three-quarters of U.S. workers were employed in

- A. manufacturing jobs.
- B. white-collar and service sector jobs.
- C. agriculture.
- D. union jobs.
- E. public sector jobs.

ANS: B DIF: Moderate REF: Page 55 TOP: The Changing Structure of Employment MSC: Remembering

31. Compared with the percentage of workers who are in unions in other industrialized countries, the percentage of U.S. workers who are in unions is
- A. lower.
  - B. about the same.
  - C. slightly higher.
  - D. much higher.
  - E. so difficult to measure that such comparisons are impossible to make.

ANS: A DIF: Moderate REF: Page 58 TOP: The Changing Structure of Employment MSC: Remembering

32. Comparing class mobility in the U.S. and in other Western countries, the data indicate that
- A. class mobility is higher in the United States than in all other Western countries.
  - B. class mobility is lower in the United States than in all other Western countries.
  - C. the United States is in the middle regarding class mobility compared to other Western countries.
  - D. the United States fluctuates between high and low levels of class mobility depending on which party is in power.
  - E. class mobility cannot be measured.

ANS: C DIF: Moderate REF: Page 57 TOP: American Corporate Capitalism MSC: Remembering

33. Compared with most democratic capitalist countries, the amount of government regulation in the United States is
- A. much greater.
  - B. slightly greater.
  - C. about the same.
  - D. less.
  - E. so difficult to measure that it's impossible to make comparisons with other countries.

ANS: D DIF: Moderate REF: Page 57 TOP: American Corporate Capitalism MSC: Understanding

34. Approximately what percentage of the U.S. labor force are members of a labor union?
- A. 2 percent
  - B. 12 percent
  - C. 22 percent
  - D. 32 percent
  - E. 42 percent

ANS: B DIF: Moderate REF: Page 58 TOP: American Corporate Capitalism MSC: Remembering

35. Compared with other rich capitalist democracies, the gap between rich and poor in the United States is
- A. much less.
  - B. slightly less.
  - C. about the same.
  - D. greater.
  - E. so difficult to measure that comparisons are impossible.

ANS: D DIF: Difficult REF: Page 60 TOP: American Corporate Capitalism MSC: Remembering

36. According to the text, capitalism distributes money and wealth \_\_\_\_\_, and it distributes economic power \_\_\_\_\_.
- A. equally . . . . . unequally
  - B. equally . . . . . equally
  - C. unequally . . . . . unequally
  - D. unequally . . . . . equally
  - E. in ways that defy rational explanation . . . . . in ways that also defy rational explanation

ANS: C DIF: Easy REF: Page 62 TOP: Conclusion MSC: Understanding

### ESSAY

1. Explain and evaluate the authors' statement that "market systems have their benefits, but they also have their dark side."

ANS: Answers will vary. DIF: Moderate REF: Pages 33–37 TOP: The Dilemmas of Markets MSC: Evaluating/Creating

2. Summarize with examples how, according to the text, the same factor that accounts for the dynamism of capitalism also produces collisions with public interests.

ANS: Answers will vary. DIF: Moderate REF: Pages 33–37 TOP: The Dilemmas of Markets MSC: Analyzing

3. The authors make the claim that "the workplace is an authoritarian political system in which employers rule." Summarize the reasons why the authors make this claim.

ANS: Answers will vary. DIF: Moderate REF: Pages 35–36 TOP: The Dilemmas of Markets MSC: Evaluating

4. Summarize the reasons why, according to the text, capitalism can be considered a form of private government.

ANS: Answers will vary. DIF: Moderate REF: Pages 36–38 TOP: The Dilemmas of Markets MSC:

## Analyzing

5. The authors make the claim that the decisions made by business firms are “preeminently political.” What evidence do the authors use to support their claim? Do you agree or disagree with the authors’ claim? Explain your answer.

ANS: Answers will vary. DIF: Difficult REF: Page 42 TOP: The Structural Advantage of Business  
MSC: Evaluating/Creating

6. Although powerful, business interests do not always get their way in the political system. What are the factors that explain this phenomenon?

ANS: Answers will vary. DIF: Difficult REF: Pages 42–45 TOP: The Structural Advantage of Business  
MSC: Analyzing

7. Describe how capitalism creates a structural advantage for business in the political system.

ANS: Answers will vary. DIF: Moderate REF: Pages 42–45 TOP: The Structural Advantage of Business  
MSC: Analyzing

8. Describe the structural changes in the U.S. economy since the end of World War II.

ANS: Answers will vary. DIF: Moderate REF: Pages 42–46 TOP: The Structural Advantage of Business  
MSC: Analyzing

9. Summarize the evidence provided in the text to show that the notion of shareholder democracy is highly misleading.

ANS: Answers will vary. DIF: Moderate REF: Page 51 TOP: Who Owns America’s Private Government?  
MSC: Analyzing

10. Summarize how the structure of employment in the United States has changed since 1970.

ANS: Answers will vary. DIF: Moderate REF: Pages 54–57 TOP: The Changing Structure of Employment  
MSC: Analyzing

11. Summarize the reasons for the decline of unions in the United States.

ANS: Answers will vary. DIF: Moderate REF: Pages 57–59 TOP: American Corporate Capitalism  
MSC: Analyzing

12. U.S. leaders have often claimed that the United States’s extreme market capitalism is superior to other forms of capitalism. But even before the economic crisis of 2008–09, those claims gave the U.S. model more credit than it deserved. Summarize the evidence provided in the text in support of its assertion that the U.S. model gets more credit than it deserves.

ANS: Answers will vary. DIF: Moderate REF: Pages 57–59 TOP: American Corporate Capitalism  
MSC: Analyzing/Evaluating

13. What has been the historic role of unions in American political economy? Assess their influence and importance.

ANS: Answers will vary. DIF: Moderate REF: Pages 57–59 TOP: American Corporate Capitalism  
MSC: Evaluating/Analyzing