

GOALS

Explain the ways a government protects citizens and businesses

Describe the ways in which a government acts as a business

KEY TERMS

contract, p. 99

intellectual property, p. 100

**JUMP START**

The success of the Triad Bakery has led to competing bakeries copying the look and taste of its products. The partners have recently learned that other bakeries have been specifically advertising and promoting their versions of “Triple T cookies,” which is the name of one of Triad Bakery’s most popular cookies containing unique ingredients and a special design. Brittney is currently working toward her MBA degree. In one of her business classes, she learned that the government has methods of protecting the intangible property of individuals and businesses, such as the Triple T cookie name. What specific type of government protection would defend the Triad Bakery against competitors offering their Triple T cookies?



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Government as a Protector

Governments are known to play an important role in a country’s economic system. You have learned that citizens who perform their economic roles influence decisions made by governments. Governments enact laws that protect individuals and businesses in the marketplace. They also perform some of the activities of a business.

Laws are enacted and regulations established to protect citizens’ rights. Services such as police and fire services and the armed forces protect citizens and businesses. Governments enact and enforce safety regulations to protect workers. Governments protect individuals and businesses by enforcing contracts, protecting intellectual property rights, and regulating public utilities.

Enforcing Contracts

An agreement to exchange goods and services for something of value, usually money, is called a **contract**. Contracts are fundamental to doing business, and they may be written or unwritten. To be enforceable, however, contracts must include the following basic elements.

- **Agreement** An offer must be made, and an acceptance must occur.
- **Competent parties** Those entering into the contract must be of legal age and must be mentally competent.
- **Consideration** Something of measurable value must be exchanged by the parties involved.
- **Legality** The contract must be for a product or service that may be legally sold. There must not be any fraud or deception existing in the agreement.

Both consumers and businesses benefit from government enforcement of contracts. Written contracts, once signed, bind both parties to what is in the agreement. It is never a good idea to sign a contract without reading the entire document because all parts of that contract are enforceable. Verbal contracts are also valid if they meet all of the enforceable provisions. For example, if you agree to have some equipment repaired, the work must be performed as agreed upon before you pay the amount owed. Disputes over whether or not the work was done correctly and how much you owe will be based on the agreement that was made orally. The matter can be settled in court based on the oral contract.



Why should you closely examine a contract before signing it?

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Cross-Cultural Relationships

WRITING REQUIREMENTS FOR CONTRACTS

The laws regarding writing requirements for contracts differ among nations. The United Nations Convention on Contracts for the International Sale of Goods (CISG) was in effect in 71 countries in 2008, including the United States. Under the CISG, contracts for the sale of goods among nations need not be in writing (Article 11). The CISG is said to be one of the most successful international uniform laws and is having a great influence on “worldwide trans-border commerce.”

Think Critically

What are the advantages and disadvantages of putting any contract in writing? Of putting international contracts in writing?

Protecting Intellectual Property Rights

Out of your
head

Intellectual property is purely intangible, with no physical characteristics—a person cannot touch it. Intellectual property includes patents, copyrights, and trademarks.

When individuals create new products, they may obtain a patent. A *patent* gives the inventor of the product the exclusive right to make, use, or sell that item for a period of 20 years. Without this protection, inventors of new products would have no ownership rights. The patent itself can be sold or marketed by its owner.

Copyrights protect the creative work of authors, artists, and composers. Copyright protection continues for the life of the person receiving the copyright and extends 70 years beyond that. Copyrights are identified with the symbol ©.

Another form of protection given to a business by a government is a trademark. A *trademark* is a word, letter, or symbol associated with

a specific company or product. Many goods are sold largely based on the trademark, sometimes called a logo. The Nike brand name and “swoosh” symbol are examples of trademarks. A trademark can become very valuable.

When conducting business globally, intellectual property rights are a concern. Although intellectual property rights are protected by several international agreements, violations are common in other countries, such as China. Violations can include counterfeit products or *piracy*, which is the illegal use of intellectual property. Counterfeiting results in financial losses for the originator of the product. The U.S. government must continue to work with international agencies to strengthen the enforcement of intellectual property laws.



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Why does intellectual property need protection?

Regulating Public Utilities

A *public utility* is an organization that supplies a good or service that all citizens need and use. These needs include local telephone service, water, gas, and electricity. Governments regulate public utilities by giving them exclusive rights to operate in a given market or community. This helps to avoid expensive duplication of items such as telephone poles and power lines. Such duplication would make the business inefficient and more costly to consumers.

Some utility companies are privately owned. Traditionally, however, they have been closely regulated by the government for the good of consumers. Regulations govern rates and quality standards. The recent trend toward deregulation of such services is said by some to allow competition to benefit consumers.

CheckPOINT

Give three examples of how the government acts as a protector.

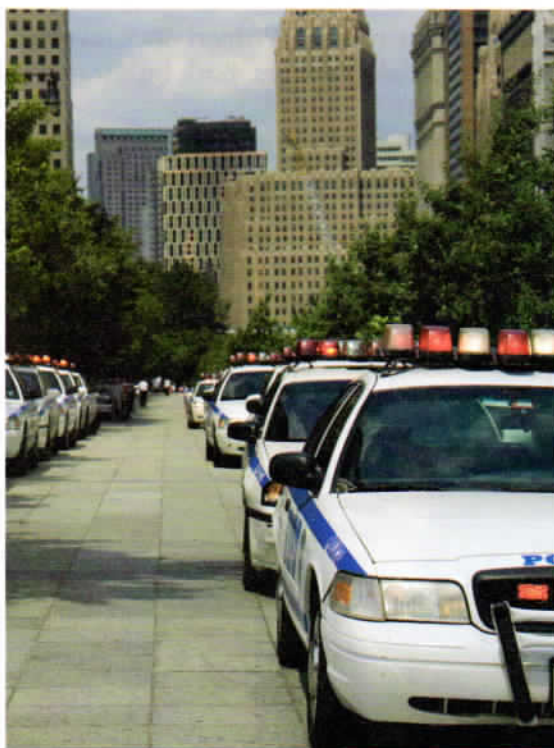
Government as a Business

Governments provide a number of goods and services to citizens and businesses. Examples are police forces, fire stations, court systems, parks, libraries, schools, and streets. To provide these services, governments must conduct some of the activities of a business. They must buy goods and services, employ workers, raise revenue, and borrow money.

Buying Goods and Services

Governments spend a lot of money buying products and services. Among these purchases are police cars, road-building materials, and telephone services. Data gathered and purchased by various government agencies are used by different organizations for planning and decision making.

In its role as a business, governments are a major economic force. Many businesses depend on government contracts for their survival. Some construction companies keep their workforces employed through the construction of roads, highways, school buildings, courts, and parks.



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What kinds of goods and services does the U.S. government buy?

DID YOU KNOW ?

More than 22 million people in the United States work full time for federal, state, and local governments.

Employing Workers

As a group, governments are the single largest employer in our economy. Although the numbers vary, in a recent year, about 16 percent of our workforce was made up of public employees. Police officers, firefighters, teachers, and sanitation workers are examples of public employees. Governments also employ administrative assistants, lawyers, data analysts, accountants, records clerks, department managers, maintenance technicians, and others.

From time to time, the government attempts to reduce the size of its workforce. However, citizens continue to demand more from their governments, and human resources must be added to meet these demands.

Raising Revenue

Governments must have money to be able to buy goods and services and hire and pay workers. Because governments provide goods and services, usually at no charge to the public, they must have other means of raising income.

Government income is referred to as its *revenue*. Taxes are a common method governments use to raise revenue. Tax policies are established to pay for the services provided. Taxes may be levied on earnings, property values, and the sale price of goods and services.

Your individual earnings are subject to both federal and state income taxes. Taxes on the earnings of individuals are the largest source of revenue for the federal government. Corporate income taxes, based on the business's profit, also provide a substantial amount of revenue for the federal government.

Local governments generally rely on a *property tax*, or revenue from taxes on real estate. This tax is based on the assessed value of land and buildings attached to the ground. Property tax revenues are used to fund schools and other government services. Both businesses and individuals pay this tax.



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How does the U.S. government use the money collected from income taxes?

Sales tax, a state or local tax on the price of goods and services, is a major source of income for some cities, counties, and states. Sales taxes are collected by the seller and remitted later to the government. The business that sells the taxed good or service keeps a small part of what is collected to help pay for the expense of keeping records of the taxes collected.

Borrowing Money

Governments also have a frequent need to borrow money. When a government needs to build a new school, courthouse, or convention center, it may obtain the needed funds through borrowing.

A common form of government borrowing is through issuing bonds. If you buy local and state *government bonds*, also called *municipal bonds*, you are lending money to the government that issued the bond. The government becomes a debtor and pays you interest on the amount you have invested. Banks, insurance companies, and other financial institutions help finance governments by purchasing these bonds in large quantities. They sometimes resell the bonds in smaller units to businesses and individuals. Government bonds are a good form of investment for many individuals because they are considered less risky than other investments and are often exempt from federal, state, and local income taxes.

The U.S. government also sells U.S. savings bonds. These bonds are available to purchase in various amounts. Bondholders earn a fixed rate of return, and the earnings are exempt from state and local income taxes.



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Why does the U.S. government issue bonds?

TEAMWORK

Review the categories of taxes collected by local, state, and federal governments in your state. In each of those categories, identify the taxes that you and your parents must pay. In groups, discuss whether those taxes seem fair and whether or not as citizens you get your money's worth for the services provided by the governments. As a class, share and discuss your answers.

CheckPOINT

What are the four business activities governments perform?
