

Money In America





HOW HEALTHY IS
AMERICA'S
ECONOMY?



Where We Are Headed

1. The American economy today
2. How we got here

The History of the American economy

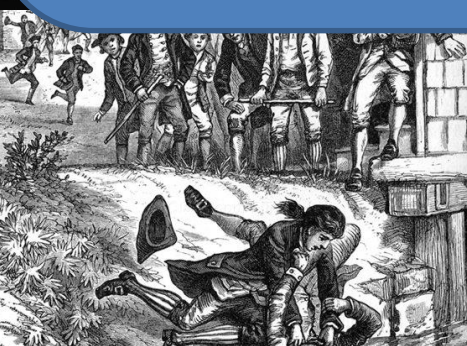
- Economic trends
- Booms and Busts
- Government policy

Assessment: What is better? Supply-side or demand-side economics?

Winners and losers in the American Economy

- The history of wealth distribution
- Economic classes
- The labor movement
- Living in the American economy

Assessment: Is America the land of opportunity?

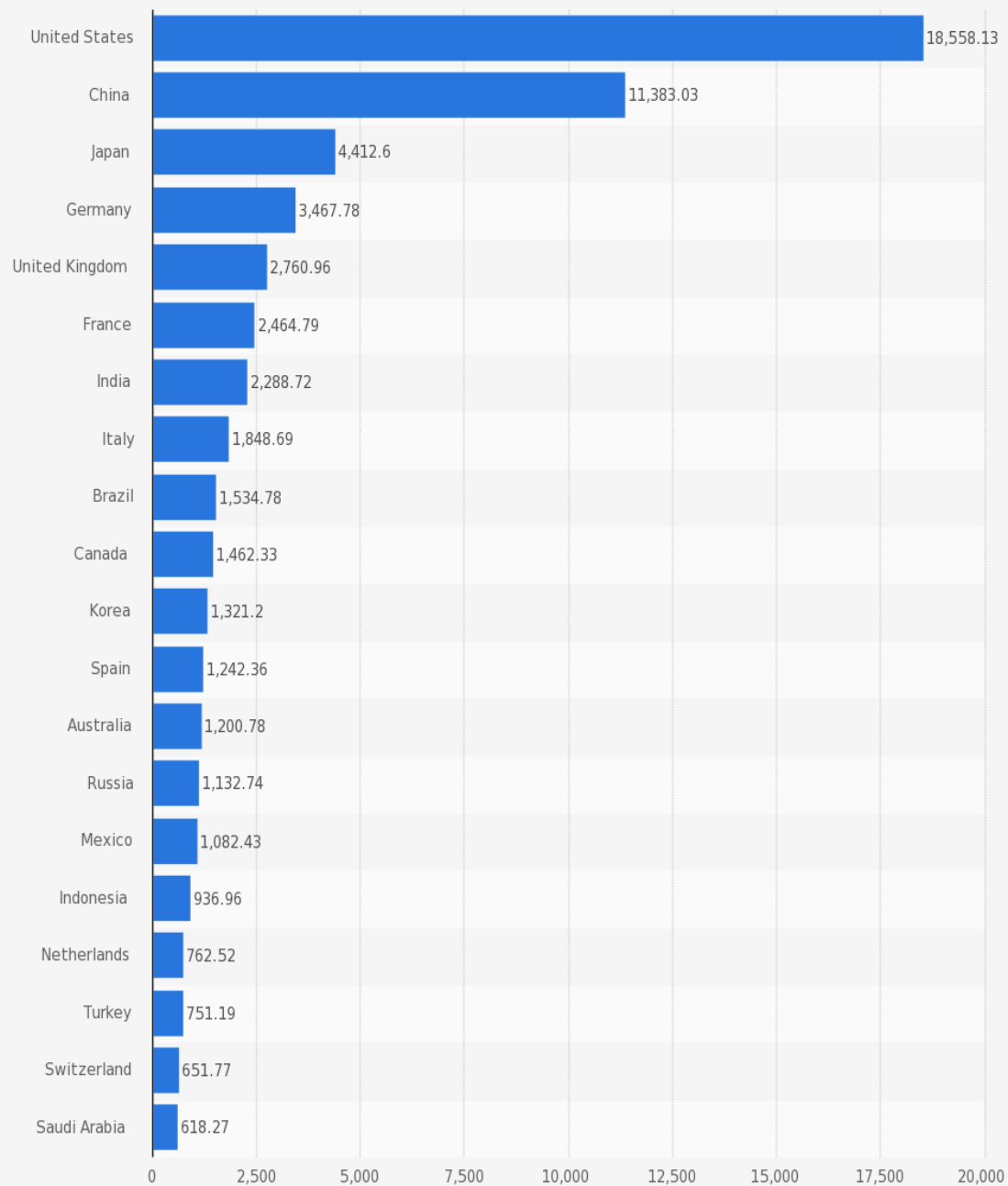


3. Where to go from here

Assessment: What should the government budget policy be?

The American Economy Today

The 20 countries with the largest gross domestic product (GDP) in 2016 (in billion U.S. dollars)

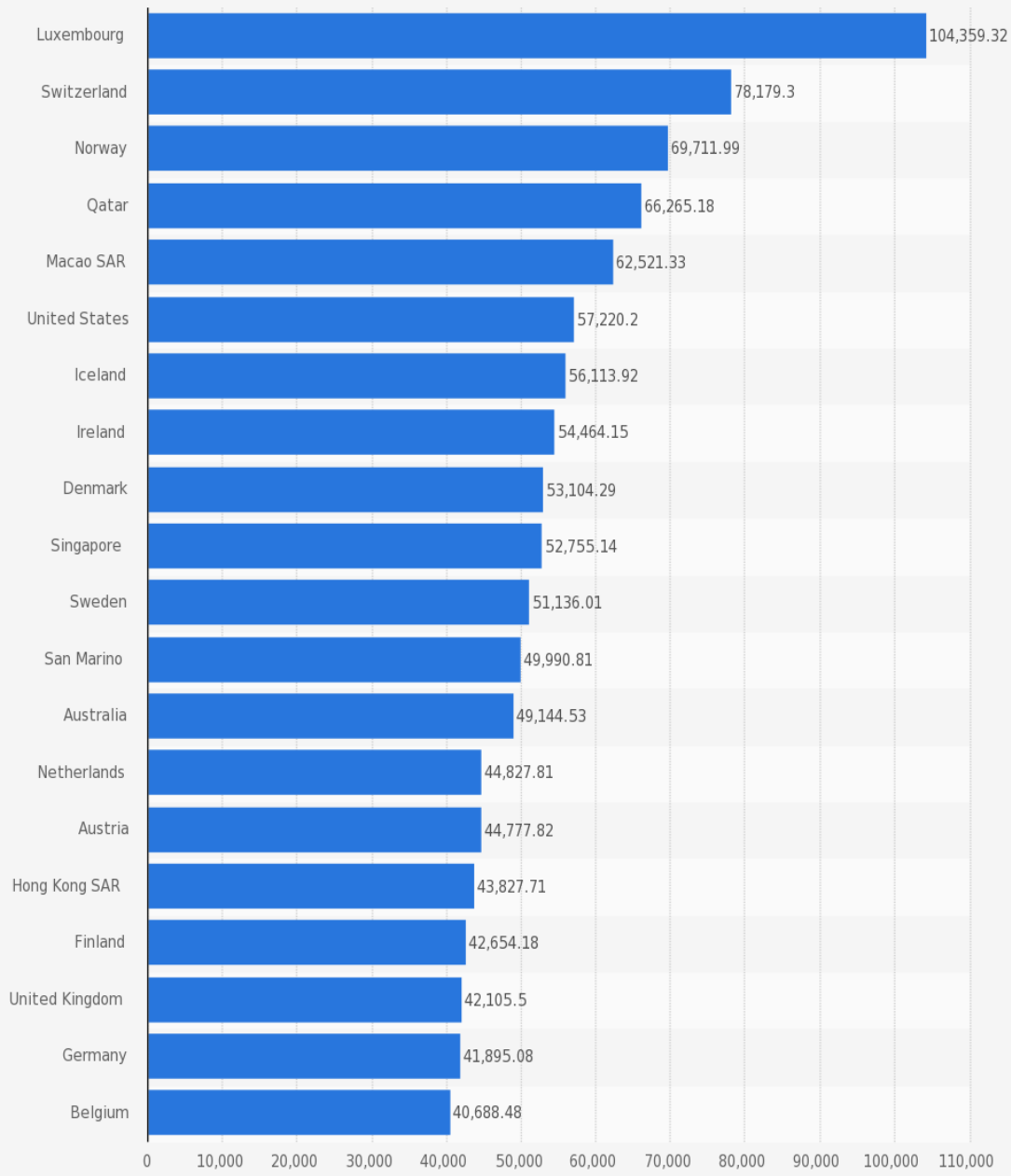


GDP=Gross
Domestic Product

Gross domestic product 2015, PPP (millions of Ranking Economy international dollars)

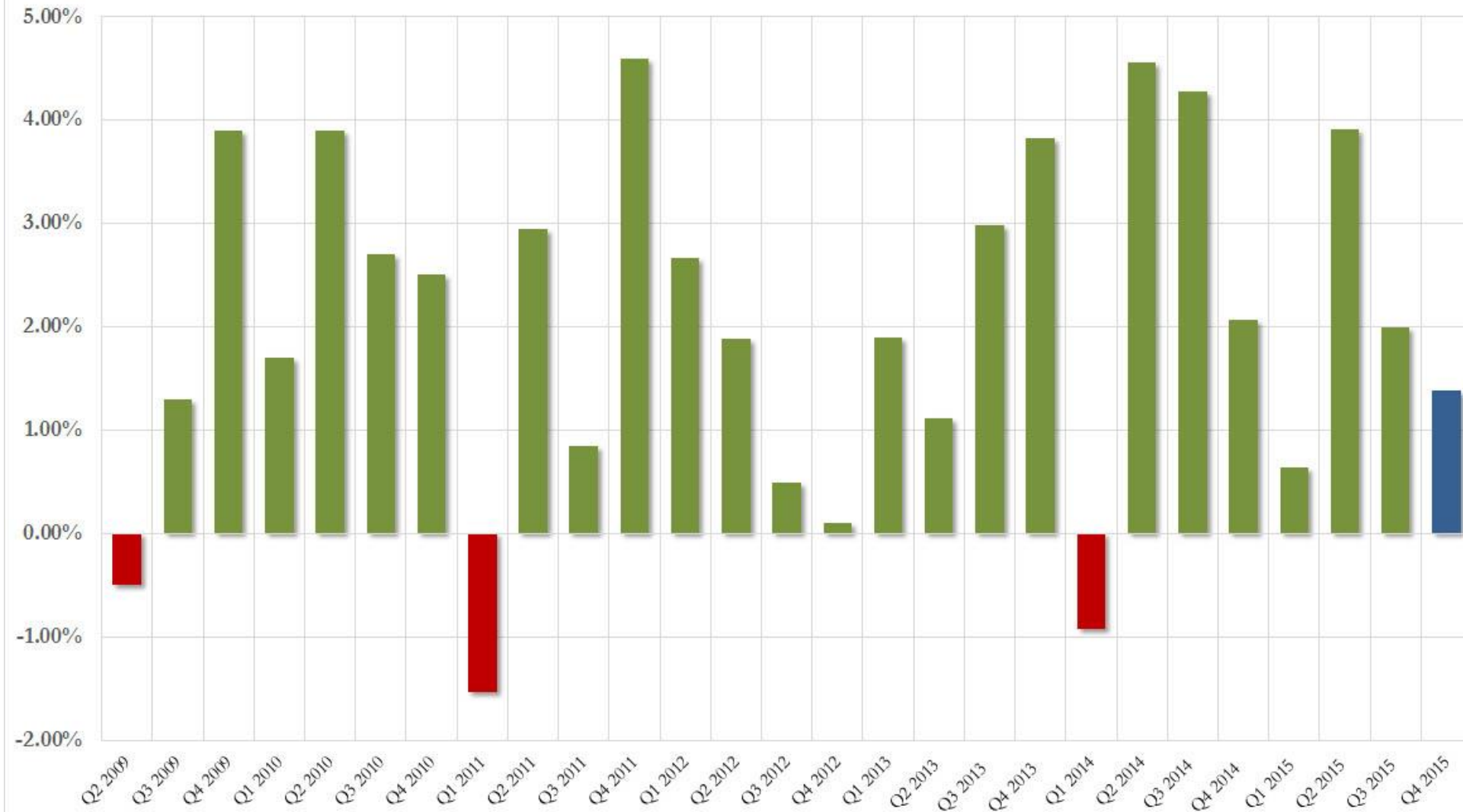
- 1 China 19,524,348
- 2 United States 17,946,996
- 3 India 7,982,528
- 4 Japan 4,738,294
- 5 Germany 3,848,272
- 6 Russian Federation 3,579,826
- 7 Brazil 3,192,398
- 8 Indonesia 2,842,241
- 9 United Kingdom 2,691,809
- 10 France 2,650,823
- 11 Mexico 2,194,431
- 12 Italy 2,182,580
- 13 Korea, Rep. 1,748,776
- 14 Saudi Arabia 1,685,204
- 15 Spain 1,602,660
- 16 Canada 1,588,596
- 17 Turkey 1,543,284
- 18 Iran, Islamic Rep. 1,357,025
- 19 Thailand 1,108,108
- 20 Nigeria

The 20 countries with the largest gross domestic product (GDP) per capita in 2016 (in U.S. dollars)



GDP Growth

US Quarterly GDP



U.S. trade in goods by region 2010

Percent

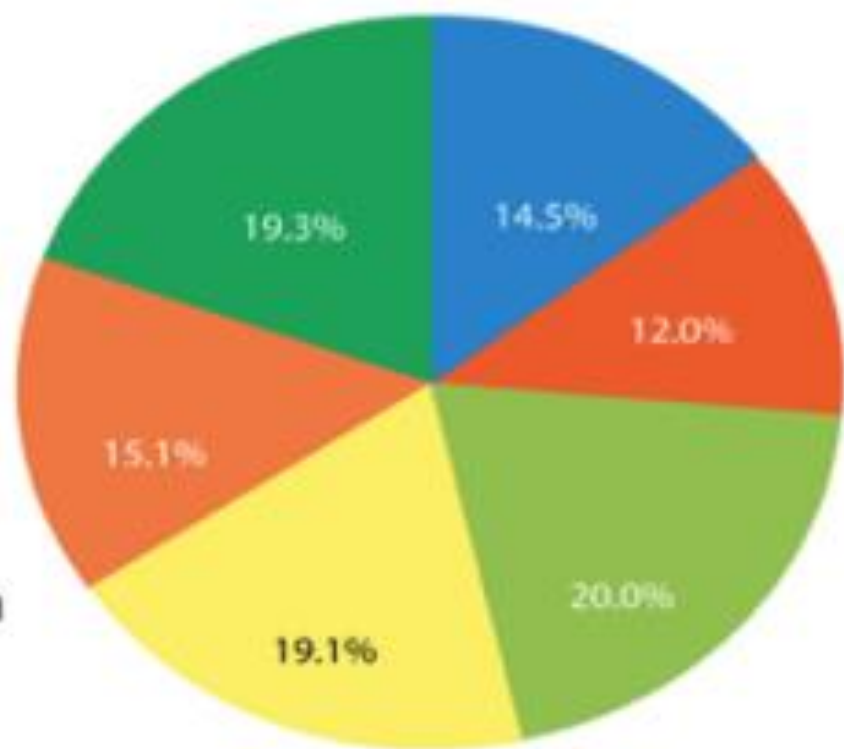


Exports

\$1.278 Trillion

Imports

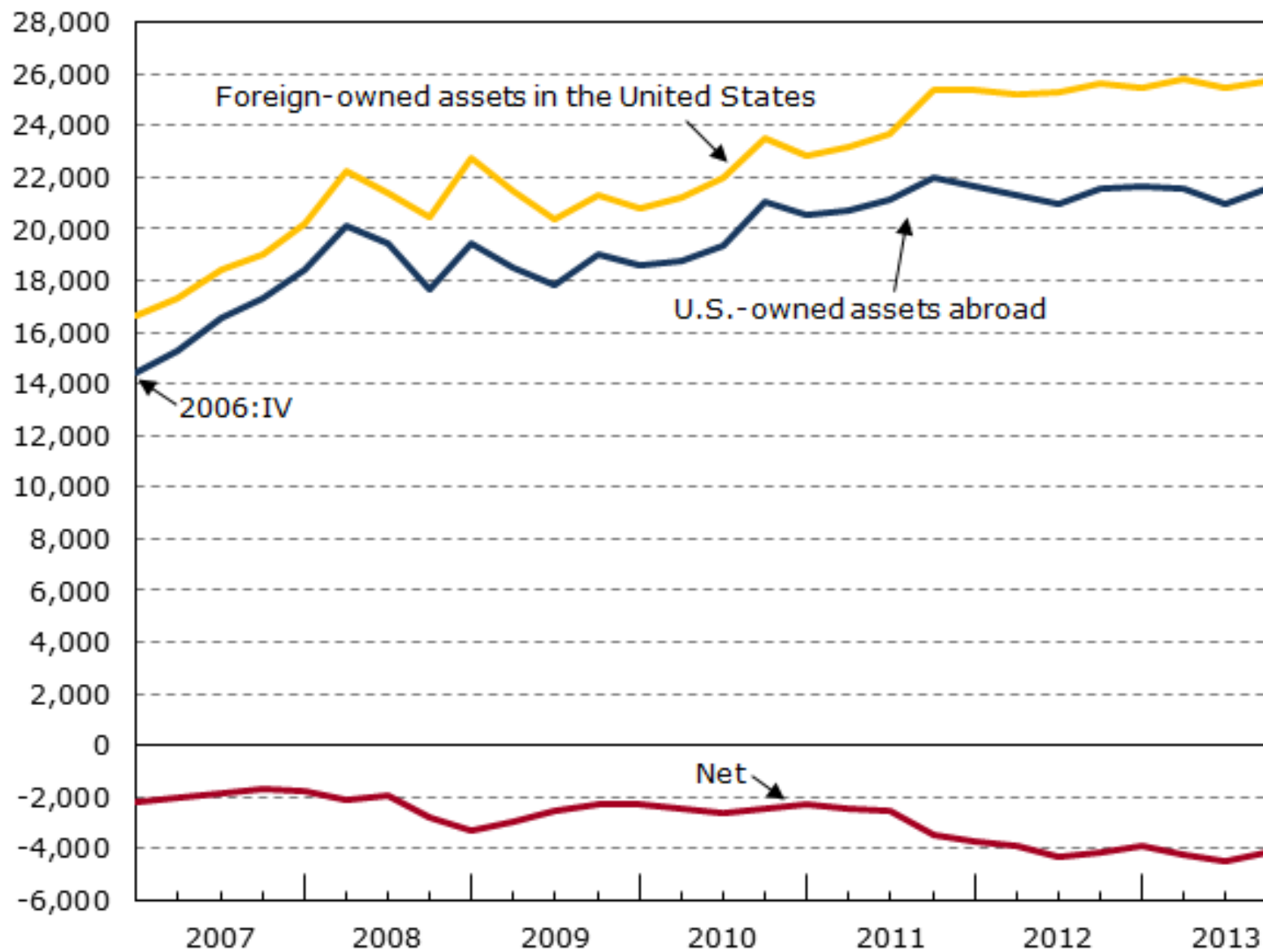
\$1.912 trillion



Source: U.S. Department of Commerce

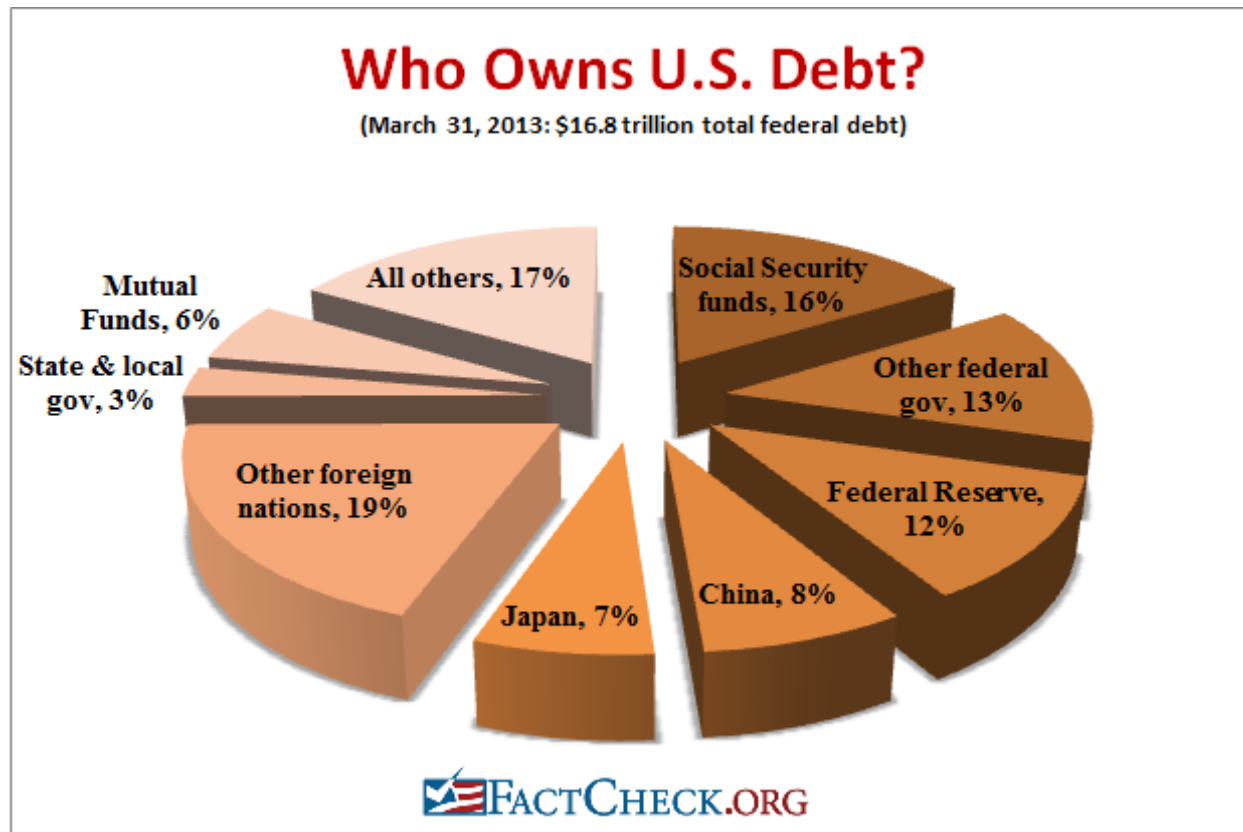
U.S. Net International Investment Position at the End of the Quarter

Billions of dollars



Debt

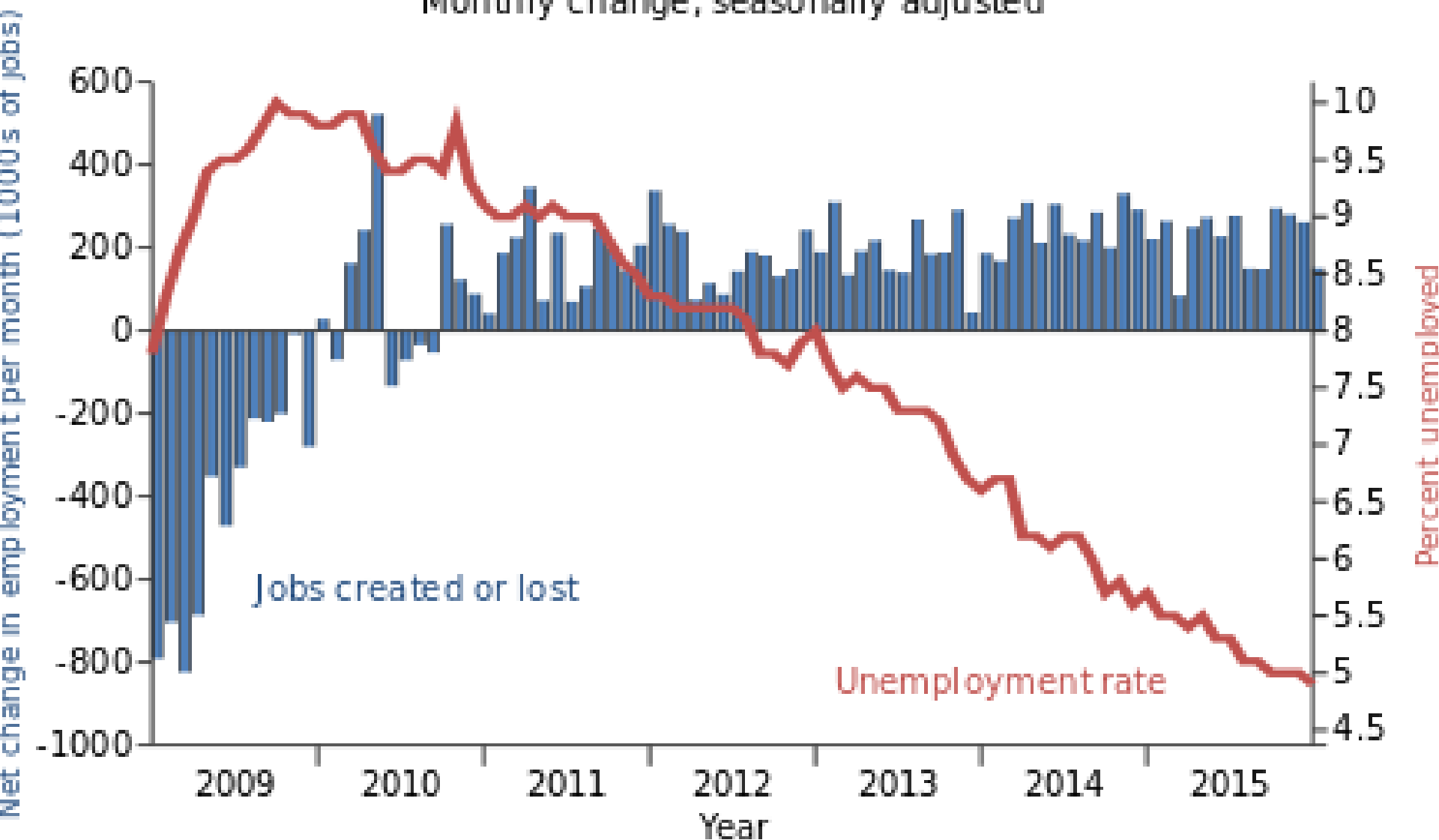
- Country ranking of debt
- Country ranking of budget surplus or deficit



United States Employment Statistics

Jan 2009 - Jan 2016

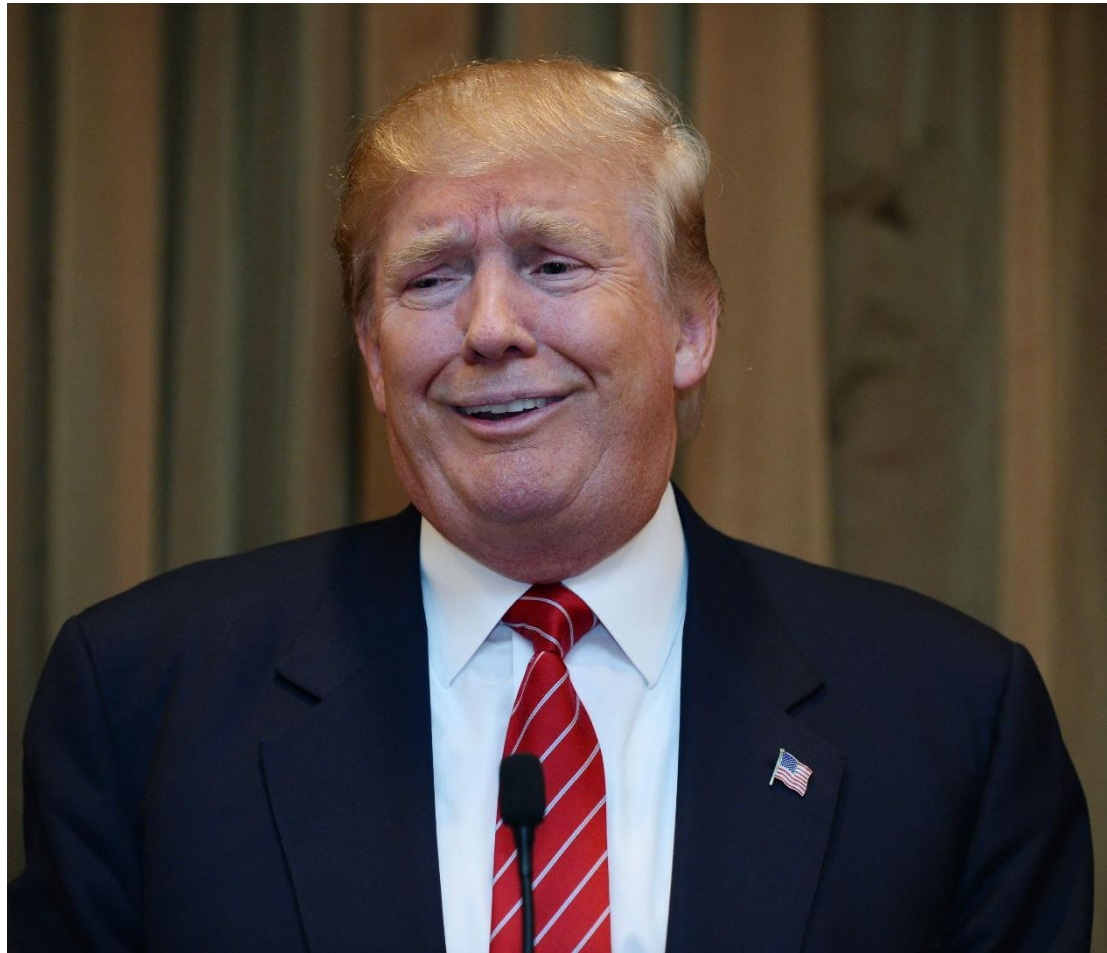
Monthly change, seasonally adjusted



A deeper look at unemployment

- TPS: Where does the U.S. rank in taxation levels? (1=highest, 219=lowest)

"We have the highest tax rate
anywhere in the world."

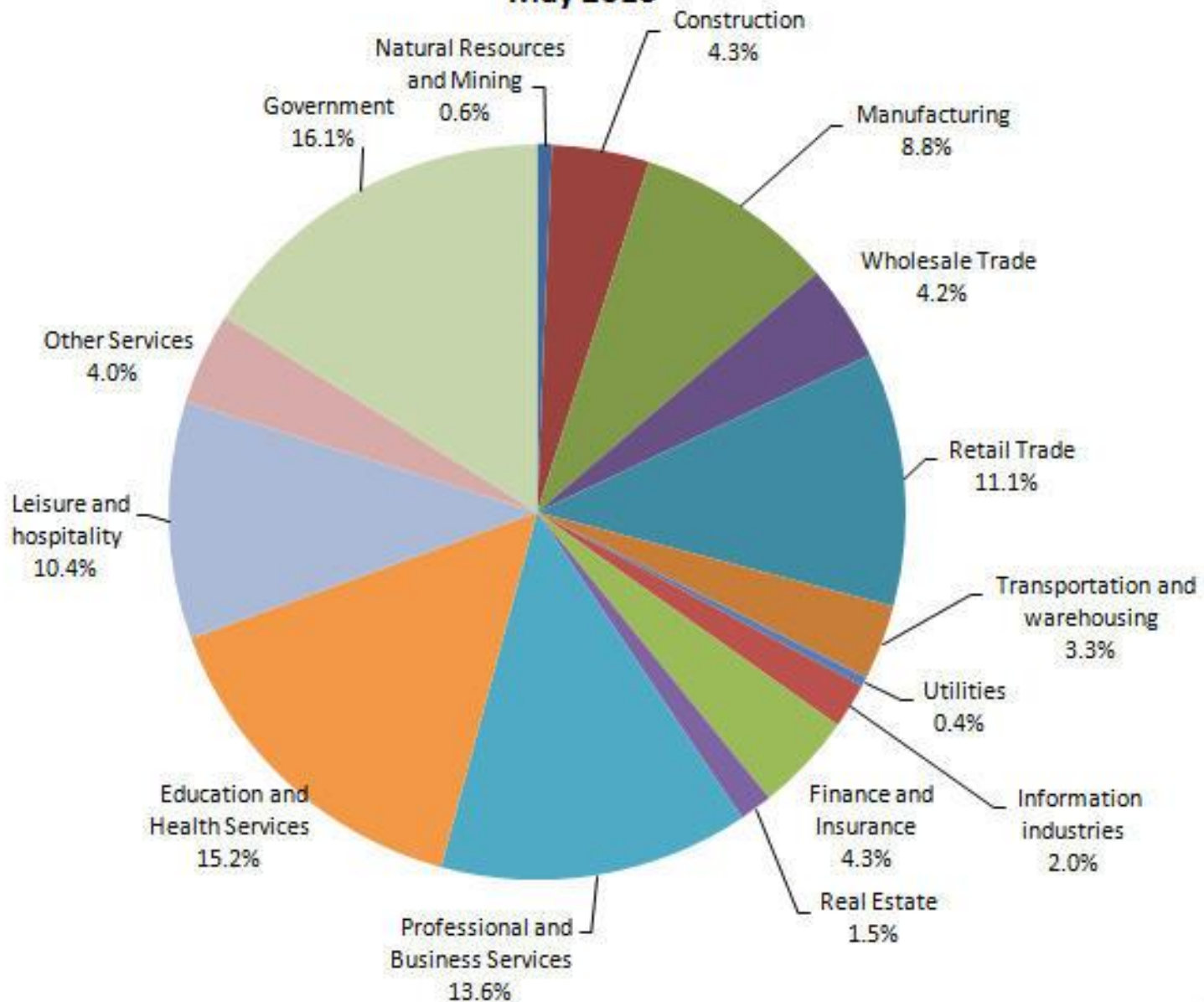


Tax Comparisons

- CIA
- OECD



US Labor Market by Industry May 2013

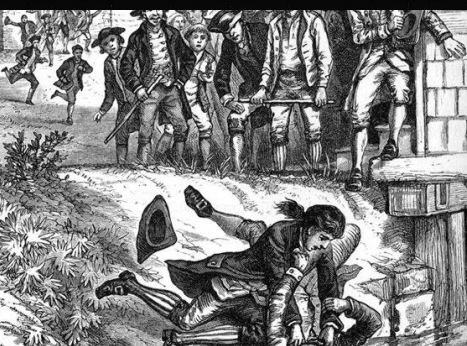


The Economy in the Colonial and Revolution Eras

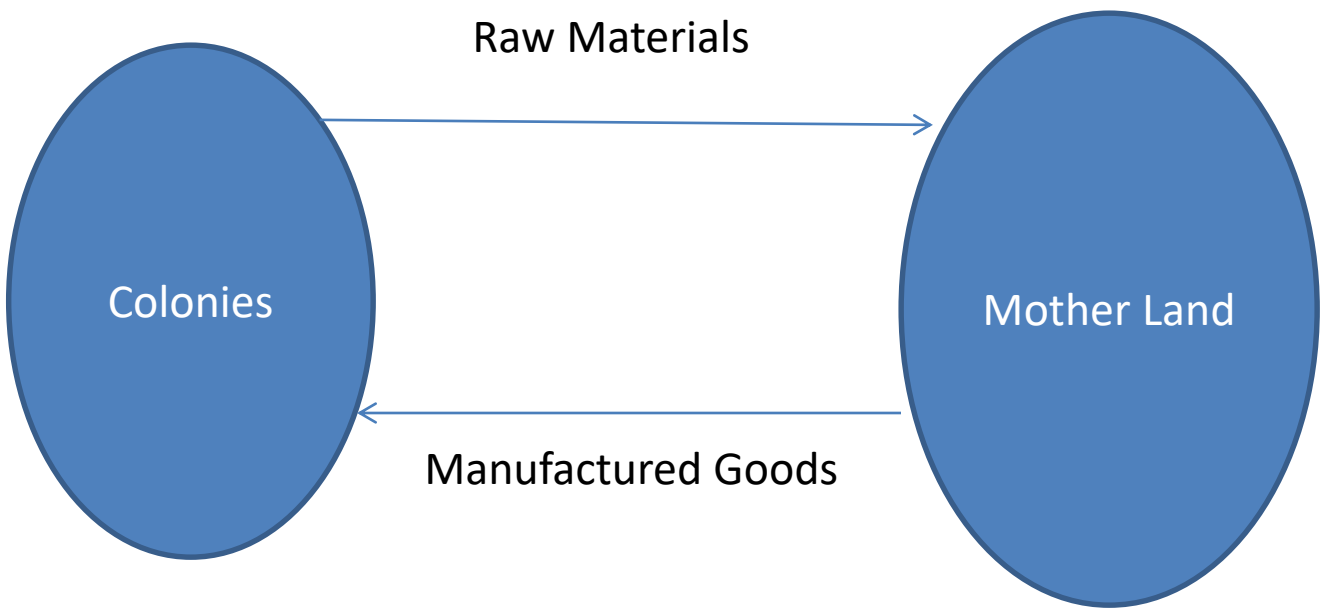
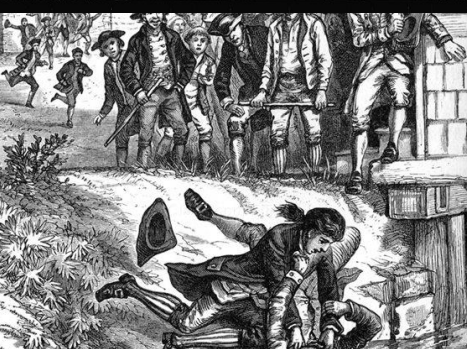


Business and the Colonies

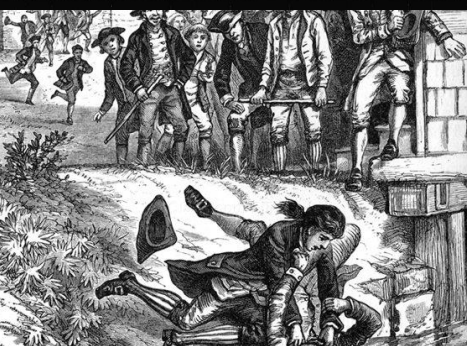
- Mercantilism
 - Economic theory that dominated Europe in the Colonial Era
 - To be wealthy and powerful, countries must accumulate gold and silver
 - Sell more goods than buy
 - Be self-sufficient
- Colonies established to provide gold and materials for mother country



Colonial Economy

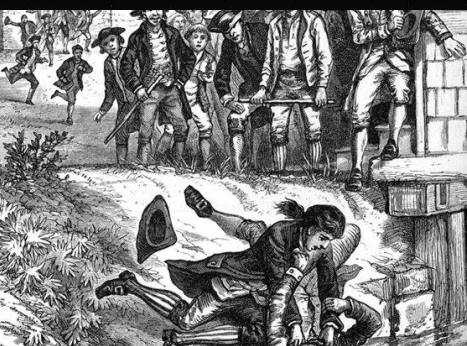


Economic Problems for the Young United States



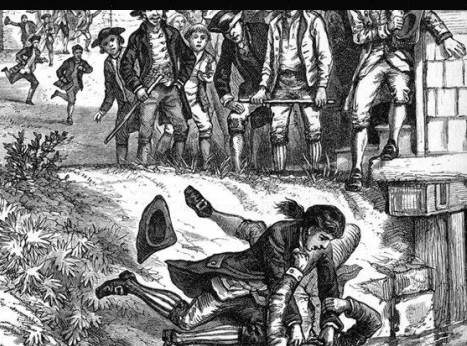
- National Government and individual States have large debts after Revolutionary War
- Trade with Britain declines
- Difficult transition to self-sufficient economy
- Many, especially farmers, are in debt
- Money shortage

Responses to Economic Problems



- States have almost complete autonomy
- Actions by states vary
 - Issued bonds
 - Passed tariffs
 - Printed paper money

Shay's Rebellion



- Farmers in Western Massachusetts could not pay debts
 - Sued, thrown in jail
- State legislature dominated by urban and merchant interests
 - Would not pass laws to help farmers
- Local militias close courthouses, march to obtain weapons before heading to Boston
- Militia from eastern Mass. successfully defends armory; 4 farmers dead

Shays' Rebellion Impact

- Wealthy Americans fear more uprisings and government becoming more responsive to poor people
- Call for stronger government
- “Everybody says (the powers of government) must be strengthened... (It is time) to clip the wings of a mad democracy.”

-General Henry Knox



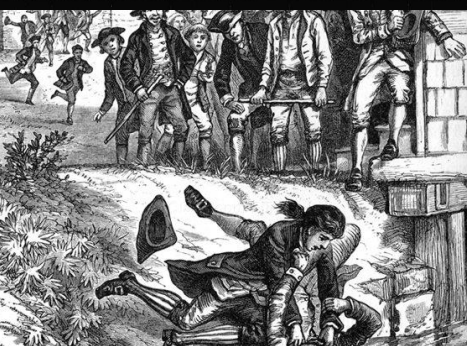
The Constitution





A New Government is Created and Must Be Funded

- In small groups, study the Primary Source on pp. 156-157
- Answer the following questions
 1. What is tonnage?
 2. What made the most money for the federal government?
 3. How much did the government make beyond what was needed for interest payments?
 - 4 and 5. Answer the two DBQ questions.



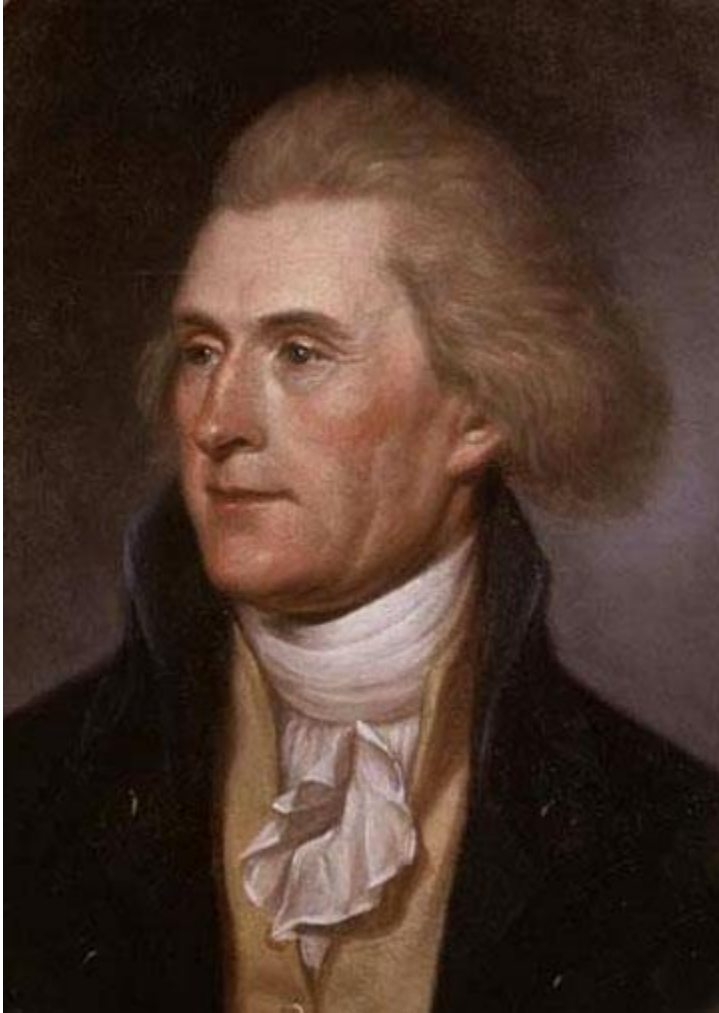
The Whiskey Rebellion (1794)

- Pits large landowners vs. squatters and renters
- Which side do you think the federal government took?
 - Hint: George Washington owned over 50,000 acres at the time of his death

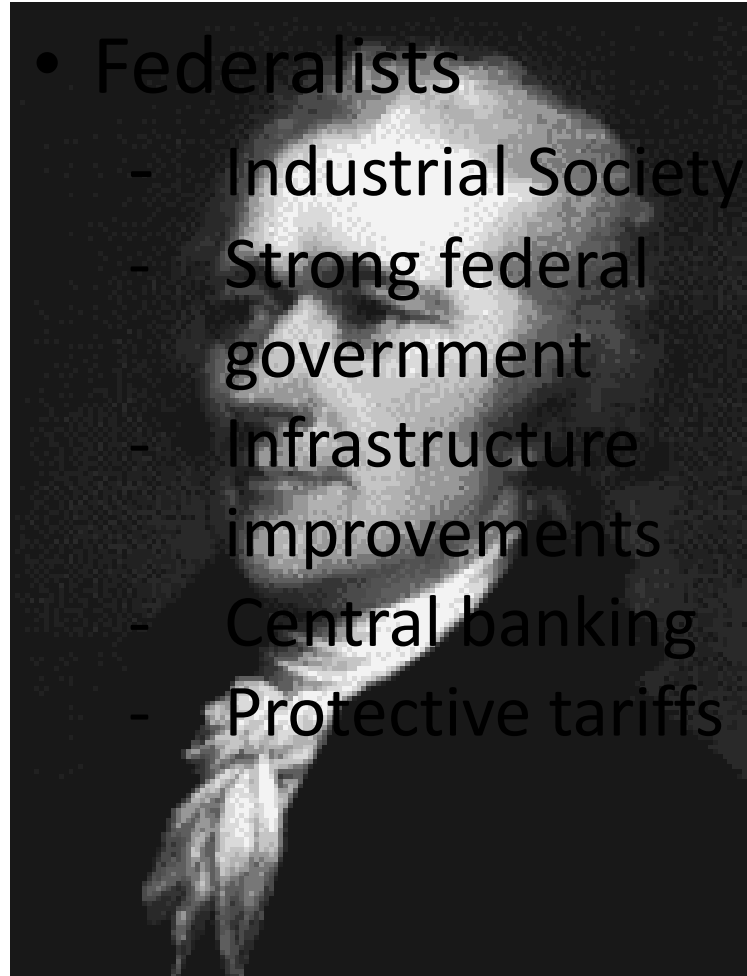


A tax collector is tarred and feathered by anti-tax frontiersmen during the Whiskey Rebellion.

The First Political Parties



- Federalists
 - Industrial Society
 - Strong federal government
 - Infrastructure improvements
 - Central banking
 - Protective tariffs



The Economy in the Young Republic Era

Equality and Opportunity in the Young Republic Era

“We have no paupers...The great mass of our population is of laborers; our rich...being few, and of moderate wealth. Most of the laboring class possess property, cultivate their own lands, have families, and are enabled to exact from the rich and the competent such prices as enable them to be fed abundantly, clothed above mere decency, to labor moderately and raise their families. The wealthy, on the other hand,...know nothing of what the Europeans call luxury. They have only somewhat more of the comforts and decencies of life than those who furnish them. Can any condition of society be more desirable than this?”

-Thomas Jefferson, 1814

Equality and Opportunity in the Young Republic Era

“Nothing struck me more forcibly than the general equality of conditions among the people.”

-Alexis de Tocqueville

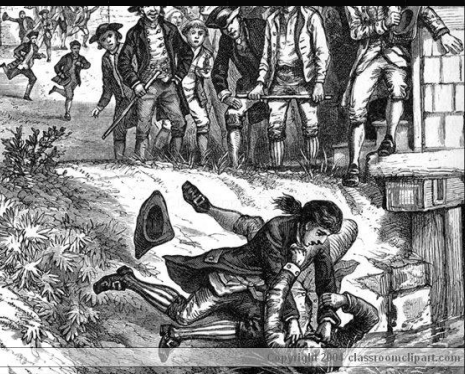


Opportunity in the Young Republic

- Land Ownership Opportunities
 - Government credits (various laws 1787-1804)
 - General Pre-emption Act (1841)
 - Gives squatters on government land legal title
 - Homestead Act (1861)
 - Free plots of land in frontier areas
- In 1900, 75% of rural Americans own their own land

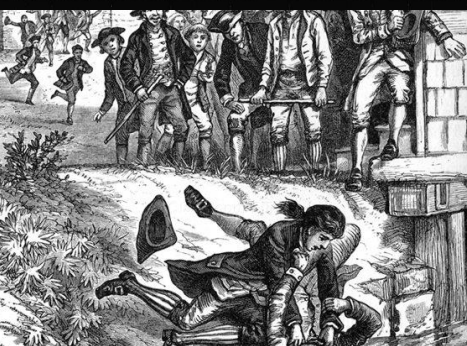


A New System of Production



Old	New
Hand tools	Large machines
Skilled artisans	Unskilled machine operators
Home	Factories
Goods sold locally	Goods sold nationally or internationally

Transportation Revolution



- Canals

- 3,300 miles of canals by 1840
- Erie Canal (completed 1825) connects Lake Erie with the Hudson River

- Roads

- National Road first east-west highway
- Private companies build toll roads (4,000 miles by 1821)

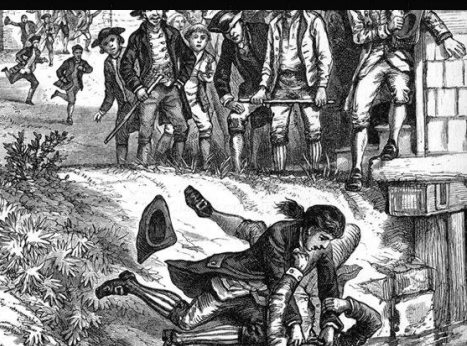


Maps In Motion
 Click here to view an animated version of this map.



Free Enterprise System

- **Economic system characterized by**
 - Private ownership of property and productive resources
 - The profit motive to stimulate production
 - Competition to ensure efficiency
 - The forces of supply and demand to direct the production and distribution of goods and services
 - Minimal government interference



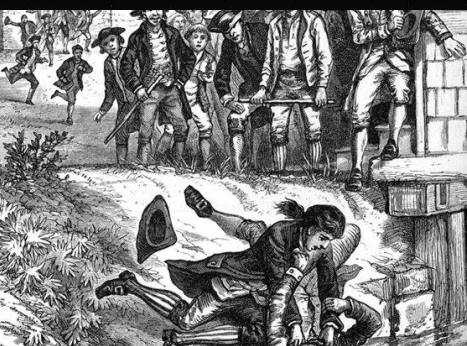
Types of Businesses

INFOGRAPHIC

Types of Business Organizations

	Sole proprietorship	Partnership	Corporation
Who owns the business?	One person owns the business and often manages it	Two or more people own and manage the business	All investors who own its stock; managers are hired
How is money raised?	Owner uses savings and borrows money from a bank	Partners each invest some of their own money and borrow money from a bank	Shares of stock are sold to finance business; bank loans are also used
Advantages	Easy to start Low fixed costs, as facilities are usually small and inexpensive to maintain	Partners share responsibility for running the business Low fixed costs	Limited liability for investors Low operating costs; can stay open if economy slows
Disadvantages	Difficult to raise money; limited opportunities for growth; owner has unlimited liability; high operating costs may force business to shut down if the economy is weak	Partners may disagree on direction the company should take; owners have unlimited liability High operating costs	Often have high fixed costs because of size of facilities and equipment needed

Corporations



- Prior to 1830's corporations had to get charters from state legislatures
 - Mostly limited to “public good”
- 1830's states start passing general corporation laws
 - No charter needed
 - **Limited liability**
 - Investors not responsible for corporation's debts

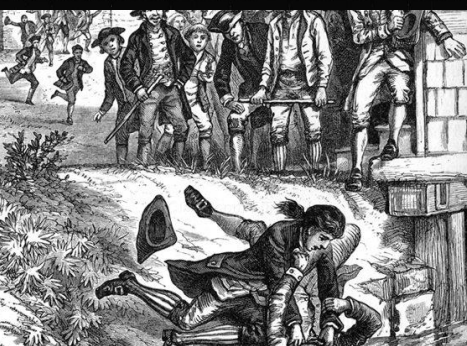
The Civil War's Impact on the Economy

- The expansion of industry
 1. War creates a demand for many products and improved transportation
 2. The secession of southern states from the union removes opposition of industry-friendly policies, including tariffs

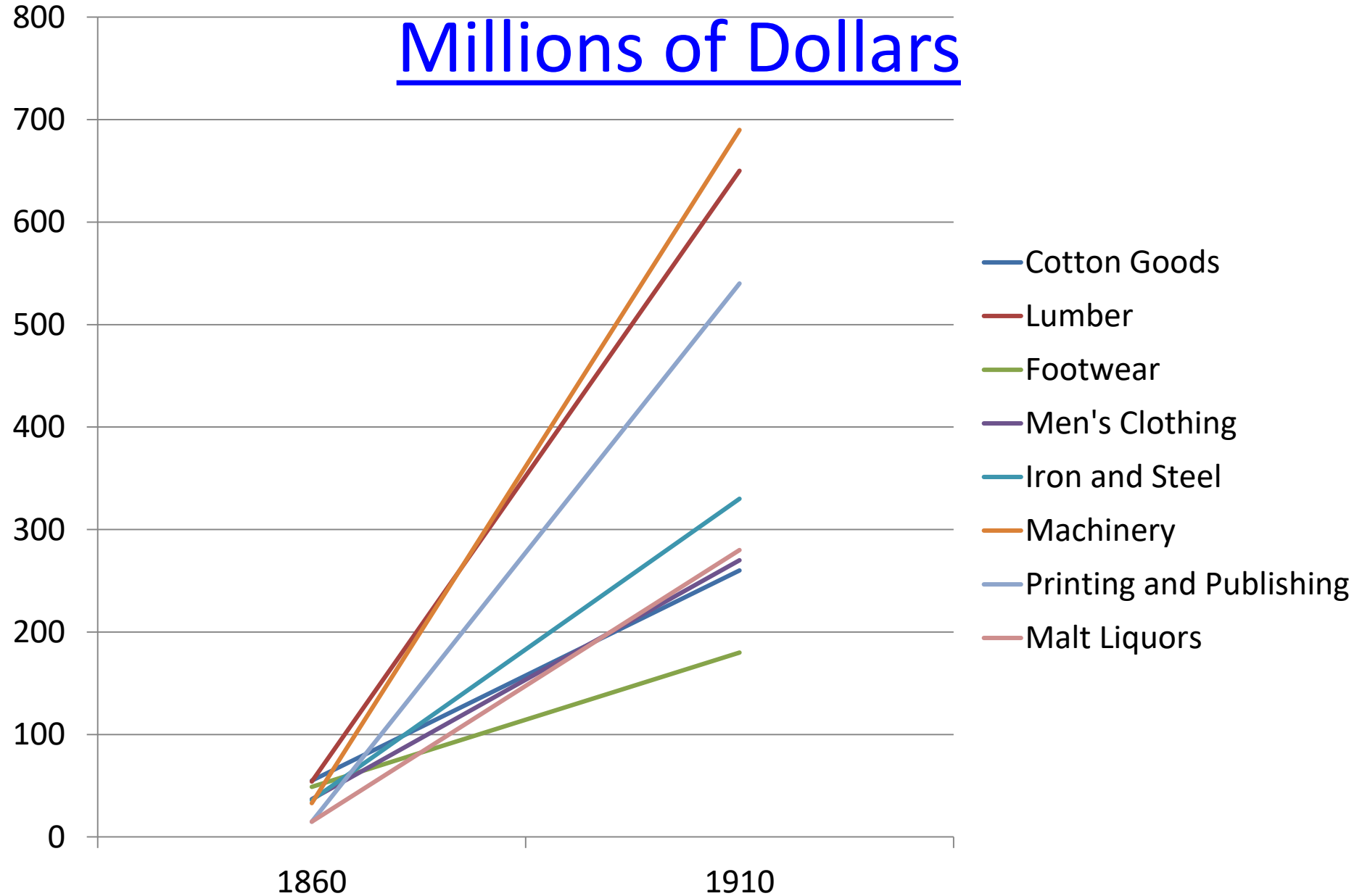
The Economy of the Gilded Age

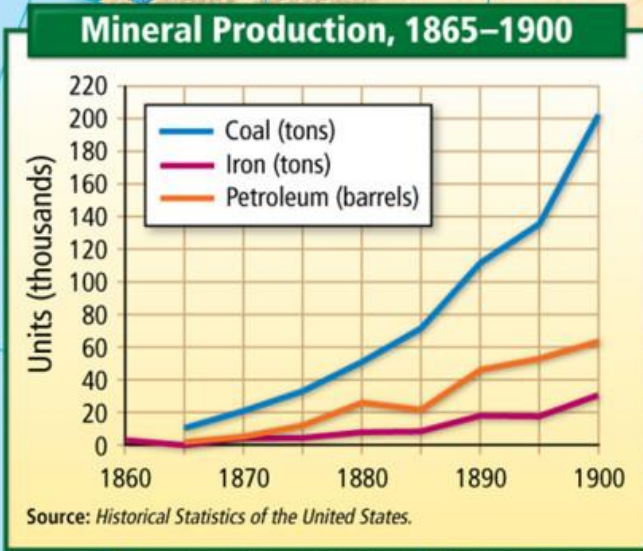
The Rise Of Industry

- Industrialization greatly increases after the Civil War
- Contributing factors
 - Large workforce
 - Population triples 1860-1910
 - 17 million new immigrants
 - Natural Resources
 - Improved technology
 - Free enterprise
 - Laissez-faire approach: minimal government interference
 - Railroad



Largest Industries by Value Added, in Millions of Dollars





American Inventions, 1865–1895

1872

Elijah McCoy invents automatic lubricator for steam engines, allowing trains to run faster with less maintenance

1877

Thomas Edison develops phonograph



▲ *Early Edison phonograph*

1886

Josephine Cochrane develops automatic dishwasher; its basic design is still used today

1870

1875

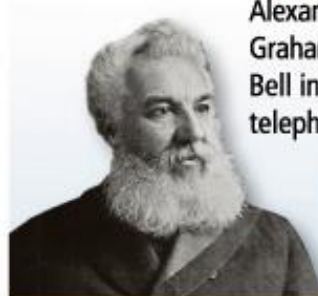
1880

1885



1873

Christopher Sholes develops typewriter and sells it to Remington and Sons



▲ *Alexander Graham Bell*

1876

Alexander Graham Bell invents telephone



▲ *Bell's first telephone*

1882

Lewis Latimer invents the carbon filament for lightbulbs, allowing them to last much longer



▲ *Edison's first commercial lightbulb*



1893
Charles and Frank Duryea invent gasoline-powered automobile



▲ *The Wright Flyer lifts off, December 17, 1903.*

1903
Wilbur and Orville Wright make first successful powered flight at Kitty Hawk, North Carolina

1890

1895

1900

1905

1888
George Eastman patents first hand-held camera, the Kodak



- 1860: A good blast furnace produces 7-10 tons of pig iron a day
- 1910: 500 tons a day

Did the U.S. practice laissez-faire economics in the late 1800's?

Yes	No
Low taxes	Railroad subsidies
Few regulations and low oversight	High tariffs
No effort to control wages or prices	

Gilded Age Economic Growth

- GDP grew about 48% per decade
- But all is not perfect...
 - Creative destruction: competition and innovation leave some people, companies, and industries in the dust
 - Panics of 1873 and 1893





The Bradley Fair Ball

H. Vickor

“Robber Barons” or “Captains of Industry”?

- John D. Rockefeller
 - Founded Standard Oil in 1863
 - Nation’s largest oil refiner by 1870
 - 90% of nation’s oil refining by 1880
- Andrew Carnegie
 - Dominated the steel industry
- JP Morgan
 - [Investment banker](#)
 - Bought Carnegie Steel and several others to form U.S. Steel, the first billion-dollar corporation

The Rise of the Steel Industry

Vertical Integration

Integrated steel company



Steel mill



Shipping facilities



Iron mine



Limestone quarry



Coal mine



Horizontal Integration

Integrated steel company



Independent steel mills



Increasing production is one thing, but to make money, you need...

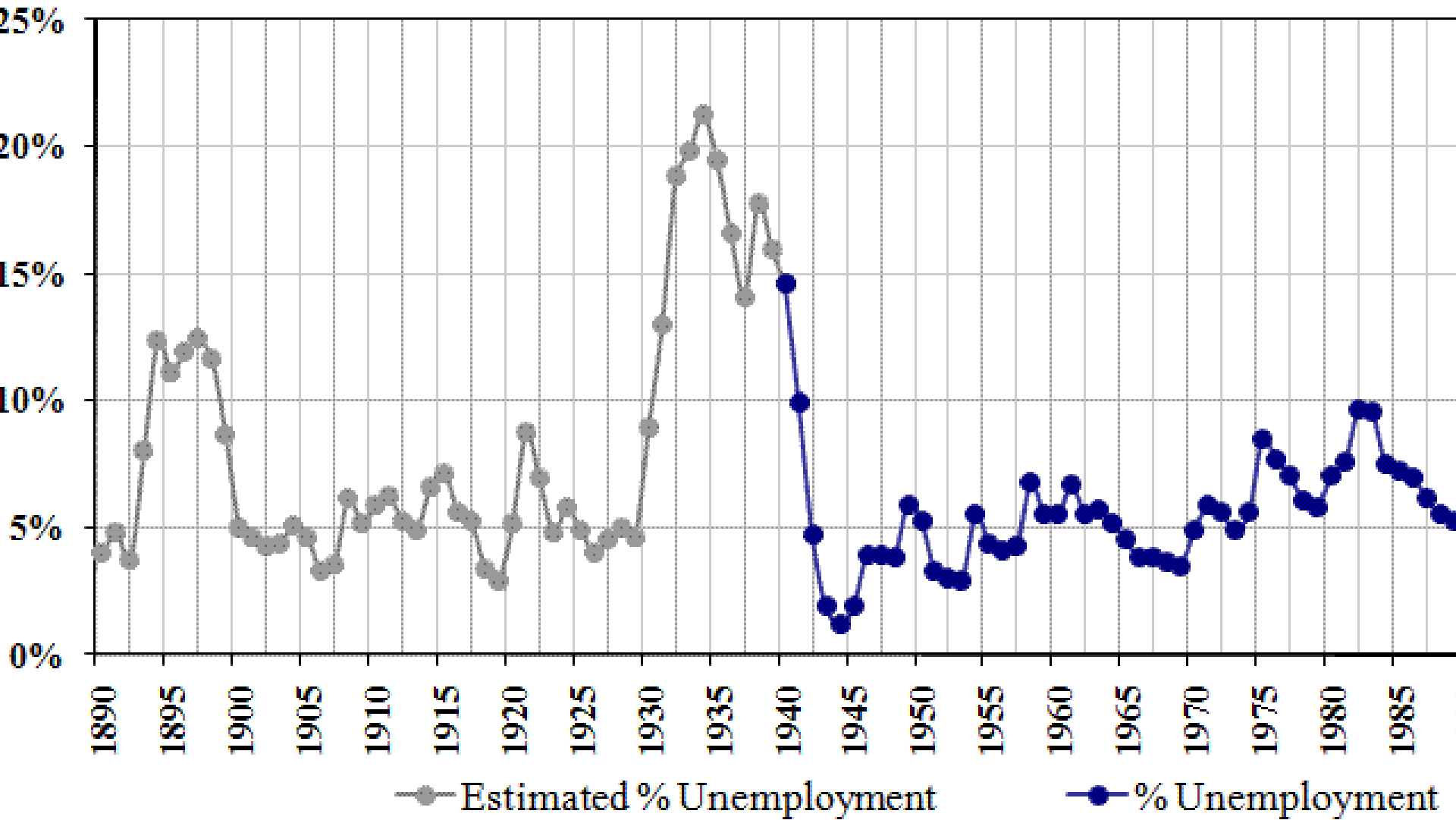
A market!



Unions

- [Labor History in Wisconsin Timeline](#)

United States - Unemployment Rate (1890 - 2009)



The Progressive Era

The Rise of Federal Regulation

Key Legislation



- The Sherman Anti-Trust Act (1890)
 - Used to break up JP Morgan's Northern Securities in 1902
- Hepburn Act (1906) gives the Interstate Commerce Commission the right to set railroad prices
- Meat Inspection Act (1906) required government inspection of meat
- Pure Food and Drug Act (1906) prohibited impure or falsely labeled foodstuffs and drugs

Key Legislation cont.



- Federal Reserve Act (1914)
 - Created 12 regional reserve banks
 - Banks required to keep a portion of their money in the reserve banks
 - Reserve banks set interest rates they charge banks
 - This controls the interest rates of the entire nation and controls the amount of money in circulation
 - Study graphic p.538-539
- Clayton Antitrust Act (1914)
 - “corrected the deficiencies in the Sherman Antitrust Act” (textbook)
- Federal Farm Loan Act (1916)
 - Provided seasonal, short-term loans for farmers and related industries

New Government Agencies

- The Department of Commerce and Labor (1903)
 - Investigate corporations
- Children's Bureau (1912)
- Federal Trade Commission (1914)
 - Power to give “cease and desist” orders to companies

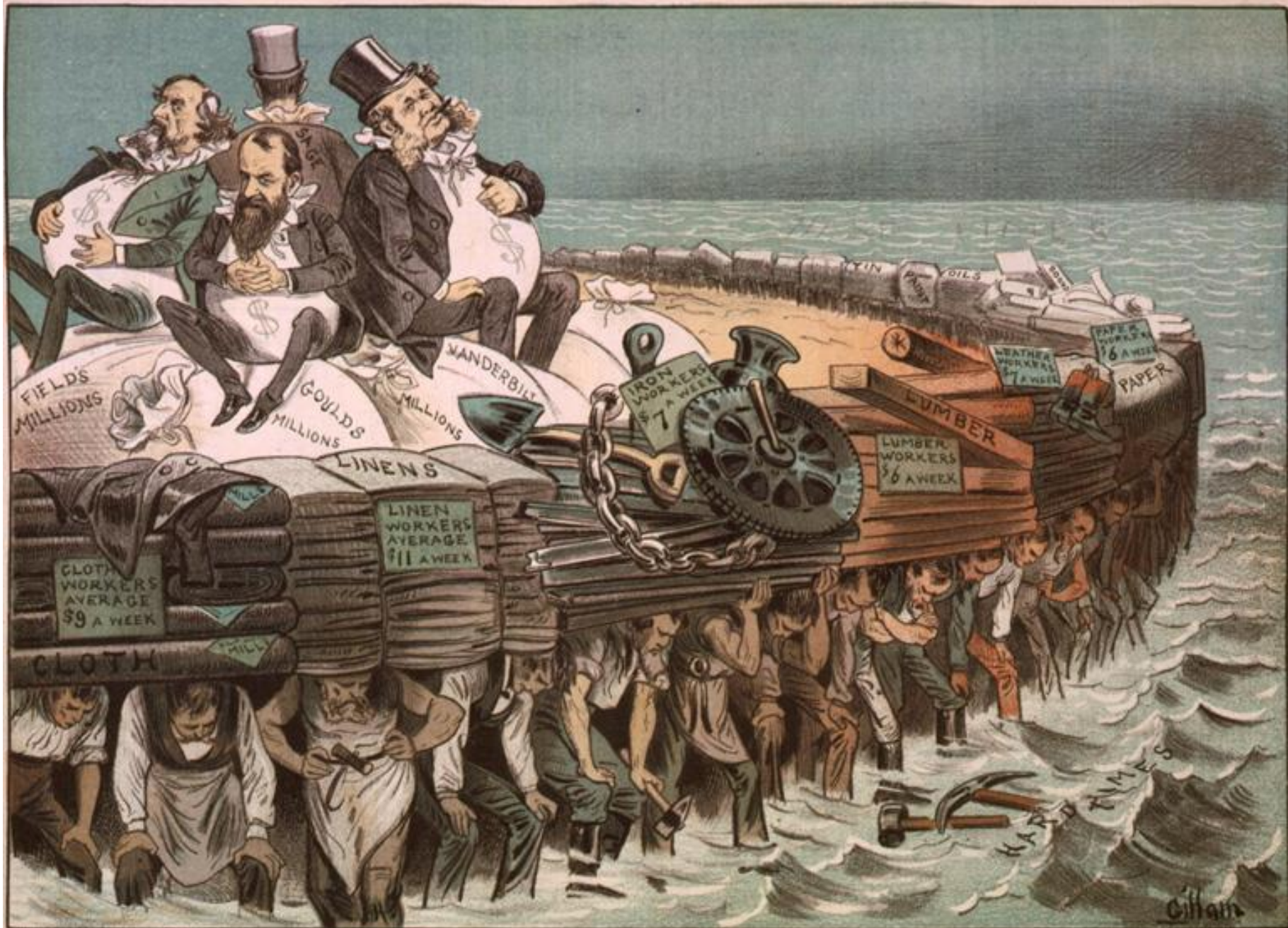


Welfare

- Worker's Compensation Laws
 - Federal program for gov. employees in hazardous jobs started 1908
 - First state worker's comp law 1911
 - By 1929 all but four states have worker's comp laws
- Aid to mothers with dependent children
 - 40 states by 1926
 - Varied widely state to state

Captains of Industry? Robber Barons? Men Who Built America?





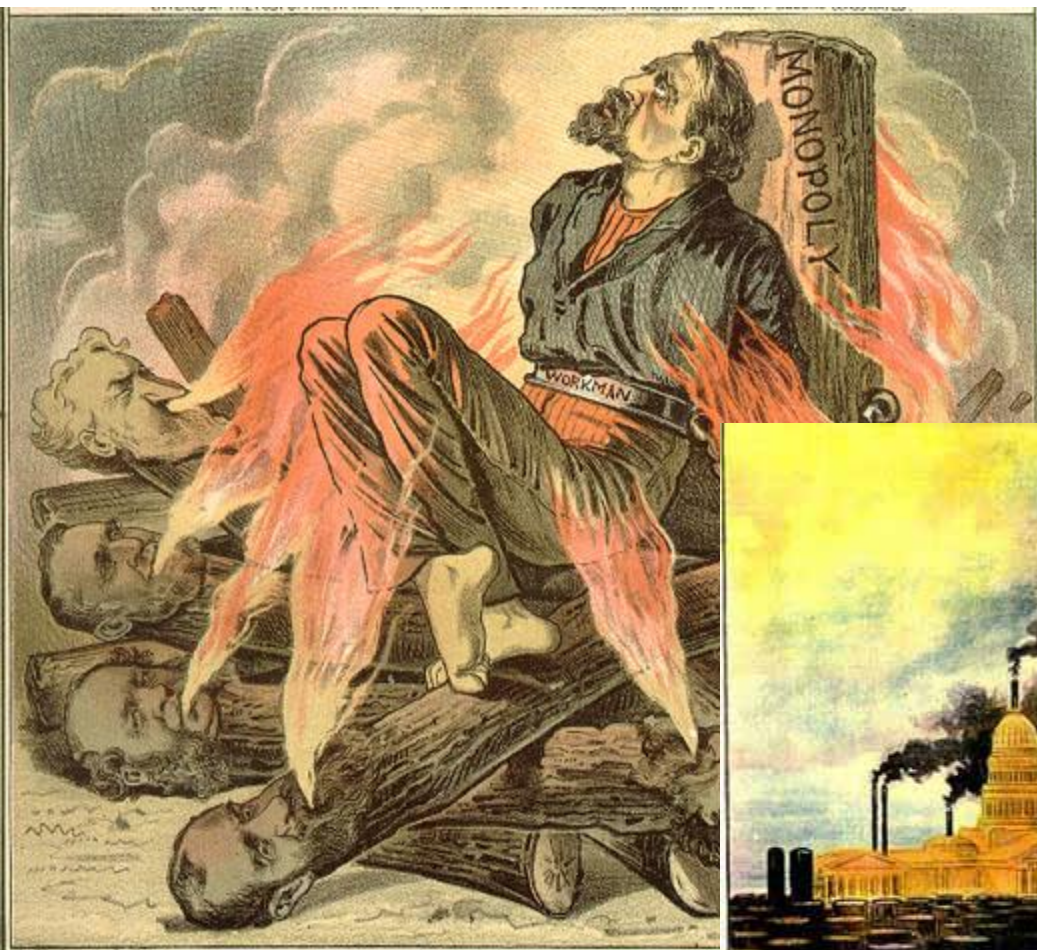
OFFICE OF PUCK 25 WARREN ST. N.Y.

WATER HOUSE & OTHERS LTD. 25 WARREN ST. N.Y.

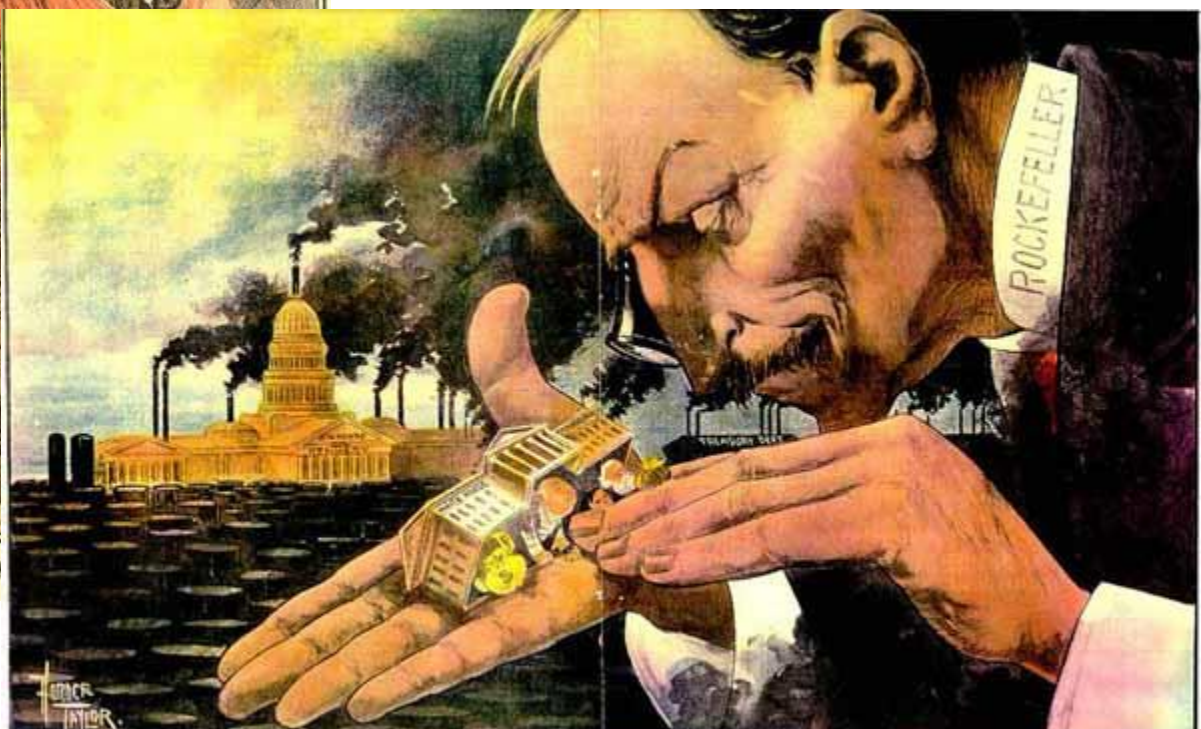
THE PROTECTORS OF OUR INDUSTRIES.

“Corporations, which should be the carefully restrained creatures of the law and the servants of the people, are fast becoming the people’s masters.”

-President Grover Cleveland, 1888



HOPELESSLY BOUND TO THE STA



Carnegie's Gospel of Wealth

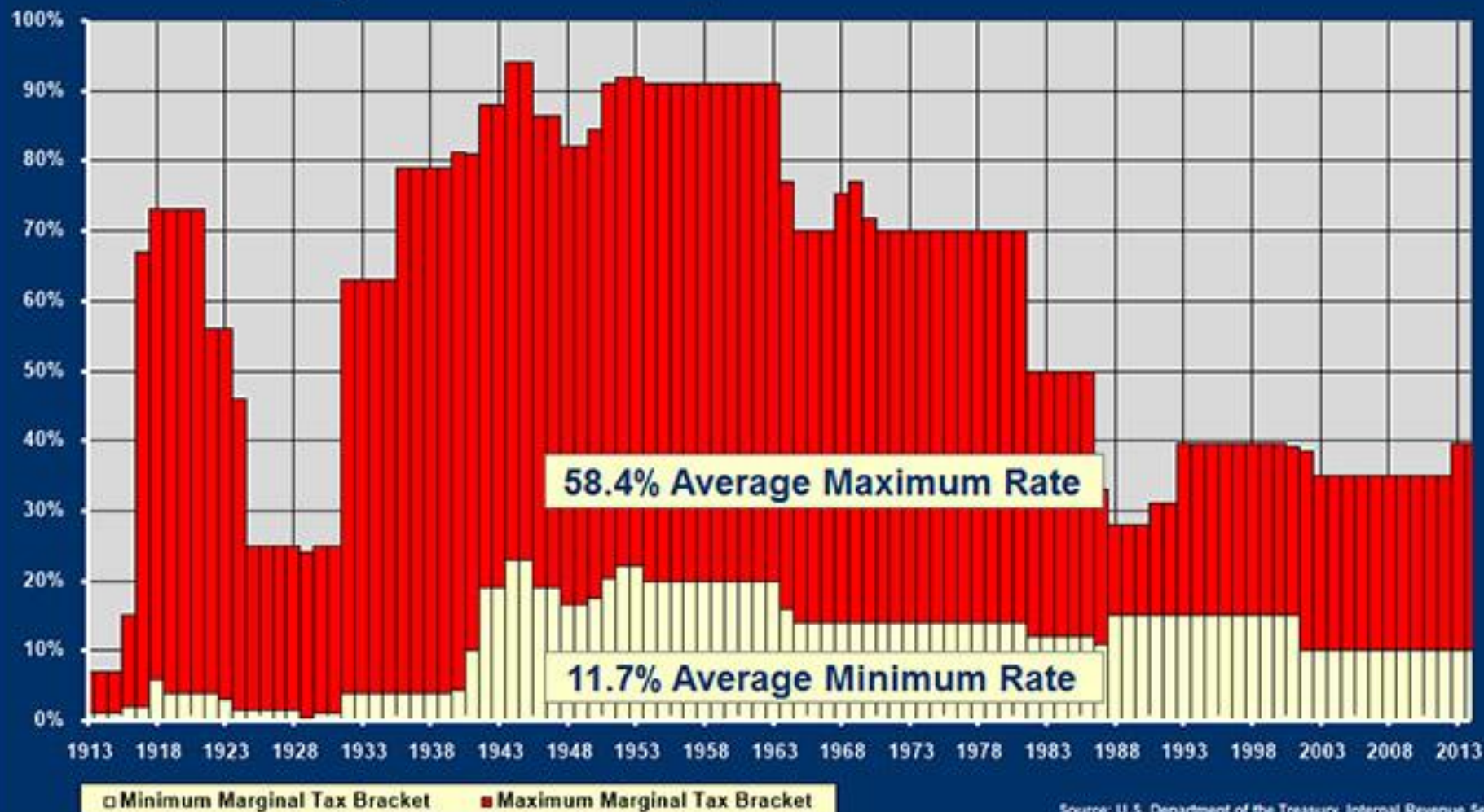
- Read Carnegie excerpt on p. 459



World War I

- The government takes command of the economy
 - Lever Food Control Act gives the federal gov. the power to...
 - License businesses
 - Seize goods
 - Take over factories completely
 - Establish minimum prices
 - Control fuel supplies and prices
 - War Industries Board
 - Controlled what was manufactured and how much it cost

History of the U.S. Marginal Tax Rates 1913 - 2014



Average tariff rate on dutiable imports

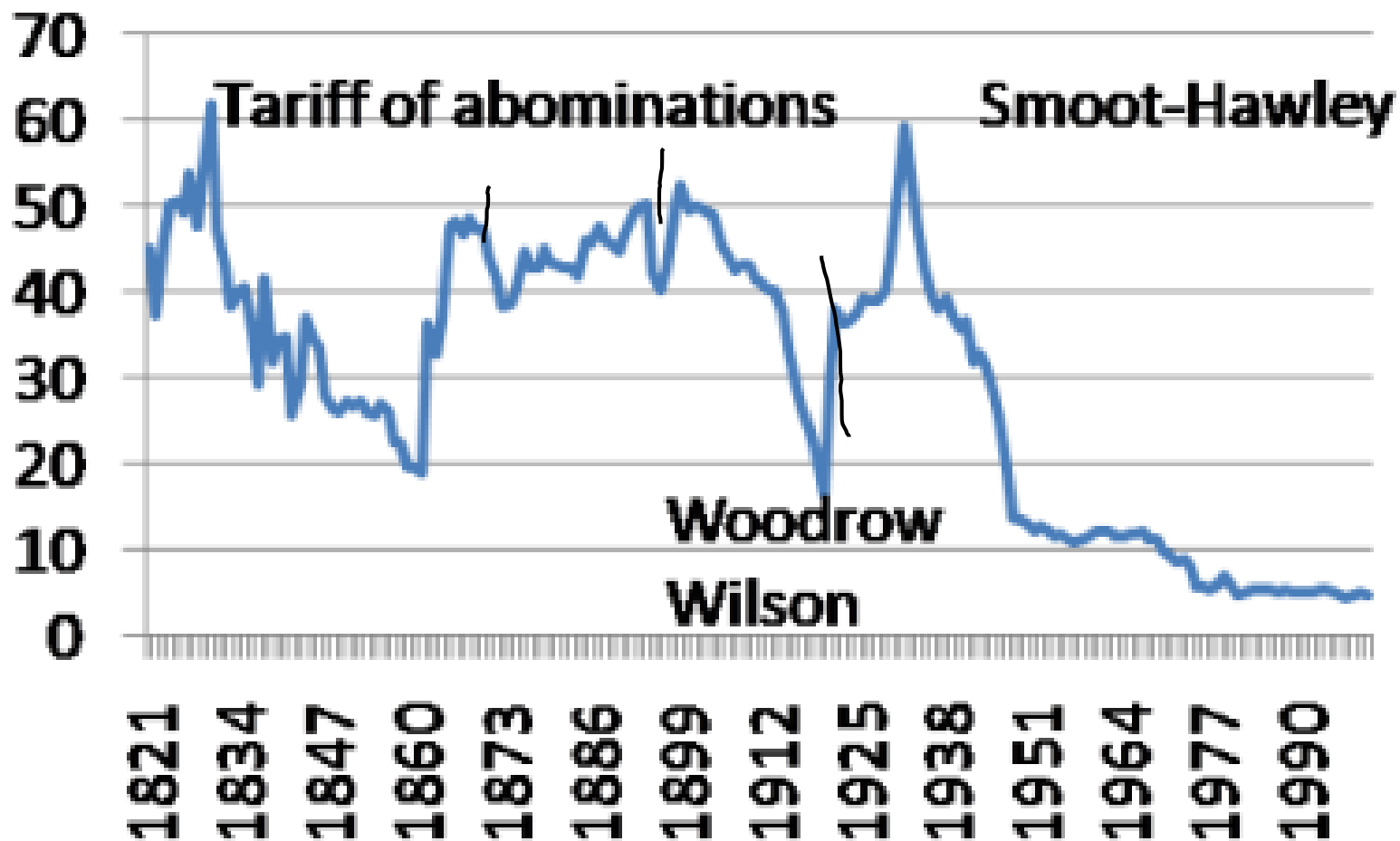
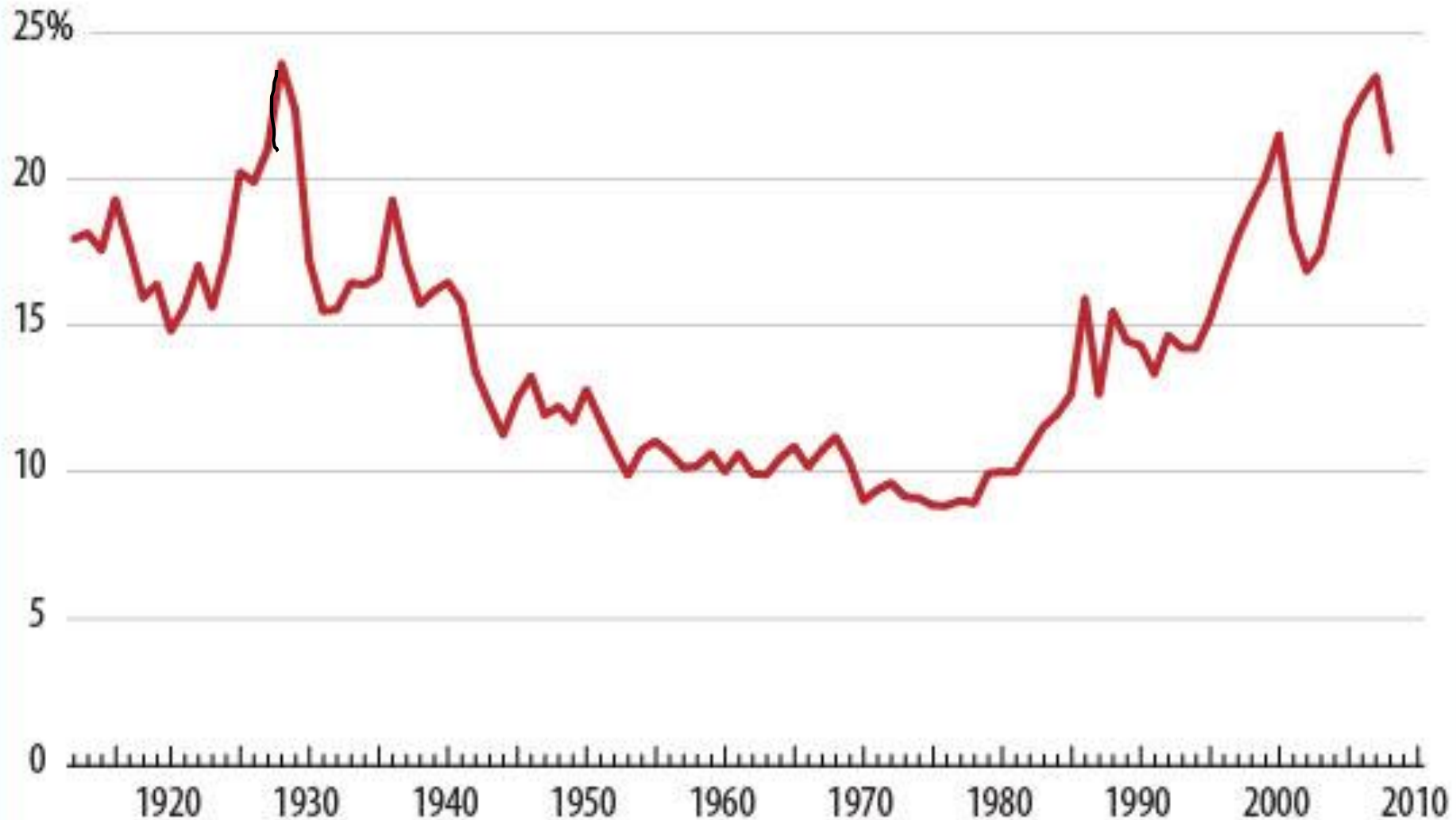


Figure 2:

Income Share of Top 1 Percent of Households Remains Historically Large

Share of Total Pre-Tax Income Flowing to Top 1 Percent



Source: Piketty and Saez, based on IRS data

The Great Depression Chain of Events

Investors buy stock on margin and engage in speculation

Stock prices skyrocket

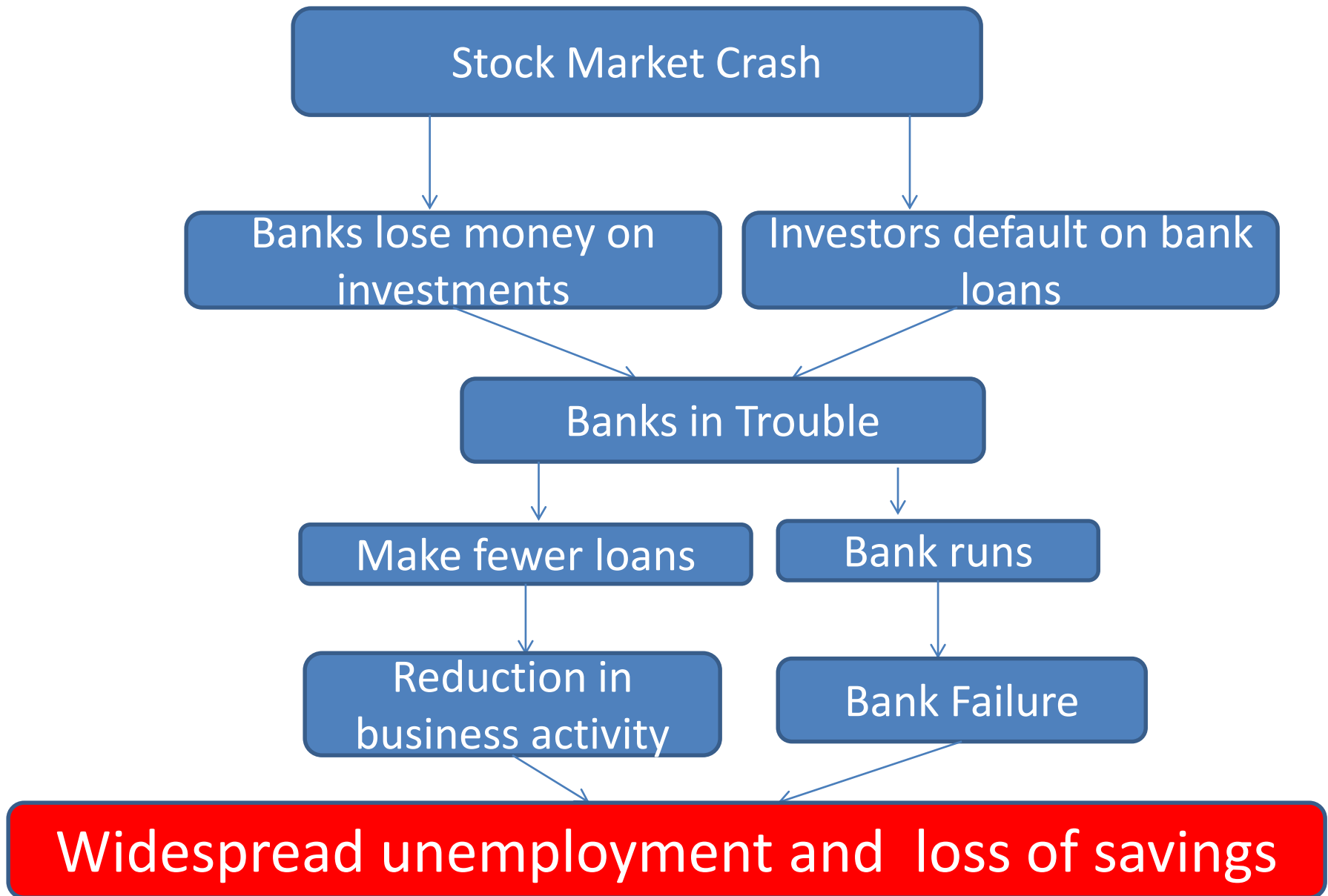
Nervous investors sell

Stock prices plummet

Brokers make margin calls

Amazing fact: \$30 billion lost in the stock market, about the same amount that Americans earned in 1929

Great Depression Chain of Events

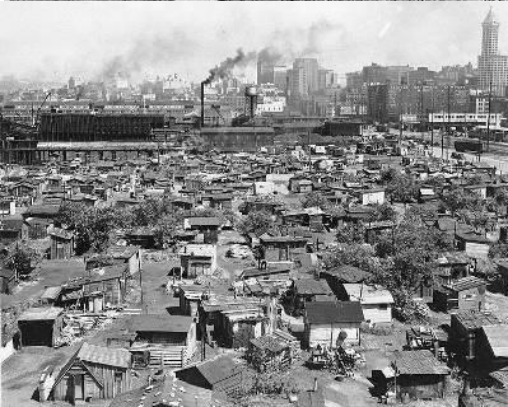








FDR's Critics



Huey Long



Left



Charles Coughlin



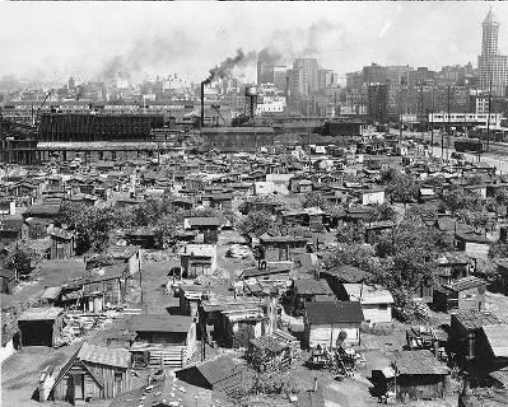
Right

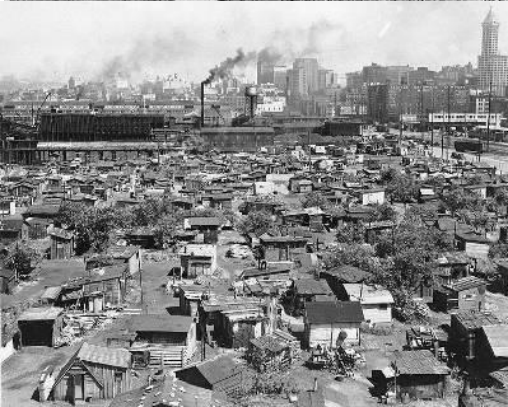
“(We must) break up the swollen fortunes of America and spread the wealth among all our people!”

The New Deal is part of a Communist plot! The federal government will take away the power of state and local governments!

The Second New Deal

- New programs in 1935
 - Works Progress Administration (1935)
 - Spent \$11 billion
 - Employed 8.5 million people
 - Constructed 650,000 miles of roads, 125,000 buildings, 8,000 parks
 - Financed arts: theatre, music, writers, etc.

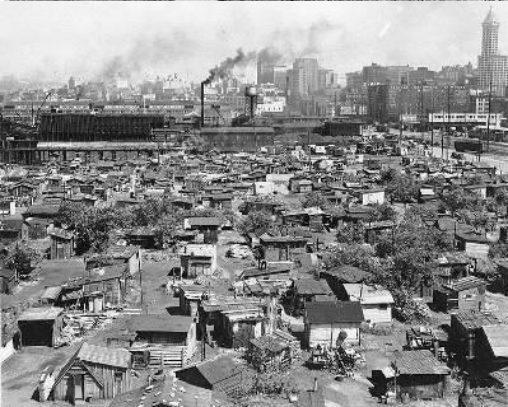




Second New Deal cont.

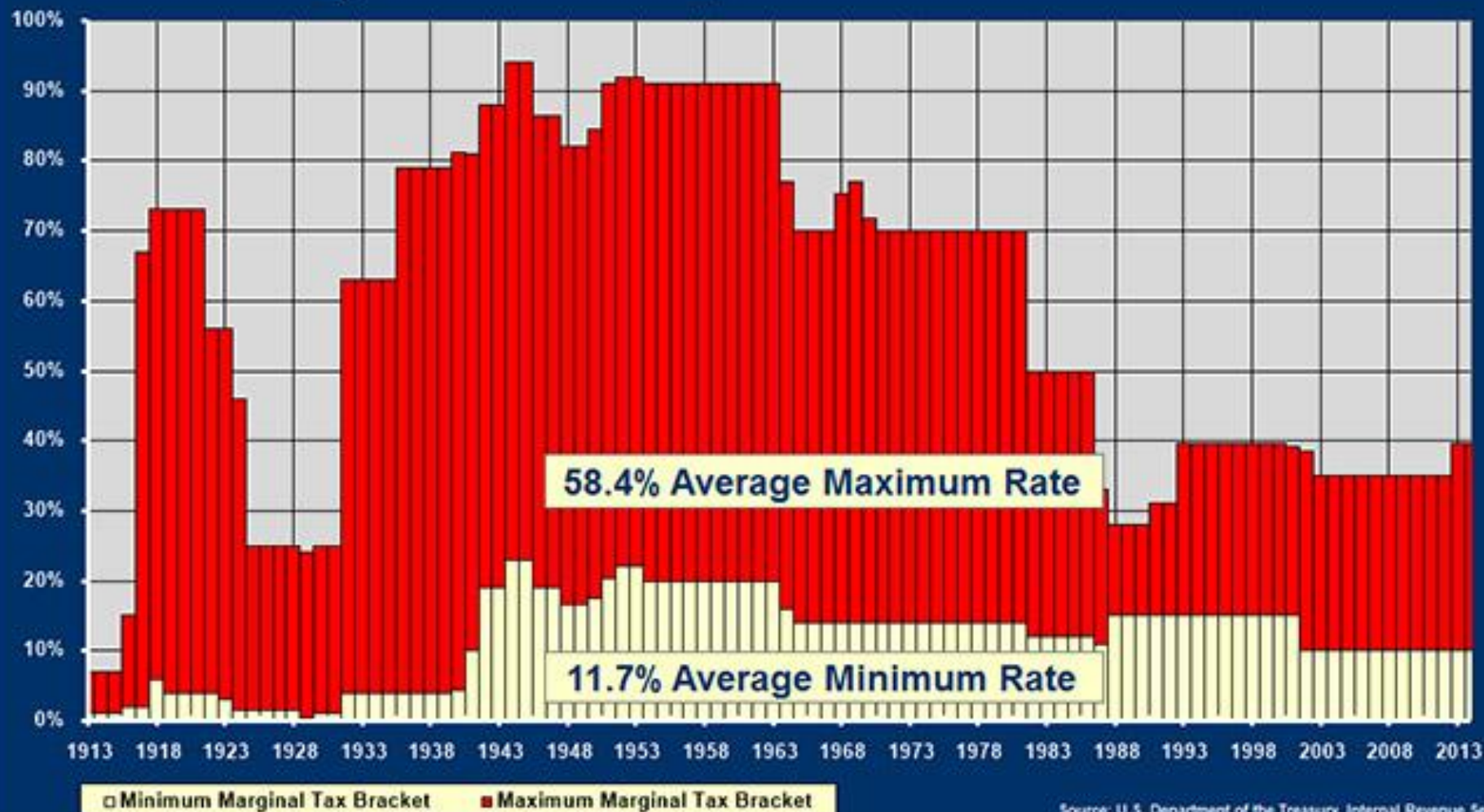
- Wagner Act
 - Guaranteed rights of workers to unionize and collectively bargain
 - Established National Labor Relations Board
 - Arbitration
 - Prevented anti-union abuses
- Social Security
 - Benefits for elderly, disabled

The Last New Deal Reforms

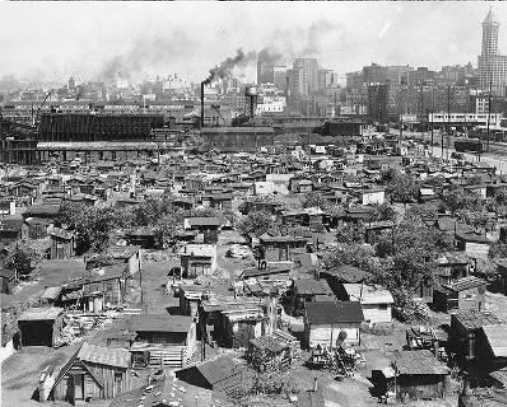


- U.S. Housing Authority
 - Subsidized builders of low-cost housing
- Farm Security Administration
 - Gives loans to tenants to purchase farms
- Fair Labor Standards Act
 - Abolished child labor
 - 44 hour workweek
 - First federal minimum wage (25 cents)

History of the U.S. Marginal Tax Rates 1913 - 2014

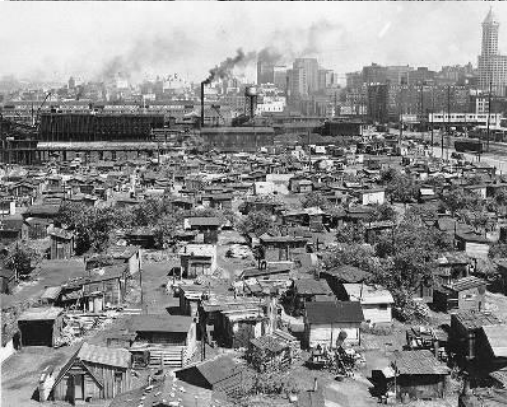


Eleanor Roosevelt: FDR's Ambassador to the Disadvantaged

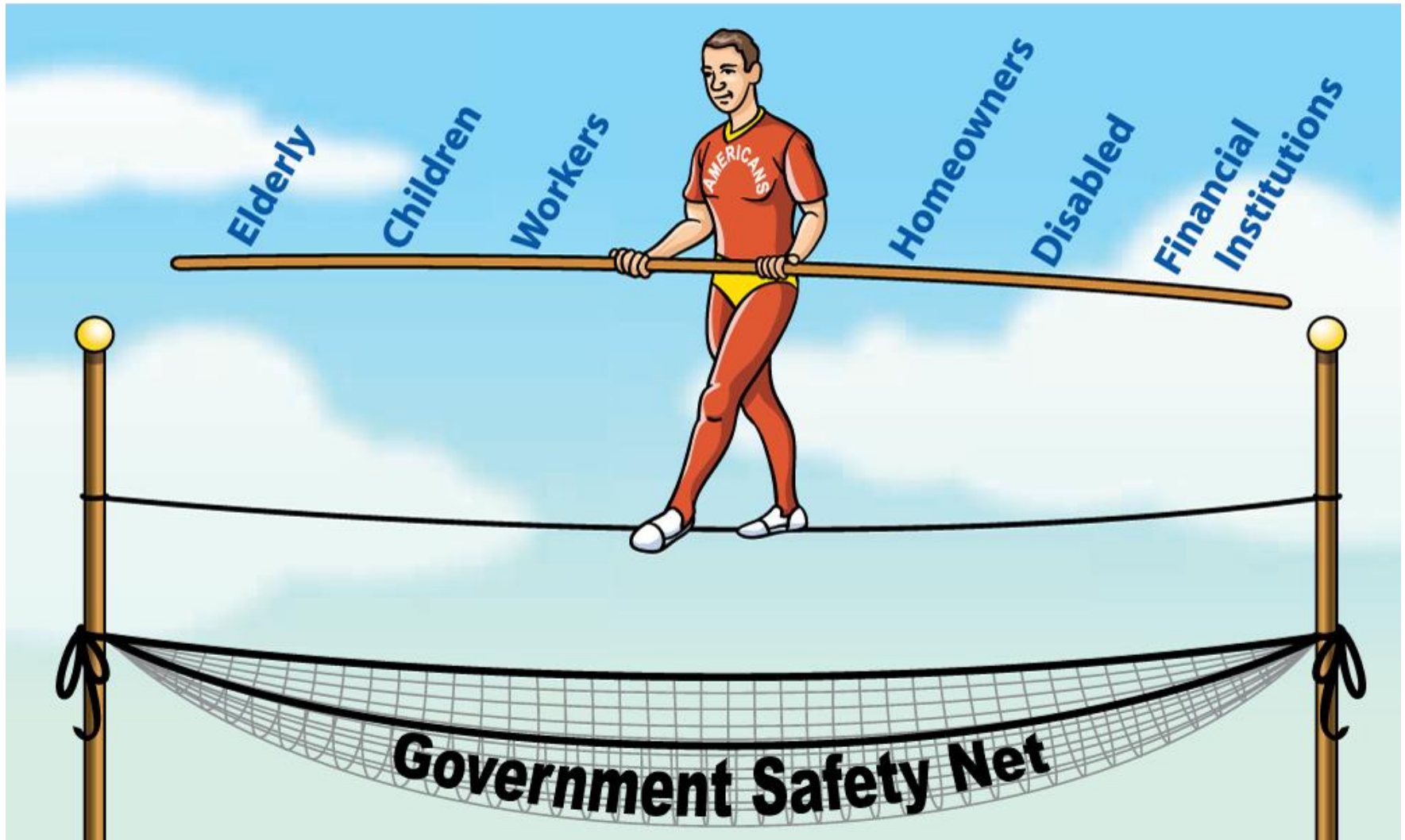


- [vid](#)

The Legacy of the New Deal



- Increased dependence on the federal government
 - Mediate conflicts between different interests (broker state)
 - Safety net: safeguards and relief programs offer economic protection
- Continued controversy: how powerful should government be? How much should it intervene? Does too much government assistance destroy initiative?
- [Video summary](#)



INFOGRAPHIC

What New Deal Programs Still Exist Today?



▲ All workers are required to have a Social Security card, printed on bank paper to decrease forgeries.

▶ The Federal Deposit Insurance Corporation sign is posted at most banks.

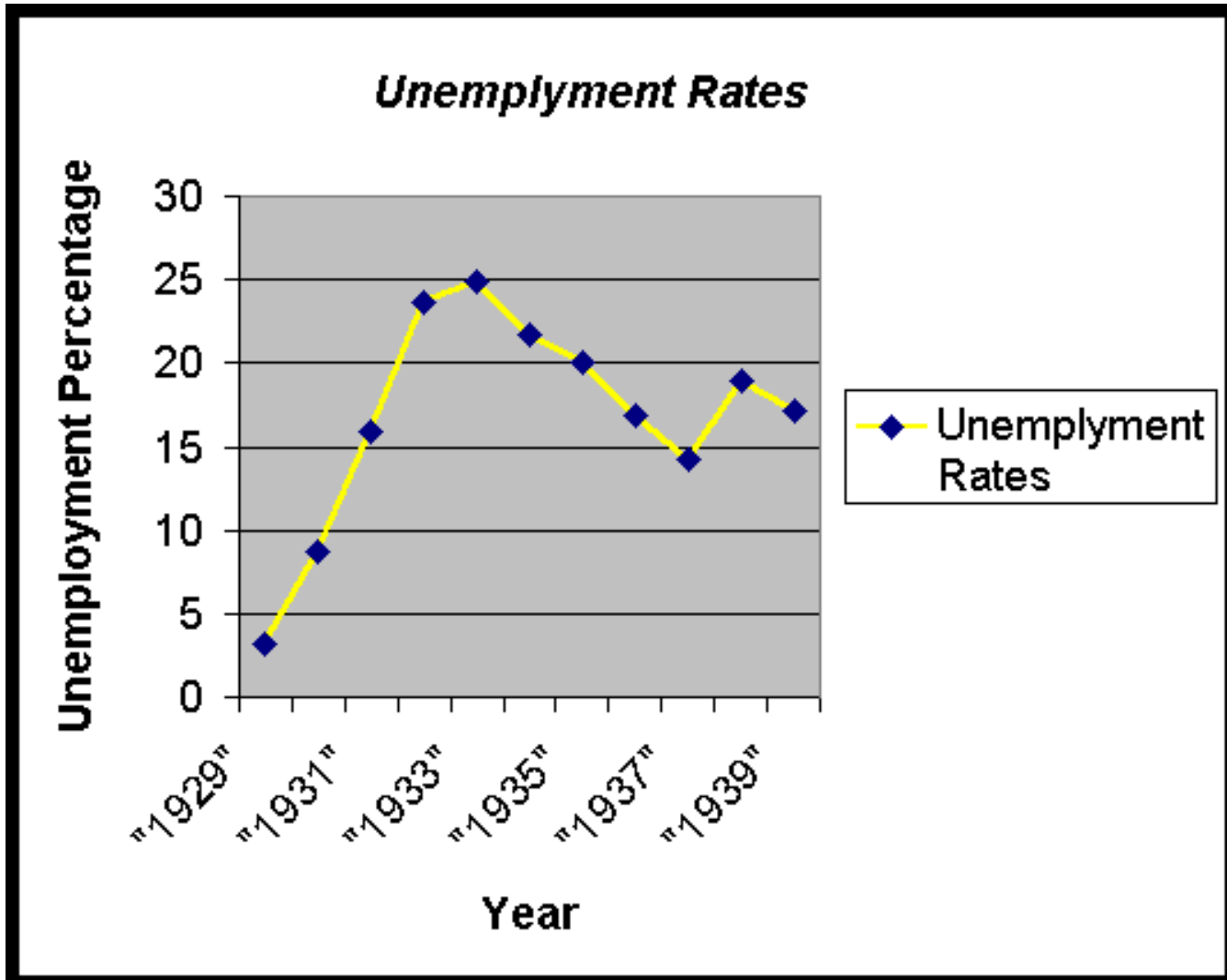


Program	Purpose Today
Social Security	The Social Security Administration provides old age pensions, unemployment insurance, and disability insurance.
National Labor Relations Board	The NLRB oversees union elections, investigates complaints of unfair labor practices, and mediates labor disputes.
Security and Exchange Commission	The SEC regulates and polices the stock market.
Federal Deposit Insurance Corporation	The FDIC insures deposits up to \$100,000.
Tennessee Valley Authority	The TVA provides electrical power to more than 8 million consumers.
Federal Housing Authority	Renamed the Department of Housing and Urban Development (HUD) in 1965, it insures mortgage loans, assists low-income renters, and fights housing discrimination.

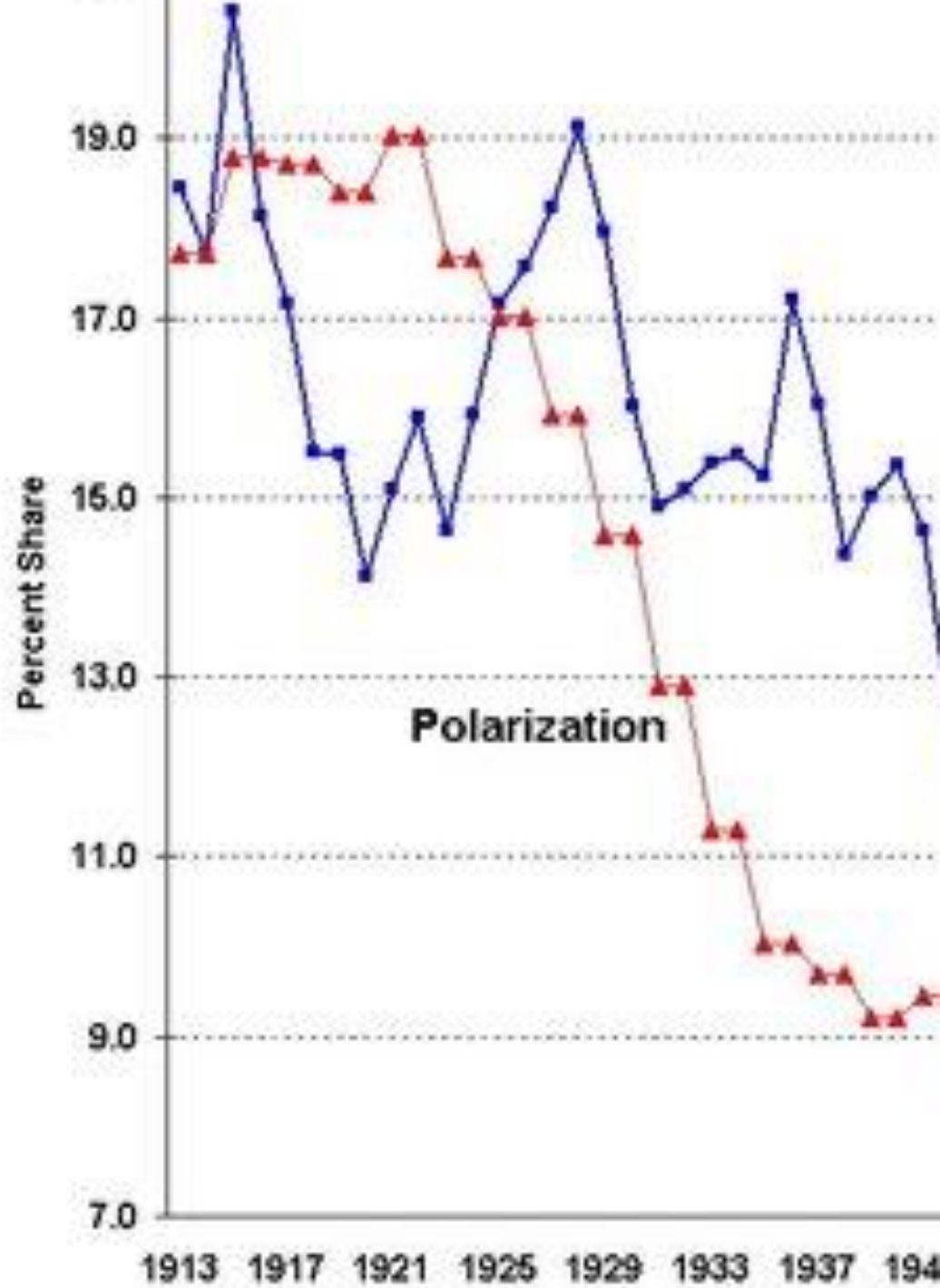


◀ The Federal Housing Administration Web site uses this logo.

Did the New Deal Work?



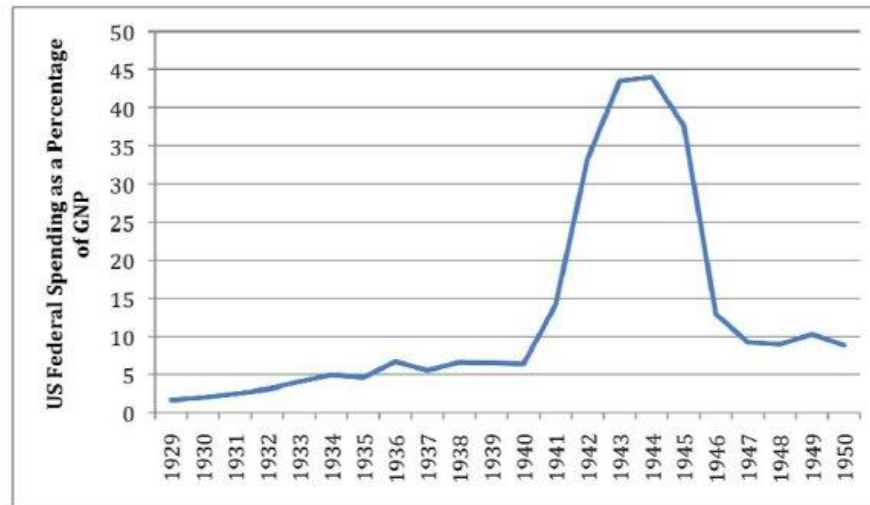
Income Distribution: Progressive Era through Great Depression



World War II

- Keynesian economics in effect
 - Massive government spending

Figure 1: Federal Government Spending as a Percentage of GNP, 1929-1950



Source: Data for spending comes from Series FGCEA and ASLEXPND in the economic research database at the Federal Reserve Bank in St. Louis. GNP data comes from Series GNPA. <http://research.stlouisfed.org/fred2/categories/18>

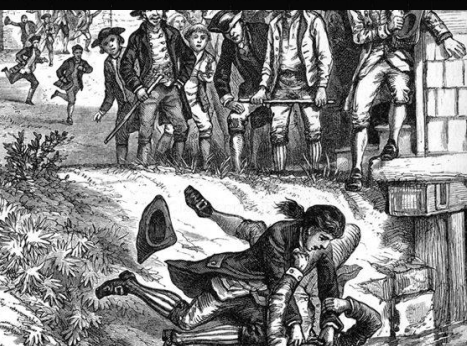
- Highly regulated economy





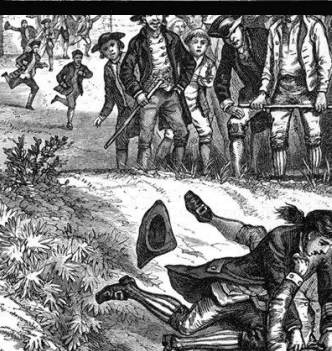
WWII Government Regulation

- Industries and companies forced to produce war goods
- Price “ceilings” on consumer goods
- Seized industries threatened by strike
- Rationing

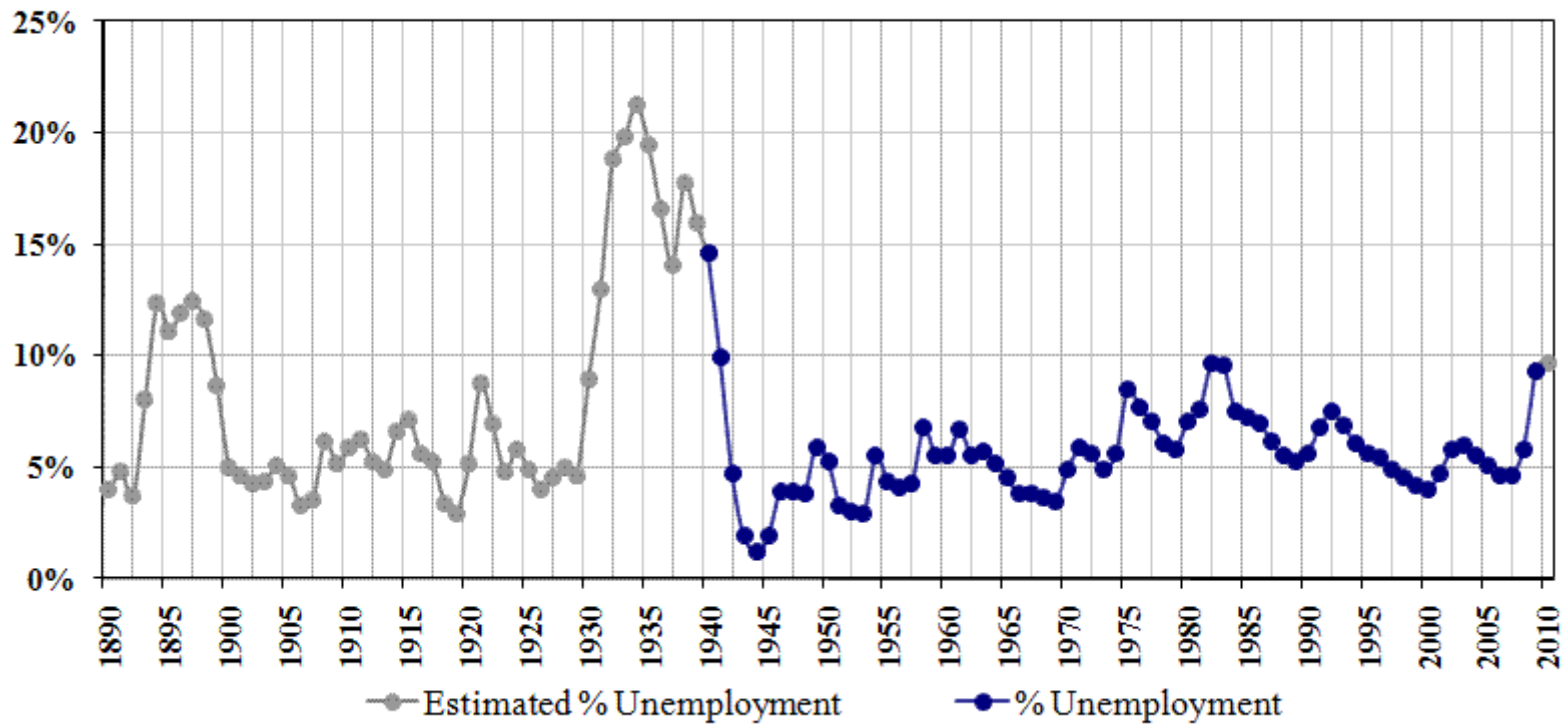


WWII and Keynesian Approach Impact on Economy

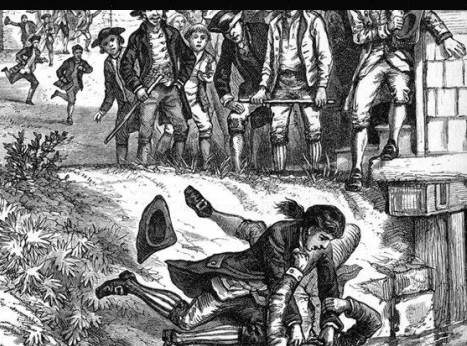
- GDP: \$100 billion 1940, \$214 billion 1945



United States - Unemployment Rate (1890 - 2009)



WWII Economic Boom: Who Benefitted?

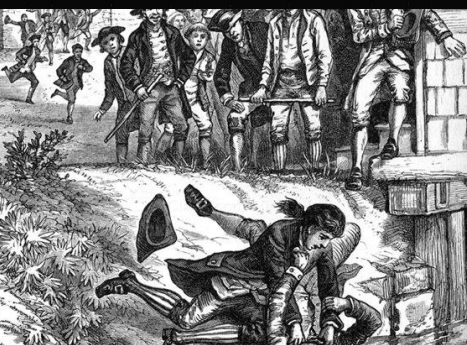


- 100 largest corporations got 70% of government contracts
 - 500,000 small businesses close 1941-1943
- Farm income doubles
 - Thousands of small farms disappear
 - Rural population decreases 20%
- Many southerners leave sharecropping and tenant farming for industrial work
- 17 million more jobs
- Wages increase as much as 50%
- More strikes than any other 4-year period in history



Post WWII (1945-1948)

- Some aspects of Keynesian economics survive
 - High government spending
 - Defense
 - “Safety net” and other social programs enlarged
 - Social Security
 - GI Bill
- Some aspects of Supply-Side economics return
 - Reduced government control
 - Lowered taxes
 - Weakened unions

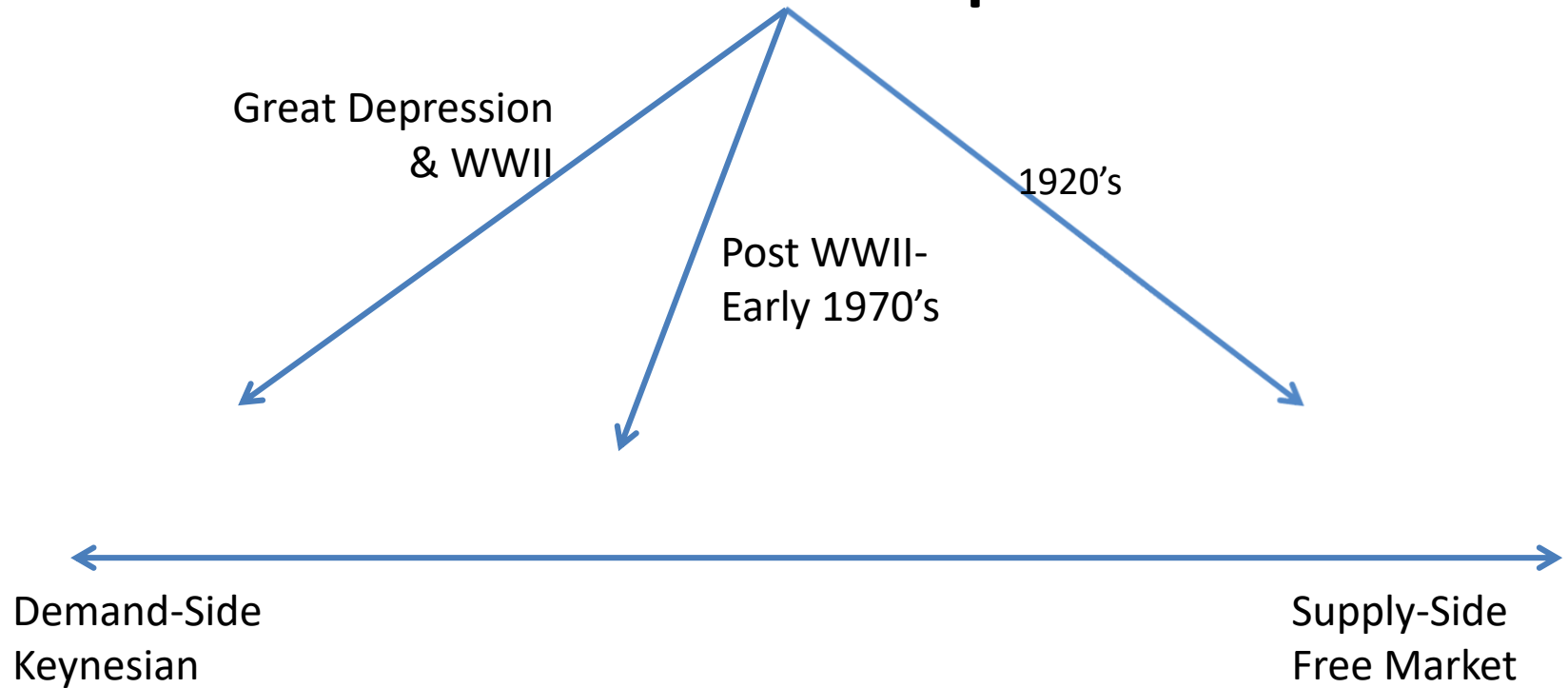




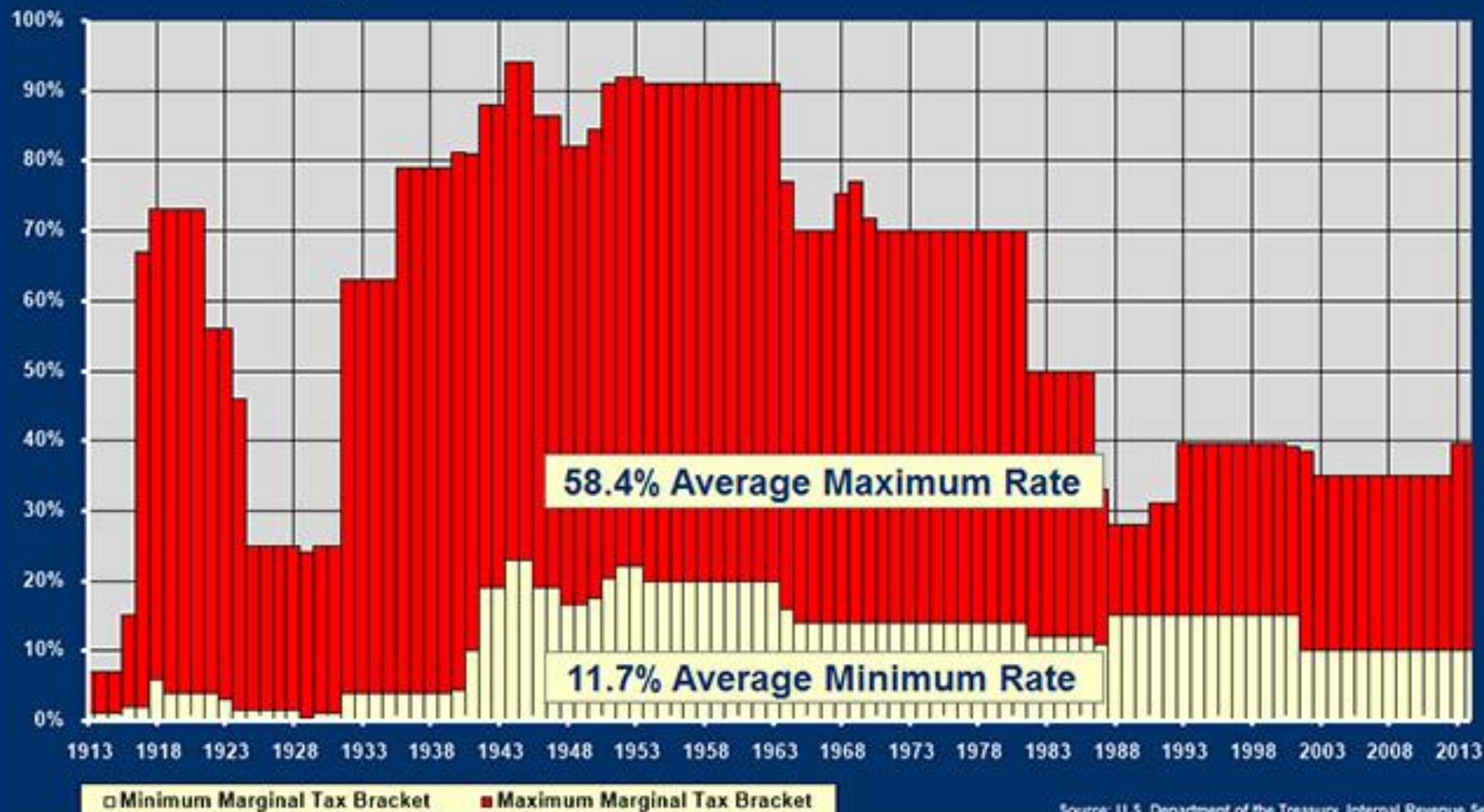
Truman's "Fair Deal"

- Truman re-elected 1948
- Fair Deal an extension of New Deal policies
- Parts of the Fair Deal passed by Congress
 - Higher minimum wage
 - Expanding Social Security
 - Housing programs
 - Rural electrification and the TVA
- Parts of the Fair Deal rejected by Congress
 - Civil rights bills
 - National health insurance
 - Federal aid to education
 - Farm subsidies
 - Repeal of earlier labor-weakening legislation

The Economic Spectrum



History of the U.S. Marginal Tax Rates 1913 - 2014



Development of U.S. Social Security Programs

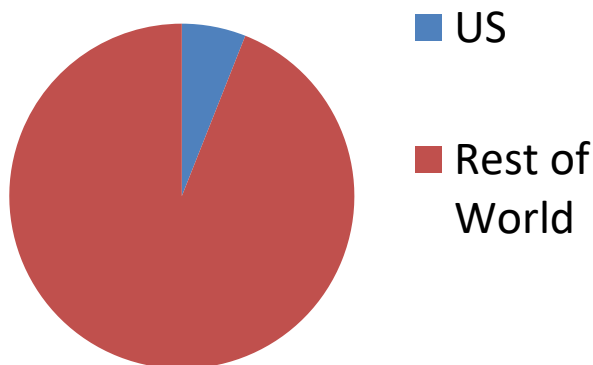
1935	Social Security Old-Age Insurance; Unemployment Insurance; and Public Assistance programs for needy aged, and blind (replaced by the SSI program in 1972); and Aid to Families with Dependent Children (replaced with block grants for Temporary Assistance for Needy Families in 1996)
1934	Railroad Retirement System
1937	Public Housing
1939	Social Security Old-Age and Survivors Insurance
1946	Natonal School Lunch Program
1950	Aid to the Permanently and Totally Disabled (replaced by the SSI program in 1972)
1956	Social Security Disability Insurance
1960	Medical Assistance for the Aged (replaced by Medicaid in 1965)
1964	Food Stamp Program
1965	Medicare and Medicaid Programs
1966	School Breakfast Program
1969	Black Lung Benefits Program
1972	Supplemental Security Income Program
1974	Special Supplemental Food Program for Women, Infants, and Children (WIC)
1975	Earned Income Tax Credit
1981	Low-Income Home Energy Assistance
1996	Temporary Assistance for Needy Families

1945-1972 Economy

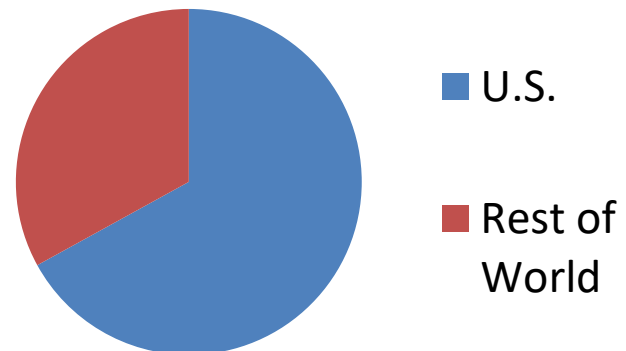
- Huge boom after brief post-war recession
 - Causes
 - Consumer spending
 - Government spending (e.g. defense, G.I. Bill)
 - Only industrial nation not devastated by the war

• 1970:

Population

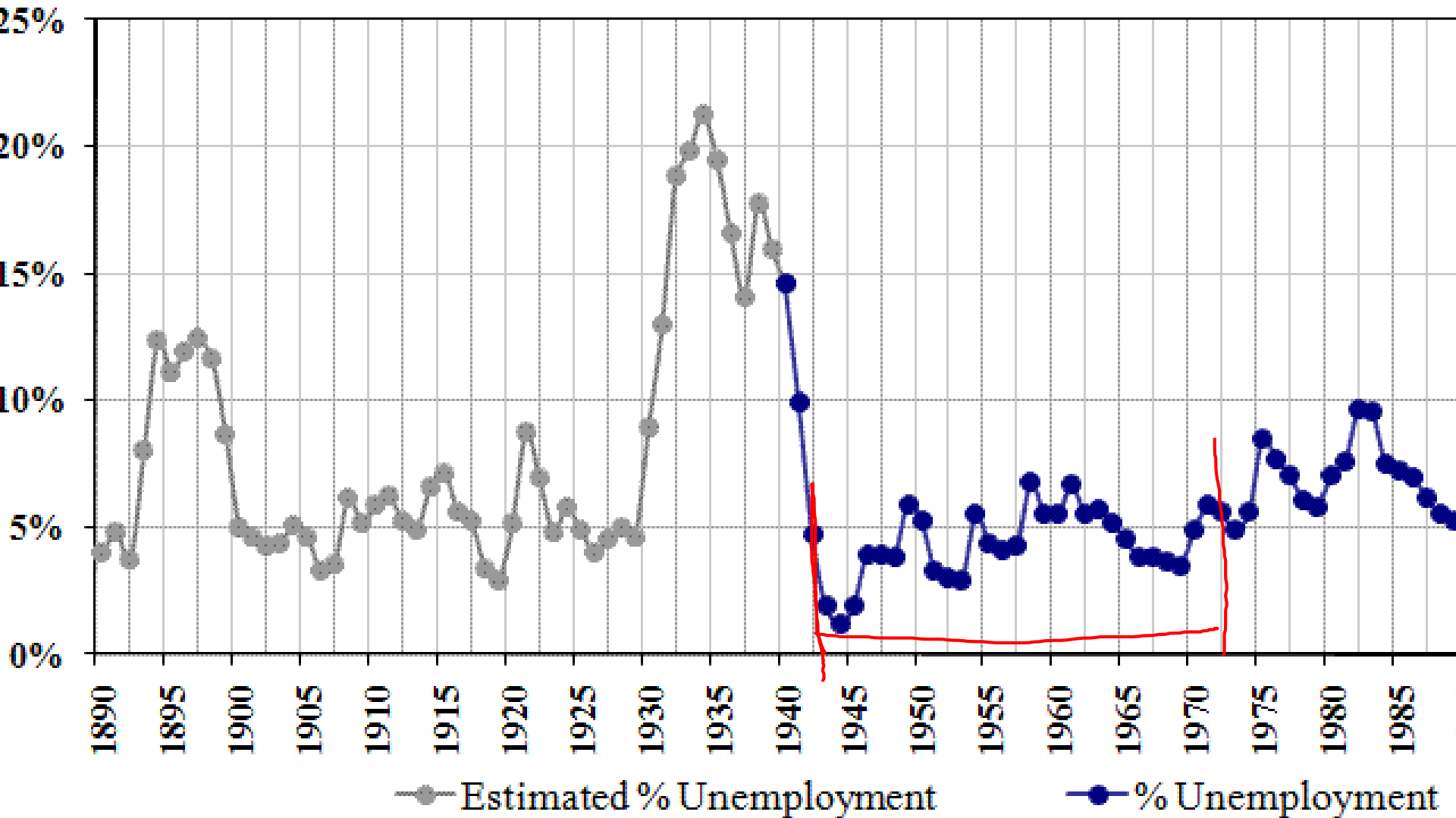


Production and Consumption



Strength of the Economy

United States - Unemployment Rate (1890 - 2009)



Budget Balance (in millions of dollars)

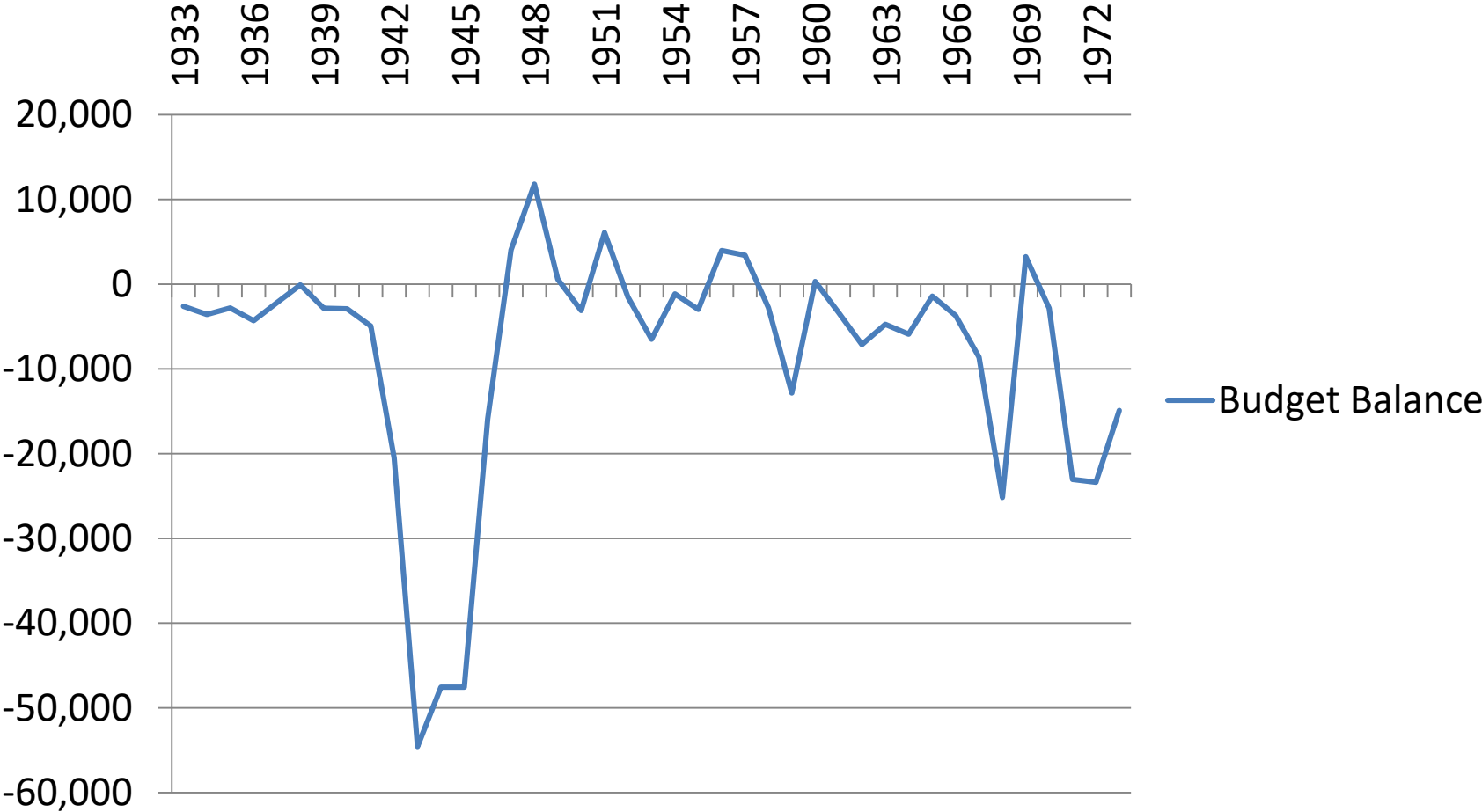
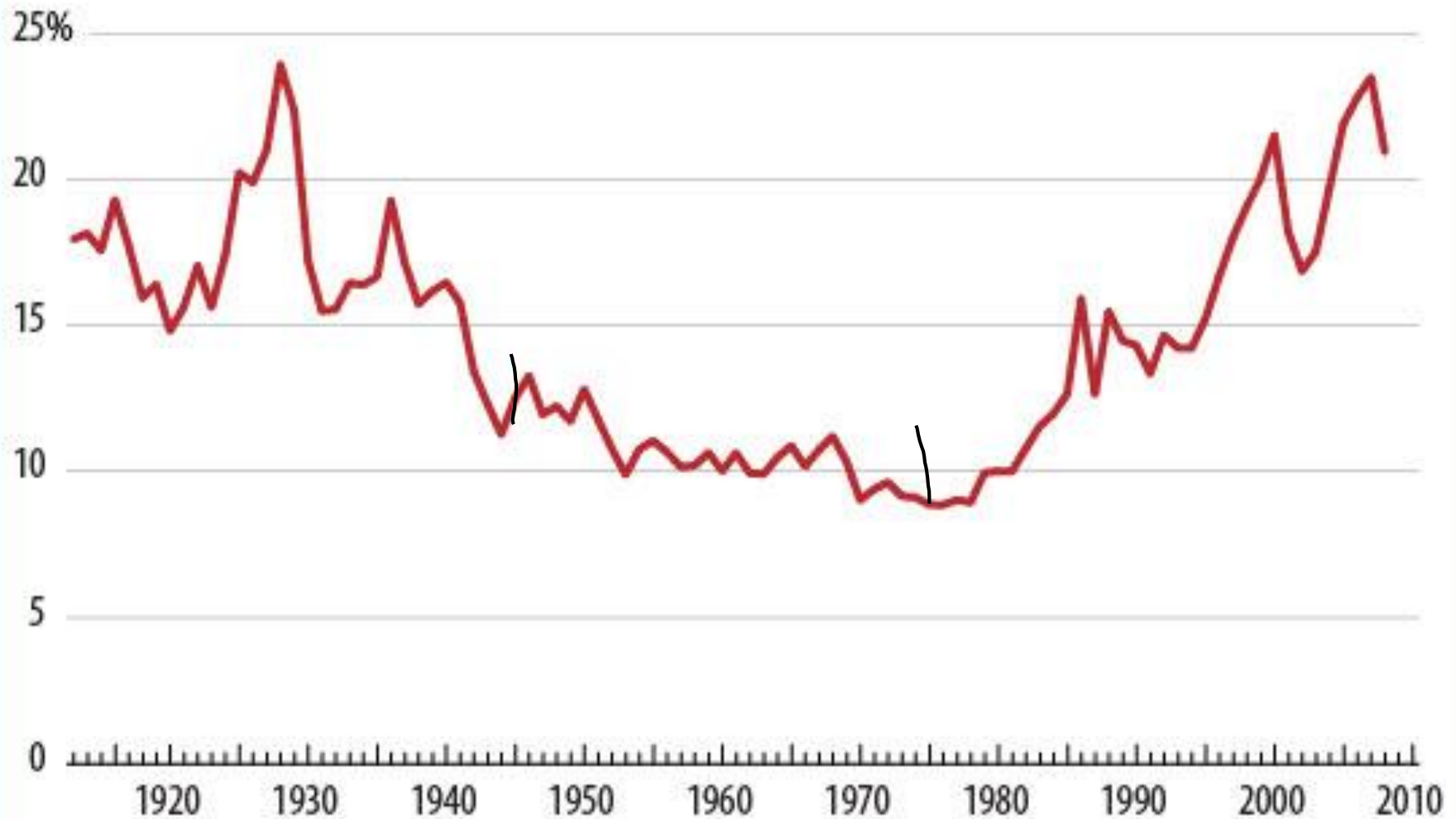


Figure 2:

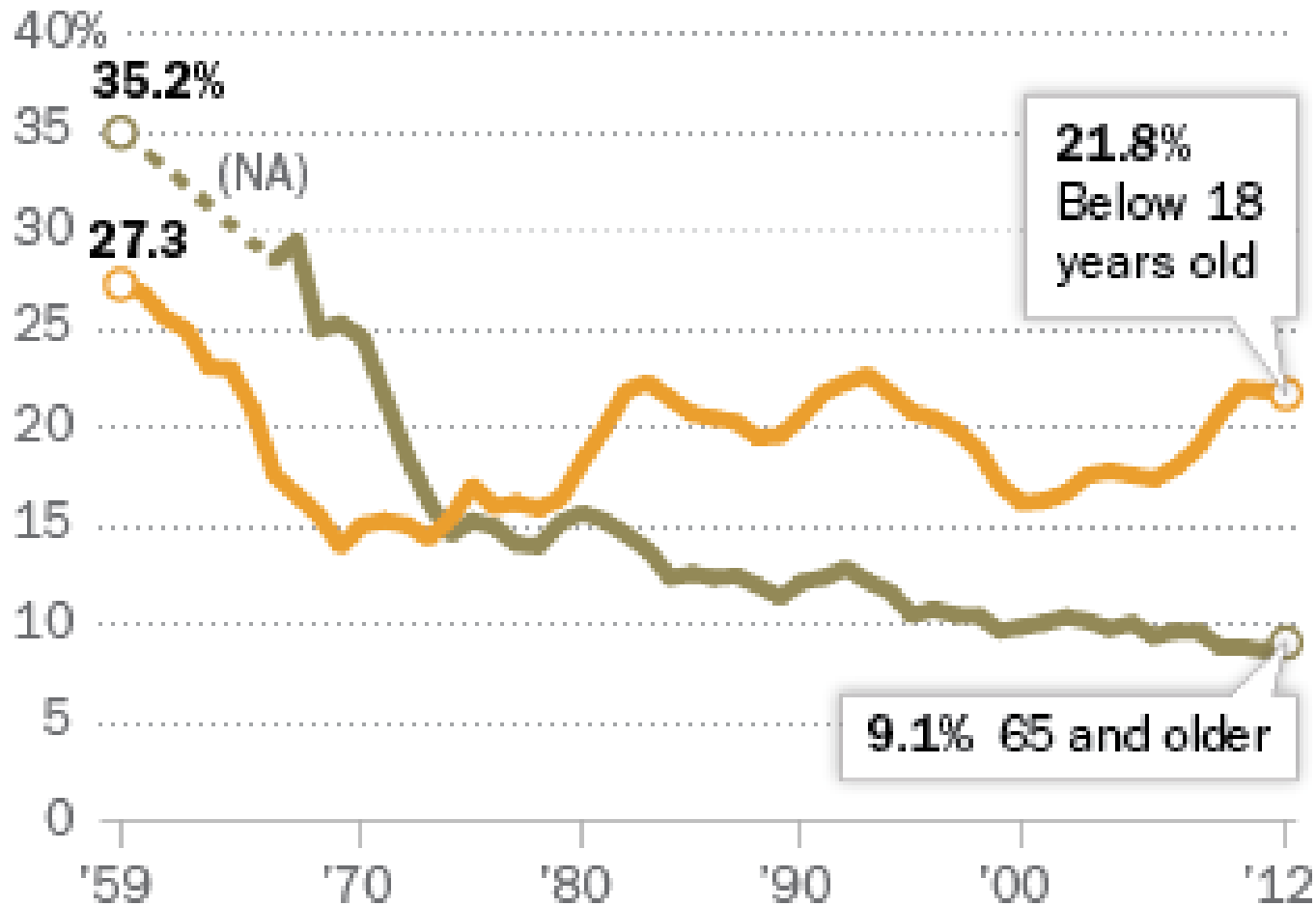
Income Share of Top 1 Percent of Households Remains Historically Large

Share of Total Pre-Tax Income Flowing to Top 1 Percent



Source: Piketty and Saez, based on IRS data

Poverty Rates for Children and Elderly



Source: Census Bureau

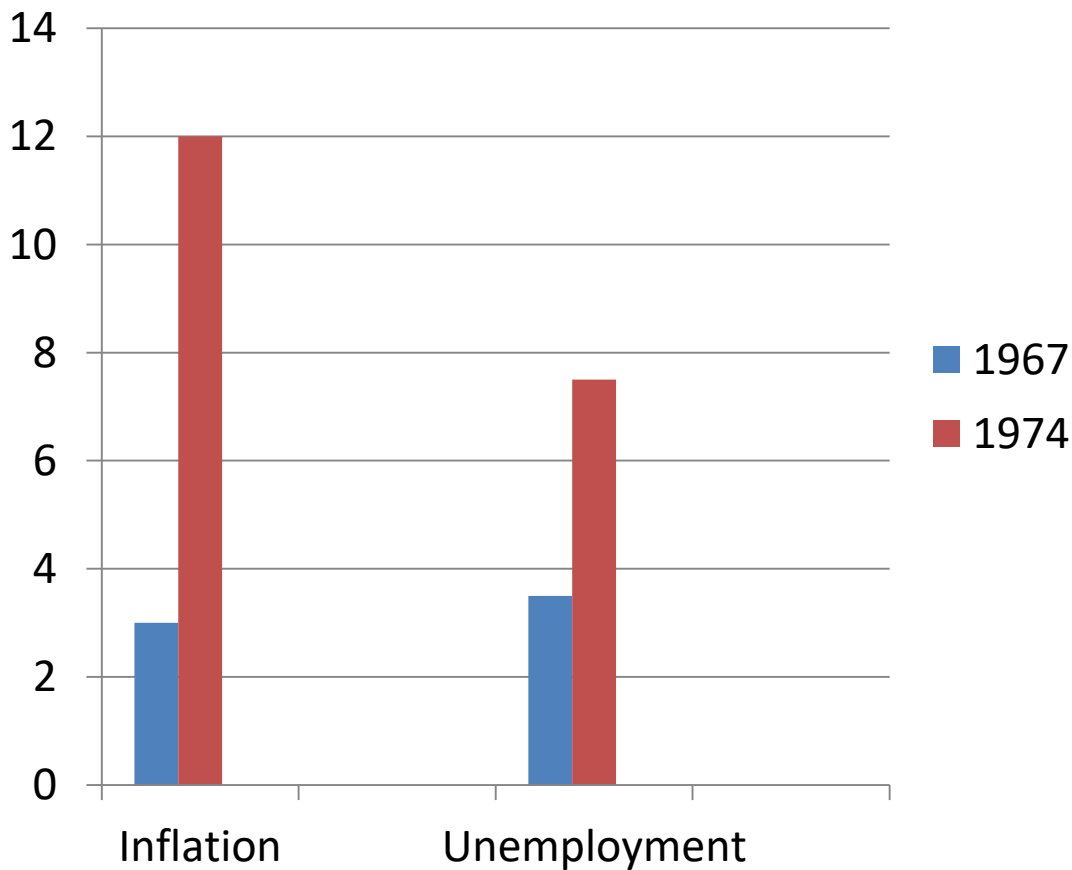
PEW RESEARCH CENTER

From the National Poverty Center, University of Michigan

In the late 1950s, the poverty rate for all Americans was 22.4 percent, or 39.5 million individuals. These numbers declined steadily throughout the 1960s, reaching a low of 11.1 percent, or 22.9 million individuals, in 1973. Over the next decade, the poverty rate fluctuated between 11.1 and 12.6 percent, but it began to rise steadily again in 1980. By 1983, the number of poor individuals had risen to 35.3 million individuals, or 15.2 percent.

Stagflation in the 1970's

- Economic Recession + Inflation = “Stagflation”



Causes of '70's Stagflation

- Lyndon Johnson's Great Society social welfare programs + Vietnam War – tax increases

=

Deficits + expansion of \$\$ supply + inflation

- West Germany, Japan, and other nations become industrial powers
- Flood of new workers (30 million between 1965 and 1980); employment can't keep up

Stagflation Causes Cont.

- Energy dependence
 - U.S. supplies of fossil fuels dwindle
 - Dependence on foreign oil increases
 - OPEC refused to sell to countries supporting Israel
 - Gas prices soar

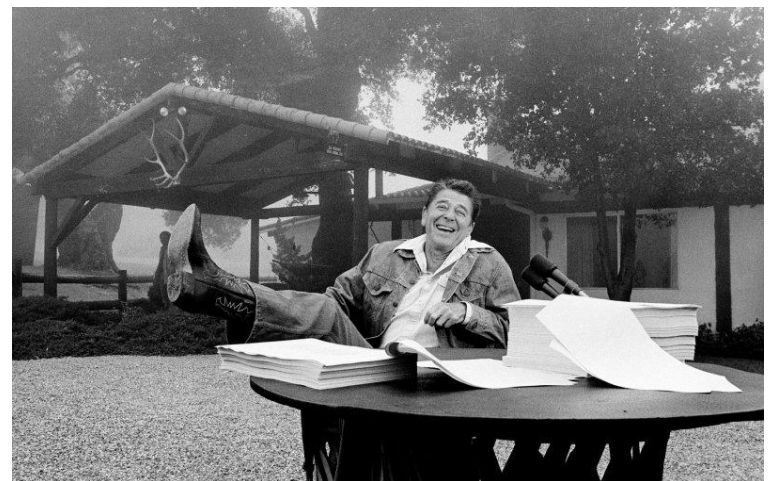


The Return to the Supply-Side

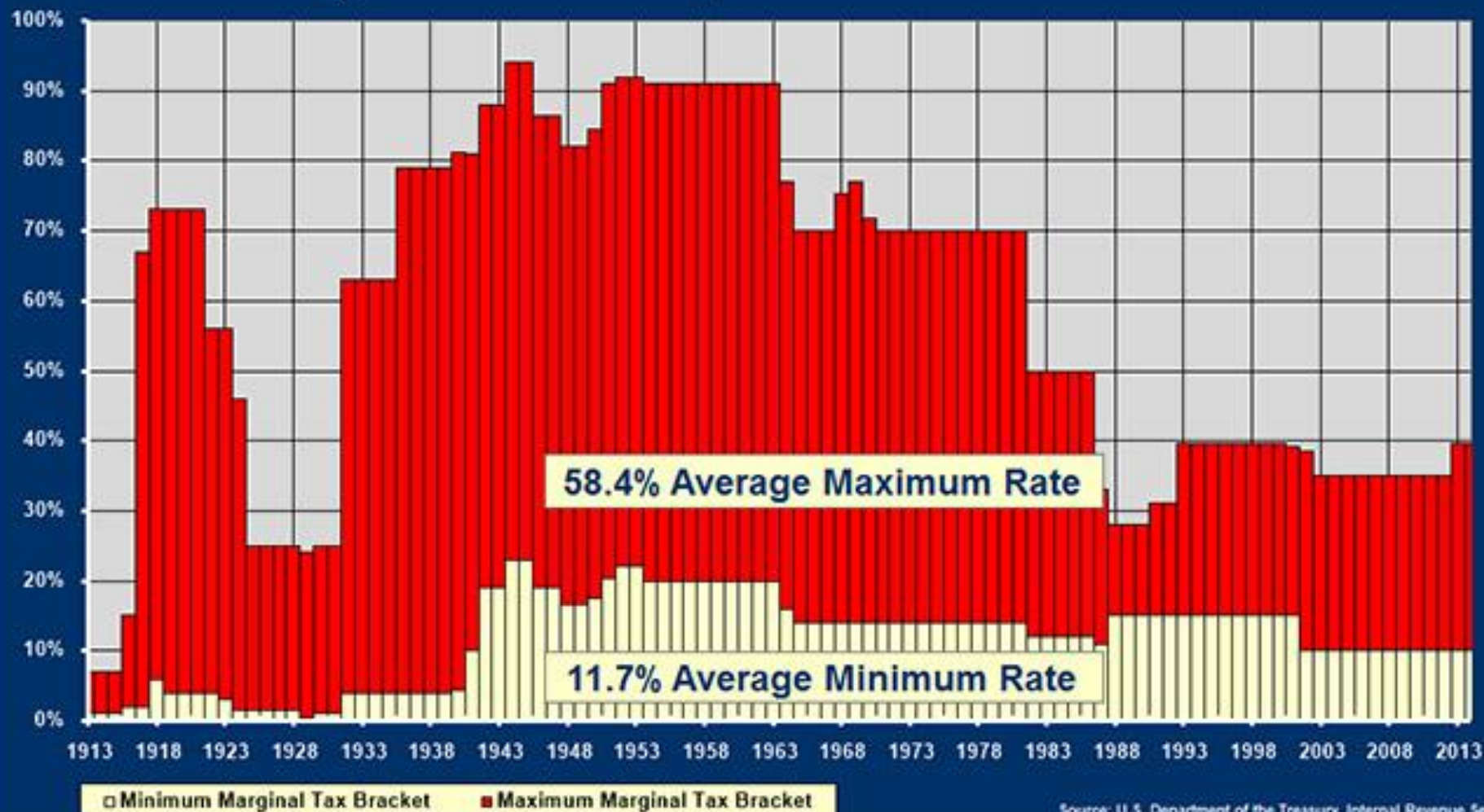
- Ronald Reagan wins in 1980, preaching supply-side economics
- Reaganomics
 - Lower taxes
 - Reduced government spending
 - Deregulation

Tax Cuts

- Economic Recovery Tax Act of 1981
 - Lowered corporate and personal income taxes by \$747 billion over 5 years
 - Cut individual tax rates across the board
 - Reduced maximum tax from 70% to 50%
 - Reduced to 28% by end of term
 - Eliminated distinction between earned and unearned income



History of the U.S. Marginal Tax Rates 1913 - 2014



Source: U.S. Department of the Treasury, Internal Revenue Service

[Tax Rates](#)

Reduced Government Spending

- Omnibus Reconciliation Act of 1981
 - Cuts \$136 Billion of spending 1982-1984
 - Education
 - Environmental protection
 - Health
 - Housing
 - Arts
 - Civil rights
 - Food stamps
 - Synthetic fuel projects
 - Etc.

Not All Budgets Slashed



- \$1.5 trillion military spending 1st five years
- Largest peacetime military buildup in history

Reagan Deregulation

- Eliminated price controls on oil and gasoline
- Weakened or abolished hundreds of rules governing
 - Workplace safety
 - Consumer protection
 - Environmental protection
 - Banking
 - Stock trading

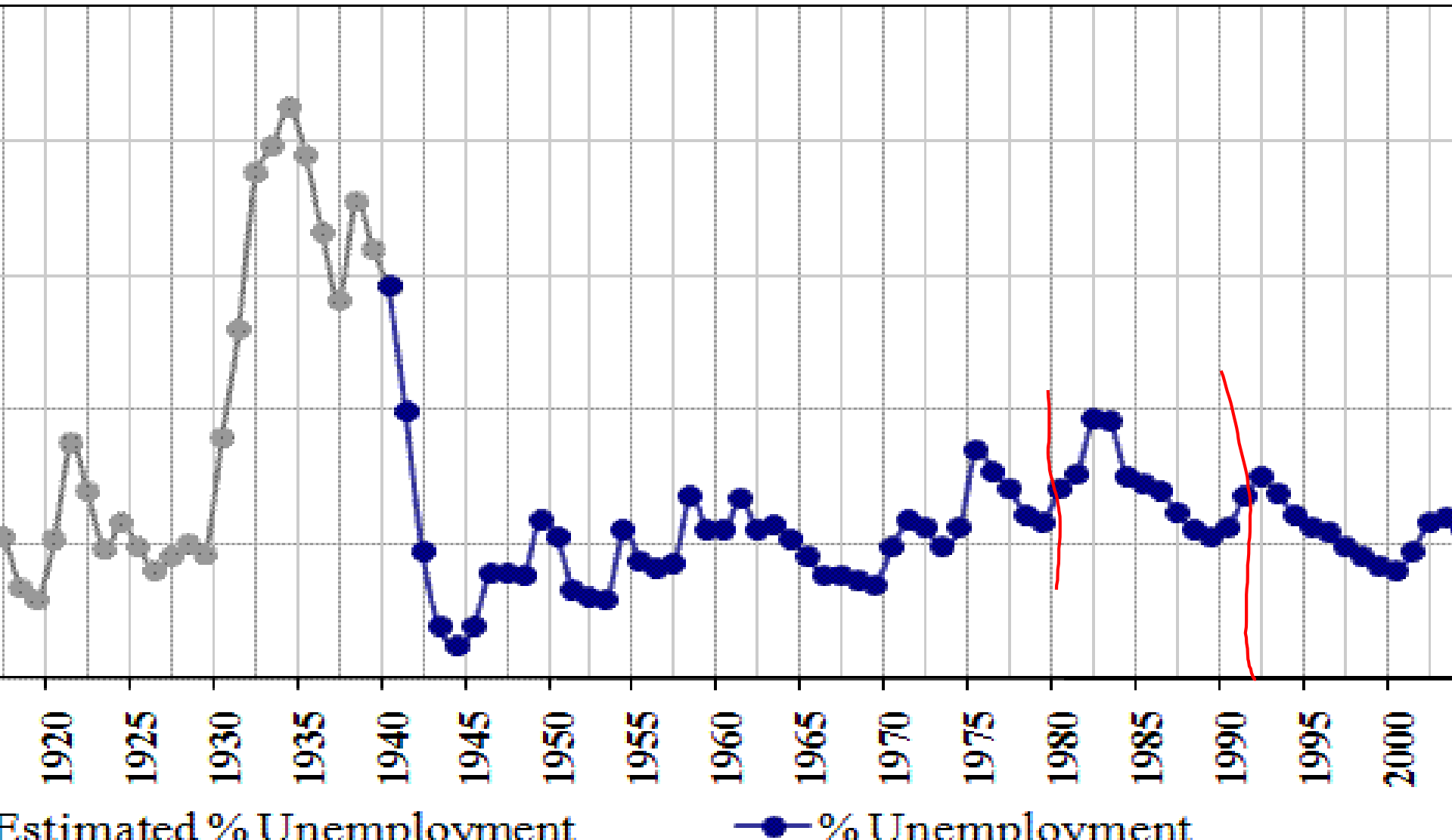
The Stock Market Crash of 1987

- Black Monday: October 19, 1987
 - Stocks fall 22.6% in one day
 - Previous record 12.8% in 1929



Strength of the Economy

United States - Unemployment Rate (1890 - 2009)



Budgets 1973-1992

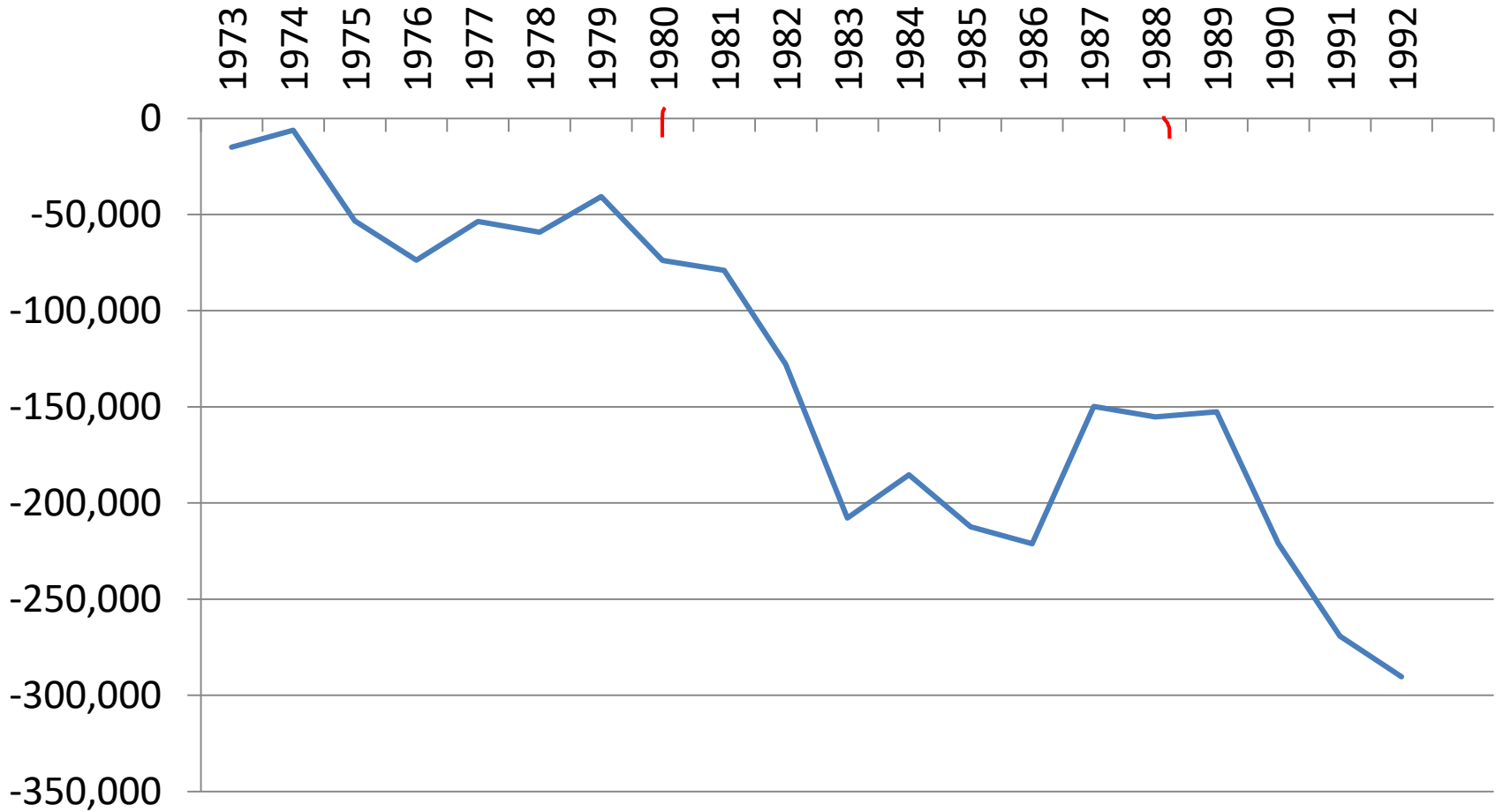
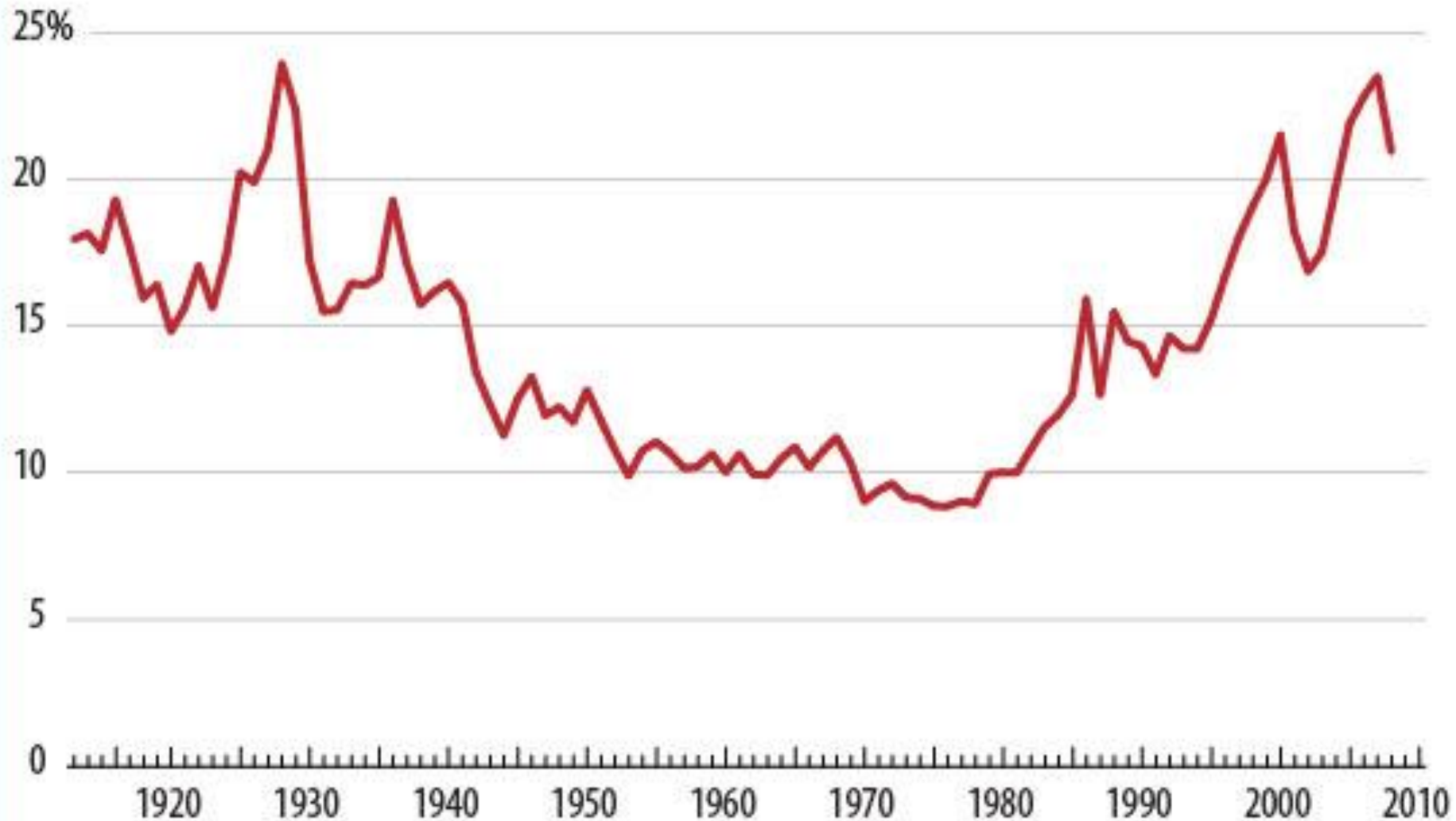


Figure 2:

Income Share of Top 1 Percent of Households Remains Historically Large

Share of Total Pre-Tax Income Flowing to Top 1 Percent



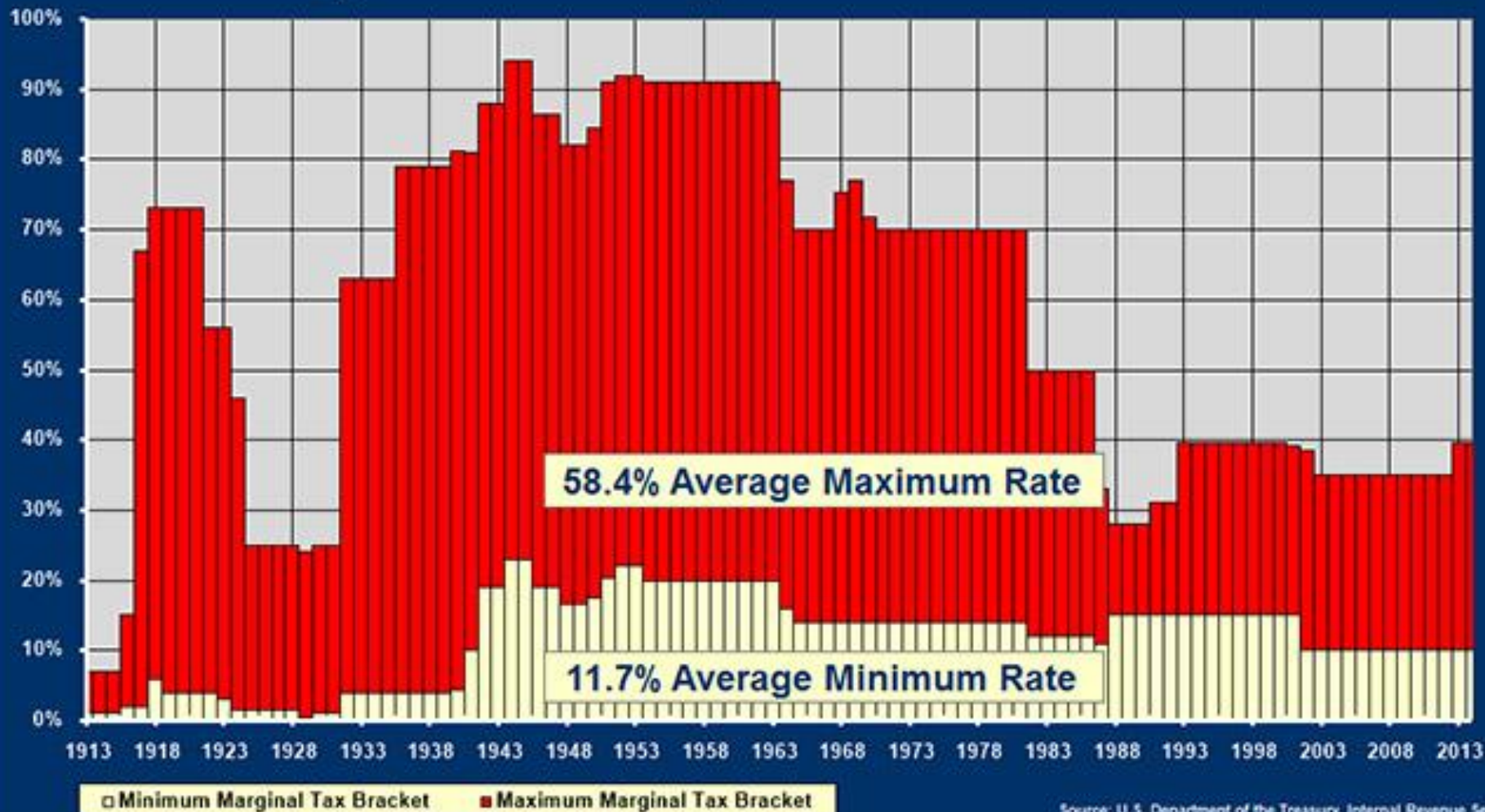
Source: Piketty and Saez, based on IRS data

Clinton Claims the Center



- Spending cuts (including military) + tax increases on corporations and higher income individuals
 - Passed 218-216 in House and 51-50 in Senate
- Increased spending on education, social services
- Promised “a new kind of government-not to solve all of our problems for us, but to give all our people the tools to make the most of their own lives.”

History of the U.S. Marginal Tax Rates 1913 - 2014

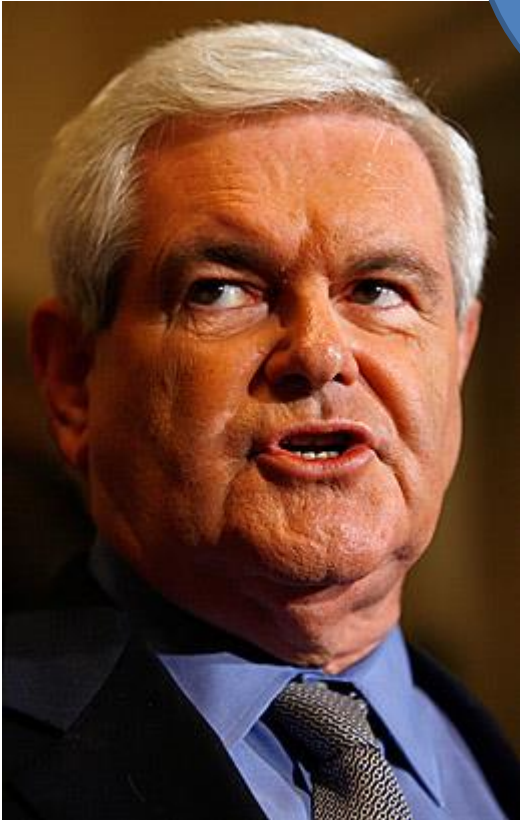


Source: U.S. Department of the Treasury, Internal Revenue Service

[Tax Rates](#)

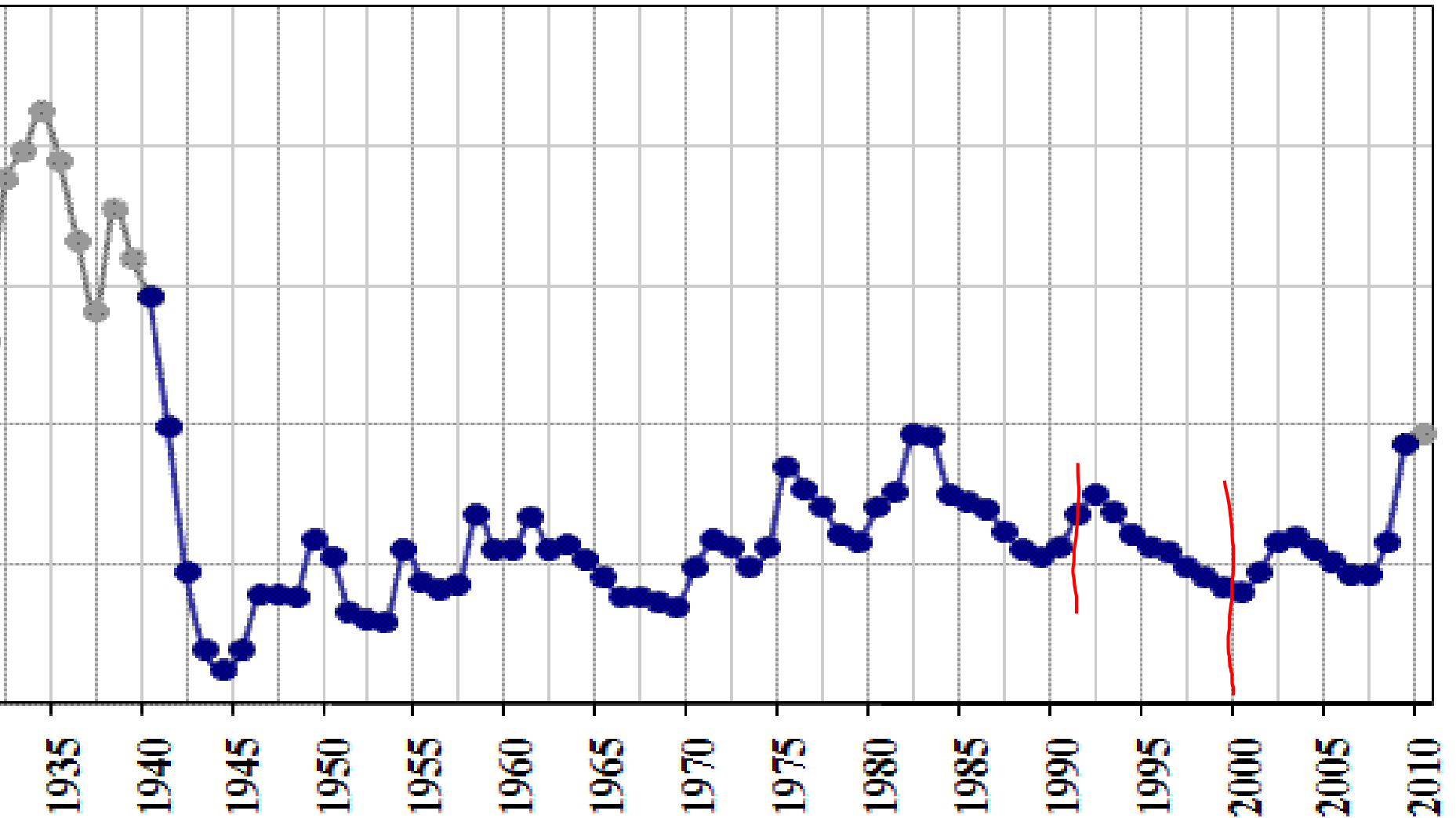
Newt Gingrich's Response

The tax increase will kill jobs and lead to a recession, and the recession will force people off of work and onto unemployment and will actually increase the deficit.



Strength of the Economy

tes - Unemployment Rate (1890 - 2009)



Budgets in the Clinton Years

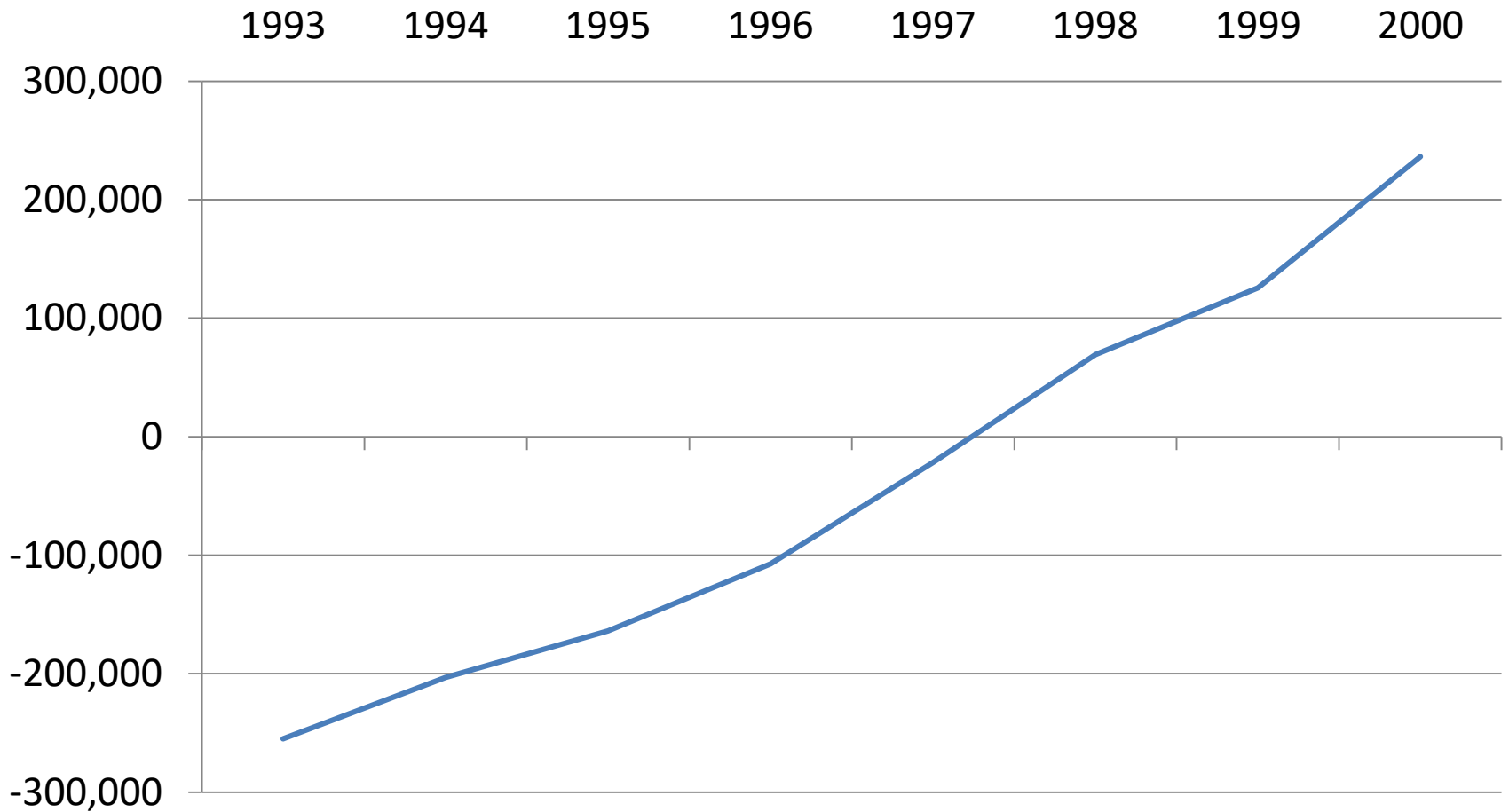
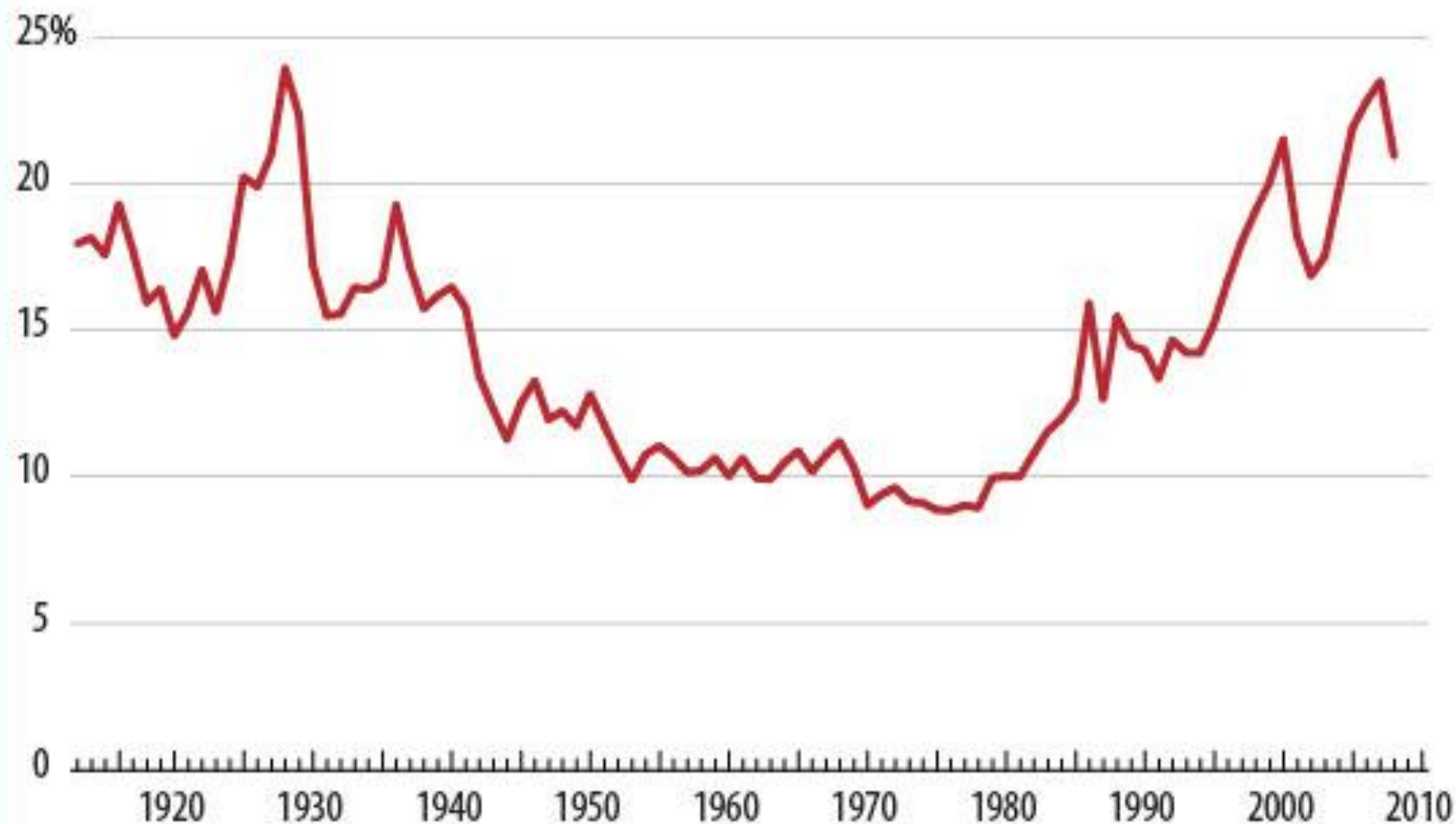


Figure 2:

Income Share of Top 1 Percent of Households Remains Historically Large

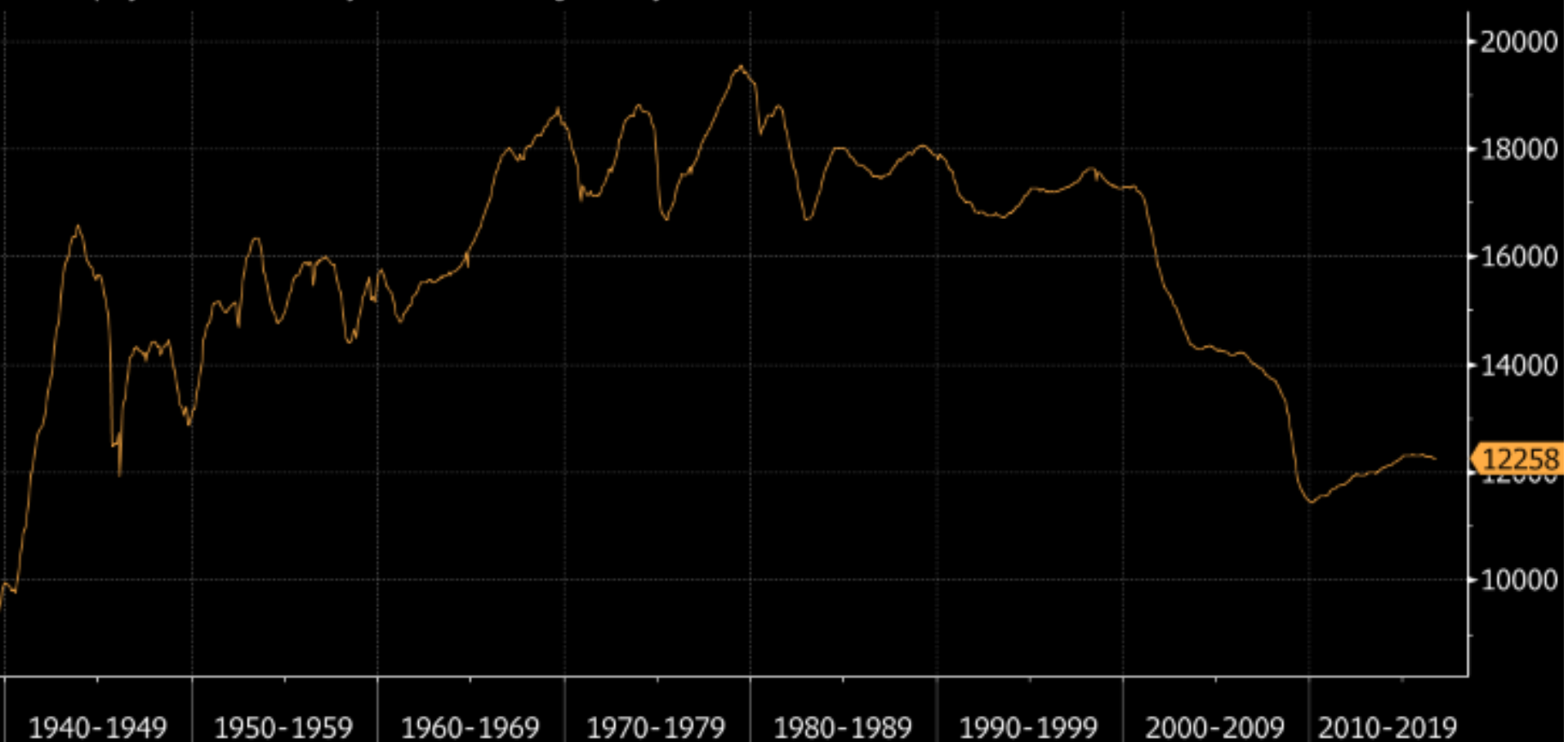
Share of Total Pre-Tax Income Flowing to Top 1 Percent



Source: Piketty and Saez, based on IRS data

Manufacturing Jobs

■ US Employees on Nonfarm Payrolls Manufacturing Industry SA



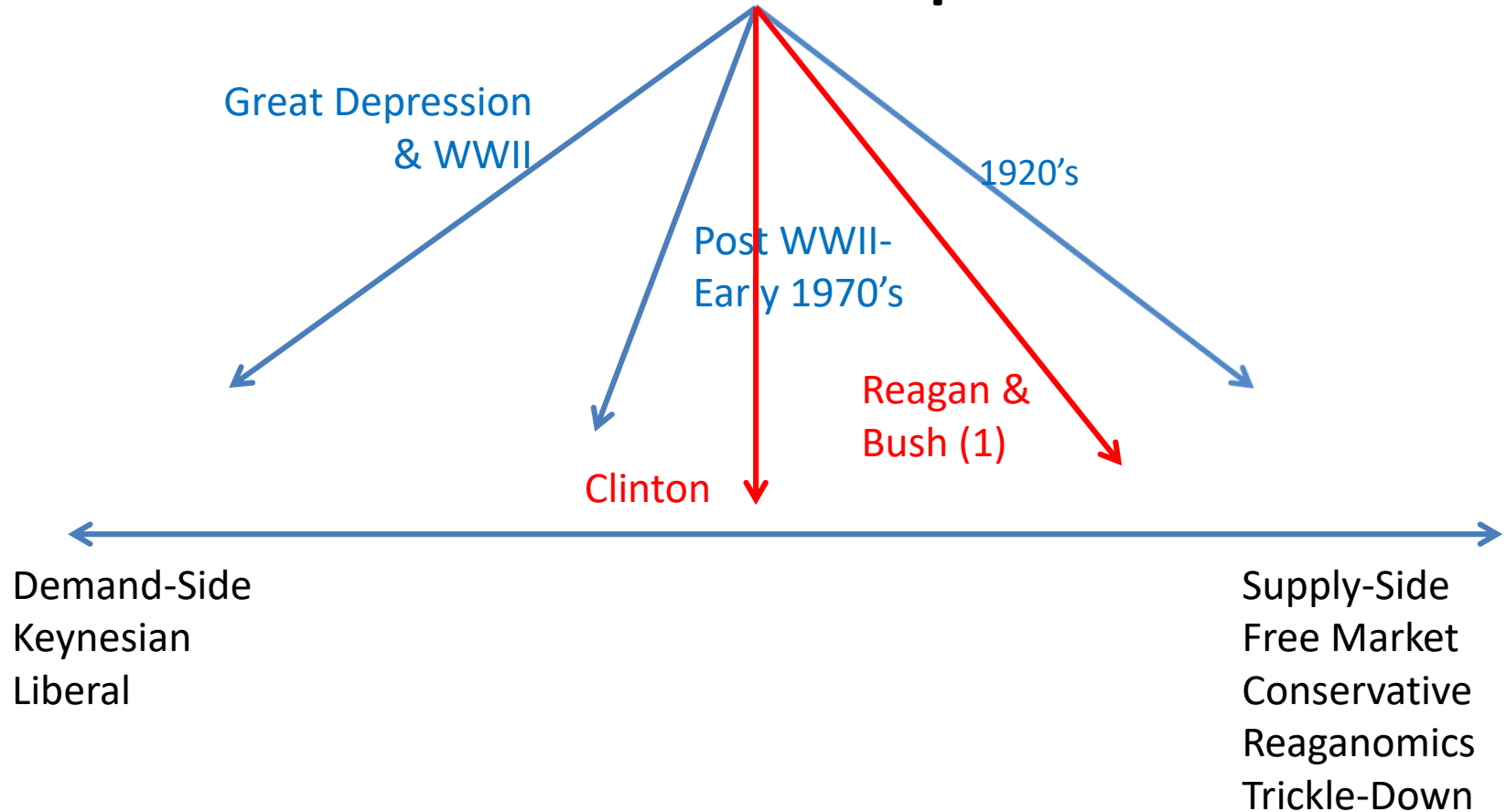
Source: U.S. Bureau of Labor Statistics

Bloomberg

Economy in the Clinton Years

- “Median family income increased to \$48,950 in 1999 from \$36,959 in 1993. And, from 1992 to 2000, unemployment fell to 7.6 percent from 14.2 percent for African-Americans and to 5.7 percent from 11.6 percent for Hispanics, according to Department of Commerce data.”
(NY Times)
- [Economy in Charts](#)

The Economic Spectrum

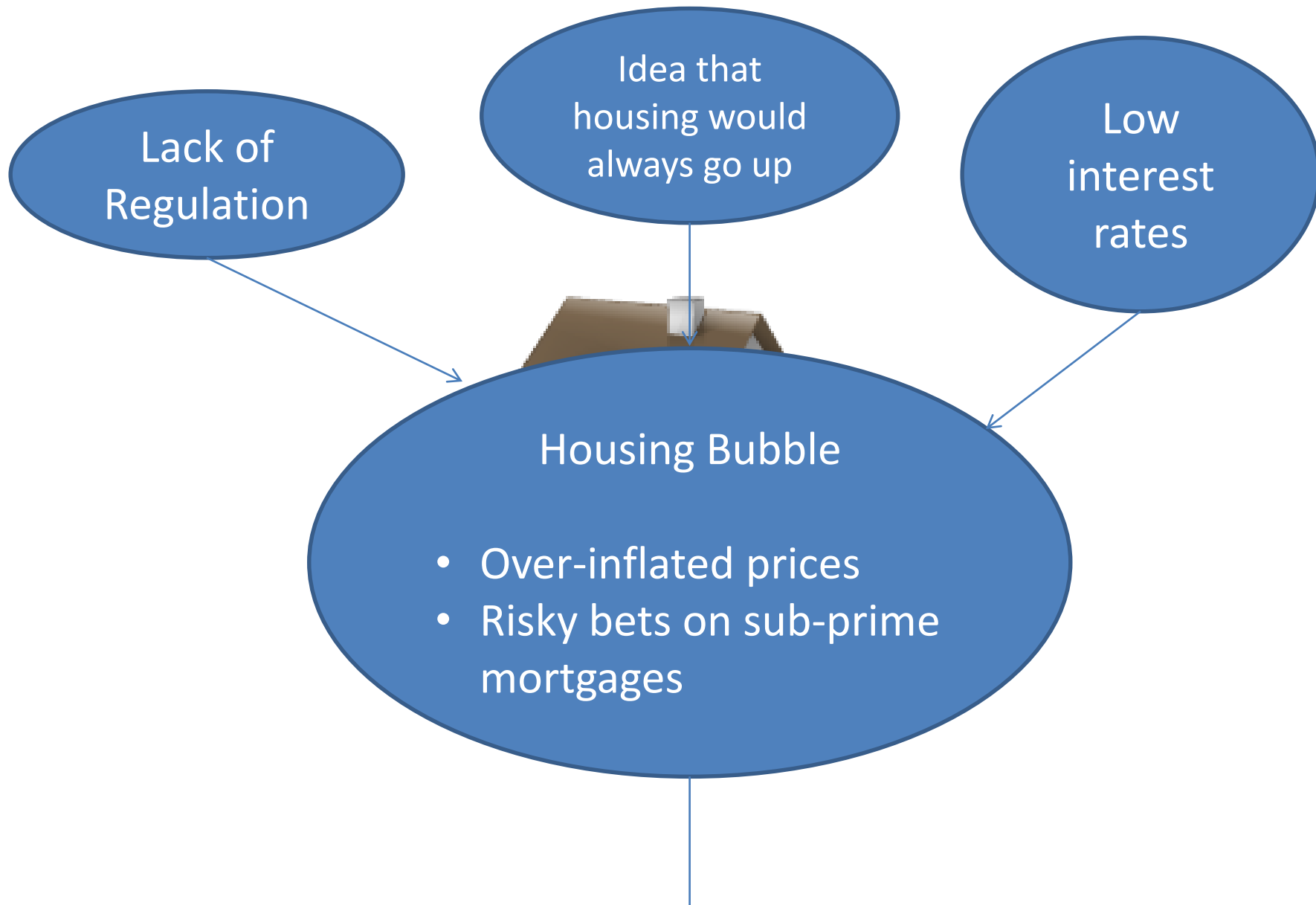


George W. Bush



- Economy slipping as he takes office
 - Tech bubble bursts
- Huge temporary tax cut
 - \$1.35 trillion over 10 years
 - Made permanent in 2013 for those making under \$400,000
- Supports low-regulation, free market economics
 - Some new regulations passed, but several regulatory agencies lose clout

The Great Recession of 2007-2009



```
graph TD; A[ ] --> B["The Bubble Bursts!"]; B --> C["Banks (e.g. Bear Stearns) in Serious Trouble!"]; C --> D[ ]
```

The Bubble Bursts!

- Prices fall
 - People owe more than value of home
- Foreclosures

Banks (e.g. Bear Stearns) in Serious Trouble!

- Had hundreds of billions of dollars invested in subprime mortgages
- Fear prompts massive sell-off of stock

```
graph TD; A[ ] --> B(Risk of Systemic Failure!!); B --> C(The Big Question: Government Bailout?);
```

Risk of Systemic Failure!!

- Bear Stearns owes lots of banks lots of money
- If it fails, others will fail too

The Big Question: Government Bailout?

- Flies in the face of free-market capitalism
- Eliminates consequences for stupid, reckless behavior
- Complete collapse likely result if no bailout

Bailout!!

- Government orchestrates sale of Bear Stearns to Morgan Stanley

Crisis Over?

No! More giants on the brink!

Government takeover of Freddie Mac and Fannie Mae (world's largest lenders)

Lehman Brothers Investment Bank Allowed to Fail

-
- ```
graph TD; A[] --> B[]; B[] --> C[]; style A fill:none,stroke:none; style B fill:#336699,color:#fff,stroke:#336699,stroke-width:2px; style C fill:#336699,color:#fff,stroke:#336699,stroke-width:2px;
```
- The entire world financial system on the brink of collapse!
  - The world's biggest banks and insurance companies about to fail!
  - "The financial system of the world will melt down in a matter of days!"

Secretary of the Treasury Henry Paulsen and head of the Federal Reserve Ben Bernanke ask Congress for \$700 billion bailout

- Will buy the toxic bonds from the banks



```
graph TD; A[] --> B[Congress Refuses!]; B --> C[Global Markets Collapse!]; C --> D["Congress Passes Bailout!
• Includes Capital Injections"]; D --> E["Banks are saved!
Economy saved from ruin!"]
```

Congress Refuses!

Global Markets Collapse!

Congress Passes Bailout!

- Includes Capital Injections

Banks are saved!  
Economy saved from ruin!

# The Great Recession

- \$11 trillion in net worth lost
- 8 million jobs lost

# And Today...

- Recession over!
- 4.9% unemployment rate!
- Banks doing just fine
  - \$80 billion in bonuses through 2011
  - JP Morgan Chase CEO makes \$23.1 million in 2011
    - Company's 4th quarter earnings 2013: \$5.28 billion (despite \$20 billion in legal costs in 2013)





# Dodd-Frank



- The Dodd-Frank Wall Street Reform and Consumer Protection Act (2010)
  - Oversee “too big to fail” companies and step in when they are in trouble, without bailing them out with taxpayer money
  - Prevent predatory mortgage lending
  - Forces other lenders like credit cards to disclose terms in easy to understand language
  - Restricts risky investments by banks
  - Regulates credit default swaps and derivatives
  - Increases the amount banks must hold in reserve
  - In all, 225 new rules and 11 new agencies

# Barack Obama on Regulation

- [2012 Democratic National Convention](#) (start at 8:33)
- [2012 State of the Union](#)
- [“The Regulator in Chief”](#)



# From the National Poverty Center, University of Michigan

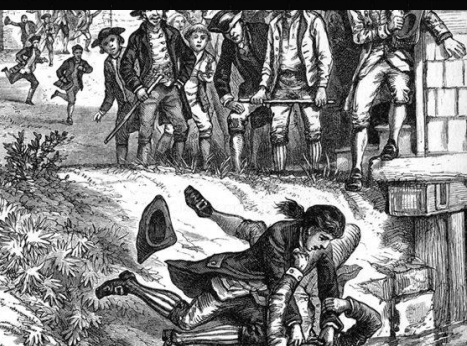
In the late 1950s, the poverty rate for all Americans was 22.4 percent, or 39.5 million individuals. These numbers declined steadily throughout the 1960s, reaching a low of 11.1 percent, or 22.9 million individuals, in 1973. Over the next decade, the poverty rate fluctuated between 11.1 and 12.6 percent, but it began to rise steadily again in 1980. By 1983, the number of poor individuals had risen to 35.3 million individuals, or 15.2 percent.

For the next ten years, the poverty rate remained above 12.8 percent, increasing to 15.1 percent, or 39.3 million individuals, by 1993. The rate declined for the remainder of the decade, to 11.3 percent by 2000. From 2000 to 2004 it rose each year to 12.8 in 2004. The poverty rate continued to increase, peaking at 15.1 percent in 2010, the highest poverty rate since 1993. The poverty rate has remained relatively stable for the past 4 years.



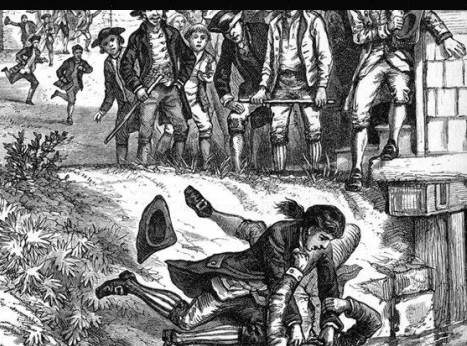
# The Declaration of Independence

- *“We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness.”*





# For Discussion

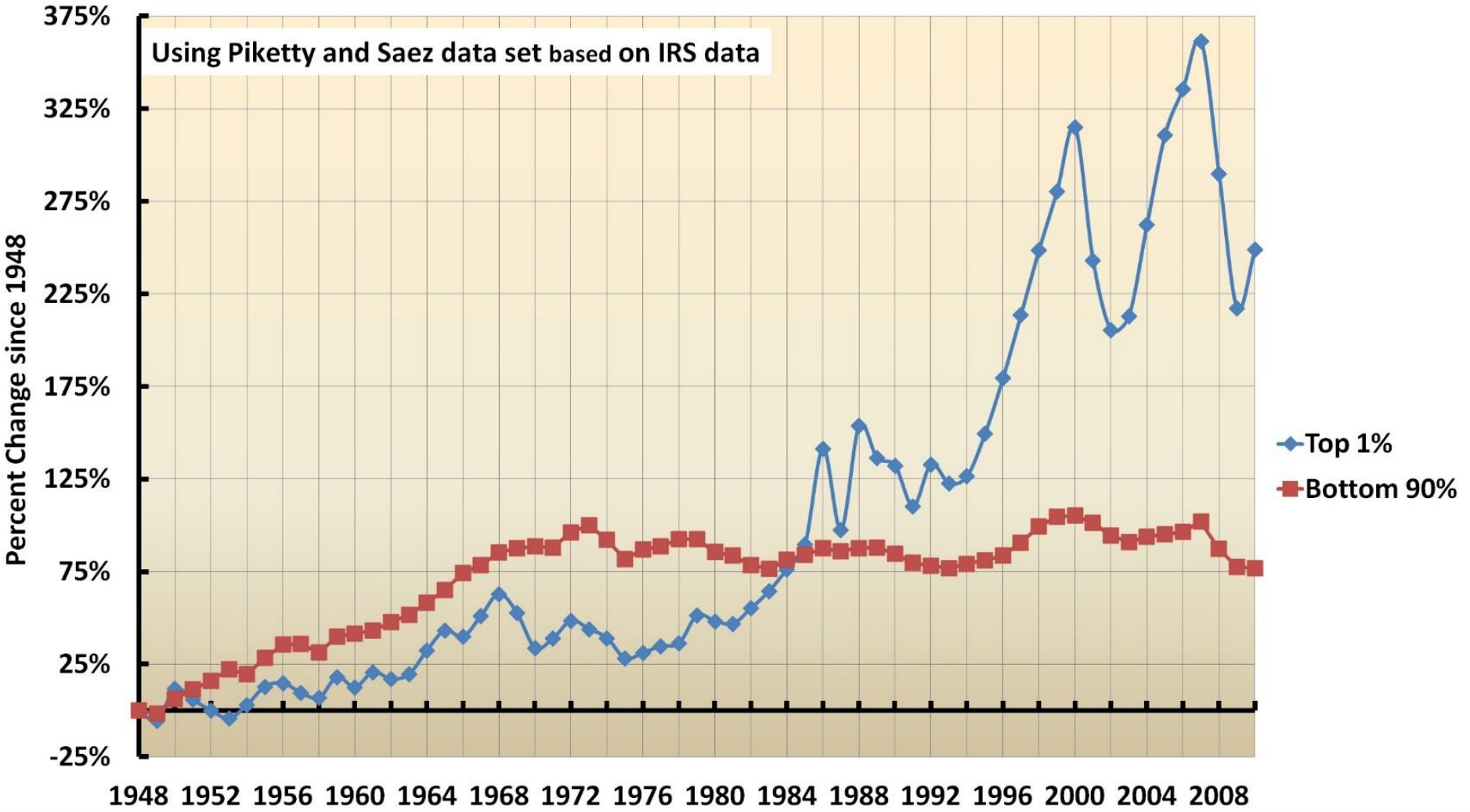


- What do people need in order to be able to pursue their dreams and have the chance to live up to their full potential?
- Is America a place of equal opportunity?
- What should the government do to make sure this is a land of equality and opportunity?

# Percent Change since 1948 (in 2010 Dollars)

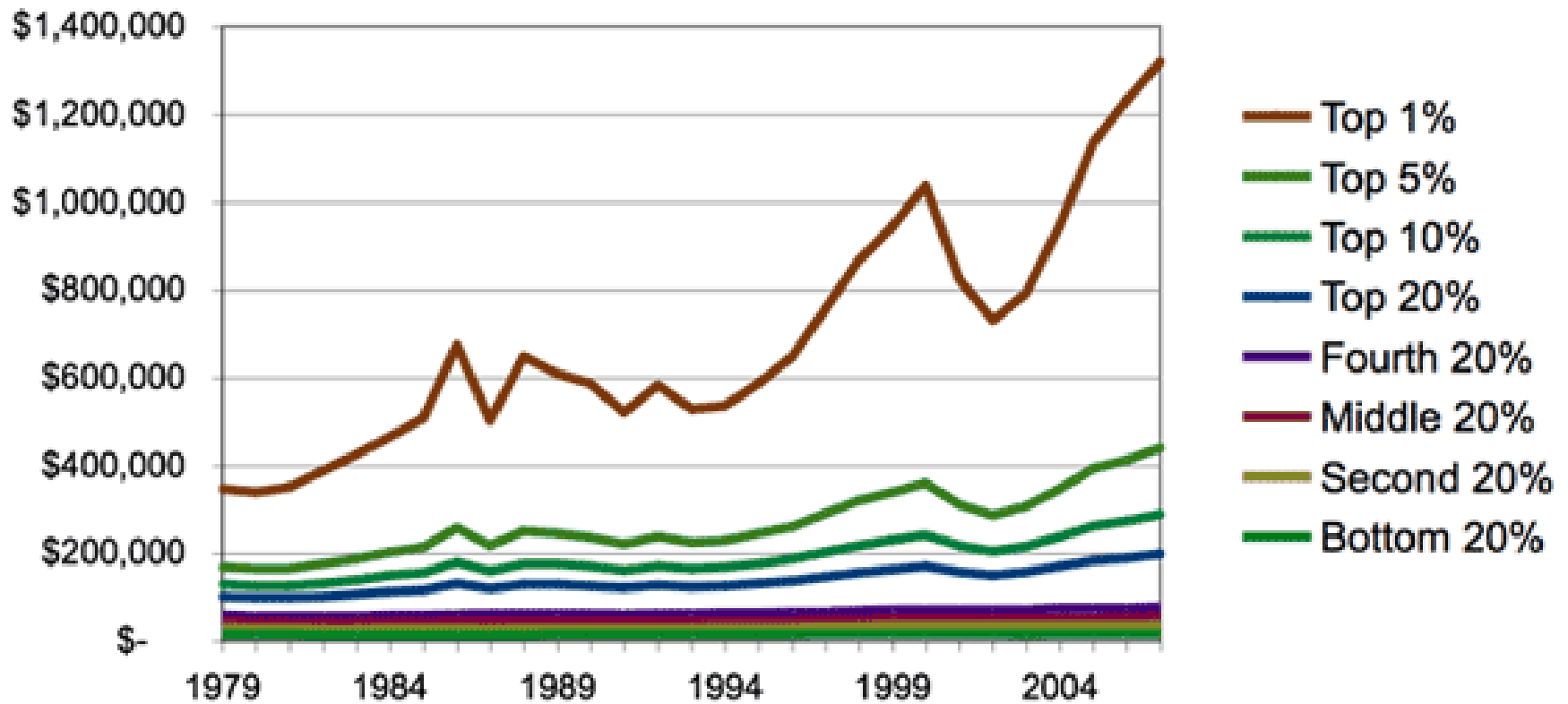
Ave. Family Income (including capital gains) for each income percentile group

Using Piketty and Saez data set based on IRS data



# Income

**Average After-Tax Income by Income Group, 1979-2007**  
*(in 2007 dollars)*



## Increase in After-Tax Income by Income Group, 1979-2007 *(in 2007 dollars)*

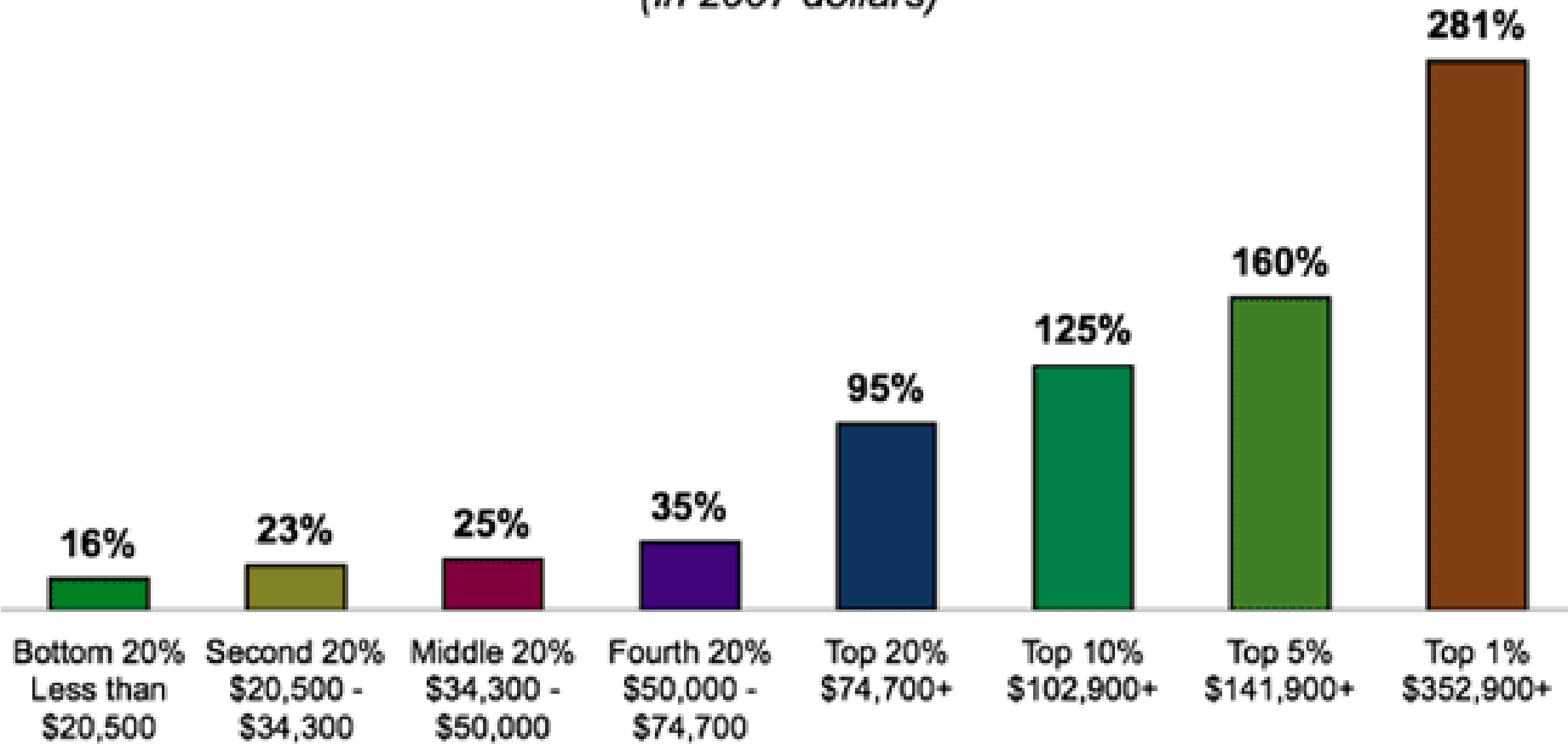
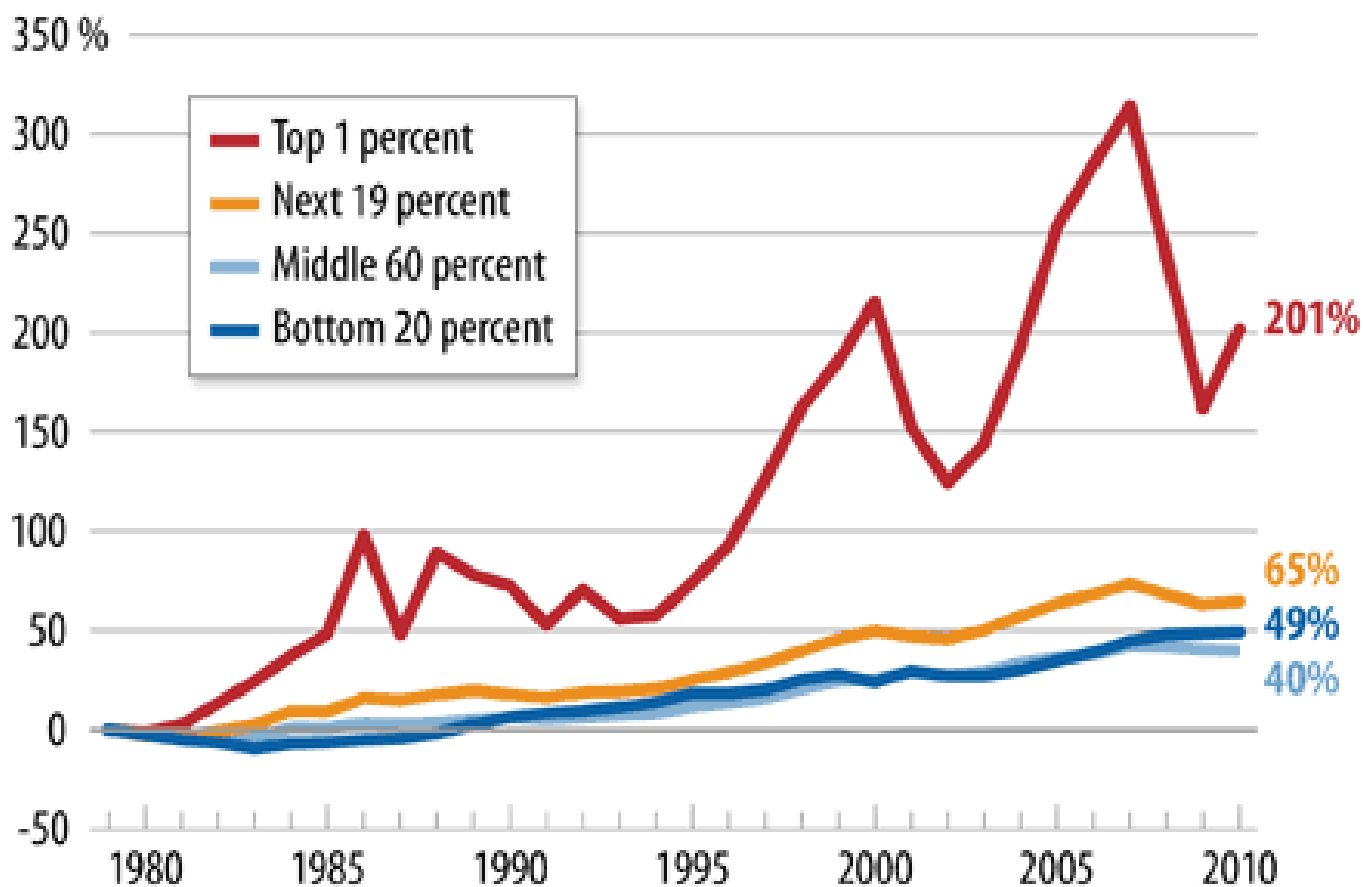


Figure 2

## Income Gains at the Top Dwarf Those of Low- and Middle-Income Households

Percent change in real after-tax income since 1979

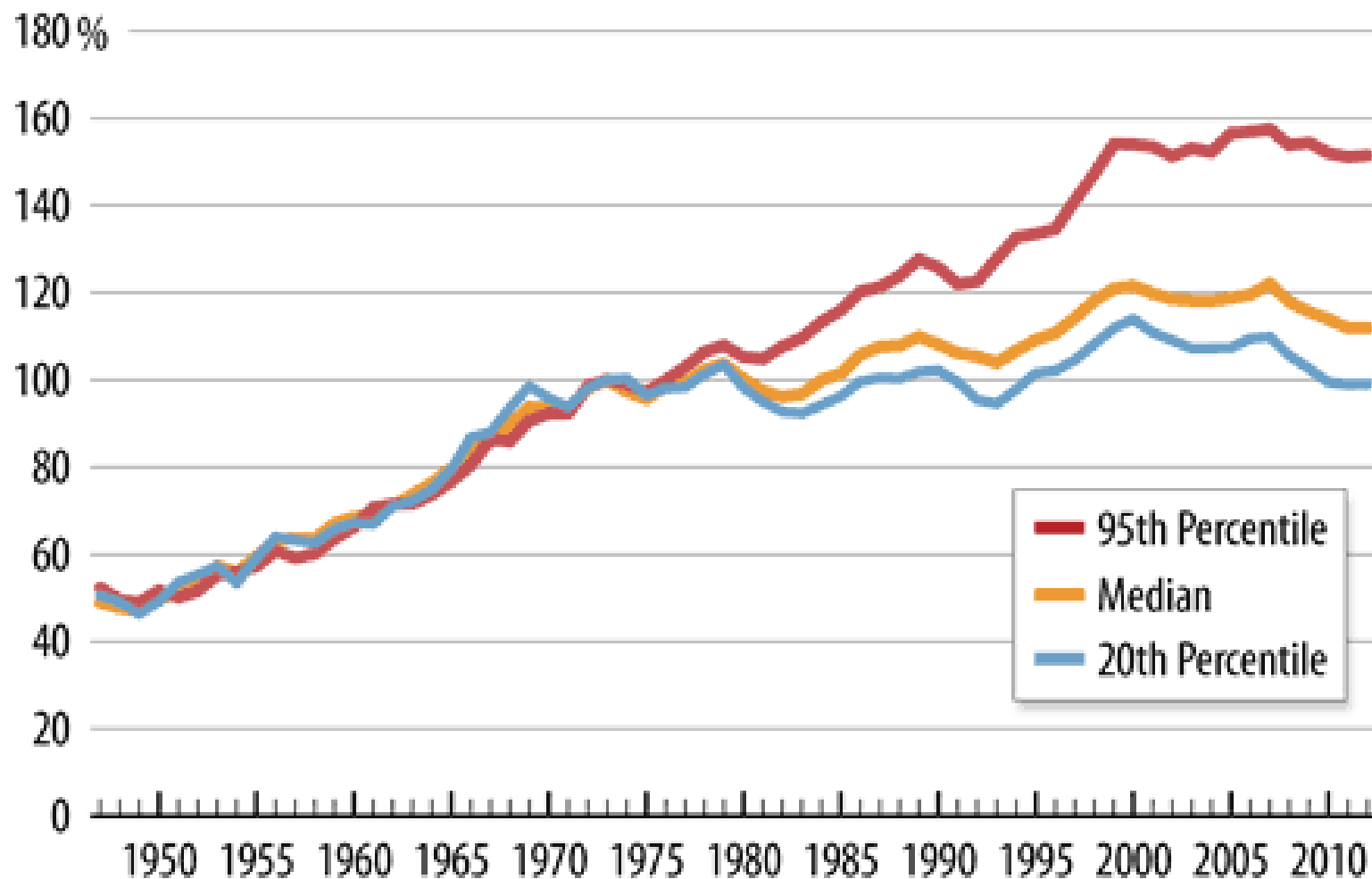


Source: Congressional Budget Office

Figure 1

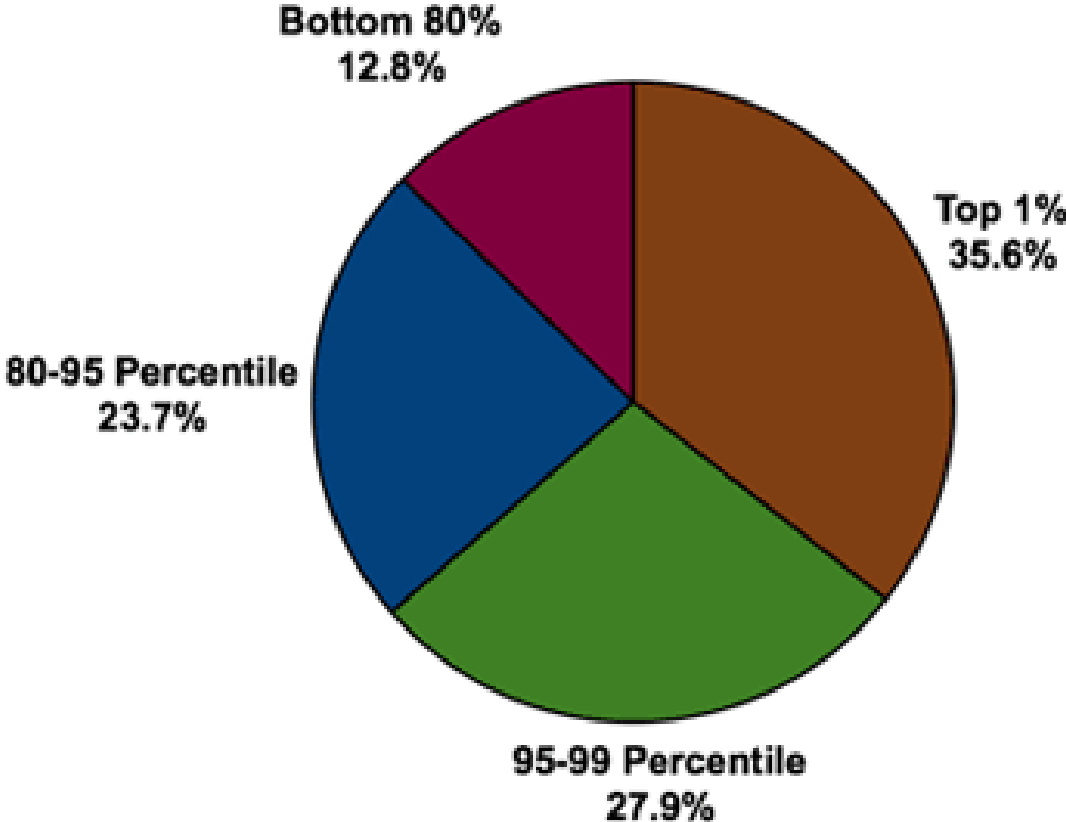
## Income Gains Widely Shared in Early Postwar Decades — But Not Since Then

Real family income between 1947 and 2012, as a percent of 1973 level



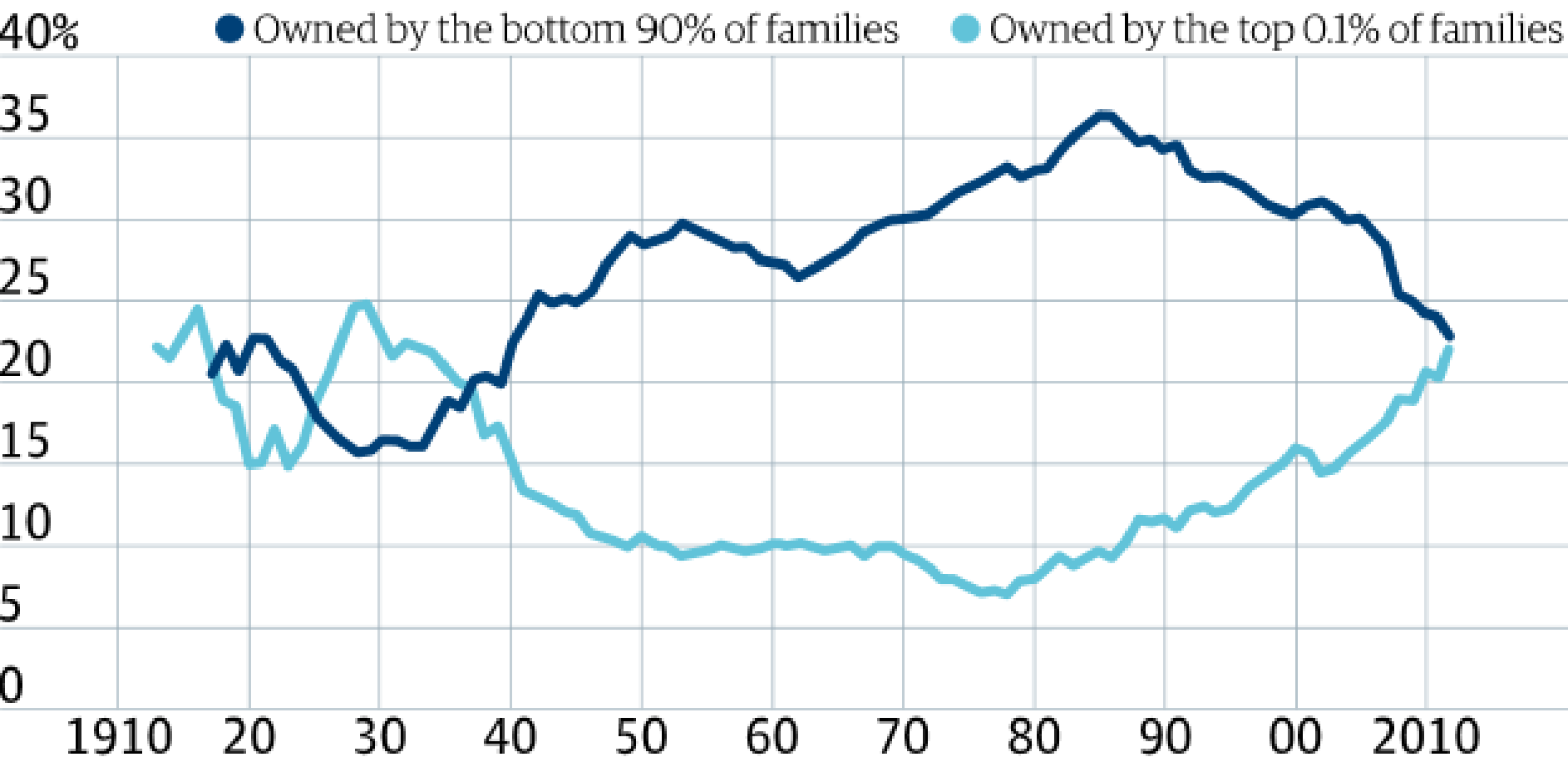
Source: CBPP calculations from U.S. Census Bureau data

# Distribution of U.S. Wealth, 2009



# The share of total US wealth

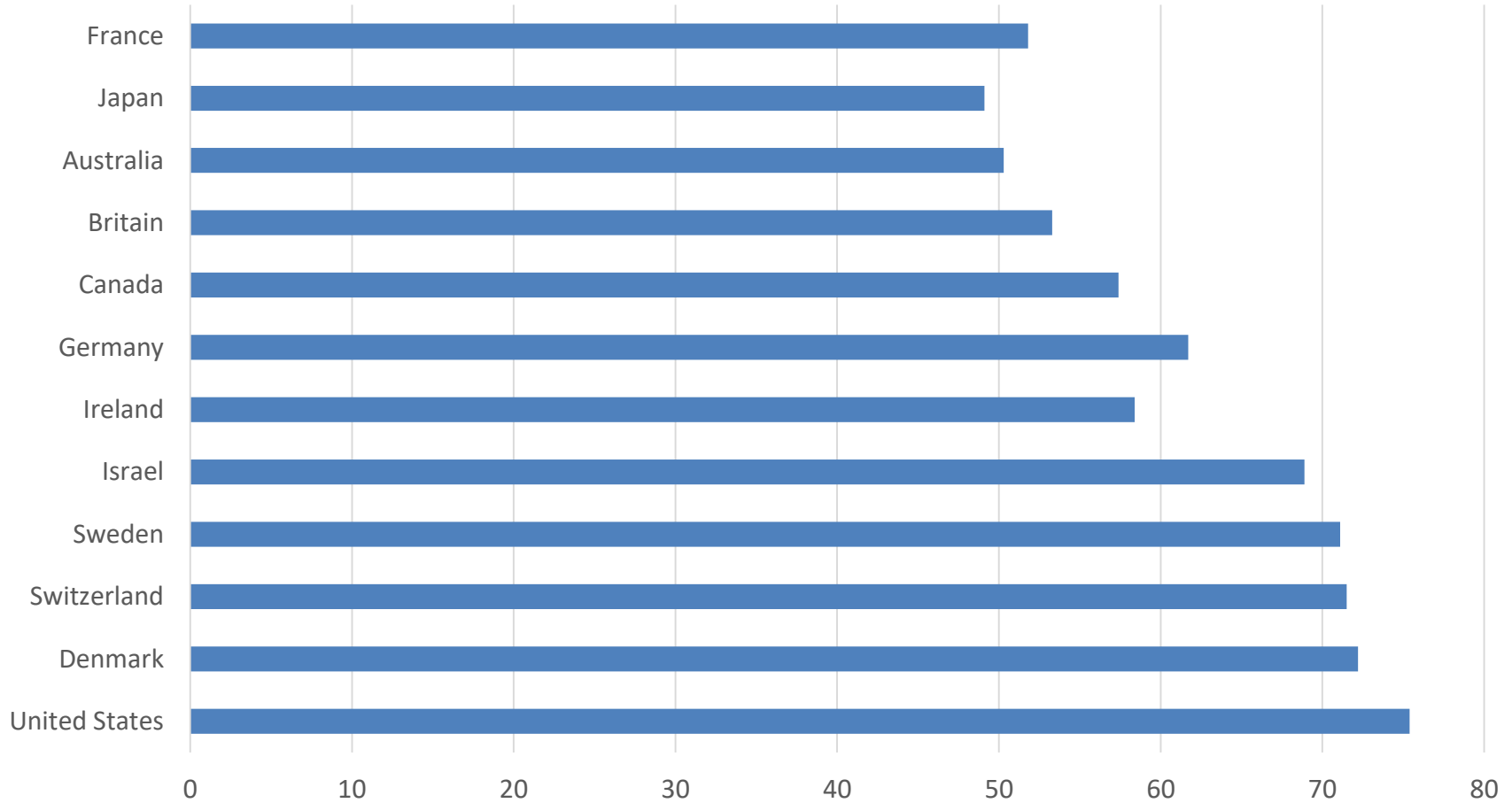
1913-2012



SOURCE: WASHINGTON CENTER FOR EQUITABLE GROWTH



# Percentage of Wealth Held by the Top 10%, 2012



# Warm-up

- Write on a piece of paper:
  - What percentage of the 400 richest Americans do you think started in middle or lower class?
  - Where in the World do you think the U.S. ranks in taxes (1=highest 215=lowest)?

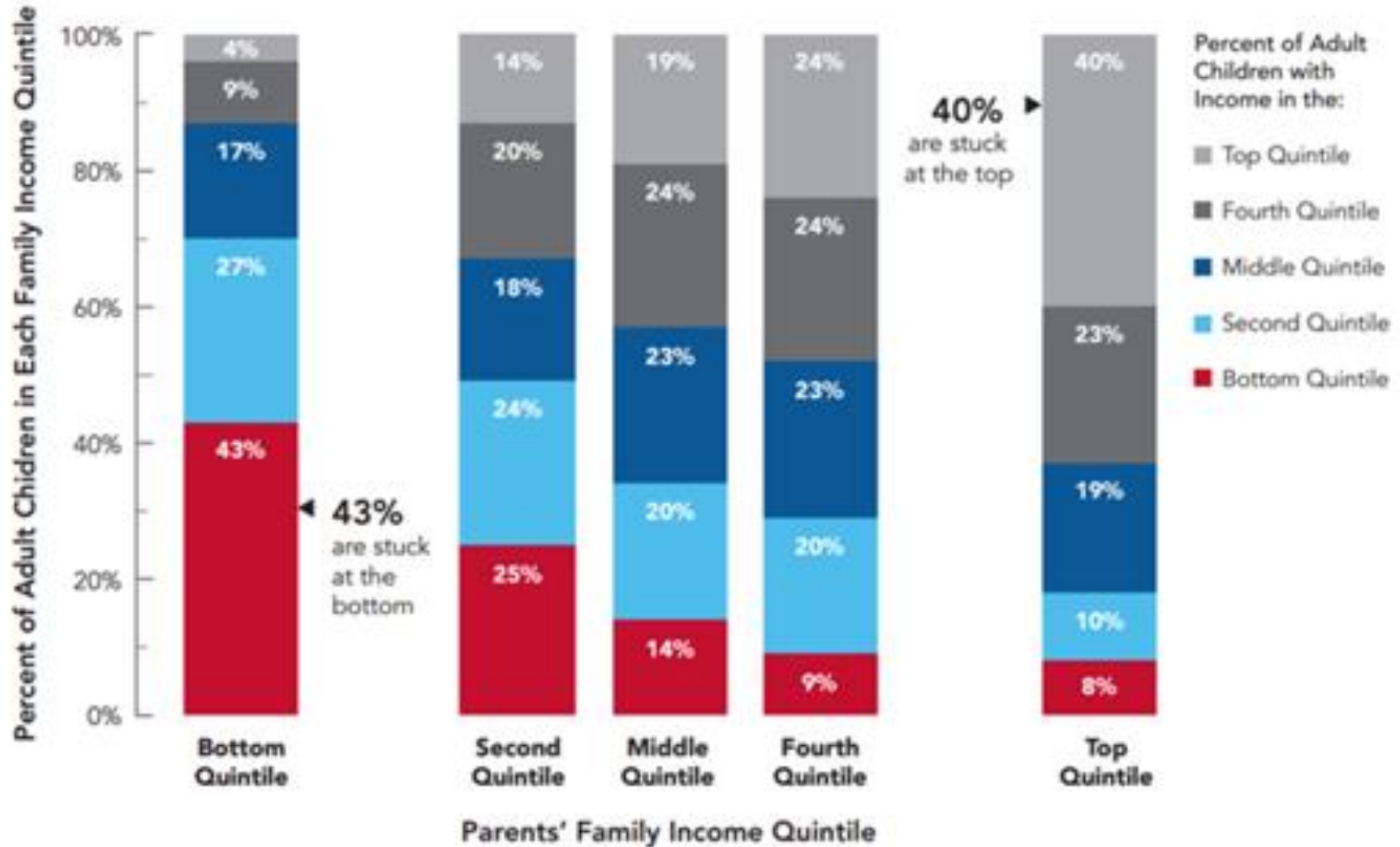
# Chrystia Freeland's *Plutocrats*

- Causes of widening gap
  - Globalization
  - Technological revolution
  - Supply-side economics
- Most “plutocrats” earned it
- Plutocrats may tilt the rules in their favor to maintain their position, decreasing mobility



# Mobility

Americans Raised at the Top and Bottom Are Likely to Stay There as Adults  
Chances of moving up or down the family income ladder, by parents' quintile

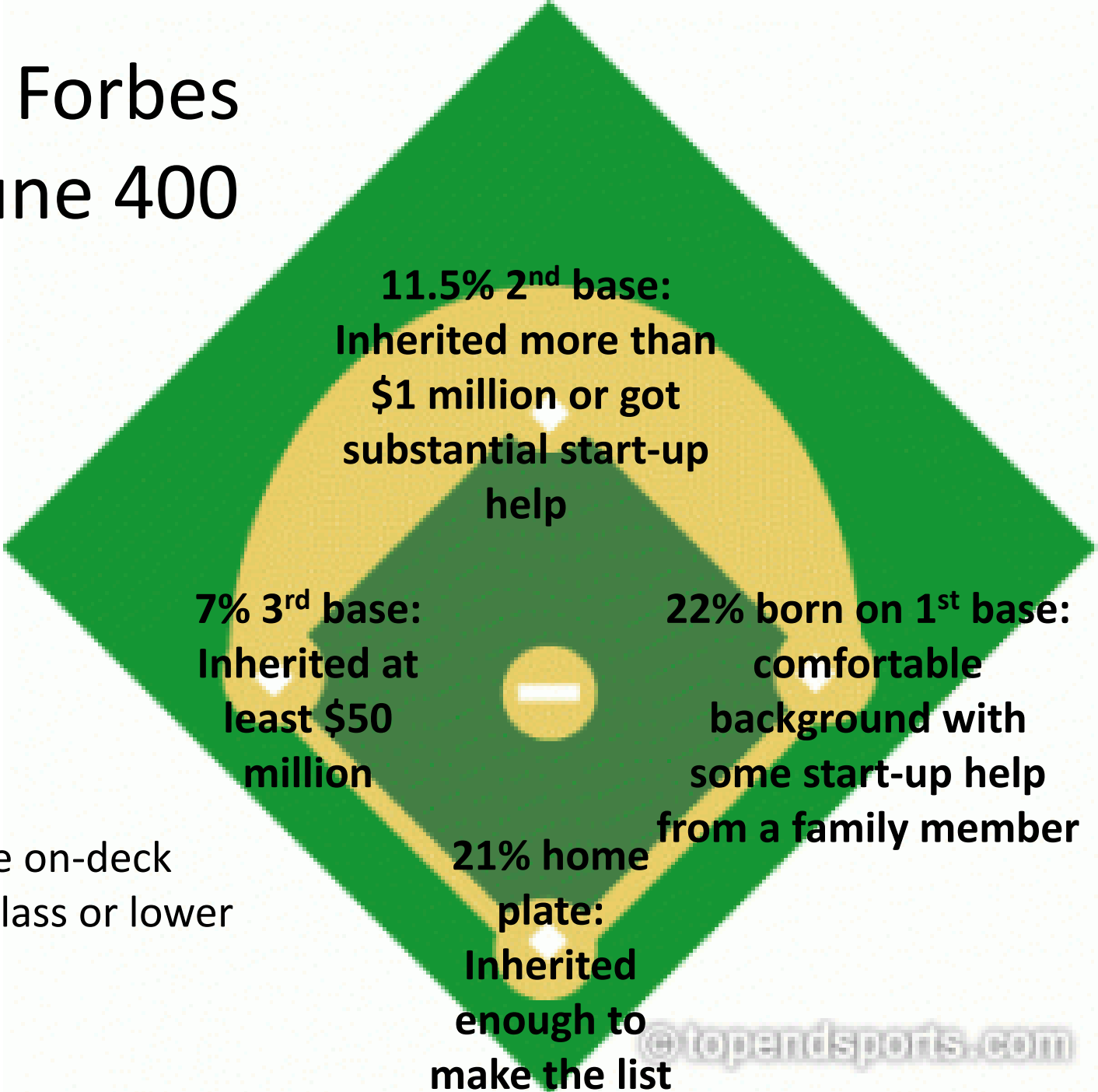


Note: Numbers are adjusted for family size.

# Stats Related to Income Distribution and Opportunity

- Ultra High Net Worth Individuals (assets over \$50 million)
  - 42% American
  - China in 2<sup>nd</sup> place: 6.4%
- 2011: 69% of the *Forbes* richest 400 Americans are the first in their families to run their own businesses

# 2012 Forbes Fortune 400



35% born in the on-deck circle: middle-class or lower background

# The Income Gap

- Read article:  
<http://www.cnbc.com/id/101025377>
- “Four corners” statement: “Income inequality is a major problem that needs to be addressed.”

# Life in Urban America

1865-1914



# By the Numbers



- 1870: 10 million city dwellers
- 1900: 30 million
- New York City
  - 800,000 in 1860; 3,500,000 in 1900
- Chicago
  - 109,000 in 1860; 1,600,000 in 1900

# The Working Poor

- [Vid](#): Jacob Riis photographs in New York



Jacob Riis

HOW THE OTHER HALF LIVES  
Studies Among the Tenements of New York









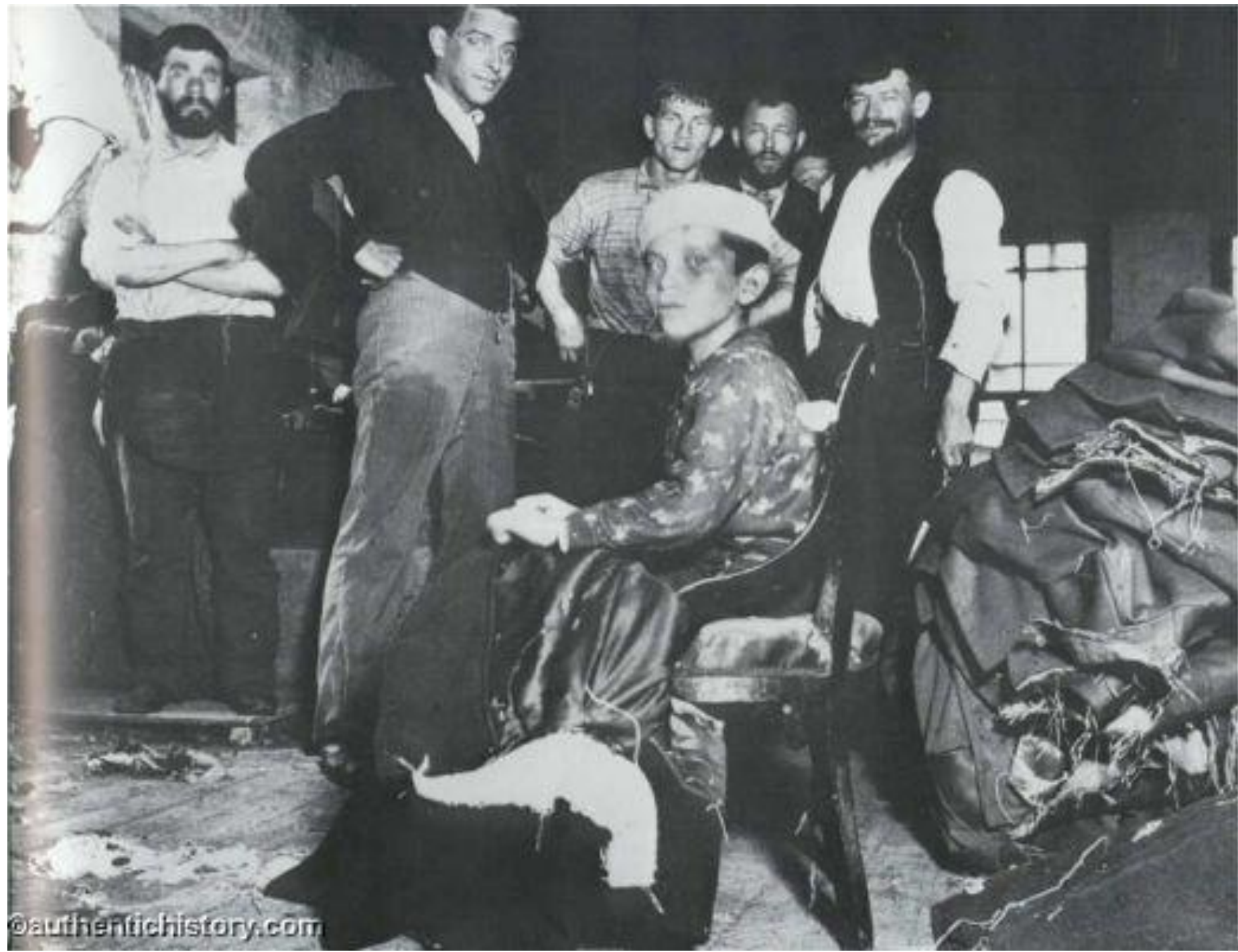














# Life for the Working Class

- T-P-S: Make a list of descriptions for the life of the working class



# Working in the Factories

- 13-15 hour average work days
- 6 or 7 days per week
- Dangerous machinery
- No protection from toxins
  - Injury, infertility, permanent malformations, deadly disorders common
  - No disability insurance, etc.; inability to work forced one to the streets
- Child labor
- Factories were fire traps

Source:

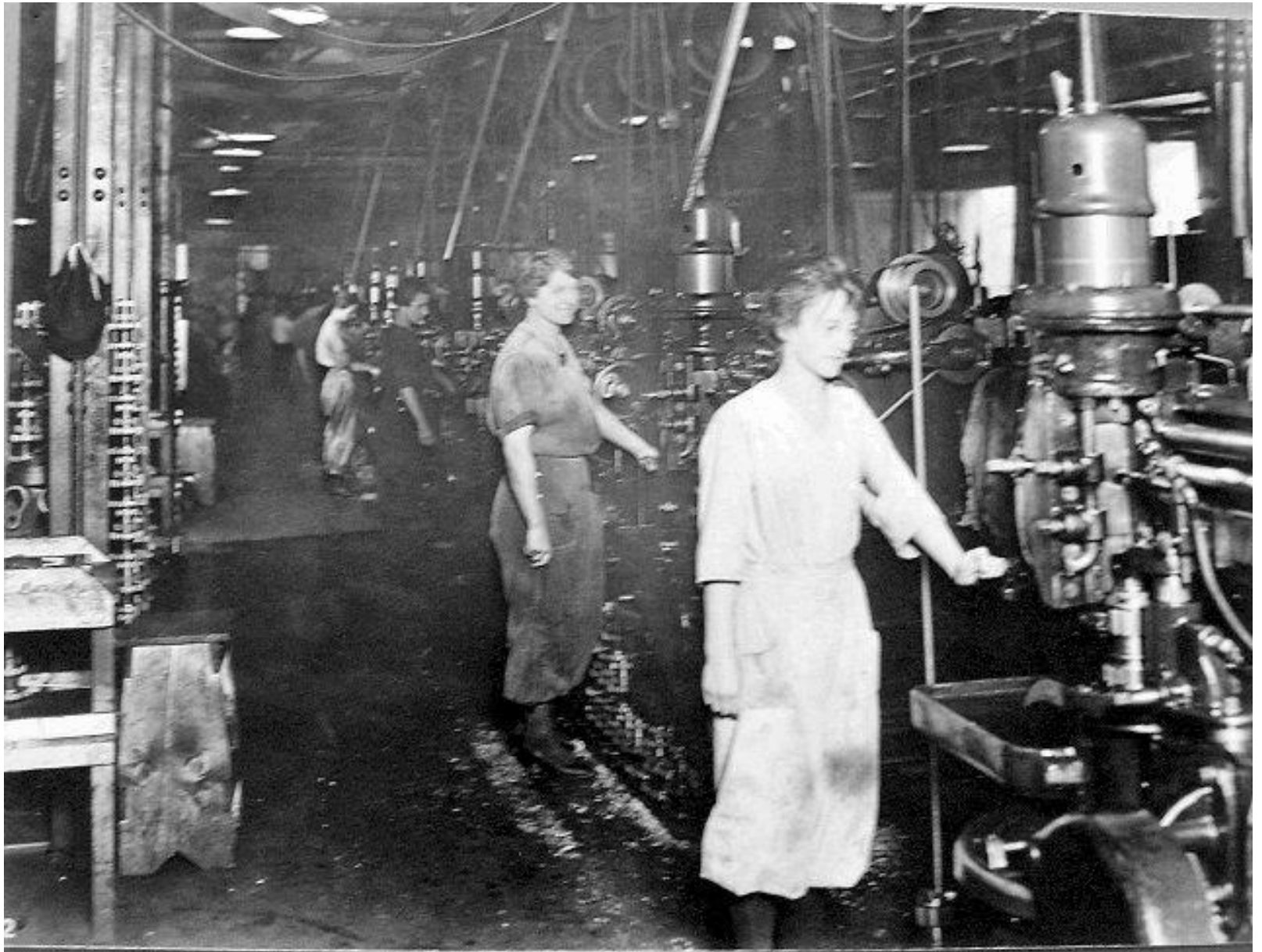
<http://honolulu.hawaii.edu/distance/hist/factory.htm>



# Working in the Factories cont.

- No insurance, retirement, benefits, etc.
  - No compensation if injured or killed on the job
  - Elderly lived with family
- No government assistance if unemployed, disabled, etc.





- Source: State of Wisconsin Department of Workforce Development







# Triangle Shirtwaist Co. Fire 1911



# Living in the Cities

- Most of the working class lived in crowded, squalid apartments called tenements
- Most single workers had to live as boarders; could not afford own place
  - Read “Primary Source,” top right of p. 453



# Urban Problems



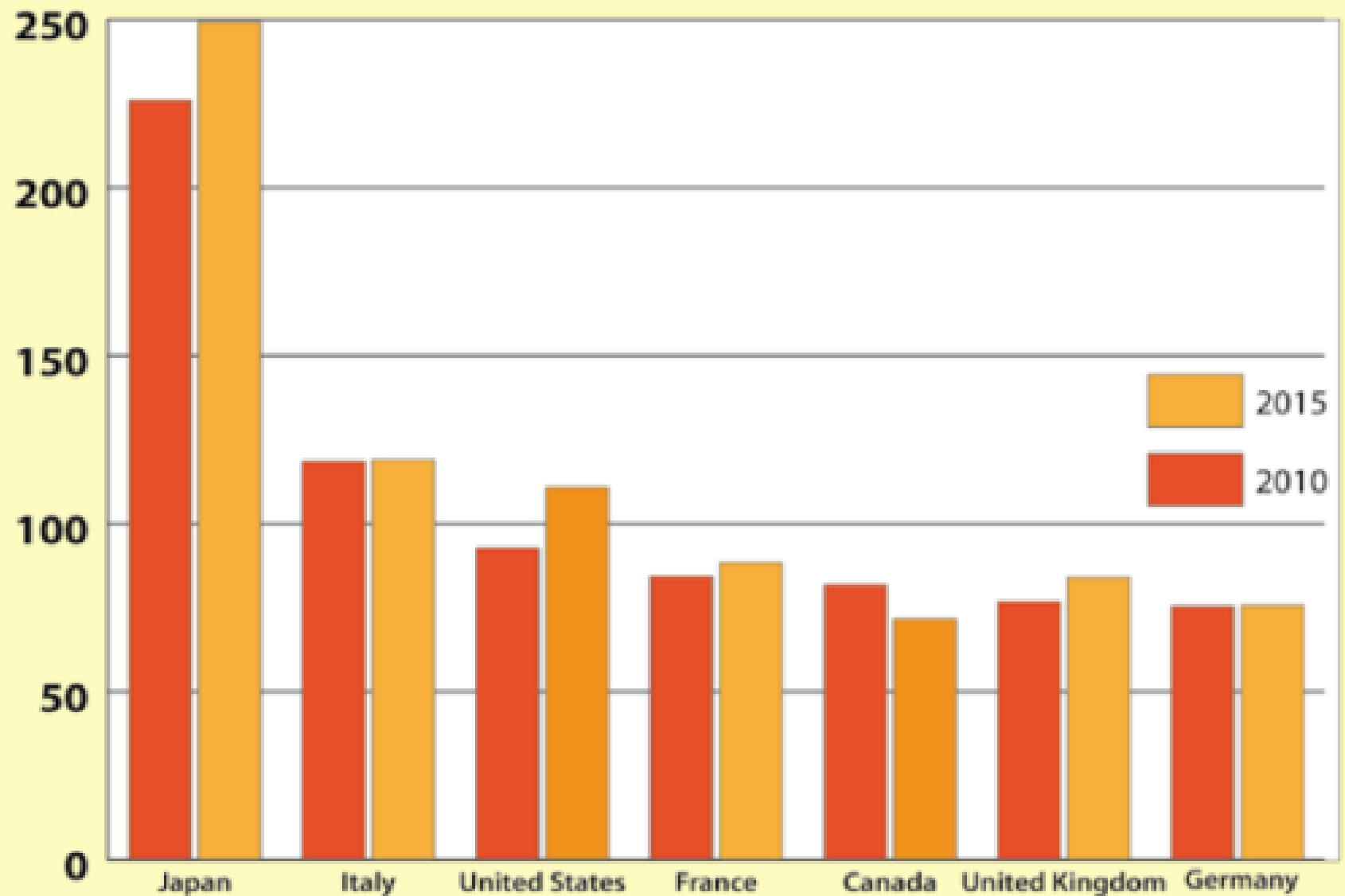
- Crime and Pollution
  - Petty and serious crime rates both increase
  - Alcohol contributes to crime and other problems
  - Disease from poor water quality, poor sewage system, smoke, horse manure

# Corporations

- *Dodge v. Ford Motor Company*
  - Henry Ford wants to increase pay, decrease car prices, and “spread the benefits of this industrial system to the greatest possible number.”
  - Shareholders the Dodge brothers sue, saying Ford’s responsibility is to shareholders
  - Dodge brothers win
  - Result: Belief that corporations must focus on generating profits, not benefitting society

Source: Byrne, Thomas. “False Profits: Reviving the Corporation’s Public Purpose.”  
*UCLA Law Review*.

# Government debt as percentage of GDP



Source: International Monetary Fund