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The Creation and Destruction of the Great American Middle Class (1930-2010)

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THE EXPANDED EDITION

THE CREATION AND DESTRUCTION

of the

GREAT AMERICAN MIDDLE CLASS (1930-2010), and …

…the Second, Conservative Great Worldwide Depression

In Less Than Eighty Years

A Free, Online American History Course*

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*The equivalent of a 150 page book
INTRODUCTION TO THE EXPANDED EDITION

This expanded edition of “The Creation and Destruction of the Great American Middle Class (1930-2010)” includes sixteen instances of “stealth government actions taken against the American people.”

One section in Chapter 35 of the course describes how “the uninformed/misinformed public contributed to the destruction of the middle class.” Americans have a civic duty and a personal responsibility to avoid being uninformed about government matters that affect them. In many cases, therefore, if individuals are uninformed, it is through their own choice.

But much of what happens in government occurs “behind the scenes” or “in the dark,” in such a manner that the citizenry is deprived of accurate information about matters of importance to them. In situations like that, citizens are deliberately “misinformed.” Typically when that occurs, a special interests group influences the government to do something that favors its welfare. Alternatively, sometimes the special interests group convinces government to do nothing that prevents the special interests group from taking some action that is beneficial to itself but harmful to others. Both of those types of events receive little or no publicity that brings them to the public’s attention in a manner that causes the citizenry to be broadly and fully informed. In such situations, the U.S. Government acts as a “stealth government” working against the general welfare of the American people.

During the most recent four decades (1970-2010) there were at least sixteen occasions when the U.S. Government acted in this manner. Many of those events were actions taken by the government, but occasionally they were only the quiet absence of any government action when some kind of action would have been appropriate “to promote the general welfare” and/or “to establish justice,” which are two of the six explicit goals of the U.S. Constitution. Those events were not included in the original edition of the course because—I believed at the time—they might have had a confusing effect on the main story of the cause of the destruction of the great American middle class.

Any one of those sixteen events, by itself, would not have had the power to destroy the great American middle class. But when several of them were working together, they became a force that created greater income inequality. Sixteen such events are described in this expanded edition, and together they represented a powerful set of forces that worked to create even greater income inequality. Consequently, they should be part of this history because they tell the story of how “stealth government” worked against the general welfare of the American people by taking money from lower and middle class citizens and distributing it to selected members of the upper class. Such governmental activities can rightly be labelled “welfare for the rich.”

The original edition of the course tells the main story of how the business community/Republican Party/conservative Democrats faction (“the faction”) engineered the destruction of labor unions in the private sector, which then led to the destruction of the great American middle class. This expanded edition adds much detail about the tactics used by “the faction” and “stealth government” to transfer money and wealth from the middle and lower classes to those in the top 1 percent or top 0.1 percent of earners. When reading about these tactics, a person may very well be reminded of the saying, “death by a thousand cuts.”
The following sixteen “stealth government” events are discussed in this expanded edition.

During the 1970s:

- A program of government-guaranteed student loans rewarded bankers at the expense of students (see Chapter 18)
- Congress created a new bankruptcy law that favored the wealthy over the middle and lower classes (see Chapter 18)
- The Supreme Court made a decision that allowed banks to charge very high interest rates on credit card balances (see Chapter 19)

During the 1980s:

- The Reagan presidency allowed corporations to replace pension plans with 401(k) plans, thus greatly reducing the retirement incomes of millions of middle and lower class workers (see Chapter 22)
- The government eliminated three important banking regulations, and their absence contributed to increasing income inequality and the housing crisis that culminated in the financial crash of 2007-2008 (see Chapter 23)

During the 1990s:

- The government allowed the growing use of stock options to dramatically increase CEO compensation (see Chapter 28)
- Congress excluded waitresses and waiters when it increased the federal minimum wage, thus relegating them to poverty or near-poverty incomes (see Chapter 28)
- The government allowed “forced arbitration” clauses to exist in cable, cell phone, and other consumer contracts, which prevented consumers from participating in class action lawsuits when they felt that companies were unjustly taking small amounts of money each month from them and millions of other consumers (see Chapter 29)

During the 2000s:

- The business community helped President George W. Bush pass his tax cuts for the rich (see Chapter 32)
- The government bailed out “banks too big to fail” during the financial crisis of 2007-2008, but prevented distressed homeowners from declaring bankruptcy (see Chapter 32)
- Congress’ new treaty greatly facilitated outsourcing U.S. manufacturing jobs to China and increasing imports from China (see Chapter 33)
- Congress allowed employers to steal billions of dollars from employees through legalized wage theft (see Chapter 33)
- The new bankruptcy law of 2005 favored the rich over the middle class (see Chapter 33)
- Congress and the president allowed U.S. companies to transform themselves into global corporations and move high tech jobs to foreign countries (see Chapter 33)
• Congress allowed the business community to block attempts to “cap” excessive CEO compensation (see Chapter 33)
• Congress failed in its attempt to reform banks and financial institutions after the financial crisis of 2007-2008 (see Chapter 33)
INTRODUCTION TO THE ORIGINAL EDITION

This course is an economic history of what happened to ordinary American people and families from about 1930 to 2010.

From the late 1940s to about 1980 ordinary people and families in the United States enjoyed a tremendous increase in their prosperity and quality of life, especially when compared with the conditions that existed during World War II, the 1930s, and before. That prosperity was undoubtedly the highest the world had ever experienced. Because of that, those people are referred to as the great American middle class in these course materials, and that 30-40 year time span was the period that witnessed the creation of the great American middle class.

Unfortunately, that high level of prosperity began to decline in the 1980s and thereafter. In the thirty-odd years since 1980, the U.S. political-economic system has not come even close to regaining that unprecedented high level of prosperity for the nation’s ordinary people and their families. That was the time period, from about 1980 to 2010, that witnessed the destruction of the great American middle class.

The course materials are presented in about one hundred pages of text, divided into thirty-six chapters. Some chapters are longer than three pages, but the large majority are shorter.

The materials that follow can be used in several different ways.

- **As a do-it-yourself learning experience.** An individual with a general interest in the topic (“The Creation and Destruction of the Great American Middle Class: 1930-2010”) can use the materials as a do-it-yourself learning experience. In such a case, the course materials can be read like a book. That is, the materials can be considered to be the notes a very good student made when enrolled in a college course on the subject.

- **As a serious effort to become very knowledgeable about the topic, again as a do-it-yourself project.** In this type of effort, an individual can delve somewhat deeper, or very much deeper if they like, by turning to one or more of the many citations noted in each of the thirty-six chapters. This course is strongly based on a dozen or so books, each of which addresses one or more aspects of the course materials. These books are cited in the materials where they proved to be very helpful in compiling this history. Since the books were quite popular, they should be readily available to anyone interested in pursuing this type of project. Shown below are lists of books under three categories: “Absolutely Must Read” books that address the entire course topic; “Absolutely Must Read” books that address the topic of the second, conservative great worldwide depression; and “Absolutely Must Read” books that present a more honest and complete story of the history of the American people as it applies to the course topic.

- **As a high school teacher designing a history course on the topic.** The materials presented here can become the basis of a thirty-six unit course addressing “The Creation and Destruction of the Great American Middle Class (1930-2010), and ….” Each chapter’s materials can be used as the framework of a lecture or class discussion, and each chapter’s citations can be used either as source material to supplement the lecture or class discussion, or be used as individual or group
assignments that become the basis of class discussions. The three book lists can be used in the same manner.

“Absolutely Must Read” Books Addressing the Course Topic


“Absolutely Must Read” Books Addressing the Second Conservative Great Depression


Bethany McLean and Joe Nocera, *All the Devils Are Here*, (Portfolio/Penguin, 2010).


“Absolutely Must Read” Books Addressing Honest American History


A Note on “The Great American Middle Class”

There is no agreed-upon definition of “middle class.” Nor does this course attempt to provide such a definition.

However, in the United States, two approaches are commonly used to describe different income classes or categories. One approach is quite straightforward and easy to understand. It divides the entire population into five equal parts, called quintiles. That is, there is the richest 20%, and there is the second-richest
20%. There is also the poorest 20%, and the second-poorest 20%. And there is also the middle 20%. Throughout this course there is frequent mention of these five income categories, or quintiles.

How do these five quintiles relate to the “great American middle class”? They do not allow for a perfect match, but they are helpful. Although somewhat oversimplified, it is useful to think of the following approximations: the poorest 20% represent the lower class; the second poorest 20% represent the lower-middle class; the middle 20% represent the middle-middle class; and the second richest 20% represent the upper-middle class.

The richest-most 20% are not so easily described. For example, the richest 1% is about four times richer than the next richest 4%, and this latter group is almost twice as rich as the next richest 5%. (New York Times, April 17, 2012, page B9.) Based on these observations, it is reasonable to label the richest 1% as the very rich, although some have used even less flattering terms to describe them. The next richest 9% can be called the rich, and the next richest 10% after that can be called the upper class.

Based upon this thinking, the bottom 80% of the population then consists of the following: three-fourths is middle class and one-fourth is lower class. The top 20% of the population consists of the following: one-twentieth is the very rich, nine-twentieths is the rich, and ten-twentieths is the upper class.

If one uses the bottom 80% of the population to describe the “great American middle class,” one should recognize that such a description also includes the lower class. However, one should also remember that when referring to the “destruction” of the great American middle class, that same “destruction” was occurring also to the lower class, but the effect of such “destruction” on that class was even more devastating.

A second approach to describing different income classes or categories has come into usage in recent years because of the growing interest in the topic of income inequality in the United States. This approach is even simpler than the one described just above. In this approach, the entire population is divided into two groups: the top 1%, and the other 99%. This approach is also used in these course materials because the income information that is available, based on this approach, is very useful and very informative.

When using this second approach in reference to the “great American middle class,” it is important to remember that the other 99% includes not only the bottom 80%, but also the 10% who are the upper class as well as the 9% who are the rich. In spite of this inaccuracy, it is still very informative at times to be looking at income date from the other 99% versus the income data from the top 1%.

**COURSE DESCRIPTION**

**Course Title**

The Creation and Destruction of the Great American Middle Class (1930-2010), and the Second, Conservative Great Worldwide Depression in Less Than Eighty Years
Observations on the Creation and Destruction of the Middle Class

Evidence of the growth of the middle class includes:

- During the 1920s-1930s the bottom 99% of earners received only about 82-83% of national income. From approximately 1952 to 1981 that figure increased to about 90% of the national income, with its peak of 91.1% in 1976. (Source: Robert Reich, “The Limping Middle Class,” New York Times, September 4, 2011.)
- From 1947 to 1979 the four lower quintiles of income classes had larger percentage income gains than did the richest-most quintile. The income gains of the four lower quintiles from 1947 to 1979 ranged from 101% to 122%. The richest quintile enjoyed a 99% income gain during the same period. (Same source as above.)

Evidence of the destruction of the middle class includes:

- While the bottom 99% of earners had received about 90% of the national income in the 1960s and 1970s, they received only about 76.5% of the national income by 2007, which represents a decrease of some 16-17% since 1981. The top 1% of earners’ share of the national income had increased from its low of 8.9% in 1976 to about 23-24% in 2007, which represents an increase of approximately 150%. (Same source as above.)
- From 1980 to 2009, the richest quintile saw its income grow 55%. During this same time period, the second-richest quintile had only a 25% growth in income, the middle quintile had only a 15% growth in income, the fourth quintile had only a 7% growth in income, and the lowest quintile had a 4% decline in income. This weak income growth for the bottom four quintiles, compared with the richest quintile, illustrates the destruction of the great American middle class. (Same source as above.)
- From 1980 to 2005 the policies of President Reagan, the first President Bush, House Speaker Gingrich, and the second President Bush essentially destroyed the purchasing power of the bottom 60% of U.S. households (the bottom three quintiles), their share of national income declining from about 32% down to about 27% (a 15-16% reduction). Even the second-richest quintile of U.S. households saw their share of national income fall from 24% to about 23% (a 4% reduction). (Source: Wall Street Journal, August 30, 2006.)

Evidence of phenomenal prosperity growth for the top 1% of earners includes:

- From 1976 to 2007 the top 1% of earners increased their share of national income from 8.9% to 23.5%, which represents an increase of 164%. (Source: Robert Reich, “The Limping Middle Class,” New York Times, September 4, 2011)
- From 1980 to 2007, the top 0.01% of earners enjoyed a 408% growth in their income, the top 0.1% of earners enjoyed a 308% increase in their income, the top 0.5% enjoyed a 214% growth in their income, and the top 1.0% of earners enjoyed a 177% increase in their income. During this same time period, the bottom 99% had to struggle with only a meager 8% increase. (Source: Time, November 26, 2007, page 42.)

The above data show that the middle and lower income classes enjoyed growing prosperity during the 1940s-1970s period. But the data also clearly show that, from 1980 to the present, the bottom 99% of
earners have seen their share of national income decline. The vast, vast majority of people in the bottom 99% experienced significant declines in their incomes.

At the same time, the top 1% of earners—especially the top 0.01%—enjoyed a phenomenal growth in prosperity, which resulted in an income inequality in the U.S. that exceeds the income inequality found in 18th and 19th century colonial territories or currently in many third world countries.

Observations on the Second Great Depression

The great British economist of the 1920-1940s, John Maynard Keynes, described a depression as “a chronic condition of subnormal activity for a considerable period without any marked tendency either towards recovery or towards collapse.” (Source: Matthew Bishop, “What Would Keynes Do?” The New York Times Book Review,” June 17, 2012, page 20.) This is a good description of the Great Depression of the 1930s.

Evidence of a Second Great Depression

The Great Depression of the 1930s started in October, 1929. The current economic downturn started in 2007-2008, with the actual date debatable, but most likely occurring in 2007. Hence, this second depression occurred some 78-79 years since the first Great Depression.

- Media refer to the current economic downturn as the “Great Recession,” apparently too timid to call it a depression. But recessions typically last less than 24 months and seldom as long as 36 months. In year 2013, the current economic downturn was in (at least) its fifth year, and probably in its sixth year.
- From 1948 to 2000 unemployment in recessions tended to peak at around 7%, occasionally around 8% (1975 under Nixon), and almost never at 9% (1982 and 1983 under Reagan) or higher. (See http://www.truthfulpolitics.com/images/unemployment-by-president-political-party.jpg.) Unemployment during the current economic downturn exceeded 9%, and probably reached 10% or higher. “Underemployment” includes (i) persons reported to be unemployed, (ii) persons working one or more part time jobs but wanting a full time job, and (iii) unemployed persons wanting a job but no longer looking because they have found none available. In the current economic downturn, the “underemployed” reached at least the 17-18% level, but more than likely reached the 20% mark.
- In the first half of 2012, state and local governments were still cutting public employees, teachers, librarians, firemen, police and others, with no end in sight.
- In the first half of 2012, Federal Reserve policy stood at keeping interest rates at or near zero at least until the end of 2014, some six or seven years after the beginning of the current downturn.

The current economic downturn was more severe than a recession, and lasted longer than recessions. And if a six or seven year old “Great Recession” is not truly a “Great Depression,” then how much longer must the “Great Recession” last before it becomes a “Great Depression”?
Course Objectives

One purpose of the course is to provide readers/students with a good understanding of how the Great American Middle Class was able to become a reality in the 1930s-1970s period, and of what happened in the 1980-2010 period that undermined the forces that created it, thus leading to its destruction.

A second purpose is to provide readers/students with a clear understanding of how the second, conservative great worldwide depression came about, how the destruction of the American middle class encouraged the arrival of that depression, and how the absence of a strong and vibrant middle class prevented the U.S. economy from once again achieving the robust growth it enjoyed in the 1940-1980 period.

Layout of the Course

The layout of the course can be viewed as a large table (a spreadsheet, if you prefer) consisting of seven columns and five rows. The seven columns represent seven different decades for the most part: the 1940s and earlier; the 1950s; the 1960s; the 1970s; the 1980s; the 1990s; and the 2000s.

The five rows of the course table represent different topics that are appropriate to the creation and destruction of the great American middle class and the second, conservative Great Worldwide Depression in less than eighty years. (Hereafter, these are often referred to as “the two major events”). The five row topics are:

- Business executives, the business community, and business organizations that impacted the two major events being investigated, and how they did so.
- Presidents of the United States who impacted the two major events, and how they did so. This includes their “major aides and assistants.” All presidents from Warren Harding to Barack Obama are included.
- Specific Congresses of the United States, and what they did or didn’t do to impact the two major events.
- The Supreme Court and the Court’s decisions, especially those relating to businesses and corporations, and to labor and labor unions, and how they impacted the two major events.
- Other institutions (than those identified in association with the above four row topics) that in some way impacted the two major events. These include labor unions, other economic or business organizations, religious organizations, educational organizations, and even constitutional issues, where appropriate.

Within this tabular form of course layout, the intersection of a specific column and a specific row will be a unique chapter that represents a specific decade (e.g., the 1970s) and a specific topic (e.g., relevant actions taken or not taken by Congress during that decade). Thus the forth column and the third row of the course layout will contain information about what the U.S. Congress did or did not do during the 1970s that impacted the creation or destruction of the great American middle class and/or the second great
worldwide depression. Each of the other thirty-four row-column intersections (chapters) in the table will represent appropriate information about the topic associated with that specific row and the decade associated with that specific column.

Presentation of the course contents begins with the row-column intersection located at the upper left corner of the above-described table. That is, the first course materials to be presented are those associated with the actions of, and events caused by, business persons and organizations (row topic #1) during the decades of the 1930s and 1940s (the label given to the first column). The second course materials to be presented are those associated with the actions brought about by U.S. Presidents during the 1930s and 1940s. Next comes the presentation of the third set of course materials: actions taken or not taken by the U.S. Congress during the 1930s and 1940s. That is followed by the fourth set of course materials: Supreme Court decisions during the 1930s and 1940s that impacted on the two major events being addressed. The fifth set of course materials reflects the roles and actions attributable to labor unions, religious organizations, educational systems, and possibly other institutions that affected the middle class or the economic business cycle. These five presentations contain the relevant information about the 1930s and 1940s that a person should have in order to develop a good understanding of the causes of the two major events being addressed.

The description in the above paragraph applies next to the second column in the course layout table—the decade of the 1950s. Again, there are five presentations of course materials, one for each of the five row topics in our table: business persons and organizations; U.S. Presidents; the U.S. Congress; the Supreme Court; and other institutions. These five presentations consist of the relevant information about the decade of the 1950s that a person should have in order to develop a good understanding of the what happened to the middle class and the economy that relate to the topics being addressed.

This same procedure is followed five more times, for the decades of the 1960s, the 1970s, the 1980s, the 1990s, and the 2000s.
Introduction To The Expanded Edition

Introduction To The Original Edition

Course Description

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CHAPTER 1: THE BUSINESS COMMUNITY DURING THE 1940s AND EARLIER

The 1861-1865 war between the northern and southern states created the world’s first truly mass markets—those for the supplies and armaments needed by the combatants. Those mass markets fostered the growth of manufacturing businesses the size of which the world previously had never seen. Since the U.S. Constitution in no way anticipated such giant industrial organizations, there were no government regulations that limited or controlled their economic power and political influence. As a result, during and after the Civil War the owners of those businesses used their wealth in the nation’s capital to create a political-influence machinery that favored their interests and those of other wealthy persons, but at the expense of ordinary workers, farmers, and all other individuals. The business community’s dominance of workers through the influencing of governmental policies remained in place throughout the second half of the 1800s.¹

The late 1800s and the early 1900s witnessed the emergence of a progressive movement (the “Populists”), whose most famous leader was President Theodore Roosevelt (1901-1908). The movement resulted in such “common good” developments as the creation of the Food and Drug Administration (which regulated and prevented food processors from selling tainted products to the public) and the popular election of United States Senators, who previously had been appointed by each state’s elected officials. A most important development was Congress’s passage in 1913 of a constitutional amendment that for the very first time legitimized a progressive income tax. Prior to the passage of that amendment, most federal taxes were very regressive insofar as their burden fell predominantly on the lower and middle income classes.

The Populist movement emerged strongly once again during President Woodrow Wilson’s administration (1913-1920). Federal income taxes became an important option when the issue arose as to how to pay for the U.S. involvement in World War I (i.e., raise taxes, mostly on the rich who could afford them, or borrow from the rich and thus make them richer by paying them interest). By taxing the wealthy to some extent at least, President Wilson extended the populist movement through the 1917-1919 years.

For various reasons, including the “Red Scare” caused by the 1917-1921 Communist revolution in Russia,² the American people in the 1920 presidential election chose a “return to normalcy” path by electing as president the Republican candidate, Warren Harding. With Harding (followed by Coolidge and then Hoover) in the White House, and the Republican party in control of Congress, the business community again took control of the nation’s economy and proceeded to manage it in a manner favorable to the business community and to wealthy individuals, and unfavorable to ordinary workers. Thus, the Populist movement ended as the nation entered the 1920s.

The 1920s are referred to as the “Roaring Twenties,” and those years are generally characterized by Prohibition, speakeasies, bootleggers and gangsters (Al Capone), women’s “flapper” dresses, a popular dance “the Charleston”, new independence for women, and much more.³ The 1920s were also a Republican decade led by Presidents Warren Harding, Calvin Coolidge and Herbert Hoover, all of whom

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embraced the *laissez-faire* economic philosophy—no government regulation or interference of any kind with the economic undertakings of individuals and business organizations. In 1928 Commerce Secretary Herbert Hoover—he did not become president until March 1929—even reported that the Republican Party’s policies towards business would soon result in poverty being “banished from this nation.”

The Great Depression started with the stock market crash of October, 1929, “the culmination of the boom market and unrestrained speculation of the Coolidge-Hoover era. (It) ushered in prolonged depression which gradually settled upon the country with increasing unemployment, bank failures, and business disasters.” The depression caused many people to believe that Capitalism contained serious flaws, and that *laissez-faire* economics was one of those flaws.

This chapter discusses (1) the Great Depression, Franklin Delano Roosevelt, and the New Deal, (2) President Harry Truman and the Taft-Hartley Act, and (3) the emergence of the great American middle class.

**The Great Depression, Franklin Delano Roosevelt, and the New Deal.** The Great Depression was three years old in the fall of 1932; one of every four adult males was unemployed and U.S. factories were operating at less than half of their peak 1929 output. Because the Hoover administration showed no signs of leading the country back to prosperity, the people’s presidential choice that fall was Franklin Delano Roosevelt (FDR), whose electoral vote victory was 472 – 59. Over the next four years FDR and a Democratically-controlled Congress introduced their “New Deal”, a program which included passing over forty new laws that, for the very first time, imposed government regulations on many businesses that previously had been essentially regulation-free. The new laws applied to farming, banking, home-ownership mortgages, financial security firms, labor unions, and public utilities, among others. Specific commodities and economic activities such as corn, cotton, tobacco, coal, alcoholic beverages, railroads, communications, and motor carriers were also affected. Laws also established minimum hourly wage rates for employees, and the maximum number of hours/week that employers could demand from workers; also, child labor was legally prohibited. A surtax was placed on individual yearly incomes in excess of $50,000. The new laws included the Social Security Act, the Wagner Labor Relations Act, which gave legal status to labor unions for the very first time, and the Glass-Steagall Act, which applied new restrictions on banking. The business community opposed essentially all of these new laws.

Prior to the passage in 1935 of the Wagner Act, the business community and federal courts used the 1890 Sherman Antitrust Act to declare that unions, attempts to organize unions, and union leaders’ calls for strikes or even work slowdowns were all illegal. In effect, all such activities were viewed as criminal by the courts and governmental authorities. When labor disputes did arise, local or state governments and/or the federal government almost always intervened on the side of business and against workers. In the event of a strike or threatened strike, governments forcefully used police, the National Guard, or the military to disburse or crush the strikers. Violent confrontations between laborers and the authorities were not uncommon. (See Chapter 10.) Governments made it clear that labor and labor unions had absolutely no legal standing. The Wagner Act changed all that. Under the act, businesses were legally required to negotiate in good faith with the union chosen by their workers.

For almost every businessman, the New Deal represented a Draconian shift from the carefree, regulation-free environment of the 1920s and earlier. As a result, FDR and the Democratic Party were extremely
unpopular with the business community. (In all reality, this last sentence is a gross understatement. See the section, “They Hated Roosevelt,” in Fredrick Lewis Allen’s *Since Yesterday: the 1930s in America.*) Their response was, first, to attempt to promote to the public in general the “blessings” of big business and, when that failed, to then turn to conservative religious clergy for support in promoting *laissez-faire* capitalism to the general population. (Those efforts are described in Chapter 5.)

By 1939 the United States was preparing for the possibility of war in Europe. Production of armaments and military supplies was greatly increased. That led to factories boosting their output significantly, to the re-opening of factories previously shuttered by the depression, and even to the construction of new factories. Unemployment dropped very quickly, and when the U.S. entered World War II in December, 1941, a full-employment condition soon followed. During the war, wages and prices were frozen for the duration, businesses were making huge profits while running at full capacity, and workers were enjoying regular wages for the first time in more than a decade. But rationing occurred for gasoline and many other civilian products, and most household appliances and durable goods were not being produced, thus encouraging civilians to save much of their incomes.

FDR was re-elected for a third term in 1940, and then again for a fourth term in 1944. The business community and the Republican Party were extremely disappointed at having had so little control of the government for such a long period of time.

**President Harry S. Truman and the Taft-Hartley Act.** Harry S. Truman became president when FDR died in April, 1945. The war ended in August, 1945, thus ceasing the urgency of continued production of war materials. Wages had been frozen throughout the war by government decree, while business’ profits had been excessive. As a result, ordinary workers felt they had not been equal participants in the country’s prosperity. But because of the Wagner Act, labor now had the legal right to call strikes if they believed they were being treated unfairly. And they did! Strikes in several leading industries resulted in wage increases for workers in those industries, and those soon led to wage increases in still other industries, even ones where workers were not unionized.

Republicans use the elephant as the symbol of their party, and it is said that one characteristic of elephants is that “they never forget.” Certainly Republicans did not forget. The business community was hostile to these new labor initiatives—after all, they had never before experienced such labor aggressiveness—and quickly organized to take back control of government, which they felt rightly belonged to them. With continuing “red-baiting” against the Democrats, and later on with “McCarthyism,” Republicans were partially successful in 1946 when they regained control of both houses of Congress for the very first time since 1930. Strongly encouraged by the business community, the Republican-led Congress soon passed, over President Truman’s veto, the Taft-Hartley Act which was very strongly and unfairly anti-labor. (The Taft-Hartley Act is described in the following paragraph.) Strikes during the summer of 1946 in several industries were stopped by government action, an outcome which showed that the business community was successful in taking back some control of the government for its own benefit.

The Taft-Hartley Act gave specific rights to businesses by taking away specific rights from labor unions. In the decade since the passage of the Wagner Act, unions and businesses had signed numerous contracts which specified that all workers in a business establishment should be union members (referred to as the “closed shop.”). The Taft-Hartley Act took away that right from labor unions. The act prohibited union
leaders from obtaining signed union cards from company workers who wanted to form and join a union at the company. Previously, when more than fifty percent of the workers at a company signed such cards, the company would be legally obligated to negotiate a labor contract with the union. That was no longer the case under the new Taft-Hartley law. Taft-Hartley also allowed employers to interfere with workers’ rights to organize by threatening or harassing or firing workers who were sympathetic to unionization. Under Taft-Hartley individual states were allowed to pass so-called “right-to-work” laws that instituted “open shops,” where workers were not required to be union members, even though they would enjoy the benefits resulting from a union-management labor agreement. Presently there are twenty-three such states. States which passed such laws severely weakened the ability of workers to form unions, even when a majority wanted to do so. The …

…”right to work” victories in the South undercut unions and workers in the North and West …. Northern unions now faced a powerful and credible “threat of exit.” Either accept wage and benefit concessions at the bargaining table, employers would warn, or lose your union jobs to the nonunion South. Many employers didn’t even bother with the threats. They just moved South. In the process, the manufacturing base of cities like New York gradually withered away. This base had supported the wide array of quality public services that New York had offered, services that enabled millions of New Yorkers to lead comfortable middle-class lives. Without this manufacturing base, New York—and other Northern industrial centers—fell into chronic fiscal crisis.

Overall, the Taft-Hartley Act “established a new legal equilibrium in the union-management relationship less favorable to unions” (italics added). (Readers should carefully note this Taft-Hartley Act, as it eventually plays a major role in the destruction of the great American middle class. Chapters 3, 7, 12, 13, 15, 17, 18, 20, 22, 33 and 35 describe how the business community and the Republican Party successfully turned back all efforts to reform that very unjust act.)

Harry Truman was not a popular president among the business community and the upper class. Republicans believed he could easily be defeated in the next election. They selected as their candidate the Governor of New York, Thomas Dewey. Poll after poll showed that he was favored over Truman in the election of 1948. But Harry Truman was a fighter, and he utilized the fact that the Republican-controlled Congress passed many pro-business laws but showed no interest in creating legislation that would be beneficial to the working people of the country. Truman took his message directly to the people by barnstorming the country by railroad, and denouncing the Republican Congress as a “Do Nothing” Congress. In spite of polls showing that he would not win, Truman won 303 electoral votes to Dewey’s 189. The Democrats also regained control of both houses of Congress.

Needless to say, the business community was very, very upset at “having snatched defeat from the jaws of victory.”

The emergence of the great American middle class. Also upsetting to the business community was the shifting of national income among different income groups. (National income is the sum total of the incomes earned by all workers and earners.) In the 1910-1930 period, the top 1% of earners had received between 15% and 23.9% of the nation’s income. In the late 1940s they received only 12-13% of national
income. Because of the legalization of labor unions and their newly found bargaining power, a greater share of the nation’s income was flowing to the bottom 99% of earners. The great American middle class was beginning to emerge.
CHAPTER 2: PRESIDENTS DURING THE 1940s AND EARLIER

Upon taking office every president (as well as members of Congress, Supreme Court justices, federal judges, and many other government officials) is required to take an oath to protect and defend the Constitution of the United States. Two of the explicitly stated goals of the constitution are to promote the general welfare and to establish justice. Because both of these goals are critical to the creation of a prosperous middle class, they will be noted frequently in these chronicles.

This chapter presents three topics: (1) President Hoover and the laissez-faire economic philosophy, (2) President Roosevelt and the Keynesian economic philosophy, and (3) President Truman arranges labor peace and national prosperity.

President Hoover and the laissez-faire economic philosophy. President Hoover, like Presidents Harding and Coolidge before him, embraced the laissez-faire economic philosophy of no governmental interference with business activity. Yet, the Great Depression presented the country with a business-economic environment that was unlike anything any living person had ever seen before. How did President Hoover respond to the entirely new situation?

…President Hoover at first tried to organize national optimism by summoning business executives to Washington to declare that conditions were fundamentally sound and that there would be no wage cutting. This didn’t work. Then for a time he was inactive, trusting to the supposedly self-correcting processes of the marketplace. Then, convinced that the financial panic which was simultaneously raging in Europe was the worst source of trouble, he organized an international moratorium in war debts and reparations—a fine stroke of diplomacy which alleviated matters only briefly. Then he set up the Reconstruction Finance Corporation to bring federal aid to hard-pressed banks and businesses—while steadfastly refusing, as a matter of principle, to put federal funds at the disposal of individual persons who were in trouble …

An able and highly intelligent President, committed to orthodox economic theories which were generally considered enlightened, had become one of the tragic victims of the collapse of the going system.

President Roosevelt and the Keynesian economic philosophy. President Franklin Delano Roosevelt (FDR) did not bring to his presidency any specific economic philosophy, but he did bring with him an attitude that his parents and the headmaster of the private school he attended had impressed upon him during his youth: his responsibility toward those less fortunate. This attitude stayed with him throughout his life and influenced many of his presidential decisions.

In his inaugural address in March, 1933 President Roosevelt included the encouraging and uplifting statement to the American people that “the only thing we have to fear is fear itself.” Very shortly after, Roosevelt began what was to become a frequent ritual that the American people looked forward to with anticipation: his “fireside chats,” broadcasts over the new mass communications medium, the radio. These were continued throughout FDR’s entire presidency, and always enjoyed a very broad audience.
Roosevelt, invalid that he was and unable to get around to meet and talk with the people, used these communications to convey a friendly and sympathetic message to the American people.

Soon after taking office, Roosevelt became acquainted with the English economist, John Maynard Keynes. Keynes espoused a new economic theory concerning the business cycle, of which the Great Depression was a severe example. In contrast to the laissez-faire concept, Keynes’ economic theory was that depressions or recessions resulted from there being too little consumer demand to absorb the output of industrial production, thus industrial production slowed, workers were laid off, causing even less consumer demand, which then resulted in even more workers being laid off. The proper action for a government to take at the outset of a recession was to invest in public works, large scale public projects, and other activities that would employ people recently laid off. (Two New Deal Programs, the Civilian Conservation Corp (CCC) and the Work Projects Administration (WPA) were two such programs. Both employed many unemployed persons, and both were very popular.) By creating additional employment, such action would result in workers having more purchasing power, which in turn would lead to increased demand for consumer goods and services that would quickly stifle the recession that had just started. Such action would likely cause government debt, but Keynes argued that the debt could and should be reduced or eliminated when prosperity returned to the economy and the government’s tax revenues once again began to increase.

The mid-1930s were fraught with turmoil, Communism was solidly established in Russia, Italy had turned to Mussolini’s Fascism, and Germany’s government was a National Socialist one led by Adolf Hitler. There were concerns that, if the U.S. were to return to the pure laissez-faire capitalism that led to the Great Depression, some form of revolution might take root in the country. Encouraged by Keynes’ economic theories, President Roosevelt chose to pursue reasonable experimentation within the framework of the existing social and legal system, with the hope that the three above-noted extreme forms of government could be avoided. He called his approach the “New Deal”. (See Chapters 1 and 3 for more details of the New Deal.) After the economic despair of the 1929-1932 years and the lack of any leadership action that showed positive results, the American people embraced FDR’s proposed new programs because they were clear attempts to promote the welfare of all the people, not just of businesses. They re-elected him in 1936, and again in 1940, and still again in 1944.

FDR’s “Now make me do it” story. Before turning to the Truman presidency, it will be very helpful to relate a story about FDR …

…responding to a delegation imploring him for action: “Fine, you’ve convinced me. Now make me do it.” What he meant was, “Get some organized pressure behind you, so that I will be rewarded for doing the right thing and punished for doing the wrong thing.” Struggles over policy—over what the government actually does for and to it citizens—are almost always long, hard slogs. They involve drawn-out conflicts in multiple areas. They involve extremely complicated issues where only full-time, well-trained participants are likely to be effective. iii

Readers are urged to remember this story when they turn to the events in the decades of the 1960s and 1970s and later.

President Truman arranges labor union peace and national prosperity. When Harry Truman became president in April 1945, World War II was nearing its end, and there was soon to be a return to peacetime
activities. Wages had been frozen throughout the war, a fact that labor thought was unfair given the large wartime profits that had accrued to businesses. iv To avoid probable labor-management strife . . .

… a November 1945 summit (was) convened in Detroit by President Harry Truman. The war had ended a mere three months earlier, and Truman knew the labor peace that had prevailed during the war was about to come to an abrupt end. To minimize the inevitable disruptions, Truman promised labor continued government support. Truman even coaxed Chamber of Commerce President Eric Johnson into making the following statement: “Labor unions are woven into our economic pattern of American life, and collective bargaining is part of the democratic process. I say recognize this fact not only with our lips but with our hearts.” v

The summit was soon followed by “a five year contract between United Auto Workers President Walter Reuther and the big three automakers that included cost-of-living adjustments, productivity-based wage increases, health insurance, and guaranteed-benefit pensions.” vi Other companies, even non-union ones, soon offered their workers similar contracts.

The business community and the Republican Party saw the absence of the very popular FDR as an opportunity to regain some of their former power and prestige. Having been for over a dozen years without a government in Washington with a sympathetic ear for their interests, they once again joined forces and managed in the 1946 elections to take control of both houses of Congress. This was short-lived, because that Congress passed many pro-business laws but took no action on legislation that would be beneficial to ordinary workers. By calling this Congress the “Do Nothing” Congress, Harry Truman alerted the working public to the fact that the Republicans and the business community would soon redirect the federal government back toward the pure laissez-faire capitalism that resulted in the Great Depression. Truman’s re-election in 1948 gave evidence that working Americans were very satisfied with FDR’s “New Deal” and wanted it continued through the “Fair Deal” program that Harry Truman was proposing.

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For almost eighteen years the American people had observed two Democratic presidents who clearly demonstrated that they were trying to promote the welfare of all of the people, and to lead their government in a manner that treated them fairly and gave them a voice that was not drowned out by the powerful voices of the business community. Union membership grew from seven percent of the workforce in 1933 to approximately one-third of the workforce in the late 1940s-early 1950s. Most Americans enjoyed regular employment, growing wage rates, more family-oriented working hours, and the realization that their level of prosperity had risen significantly since the 1930-1932 years. vii Lack of purchasing opportunities during World War II had resulted in most households accumulating significant savings, and the GI Bill offered World War II veterans reasonable home loans and good educational opportunities, both of which provided economic stimulus and a gateway into a middle class lifestyle not deemed possible only 10-15 years earlier.


iv For a good discussion of 1946 labor strife and Republican “red-baiting” efforts to diminish or destroy union power, see pages 210-213 in the Pizzigati book in note i.


vi See the Noah source in note v.

CHAPTER 3: CONGRESS DURING THE 1940s AND EARLIER

The Republican Party had gained control of both houses of Congress in 1918, and continued that control throughout the 1920s. In the last years of his administration, President Hoover was able to persuade Congress to pass the Reconstruction Finance Corporation Act, which was designed to provide federal aid to banks and businesses. However, he did not ask Congress for any legislation giving support to the general population, and Congress took no action to provide assistance of any kind to ordinary people.

This chapter discusses President Roosevelt’s New Deal Program and four important laws.

President Roosevelt’s New Deal Program. The Democrats not only took the White House in the 1932 election, they also took control of both houses of Congress. That new Congress supported President Roosevelt’s (FDR’s) bank holiday—the closing of banks for four days in order to allow the government to take charge of insolvent banks. Several days later, only solvent banks were permitted to reopen, thus avoiding a financial panic. That new Congress also enacted a lengthy list of new laws designed to weaken the forces that brought about the Great Depression and to turn the country toward economic recovery.

Legislation the Congress passed during FDR’s first term included: Agricultural Adjustment Act, the Farm Credit Act, the Farm Mortgage Refinancing Act, the Farm Mortgage Foreclosure Act, the Frazier-Lemke Farm Bankruptcy Act, the Crop Loan Act, the Cotton Control Act, the Jones-Costigan Sugar Act, the Soil Conservation Act, the Emergency Banking Relief Act, the Banking Act of 1933, the Bank Deposit Insurance Act, the Home Owners’ Refinancing Act, the Home Owners Loan Act, the Gold Reserve Act of 1934, the Silver Purchase Act, the Federal Emergency Relief Act, the Civil-Works Emergency Relief Act, the Emergency Relief Appropriations Act, the Security Act of 1933, the Labor Disputes Joint Resolution, the Railway Pension Act, the Crosser-Dill Railway Labor Act, the Wagner-Connery Labor Relations Act, the Beer-Wine Revenue Act, the Tennessee Valley Authority Act, the Emergency Railroad Transportation Act, the National Industrial Recovery Act, the act that repealed the Prohibition amendment, the Communications Act, the Motor Carriers Act, the Social Security Act, the Public Utilities Holding Act, the Guffey-Snyder Bituminous Coal Act, the Wealth-Tax Act, and still others.

Some of these laws were declared unconstitutional by the Supreme Court. Some were soon replaced by new laws deemed to be more effective and appropriate after the original laws were found to be flawed in some way. Many were designed to provide regulations where previously there had been none, the absence of which was believed to have contributed in some way to the Great Depression. A number of the laws were designed to help farmers, miners, railroad workers, ordinary investors, factory workers and other laborers, and even to prevent the continued use of child labor.

Four important new laws. Of particular note to most ordinary Americans were the Wagner Labor Relations Act and the Social Security Act. The former replaced portions of the Clayton Anti-Trust Act of 1914, which proved ineffective in providing labor unions with legal recognition in the eyes of the courts. (See the discussion in Chapter 1 of the absence of legal status for labor unions prior to the Wagner Act.) The passage of the Wagner Act gave workers the legal right to form unions. That led to the collective bargaining that resulted in workers being able to negotiate better wages and working conditions in many industries. The Social Security Act became one of the most popular of the New Deal acts because it helped people avoid poverty and hardship when entering into retirement and old age. Both acts
contributed to the eventual development of a broad middle class in America, and both of them were intimately associated with FDR’s “New Deal” and the Democratic Party.

The third important law was the Glass-Steagall Act. It was widely believed that speculation by banks (with their depositor’s money) was a major cause of the stock market crash in October 1929. As a consequence, Congress passed and President Roosevelt signed the Glass-Steagall Act, which prevented banks from engaging in speculative investments, and limited them to the traditional banking activities of accepting savers’ deposits and making “safe” loans to businesses and individuals.

With the death of Franklin Roosevelt in April 1945, Harry Truman became President of the United States. Recognizing that a very popular president was no longer on the scene, the Republican Party exploited the opportunity to regain some of the ground it had lost in the last fifteen years. They took control of both houses of Congress in the 1946 election and then quickly passed the fourth important new law, the Taft Hartley Act. Because that act’s main purpose was to severely restrict the powers recently granted to labor unions by the Wagner Act, it was vetoed by President Truman. Due to the extreme pressure exerted by the business community, the Republican Party was joined by conservative southern Democrats to override Truman’s veto. Thus Taft-Hartley became law. This action did not go unnoticed by the American public, who in the 1948 election returned the Democrats to the control of both houses of Congress.

The first two important laws noted above contributed greatly to the creation of a prosperous middle class and to reducing the substantial income inequality that existed in the U.S. prior to the 1930s. The Glass-Steagall law was a significant force that worked to prevent the growth of income inequality until the 1980s when the Reagan administration diluted its strengths. Also, under Reagan’s leadership, the Taft-Hartley law did irreparable damage to the labor movement.

Readers should take note that the business community and the Republican Party and some conservative Democrats worked together to pass the Taft-Hartley Act. That trio of parties will be frequently encountered throughout these chronicles.

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When Franklin Roosevelt took the oath of office in 1933, seven of the nine justices of the Supreme Court had been appointed by Republican presidents. It was a conservative court, one with a pro-business bias.

Almost all of the legislation passed by the New Deal in 1933-1935 was quite new and different from the kinds of laws passed in the previous twelve years. Many of the laws were controversial, and soon the Supreme Court was asked to rule on their constitutionality. In a relatively short time, the Supreme Court declared some of the New Deal laws to be unconstitutional. The Railroad Retirement Act was declared unconstitutional in 1934. The National Industrial Recovery Act followed suit in 1935. In the following year both the Agricultural Adjustment Act and the Bituminous Coal Conservation Act were declared unconstitutional.

In the presidential election of 1936, FDR was re-elected by winning all of the states except Maine and Vermont. The electoral vote count was: 524 votes for FDR and 7 votes for Alfred Landon, the Republican candidate. With this huge victory as support for his New deal program, in 1937 FDR was preparing a proposal (to “pack the court”) that he hoped would result in a Supreme Court with a more favorable attitude toward the New Deal. Due to the inability of the Supreme Court to process its caseload in a timely manner, FDR intended to argue that there should be another justice added to the court for every current justice who was over seventy years of age. Such a law, if enacted, would have allowed FDR to immediately appoint several new justices who presumably would be very favorably inclined toward New Deal legislation.

It has been said by some observers of the Supreme Court that the justices took a very close look at the one-sided outcome of the 1936 presidential election. In 1937 “…the Court changed its mind … about the constitutionality of the New Deal and began to uphold economic legislation that it had previously struck down.” FDR did not need his court-packing proposal in order to get Supreme Court approval of his New Deal legislation.

Because none of the Supreme Court justices retired or died in the 1933-1937 years, FDR did not have an opportunity to nominate a new justice. That soon changed. By 1941, four of the justices retired and two more died. FDR was able to nominate six new justices who he believed would look favorably on the New Deal. By 1944 FDR had nominated two more justices, bringing his total to eight. Harry Truman, in his almost eight years as President, was able to nominate four more justices to the Court.

Overall, in the span of 14-15 years, these two presidents were able to change the composition of the Supreme Court from one that was unfriendly—even hostile—toward the New Deal to one that they believed would be sympathetic. That judicial development facilitated the constitutionality of additional legislation that favored the continued growth of a large middle class well into the future, even after both FDR and Truman were long gone.
List of Justices of the Supreme Court of the United States. (See http://en.wikipedia.org/wiki/List_of_Justices_of_the_Supreme_Court_of_the_United_States.) 


Same source as note i.
CHAPTER 5: OTHER INSTITUTIONS DURING THE 1940s AND EARLIER

SUMMARY OF THE 1940s AND EARLIER

The first amendment in the Bill of Rights of the United States Constitution reads in part: “Congress shall make no law … abridging … the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.” The constitutional approach to redressing grievances did not work for the natives born within the United States—the American Indians. Nor did it work for slaves. Resolution of that group’s grievances required a very long and costly war, in every respect. Women pursuing their rights as citizens to cast votes had to wait until 1920 to do so—Elizabeth Cady Stanton had started the women’s right-to-vote movement in 1848, seventy-two years earlier. Labor, too, was a group that experienced a long fight before achieving their objective: the right to collective bargaining with their employers.

This chapter describes two institutional forces that played important roles in this history: (1) labor unions, and (2) the business-religious coalition.

Labor unions. There was labor strife during the colonial era and throughout the history of the United States. There was labor strife during the first three decades of the twentieth century. There were numerous strikes and conflicts during the first term of President Franklin Roosevelt, strikes which included fights between workers and police, and between workers and the National Guard or other military groups when martial law had been invoked. That began to change when the Wagner Act (formally known as the National Labor Relations Act, or the NLRA) became law in 1935.

Although the Wagner Act clearly gave ordinary workers the legal right to organize …

… America’s most virulently antiunion employers refused to cooperate with the new labor relations framework that the National Labor Relations Act (NLRA) established. They filed lawsuit after lawsuit to delay the act’s implementation. Legal experts predicted that employers would prevail. The Supreme Court, almost everyone … expected, would strike the NLRA down.

But workers took their own actions against the employers who would not follow the law and collectively bargain with them. Those workers went on strike, not by “walking out” of the factories, but by “sitting down” on the job and doing nothing while sitting there. From early 1936 to early 1937, there were over five hundred such “sit-down strikes,” often accompanied by violence. When the Supreme Court declared the NLRA constitutional in April 1937, companies began bargaining in good faith with their employees’ unions.

Those developments allowed union leaders like John L. Lewis of the CIO and Walter Reuther of the United Auto Workers, and still others, to openly recruit workers to join unions without their having to fear possible reprisals from their employers. And join they did! From the late 1930s to the late 1940s, membership in unions increased from approximately seven percent of the labor force to almost thirty-three percent of the labor force.
Unions became a strong force in helping workers gain a fair share of the bounty of the U.S. economy. Wages and working conditions were improved; the 40 hour work week became standard; “time and a half” pay for work over 40 hours/week became the practice; instead of working a half day on Saturday, that day became a full day off, thus instituting the 2-day weekend that all Americans now take for granted; workers began receiving two weeks of paid vacation; and soon they received health insurance and retirement benefits. Unionization played a very big role in the creation of the large middle class that developed in the 1940s, 1950s and 1960s.

Exhibit 5-1 illustrates the impact growing unionism had on the creation of the great American middle class. The exhibit shows that in the 1920 and 1930s approximately 45% of the nation’s income went to individuals in the top 10% of the income scale. The remaining 90% of workers/earners received only 55% (= 100% - 45%) of the nation’s income.

The exhibit also shows that only about 10% of the labor force was unionized in the late 1930s, but that figure jumped to about 32-33% in the early 1940s. After that surge in unionization of the labor force, the exhibit also shows that from the early 1940s to approximately 1980, only about 30-35% of the nation’s income went to the top 10% of earners. The remaining 65-70% of the nation’s income went to the bottom 90% of earners. For those at the bottom of the nation’s income scale, that change—from about 55% up to 65-70%—represented an increase of some 18-27% in annual incomes. Those workers were moving up into the middle class.

EXHIBIT 5-1

Union Membership and Share of Income Going to the Top 10%

The business-religious coalition. On the other hand, strange bedfellows indeed were created by the Great Depression and the emergence of the New Deal. President Lincoln, in his Gettysburg Address, had referred to “…this nation, under God…”, but that reference to God was an isolated case, at least for some sixty-odd years. As FDR’s New Deal was becoming established, business leaders tried to develop partnerships with the Almighty and with conservative religious clergy. As a consequence, God and religion entered the political arena, but this time in a more sustained manner.

According to Princeton University History Professor Kevin Kruse:

> During the Great Depression, the prestige of big business sank along with stock prices. Corporate leaders worked frantically to restore their public image and simultaneously roll back the “creeping socialism” of the welfare state. Notably, the American Liberty League, financed by corporations like DuPont and General Motors, made an aggressive case for capitalism. Most, however, dismissed its efforts as self-interested propaganda. ix

To give their message more credibility, the business leaders enlisted the assistance of conservative religious leaders. One of those ministers wrote: “The blessings of capitalism come from God. A system that provides so much for the common good and happiness must flourish under the favor of the Almighty.” x This business-religious coalition continued through the 1930s and 1940s.

> With ample support from corporate patrons and business lobbies like the United States Chamber of Commerce, (the above minister’s) gospel of godly capitalism soon spread across the country through personal lectures, weekly radio broadcasts and a monthly magazine.

> In 1951, the campaign culminated in a huge Fourth of July celebration of the theme. Former President Herbert C. Hoover and Gen. Douglas MacArthur headlined an organizing committee of conservative all-stars, including celebrities like Walt Disney and Ronald Reagan, but largely comprising business titans like Conrad Hilton, J.C. Penney, Harvey Firestone Jr. and J. Howard Pew.

> In an extensive public relations campaign, they encouraged communities to commemorate Independence Day with “freedom under God” ceremonies, using full-page newspaper ads trumpeting the connection between faith and free enterprise. xi

(It should be noted that the first Amendment of the United States Constitution reads in part: “Congress shall make no law respecting an establishment of religion, ….” Also, the Constitution is explicit in stating that “…no religious test shall be required as a qualification to any office or public trust under the United States.” Nowhere in the Constitution does the word God—or any term that might be so construed—appear.)

Given the continued popularity of the New Deal and Fair Deal throughout the 1930s and 1940s, those business-religious coalitions cannot be said to have had immediate success. But neither were they permanent failures.
Summary of the 1940s and Earlier

- In the three years following the onset of the Great Depression, because the Republican Party had embraced the laissez-faire economic philosophy, it was unwilling to have government undertake serious efforts to relieve the sufferings that ordinary working people were experiencing.

- In the 1932 presidential election voters chose Democrat Franklin Delano Roosevelt because he demonstrated two characteristics the people embraced: the responsibility he felt towards those less fortunate; and a willingness to experiment with different government policies that might prove helpful to workers and their families. His New Deal program made the U.S. Government a less laissez-faire government, and more a government willing to consider practices suggested by Keynesian economics.

- The Democratic Congress and FDR’s New Deal led to many new laws and regulations that benefitted the vast majority of ordinary citizens, i.e., laws that promoted the general welfare. FDR’s landslide victory in 1936 was a reflection of his great popularity and the popularity of his New Deal.

- The New Deal’s laws and regulations—including the legalization of labor unions, Social Security, banking-financial regulations favoring common citizens, and others—as well as the mobilization for war, and the post-World War II GI Bill all helped to create the economic, legal, and social foundation upon which a large, prosperous middle class would be created.

- The Supreme Court was very conservative when FDR became President: it declared several of his New Deal laws unconstitutional during his first term. The results of the 1936 election caused at least a few justices to be friendlier toward New Deal programs. During the twenty-year Presidencies of FDR and Harry Truman, they appointed twelve justices to the Supreme Court. That transformed the court into a much more moderate one willing to approve the constitutionality of laws that promoted the general welfare and established justice where it had been absent.

- During the 1920s the business community had essentially operated free of any government regulations. That changed drastically with the Great Depression and the coming of FDR’s New Deal. The business community was most displeased with these developments, they were most displeased with FDR’s 1936 landslide re-election victory and with the Supreme Court declaring most of the New Deal’s programs constitutional, and they were most displeased again when FDR was re-elected in 1940, the first president ever to be elected for a third term. Perhaps their greatest displeasure occurred in the 1948 presidential election when the expected loser, Democrat Harry Truman, clearly defeated the expected winner, Republican Thomas Dewey.

- Union collective bargaining became well-established during the late 1930s-1940s and resulted in many benefits for workers that raised their living standards well into middle-class status. At the same time the business community was attempting the creation of a business-religious coalition that would try to convince the public at large that capitalism was a gift from God and that, therefore, it was wrong to pass laws that would somehow restrict free capitalism.

- In 1947, after taking control of Congress for the first time in 15 years, Republicans joined with the business community and conservative Democrats to pass, over President Truman’s veto, the anti-labor union Taft-Hartley Act.
Key Observation on the Emergence of the Great American Middle Class

- When he was elected president in 1932, FDR’s popular victory also gave Democrats control of Congress for the first time in 14 years. Together, a Democratic president and a Democratic-controlled Congress passed many new laws that favored ordinary people, rather than business corporations and the top 1% of earners (as would have been the case if Republicans had still controlled the government).
- Popular people-friendly laws that contributed greatly to the emergence of the great American middle class were: the Wagner Labor Relations Act, the Social Security Act, the Glass-Steagall Act, the Civilian Conservation Corp (CCC), the Work Projects Administration (WPA), and several others that supported farmers.
- Numerous other laws that regulated banks, other financial institutions and still other types of businesses were passed and assisted ordinary citizens in improving their economic well-being.
- The Supreme Court initially was very conservative and opposed to the progressive New Deal legislation that encouraged the emergence of the great American middle class, but it became more accepting of such legislation in the late 1930s, and even much more facilitating during the 1940s.
- Initially, Labor was weak and with little legal standing, but that changed in the mid-1930s with the Wagner Act, and Labor became a strong and popular force encouraging and facilitating the emergence of the great American middle class.
- President Truman’s 1945 Detroit summit meeting of the automobile industry and the automobile workers union brokered labor peace and resulted in productivity-based wage increases, health insurance, guaranteed-benefits pensions, and still other benefits for workers.
- Other automobile-related industries soon offered their workers contracts similar to the auto-workers contract.
- Even non-unionized companies, ones that had to compete with the auto industry for skilled workers, offered their employees wages and benefits similar to those of auto union workers.
- Overall, by the end of the 1940s-early 1950s at least 35% of the labor force was receiving union wages and benefits, but probably as many as 40% were receiving union wages or near-union wages, although the figure may have been as high as 45%.
- The World War II GI Bill offered veterans reasonable home loans and good educational opportunities, both of which provided economic stimulus and a gateway into a middle-class lifestyle not deemed possible only 10-15 years earlier.

The above ten developments were the dominant causes of the emergence of the great American middle class by the end of the 1940s.

- The dark side of the events of the 1930s-1940s period was the passage in 1947 by the Republican-controlled Congress of the Taft-Hartley Act. The passage of that act was probably the main cause of the eventual destruction of the great American middle class over the 1980-2010 years. (Readers will encounter many discussions of the Taft-Hartley Act throughout this course.)

ii Same source as note i. See Chapters 2 and 9 for a description of the conditions under slavery.

iii Same source as note i. See Chapter 6 for a history of women’s efforts to gain the right to vote.


v Same source as note i. See page 400 for detailed descriptions of the Firestone strike and the Fisher Body (General Motors) strike. See Chapter 15 for descriptions of labor strife during the 1920s and 1930s.

vi See page 172 of the Pizzigati book in note iv.


x Same source as note ix.

xi Same source as note ix.
CHAPTER 6: BUSINESS EXECUTIVES DURING THE 1950s

Chapters 1 and 5 reported that business and other institutional executives in the 1920s, 1930s, and 1940s were strongly laissez-faire in their economic philosophy. Very often those executives would pass their economic philosophies on to their sons and daughters, and even champion their philosophies to other young businessmen. Walter Wriston and Lewis Uhler were two persons who serve to illustrate such intergenerational bequests. i

Walter Wriston. In the late 1930s Henry Wriston was President of Brown University, and he used that position to attack President Roosevelt and the New Deal. Wriston was a strong admirer of Adam Smith, the eighteenth century scholar who pioneered the field of study now called economics. Smith observed that the industrial and commercial activity of his time occurred without any rules or regulations imposed on it. Such unregulated business activity came to be known as laissez-faire economics. (Adam Smith and laissez-faire economics are discussed in the last section of this chapter.)

Henry Wriston’s son, Walter, embraced the economic philosophy of his father. When Walter joined the National City Bank of New York in 1946, New Deal regulations limited the interest rates banks could pay on savings and checking accounts. Those rules frustrated Walter Wriston because he felt they severely restricted the bank’s lending potential, and his own earnings prospects as well.

Wriston’s efforts to undo one regulation after another became a personal crusade, driven less perhaps by the desire for profit than by an almost inchoate anger against government intrusion. The desire to have one’s way can rise to the level of greed, too. “There was something emotional about his drive,” said Albert Wojnilower, a leading Wall Street economist of the time. “I felt Writston wanted simply to dismantle the financial system as we knew it.” ii

Over time Wriston advanced into the senior management of the bank and eventually became its CEO. In that role he was able to achieve a number of the deregulations he pursued. Wriston’s efforts to achieve banking deregulation will appear on numerous occasions throughout this course. They will demonstrate that the above quotation is an accurate characterization of his entire career at the bank.

Lewis Uhler. During the 1930s James Uhler was a senior manager at a large California food processing firm. Most of the firm’s suppliers were farmers and growers in California who tended to be very conservative politically and economically. To them, any government regulation of agriculture was loathsome. James Uhler embraced their political philosophy and passed it on to his son, Lewis, who was born in 1933.

Lewis carried the conservative message inside him almost as a birthright. “My father was a political animal and he hated FDR,” Uhler says. “The whole New Deal thing is anathema to him.” The farmers James Uhler worked for feared nothing more than the unionization of labor, and labor organizing . . . was now spreading throughout the nation.

Lewis Uhler, learning from his father, came to believe that public social programs interfered with the virtues of American life, in fact, trampling on Americans’ rights, and, further, and that the Founding Fathers fully agreed with him. iii
Lewis Uhler entered Yale in the early 1950s, where he encountered the very conservative ideas of William Buckley and other students with views similar to his own. His very *laissez-faire* mindset was reinforced by his Yale experience and by numerous other conservative activities. After graduation, he undertook to crusade for the establishment of an upper limit on personal income tax rates in California.

He started an organization to support similar constitutional amendments in other states, and he later succeeded beyond his best hopes. More than half of America’s state governments eventually adopted such a constitutional limitation.  

Both of these businessmen doggedly pursued the goals of *laissez-faire* economics throughout the 1950s and later. In their lifetimes, each in his own way achieved some reduction in the government regulations they despised so much and/or limited governments’ abilities to further enlarge their regulatory realms.

The successes of Walter Wriston and Lewis Uhler and others did not return the country’s economic system to the *laissez-faire* stature it had in the 1920s and before. But they had made a start. There was still a long way to go, and much yet to do for future Wristons and Uhlers. After all, during the 1910-1930 period the top 1% of the country’s earners received between 15% and 23.9% of the national income. (National income is the total amount of money earned by all workers and earners in the country.) At the end of the 1940s decade that figure was down to only 12-13% of national income. When the decade of the 1950s came to an end, the top 1% of the country’s earners received an even smaller share of national income—only about 10-11%.

This trend was most disturbing to the business community and their allies in the Republican Party, and they responded in ways similar to those described above for Walter Wriston and Lewis Uhler. Wriston and Uhler are representative illustrations of the business community’s hatred of the economic policies practiced by Presidents Roosevelt and Truman during the 1932-1952 period. Many other members of the business community were like Wriston and Uhler. Some of them are described in later chapters.

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Two important observations can be made here using the national income data of the top 1% of earners shown just above. First, the other 99% of workers and earners were now receiving a greater share of the nation’s bounty: they received between 76-85% of national income during 1910-1930s; that increased to 87-88% in the 1940s; and increased again to 89-90% in the 1950s. Second, that trend was clearly indicative of the emergence of the great American middle class.

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On a few occasions in this course it will be necessary to review selected aspects of economics. Since the reader has now been exposed to the topic, it is most important to ask the question: *just what does Adam Smith’s *laissez-faire* economic philosophy espouse?* The answer is most revealing.

In the late eighteenth century Adam Smith observed and described what has come to be called *laissez-faire* economic activity. From what he observed, Smith believed that the well-being of the public-at-large would be best served if the government did not interfere with free-market-driven business activities. That is, Smith believed that the market *would provide for all of society’s needs and wants* if it was not disturbed or regulated in any way. But,

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Smith was neither antilabor nor anticapital; if he had any bias it was in favor of the consumer. “Consumption is the sole end and purpose of all production,” he wrote. . . . vi

Smith was also very clear in stating that the interests of the capitalists should not be given preference over those of the consuming public.

While Smith strongly favored a market free of regulation, he was not opposed to certain kinds of government involvement.

. . . government has the duty of “erecting and maintaining those public institutions and those public works which may be in the highest degree advantageous to a great society,” but which “are of such nature that the profit could never repay the expense to any individual or small number of individuals.” vii

Regarding that class of persons engaged in business activities in the late eighteenth century, Smith . . .

. . . excoriated (it) for its “mean rapacity,” and of whose members he said that they “neither are nor ought to be, the rulers of mankind.”

The great enemy to Adam Smith’s (economic) system is not so much government per se as monopoly in any form. “People of the same trade seldom meet together,” says Adam Smith, “but the conversation ends in a conspiracy against the public, or in some diversion to raise prices.” viii

As can be seen in the chapters discussed so far, twentieth century businessmen and their political allies very self-servingly highlighted over and over again the “free-market” aspect of laissez-faire economics. However, they completely ignored what Adam Smith saw as the dark side of that economic system: the business community’s tendency towards “a conspiracy against the public,” and its immovable opposition to government engaging in socially-advantageous public works like infrastructure, community sanitation systems, clean water, education, health and other things. In being so vehemently opposed to government involvement in the economy, they were certainly less than honest in the laissez-faire arguments they made to support their political-economic proposals. It is most important for the reader to keep all of Adam Smith’s economic philosophy in mind as the discussion moves into the latter decades of the twentieth century.

i The following two examples are taken from Chapter 1 and the Prologue of Jeff Madrick, The Age of Greed, (Alfred A. Knopf, 2011). In general, the materials in all of the chapters on business executives are strongly based on this excellent book.

ii Same source as note i, page 14.

iii Same source as note i, pages 4 and 5.

iv Same source as note i, page 9.


vii Same source as note vi.

viii Same source as note vi.
CHAPTER 7: PRESIDENTS DURING THE 1950s

In the summer of 1950 the North Korean army invaded South Korea, which was a newly liberated country following World War II. Since North Korea was a communist country and the U.S. was in a cold war with communism, President Truman sent U.S. military forces to assist the South Korean army in defending its homeland. This “police action,” as it was called, was unpopular because it was less than five years since World War II ended, the public was tired of war, and many Americans did not feel that North Korea was a threat to the U.S.

Dwight D. Eisenhower was a popular and respected World War II hero who was pursued as a potential political candidate by both the Democratic and Republican Parties prior to the 1948 and 1952 presidential election years. Eisenhower chose to be the Republican presidential candidate in 1952, and he campaigned on the promise to go to Korea to bring the unpopular war to a close. After a clear victory in the 1952 election, he quickly kept his campaign promise and achieved a “cease-fire” in the summer of 1953 (but no peace treaty has ever been signed).

This chapter discusses (1) President Eisenhower’s efforts to promote the general welfare and establish justice where it had been absent, and (2) his failure to reform the Taft-Hartley Act.

**Eisenhower promotes the general welfare and establishes justice.** Eisenhower was a moderate Republican who believed a free enterprise system should essentially run itself. That he selected a cabinet which included nine businessmen was indicative of his pro-business leaning. Yet he cared very much about the well-being of the American people in general. Probably his greatest domestic achievement was the 1956 legislation that led to the construction of the Interstate Highway System, some 40,000+ miles of express highways criss-crossing the U.S. Its total cost exceeded $400 billion (probably almost $2 trillion in current dollars), and was said to be the largest public works project in U.S. history. (Some stories circulated that it was the largest public works project since the pyramids.) In proposing and championing this project, Eisenhower aligned himself more with the economic philosophy of the New Deal economist John Maynard Keynes than with *laissez-faire* economics. This large project lasted for 10-15 years and provided great financial stimulus to the U.S. economy and to all the people and industries that benefitted from its construction.

President Eisenhower continued most of President Roosevelt’s New Deal and President Truman’s Fair Deal programs, and even improved some. He encouraged and signed bills that brought more than ten million additional people into the Social Security System. These were farmers, farm workers, professionals and others who previously were not included in the system. This action clearly demonstrated the President’s desire to make progress toward achieving the constitution’s goal of promoting the general welfare. Eisenhower also increased the minimum wage, and signed the bill that created the new Department of Health, Education and Welfare.

While president, Eisenhower was encouraged to cut taxes by the more conservative members of the Republican Party. That he refused to do. If and when the budget was brought into balance and a surplus was achieved, only then was he willing to cut taxes. (In that, Eisenhower clearly differentiated himself as a much, much more fiscally responsible president than Ronald Reagan and George W. Bush. Both of those presidents cut taxes drastically, knowing full well that doing so would create huge federal government deficits that would contribute to the destruction of the great American middle class.)
Eisenhower also ordered the complete desegregation of the entire U.S. military, and signed two civil rights bills. These established a civil rights office within the Justice Department, and created a Civil Rights Commission to investigate voting fraud charges. “There must be no second class citizens,” he said. Here again, Eisenhower worked to achieve a constitutional goal: to establish justice.

With his first term a generally prosperous one, Eisenhower ran for re-election in 1956 and won easily. Due to the stimulus of the Interstate Highway System construction project, his second term was at least equally prosperous for most Americans who enjoyed increasing wages and growing family incomes.

Eisenhower reportedly was said to be dissatisfied in that he failed “…to re-energize and modernize the Republican Party, making it less conservative and more acceptable to mainstream Americans.”

Overall, it appears that President Eisenhower’s policies continued and encouraged the growth of the great American middle class: he basically kept the New Deal and Fair Deal programs established by his two predecessors; he greatly increased participation in the Social Security System; he increased the minimum wage; and last but certainly not least, he championed the huge Interstate Highway System construction project which greatly stimulated the economic growth which benefitted many industries and many, many workers. Perhaps his most significant contribution to the continued growth and prosperity of the great American middle class was his refusal to cut taxes, knowing full well that to do so would significantly slow down the economy’s growth and thus jeopardize the prosperity of the American people. Additionally, he initiated the first civil rights legislation in over eighty years.

**Eisenhower does not even attempt to reform the Taft-Hartley Act.** But one must also note the dark side of the Eisenhower Presidency—his taking no action on reforming the Tart-Hartley Act. As his Secretary of Labor, Eisenhower appointed Martin Durkin, who was head of the steamfitter’s union. The appointment caused some observers to refer to Eisenhower’s cabinet as the “Nine Millionaires and a Plumber” cabinet. Durkin agreed to become part of the cabinet because Eisenhower “had promised labor some revisions in the Taft-Hartley law,” as he believed “that some of its provisions were too harsh and needed amending.”

Recall that Eisenhower was a very popular war hero who had been wooed as a presidential candidate by both political parties. Very likely, Eisenhower would have been elected president if he had chosen to run as a Democrat. Consequently, the Republican Party needed him more than he needed the Republican Party. Since he was the person who essentially put a Republican back in the White House for the first time in 20 years, he was clearly the leader of the party. As such, he could easily have pushed a Taft-Hartley reform bill through Congress.

But Eisenhower never proposed any such reform. The businessmen in his cabinet persuaded him not to do so. On top of that, the Department of Labor’s budget was cut significantly, resulting in the closing of numerous field offices, which in turn meant that labor law enforcement was substantially weakened.

Recall that Eisenhower was a very popular war hero who had been wooed as a presidential candidate by both political parties. Very likely, Eisenhower would have been elected president if he had chosen to run as a Democrat. Consequently, the Republican Party needed him more than he needed the Republican Party. Since he was the person who essentially put a Republican back in the White House for the first time in 20 years, he was clearly the leader of the party. As such, he could easily have pushed a Taft-Hartley reform bill through Congress.

**This inaction proved to be the dark shadow on Eisenhower’s presidency, as the Taft-Hartley law eventually proved to be so anti-labor that for all practical purposes it dealt the labor movement a death blow in the 1980s and 1990s. The destruction of the middle class soon followed.**


Same source as note iii, page 96-98.

United States Department of Labor: Hall of Secretaries. (See http://www.dol.gov/oasam/programs/history/durkin.htm.)


CHAPTER 8: CONGRESS DURING THE 1950s

Because of his popularity, Eisenhower’s election to the presidency also helped the Republicans gain control of Congress, but just barely. In 1953 Republicans held a one vote advantage in the Senate, and a ten vote advantage in the House of Representatives. However, Eisenhower was able to convince enough fellow Republicans that Social Security should be extended to include individuals other than factory workers. That resulted in some ten million additional workers being included. \(^i\)

In the mid-term election of 1954 the Republicans lost their majorities in both the Senate and the House of Representatives, trailing the Democrats by one vote in the Senate and almost thirty votes in the House. The Republicans would not regain control of either chamber during the remainder of Eisenhower’s tenure in the White House. In fact, each succeeding election saw the Democrats gaining even more seats. \(^ii\)

In spite of the change of control in the Senate, Eisenhower was able to maintain good relationships with the Congress, especially with the Democratic Speaker of the House, Sam Rayburn. \(^iii\) With Eisenhower’s strong support, and with Democrats very much in favor, the Congress was able to pass easily the Interstate Highway System bill.

The Democratic-controlled Congress authorized greater domestic spending than Eisenhower wished, but he willingly signed those bills when they came across his desk. While domestic spending was 31% of total spending in 1953, it rose to 49% by the end of Eisenhower’s presidency. \(^iv\)

Overall, during the eight years of the Eisenhower administration, Congress was quite supportive of legislation that encouraged continued growth of the great American middle class.

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\(^i\) See [www.eisenhowermemorial.org/social-security.htm](http://www.eisenhowermemorial.org/social-security.htm).

\(^ii\) See [www.presidentprofiles.com/General-Information/Appendix-B-Table-of-Biographical-and-Historical-Data](http://www.presidentprofiles.com/General-Information/Appendix-B-Table-of-Biographical-and-Historical-Data).


CHAPTER 9: SUPREME COURT DURING THE 1950s

The Supreme Court was a middle-of-the-road court when Eisenhower took office in 1953, not particularly conservative, but not necessarily liberal. All of the judges had been appointed by Presidents Roosevelt and Truman.

Eisenhower was able to nominate five justices to the court during his tenure as President. In 1953 he nominated Earl Warren to be the chief justice because, Eisenhower felt, Warren could appeal to liberal Republicans as well as law-and-order conservatives. In 1954 he nominated John Marshall Harlan, a conservative Republican. A Democrat, William Brennan, was nominated in 1956. In 1957 he nominated a moderate Republican, Charles Evans Whitaker, and in 1958 a conservative Republican, Potter Stewart.

As a group, Eisenhower’s five Supreme Court selections were not overly conservative or pro-business. However, Eisenhower was a moderate conservative who did not want the court to become more liberal or, put another way, did not want the court to become less conservative.

In 1954, Eisenhower’s second year in the Presidency, the Supreme Court ruled in the Brown v. Board of Education case that the practice of “separate but equal schools” for African-American children was not constitutional. That decision led to the desegregation of all schools in the South where that practice was in place. Eisenhower had to federalize National Guard units to enforce the desegregation policy in Little Rock, Arkansas.

The Brown v. Board of Education decision opened up to many African-American children an educational opportunity that previously had been denied to them—to attend primary and secondary schools where the quality of education was notably higher than that they had been receiving in the schools to which they previously were assigned. Since there were some 10-12 million African-Americans in the country at the time, the vast majority in southern states, the Supreme Court decision probably meant that some 1-2 million elementary and high school students would have the opportunity to receive a better education that could help them achieve a higher quality of life when they became adults.

The Supreme Court of the 1950s was not unfriendly to New Deal and Fair Deal programs, and it took no action against the Social Security expansion and the minimum wage increase that occurred during the Eisenhower administration. The Court’s Brown v. Board of Education decision was a giant step toward achieving the constitutional goal of establishing justice. By not opposing Eisenhower’s desegregation of the military and his signing of two civil rights bills, the Supreme Court further increased the level of fairness extended to the African-American community. Overall, by its actions and inactions, the Supreme Court gave encouragement to the growth of the great American middle class during the 1950s.

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1 www.presidentprofiles.com/General-Information/Appendix-B-Table-of-Biographical-and-Historical Data
CHAPTER 10: OTHER INSTITUTIONS DURING THE 1950s

SUMMARY OF THE 1950S

This chapter discusses (1) the labor movement and its acceptance by the public in general, and (2) the emergence of economist Milton Friedman, who eventually provided the business community and the Republican Party with the message they would use to take back control of the government.

The public accepts the labor movement. Although the labor movement had been under siege from the business community in the 1920s and into the early 1930s, it was legitimized by the Wagner Act of 1935. As a result, labor union membership increased four-fold or more in the late 1930s and during the decade of the 1940s. When it entered the 1950s labor unions had become a commonplace institution and had achieved a level of respect it could not possibly have imagined a decade or two earlier.

While some strikes in recent years (the mid-to-late 1940s) were not peaceful, the contrast of most strikes compared with …

…the strikes of earlier years has been very sharp. … a reporter deeply sympathetic with labor (who) observed the steel strikes of 1919 and 1937 and then that of 1949 at close range, visiting some of the same mill towns and attending strikers’ meetings, was astonished with what she saw in 1949; the absence of violent goon squads; the sympathy of the townspeople generally with the strikers, who seemed to them not a mob of red revolutionaries, as they seemed in 1919, and even in 1937, but a collection of respectable fellow citizens to whom it was reasonable to extend financial credit in the emergency; the action of some company officials in serving coffee to the pickets; the manifest interest of almost everybody in maintaining order. The contrast with the old days has been ever cleaner-cut in some other recent strikes, during which it had been noted in the local community an air of friendly excitement something like that at the close of a lively political campaign, or at the time of a big football match; in such communities the strike was being regarded not as class warfare but as a sort of game played between two teams, one of which has numbers on its side while the other has authority and money. ¹

The growth of the labor movement slowed early in the 1950s and plateaued during the remainder of the decade, some estimates being that as much as forty percent of the work force was unionized. Undoubtedly, the recently passed Taft-Hartley law (in 1947) caused a slowdown in the labor movement.

The population in general was also undergoing change in the late 1940s and 1950s. After the cruel hardships of the Great Depression and then the stress and anxiety of World War II, the late 1940s and early 1950s was characterized as a period of economic prosperity unlike anything previously experienced by the general population. Appreciating its unanticipated good fortune, the people developed a “willingness-to-share-with-others” attitude.

The concept of the national income, the idea of measuring the distribution of this income, the idea of the national economy as an entity affected by the economic behavior of every one of us, …, all these have developed during (the first half of the twentieth century). … the concept of
responsibility to the general public has become more and more widespread among the managers of pivotal businesses. The amount of time which individual men and women give to good works in the broadest sense—including church work, volunteer hospital work, parent-teacher associations, the Boy Scouts, the Red Cross, the League of Women Voters, local symphony orchestras, the World Federalists, the American Legion, the service activities of Rotary, and so on endlessly—is in its total incalculable. ii

It appears that during the 1950s the vast majority of Americans became supportive of one another, encouraging the expansion of prosperity to all of the nation’s citizens.

**The emergence of Milton Friedman and his message.** It was reported in Chapters 1 and 5 that because of the Great Depression, the business community was not looked upon favorably by the public at large. Being unaccustomed to such a poor image, and being very upset that the public held President Roosevelt and his New Deal in high regard, the business community had first turned to God and then to organized religion in its attempts to “shore up” it’s flagging reputation. But to no avail.

During the 1950s there emerged at the University of Chicago’s economics department a new leader, someone who would eventually prove very helpful to the business community and Republican Party. His name was Milton Friedman, and it would not be exaggerating to report that businessmen and Republicans would come to embrace with a passion the economic philosophy he espoused. iii It is most useful to readers to become familiar with Friedman’s early professional efforts, especially regarding those who provided him with support and encouragement.

In 1946 Friedman co-authored an article which was critical of price controls specifically and of any governmental regulations that interfered with free price movements in general. Although the article reportedly was based on “skimpy data,” it

…was published by an advocacy organization called the Foundation of Economic Education, which was dedicated to the “explanation of the meaning of free private competitive enterprise. It seeks to demonstrate the difference between voluntary enterprise and coercion; between individualism and collectivism; between limited and unlimited government.” iv

A few years later Friedman joined with some other academicians to espouse freely set prices in the absence of any government regulation. The group was financed in part by “…a highly conservative tax-exempt (italics added) American foundation, the William Volker Charitable Fund of Kansas City, founded by prosperous right-wing local businessmen. The fund also helped finance the Foundation of Economic Education …” v which had supported the publication of Friedman’s 1946 article on price controls.

Very early in his career, Friedman was a strong believer of no government interference with prices in any way, and that individuals should be responsible for their own destiny. Yet, at the same time, he was accepting financial aid and support from a tax-exempt organization. Not only did that tax-exempt organization obviously have its own axe to grind, in doing so it probably violated the conditions of its tax-exempt status. Clearly, Friedman’s relationships with these foundations suggests a possible conflict of interest on his part, and raises the question of whether or not he could be completely objective in his academic pursuits. Reportedly, even Friedman’s wife raised the issue of this possible conflict of interest. In the biography she wrote with her husband, Rose Friedman reported her uncertainty regarding whether
her husband’s economic theories influenced his political orientation, or whether his political orientation influenced his economic theories. vi

During the decade of the 1950s Friedman was not yet a critical player in the creation and destruction of the great American middle class, but he was destined to become so in the future. Based on his economic philosophy, Friedman would urge the elimination of … “one social policy after another, including Social Security, unemployment insurance, the minimum wage, and a wide range of regulations governing labor organizing, pharmaceuticals, consumer safety, and job safety. Friedman, in effect, provided the Republican Party with an intellectual map for the reversal of the progressive evolution of the nation.” vii

One person who listened to Friedman and absorbed his economic philosophy was an aging movie actor—Ronald Reagan.

Summary of the 1950s

• Although the business community had little influence over government policies during the 1950s, its members did not just “lie down and play dead.” As illustrated by the actions of Henry Wriston and Lewis Uhler, members of the business community continued to engage in activities which they hoped would undermine the progressive elements that had fostered the emergence of the great American middle class over the previous twenty years.

• The business community embraced the “free markets” theme of laissez-faire economics while completely ignoring its pro-consumption and consumerism point-of-view and the helpful role of government it espoused. In doing so, they were certainly less than honest in communicating the flaws and disadvantages associated with laissez-faire economics.

• President Eisenhower was a moderate Republican who cared very much about the well-being of the American people. So much so, that he continued the policies of Presidents Roosevelt and Truman. In addition, his Interstate Highway System project fitted Adam Smith’s theme that government should do what individuals or private industry could not or would not do. In proposing this project, Eisenhower also aligned himself more with the economic philosophy of the New Deal economist John Maynard Keynes than with laissez-faire economists.

• Eisenhower also expanded Social Security, increased the minimum wage, and created the Department of Health, Education and Welfare. In these actions, he was a president who clearly made progress regarding the constitutional goal of “promoting the general welfare.” At the same time, he refused to cut taxes unless a sustainable balanced budget had been attained.

• In signing two civil rights bills and in desegregating the entire U.S. military, Eisenhower directly and positively addressed the constitutional goal of “establishing justice” where it had been absent.

• Although mostly democratically-controlled during the 1950s, Eisenhower maintained good relationships with Congress, and together they were quite supportive of legislation that encouraged the continued growth of the middle class.

• The very dark shadow on the accomplishments of the Eisenhower presidency was his failure to reform the very unjust, anti-labor Taft-Hartley Act.

• The Supreme Court in its historical 1954 Brown v. Board of Education decision took a giant step toward the constitutional goal of “establishing justice” for millions of African-American children. Through better education, undoubtedly many of those children were able to improve their economic condition in life, a development which also contributed to a growing middle class.
• The 1950s saw labor unions become much more integrated into society and “accepted” as part of the country’s economic institutions. Most individuals lived in union families, or lived next door to union families, or had friends in union families. Thus the public at large was either friendly toward or neutral toward unions, rather than hostile. Such social-economic harmony was conducive to encouraging the growth of the middle class.

• A new economic philosopher, Milton Friedman, was beginning to emerge during the 1950s. Although making little impact during the decade, he would continue to make progress during coming decades in convincing the business community and the Republican Party that his philosophy would help them regain their former positions of power and wealth.

Key Observations Regarding the Creation of the Great American Middle Class

President Eisenhower’s leadership and policies had the effect of promoting the general welfare and establishing justice, the two goals of the U.S. Constitution that impacted most strongly on the creation of a strong middle class.

• He continued the progressive policies established by Presidents Roosevelt and Truman.
• His long-lasting Interstate Highway System project provided a huge stimulus to the nation’s economy and its workers.
• He expanded Social Security to include millions who previously had not been included in the program, and he increased the minimum wage.
• He signed two civil rights bills and desegregated the entire U.S. military, clearly establishing justice where previously it had been absent.

The Congress (mostly Democratic) and President Eisenhower (a moderate Republican) met on common ground to create legislation that fostered the growth of the great American middle class.

Eisenhower’s failure to reform the Taft-Hartley Act resulted in little damage to the growing middle class during the 1950s, but that would not be case in the 1960s, the 1970s, and the 1980s.

The Supreme Court also contributed greatly to the Constitution’s objective of establishing justice when it decided in Brown v. Board of Education that “separate but equal” schools were unconstitutional.

The public at large came to accept labor unions as a legitimate institution in American society, thus creating a political harmony that could not have occurred if the coalition of the business community, the Republican Party, and conservative Democrats had been successful in creating hostility between the two groups.

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ii Some source as note i, page 232.
iv Same source as note iii, page 33.
v Same source as note iii, page 34.
vi Same source as note iii, page 51.
vii Same source as note iii, page 27.
CHAPTER 11: BUSINESS EXECUTIVES DURING THE 1960s

This chapter (1) discusses how the business community assisted Ronald Reagan during the years he was preparing for his entry into politics, and (2) reviews the efforts the business community made during the 1930-1960 period to recapture its lost political clout.

The business community assists Ronald Reagan. Jules Stein, Lew Wasserman and Holmes Tuttle were businessmen who encouraged and nurtured the politician who, perhaps more than any other single individual, was responsible for the destruction of the great American middle class.

In 1947 Ronald Reagan became the head of the Screen Actors Guild (SAG), a labor union for actors, actresses, and others engaged in the movie-making business. Jules Stein and Lew Wasserman were Reagan’s agents, the men who got him roles in movies and television productions by negotiating with the producers. Those were the SAG’s rules: actors hired agents who negotiated with producers. And Ronald Reagan was the head of SAG. But Stein and Wasserman wanted to start a television production company and they wanted to directly hire their own actors, which was against SAG rules. Reagan arranged to circumvent the SAG rules, and Stein and Wasserman soon became the largest television producers in the country. Controversially, no other agents were granted similar privileges by Reagan, which made Stein and Wasserman very rich and most appreciative.

In the early 1950s, the General Electric Company sponsored a weekly television program, the General Electric Theatre, and Stein and Wasserman arranged for Ronald Reagan to be the program’s host. Reagan had already been active in movies (mostly B-rated ones) for a number of years, so his name was not completely unknown to the public. However, because the General Electric Theatre successfully aired from 1954 to 1962, Reagan’s name became much more well-known. General Electric’s management also recognized in Reagan a person who could promote conservative political values among the many thousands of GE employees scattered in company facilities around the country.

Reagan also gave politically-oriented speeches to GE employees at most of its 135 plants. He spoke at countless Chambers of Commerce and Republican-oriented political groups. … His central theme now was that big government was the nation’s main problem. …for Reagan, self-reliance … defined the moral character of mankind: one lived and succeeded or failed by one’s own abilities.

Reagan found Milton Friedman’s writings helpful in his speech-making: he “…attacked Social Security, Medicare, aid to the poor, housing subsidies, and taxes of almost any kind.”

In 1964, when Barry Goldwater’s campaign for the office of the President of the United States was not going well, a group of wealthy California Republicans paid to have Reagan speak on national television in an attempt to create enthusiasm for Goldwater’s candidacy. Reagan gave essentially the same speech he had been making for years to GE employees, which, through practice, he had perfected. The speech did not help Goldwater’s campaign, but it raised Reagan’s stature as a conservative Republican who was available as a political candidate.
Holmes Tuttle, a very wealthy Californian, believed Reagan had the potential to be a very conservative Republican governor of California. Tuttle and a number of wealthy conservatives formed the “Friends of Reagan” group to pursue Reagan as the Republican gubernatorial candidate in the 1966 election. Reagan agreed to be a candidate, but the

… one demand he made of his supporters was to ensure his complete financial security; he couldn’t keep up his home. His agents (Stein and Wasserman) obliged, … arranging for Twentieth Century Fox to pay $2 million for the ranch, as he called it, he and (his wife) bought in the Santa Monica mountains for $65,000 a decade earlier. … When Fox went to sell soon after, it could only get about $500,000 for the property. While Reagan was governor, Jules Stein arranged for him to buy a still larger property in the Los Angeles area, which Reagan eventually sold secretly at more than double the purchase price. Stein also helped him reduce his federal and state tax bill with shelters devised by a member of his family. According to the Sacramento Bee, Reagan paid no state income taxes one year while governor. Reagan, financially secure before, got rich while in office. vii

Although he regularly preached his gospel of self-reliance, businessmen clearly helped Ronald Reagan both financially and in other ways during the 1950s and 1960s when he was transitioning from a fading acting career into a new one in the field of politics. The management of General Electric both encouraged Ronald Reagan in the development of his conservative ideas and gave him numerous venues at which to test them out on captive audiences. Recall from Chapter 10 that businessmen were also of significant help in the early academic career of Milton Friedman. Here in the 1960s, the writings of businessman-supported Milton Friedman were very helpful to businessman-supported Ronald Reagan when the latter was practicing his speech-making in the many General Electric Company plants around the country.

The business community’s efforts to regain lost political clout. In the 1930s the business community tried to enlist God to intervene on its behalf. (See Chapter 5.) In the 1940s it turned to conservative religious leaders in an attempt to regain the powerful positions it had during the 1920s and earlier. In the 1950s individual businessmen (e.g., Wriston and Uhler) undertook activities that they hoped would chip away at the regulations imposed on them by Presidents Roosevelt and Truman, and supported by President Eisenhower. At the same time, the business community also began supporting members of the academic community who might provide them with an intellectual rationale that could prove useful in persuading the public that *laissez-faire* economics was more beneficial to them than the New Deal economics that created the great American middle class. Here in the 1960s groups of business executives were working hard to encourage the emergence of a politician who could champion their cause. Clearly, the business community had not resigned itself to living forever under the various government regulations and taxes imposed on it during the 1930s, 1940s, and 1950s. It considered those regulations and taxes as onerous burdens, rather than its societal responsibilities. Consequently, it had no intention of ceasing its efforts to eliminate both.

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During the decade of the 1960s, the top 1% of the country’s earners received approximately 10% of the nation’s income, which was slightly lower than the 11-12% they had received during the decade of the
1950s. The business community had not yet halted the growth of the great American middle class, but that was not because it had not been trying.

i This section on Ronald Reagan is based on Jeff Madrick, *The Age of Greed*, (Alfred A. Knopf, 2011), Chapter 7.

ii The Justice Department later investigated Stein and Wasserman for monopolistic behavior, and SAG was named as a co-conspirator. When he was called to testify, Reagan cited poor memory of the arrangement he made. See pages 113-114 in the same source as note i.

iii Same source as note i, pages 114-115.

iv Same source as note i, page 116.


vi Same source as note i, page 118.

vii Same source as note i, page 119.
CHAPTER 12: PRESIDENTS DURING THE 1960S

This chapter discusses (1) the John F. Kennedy presidency, (2) the Lyndon Johnson presidency, (3) the failed attempt to reform the Taft-Hartley Act, and (4) the Vietnam War’s effect on the public.

The John F. Kennedy presidency. John F. Kennedy was elected president in the fall of 1960. Most of the notable achievements of his short administration involved foreign policy and foreign affairs, including the creation of the Peace Corps. Kennedy’s major contribution to the growth of the great American middle class was the U.S. space program that put the first man on the moon in 1969. That program represented a significant economic stimulus as well as a phenomenal scientific achievement.

Regarding his domestic policy, President Kennedy proposed what he called the New Frontier program, which promised to raise federal funding for education, provide medical care for the aged, and further involve government in improving the economy. His administration did raise the minimum wage and improve some Social Security benefits. He signed the Equal Pay Act of 1963, which attempted to prevent wage discrimination against women. The economy, which was in recession when Kennedy became president, “prospered during the Kennedy administration. GDP expanded 5.5 percent in early 1961 to late 1963” and continued to grow until 1966. \(^i\)

Because of the resistance of some Republicans and many Southern Democrats, Kennedy at first was only somewhat active with respect to civil rights. He did send federal marshals to protect “Freedom Riders” in the south, and when African-American James Meredith tried to enter the University of Mississippi, he sent both federal marshals and military troops. To assist two African-American students entering the University of Alabama, Kennedy federalized the Alabama National Guard. In June 1963 he sent his civil rights legislation to Congress, “which he pushed aggressively until his assassination.” \(^ii\)

When major steel companies announced a 3.5% price increase in April 1962, President Kennedy demonstrated vigorous support of and fairness to the labor movement. At the time, there was a general concern to prevent serious price inflation.

… President John F. Kennedy, having talked the United Steel Workers into accepting a moderate wage increase, publicly attacked U.S. Steel over a price hike he deemed excessive (“a wholly unjustifiable and irresponsible defiance of the public interest”), forcing the steel giant to back down. \(^iii\)

The Lyndon Johnson presidency. When Kennedy was assassinated on November 22, 1963, Vice President Lyndon Johnson ascended to the Presidency. He promised to continue Kennedy’s program, which he labeled the “Great Society.” Having spent quite a number of years in Congress, Johnson was considered to be a master politician. Under his leadership, Congress passed and he signed bills that created Medicare and Medicaid, the Food Stamps program and the Head Start program. He also signed the Elementary and Secondary Education Act which provided federal aid to public schools, and the Higher Education Act which provided financial assistance mostly for lower income students to attend college.

Because of his leadership skills, and because he was also a southerner, Lyndon Johnson may have been the only politician capable of steering through Congress the Civil Rights Act of 1964, \(^iv\) a bill designed to
prevent voting rights violations everywhere, but especially in southern states where local laws prevented many African-American citizen from casting votes. This new law was widely acclaimed, especially within the African-American community.

In addition to supporting the new programs proposed by John Kennedy, President Johnson also demonstrated his commitment to continuing those progressive programs put in place by Franklin Roosevelt and Harry Truman, and later also supported by Dwight Eisenhower. The goals of those programs were to increase prosperity among the entire population, but especially among the middle and lower classes. For African-Americans, Johnson’s leadership on the Voting Rights Act represented a giant leap toward their achieving the kind of justice most other Americans received.

A failed attempt to reform Taft-Hartley. Lyndon Johnson won the 1964 presidential election by a margin of 61-39 percent. In that same election the Democrats won huge majorities in both houses of Congress, 68 to 32 in the Senate and 295 to 140 in the House. With such a substantial victory at the polls, Johnson and the Congressional Democrats tried to repeal the most blatantly anti-labor portions of the Taft-Hartley Act. However, Republicans in the Senate were joined by enough conservative southern Democrats to sustain a filibuster of the proposed pro-labor union legislation. That action demonstrated that the business community still enjoyed the same Congressional power it had demonstrated in 1947 when Congress overrode President Truman’s veto of the Taft-Hartley Act, and again in 1953 when it persuaded President Eisenhower not to modify the unjust portions of the act, as he once said he intended to do. As noted in Chapter 7, failure to reform Taft-Hartley led to the demise of labor unions in the 1980s and 1990s, and that resulted in the destruction of the middle class.

The Vietnam War’s effect on the public. In 1965 and 1966, President Johnson expanded U.S. involvement in the Vietnam War, which became very unpopular, especially among younger voters. That war, which was to last for another 5-6 years, caused a sizeable portion of the general public to harbor a growing distrust of their government. That distrust of government continued to grow in the next decade and beyond, with most unfortunate consequences for the American public.

During its eight years in office, the Kennedy-Johnson administrations made significant achievements with respect to the two constitutional goals of promoting the general welfare and establishing justice. Medicare, Medicaid, Head Start, Food Stamps, the new support for education, and the Voting Rights Act of 1965 increased the quality of life for many, many Americans, helping them attain a level of prosperity they previously could only have dreamed of.

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iv Chapter 2 related President Roosevelt’s “Now make me do it” story. For a good example of “now make me do it” activities, see Kevin Boyle, “All the Way: The Civil Rights Act of 1964 was passed through the efforts of political operatives, liberal activists, and Lyndon Johnson,” New York Times Book Review, May 18, 2014, page 13. In his
review of the book by Clay Risen, *the Bill of the Century*, (Bloomsbury Press, 2014)), Boyle describes the “now make me do it” activities undertaken by numerous parties to push the Civil Rights Act through Congress.

\url{http://en.wikipedia.org/Lyndon B. Johnson}

vi Composition of Congress by Political Party, 1855-2013. See \url{http://www.infoplease.com/ipa/A0774721.html}.

CHAPTER 13: CONGRESS DURING THE 1960s

Throughout the eight years of the Kennedy-Johnson administration the Democrats controlled both houses of Congress by very comfortable margins. In addition, Lyndon Johnson had many years of experience in both houses, and especially so in the Senate. The result was that the Congress was very much in sync with most of the programs and legislation proposed by the Presidents. That cooperation led to the passage of bills creating Medicare and Medicaid, the Food Stamps program, the Head Start program, the educational acts and, last but certainly not least, the Civil Rights Act of 1964 and the Voting Rights Act of 1965. Overall, the eight years of the Kennedy-Johnson administration were characterized by a progressive legislative program that made an enormous contribution to the creation of the great American middle class. But those years also included a dark, ominous event that eventually culminated in a disaster for all Americans except those at the very top of the income scale.

After Johnson’s landslide re-election victory in the fall of 1964, Democrats held 68 senate seats and 295 congressional seats—huge majorities that mirrored the President’s success and the popularity of the progressive programs he espoused. With these strong majorities in Congress and a very liberal president, the Democrats attempted to repeal the unjust, anti-labor aspects of the Taft-Hartley Act. Here it is important to recall the past history of labor’s struggle to gain a reasonable share of the nation’s bounty. During practically all of the 1932-1968 period the Democrats controlled Congress, but not in 1947-1948. Yet, it was during those two years that the Taft-Hartley Act was passed over the veto of a Democratic president. That veto override reflected the strength of the business community in partnering with the Republican Party and in persuading enough conservative Democrats to join in. (See Chapters 1-3.) In the early 1950s President Eisenhower promised his Secretary of Labor, Martin Durkin, that he would reform the harsh provisions of the Act. But Eisenhower did not keep his promise. (See Chapter 7.)

The 1965 filibuster of the Democratic attempt to reform the Taft-Hartley Act. Here in the decade of the 1960s the business community once again persuaded the Republican Party and a group of conservative Democrats to defeat any attempt to reform Taft-Hartley. But this time they used the filibuster. Senate rules allowed a filibuster of proposed legislation to continue indefinitely unless two-thirds of the Senate specifically voted to stop it. That was the course pursued by the coalition of Republicans and conservative Democrats: they filibustered to prevent the bill from coming to the Senate floor for a vote. There were sixty-eight Democratic senators, enough to kill the filibuster, but only fifty-one voted to do so. Seventeen Democrats joined with all the Republican senators to allow the filibuster to continue indefinitely. The proposed legislation never came up for a vote. The reform of Taft-Hartley died by filibuster. The successful filibuster of the 1965 Democratic attempt to reform the Taft-Hartley Act was a clear signal that the business community was alive and well and still powerful enough to protect its interests in the nation’s capital. Not only would labor unions not get stronger, the filibuster guaranteed that they would get weaker with the passing of time. It was a great success for the business community and the Republican Party. It was a disaster for all workers who were members of a labor union or wanted to organize a labor union at their place of employment. Over the next two decades this nonevent would contribute very significantly to the destruction of the great American middle class.
In spite of the unsuccessful attempt to reform the Taft-Hartley Act, Congress in the 1960s passed the many laws described above and/or listed in Chapter 12. All of them were important bills that contributed to the continuing prosperity growth of essentially the entire population.

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CHAPTER 14: SUPREME COURT DURING THE 1960s

In 1962 President Kennedy appointed both Byron White and Arthur Goldberg to the Supreme Court. In 1965 President Johnson appointed Abe Fortas as an associate justice, and then in 1967 appointed the court’s first African-American, Thurgood Marshall. Richard Nixon became president in January 1969. (Details of Nixon’s Presidency are discussed in Chapter 17, as part of the decade of the 1970s.) He appointed Warren Burger as chief justice, and shortly after appointed Harry Blackmun as an associate justice. i

The Democrats had a clear majority in the Senate, and they rejected two of Nixon’s appointees because they were southern conservatives who were believed not to be sympathetic towards civil rights and labor unions.

During the 1960s the Supreme Court was not involved in any legal matters that materially affected the prosperity of the American people.

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CHAPTER 15: OTHER INSTITUTIONS DURING THE 1960s

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SUMMARY OF THE 1960s

This chapter discusses three topics. (1) Labor unions were the only organizations fighting for the welfare of ordinary workers; (2) the business community, Republican Party, conservative Democrats continued to solidify their coalition; and (3) serious flaws in the Constitution of the United States.

Labor unions fight for the welfare of ordinary workers. In spite of the 1965 senate filibuster that prevented the Democrats from reforming the harshly anti-labor Taft-Hartley Act, labor unions continued to be important contributors to the growing prosperity of the vast majority of middle and lower class workers. The number of union workers probably increased slightly during the decade, or at least held steady. However, percentage-wise, unionized workers declined from about 31-32% of the total labor force to approximately 29%. That percentage-decline reflected the fact that the business community was learning how to use Taft-Hartley to its own advantage.

But labor unions were still a powerful force working to promote the economic well-being of ordinary workers. By the 1960s they were “not merely organizations that struck wage bargains for a specific number of workers, but rather institutions that … played a significant role in the workings of government.”¹ Both Congress and the President acted on behalf of common workers because they were “pushed” by their constituents, that is, by labor unions. (Recall the Chapter 2 FDR story to “Make me do it.”)

Religious organizations and churches did what they could to encourage greater social justice, but their activities occurred mostly at the local level.

In the crisis of the Great Depression …, Catholic support for labor unions and for social assistance had sprung from pastoral experience, and bishops did not hesitate to preach and act for social justice. In the (World War II) postwar years social ministries among immigrants and the poor continued to find broad pastoral and institutional support.²

On the other hand, the business community was opposed to labor organizing, and the Supreme Court was “moderate” politically, and so was unlikely to become involved. Consequently, labor unions were the only progressive groups in the U.S. that were “focused on the broad economic concerns of those of modest incomes.”³

The business community/Republican Party/conservative Democrats solidify their coalition. Here you must note the failure of President Johnson and Democratic senators to vote down the 1965 filibuster of their proposed Taft-Hartley reform bill. That failure was an ominous sign, an indication that the business community/Republican Party/conservative Democrats remained a strong force in opposition to the continued growth of lower and middle class prosperity. (As that force grew stronger—which it did—it would continue to whittle-away at labor union membership and, within two decades, it would reduce the union movement to a nearly powerless force.) That failure to reform Taft-Hartley created “a political
and economic vacuum that (would prove) deadly to those seeking to redress (income) inequality, and friendly to those seeking to promote and consolidate it,” iv observed noted political scientists Hacker and Pierson.

**Serious flaws in the Constitution.** The Constitution of the United States has certain basic weaknesses and flaws that contributed to the eventual destruction of the great American middle class. One of those flaws is the nature and use of the filibuster.

“Majority rule” is the guiding principle in a democracy such as the United States. Yet, with the rules currently (in 2013) existing in the Senate, it was (and is) possible for forty-one senators to filibuster indefinitely any proposed legislation they oppose until such legislation “dies.” Given the current population distribution in the United States, it is possible for the senators from the twenty-one least-populated states, which represent only about twelve percent of the entire population, to filibuster and kill any legislation they oppose. v The filibuster noted in Chapter 13 is not so far removed from this extreme example. Such legislative misbehavior is certainly a far cry from “majority rule.”

In addition to the filibuster, there are several other Constitutional flaws (discussed in more detail in Chapters 20, 30, and 35) that contributed to the growth of income inequality from 1980 to 2010. They include: (1) Article V of the constitution, which makes changing the constitution an almost impossible task; (2) the absence of any possibility to call for a new constitutional convention for the United States (although the various states of the union have already held more than two hundred state constitutional conventions to modify or replace their constitutions); (3) the continued use of the decrepit electoral college system to elect the president, rather than the direct popular vote (readers can recall the 2000 Bush-Gore presidential election in which Gore was the clear winner of the popular vote, but the Supreme Court’s intervention allowed the electoral college to select Bush as President); and (4) still others. vi

All of these constitutional flaws gave aid and comfort to the business community/Republican Party/conservative Democrats coalition in their efforts to stop and reverse the growth of prosperity for the majority of ordinary workers.

**Summary of the 1960s**

- Jules Stein, Lew Wasserman and Holmes Tuttle were businessmen who encouraged and strongly supported financially the entrance into politics of Ronald Reagan, perhaps the one person most responsible for the destruction of the great American middle class.
- Milton Friedman, a person who also benefitted greatly from the support and encouragement of conservative Republican businessmen, provided the intellectual rationale for Reagan’s *laissez-faire* attack on the progressive programs that had created the great American middle class from the 1930s to 1960s.
- President Kennedy proposed his New Frontier program, which included elements intended to stimulate the economy, improve education, and provide medical care for the aged.
- President Johnson continued Kennedy’s proposed policies, now labeled the Great Society. Within a short period of time Congress passed and Johnson signed legislation creating Medicare, Medicaid, Food Stamps, Head Start, and educational improvement programs, all of which further
promoted the general welfare and contributed to the continued growth of the great American middle class.

- In 1964-65 the Democratic-controlled Congress passed and Johnson signed the Civil Rights Act and the Voting Rights Act, both of which contributed to the constitutional goal of establishing justice by giving African-Americans civil rights that previously had been denied to them.
- The business community continued to be successful in persuading Republican senators and conservative Democratic senators to block pro-labor union reforms to the Taft-Hartley Act.
- The Supreme Court was not involved in any legal matters affected the growth of the great American middle class.
- Labor unions were still a positive force in the continued growth of the great American middle class.
- Constitutional flaws related to the use of the filibuster in the senate jeopardized the principle of “majority rule, a fact that imperiled the continued growth of the great American middle class.

Key Observations Regarding the Creation and Destruction of the Great American Middle Class

- Presidents Kennedy and Johnson provided the leadership to expand programs that supported the growth of the middle class.
- The Democratic-controlled congress was very supportive of the programs proposed by Kennedy and Johnson, passing laws creating Medicare, Medicaid, Food Stamps, Head Start and other programs encouraging the growth of the middle class.
- The Civil Rights Act of 1964 and the Voting Rights Act of 1965 gave civil rights to the African-American community that previously had been denied many of those rights. Along with the 1954 Brown vs. Board of Education Supreme Court decision, these two laws allowed the possibility for African-Americans to enter into middle class prosperity.
- The business community allied with the Republican Party and conservative senate Democrats to once again block attempted pro-labor reforms to the Taft-Hartley Act. This alliance proved strong enough in 1946 to gain passage of the Taft-Harley Act even though President Truman had vetoed the bill and Democrats were in control of Congress. In the early 1950s the alliance was strong enough to convince President Eisenhower not to reform the harsh, anti-labor features of the act. Here in the 1960s it was strong enough to successfully filibuster the Taft-Hartley reforms proposed by President Johnson and the Democratically-controlled Congress.
- The business community and the Republican Party encouraged and greatly nurtured the man, Ronald Reagan, who, they hoped, would help them regain the kind of power in the nation’s capital that they had not enjoyed for almost four decades.

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iii Jacob S. Hacker and Paul Pierson, Winner-Take-All Politics, (Simon & Schuster, 2010), page 57.

iv Same source as note iii.

CHAPTER 16: BUSINESS EXECUTIVES DURING THE 1970s

During the 1970s business executives were especially active in trying to achieve greater autonomy (i.e., less regulation) for their business ventures. This chapter reviews seven topics that strongly effected the economy and most of the population: (1) The business community “makes a big move” to regain its influence in Washington; (2) Walter Wriston creates the “too big to fail” bank; (3) Howard Jarvis and Paul Gann lower property taxes in California; (4) Joe Flom originates the hostile corporate takeover binge; (5) Private equity firms emerge and cause increasing income inequality; (6) The downside of new financial innovations; and (7) The financial community greatly increases its share of the nation’s business profits.

The business community “makes a big move” to regain its influence in Washington. Here it is useful to look ahead for the moment. Chapter 26 reports that the “…1990s through 2002 was the most corrupt ‘decade’ since the 1920s—and one of the most corrupt in American business history.” Chapter 31 then reports that the decade of the 2000s was equally corrupt, if not more so. The massive scale of corruption associated with the decades of the 1990s and 2000s had its origins in the 1970s.

Prior to the 1930s the business community operated with almost a complete absence of government regulations. (See Chapter 1.) President Roosevelt’s New Deal imposed numerous regulations on many industries, almost all of which were strongly opposed by the business community. Chapters 6 and 11 describe the efforts of individual businessmen to eliminate or severely alter a number of government regulations. This section describes how in the 1970s the entire business community as a whole made a big move to regain its influence over government policymaking that in any way affected business. Readers should carefully note these actions by an almost completely united business community, not only in the 1970s, but throughout the entire 1970-2010 period, because they played a major role in the destruction of the great American middle class. i

In August 1971 a leading corporate attorney wrote a directive for the business community to use when attempting to regain its dominant influence over policy making in the nation’s capital.

There should not be the slightest hesitation to press vigorously in all political arenas…. Nor should there be reluctance to penalize politically those who oppose it. ii

Following this political call to arms, the New York City-based National Association of Manufacturers (NAM) moved its headquarters to Washington, D.C. Because New York City was the country’s center of business, the organization had been headquartered there. It moved to Washington because:

…the thing that most affects business today is government. The interrelationship of business with business is no longer as important as the interrelationship of business with government. iii

The move signaled the business community’s new campaign to begin placing great emphasis on influencing government to behave in a much friendlier manner toward business. During the 1970s the number of firms with registered lobbyists in Washington increased from 175 to almost 2500. iv

Previously, business politicking had been fragmented, each company operating on its own. Now, business made a concerted effort to organize a broad coalition. v
From the late 1970s and throughout the 1980s the business community increased its spending on congressional elections almost five hundred percent, twice as much as Labor’s increase in spending. vi

The chief executives of America’s top corporations also became a united force. They formed the Business Roundtable, a group of almost 200 CEOs from the country’s corporate elite. These were people “with the stature to call anyone in Washington and get their calls answered.” vii

The Roundtable quickly became, and remains today, the main political arm of big business in Washington, with a large, professional, full-time staff. Initially, what united these powerful CEOs was a resolve to curb the power of labor unions, but they quickly expanded their agenda to cover the full spectrum of economic policy issues, not only labor law, but taxes, antitrust regulation, banking, and employment. viii

Small business also organized politically. In the 1970s the National Federation of Independent Businesses grew from a few hundred members to more than half a million. Prior to the 1970s, the U.S. Chamber of Commerce was not politically active. But its membership doubled to about 80,000 companies by the mid-1970s, and by the end of the decade was employing forty-five full time lobbyists.

It was during this period that the very rich “big six” business associations came together to form an extremely powerful force in Washington. Those six associations were the National Association of Manufacturers, the U.S. Chamber of Commerce, the Business Roundtable, the National Federation of Independent Businesses, the National Association of Wholesalers-Distributors, and the National Restaurant Association. ix

… by the late 1970s, business interests had mustered such a huge force that they outnumbered Congress 130 to 1: They had 130 lobbyists and advocates for each of the 535 members of Congress. x

In 1984, a former lobbyist for one of America’s top consumer products companies said:

When business really tries, when it is fully unified and raring to go, it never loses a big battle in Washington. xi

The result of this great increase in business lobbying was that “the anti-business Congress of the early 1970s became the pro-business Congress of the late 1970s.” xii

The above quotations and the business community developments reported here should be carefully noted. They are two of the five developments during the 1970s that brought a halt to the growth of the great American middle class. The other three developments are discussed in Chapter 18.

Walter Wriston creates the “too big to fail” bank. Throughout the 1950s and 1960s Walter Wriston (see Chapter 6), a laissez-faire business executive, had continued his aggressive battle against federal regulations of any kind that restricted the banking and financial industries. By 1970 Wriston was CEO and Chairman of the Board of First National City Bank (of New York), one of the largest—if not the largest—bank in the U.S. And in keeping with his philosophy, the economic policies practiced by the bank were strongly based on Milton Friedman’s writings. Wriston’s biggest achievement had been the introduction of the certificate of deposit to the banking public. Not only was it a tremendous success that
resulted in his personal advancement, it was particularly satisfying to Wriston because its structure allowed banks to set the rates of interest they would pay. That represented a significant deregulation that was most favorable to banks.

First National City Bank had large loans outstanding to the Penn Central Railroad when it filed for bankruptcy in 1970 and defaulted on $80 million in short term loans. Most of those loans came from Wriston’s bank. Recall here that Wriston had always vehemently opposed any government involvement in the financial industry because it stood in direct conflict with his *laissez-faire* economic philosophy. Yet, in this desperate situation Wriston did the unthinkable—he requested government assistance, and he got it! Thus was borne the concept that a bank could be “too big to fail,” and it was the achievement of a *laissez-faire* banker. xiii

Wriston relished his role in diminishing the federal government’s traditional role as overseer and regulator of finance, knocking down barriers through audacity and attracting competitors to join him in freewheeling ways, and thus turning his bank into the biggest in the world. He was at the center of every financial storm in the nation during his tenure. Over these years there were many. For decades, First National City under Wriston walked (on the) edge of illiquidity and even at times insolvency, making enormous profits and occasionally fantastic losses. But the health of the giant banks became so critical to the nation’s financial system that Wriston learned to use it as political leverage, while, given his intense *laissez-faire* philosophy, denying his dependence on the government all the time. This advantage he played like a maestro. While preaching the values of competition and unfettered markets, he created a bank that was too big for the government to allow to fail, and Citibank, its successor, needed rescuing several more times, most urgently in 1982 when its loans to developing nations went bad. Aggressive business gave way to vanity and greed. xiv

Such financial manipulations by the big banks came to be referred to as “privatizing profits, but socializing risk.”

**Howard Jarvis and Paul Gann lower property taxes in California.** Howard Jarvis, a successful California businessman who “became an ardent antigovernment conservative by his thirties, developed an intense hatred for Franklin Roosevelt…..” He teamed up with Paul Gann, another businessman with an intense anti-tax passion. Together, in 1977, they collected 1.5 million signatures on a petition to limit property taxes in California. In 1978 sixty-five percent of the voters approved Proposition 13, which lowered property taxes and limited the state’s future growth. The following year California governments saw their revenues decrease by approximately forty percent, which caused reductions in many public services affecting mostly the middle and lower classes. (By the late 1990s and the 2000s, California’s low tax policy was bringing in much less revenue, causing it to suffer severe financial crises.) Over the next several years, various tax reduction initiatives took effect in thirteen other states. xv

**Joe Flom originates the hostile corporate takeover binge.** Today Joe Flom’s name is unknown to almost everyone. In the 1970s he devised the hostile takeover of corporations by using cash tender offerings to buy on the open market shares of the corporation being taken over. In doing so, he showed the way for infamous takeover personalities like T. Boone Pickens, Carl Icahn, and the Kohlberg, Kravis, Roberts (KKR) partnership, and still others.
The takeover activity was spurred by low stock prices in the 1970s. It fostered a new relationship between the business community and the financial community. Whereas previously the two groups each tried to get rich at the expense of the other, they now found that by working together they both could get very wealthy at the expense of the public.

Now CEOs made a fortune by selling out to acquirers, as did their immediate subordinates, because they were given stakes in the company. The allegiance of business management thus shifted from the long-term health of the corporations, their workers, and the communities they served, to Wall Street bankers who could make them personally rich, their compensation now mostly options for shares of their companies for which they paid nothing.\textsuperscript{xvi}

Business and Wall Street were no longer buyer and seller, with the natural tensions and competitive checks and balances that came with such a relationship, but on the same team.\textsuperscript{xvii}

“M&A (mergers and acquisitions) was always an adjunct to the underwriting business in the past,” said Flom. “But once it got started, the banks realized it was a good source of income. Instead of just reacting, they went after the business.” Because the largest and most respected companies were also increasingly willing to attempt hostile takeovers, almost every major industry was swept into the new wave, and all but the nation’s largest companies were vulnerable to an unsolicited offer. The mere threat of takeovers changed corporate values. Vulnerable companies were desperate to raise the value of their stock to make them less attractive and avoid a takeover, which usually required focusing on improving profits in the short run, often by cutting wages and jobs, just as if they had been taken over.\textsuperscript{xviii}

Private equity firms emerge and cause increasing income inequality. Out of all this there emerged what are now called “private equity firms,” partnerships of a small group of rich people getting richer through hostile takeovers.

It was not a healthy economic process on balance. Wall Street did not otherwise provoke much constructive investment in these years, but rather discovered more certain and immediate profits by dismantling what already existed. . . . These men were making the marketplace, not merely obeying the signals it sent out, in the efficient way Friedman and others suggested such markets worked.\textsuperscript{xix}

The private equity firms that were being formed by rich individuals did not produce economic value. Rather, they extracted economic value from the companies they acquired.

There were no federal, state or local laws or regulations that even discouraged these men from doing what they did. And there was nothing that prevented more private-equity firms from being created and doing even more damage to the economy and to ordinary workers.

The downside of the new financial innovations. Each and every one of these hostile corporate takeovers, leveraged buyouts, and similar financial machinations withdrew money from the general realm of economic activity and, in effect, took that money out of circulation. The overall effect was a lessening of the economy’s prosperity, for two reasons: a very large group of workers suffered some or much loss of income, and a small number of individuals greatly increased their wealth but did not increase their
spending on consumer goods and services. By the end of the decade income inequality was beginning to 
emerge, and it was to have destructive consequences on what then was still the great American middle 
class.

Statistical researchers found that the shareholders of the companies acquired in a hostile takeover usually 
suffered financial losses. They also concluded that any such acquisition was more likely to fail than to 
succeed. xx Famous examples of such failures include General Electric’s acquisition of Utah 
International, several oil company acquisitions of non-oil companies, and Macy’s private buyout. xxi At 
the same time, from all such financial activities in the 1970s over $1 billion in fees were divided among 
the lawyers and investment bankers, making many of them very wealthy.

The financial community greatly increases its share of the nation’s business profits. Historically, 
the pathway to great personal wealth in the U.S. was product-oriented businesses, transportation 
companies, publishers and other communications companies, and retailing. The financial industry was 
beginning to change that. In the 1970s and earlier, financial institutions accounted for about one-eighth of 
all of the nation’s business profits. By the 2000s they would gain about one-third of those profits—an 
increase of over 150%. xxii

During the 1970s-1990s, increasingly …

… Washington deregulated Wall Street while insuring it against major losses. In so doing it 
turned Finance—which until then had been the servant of American industry—into its master, 
demanding short-term profits over long-term growth, and raking in an ever-larger portion of the 
nation’s profits. Between 1997 and 2007, finance became the fastest-growing part of the U.S. 
economy. The gains reaped by financial executives, traders, and specialists represented almost 
two-thirds of the growth in the gross national product. By 2007, financial and insurance 
companies accounted for more than 40 percent of American corporate profits and almost as great 
a percentage of pay, up from 10 percent during the (1950s-1970s). Before and after the (2007- 
2008) bubble burst, the biggest Wall Street banks awarded tens of billions of dollars in bonuses. 
In 2009, the twenty-five best-paid hedge-fund manages together earned $25.3 billion, and average 
of $1 billion each. xxiii

More and more of the country’s economic bounty was flowing to financial executives who did not 
produce products that the consuming public used, but rather only altered the ownership of such 
companies. They then reduced employment in those companies as much as possible, while taking large 
fees for doing so.

*

Still, it was in 1976 that the great American middle class probably reached its peak. Exhibit 16-1 shows 
that in 1976 the top 1% of earners in the U.S. received only 8.9% of the nation’s total income. xxiv That 
means the remaining 99% of workers and earners received the other 91.1%. Never before had the bottom 
99% received such a large share of the nation’s income. Furthermore, every income quintile enjoyed 
almost equal growth since 1947: the bottom (poorest) one-fifth of earners saw their incomes grow 122%; 
the second poorest one-fifth of earners enjoyed a 101% increase in their incomes; the middle one-fifth of 
earners had a 113% increase in their incomes; the second richest one-fifth of earners had income growth
of 115%; and the richest one-fifth of earners enjoyed a 99% increase in their incomes. These income statistics clearly illustrate “the creation of the great American middle class.”

However, as the exhibit also shows, since 1976 the share of national income going to the top 1% of earners has been growing while the share going to the bottom 99% has been declining.

EXHIBIT 16-1

Share of the Nation’s Income Going to the Top 1% of Earners

![Chart showing the share of the nation's income going to the top 1% of earners]


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i For a thorough discussion of this aggressiveness by a very united business community, see Chapters 4 and 5 in Jacob S. Hacker and Paul Pierson, Winner-Take-All Politics, (Simon and Schuster, 2010). For a detailed report of what corporate lobbyists do in Washington, see Lee Drutman, The Business of American is Lobbying, (Oxford University Press, 2015).


iii Same source as note i, page 116.

iv Same source as note i, page 118.

v Same source as note ii, page 11.

vi Same source as note i, page 121.

vii Same source as note ii, page 11.

viii Same source as note ii, pages 11-12.

ix Same source as note ii, pages 127-129.

x Same source as note ii, page 12.


xii Same source as note ii, page 14.


xiv Same source as note xiii, page 25.
Same source as note xiii, pages 156-158.

xvi Same source as note xiii, page 73

xvii Same source as note xiii, page 74.

xviii Same source as note xiii, pages 80-81.

xix Same source as note xiii, page 85.

xx Same source as note xiii, page 74.

xxi Same source as note xiii, pages 74 and 84

xxii Same source as note xiii, page 25. According to the source in note ii, the financial community’s increase in its share of the nation’s profits was “explosively dangerous” because it was built on gigantic debt “that dwarfed the debt of the U.S. Government.” See pages 141-143 in that source.


xxv Same source as note xxiv.
CHAPTER 17: PRESIDENTS DURING THE 1970s

Three persons served as President of the United States during the 1970s: (1) Richard Nixon; (2) Gerald Ford; and (3) Jimmy Carter. The last two of these presidents did not use the power of the presidency to support the continued growth in prosperity of the middle and lower classes.

Richard Nixon was elected president in November, 1968 in a fairly close election. An important factor in his victory was his promise to end the very unpopular Vietnam War. Nixon’s main interests lay in foreign policy and foreign affairs, but he did not ignore domestic matters.

Nixon’s greatest achievement was the establishment of diplomatic relations with Communist China. But unfortunately, he was unable to bring the Vietnam War to a quick end. Instead, it dragged on for another four years, making it even more unpopular. The war also involved secret operations which, when publicly revealed, made it even more unpopular and greatly contributed to an increasing distrust of government by the general public, especially younger people.

Inflation became a growing concern in the late 1960s and early 1970s, due to the cost of the Vietnam War and the absence of tax increases to pay for it. Also of concern economically were (i) increased oil prices brought about by the cartel of oil producing countries (OPEC) that used price as a political weapon, and (ii) food price increases caused by severe droughts in both the U.S. and the Soviet Union. Thus, domestic economic issues placed demands on the Nixon administration, and these caused Nixon, a moderate Republican on economic issues, to state that he was a “Keynesian” in such matters (rather than a follower of the laissez-faire economic philosophy). i

Domestically, President Nixon’s policies (and later, President Ford’s continuation of some of those policies) ii contributed to the continuing prosperity of the middle and lower classes. According to noted political scientists Jacob Hacker and to Paul Pierson . . .

... the surge of government activism actually accelerated under Nixon—exactly the opposite of what the conventional story would lead you to expect. Nixon, not Johnson, oversaw the most rapid increase in domestic spending since the New Deal. He signed on to a huge expansion of Social Security, as well as the creation of a national food stamps program. Nixon approved the transformation of Old Age Assistance into a much larger and fully national Supplemental Security Income program.

Nixon, not Johnson, signed into law the huge extensions of national regulatory policy that marked this period, creating the Environmental Protection Agency (1970), the Occupational Safety and Health Administration (1970), the National Traffic Safety Commission (1970), the Consumer Products Safety Commission (1972), and the Mine Safety and Health Administration (1973). And while Nixon had been forced out of office by the time that the massive Employee Retirement Security Act (1974) made it through Congress, his successor, Gerald Ford, signed the bill, which transformed the entire system of employer-provided benefits for workers.

(Nixon) was convinced that competing for the center (of the U.S. electorate) required a strong dose of economic populism and willingness to use government to manage or moderate markets. Compared to leaders of today’s GOP—or even many current Democrats—Nixon looks like a full-
throated Social Democrat. Although he attacked George McGovern’s (the 1972 Democratic candidate for President) position on welfare, he, too, supported a guaranteed annual income for the poor. His health-care proposals would look like very respectable Democratic fare today (actually, more ambitious than what President Obama proposed in 2009). Nixon actually cultivated the head of the AFL-CIO, George Meany, and enlisted liberal social policy experts like Daniel Patrick Moynihan.

On the lunchpail concerns of Middle America, Nixon represented not backlash but broad acceptance of the liberal consensus. iii

Overall, Richard Nixon pursued domestic policies designed to promote the general welfare and to establish justice, the two goals of the U.S. Constitution of special concern in this course.

**Gerald Ford** was President from August 9, 1974 to January 20, 1977. During his term of office he supported Richard Nixon’s policies, and also supported the Equal Rights Amendment and special education for the handicapped. iv But Ford vetoed a bill to create a new Office of Consumer Representation which Ralph Nader and his allies had been championing for many years. He also vetoed the Common Situs Picketing Bill that would have legalized picketing at a construction site when a local union had a grievance against even a single contractor. v Had he signed rather than vetoed this bill, it would have strengthened labor unions and slightly weakened the Taft-Hartley Act.

With his two vetoes, President Ford took two deliberate actions designed to slow or halt the growing prosperity of the middle class.

**Jimmy Carter,** a wealthy peanut farmer from Georgia, was elected President in November, 1976. During his presidency he became deeply involved with such foreign affairs matters as turning over control of the Panama Canal to that country, a treaty limiting strategic nuclear weapons, and an Arab-Israel peace treaty (the Camp David accord).

Domestically, a Department of Energy and a Department of Education were created during Carter’s administration. Unemployment decreased substantially during his tenure, but he also reduced the top capital gains tax rate to 23%, down from a maximum of 49%—a change that strongly favored the wealthy while providing no benefits to the middle and lower classes. Carter wanted to provide comprehensive health care for citizens who were not covered by the Medicare system, and he supported a gay rights initiative. Nothing was achieved on either of those proposals.

The late 1970s was a period bothered by inflation, slow economic growth, and gasoline shortages. The last of these turned into a crisis in 1979 when OPEC suddenly doubled the price of crude oil. At the same time, Iranian students overran the U.S. Embassy in Tehran and took all occupants hostage, where they remained for over a year. (They were released the day following Ronald Reagan’s inauguration in 1981 as the country’s fortieth president.) vi

Jimmy Carter was President in an extremely volatile and difficult period in U.S. history. Yet, three bills were advancing through Congress during his tenure that would have greatly strengthened the forces encouraging the growth of the great American middle class: (i) a bill creating the Office of Consumer Representation; (ii) the Common Situs Picketing bill; and (iii) a bill to reform the anti-labor aspects of the
Taft-Hartley Act. vii (These are more fully discussed in Chapter 18.) Carter could have been a great champion of the middle class had he demonstrated strong leadership in getting those bills passed in Congress. That he did not do! Consequently, three excellent opportunities to promote the general welfare and establish justice were lost, perhaps forever.

United Auto Workers’ president Douglas Fraser “… resigned from Carter’s labor-management council … in frustration over … what he saw as the political ineptitude of the Carter White House….” viii

During the last half of the 1970s presidential power was not being asserted on behalf of the continued growth of the great American middle class. First, there were the two Ford vetoes. Then there was Carter’s lack of leadership on the three bills identified above. Readers should carefully note both of these events, as they should be added to the list of those governmental actions/inactions that had already laid the foundation for the destruction of the middle class, namely: Congress’ 1947 passage of the Taft-Hartley Act over President Truman’s veto; President Eisenhower’s failure to reform Taft-Hartley; and Congress’ 1965 filibuster of the proposed bill reforming Taft-Hartley at that time.

i http://en.wikipedia.org/wiki/we_are_all_Keynesians_now.
ii Vice-President Gerald Ford became President on August 9, 1974 when Nixon resigned the Presidency due to his involvement in what came to be known as the Watergate Scandal. That scandal contributed hugely to the public’s growing distrust of government.
iii Jacob S. Hacker and Paul Pierson, Winner-Take-All Politics, (Simon & Schuster, 2010), pages 96-98.
v Same source as note iii, pages 126 and 128.
vi Same source as note iii, pages 126-131. See also Chapter 2 in Hedrick Smith, Who Stole the American Dream?, (Random House, 2012).
CHAPTER 18: CONGRESS DURING THE 1970s

This chapter introduces the first two of the sixteen instances where the U.S. Government acted stealthily against the American people. (See the Introduction to the Expanded Edition for a brief description of those sixteen instances.)

Although many U.S. citizens choose to be uninformed about government matters that affect them, much of what happens in government occurs “behind the scenes” or “in the dark,” in such a manner that the citizenry is deprived of accurate information about matters of importance to them. In situations like that, citizens are deliberately “misinformed.” Typically, when that occurs, a special interests group influences the government to do something that favors its welfare. Alternatively, sometimes the special interests group convinces government to do nothing that prevents the special interests group from taking some action that is beneficial to itself but harmful to others. Both of those types of events receive little or no publicity that brings them to the public’s attention in a manner that causes the citizenry to be broadly and fully informed. In such situations, the U.S. Government acts as a “stealth government” working against the general welfare of the American people.

There were at least sixteen occasions in the 1970s-2000s decades when the U.S. Government acted in this manner. Those occasions tell the story of how “stealth government” worked against the general welfare of the American people by taking money from lower and middle class citizens and distributing it to selected members of the upper class. This chapter describes two of those occasions: (topic 1 below) how student loans guaranteed by the government rewarded bankers at the expense of students, and (topic 5 below) how the new bankruptcy law of 1978 favored the wealthy over the middle class.

During the twelve year period (1969-1980) of the Nixon, Ford, and Carter presidencies, the Democrats controlled both houses of Congress by wide margins. In the House of Representatives they had as many as 149 more members than did the Republicans. Their smallest numerical advantage was 50 members. In the Senate, the widest margin enjoyed by the Democrats was 24 members, while the smallest margin was ten. Yet, in 1977-1978 with Democratic President Carter in the White House, the Democrats were unable to prevail on three pieces of legislation that would have given a tremendous boost to the forces encouraging the growth of the great American middle class. This chapter describes what happened to those proposed pieces of legislation: (2) The Office of Consumer Representation Bill; (3) The Common Situs Picketing Bill; and (4) A bill to reform the Taft-Hartley Act.

This chapter also describes (6) the three-pronged strategy used by the business community/Republican Party/conservative Democrats faction (“the faction”) to gain control of the country’s political-economic system.

Stealth Government Action Against the American People: student loans guaranteed by the government rewarded bankers at the expense of students. When the government first got involved with student loans in the late 1950s, it lent the money directly to the students. But it was the creation of the Student Loan Marketing Association (“Sallie Mae”) in 1972 under the Nixon administration that led to the tremendous growth in these types of loans.

Under the Sallie Mae system the government did not lend money directly to students. Banks lent the money, but the government guaranteed the loans. In effect, the loans were risk-free for the bankers.
Furthermore, since the banks could borrow from the Federal Reserve at the low discount rate, and then lend that money to students at a substantially higher interest rate, the system essentially facilitated the transferring of money from lower and middle class students to those in the top one percent of the income ladder, i.e., banking community owners and executives. In this system, “taxpayers took the risk; bankers got the rewards.”

After Bill Clinton became president in 1993, he tried to change the system to one where the government only made direct loans to students.

In 1994, the new Republican leadership in Congress targeted direct lending for elimination. (At the time) hundreds of institutions were already participating in the direct loan program, which operated in tandem with the other federal aid programs.

Probably because of the common usage of direct loan programs by colleges, Republicans were not able to eliminate the direct lending student loan programs. But the Republicans in Congress …

… passed a law that prohibited the Department of Education from encouraging or requiring colleges to switch to the direct loan programs.

(The banking community that profited from the guaranteed-loans) system could use their substantial resources to lure or retain colleges and universities, while the direct loan program was not allowed to make its own case.

Colleges largely decided which kinds of loans to offer to their students, and the aggressively marketed banks loans were more popular than the lesser-known government alternative.

Not surprisingly, campus participation in the direct loan program declined.

The net effect was that Congress passed laws that forced students to pay higher interest rates on their loans than would have been available from a system of direct-government loans. The system took money out of the pockets of lower and middle class students and gave it to the bankers. The system was a clear example of “privatizing profits while socializing risk.”

The Office of Consumer Representation was designed to give consumers their own protective voice in all legal and regulatory matters within the federal system. Ralph Nader had championed such a consumer advocacy agency for a number of years, and two-thirds of the public favored such an agency. (As described in Chapter 16, the business community had thousands of lobbyists carefully looking after its interests in Washington. Consumers had no such organization looking after their interests. This bill was designed to try to even the playing field somewhat.) Previous versions of this bill had already passed both houses of Congress, only to be vetoed by President Ford. The Business Roundtable and a long list of its allies attacked the bill in Congress by organizing a massive public relations program consisting of op-ed articles in newspapers and magazines, public opinion pieces of various sorts, campaigns of telephone calls to members of Congress, letter-writing campaigns, and even campaigns of delegations making personal visits to their Congressional representatives. The Democratic Speaker of the House said he had never seen such a ferocious attack on a bill in his twenty-five years in Congress. In spite of the Democrats holding a 292 – 143 advantage in the House, the bill went down in crushing defeat, 189 for and 227
against the bill. Because of those extensive lobbying efforts, more than 100 Democrats were pressured to vote against the bill.

It was precisely such overwhelming lobbying efforts by the business community that the Office of Consumer Representation was designed to offset. “The faction” went to great effort to make certain that ordinary citizens would remain relatively powerless in the nation’s capital.

**The Common Situs Picketing Bill.** Labor unions in the construction trades were different from industrial labor unions in that typically several different unions would be present at a single construction site. If one union had a grievance with its sub-contractor, that union was not legally allowed to picket the construction site in a public showing of its grievance. The proposed Common Situs Picketing Bill would have legalized such picketing. The bill had passed both houses of Congress the previous year, only to be vetoed by President Ford. Business organizations lobbied vigorously among the one hundred-odd new members of the House because they had not been present in the previous Congress, and therefore might not be committed to passing the bill. With Carter as President, Democratic expectations ran high that the bill would become law. Instead, it was defeated by twelve votes. Those voting against the bill included thirteen members who had been given financial support by the AFL-CIO in the most recent election. One Democratic representative received well over two hundred mailings opposing the bill, and only one supporting it.

**A bill to reform the Taft-Hartley Act.** This bill was designed to increase the penalties Taft-Hartley imposed on businesses when they violated labor’s rights; that is, when they broke the law. (The penalties stipulated in the original Taft-Hartley Bill were so small as to be ineffective in enforcing the law. This matter is discussed in Chapter 20.) The passage of this bill would have eliminated the unjust, anti-labor bias in the Taft-Hartley Act and put Labor in a much stronger legal position in the future when businesses violated the act. Because of the high stakes, Labor greatly increased its efforts in Congress, and was rewarded in late 1977 when the House approved the bill, 257 – 163. There were sixty-one Democrats in the Senate, along with a number of Republicans sympathetic to the bill. The outlook for the bill’s passage looked strong. Once again, the Business Roundtable, the Chamber of Commerce, the National Association of Manufacturers, and many other business groups joined forces in an attempt to defeat the bill. This alliance outspent Labor three-to-one in lobbying Congress, and sent to Congress, and many, many small businesses and small business organizations sent representatives to personally appeal to their congressmen.

Because the bill would have passed the Senate if it came to a vote, the Republicans chose to filibuster. Led by two young, aggressive conservative Senators, Orrin Hatch of Utah and Richard Lugar of Indiana, Republicans offered one amendment to the bill after another; the number of amendments eventually offered totaled almost one thousand. The process went on for almost five weeks. Three votes to force an end to the filibuster were eventually taken in mid-June 1978, with the closest vote to ending the filibuster being 58 – 41, two short of the sixty votes needed. The filibuster could not be ended: the bill did not come up for a vote. A noted historian called this development a “Waterloo for labor.”

**Stealth Government Action Against the American People: the new bankruptcy law of 1978 favored the wealthy over the middle class.** Congress passed a little-noticed bankruptcy law in 1978. It greatly
shifted legal power in bankruptcy cases away from the courts and the public, and gave that power to the management of the company declaring bankruptcy.

That law, the first major bankruptcy reform in forty years, put corporate management in solid control of restructuring a company during bankruptcy. Instead of ousting the old CEO and replacing the old corporate leadership with an outside bankruptcy trustee, as in the past, the new law not only left the old management in place, but let it mastermind the whole process. Also, by making bankruptcy courts more efficient and financing easier, and by allowing much more handsome pay for a new generation of bankruptcy lawyers, the 1978 law made bankruptcy more attractive for big companies. Instead of facing the old stigma of failure, corporate leaders increasingly saw that the new bankruptcy law, as interpreted by the courts, offered them a legal way to shed old debts and abrogate long-standing labor union contracts that had guaranteed wages, health benefits, and lifetime pensions. As in the past, banks got top priority for repayment, and management was empowered to deprive rank-and-file employees of billions of dollars in hard-won economic gains. (Italics added.)

But that is not how the bill was sold to the public.

“A big part of the selling point on this bankruptcy law was it will preserve jobs, and it will preserve assets for employees—go back and read the legislative history,” Elizabeth Warren, then a bankruptcy law professor at Harvard, told me in 2006. “But what happened was that the text of the law clearly gives a priority to the banks and the other creditors who protect themselves by contract. They come ahead of all of the employees and all the pensioners…. The sophisticated guys walk out with everything and the employees and pensioners will be left with nothing.”

The 1978 bankruptcy law transferred money and wealth from the middle and lower classes to the financial and banking communities, thus contributing significantly to growing income inequality over the next thirty years.

Furthermore, when the financial crisis of 2007-2008 hit, this law and a 1993 Supreme Court decision prevented financially-troubled homeowners from filing for bankruptcy. Because they were prevented from doing so, those homeowners were unable to renegotiate the terms of their mortgages with their banks. Millions of such homeowners were forced into foreclosure, thus causing the great housing and financial crisis to be so very severe and so very long-lasting.

The three-pronged strategy of the business community/Republican Party/conservative Democrats faction (“the faction”) to gain control of the country’s political-economic system. In Chapter 16 readers were asked to carefully note two developments.

1. The business community “makes a big move” to Washington in order to influence politicians to be more generous towards business.
2. The quotation that business “never loses a big battle in Washington.”
Those were two of the five developments in the 1970s that brought a halt to the growth of the great American middle class. The three other developments that contributed to the destruction of the middle class were the following.

3. The business community/Republican Party/conservative Democrats faction defeated the Office of Consumer Representation bill.
4. Senate Republicans and conservative Democrats successfully filibustered the bill to reform the anti-union Taft-Hartley Act.
5. Two stealth government actions were taken against the American people (student loans guaranteed by the government, and the bankruptcy law of 1978).

It is now possible to clearly see the three-pronged strategic attack that was employed by “the faction” to gain control of the country’s political-economic system.

- The faction severely weakened potential challengers (i.e., labor unions and ordinary consumers, principally) to their goal of dominance in order to assure that the faction would be unhindered in making progress toward its goal. This prong was accomplished by the passage of the Taft-Hartley Act in 1947, by successfully preventing any reform of that act during the 1950s-1970s, and by the defeat of the Office of Consumer Representation bill. (See items 3 and 4 immediately above.)

- The faction gained control of the legislative process in order to assure that the country’s political-economic system primarily benefited the business community and the top 1% of earners. This prong was accomplished by the business community’s move to Washington and by its successful efforts to persuade Congress to treat the business community more favorably. (See items 1 and 2 immediately above.)

- Once in control of the legislative process the faction used “stealth government actions against the American people” to enrich the business community. In turn, the business community provided financial support for the other two members of the faction. This prong was first accomplished by the guaranteed student loan program and the 1978 bankruptcy law described in this chapter. (See item 5 immediately above.) There also were fourteen other “stealth government actions” (described in coming chapters) taken during the 1970s-2000s that exacerbated the extreme income inequality that came into existence after the late 1970s.

The Congress of the United States, with Democrats dominating at the time, was not able to pass three bills—not able even to vote for one of the bills—that had the strong support of the public. Instead, Congress pass two laws that strongly favored the business community and the wealthy. The business community/Republican Party/conservative Democrats faction had won the decade of the 1970s, not once, but five times. The prosperity growth of the middle and lower classes was critically wounded by those Congressional actions and inactions. They led to the destruction of the great American middle class, which began in the decade of the 1980s and continued in the 1990s. That destruction was essentially completed by the financial crisis of 2007-2008.
i Composition of Congress, by Political Party, 1855-2013.


iii See the Connie Cass source in note ii.

iv The following five quotes are based on the two sources in note ii.


vi Same source as note v, pages 128-129.


viii For a very good description of how management can “punish” a worker who attempts to organize a union at his or her place of employment, see Thomas Geoghegan, Only One Thing Can Save Us, (The New Press, 2014), pages 193-194.

ix Same source as note v, pages 129-131.

x Sam Pizzigati, The Rich Don’t Always Win, (Seven Story Press, 2012), page 315.


CHAPTER 19: SUPREME COURT DURING THE 1970s

During the 1960s the Supreme Court’s political philosophy had been “moderate,” neither too conservative nor too progressive. That same characterization could not be applied to the court during the 1970s. It had definitely become more conservative.

President Nixon appointed Warren Burger as Chief Justice of the Supreme Court in 1969. In 1970 he appointed Harry Blackmun as an Associate Justice, and in 1972 he appointed Lewis F. Powell, Jr. and William H. Rehnquist as Associate Justices. After he became president, in 1975 Gerald Ford appointed John Paul Stevens as Associate Justice of the Court. President Jimmy Carter made no appointments to the Supreme Court.¹

It is important to note the significant transition that occurred in the composition of the Court in the 1970s. During the decade of the 1960s the majority of the Court’s justices had been appointed by Democratic presidents. That changed with President Nixon, who appointed four justices to the Court. President Ford added a fifth justice appointed by a Republican president.

At the end of the 1970s, seven of the nine justices were Republican appointees, while only two were Democratic appointees. The dominance of the Supreme Court by seven Republican appointees would remain unchanged from the 1970s through 2010 because Republican presidents Ronald Reagan, George Herbert Walker Bush, and George W. Bush would appoint an additional seven justices. Over that forty year time span, Bill Clinton was the only Democratic president to appoint a justice, and he appointed only two.²

From the mid-1970s to 2010, on average there were seven Republican-appointed justices and only two Democratic-appointed justices.

The Court’s conservatism made a significant negative impact on the economic well-being of the lower and middle classes when it announced the decision described in the following section.

Stealth Government Against the American People: A 1978 Supreme Court Decision Allowed Banks to Charge High Credit Card Interest Rates. A Supreme Court decision in 1978 eventually allowed banks to charge very high (“usurious”) interest rates on credit card balances. The case involved in the decision was the Marquette National Bank of Minneapolis v. First of Omaha Service Corp. The court’s decision invalidated the use of a state’s anti-usury laws against nationally chartered banks. Those laws were designed to prohibit banks from charging excessively high interest rates.

Over the next 30-35 years that decision allowed banks and financial institutions to drain money and wealth from the lower and middle classes and transfer it to individuals at the very top of the income ladder.

… the single biggest cause of exploding private debt, (according to University of Illinois bankruptcy professor Robert Lawless) was a U.S. Supreme Court decision in 1978 in the Marquette National Bank case. “That really opened the floodgates. It’s the court decision that has had the most effect on people’s lives, that no one has ever heard of. It effectively deregulated the credit card interest rates. Banks hail that as ‘democratization’ of credit. Their attitude was, we can
now charge 30 percent to people who would not qualify for a loan before, because they were too high a risk. For banks, these vulnerable borrowers are the most lucrative borrowers.” iii

In 1980, because of New York State’s cap on interest rates, “Citicorp decided to move its credit-card operations out of New York. The company persuaded the governor of South Dakota … to persuade that state’s legislature to formally invite the bank there, as required by federal law before a national bank can do business from a state. (The governor) then successfully lobbied the legislators to pass a bill drafted by the bank that repealed the state’s cap on interest rates.” iv Citibank then moved its credit-card operations to South Dakota. All those behind-the-scenes political shenanigans allowed Citicorp to charge very high interest rates on the unpaid balance individuals carried from month to month on their credit card accounts.

Within a few years, several other states followed the pattern established by the Citibank-South Dakota precedent. Credit cards then became very important profit centers for banks when they started aggressively marketing them to customers who “carried large balances but rarely paid more than the monthly minimum, resulting in large interest payments” to the banks. v This third stealth government action effectively transferred wealth and money from the middle and lower classes to banking executives, i.e., people in the top 0.01 percent of earners.

The three stealth government actions taken against the American people during the 1970s essentially established the federal government’s new policy of “welfare for the rich.” The government would greatly expand that policy over the next three decades by creating thirteen more “stealth government actions against the American people.”

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During the 1970s the Supreme Court made a decision that greatly contributed to the growing income inequality that began to emerge at the end of the decade of the 1970s.

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i www.presidentprofiles.com/General-Information/appendix-B-Table-of-Biographical-and-Historical-Data
v Same source as note iv.
CHAPTER 20: OTHER INSTITUTIONS DURING THE 1970s

SUMMARY OF THE 1970s

This chapter discusses seven other institutions and forces that played critical roles in the fortunes and misfortunes of ordinary Americans: (1) the business community/Republican Party/conservative Democrats faction (“the faction”) solidified; (2) union-busting and the “demonization” of labor unions; (3) states passed “right to work” laws that contributed to the destruction of the middle class; (4) U.S. educational policies contributed to the nation’s prosperity—and then they did not; (5) the post-World War II generation supported the “demonization” of labor unions; (6) distrust of government grew and caused reduced participation in presidential elections; and (7) the growing use of the filibuster.

The business community/Republican Party/conservative Democrats faction solidified. 

Quite likely, factions have been present in political affairs since early peoples began selecting their tribal chiefs. William Shakespeare’s Julius Caesar tells us that factions were operative some two thousand years ago. Sir Walter Raleigh (1552-1618), wrote in his immortal poem, The Lie:

Go, Soul, the body’s guest/upon a thankless arrant/fear not to touch the best/the truth shall be thy warrant/go, since I needs must die/and give the world the lie

Tell potentates they...are not strong but by a faction/if potentates reply/give potentates the lie. 

The distinguished historian, Howard Zinn, described factions that were present in 17th and 18th century North America.

By the years of the Revolutionary crisis, the 1760s, the wealthy elite that controlled the British colonies on the American mainland had 150 years of experience, had learned certain things about how to rule. With the problem of Indian hostility, and the danger of slave revolts, the colonial elite had to consider the class anger of poor whites—servants, tenants, the city poor, the property less, the taxpayer, the soldier and sailor. As the colonies passed their hundredth year and went into the middle of the 1700s, as the gap between rich and poor widened, as violence and the threat of violence increased, the problem of control became more serious.

An emerging middle class consisting of merchants, traders, farmers, planters, artisans, craftsmen, lawyers, physicians, skilled workers and important mechanics helped provide a solution to the problem. These people were accepted socially in a number of ways, such that the elite were able to form alliances with them, . . . “a middle class society governed for the most part by the upper classes.” In this way, poor whites and slaves and even Indians were carefully controlled and prevented from revolting and overthrowing the wealthy elite. Later, in the first half of the 19th century, when the population of slaves had greatly increased, the above-described alliances encouraged racist attitudes among poor whites in order to prevent their joining with slaves in rebellion.

The presence of factions has also been apparent in these chronicles, and they are a very, very important part of this history. Business executives have solicited the support of the Republican Party and other
conservative politicians in their pursuit of greater power to influence the U.S. political-economic system to their advantage. That was evident in 1947 when Congress overrode President Truman’s veto of the Taft-Hartley Act. In the early 1950s the business community’s representatives in President Eisenhower’s cabinet (the “nine millionaires”) persuaded the president to abandon his intentions to reform the Taft-Hartley Act. That same faction displayed its power again in 1965 when Congress’ filibuster stymied President Johnson and the Democratic Party’s attempt to reform the harsh and unjust anti-labor aspects of the Taft-Hartley Act. In 1977-1978, when President Carter and the Democratic Congress were once again trying to reform the anti-labor aspects of Taft-Hartley, the Business Roundtable, the U.S. Chamber of Commerce, the National Association of Manufacturers, other members of the “big six” business associations, and still other business groups joined the above-described faction to stop such reforms. Regarding that most recent attempt at reforming Taft-Hartley, a prominent member of the Chamber of Commerce reported that “business is more unified in (seeking) outright defeat of this bill than any other labor issue I’ve observed over the past 25 years.” Republican Senators Orrin Hatch and Richard Lugar initiated and led a filibuster that could not be terminated, in spite of the fact that there were sixty-one Democratic senators and even a number of Republican senators reportedly in favor of the reforms.

Recall from Chapter 2 that in 1945 the President of the Chamber of Commerce stated: “Labor unions are woven into our economic pattern of American life, and collective bargaining is part of the democratic process. I say recognize this fact not only with our lips but with our hearts.” By 1977-1978 the Chamber of Commerce and the business community had clearly changed their attitude toward labor unions.

**Union-busting and the “demonization” of labor unions.** Throughout the 1960s and 1970s, because of the anti-labor aspects of Taft-Hartley, business leaders could be very aggressive in their union-busting activities and in creating methods of blocking unions from organizing. (Walmart presents an excellent example of such anti-union behavior. vi) In 1975 *The Washington Post* undertook successful strike-breaking and union-busting activities against the newspaper’s pressmen.

> With the pressmen’s contract deadline approaching, *Post* management made secret arrangements to train strikebreaking workers to replace the union pressmen and keep the presses rolling. Helicopters would ferry these strikebreakers to the *Post* once the strike started. vii

During those years, there was a 300% increase in labor charges that businesses unlawfully fired workers, a 400% increase in charges that businesses were using unfair labor practices, and a 500% increase in workers being reinstated in their jobs after having been fired illegally or being awarded pay that previously had been denied to them. Of such anti-labor business behavior, some 30-40 years later a noted legal scholar wrote: “The American right has spent forty years demonizing and dismantling private-sector labor unions.” viii

_The business community’s aggressiveness toward workers and labor unions was possible because of the pro-business bias built into the Taft-Hartley Act. When businesses violated labor laws in the various manners noted in the above paragraph, the financial penalties imposed on such businesses by the Taft-Hartley Act were so minor that they were ineffective in preventing such illegal behavior. Businesses saw that violating those workers’ rights was in their best interests and that doing so was “simply a cost of doing business, and far preferable to successful unionization . . . .”_ . . . employers . . . were deploying increasingly sophisticated techniques to punish organizers without appearing to violate
Clearly, the Taft-Hartley Act was an unjust act that should have been reformed, but was not!

This anti-labor activity was what the business community/Republican Party/conservative Democrats faction was protecting when in 1947 it overrode President Truman’s veto of the Taft-Hartley Act, when in the early 1950s it persuaded Republican President Eisenhower to leave the Taft-Hartley Act unchanged, when in 1965 it filibustered Democratic President Johnson’s attempt at reforming these destructive anti-labor aspects of the Act, and when in 1977-1978 it filibustered once again the attempts of Democrats to reform the Act.

Because of the first two topics discussed in this chapter, ordinary workers were beginning to face more “low-paying jobs” and fewer “high-paying union jobs.” (See the Walmart example cited in note vi.) “The faction” argued that this change was due to “market forces.” In reality, there were more “low-paying jobs” and fewer “high-paying union jobs” because workers were being prevented from forming and joining unions by the Government of the United States.

States passed “right to work” laws that contributed to the destruction of the middle class. Because the Taft-Hartley Act allowed states to pass laws that weakened labor unions’ organizing abilities, the same business-led faction became actively engaged in a number of states, especially conservative southern ones where unemployment has high and wages low. There they encouraged state legislators to pass anti-union laws. Ten states passed such laws in the late 1940s, six more did so in the 1950s, and eventually eight more states would be added to the list. xi Those states were politically conservative, and they wrote the laws in such a way to make it difficult, almost impossible, for unions to succeed in their organizing efforts. They called them “right to work” laws, implying falsely that without those laws workers would not have any rights. Some companies moved their operations from states where unions were legally recognized to so-called right-to-work states, in order to cast off those aspects of labor unions that had contributed so much to the creation of the great American middle class. As noted above, the demonization of labor unions was underway.

In the 1950s and 1960s union workers represented about thirty percent of the U.S. work force. In 1970 union workers represented about twenty-five percent of the U.S. work force. At the end of the 1970s that figure was down to about twenty percent. The groundwork for the destruction of labor unions had been established, and that destruction would greatly reduce the prosperity of the middle and lower classes.

The first three topics in this chapter clearly fit the pattern of “the faction’s” three-pronged strategy to gain control of the country’s political-economic system (described at the end of Chapter 18).

U.S. educational policies contributed to the nation’s prosperity—and then they did not. The U.S. educational system contributed greatly to the growing prosperity of the middle and lower classes in the 1930-1970 period. The U.S. was the first country in the world to have universal high school education. By 1933 a majority of high-school-age youngsters in the U.S. were attending high school. No other countries were as advanced in such educational practices. It paid off insofar as most of the entire generation of World War II veterans were qualified for college acceptance when the GI bill benefits became available to them. Those two developments greatly expanded the proportion of the age-eligible
population that became college educated in the post-war years. The Korean War GI bill extended these educational benefits for quite a number of years. When it developed into an American war, the Viet Nam conflict extended those benefits for even a longer period. The overall result was that the U.S. was producing many, many more college graduates in the 1950s to 1970s period compared to the pre-World War II years, and compared also with the rest of the world. That long period of emphasis on increased education made a tremendous contribution to the nation’s prosperity from 1940 to the mid-1970s. xii

That growth in the college-educated came to an end in 1973 when the Vietnam draft, and its version of the GI bill, was terminated. That cessation of government-supported educational programs resulted in a noticeable slowdown in the country’s educational progress. “The average person born in 1945 received two more years of schooling than his parents. The average person born in 1975 received only half a year more of schooling than his parents.” Of this change, at the end of the twentieth century a serious observer of world educational trends said: “We have the most educated 55 year olds in the world. But we’re in the middle of the pack for 25 year olds.” xiii It is not just a coincidence that the first signs of the destruction of the middle class occurred only shortly after the government abandoned its support of higher educations.

The post-World War II generation supported the “demonization” of labor unions. The public’s attitudes were also changing. The year 1975 was the thirtieth anniversary of both the end of World War II and the beginning of the baby boom generation. During the decade of the 1970s, children born from 1945 to 1955 were between thirty-four and fifteen years of age, and none had personally experienced the “hard times” of the Great Depression. Practically all had grown up experiencing a middle-class life style. Except for those who through oral history were knowledgeable of the struggles their parents and grandparents had gone through to achieve middle class status, most in their age cohort had little understanding of, appreciation for, or sympathy toward those people and institutions that were instrumental in bringing about better wages and working conditions: the five-day work week (previously it was the 5 and ½ day work week); the two-week paid vacation; company-sponsored health insurance; company-supported pensions; and more. In short, they basically did not know who it was that was responsible for bringing about the things that created the great American middle class of which they were a part. Specifically, when compared with the decades of the 1950s and 1960s, in the 1970s there was much less appreciation for how much the labor union movement had contributed to the life style the post-World War II generation was enjoying. Thus, among the public, support for labor unions had waned. xiv

And the above-described demonization of labor unions contributed to that declining support. Most unfortunately, that change in the public’s attitude was to be reflected in the elections in the coming decade.

Distrust of government grew and caused reduced participation in presidential elections. The public was also becoming more and more distrustful of government. First there was the Vietnam War, and then the Watergate scandal, and then the inflation/gasoline shortages in the 1970s; all contributed to the public’s growing distrust of government. Whereas about 21-22 percent of the people distrusted government in the mid-1960s, from that date forward there was almost a straight-line-upward trend in the public’s distrust of government until it reached about 70 percent in 1978-1979. xv This growing distrust in government appeared to cause a decline in voter participation in presidential elections. In the five presidential elections prior to 1972, on average over 61 percent of the U.S. electorate actually voted. In the 1972 and 1976 elections, only about 54 percent of the electorate voted. xvi The public was beginning to participate even less than previously in the selection of the individuals who were making the laws.
strongly influencing their lives. (Nobel-prize-winning economist Joseph Stiglitz believes that as trust declines, “social capital” also declines, and when that happens “societies don’t function well.” xvii)

**Growing use of the filibuster.** Chapter 15 reported that the U.S. Constitution exhibited certain flaws that hampered the prosperity growth of the middle class. Consider here that the U.S. Senate permits the use—the flagrant use, some say—of the filibuster. Nowhere does the Constitution contain the word “filibuster,” or any other word that might be so construed. Yet, Chapters 13 and 18 reported the use of filibusters on two occasions, such use clearly serving the purpose of overturning the principle of “majority rule,” a most vital concept in a democratic society. During the 1970s there occurred a significant increase in the use of the filibuster, compared with past history. From the 1920s through 1960, filibusters were used very rarely, averaging less than one a year. In the 1960s there averaged about two filibusters per year. During the 1970s the use of filibusters averaged slightly over six per year. xviii (This upward trend continued over the following thirty years, when on average more than sixty filibusters per year were reported during 2006 – 2012. xix) Clearly, “majority rule” was becoming less of the rule in the Congress of the United States.

* All seven of these institutions/forces contributed noticeably to the onset of the destruction of the great American middle class.

**Summary of the 1970s**

- The business community as a whole successfully mobilized as never before in the nation’s capital, Washington, D.C. Its purpose was to halt, and reverse, the influence of labor unions on legislation unfavorable to business.
- Walter Wriston, CEO of First National City Bank (of New York) was successful in deregulating the interest rates banks could offer, and he successfully solicited federal intervention in a financial crisis, giving birth to the concept that a *laissez-faire* bank could be “too big to fail.”
- The unknown Joe Flom devised hostile takeovers of corporations by using cash tender offerings, leading the way for such notorious takeover personalities as T. Boone Pickens and Carl Icahn, who became very wealthy by legally extracting money from the marketplace of financial transactions.
- Each hostile corporate takeover, leveraged buyout and similar financial machination withdrew money from the general realm of economic activity, resulting in a lessening of the economy’s prosperity.
- The financial industry was beginning to take a larger share of the nation’s business profits, and over the next twenty years would increase their share of those profits by approximately 150 percent.
- The great American middle class reached its peak in the mid-1970s, when the bottom 99% of earners received 91.1% of the nation’s total income. For the next 30-35 years thereafter, the bottom 99% of earners would receive less and less of the nation’s total income.
President Richard Nixon’s policies contributed to the continued growth of the great American middle class.

President Ford supported some of the progressive policies Nixon pursued, but he vetoed two pieces of legislation that would have encouraged the continued growth of the great American middle class.

President Jimmy Carter encouraged the creation of the Departments of Energy and Education, both favorable to the great American middle class. He also reduced the maximum capital gains tax rate, which favored the wealthy but did nothing for the middle or lower classes.

President Carter was unable to provide the leadership necessary to pass three very important consumer and labor bills through Congress. Preventing the passage of those three bills represented gigantic victories for the business community/Republican Party/conservative Democrats faction, and clearly signaled Labor’s declining political power, which in turn translated into the eventual destruction of the great American middle class.

The business community/Republican Party/conservative Democrats faction demonstrated almost unimagined political influence when it persuaded over one hundred Democratic representatives to oppose the bill sponsoring the creation of the Office of Consumer Representation.

Although Congress was dominated by Democrats during the entire decade of the 1970s, the business community persuaded enough southern conservatives and moderate Democrats to join Republicans in killing the Common Situs Picketing Bill, which would have legally allowed labor unions to picket a construction site where they had a grievance against management.

Republican Senators Orrin Hatch and Richard Lugar successfully employed the filibuster to kill a bill reforming the unjust anti-labor aspects of the Taft-Hartley Act.

“Right-to-work” laws had become established in twenty-three mostly southern states, greatly weakening Labor’s chances of establishing unions in those states.

Congress established a government-guaranteed student loan program and passed the 1978 Bankruptcy law, both of which represented “stealth government actions against the American people” by favoring the wealthy at the expense of the lower and middle classes.

The Supreme Court’s decision in the Marquette National Bank of Minneapolis case permitted banks to charge very high interest rates on the unpaid balances on consumers’ credit card accounts. This was the third “stealth government action against the American people” in the 1970s.

Programs that for some thirty years had encouraged more people to enter higher education were being phased out during the decade.

The public’s awareness of labor unions’ very significant contribution to the creation of the great American middle class was fading as the post-World War II cohort increasingly enjoyed the benefits of middle class life.

The public grew increasingly distrustful of government (due to the Vietnam War, inflation, gasoline shortages, and more) from the mid-1960s to the late 1970s, when 70% of the public reported their distrust of government.

The use of the filibuster in Congress—once quite rare—was becoming commonplace.
Key Observations Regarding the Creation and Destruction of the Great American Middle Class

- The great American middle class emerged shortly after the late 1930s and increased in prosperity until the mid-1970s, when the share of the nation’s total income going to the bottom 99% of earners increased to 91.1% in 1976. (It was only 76.1% on the 1930s.)
- From 1947 to 1979 every income quintile in the U.S. enjoyed almost equal growth, as demonstrated by the following: the bottom (poorest) one-fifth of earners saw their incomes rise 122%; the second-poorest one-fifth of earners saw their incomes rise 101%; the middle one-fifth of earners saw their incomes rise 113%; the second-richest one-fifth of earners saw their incomes rise 115%; and the richest one-fifth of earners saw their incomes rise 99%.
- Banking executives led the way in bringing about financial deregulations that resulted both in economic instability and the creation of banks so large they were “too big to fail” and would have to be bailed out by the government when they failed. (These banks “privatized their profits, but socialized the risks associated with those profits.”)
- Financial institution executives created hostile corporate takeovers, leveraged buyouts, and other financial machinations which made them personally very wealthy, but which slowed and weakened general economic prosperity.
- The above two developments led to an increasingly larger share of national income going to the top 1% of earners and a declining share of national income going to the bottom 99% of earners, which signaled the beginning of the destruction of the great American middle class.
- All of the presidents from Franklin Delano Roosevelt to Richard Nixon pursued policies that encouraged the emergence and growth of the great American middle class.
- President Ford’s veto of two bills that would have continued that encouragement, and President Carter’s lack of supportive leadership on the Office of Consumer Representation bill, the Common Situs Picketing Bill, and the bill to reform the Taft-Hartley Act, was a reversal of forty years of prior presidential support for the growth of the great American middle class. President Eisenhower’s decision in the 1950s not to reform the Taft-Hartley Act must be placed in the same category with the Ford vetoes and Carter’s poor leadership.
- The decade of the 1970s witnessed the very successful mobilization by the business community of a powerful faction consisting of itself, the Republican Party, and southern conservative Democrats. The formation of that faction, along with the point immediately above, especially the failure to reform Taft-Hartley, was more than enough to overcome the forces that had resulted in the creation of the great American middle class.
- From the late 1930s to the early 1970s a majority of the Supreme Court justices were appointed by Democratic presidents. From the late 1970s to 2010 the Court was much more conservative (i.e., pro-business) because, on average, there were seven Republican-appointed justices and only two Democratic-appointed justices.
- Through their actions and decisions, Congress and the Supreme Court provided for the legal transferring of money from lower and middle class individuals to upper class individuals via three “stealth government actions against the American people.” These actions established the federal government’s new policy of “welfare for the rich,” and that policy contributed significantly to the increasing income inequality that developed from the late 1970s through the 2000s.
• Government-supported programs that encouraged more people into higher education were being phased out, which essentially denied to younger people the pathway into the middle class that had been enjoyed by previous generations from the mid-1940s to the mid-1970s.

• In the 1970s the post-World War II generation did not have a good understanding of, or appreciation for, or sympathy towards labor unions and their role in creating the great American middle class. When, in the 1970s, the business community/Republican Party/conservative Democrats faction “demonized” labor unions, that reinforced the public’s poor image of unions and allowed “the faction” to successfully oppose any political or other measures that would sustain the great American middle class, let alone allow its growth to continue.

• Labor and the Democratic Party contributed to this most unfortunate outcome as well, insofar as they were unable to communicate to the middle and lower classes how critically important to their continuing prosperity growth were the three bills noted in the sixth bullet point above.

• Although the U.S. Constitution makes no reference to “filibuster,” such a tactic was allowed in the Senate and resulted in overturning the “majority rule” principle. As the 1977-78 Republican filibuster of the bill to reform Taft-Hartley demonstrated, the absence of “majority rule” contributed greatly to the destruction of the great American middle class that had powered the U.S. economy for over forty years. That economy was characterized by a prosperity boom the world previously had not experienced, and perhaps might never experience again.

• It was in the decade of the 1970s that “the faction’s” three-pronged strategy first came into clear view. The essence of that strategy was (i) to so weaken potential challengers (i.e., labor unions) to their goal of dominance that “the faction” would be unhindered in achieving that goal, (ii) to gain control of the legislative process so as to assure that the country’s political-economic system primarily benefited the business community, and (iii) to then legally transfer money from the lower and middle classes to the upper class through “stealth government actions against the American people.”

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i The Urban dictionary reports that the top definition of “faction” is: A number of citizens, whether amounting to a majority or minority of the whole, who are united and actuated by some common impulse of passion, or of interest, adverse to the rights of other citizens, or to the permanent and aggregate interests of the community. See (http://www.urbandictionary.com/define.php?term=faction)


iv Same source as note iii, page 57.


vi For a good description of the tactics Walmart used to prevent unions from organizing, see Timothy Noah, The Great Divergence, (Bloomburys Press, 2012), pages 125-127.

vii Sam Pizzigati, The Rich Don’t Always Win, (Seven Story Press, 2012), page 312.


ix Same source as note v, page 128.

x Same source as note vi, page 108.

xi http://www.dol.gov/whd/state/righttowork.htm

xii Same source as note vi, pages 85-90.
Same source as note vi, pages 88-89.

xiv See Rich Yeselson, “Fortress Unionism,” Democracy: A Journal of Ideas, Spring 2013, page 70. Yeselson writes that an “aggressive organization strategy … just doesn’t work because smart union strategists can’t compensate for a mostly (though not entirely) uninterested working class.”


CHAPTER 21: BUSINESS EXECUTIVES DURING THE 1980s

The four previous discussions of “Business Executives” (Chapters 1, 6, 11, and 16) reported how the business community went from being totally unregulated before the Great Depression to significantly regulated after Congress passed President Roosevelt’s “New Deal” programs. In the 1950s Walter Wriston began his personal campaign against banking regulations, and Lewis Uhler his crusade to limit personal income tax rates in California. The very conservative Volcker Fund of Kansas City, founded by prosperous right-wing businessmen, gave early support to the person—Milton Friedman—who was to become the spokesperson for the *laissez-faire* economic philosophy embraced by the business community and the Republican Party. The 1960s saw businessmen Jules Stein, Lew Wasserman, Holmes Tuttle and senior executives at the General Electric Corporation give significant boosts to the rising political aspirations of Ronald Reagan. In the 1970s the business community mobilized its forces *en masse* in the nation’s capital in order to wage all-out war on labor unions and any regulation that appeared anti-business in the slightest. Walter Wriston was again on the scene in the 1970s, and he basically created a “too big to fail” bank, which for 20-25 years made numerous financial executives very wealthy at the expense of the prosperity of the general public. Joe Flom showed the way for hostile-corporate-takeover personalities (e.g., Carl Icahn, T. Boone Pickens and others) to exploit the absence of appropriate financial regulations and create their own super fortunes at the expense of stockholders, ordinary workers and the communities in which the affected corporations were located. Howard Jarvis and Paul Gann engineered Proposition 13 in California, which significantly altered in a negative way the economic growth prospects of that state.

This chapter continues that story by describing the activities of two very well-known business executives, Michael Milken and Jack Welch. ¹

Michael Milken became very famous as an “innovative” junk bond promoter. In the late 1970s major Wall Street investment banks “were still hesitant to tarnish their reputations by dealing with clients who had to issue high-yielding bonds,” because, compared with credit-worthy businesses, such companies were much more likely to go bankrupt. ² But not Michael Milken, who …

…was buyer and seller of junk bonds, and consultant, underwriter, and analyst. According to traditional practices of investment banking and financial brokerage, those were serious conflicts of interest. Most disturbing, Milken often demanded that the companies for which he raised money also invest in his offerings for other firms. With control over buyers, he could set the price of the bonds. He had essentially cornered the market. ³

Because his clients were basically desperate—there was no one else they could turn to for financial support—Milken could charge huge underwriting fees and consultant fees, and demand (at no cost) a share of the bonds being sold and warrants which he unethically kept for himself. ⁴ Milken created anonymous investment documents in order to attract the funds he needed to “fake” corporate takeover attempts (called greenmailing), and in so doing “demonstrated he had financial power no one else had achieved.” ⁵ He also used junk bonds to finance extremely profitable leveraged buyouts (LBOs), which greatly increased in number in the 1980-1988 period.

By 1984, Wall Street was put on notice that he had a buyout fund of billions of dollars that he could make available almost immediately to takeover impresarios. …almost always the takeovers.
resulted in large layoffs, reduced wages and overhead, and the sale of subsidiaries. Almost always, the financiers and the executive who managed the downsizing at companies….made fortunes. vii

And, as always, the workers, small investors, and often pension funds suffered the most.

The junk bond market weakened in the late 1980s, and collapsed in the early 1990s. Many of the LBOs were in trouble or collapsing. Too many of those bonds turned out to be bad investments, i.e., “junk.”

In 1985 Milken’s income likely exceeded $100 million. His estimated 1986 earnings were $550 million, with total net worth approximately $2 billion. Reportedly, Milken was the wealthiest Wall Street financier at that time. vii The law caught up with Michael Milken in 1990 when Ivan Boesky testified that Milken had asked him to make illegal stock purchases. Milken pleaded guilty to six counts of felony, was sentenced to ten years in jail (but served only two years), and fined well over $1 billion. Even then, he was still left with a fortune estimated at well over $1 billion. viii Many, many ordinary workers, small stockholders, and pensioners were not nearly so lucky.

From 1980 to 2000 Jack Welch was the CEO of one of America’s premier manufacturing businesses, the General Electric Company. ix Jack Welch championed a new plastic material which he developed into one of GE’s fastest-growing businesses, an accomplishment which greatly contributed to his selection as CEO. Once CEO, Welch focused less on manufacturing and more on doing whatever was necessary to boost GE’s stock price. To do so, Welch stressed cutting labor costs boldly and eliminating products, even divisions and complete business units. Over his tenure as CEO, employment in the company’s famous appliance business was reduced approximately sixty percent.

Instead of manufacturing products, Welch turned GE into a financial services company which required fewer employees than manufacturing. That business unit, GE Capital, “became a full-fledged bank, financing all kinds of commercial loans, issuing mortgages and other consumer loans, and becoming a leader in mortgaged-backed securities.” x During Welch’s tenure, GE Capital’s profitability increased greatly. Welch established as his goal the continuous improvement of GE’s short-term profits, because that would cause investors to keep driving up the price of the company’s stock. Such a trend would also make a CEO very rich through his stock options. Walter Wriston—with whom the reader is already familiar—was a member of GE’s board who enthusiastically endorsed Welch’s policies.

To pursue this goal, Welch bought investment bank Kidder, Peabody. He also bought a large insurance company, and numerous small companies that financed equipment, aircraft, and credit cards. Welch sold over one hundred of GE’s businesses, and laid off more than 100,000 workers. xi Nearly twenty percent of GE’s work force was eliminated in Welch’s first two years as CEO, and over thirty percent were gone within five years. Welch also required that each division replace at least ten percent of its labor force each year. Because of those policies, Welch could--and did--manipulate GE’s quarterly profits to meet his goals. Those profits showed continued improvement for almost thirteen straight years. Due to his stock options, Welch became one of Forbes magazine’s 400 richest Americans. GE’s labor force—and former employees—enjoyed no such prosperity.

In the mid-1990s, GE’s Kidder Peabody unit got into financial difficulty due to a falsification of bond trading profits and rising interest rates. Welch sold the unit rather than infuse some $500 million into it to
keep it going. In the early 2000s (after Welch’s departure), GE invested heavily in the subprime mortgage lending boom, and even borrowed more money to further exploit that growing market. A few years later that market bubble burst, revealing the weakness of Welch’s strategy of overemphasizing financial activity. GE’s stock price fell by sixty percent and GE Capital reported huge losses. However, the company was most fortunate because in the past it had acquired ownership of a small federal bank. Because of that ownership, the Federal Deposit Insurance Corporation guaranteed $140 billion of GE’s debt. “Welch, the great competitor, saw his firm bailed out by the federal government much like his admired friend Walter Wriston.”

(Welch) was no longer the manager of the 1970s, fighting tooth and nail to produce a new, exciting product. Early in his career he tried to develop other new products—a long-lasting lightbulb, a factory of the future, a ceramic operation, and a new refrigerator technology, among them—but they did not succeed. Afterward, he turned mostly to the easier route of acquisitions and divestiture. Over his tenure, he cut back significantly on research and development—by some 20 percent in the 1990s. In 1993, he told Business Week, “We feel that we can grow within a business, but we are not interested in incubating new businesses.” GE Capital itself was built through countless acquisitions. As the CNNMoney writers put it, “… Over the decades GE’s well-known manufacturing businesses—jet engines, locomotives, appliances, light bulbs—have shrunk as a proportion of the total. Like America, GE has long been mainly in the business of services. The most important and profitable services it offers are financial.”

“Jack always argued he was a great innovator,” said (a business consultant Welch much admired earlier in his career). “I’m afraid I don’t agree with him there.” When he got to the top, he quickly reverted to the old maxims. He didn’t remake businesses, he sold them. He did not save American manufacturing but abandoned it. He didn’t raise American workers to a new level of respect but ultimately demeaned them. He mostly stopped trying to create great new products, hence the reduction in R&D. He took the heart out of his businesses, he did not put it in, as he had always hoped to do.

In the 1980s and early 1990s, Welch was widely criticized for his harsh labor practices. He was belittled for closing down countless manufacturing operations, some deservedly, but he rarely sought to save such businesses when there was an easier course.

Jack Welch became one of Forbes magazine’s 400 richest Americans. In the late 1990s Fortune magazine proclaimed him the “Manager of the Century.” Michael Milken produced no products or services useful to the general public. Yet, in spite of what he had done to investors and the public, Michael Milken was left with a fortune estimated at over $1 billion. U.S. business was making a transition from manufacturing to finance, because in the latter activity it was much, much easier for CEOs and Wall Street executives to get rich quickly.

Business executives were very pleased with the decade of the 1980s. As shown in Exhibit 21-1 (a duplicate of Exhibit 16-1), the top 1% of earners increased their share of the nation’s income from about 10% in 1980 to about 14-15% in 1990. It was also in that decade wherein there appeared clear evidence that the destruction of the great American middle class had begun in earnest.

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EXHIBIT 21-1

Share of the Nation’s Income Going to the Top 1% of Earners


i Michael Milken and Jack Welch are only two of the numerous business executives that could be discussed in this chapter. For more discussion of business executives who helped destroy the middle class in the 1980s and 1990s, see Chapter 5 in Hedrick Smith, Who Stole the American Dream?, (Random House, 2012).


iii Same source as note ii, pages 208-9.

iv This and the following four paragraphs are based on the same source as note ii, pages 212-220.

v Same source as note ii, page 212.

vi Same source as note ii, page 214.

vii Same source as note ii, pages 94-95.

viii Same source as note ii, page 218.

ix These descriptions of Jack Welch’s tenure as CEO are based on the source in note ii, pages 186-201.

x Same source as note ii, page 192.


xii Same source as note ii, page 200.

xiii Same source as note ii, pages 199-200.

The general public was not in a good mood as the country entered the 1980s. Inflation was running high, the economy was sluggish, there were gasoline shortages caused by conflict in the Middle East, ill feelings remained from the Vietnam War era, and students in Iran were still holding U.S. Embassy personnel hostage in that country’s capital. On top of all that, the percentage of people who distrusted the government rose from about 22% in the mid-1960s to almost 70% in the late 1970s. Conditions were ripe for a change in the country’s leadership.

Into that scene stepped Ronald Reagan, a conservative, laissez-faire Republican candidate for president who had been nurtured by conservative, laissez-faire businessmen for the previous twenty years, and who had been given an easy-to-communicate economic philosophy (i.e., cut taxes and reduce government) by a conservative, laissez-faire economist, Milton Friedman, who in turn had been financially supported by conservative, laissez-faire businessmen in his earlier years. In his presidential campaign, Reagan promised to cut taxes, balance the budget, and reduce the size of the federal government. These were all ideas that Friedman had been espousing for over thirty years. Without Friedman, “the nation’s newly harsh attitudes toward government would not have become nearly as respectable or as popular.”

In the November 1980 Presidential election, Reagan won 489 Electoral College votes to 49 votes for President Carter.

This chapter discusses: (1) President Reagan and the Federal Minimum Wage; (2) three issues characterize the Reagan Presidency; (3) Reagan greatly increases the national debt; (4) Republican Presidents Ronald Reagan, George Herbert Walker Bush, and George W. Bush all created budget deficits and a huge increase in the national debt; (5) Alan Greenspan’s entrance onto the scene; (6) Reagan cuts taxes for the rich, increases taxes on the poor; (7) Social Security payments “assisted” the Reagan presidency; (8) Reagan and Greenspan’s “Social Security Fraud”; (9) Reagan’s historically-famous “second tax cut”; (10) Reagan increased the national debt in order to pay for tax cuts for the wealthy; (11) Reagan’s attack on labor unions led to their destruction; (12) prosperity for those already wealthy, income stagnation or worse for everyone else; (13) how Reagan reduced the size of government, with disastrous results for the economy; and (14) stealth government against the American people: the Reagan presidency allowed corporations to replace worker pension plans with 401(k)s.

President Reagan and the Federal Minimum Wage. President Reagan’s attitude towards ordinary workers is clearly reflected in his treatment of the Federal Minimum Wage. The minimum wage was $3.35/hour in January 1981 when Reagan took the oath of office. Eight years later, when Reagan left the presidency, the minimum wage was still $3.35/hour. In the entire history of the minimum wage up to that time, Reagan was the only president who did not enact a minimum wage increase. Furthermore, due to inflation, the real value of the minimum wage declined about 25% during Reagan’s eight years in office (to about $2.50/hour).

Three issues characterize the Reagan Presidency. In spite of Reagan’s harsh attitude towards the minimum wage, the three issues that most characterize the Reagan Presidency with respect to the great American middle class are (1) tax increases and decreases and the growth of the national debt, (2) his attacks on the labor movement, and (3) reducing the size of government. Reagan did cut taxes, but
mostly for the rich. However, Reagan did not balance the budget in any of the eight years he was president.

Reagan greatly increases the national debt. Throughout the almost 200-year history of the United States, government budget deficits exceeded government budget surpluses. As a result, by the late 1970s the U.S. Government had accumulated more than $900 billion in debt. Over Reagan’s eight years in the presidency, his policies resulted in an almost 200% increase in the national debt, to approximately $2.7 trillion when he left office in January 1989. In the post-World War II era “the U.S. debt had accelerated fastest under President Ronald Reagan, at an annualized growth rate of 14.18%.” In only eight years Reagan tripled the country’s national debt, which previously had taken almost two hundred years to reach the first $930 billion dollars. In his many speeches to General Electric employee audiences during the 1950-1960s, and his 1964 nationally televised speech supporting Barry Goldwater’s presidential candidacy (described in Chapter 11), Reagan frequently said that large budget deficits were a serious threat to America’s Democracy. vii Reagan did not practice what he preached after he entered the White House.

Republican Presidents Ronald Reagan, George Herbert Walker Bush, and George W. Bush all created budget deficits and a huge increase in the national debt. This enormous increase in the national debt became a trademark not only of Reagan’s presidency, but also of the following two Republican presidencies, the George H.W. Bush presidency of 1988-1992 and the George W. Bush presidency of 2000-2008. The first President Bush added another $1.5 trillion to the debt and the second Bush presidency was responsible for adding another $5 trillion directly and probably $3-5 trillion more in legacy due to his policies.

Reagan increased the national debt, as a percentage of the nation’s Gross Domestic Product (GDP), from 32.5% to 53.1% during his eight year presidency. (GDP is the dollar value of the nation’s total output of goods and services.) President George H.W. Bush further increased the debt to 66.1% of GDP during his four year presidency. During his eight year presidency, Bill Clinton reduced the debt significantly, down to 56.4% of GDP. But then President George W. Bush increased the debt back up to a whopping 84.2% of GDP during his eight year presidency. viii In fewer than thirty years three Republican Presidents increased the country’s debt from 32.5% to 84.2% of the nation’s GDP. (Without the budget surpluses created by President Clinton’s policies, the three Republican presidents would have increased the country’s debt from 32.5% of GDP to 93.8% of GDP.)

That tremendous increase in debt required large annual interest payments by the federal government. Those payments significantly contributed to the destruction of the great American middle class because they prevented resources from being used to improve the country’s health and education systems, to develop new transportation and communication systems, to renew America’s crumbling infrastructure, to improve the Social Security Program and its affiliated services, and still other things.

Alan Greenspan’s entrance onto the scene. Alan Greenspan was most influential in the destruction of the middle class. He was a super laissez-faire conservative who argued that all markets, especially financial ones, should be kept completely free from government regulation, including taxation. Greenspan was an important financial consultant within the federal government for over thirty years. He served as chairman of President Ford’s Council of Economic Advisors from 1974-1976, he was President Reagan’s
chief economic advisor from 1981-1983, and in 1987 he was appointed as chairman of the Federal Reserve Board by President Reagan, and served in that role until 2006. A noted economist wrote that “Greenspan’s economics has extracted trillions of dollars in taxes from the American middle class and sharply enriched the rich, who are essentially people like himself and his friends—multimillionaires, politicians, and businessmen … while shafting the average American.” viii

Reagan cut taxes for the rich, increased taxes on the poor. Using Alan Greenspan to lead the charge, Reagan worked quickly to decrease taxes for the rich, but also to increases taxes on the middle and lower classes—a perfect Robin Hood thievery in reverse. He started by promoting supply-side economics, also called “trickle-down economics” and other colorful names. ix The theory was to cut taxes on corporations and the wealthy class, because by doing so, they would spend more money on investments and new businesses. The benefits of such spending would “trickle down” to the lower and middle classes, resulting in increased employment and greater economic prosperity for the entire nation. (Even some prominent Republicans like George H.W. Bush referred to the concept as “voodoo economics.”) x Nevertheless, the Economic Recovery Tax Act of 1981 (ERTA) was passed by Congress, and signed by Reagan, in August 1981. It decreased the top individual federal income tax rate from 70% to 50%, and significantly increased estate tax exemptions, both of which greatly benefitted the wealthy class. The Act was “an astonishing acceleration of the 1978 … big tax cuts for business and the affluent. ERTA was Ronald Reagan’s greatest legislative triumph, a fundamental rewriting of the nation’s tax laws in favor of…” the wealthy class. xi

Reagan’s tax cuts did not lead to the economic prosperity he said they would. In fact, the unemployment rate exceeded 9.5% in both 1882 and 1983, the highest it had been since the Great Depression of the 1930s. xii And because unemployment (rather that employment) increased, and because government was now receiving significantly fewer tax dollars than previously, Reagan’s “trickle-down economics” was a complete failure! The Administration estimated that Reagan’s first fiscal budget would incur a deficit of $45 billion, but it actually exceeded $120 billion. xiii In an attempt to reduce the government’s revenue gap (and its growing budget deficit), the Reagan Administration sought some “revenue enhancements.” Congress passed and Reagan signed in September 1982 the Tax Equity and Fiscal Responsibility Act of 1982. It repealed some of the future tax cuts granted in ERTA, but it also raised taxes immediately on the purchase of gasoline, cigarettes, and telephone services, all of which were most burdensome on the lower and middle classes. Some called it “the largest peacetime tax increase in American History.” xiv The Reagan-Greenspan team had completed the first stage of their Robin Hood thievery in reverse.

As noted above, Reagan’s policies did not result in a robust economy. Unemployment reached 9.5% or higher in both 1982 and 1983 (Reagan’s first term). Overall, it was 7% or higher in six of the eight years Reagan was president. xv Millions of unemployed people were a serious drag on the economy during almost all of Reagan’s presidency.

Social Security payments “assisted” the Reagan presidency. In spite of his speaking out forcefully against Social Security in his speeches to General Electric employees in the 1950s and 1960s, and the strong anti-Social Security rhetoric he used in his political speeches in the 1960s and 1970s, Social Security payments came to Reagan’s assistance during his presidency.
On average, about 36-37 million people received Social Security payments during Reagan’s eight years as president (1981-1988). In 1981 they received and spent about $120 billion. That amount grew steadily each year until it totaled approximately $220 billion in 1988. Those annual Social Security payments totaled almost $1.4 trillion during Reagan’s presidency. Had it not been for that tremendous stimulus flowing into and bolstering the shaky economy, the country might very well have fallen into recession.

**Reagan and Greenspan’s “Social Security Fraud”.** The above-noted Reagan/Greenspan “revenue enhancements” were not large enough to offset the budget deficits caused by Reagan’s 1981 tax cuts. The federal budget had an even larger deficit of $208 billion in the year ending 1983, with no signs of reversing. Meanwhile, the Social Security Trust Fund, which was based on a pay-as-you-go formula, “by and large had been running a small surplus since its inception…. As the economy was picking up at the time, Social Security receipts began creating a surplus. (It should be noted that, since 1969, Social Security receipts were incorporated into the overall federal budget, so excesses in those receipts could be used to pay for other U.S. Government expenses, including interest on the federal deficit.)

The growing Reagan/Greenspan deficit crisis of 1982 and 1983 was kept in the shadows as much as possible. Rather, the public’s attention was “being diverted from the immediate fiscal crisis by reports out of Washington that Social Security was in trouble, deep trouble.” Reagan appointed Greenspan to chair a commission “ostensibly to save …the Social Security system, which was supposedly facing a grave crisis. The selection was somewhat odd, because Greenspan (in 1983) … blurted out that he did not ‘like the present Social Security system,’ and found the institution unnecessary for an ‘ideal society.’” Greenspan insisted that Social Security would be in trouble some 30 – 75 years in the future. He proposed changing the system from “pay-as-you-go” to “tax-in-advance.”

In April, 1983 Reagan convinced Congress to pass the Social Security Amendments Act, which greatly increased Social Security taxes while reducing benefits, some immediately, and some over time. The Act also specified that Social Security receipts would be kept within the general federal budget until 1992 (after Reagan would leave the Presidency), rather than place them into a Social Security Trust Fund that could be invested in top-rated corporate bonds. (Over the 1984-2004 period, Social Security accumulated a $1.5 trillion surplus, all of which was used to pay interest on the national debt and to reduce the size of each year’s budget deficit, rather than invested in good securities to benefit future generations of retirees.)

“From the moment the new Social Security tax went into effect, its surplus revenue was used primarily, if not completely, to pay for the shortfall in the general federal budget. Indeed, this was done as a matter of routine.” “…one point is crystal clear. The Social Security surplus simply financed the (1981) tax cuts of rich individuals and corporations….., but millions of other Americans—the destitute, the middle class, the self-employed, and the needy—saw a giant increase in their tax bills.” Reagan and Greenspan had made even more progress toward completing their Robin Hood thievery in reverse.

**Reagan’s historically-famous “second tax cut.”** But even with the 1983 increase in Social Security taxes, the annual federal budget deficits did not go away. The 1981 tax cuts were just too enormous to overcome, and “trickle down” economics did not work. So Reagan proposed another tax cut, his now historically-famous “second tax cut”—the Tax Reform Act of 1986, enacted in October of that year. It lowered even further the top income tax rate from 50% down to 28%.
the top income tax rate from 70% to 28%, which caused the federal debt to skyrocket, a fact which
caused no alarm at all among the Republican Party and the vast majority of business executives. The
new law also increased the bottom tax rate from 11% to 15%. “This would be the only time in the
history of the U.S. income tax that the top rate was reduced at the same time the bottom rate was
increased.” xxiv These tax increases were extremely regressive because at the time they applied only to
the first $26,000 of a person’s income. They were very significant tax increases for the lower and middle
classes. The increases did not affect the upper and wealthier classes, everyone whose annual income
exceeded $26,000.

With this new law, President Reagan completed his Robin Hood thievery in reverse. Overall, Reagan
signed four tax reduction laws which predominantly benefited the wealthy, and he signed eleven tax
increase bills, the burden of which fell predominantly on the middle and lower classes. xxv

Reagan increased the national debt in order to pay for tax cuts for the wealthy. As noted earlier, the
first issue characterizing Reagan’s presidency is taxes and the national debt. The following five exhibits

EXHIBIT 22-1


Exhibit 22-1 presents a chart which was published in The New York Times on April 15, 2012. The chart shows how the total federal income tax rates for nine different income groups changed over the years 1960 to 2004. The exhibit is a very clear visual explanation of what happened to each income group’s federal income tax rate over that period. For example, the top 0.01% income group saw their tax rate fall from 71.4% to 34.2%; the top 0.1% income group saw their tax rate fall from 60.0% to 33.6%; and the top 1.0% income group saw their tax rate fall from 44.4% to 30.4%. The other six income groups (i.e., middle and lower incomes) saw their tax rates remain essentially unchanged, or only slightly changed, although the very two poorest income groups did realize a tax rate decrease in the late 1990s and early 2000s.

During the eight year (1981-1989) Reagan Presidency the national debt exploded from approximately $930 billion to $2.7 trillion. If that 1981-1989 national debt increase is superimposed onto Exhibit 22-1, the result looks like Exhibit 22-2. That exhibit shows that Reagan’s tax cuts for the wealthy are very

EXHIBIT 22-2
Reagan’s Tax Cuts for the Wealthy and the Increase in the National Debt, 1980-1988

strongly associated with the tremendous increase in the national debt. *In effect, Reagan increased the national debt in order to pay for the tax cuts for the wealthy.* If the U.S. Government had to pay 3% interest on its debt, Reagan’s $1.8 trillion debt increase has cost taxpayers $53 billion each and every year since Reagan left office. That money could have been used on government programs benefitting the lower and middle classes. Instead, it was used to make interest payments to wealthy individuals and corporations. That diversion of funds also contributed greatly to the destruction of the great American middle class.

Exhibit 22-3 (a duplicate of Exhibit 16-1) shows that the great American middle class probably reached its peak prosperity in 1976 when the bottom 99% of workers received 91.1% of the nation’s total income, and the top 1% of workers received only 8.9% of the nation’s total income. If that exhibit is superimposed on Exhibit 22-1, the result is Exhibit 22-4, which shows that as the top income tax rate fell from approximately 65% in the mid-1970s to 37-38% in 2000, the percentage of the nation’s total income going to the top 1% of earners increased from about 9-10% to about 21%. In effect, Reagan’s tax cuts for the wealthy and tax increases for the middle and lower classes began the destruction of the latter two classes by taking income from them and transferring it to the wealthy classes.

Reagan’s attack on labor unions led to their destruction. The second issue characterizing the Reagan presidency is his attack on the labor movement. Reagan dealt a severe blow, perhaps a fatal blow, to the labor movement when in 1981 he fired over 11,000 unionized air traffic controllers. Business lobbying organizations such as the Business Roundtable and the Chamber of Commerce had publicly targeted the striking union, which did not have strong public support because its members were not viewed as being underpaid. The firing of the air traffic controllers was the showcase event of Reagan’s, the Republican Party’s, and the business community’s demonization of labor unions. But the labor movement had been seriously wounded on four prior occasions, as reported earlier: the Republican-controlled Congress’s override of President Truman’s veto of the Taft-Hartley Act in 1947 (Chapter 1); in the early 1950s Eisenhower’s “millionaire” cabinet convinced him to make no changes to the Taft-Hartley Act (Chapter 7); in 1965 the business community/Republican Party/conservative Democratic faction
filibustered President Johnson’s attempt to reform the clearly anti-labor portions of the Taft-Hartley Act (Chapter 12); and the 1977-78 Republican filibuster, led by Republican Senators Orrin Hatch and Richard Lugar, which did not even allow a proposed Taft-Hartley reform bill to be voted upon (Chapter 18). After the 1977-1978 Republican filibuster, the …

…message of the failed (Taft-Hartley) reform drive was clear: Business had the upper hand in Washington and the workplace. …the defeat sent “signals that the third man—government—was leaving the ring.” Even before Reagan took office, business had adopted a much more aggressive posture in the workplace, newly confident that the government would not intervene. When Reagan came to power, he reinforced the message by … stacking the National Labor Relations Board (NLRB) in favor of management. Within a few years, it was evident to all involved that the established legal framework for recognizing unions—the National Labor Relations Act, (NLRA)—placed few real limits on increasingly vigorous antilabor activities. …in 1984, a prominent “union avoidance” consultant observed that the “current government and business climate presents a unique opportunity for companies … to develop and implement long-term plans for conducting business in a union-free environment.”

Reported violations of the NLRA skyrocketed in the late 1970s and early 1980s. Between the mid-1980s and the late 1990s, the share of NLRA elections featuring five or more union-avoidance tactics more than doubled, to over 80 percent.xxx

Prosperity for those already wealthy, income stagnation or worse for everyone else. TIME magazine on November 26, 2007 published a graph showing the average annual income of the top 0.01% of U.S. taxpayers over the 1920-2005 period, and the average annual income for the top 1.0% of U.S. taxpayers over the same period. Exhibit 22-5 illustrates that graph, and it is useful for describing how the incomes of different classes changed since Reagan became President. For example, the bold zig-zag line from the lower left to the upper right shows that the top 0.01% of Americans realized a fantastic rise in their incomes. Those Americans saw their average incomes escalate from approximately $5 million in 1980 to $26.3 million in 2005.

The exhibit also shows the real average income growth over 1980-2005 for the five income groups described as the top 0.01%, the top 0.1%, the top 0.5%, the top 1.0%, and the bottom 99%. (See the middle of the exhibit under the label: WHERE THE MONEY IS.) That part of the exhibit reports that the entire population’s income grew 26.5% from 1980 to 2005. But not everyone shared equally in that income growth. The exhibit also shows that the income of the top 0.01% increased 408%, the income of the top 0.1% increased 308%, the income of the top 0.5% increased 214%, and the income of the top 1.0% increased 177%. However, over the same twenty-five year period the incomes of the bottom 99% increased only 8%, less than one-third of a percent per year.

To supplement these data, it is useful to refer to The Wall Street Journal dated August 30, 2006.xxx That issue reported that in 1975 the top 20% of households received 44% of the nation’s income. The bottom 80% of households received the other 56% of the nation’s income. Thirty years later, in 2005, the bottom 80% received only 50% of the nation’s income, a significant decrease (from 56% to 50%).
EXHIBIT 22-5

Average Annual Incomes of the Top 0.01% and Top 1% of Earners, 1920-2005


These differences in income growth/decline by income classes can be summarized as follow:

- There was a tremendous increase in incomes for the top 0.01%, the top 0.1%, the top 0.5%, and the top 1.0% in the 1980-2005 period.
- The bottom 99% saw their incomes grow only 8% over that same period.
- The bottom 80% saw their incomes decline from 56% of national income to 50%.

These statistics clearly illustrate that the incomes of everyone in the top 1% increased somewhere between 177% and 408%, while the incomes of the middle and lower classes stagnated, or worse, over those twenty-five years. This is what the destruction of the great American middle class is all about.

Robert Reich, a labor economist, was the Secretary of Labor under President Clinton. In the September 4, 2011 issue of *The New York Times*, he presented a very clear graphic which portrayed the creation and destruction of the great American middle class. (See the table below.) From 1947 to 1979 each of the five income quintiles had income gains between 99% and 122%. That is, each of the five income segments of the U.S. population essentially doubled their incomes over that thirty year period. (See the center column of the table.) Those percentages represent the creation of the great American middle class. The right column of the table shows the income gains (or losses) for each income quintile over the period of 1980 to 2009. The poorest 20% experienced a 4% loss in income over that twenty-nine year period.
The second poorest 20% realized an income increase of only 7%, while the middle 20% had a 15% increase in income. The second richest 20% realized a 25% increase in their incomes, which is almost a 1% increase per year, but not quite. Meanwhile, the richest 20% saw their incomes increase 55% over that period. Compared with the center column, the right column in the table represents the destruction of the great American middle class.

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<td>Poorest 20%</td>
<td>122%</td>
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<tr>
<td>2nd Poorest 20%</td>
<td>101%</td>
<td>7%</td>
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<tr>
<td>Middle 20%</td>
<td>113%</td>
<td>15%</td>
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<tr>
<td>2nd Richest 20%</td>
<td>115%</td>
<td>25%</td>
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<tr>
<td>Richest 20%</td>
<td>99%</td>
<td>55%</td>
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The foregoing six exhibits and tables give a very clear picture of how the Reagan tax cuts for the rich accompanied by tax increases for the middle and lower classes greatly enriched the top 1% of the population while shattering the prosperity of the great American middle class.

* Each of the first twelve sections in this chapter represents an event or matter that was sufficiently publicized to keep the electorate at least reasonably informed. In contrast, the following two sections represent events about which the general public was uninformed.

**How Reagan reduced the size of government, with disastrous results for the economy.** The third of the three issues characterizing Reagan’s presidency was his promise to reduce the size of the federal government. This was a philosophy Reagan reiterated throughout his political life. During the 1980 presidential campaign Reagan reported that “the government is living too well,” and in his January, 1981 Presidential inaugural address, referring to the country’s economic problems at that time, he said “government is not the solution to our problems, the government is the problem.” Given the level of distrust the people had of government at the time, to some people these may have been welcome words. However, to Reagan, these were more than words: they reflected the economic philosophy that has come to be known as “starve the beast.” That is, cut the size of government by denying it the resources it needs to do the people’s business. Reagan was accomplishing that goal with the tax cuts he pushed through Congress in 1981 and 1986.

But he also accomplished that goal by seriously cutting back on the enforcement of federal regulations. During his administration, Reagan reduced by fifty percent or more the budgets of the Occupational Safety and Health Administration, the National Transportation Safety Board, the Food Safety and Inspection Service, the Consumer Products Safety Commission, the Federal Trade Commission, and the antitrust division of the Justice Department. In addition, Reagan “stacked agencies with allies of business,” who “proceeded to rewrite rules in corporate-friendly ways, while drastically slowing the pace and severity of enforcement actions.” The Garn-St. Germain Act of 1982 greatly deregulated the savings and loan industry and eliminated all government control over the interest rates banks could offer. Penalties imposed on businesses for violations of regulations were greatly reduced, essentially rendering those regulations meaningless. Due at least partly to these deregulation activities, there were two financial
crises during Reagan’s administration. The Federal Reserve Board rescued the banks during the 1982 crisis (including Walter Wriston’s “too big to fail” bank), but some two thousand savings and loan banks went bankrupt during the late 1980s and early 1990s. The junk bond market, Michael Milken’s unregulated personal market, also collapsed, causing much distress among investors. Nevertheless, Reagan had done as he promised—he reduced the size of government by “starving the beast.”

**Stealth Government Action Against the American People: the Reagan Presidency allowed corporations to replace worker pension plans with 401(k)s.** In 1981 the Reagan Treasury Department—without specific legislation passed by Congress and signed by the president—ruled that a tax provision narrowly intended for a dozen or so New York state corporations could be applied universally across the nation. That ruling proved to be a disaster for huge numbers of workers when they entered retirement.

The 1978 Congress tucked into the omnibus tax bill a small-print provision with enormous consequences for the overwhelming majority of American families. It was the antiseptically titled 401(k) subparagraph that eventually became a vehicle for many corporations to off-load hundreds of billions of dollars of pension expenditures onto their employees, a major step that increased company profits and CEO bonuses and left most of the middle class with the job of financing their own retirement.

The 401(k) provision was originally introduced as a tax shelter for deferred compensation under profit-sharing plans at Xerox, Kodak and a handful of New York banks by Representative Barbara Conable of New York, the ranking Republican on the tax-writing House Ways and Means Committee, whose district housed both Kodak and Xerox.

As the ranking Republican on the tax-writing House Ways and Means Committee, Conable was perfectly positioned to tuck the 401(k) provision into a major tax bill as a tiny subparagraph. It was a classic Washington move. Almost no one else in Congress or the Carter White House even noticed.

Then, in 1981, the Reagan Treasury Department, under persistent lobbying from corporate tax consultants, decided that the 401(k) clause could also apply to the regular pay of all employees. Suddenly, visions of a vast new market attracted mutual fund managers and they rolled out the 401(k) red carpet at company after company, promoting the virtues of the new tax shelter to millions of middle-class Americans.

The result was a financial upheaval that revamped most of the old corporate systems of providing lifetime pensions to rank-and-file employees and left the middle and lower middle classes constantly scrambling to scrape together enough savings for their supposedly golden years. Under the old lifetime pension system, companies guaranteed monthly retirement checks to employees for as long as they lived. Under the new 401(k) system, those monthly company checks were gone. It was now up to the employees to provide for their own retirement savings and to manage their money for long-term security, a task beyond the capability of millions, as the record now shows.
Because companies were able to shunt their employees into 401(k) retirements, “the percentage of large and medium-sized American firms that offered traditional lifetime pensions fell from 83 percent in 1980 to 28 percent in 2011.”xxxviii  The reason for such a dramatic change was quite clear.

In the old system, employers put up most of the money—89 percent. The employees contributed 11 percent. Fast-forward to the 401(k) system and today, employees are paying more than half—51 percent—and the companies, 49 percent. So there was a huge shift in costs from employers to employees—hundreds of billions of dollars.xxxix

In this “stealth government action against the American people,” employees “took a hit” twice. Their take-home pay while working was reduced because they had to make contributions to their 401(k)s. And, unlike the lifetime pensions plans they had to give up, their retirement incomes were limited in both amount and duration by the status of their 401(k)s when they ceased their employment. Meanwhile, much of the savings accruing to the corporations went toward CEO compensation, which further exacerbated growing income inequality.

* 

As these chapters have noted in several locations, the Constitution of the United States was established for the purpose of achieving six specific goals, two of which are to promote the general welfare, and to establish justice. Reagan’s tax cuts for the wealthy combined with his tax increases for the middle and lower classes were in direct opposition to both of those goals. The 200% increase in the national debt caused by Reagan’s policies during his eight year presidency required that the U.S. Government make huge annual interest payments, resources that could have been used instead to promote the general welfare had not his policies increased the debt. Thus, the tax cuts for the rich were paid for by the increase in the national debt, which in turn caused (i) fewer services for the public, (ii) less economic growth that would have benefitted the middle and lower classes, while at the same time (iii) burdening those classes with higher taxes.

Although attacks on labor unions had begun in the 1970s, Reagan’s highly publicized firing of the air traffic controllers gave such attacks a legitimacy they previously had not enjoyed, which in turn caused businesses to give such attacks significantly renewed momentum. Given the grave injustices that the Taft-Hartley Act imposed on the labor movement, Reagan’s actions piled even greater injustices on the middle and lower classes whose prosperity had been strongly linked to the success of the labor movement. By all of these actions, President Reagan proved to be a major force—perhaps the major force—in the destruction of the great American middle class.

So what was the legacy of Ronald Reagan and his administration, given that by the mid-to-late 1980s the destruction of the middle class had already begun?

… rather than strengthening safety nets, empowering labor unions, improving education and job training, and taking other measures …, the nation turned in the opposite direction. Instead of implementing a new set of policies that would enable the middle class to flourish …, political leaders—reflecting the prevailing faith in an omnipotent and all-knowing free market—embraced deregulation and privatization, attacked and diminished labor unions, cut taxes on the wealthy, and shredded social safety nets. The manifest result was stagnant wages for most Americans,
increasing job insecurity, and steadily widening (income) inequality. The benefits of economic
growth accrued to a smaller and smaller group.\textsuperscript{xl}

According to Jeff Madrick, author of \textit{Age of Greed}:

Even as the economy performed poorly, Americans were now apparently comfortable with
shedding their sense of obligation to a larger community. Reagan ended the traditional sense of
citizenship among Americans. Anti-government attitudes were strong, and even though America
was tiring of Reagan … these attitudes remained in place for more than two decades with serious
consequences. … The ideological revolution was complete.\textsuperscript{xlii}

\textsuperscript{i} For a good discussion of the rise of the “hard-right” conservative Republican movement, see Hedrick Smith, \textit{Who
a more complete record, see Geoffrey Kabaservice, \textit{Rule and Ruin: The Downfall of Modernism and the Destruction
\textsuperscript{ii} Jeff Madrick, \textit{Age of Greed}, (Alfred A. Knopf, 2011), page 28.
\textsuperscript{iii} http://en.wikipedia.org/wiki/Ronald_Reagan
\textsuperscript{vi} Same source as note ii, page 168.
\textsuperscript{vii} http://en.wikipedia.org/wiki/History_of_the_United_States_public_debt
\textsuperscript{viii} Ravi Batra, \textit{Greenspan’s Fraud}, (Palgrave Macmillan, 2005), pages 6 and 7.
\textsuperscript{ix} According to economist John Kenneth Galbraith, supply-sided economics was also called the horse-and-sparrow
theory because if you feed the horse enough oats, some will pass through to the road and feed the sparrows. Source
is http://en.wikipedia.org/wiki/Supply-side-economics
\textsuperscript{x} Bruce Bartlett, “Supply-Side Economics: ‘Voodoo Economics’ or Lasting Contribution,” Laffer Associates,
\textsuperscript{xi} Jacob S. Hacker & Paul Pierson, \textit{Winner-Take-All Politics}, (Simon & Schuster, 2010), page 134. The six business
groups that came together in the 1970s-1980s to form the core of business’ political power in Washington, D.C., and
which were a powerful force that pushed for the Reagan tax cuts, were the National Association of Manufacturers,
the U.S. Chamber of Commerce, the Business Roundtable (CEOs of America’s top 200 corporations), the National
Federation of Independent Businesses, the National Association of Wholesalers-Distributors, and the National
\textsuperscript{xii} U.S. National Unemployment by Political Party. See (http://www.truthfulpolitics.com/images/unemployment -by-president-political-party.jpg).
\textsuperscript{xiii} Same source as note ii, page 169.
\textsuperscript{xiv} Same source as note viii, pages 16, 21 and 25; also
\textsuperscript{xv} Same source as note xii.
\textsuperscript{xvi} See (www.socialsecurity.gov).
\textsuperscript{xvii} See (en.wikipedia.org/wiki/Social_Security).
\textsuperscript{xviii} Same source as note viii, page 15.
\textsuperscript{xix} Same source as note viii, page 26. The quote is attributed to David C. Johnson, \textit{Perfectly Legal: The Covert
Campaign to Rig Our Tax System to Benefit the Super Rich and Cheat Everybody Else}, (New York: Portfolio), 2004,
page 120.
\textsuperscript{xx} Same source as note viii, page 14.
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CHAPTER 23: CONGRESS DURING THE 1980s

Ronald Reagan had “long coattails” in the November 1980 election. Prior to that, Democrats had controlled Congress since the mid-1950s. That changed with the 1980 election when the Republicans took control of the Senate with 53 seats, twelve more than they had had in the previous Congress. However, the Democrats still controlled the House of Representatives, 242 to 192. The Senate remained in Republican hands until January 1987, when the Democrats regained a 55 to 45 seat advantage. But by then it was too late. Reagan’s tax cuts for the wealthy and tax increases for the middle class had become law.

This chapter discusses (1) how Reagan’s election transformed “progressive” Democratic legislators into “moderates,” (2) the reality that Congressional politicians pay attention to wealthy constituents’ wishes, but ignore the wishes of the middle and lower classes, and (3) stealth government action against the American people: three 1980s laws eliminated important banking regulations, the absence of which contributed to increasing income inequality and the financial crisis of 2007-2008.

Reagan’s election transformed “progressive” Democratic legislators into “moderates.” In spite of the Democrats’ apparent numeric control of the House, there was a change in the political atmosphere in Washington after the 1977-1978 defeat of the Taft-Hartley reform bill by the Republican filibuster (described in Chapters 18 and 20).

If unions couldn’t win with Democratic control of Congress and Democrat Jimmy Carter in the White House, they couldn’t win at all. Legislators in marginal districts took note, too; they would need to reassess whether they were making the right friends.

Democrats in the House outnumbered the Republicans by fifty, a margin which should have given them control of the legislative agenda. In the Senate, the Democrats had forty-six seats, enough to make them a force to be reckoned with if they chose to threaten to filibuster. But the political dynamics in Congress was changed by the above-noted filibuster and two other recent events: business’ big move to regain its influence in Washington (described in Chapter 16), and Reagan’s tremendous 489 to 49 Electoral College victory margin in the 1980 presidential election. As a result, the Democrats were not as unified in their opposition to the Reagan tax proposals as they might have been in prior years. Many Democrats joined with the Republicans in voting for the Reagan tax proposals described in Chapter 22.

Congressional politicians pay attention to wealthy constituents’ wishes, but ignore the wishes of the middle and lower classes. Chapter 16 described how in the 1970s the business community mobilized its forces in the nation’s capital in order to assure that political outcomes would be in their favor. Chapters 18 and 20 described how in the 1970s the business community/Republican Party/conservative Democrats faction was successful in preventing passage of legislation favorable toward labor unions and the general public. Those outcomes occurred in spite of the Democrats in both houses of Congress having clear majorities that were in favor of such legislation. The public had chosen a Democratically-controlled Congress from which they expected progressive legislation, but they got conservative tax cuts instead. That disparity between what voters had voted for and what the politicians actually did led two Princeton University professors to inquire as to whether politicians pay any attention to what their constituents say they want them to do.
The first study found that politicians do indeed pay attention to what their wealthy constituents say they want them to do. They pay much less attention to the preferences of their middle class constituents. For constituents in the poorest one-third of the income distribution there is a negative relationship between what the constituency wants and what the politicians vote for. “Yes, when the poorest people in the state support a policy, their senators are less likely to vote for it.”

A second, much larger investigation of this same issue found:

Most policy changes with majority support didn’t become law…. But they only stood a good chance of becoming law … when they were supported by those at the top. When the opinions of the poor diverged from those of the well-off, the opinions of the poor ceased to have any apparent influence: If 90 percent of poor Americans supported a policy change, it was no more likely to happen than if 10 percent did. By contrast, when more of the well-off supported a change, it was substantially more likely to happen.

But what about the middle class? They did not fare much better than the poor when their opinions departed from those of the well-off. …influence over actual policy outcomes appears to be reserved almost exclusively for those at the top of the income distribution.

University of Chicago School of Law Professor Nicholas O. Stephanopoulos wrote in the Columbia Law Review that there “is near consensus in the empirical literature that politicians’ positions more accurately reflect the views of their donors than those of their constituents.” Harvard University Professor of Law Benjamin Sachs wrote that “…the government has become almost entirely unresponsive to (the poor and middle class). This is a profound political failure. A democracy in which government policy responds to the rich and not to the poor and middle class is a democracy unworthy of the name.”

Chapter 2 related the story of President Roosevelt first telling a group of petitioners that he agreed with what they were asking, but then telling them to get organized and “make me do it.” The studies noted here reflect the reality that wealthy constituents are much more in contact with, and putting pressure on, their politicians in Washington, than are middle and lower class citizens. Because they feel no pressure from the latter groups, politicians ignore their wishes.

**Stealth Government Action Against the American People: three 1980s laws eliminated important banking regulations, the absence of which contributed to increasing income inequality and the financial crisis of 2007-2008.** This “stealth” government activity involved three new pieces of legislation which negatively affected the future well-being of the vast majority of Americans. Yet, Congress passed these laws without their knowledge and certainly without their approval. The three new laws “wiped out laws and regulations that had worked well for decades.”

The new laws (i) abolished existing usury laws on mortgage interest rates and the requirement of a down payment when purchasing a home, and they allowed banks (ii) to promote adjustable-rate mortgages to financially unqualified individuals, as well as (iii) the use of “negative amortization” and the “securitization” of mortgages so they could be sold in secondary markets. Item (i) permitted financial institutions to charge higher interest rates on mortgages and to grant mortgages to unqualified buyers who were likely to default on those mortgages. Both of those developments favored bankers at the expense of consumers, as did the use of adjustable rate-mortgages (item ii). Item (iii) allowed financial institutions to
pass on to unsuspecting buyers the risks associated with the low quality mortgages they had issued as “securitized mortgages.” Once freed of the risk associated with those mortgages, those financial institutions began issuing still more low-quality mortgages to unqualified customers, getting very rich while doing so.

Overall, the three new laws passed by Congress in the 1980s proved to be financially disastrous for home buyers, and for the economy as a whole.

The first major step was taken under President Jimmy Carter—the Depository Institution Deregulation and Monetary Control Act of 1980. The law effectively abolished limits on interest rates for first mortgages that had long been imposed by state usury laws. It thus removed a basic protection for financially vulnerable borrowers and opened the door to unscrupulous subprime lenders. “More than anything else,” asserted former Federal Reserve Board governor Edward Gramlich, “this elimination of usury law ceilings (on interest rates) paved the way for the development of the subprime market.”

In 1982, Congress took an even bigger step. It adopted legislation proposed by President Reagan that authorized the exotic loans that became the pathological hallmarks of the housing craze of the 2000s. This law enabled state banks to sell adjustable-rate mortgages (national banks had gotten that authority in 1981). It also permitted something never allowed before—equity stripping loans, known in banking lingo as “negative amortization.” This meant authorizing banks to sell loans where the principal balance would go up over time, digging homeowners into ever-deepening debt. Finally, the law empowered the Office of the Comptroller of the Currency to issue rules in 1983 that permitted up to 100 percent financing, by canceling restrictions that required down payments from buyers.

These three items—(adjustable-rate mortgages), negative amortization, and 100 percent financing—in a law that President Reagan hailed as “the most important legislation for financial institutions in the last 50 years,” were the grist, as New York Times financial columnist Gretchen Morgenson observed, for home mortgages loaded “with poisonous features that made them virtually impossible to repay.”

Two years later, in 1984, the Reagan administration delivered the coup de grace for the New Mortgage Game—the separation of Profit from Risk. In partnership with Wall Street bankers, the Reagan White House wrote the Secondary Mortgage Market Enhancement Act of 1984. This law sanctioned the “securitization” of mortgages on the secondary market, which powered explosive growth of America’s mortgage market to the point that it outstripped even the market for U.S. Treasury bonds and bills.

For banks that originated loans, such as Washington Mutual and Long Beach Mortgage, securitization provided an avenue for selling their mortgages and the source of raising more capital to finance another round of lending. For investment banks such as Goldman Sachs, it created a new venue and new vehicles to reap lucrative fees and casino betting against the subprime market that they were getting their clients to finance.
…in 1986, … the investment banks won another round of lucrative concessions in the tax reform law that established the real estate mortgage investment conduit, or REMIC, which granted complex tax advantages for the mortgage bond market.\textsuperscript{ix}

While these laws proved very lucrative for investment banks, for all banks issuing mortgages, and for all mortgage-writing companies, they eventually proved disastrous for many lower and middle class home buyers. As a consequence, they contributed to even greater income inequality. Within the next twenty years, they would play a major role in the financial crisis of 2007-2008.

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The business community/Republican Party/conservative Democrats faction that became established in Washington in the 1970s enjoyed a great victory when the Taft-Hartley reform bill was successfully filibustered in 1977-1978. That success was enhanced manifold with Reagan’s tremendous electoral college victory in the 1980 election. Money and influence were freely flowing in Washington, and centrist democratic legislators—even moderate Democrat legislators—had to respond to the free flowing money if they wished to remain in office. Citizens who did not have money talking for them had no influence with their legislators in the nation’s capital. The seeds leading to the great corruption that occurred in the decades of the 1990s and 2000s had now been carefully cultivated.

By eliminating important banking regulations in the 1980s, Congress’ “stealth government actions” facilitated the transfer of wealth from the lower and middle classes to the top tier of the upper class. The resulting hemorrhaging of wealth caused very serious financial damage to lower and middle class buyers who found themselves trapped inside the mortgage morass that Congress had created.

The Congress of the 1981-1988 years affected most negatively the two constitutional goals of promoting the general welfare and establishing justice.

\textsuperscript{ii} Jacob S. Hacker & Paul Pierson, \textit{Winner-Take-All Politics}, (Simon & Schuster, 2010), page 132.
\textsuperscript{iii} For a thorough discussion of Democrats becoming less “progressive” and even somewhat conservative, see Chapter 9, “Democrats Climb Aboard,” in the source in note ii.
\textsuperscript{iv} This and the following two paragraphs are based on the same source as note ii, pages 110-112.
\textsuperscript{v} Same source as note ii, page 111. See also Hedrick Smith, \textit{Who Stole the American Dream?}, (Random House, 2012), page 135, especially the section titled, “The Mystery of High-End Tax Cuts.”
\textsuperscript{vi} Same source as note ii, pages 111-112.
\textsuperscript{ix} Hedrick Smith, \textit{Who Stole the American Dream?}, (Random House, 2012), pages 224-225.
CHAPTER 24: SUPREME COURT DURING THE 1980s

During the eight years of Ronald Reagan’s presidency the Supreme Court did not make any decisions which noticeably affected the prosperity of ordinary citizens. But Reagan did make three appointments to the Supreme Court, all of whom were conservative or very conservative.

Sandra Day O’Conner was appointed in 1981, the first woman to serve on the highest court. Next came Antonin Scalia in 1986, followed by Anthony Kennedy in 1988. Both Scalia and Kennedy were Catholics, as was William Brennen (appointed by Eisenhower, and still serving on the court at this time).

These three appointees replaced Paul Stewart and Lewis Powell, both of whom were “moderates” or “centrists,” and Warren Burger, who reportedly was a “strict constructionist,” but probably neither a conservative nor a liberal. In all, by replacing three moderates, these three Reagan appointees “pushed” the court’s composition towards increased conservatism.¹

Overall, there were seven Republican-appointed justices on the Supreme Court during Reagan’s second term, and they clearly characterized the Court as “conservative” with a pro-business favoritism.

Perhaps as important, if not even more so, during his presidency Ronald Reagan appointed seventy-nine new justices in the Appellate Courts (out of a total of 168), and 267 new trial judges (out of a total of 575) in the U.S. District Courts.² Almost all of these appointees were conservative, or at least moderately so. Because these judges tended to be younger than Supreme Court appointees, Reagan’s stamp of conservatism on the judicial system would be around for a long time.

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While the Supreme Court played little or no role in the destruction of the great American middle class during the 1981-1988 years, it was not completely benign. The decisions made by the seven Republican-appointed justices demonstrated a pro-business favoritism (or an anti-consumer and/or anti-labor bias) that had only a slight negative effect on the middle class in the short run. In the long run, however, their decisions would significantly and negatively impact the Constitutional goals of “promoting the general welfare” and “establishing justice.”


CHAPTER 25: OTHER INSTITUTIONS DURING THE 1980s

and

SUMMARY OF THE 1980s

In the 1980s there were six other forces and institutions that had an impact on the destruction of the great American middle class: (1) the structure of the U.S. economy; (2) worker productivity, worker wages, and business executive salaries; (3) workers prevented from joining unions; (4) several different aspects of education; (5) the Catholic Church: and (6) deregulation of public airways. Each is discussed below.

Structure of the U.S. economy. Chapter 6 introduced the world’s first economist, Adam Smith, and described what he discovered about *laissez-faire* economics. Smith believed that much economic activity should be left unregulated by governments because the wants and needs of the consuming public created efficient markets which guided the economic activities that satisfied those wants and needs. Adam Smith also concluded (a) that entrepreneurs and businessmen should not be the ones to control governments, and (b) that governments should undertake projects and tasks that benefit society as a whole, but which are not sufficiently profitable for private interests to undertake. The business community/Republican Party/conservative Democrats faction repeatedly trumpeted Adam Smith’s first conclusion above, but found it very self-serving never to mention his conclusions (a) and (b). In order to understand the creation and destruction of the great American middle class, it is most useful for the reader to be informed of this economic background. The reader should also be knowledgeable about the following very important characteristic of the U.S. economy.

Consumers’ expenditures in the United States have historically represented about 70% of the forces driving the economic activity that causes the country’s total output, Gross Domestic Product (GDP), to be as large or as small as it is.¹ What this means is the following: if consumer expenditures were somehow to increase 5% in a given year when compared with the previous year, the country’s GDP would grow about 3.5% because consumer spending represents about 70% of the economy (that is, 70% times the +5% increase in consumer spending = +3.5% growth in GDP). Conversely, if consumer spending were to decrease 5%, the U.S. GDP would decline about 3.5%. The following two paragraphs describe how knowledge of this characteristic of the U.S. economy is useful in understanding the economic prosperity changes experienced by the middle and lower classes over the last fifty years.

Exhibit 25-1 (a duplicate of Exhibit 16-1) shows that the top 1% of earners received about 24% of the nation’s income in 1928, which means that the other 99% of earners received the remaining 76% of the nation’s income. The first twenty chapters of this course reported the many things presidents, congresses, the Supreme Court, labor unions, and others did to cause more of the nation’s income to go to the other 99% of earners. For example, Exhibit 25-1 shows that the percentage of the nation’s income going to the top 1% of earners drifted downward from 24% in 1928 to 9% in 1976, which also means that the percentage of the nation’s income going to the other 99% of earners increased from 76% in 1928 to about 91% in 1976. (Keep in mind that practically all of the bottom 99% consists of consumers who typically spend all, or almost all, of their incomes.) Since 70% of the force driving the country’s economic activity is consumer spending, that increase in income (from 76% to 91%) going to the bottom 99% represented a
huge stimulus to the United States’ economy. The 1928 to 1976 years represented a middle and lower class prosperity growth never before experienced anywhere.

EXHIBIT 25-1

Share of the Nation’s Income Going to the Top 1% of Earners

![Graph showing income distribution]


Exhibit 25-1 also shows that, beginning in 1976, the percentage of the nation’s income going to the top 1% of earners began to increase, and continued to increase until it reached 23.5% in 2007. (In 2007, the other 99% of workers got the balance of the nation’s income, about 77 %.) That very significant increase in income for the top 1% of earners was caused mainly by three political events: (i) the successful efforts of the business community/Republican Party/conservative Democrats faction to block—by filibuster—any and all reforms to the unjust, anti-labor aspects of the Taft-Hartley Act; (ii) by President Reagan’s tax cuts for the wealthy accompanied by tax increases for the middle and lower classes; and (iii) by the sixteen federal government “stealth actions” taken against the American people during the four decades from the 1970s to the 2000s. Starting around 1977-1980 those same three political developments caused a smaller and smaller percentage of the nation’s income to flow to the other 99% of earners. Because 99% of earners were getting poorer (receiving only 77% of the nation’s income in 2007), spending by consumers was not as strong as it had been when the 99% of earners was receiving 91% of the nation’s income. In fact, the reduced consumer spending translated into a 10% decline in the forces driving the economy, as follows. \[\text{[A 14% drop (91% - 77% = -14%) in income] \times \text{[consumer spending is 70% of the economic force] = -14\% \times 70\% = -9.8\% decline in economic force.}}\] The economy was getting less strong during that period, workers were prospering less than they had previously, and that was the beginning of the destruction of the nation’s prosperous middle class.

Worker productivity, worker wages, and business executives’ salaries. This was a second force that impacted middle class prosperity in the 1980s. In his 2011 New York Times article, Robert Reich
presented an exhibit which showed that worker productivity (output per hour worked) in the U.S. had been rising steadily since 1947.\textsuperscript{ii} (See Exhibit 25-2.) The exhibit also shows that workers’ average hourly compensation also rose steadily from 1947 to the late 1970s. That close association between worker productivity and worker compensation in those years helps explain the creation and growth of a prosperous middle class: workers shared in the rewards flowing from the increased productivity of America’s economy.

EXHIBIT 25-2

Worker Productivity and Worker Average Hourly Wage


But that close association ceased to exist after the late 1970s. From about 1980 to 2009 productivity increases continued at the same rate, or perhaps even at a greater rate. In spite of those productivity increases, Exhibit 25-2 shows that from the late 1970s and thereafter, workers’ compensation and wages did not grow at all.\textsuperscript{iii} At the same time, however, “…pay for top executives took off like a rocket during the 1980s and 1990s. …chief executives (in 1973) were paid twenty-seven times more that the average worker. By 2005 that number had risen to 262 times (more than the average worker).”\textsuperscript{iv} In effect, by denying workers a fair share of the money represented by the gap (in Exhibit 25-2) between productivity and compensation, business executives created a pool of wealth that was now available for the taking, and they took it. (See in Chapter 21 the discussion of how the General Electric Company CEO, Jack Welch,
manipulated the company’s short term profits in order to increase the price of the company’s stock. Welch benefited greatly from those manipulations through the stock options he received as CEO, which made him one of the richest 400 persons in the U.S.)

What was the financial impact on the middle class of denying workers a reasonable share of the economic prosperity associated with the growing productivity illustrated in Exhibit 25-2? Economists have calculated that if the compensation policies Corporate American had used from the late 1940s to the late 1970s had remained in place throughout the 1979 to 2007 period, “80 percent of Americans, from the bottom through the entire middle class, would have earned $743 billion a year.” vi On average, middle class families would have enjoyed increases in their annual incomes in excess of $10,000. Instead, all that money went to those who already were very rich.

What happened that allowed such a development? In the 1950s and 1960s when they had much stronger bargaining power and more favorable public opinion on their side, labor unions were capable of preventing such disparities between worker pay and executive pay. But in the 1980s the business community knew that their Republican and conservative Democratic allies had seriously weakened labor unions by their successful 1977-78 filibuster of Taft-Hartley reform legislation. Thus the business community knew they could easily ignore workers’ demands for increased wages and, at the same time, provide their executives with much larger rewards than were previously possible. Reagan’s 1981-1986 tax cuts for the rich further enhanced the rewards going to the business executives. His tax increases for the middle and lower classes further penalizing the workers in those classes. Exhibit 25-2 illustrates that these two political occurrences (severely weakened unions and Reagan’s tax policies) together played a significant role in the destruction of the great American middle class.

Workers want to join unions, but can’t. The third institution that impacted the destruction of middle class prosperity in the 1980s was the “crippled” labor movement. Based upon the decline of labor unions as reported in several previous chapters, the reader might get the impression that workers in the U.S. were opposed to joining labor unions. That was not at all the case. “…nonunionized workers have expressed an increasing desire to be unionized since the early 1980s. … Compared with other rich democracies, the United States stands out as the country with the greatest unfulfilled demand for union representation.” vi Polls show that in 1953 about 75% of the public “approved” of labor unions and only 18% “disapproved”—a huge approval-over-disapproval ratio. In 1982, Reagan’s second year as President, those percentages were 55% and 35%, respectively, but still with 20% more in favor than opposed. (Quite possibly the percentage changes noted from 1953 to 1982 may have been due in part to the relentless union-bashing by a popular president.) The 1982 year represented the low point in the difference between the public’s approval ratings over its disapproval ratings. Furthermore, by 2005 about 64% of the public approved of labor unions and only 20% disapproved, a spread of 44% in favor.vii

But would nonunionized workers vote in favor of unionization if they had the opportunity to cast such a vote in their places of employment? Various polls have shown that they would: 30% said they would in 1984; 38% said they would in 1993; 45% said they would in 1997; and 55% said they would in 2004. viii Yet, in spite of the public’s high approval rating of labor unions, and in spite of significant percentages of nonunionized workers wanting an opportunity to vote for a union at their places of employment, in the 1980s the cards were stacked against both the public and the workers because the Congress of the
“Education” weakened as a force encouraging greater economic prosperity for the middle and lower classes. There are five aspects of education that apply to this force: (i) the Federal Government; (ii) college tuition increases; (iii) education did not adapt to new technology; (iv) high school curricula inadequately prepare young people for responsible citizenship; and (v) high school history courses.

The Federal Government. As reported in Chapter 20, the termination of the GI bill’s educational benefits in 1973 represented the abandonment of a successful thirty-year experiment undertaken by the Federal Government to boost the economic well-being of those who had served in the military. In effect, the Federal Government no longer appreciated that its educational programs had made a very significant contribution to achieving both economic prosperity and the Constitutional goal of promoting the general welfare.

College tuition increases. Historical evidence supports the fact that college education had been a tremendous booster for the U.S. economy and for the increased prosperity of the middle class. But colleges and universities now began raising tuition by significant amounts, and that had a negative effect on the economic well-being of the middle class.

From the 1950s to the 1970s, annual tuition at public and private universities averaged, respectively, 4 percent and 20 percent of annual median family income. … By 2005, college tuition at public and private universities averaged, respectively, 10 percent and 45 percent of median family income.

Since family incomes grew only slightly from the late-1970s to the early 2000s, those tuition increases had a negative impact on the educational opportunities open to the middle and lower classes.

Education did not adapt to new technology. The 1980s and 1990s saw the arrival of computer technology and the internet, which impacted on how business and communications were carried out. But the U.S. educational system did not adjust to those new developments.

… since the 1980s, says (Lawrence Katz, Harvard University labor economist), when we needed to move to some form of universal postsecondary education to keep pace with globalization and I.T., we didn’t. Instead, he points out, “our high school graduation rates stopped improving and our growth in college graduates slowed substantially—far below what we need for rapid growth and shared prosperity.”

High school curricula inadequately prepare young people for responsible citizenship. The lack of a good political-civic-social science education also contributed to the demise of middle class prosperity. Many young people complete their formal education with only a high school diploma. If their high schools did not provide them with a good political-civic-social science education, such people were uneducated on those topics when they entered their adult lives. Based on the following quote by noted political scientists Jacob Hacker and Paul Pierson, a high school education must have been deficient with respect to political-civic-social science issues, and those deficiencies contributed to the misfortunes that began falling on the middle class in the 1980s.
(There) is a dirty little secret … among political scientists: that most voters are woefully ignorant about politics is completely uncontroversial, and has been for decades. The survey evidence on this subject is overwhelming. Yet it is not something widely disseminated ….xi

This view is supported by Sandra Day O’Conner, a United States Supreme Court justice from 1981 to 2006. Upon her retirement from the Court she began to address the matter of improving the civics education of high school students. (High school students who are eighteen years of age or older are eligible to vote.)

“Knowledge of our system of government is not handed down through the gene pool,” retired U.S. Supreme Court Justice Sandra Day O’Conner said in a statement. “The habits of citizenship must be learned. …But we have neglected civic education for the past several decades, and the results are predictably dismal,” said Justice O’Conner, who has been promoting civics instruction in the United States.

…just one-quarter of high school seniors demonstrate at least a “proficient” level of civics knowledge and skills….xii

Still another aspect of education involves the teaching of history to high school students. As noted by the Hacker and Pierson quote above, this is an extremely important matter. There are four issues here: (a) more than 80% of all Americans never take a history course after leaving high school; (b) history courses as taught in high school are a “weak link” in the historical/political/social class learning experiences of young people; (c) history textbooks are seriously inadequate; and (d) there is controversy as to who and how high school history textbooks are selected. In 1996 James W. Loewen, a Professor of Sociology, published the best-selling book, Lies My Teacher Told Me, that addressed these four issues. xiii The following five paragraphs are based on that book.

The vast majority of teachers of U.S. History in high schools are unprepared for the task. Surveys report that only about 40% of such teachers had a college degree in history or in a field somewhat related to history. Overall, about 60% of high school history classes are taught by persons “for whom history lies outside their field of competence,” for example, by athletic coaches. Furthermore, the vast, vast majority of history teachers do not present controversial topics in their classes, or discuss such topics if students bring them up, or even believe that they should.xiv Given that so many are not qualified to teach U.S. History, such reluctance is understandable.

Probably because of the instructor’s lack of proper qualifications, textbooks dominate high school history courses much more so than textbooks dominate other courses. Because of the poor quality of high school history textbooks, that is most unfortunate. The complaints about those textbooks are many, only a few of which are mentioned here. They contain “startling errors of omission and distortion,” “every problem has already been solved,” (that is, there are no controversial issue students should discuss), and they “leave out anything that might reflect badly upon our national character.” xv One teacher told her students that…

…most presidents before Lincoln were slave owners. Her students were outraged—not with the presidents, but with her, for lying to them. “That’s not true,” they protested, “or it would be in the books!” They pointed out that the book devoted many pages to Washington, Jefferson, Madison, Jackson, and other early presidents, pages that said not one word about their owning slaves.
“Maybe I’m wrong, then,” she replied, suggesting that they check her facts. Each chose a president and found out about him. When they regrouped, they were outraged at their textbooks for denying them this information (about presidents owning slaves).

Textbooks try to indoctrinate students with blind patriotism, and they often do this by trying to make super-heroes of notable historical persons, rather than tell the complete truth about them. To illustrate, Professor Loewen described how textbooks used Helen Keller, who overcame blindness and deafness, to inspire young people to work hard to overcome their weaknesses. But the textbooks almost never mention that she was a radical socialist. Similarly, textbooks praise President Woodrow Wilson for his World War I activities and his post-World War I peace efforts, but almost never mention his numerous military interventions in Latin America, or that, reportedly, he was an “outspoken white supremacist.”

History textbooks are very long. This causes many high school history courses to exclude coverage of the recent past—twenty years ago, thirty years ago, forty years ago. As a result, many students leave high school uninformed, or poorly informed, about fairly recent political-social class-cultural events which would help them better understand what their politicians are doing and how they are affected by what their politicians a doing.

The decision as to which textbook to use is often controversial, involving entire school systems, statewide adoption committees which are active in about half of the states, PTAs, the business community, even the American Legion, and others. Reportedly, “publishers use patriotism, rather than scholarship, to sell their books.” Professor Loewen offers the following quotes to illustrate perhaps the most important influences on the selection of history textbooks.

“It would be extremely naïve to expect the dominant classes to develop a type of education that would enable subordinate classes to perceive social injustices critically.”

“The dominant culture actively functions to suppress the development of a critical historical consciousness among the populace.”

“School is in business to produce reliable people.”

In his book, Professor Loewen makes convincing arguments that high school graduates are very poorly educated regarding American history. Former Supreme Court Justice Sandra Day O’Conner concurs, and the results have been “dismal.” Parents, PTAs, local school boards, local and state politicians all share in the blame for the poor performance of high school educational systems when it comes to American history and civics. Perhaps, however, the greatest fault lay with those who politicize the educational system, with those who select the American history textbooks for high schools, and with those who publish American history textbooks.

The Catholic Church. David J. O’Brien, University Professor of Faith and Culture at the University of Dayton, described how the Catholic Church came to be still another institution that impacted the decline of middle class prosperity in the 1980s. In the early 1980s the Roman Catholic Bishops in the United States drafted a pastoral letter to the laity titled, “Economic Justice for All.” (“Pastoral”: pertaining to a pastor or spiritual advisor communicating and working with his flock.) It was a serious undertaking that lasted some five years and involved numerous revisions that resulted from invited responses that “came
pouring in.” In November 1986 the American Bishops strongly approved the letter, which was then distributed to the church laity.

The letter was a “personal invitation to Catholics to use the resources of faith, the strength of the economy, and the opportunities of our democracy to shape a society that better protects the dignity and basic rights” of all people. Its main themes and principles included: that “all people have a right to participate in the economic life of society”; that “human rights are the minimum conditions for life in community” and they include social and economic as well as political and civil rights; and still others. The bishops …

… gave special attention to the need for full employment. Work, they argued, was necessary for human dignity and social justice; having a job was a right, one entailed in the right to life and the means to sustain it….the bishops argued that it was wrong for any person or group to be excluded, unable to contribute to the economy and deprived of participation that is so vital to human development. The bishops thus placed government policy in the larger context of shared responsibility, hoping for a Catholic “constituency of conscience” whose members would assess every policy “by how it touches the least, the lost, and the left out among us.”

Two things happened that more than offset the good intentions embodied in the pastoral letter, “Economic Justice for All.” The first involved the top of the church hierarchy. The Vatican severely limited the bishops’ conference from making authoritative statements in support of their pastoral letter. At the same time, the Vatican’s public policy agenda shifted away from social justice issues, and instead emphasized anti-abortion and other “life issues.”

The second thing that happened involved the bottom of the church hierarchy. The church laity was also changing throughout the decade of the 1980s, although the changes probably had started in the 1970s. Professor O’Brien described the changes that had occurred to the laity.

In the crisis of the Great Depression a half century earlier, Catholic support for labor unions and for social assistance had sprung from pastoral experience, and bishops did not hesitate to preach and act for social justice. In the postwar years social ministries among immigrants and the poor continued to find broad pastoral and institutional support. But Catholics who had been liberated from dire necessity by increased education, income, and social status now had the insiders’ responsibility to help shape institutions and policies that would ensure the welfare of the whole community. (The laity) rarely found the spiritual … and institutional resources they needed for these new responsibilities.

If neither the Catholic Church hierarchy, nor its laity, would support social justice and employment for the middle and lower classes, then two very strong institutions/forces that previously had fought for the creation of the great American middle class were now abandoning that struggle.

Deregulation of public airways. There occurred in the 1980s an event that was not yet a force, but would in the future become a force negatively affecting the middle class struggle for prosperity.

For decades, radio and television broadcasters had been required to present multiple viewpoints on contentious public debates on the grounds that they were stewards of the public airwaves. But

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in 1987, members appointed by President Ronald Reagan to the Federal Communications Commission abolished this “fairness doctrine.” This change facilitated the creation of conservative talk radio and cable outlets to combat perceived liberal bias. xxvii

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Each of the last five forces and institutions discussed in this chapter was working to reverse the middle and lower class prosperity growth that had occurred over the last 40-50 years. They were succeeding!

**Summary of the 1980s**

- As in past decades, business executives like Michael Milken and Jack Welch continued to manipulate the financial markets, mostly for their own personal gain. Their focus was not on manufacturing and making things the public could use. Instead, they focused on financial manipulations to improve short-term profits and stock prices. Financial manipulations were not only easier than manufacturing, they employed fewer people as well, so had the potential of being more profitable. *Fortune* magazine proclaimed Welch the “Manager of the Century,” a symbol of how little the business community was concerned with the welfare of workers, the public, and the communities in which manufacturing facilities were located. Because of that potential for increased profitability, business executives in the 1980s reduced their emphasis on manufacturing and increased their emphasis on financial activities.

- Ronald Reagan was a laissez-faire conservative who had been well-trained by the teachings of Milton Friedman and given much support throughout his political career by laissez-faire businessmen. He was elected President with a landslide victory in the Electoral College. Using his initial popularity to the fullest, he created the legacy of (1) tax cuts for the wealthy accompanied by tax increases for the middle and lower classes, (2) leading the attack on organized labor for the purpose of destroying or at least substantially weakening it, and (3) depriving governmental agencies of the resources they needed to enforce the regulations which had been established by law (he called it “reducing the size of government,” but in all reality it was essentially “starving the beast”).

- In five years Reagan reduced the top income tax rate from 70% to 28%. His “trickle-down economics” philosophy was a complete failure; Reagan said it would grow the economy and increase employment. Instead, the economy was sluggish and unemployment increased. Reagan’s “second tax cut” increased the tax rate on poor people from 11% to 15%, “the only time in the history of the U.S. income tax that the top rate was reduced at the same time the bottom rate was increased.”

- Reagan’s tax cuts for the wealthy caused the national debt to triple during his presidency. The resulting stream of annual interest payments that had to be made prevented those funds from being used for the benefit of all the American people, including middle and lower classes.

- The Reagan administration initiated the fourth “stealth government action against the American people” when it allowed corporations to replace union-negotiated pension plans with management-recommended 401(k) retirement plans.
• Alan Greenspan emerged as a very influential, super laissez-faire conservative who believed all markets should be completely free from regulation. He came on the scene as a Reagan advisor in 1981, and remained very influential in Washington until 2006.

• Democrats retained control of the House of Representatives throughout the eight years of Reagan’s presidency, but the Republicans gained control of the Senate (by only four seats) when Reagan was elected President in 1980. Republicans controlled the Senate for the first six years of Reagan’s Presidency. In spite of having a strong position in the Congress throughout his presidency, the Democrats did not put up a strong fight against Reagan’s tax cuts for the wealthy and tax increases on the middle and lower classes. In effect, Democrats had become more like “moderate Republicans.” That represented another clear victory for the business community/Republican Party/conservative Democrats faction.

• During the 1980s the Congress passed three banking deregulation laws that constituted the fifth “stealth government action against the American people.”

• Studies by two Princeton University professors found that politicians paid attention to what their wealthy constituents wanted them to do, and in fact voted as those constituents wished. On the other hand, not only did the politicians ignore the wishes of their middle and lower class constituents, they often voted against those wishes.

• The Supreme Court made no major decisions affecting the destruction of the great American middle class during Reagan’s Presidency. However, during his term of office Reagan appointed as Justices to the Supreme Court Sandra Day O’Conner, Antonin Scalia, and Anthony Kennedy. Each was more conservative than the Justice she or he replaced, making the Court noticeably more conservative than it had been. Overall, there were seven Republican-appointed justices during Reagan’s second term, and they clearly characterized the Court as “conservative” with a pro-business bias.

• Consumer expenditures represent about 70% of the forces driving the U.S. economy. If the bottom 99% of earners received growing incomes year after year, the economy was very likely to grow year after year as well. If the bottom 99% of earners received declining incomes year after year, the economy was very likely to cease growing and stagnate or go into decline. Because of the two points immediately below, the bottom 99% of earners received declining incomes in the 1980s, causing the economy to stagnate.

• Because labor unions had been critically injured in 1977-1978 by the failure to reform the Taft-Hartley Act, the business community in the early 1980s began denying workers any share of the increased productivity being realized by the U.S. economy.

• Throughout the entire Post-World War II period a significantly greater percentage of the public approved of labor unions, compared with those who disapproved. During the 1980s and thereafter an increasing percentage of workers reported that they would like to join a union, if they had a chance to do so. Yet, the Congress during the 1970s and 1980s, and Presidents Ford, Carter, and Reagan, either took deliberate action against unions or ignored the wishes of workers to have the right to form and join labor unions at their places of employment.

• Government-supported education as a force that encouraged more people to become college-educated basically ended in 1973, and did not make a comeback in the 1980s or thereafter.

• When they began raising tuition significantly in the 1980s and thereafter, colleges and universities also became a force that prevented more people from going to college.
High school educational programs related to history and civics were seriously inadequate in teaching young people what they needed to know relative to history, civics, and politics in order to better understand what their politicians were doing and how they personally were affected by what their politician were doing.

Both the teaching of American History in high schools, and the textbooks used in that activity, were inadequate for the future growth and prosperity of the middle and lower classes, and of the nation’s economy as well. This area of education was a “weak link” in the country’s entire educational system.

In the 1980s both the Catholic Church and its laity turned away from supporting social justice and improved employment for the middle and lower classes. In effect, two very strong forces that previously had fought for improved lower and middle class prosperity had now abandoned that struggle.

In 1987 President Reagan appointees to the Federal Communications Commission abolished the “fairness doctrine” that required broadcasters using the public airways to present different viewpoints on controversial issues.

Key Observations Regarding the Destruction of the Great American Middle Class

- Business and financial executives continued to weaken or eliminate long established government regulations to their own financial benefit. The business community also continued shifting their emphasis toward increased financial activity and away from manufacturing, and greatly increased their personal wealth by doing so. What was abandoned in the process was millions of middle class manufacturing jobs, as well as concern for the welfare of workers, the communities in which manufacturing facilities were located, and the public at large.

- Reagan’s three major legacies—tax cuts for the wealthy combined with tax increases for the non-wealthy, attacking and severely weakening labor unions, and deliberately refusing to enforce the laws (government regulations) through selective budget cutting (“starve the beast”)—contributed very substantially to the destruction of the great American middle class in the 1980s and thereafter.

- Alan Greenspan greatly facilitated Reagan’s tax cuts for the wealthy and tax increases for the middle and lower classes. A noted economist said “Greenspan’s economics has extracted trillions of dollars in taxes from the American middle class and sharply enriched the rich,…while shafting the average American.”

- In 1977-78 the business community/Republican Party/conservative Democrats faction successfully filibustered to prevent reforms to the unjust, anti-labor Taft-Hartley Act. That event, combined with the three Reagan legacies noted above, were two of the political developments that were by far the most responsible for the onset of the destruction of the great American middle class in the late 1970s and early 1980s. As noted in the point immediately above, Alan Greenspan joined Reagan in playing a key role in the destruction of the great American middle class.

- Because of the 1977-1978 filibuster noted above, labor unions were no longer strong enough to hold their own when doing battle with the business community/Republican Party/conservative Democrats faction. Whereas unions previously had been the strongest organized force devoted
to the struggle for improving the general welfare of common people, they now had been reduced to relative insignificance.

- Because of the four points noted immediately above, the business community in the early 1980s was able deny workers any share of the wealth associated with the increased productivity being achieved by the U.S. economy. Instead, the rewards resulting from increased productivity went exclusively to business executives. That development was the coup de grâce that assured the destruction of the great American middle class in the years to come.

- Reagan’s tax policies, and the resulting giant increase in the national debt, further contributed to the long run destruction of the middle class in two ways. First, the much larger national debt required that a long stream of annual interest charges be paid. Consequently, those funds could not be used to stimulate growth in the U.S. economy, which would have brought increased prosperity to the vast middle and lower classes. Second, the tax burden associated with those annual interest charges fell most strongly on the middle and lower classes, thus lowering their standards of living.

- Because of the success the business community/Republican Party/conservative Democrats faction had in preventing the reform of Taft-Hartley in 1977-1978, and Reagan’s landslide election in 1980, Congressional Democrats were becoming less “Progressive” and more like “moderate Republicans.”

- During the decade of the 1980s, the Reagan administration and the Congress initiated two more “stealth government actions against the American people.” There were now five such actions operating to transfer wealth from the lower and middle classes to selected individuals in the very top tier of the upper class. Those actions represented “welfare for the rich,” and they were making significant contributions to the growing income inequality that emerged in the 1980s.

- Throughout the decade, and before, the public strongly approved of labor unions, and workers increasingly reported that they would like to join labor unions if they could. Yet Congress and the most recent three Presidents of the United States chose to go against the wishes of both the public and workers regarding the reform of the Taft-Hartley Act.

- Studies by two Princeton University professors found that Congressional politicians paid attention to what their wealthy constituents wanted them to do, and in fact voted as those constituents wished. But they not only ignored the wishes of their middle class and lower class constituents, they tended to vote against those wishes. Thus, the democratic concept of “majority rule” was abandoned, and that contributed to the demise of the middle class.

- The Supreme Court was now dominated by seven Republican appointees who demonstrated pro-business favoritism. The Court’s Republican-appointed composition would remain unchanged throughout the decades of the 1990s and 2000s with disastrous effects on the lower and middle classes.

- Regarding education, the federal government, colleges, universities, and high schools all contributed somewhat to the destruction of the great American middle class. The Federal Government (in 1973) ceased supporting the expansion of college education for the broader masses, as it had done from 1945 to 1973. Colleges and universities began raising tuitions significantly. High school educational systems were performing poorly, especially with respect to civics and American history, and publishers of American history textbooks for high schools were a “weak link” in the U.S. educational system. Parents, PTAs, local school boards, local and state
politicians all share in the blame for the poor performance of high school educational systems. Perhaps, however, the greatest fault lay with those who politicize the educational system, those who select the American history textbooks for high schools, and the American history textbook publishers. All of these things contributed to the decline of the middle class.

- During the 1930-1970 period, the Catholic Church and the Catholic laity had been active in promoting social justice, labor unions, reducing poverty, better working conditions and living standards, and still other things related to the common good. For a variety of reasons that changed by the middle of the 1980s when both the Catholic Church and the Catholic laity abandoned their active support for the economic well-being of the lower and middle classes. Because labor unions had essentially been rendered ineffective by Reagan’s policies and Congress had taken no action to reform the Taft-Hartley Act, the result of that Catholic abandonment was that there no longer remained in the country any strong, organized force that was devoted to fighting for the general welfare of the common people. In effect, common people had been abandoned.

- Of greatest significance, however, was the fact that the business community/Republican Party/conservative Democrats faction had further strengthened and made more effective its three-pronged strategy (described in Chapter 18) to take control of the country’s political-economic system. (1) President Reagan essentially destroyed the power of labor unions to fight for the welfare on ordinary people. In addition, the other institution that traditionally had fought for social justice—the Catholic Church—had now turned its attention to other issues. (2) With the business community now firmly entrenched as a lobbying force in Washington, D.C., and with Ronald Reagan as president, and the Republicans in control of the Senate, and many Democrats now performing like “conservative or moderate” Republicans, the faction had gained solid control of the legislative process, and hence the country’s political-economic system. (3) There were now five “stealth government actions against the American people” operating in the faction’s favor. Because of the presence of those “stealth government actions,” the faction legally took money from lower and middle class citizens and distributed it to selected members of the upper class. The faction’s program of “welfare for the rich” was now firmly established. The net result of these developments was that all three prongs of the faction’s strategy were now working very effectively in harmony with one another.

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i See, for example, http://www.washingtonpost.com/business/economy/GDP
iv Timothy Noah, The Great Divergence, (Bloombury Press, 2012), page 152. According to Hedrick Smith, Who Stole the American Dream?, (Random House, 2012), page 59: “In the 1970s, the Federal Reserve reported that chief executives at 102 major companies were paid $1.2 million on average, adjusted for inflation, or roughly 40 times an average full-time worker’s pay. But by the early 2000s, CEOs at big companies had enjoyed such a meteoric rise that their average compensation topped $9 million a year, or 367 times the pay of the average worker. At Wal-Mart, which bills itself as the friend of the struggling middle class and the working poor, former CEO Lee Scott was paid $17.5 million in 2005, or roughly 900 times the average pay and benefits of the typical Wal-Mart worker.”
viii See Figure A in the same source as note vii.
ix See page 92 of the Timothy Noah source cited in note iv.
xii Same source as note vi, pages 109-110.
xiv James W. Loewen, Lies My Teacher Told Me, second edition, (Touchstone, 1995, 2007). According to the book jacket, Professor Loewen carefully studied eighteen popular U.S. History textbooks used in high schools, and came to the determination that “not one” of them did a “decent job.”
xv Same source as note xiii, pages 327 and 330.
xvi Same source as note xiii, pages 6 and 7.
xvii Same source as note xiii, Chapter 1.
xviii Same source as note xiii, page 13.
xix Same sources as note xiii, page 19.
xvi Same source as note xiii, page 325.
xx All three quotes are from the same source as note xiii, page 305.
xxii Same source as note xxii, page 16.
xxiii Same source as note xxii, pages 16-17.
xxiv Same source as note xxii, pages 17-18.
xxv Same source as note xxii, page 19.
CHAPTER 26: BUSINESS EXECUTIVES DURING THE 1990s

The business community/Republican Party/conservative Democrats faction began recording some significant gains in the late 1970s. The 1980s, especially the years of Reagan’s Presidency, brought them victories they previously could only have hoped for. But, …

The 1990s through 2002 was the most corrupt “decade” since the 1920s—and one of the most corrupt in American business history. An infrastructure of corruption, whose seeds blossomed with Michael Milken, Ivan Boesky, and the savings and loan entrepreneurs in the 1980s, spread in the 1990s across the American establishment into elite professions, including commercial and investment banking, accountants, lawyers, consultants, rating agencies, and mutual funds as well as newer hedge funds. New York states’ attorney general, Eliot Spitzer, brought suites and gained settlements against the most prestigious of investment firms and mutual funds in the 2000s, but Washington regulators did not follow his lead. The SEC tightened some regulations, but inadequately.

Chapter 21 reviewed the anti-regulation, anti-government activities of selected business executives since the dawn of the regulations imposed on businesses by President Roosevelt’s New Deal in the 1930s. This chapter continues that story. It starts with a brief review of the (1) Garn-St. Germain Act, which played a key role in the financial crisis of 2007-2008. It also describes the activities of (2) Angelo Mozilo of Countrywide Financial Services and (3) Sanford Weill of Citigroup. There follows a short description of (4) “financial derivatives.”

The Garn-St. Germain Act. In 1982 Congress passed the Garn-St. Germain Act, “perhaps the most ill-considered deregulation bill ever passed into law.” It allowed savings and loan associations (“thrifts”) to pay higher interest rates in order to attract more of the public’s savings. It also allowed thrifts to invest as much as 40% of their deposits in any investment they chose, including investments considered to be speculative, even though the thrifts’ deposits were insured by the federal government. Previously, thrifts were limited to investing only in home mortgages, where the mortgaged property was the collateral backing up the loan. Following the passage of the Garn-St. Germain Act, and due to the poor investments they made, several thousand thrifts failed between 1986 and 2002 (compared with only seventy-nine in the 1970s). The failure of those thrifts created a shortage of suppliers of mortgages, and that shortage provided an opening for mortgage-writing companies that were basically unregulated by the federal government and only weakly monitored by state governments.

(The savers in those failed thrifts did not lose their savings, because the federal government reimbursed them for their losses. This came to be referred to as: “Privatizing profits, but socializing risk.” That is, thrift owners kept all the profits, but when a thrift failed, the cost of the failure was paid for by the public through government guarantees.)

Angelo Mozilo learned the mortgage business as a young man working for a New York mortgage company. With a partner, he started Countrywide Financial Services in 1968. When the thrifts began failing in the mid-1980s, mortgage-writing firms like Countrywide were in perfect position to exploit the opportunities available to them. Mozilo and Countrywide …
...signed up as independent brokers many of the well-trained salespeople who had lost jobs at the thrifts. It was much cheaper than opening new offices and staffing them with employees earning annual salary; these brokers worked out of their cars or homes or from phone booths and were paid commission only if they sold a mortgage. (But they) were typically unscrupulous and hard to monitor. vi

By the early 1990s, the mortgage market had been transformed from one dominated by thrifts, savings banks, and commercial banks, which were financed by depositor savings, to a decentralized marketplace where mortgage brokers ... wrote mortgages and immediately sold them off to government-sponsored enterprises (e.g., Federal National Mortgage Association, i.e., Fannie Mae) and ... directly to Wall Street securitizers like Saloman. v

There were other giant mortgage writers competing with Mozilo’s Countrywide. Practically all of them sold their mortgages to government-sponsored enterprises and Wall Street firms, who re-packaged (securitized) them and sold them to private citizens, pension funds, and other investors.

Because the mortgage-writing companies were basically unregulated and immediately sold off their mortgages, they were not concerned with the credit worthiness of the persons applying for mortgages. The credit worthiness of the home buyers was also of little concern to the independent brokers used by Countrywide and others. The result was that many of the mortgages issued by Countrywide and others were granted to persons who could not afford them. vi “In 1992, Countrywide was already the largest originator in residential mortgages in the United States, selling a total of $30.5 billion worth.” vii

In the first half of the 1990s, Countrywide’s competitors began selling “subprime mortgages,” that is, selling mortgages to people who clearly could not afford them and often had poor credit records. To prevent Countrywide from losing market share to those competitors, Mozilo decided in 1995 that he, too, had to start selling subprime mortgages. Some $35 billion worth of subprime mortgages were sold in 1994; by 2005 some $625 billion in such mortgages were sold. viii Home ownership had been flat at 64% from the mid-1980s to about 1994, that is, 64% of households owned their own home. Home ownership then increased to its peak of 69% in 2004, remained at that level for about a year or two, and then fell back to 65% by 2013. That pattern may be a perfect example of a housing bubble. ix

A completely unregulated housing bubble was being allowed to develop with no oversight from any governmental agency. In the mid-2000s, reality returned, most of the subprime mortgagees discovered that they could not afford the houses they purchased, the real estate bubble burst, and all of those mortgage-writing firms failed. x Their failures would spread to Wall Street and elsewhere, and that signaled the beginning of the second, conservative great worldwide depression in less than eighty years.

Sanford “Sandy” I. Weill was also a very active business executive in the 1990s. He got into the financial services industry in 1960 when he and several partners bought a seat on the New York Stock Exchange. He developed as his strength a complete mastery of the operations (the “back office”) and cost structure of a working Wall Street brokerage firm. His successful career was based on making acquisitions and then using ruthless cost-cutting methods to make those acquisitions more profitable and himself very rich. Weill was very, very ambitious, not just for wealth, but also for power, recognition, and prestige. These things, he believed, could be gained by creating a giant financial services corporation that could provide clients with all of the services they needed—so-called “one-stop shopping.” To create such
a corporation, Weill had to destroy whatever government regulations stood in his way. His was essentially the same vision Walter Wriston had in the 1960s, the 1970s, and the 1980s, but Weill was successful in ways that Wriston had only dreamed of.

When Walter Wriston was building what became Citicorp from the 1960s to the 1980s, he could not have imagined that almost all of the regulatory obstacles to his corporate ambitions would one day be leveled, as they had been by the end of the twentieth century. xi

Throughout the 1960s, 1970s, and 1980s Weill arranged the acquisitions of eight different financial firms, almost always ending up as the top manager of the successor organization. All those acquisitions were characterized by Weill’s ruthless layoffs, cost-cutting, and the reduction or elimination of employee benefits, the purpose of which was to make Weill richer. These were the years when Wall Street was transitioning from many small entrepreneurial firms to a small number of giant entities. xii The year 1990 found Weill as the CEO of Primerica, a large conglomerate which included a life insurance company, xiii and a nationwide company making “small loans to lower-wage consumers at high interest rates.” xiv Not only was Weill one of the richest men in the U.S. at the time, he was one of the most influential.

In the early 1990s Weill arranged to buy Travelers Insurance Company and the Shearson brokerage business. xv The only thing Weill's organization did not include was a top-notch investment banking operation, which he wanted very badly. To eliminate that void, in 1997 Weill bought Saloman Brothers. xvi In 1998, the CEO of Citicorp was seeking a merger partner, and Weill immediately seized that opportunity.

But there was an obstacle: the Glass-Steagall Act, the New Deal legislation that prevented a single firm from participating in more than one of the activities of insurance, commercial banking, and investment banking. To someone as well-connected as Weill, that was not a barrier that could not be overcome. Weill called Alan Greenspan, the super-laissez-faire Chairman of the Federal Reserve Board (see Chapter 22) to set up a behind-the-scenes meeting.

Such a secret meeting was also a stark example of the ease with which the powerful on Wall Street got the ear of key policymakers and also how easily the Fed, through its rulings, could bypass the intentions of Congress. Weill also talked to the SEC, and called President Clinton and Treasury Secretary Rubin to update them on the proposed deal. The largest merger of all time up to that point was announced in April of 1998… xvii

This new financial services firm was called Citigroup. The merger made Weill a billionaire: his total compensation that year was $224 million. After the merger, the top ten largest banks controlled almost half of the banking assets in the country: in the early 1990s they controlled only one-fourth of the country’s banking assets. But the stock market bubble burst in 2000, and Weill resigned as CEO in 2003 “under a dark cloud of suspicion.” xviii “By 2008, the enormous banking conglomerate Weill had proudly pieced together and believed was impregnable to serious risk was on the brink of collapse.” xix

Far bigger catastrophes were to come, but for essentially the same reasons. Weill had created the largest financial firm in the world; it had been involved in almost every major deception in the 1990s and 2000s. It remained at the forefront of deception in the 2000s as well, though now, given its sheer size, it could bring down the economy itself.xx

Chapter 26 - 124
This chapter describes the activities of only two business executives. There were other business executives doing the same things as Angelo Mozilo, and there were still other business executives acting much like Sandy Weill. And Alan Greenspan was still the champion of the pure *laissez-faire* economic philosophy. They were all working toward the same goal—amassing even greater wealth. And they had had a very successful decade! In 1990 the top 1% of earners had received about 14% of the nation’s income. Ten years later, the top 1% received about 21 – 22% of the national income, a very sizeable increase. (See Exhibit 26 – 1, a duplicate of Exhibit 16-1.)

EXHIBIT 26 – 1

**Share of the Nation’s Income Going to the Top 1% of Earners**


*“Financial derivatives.”* Before proceeding to the next chapter, it is necessary to introduce a new product being developed by executives of financial institutions. You saw in Chapter 16 that Walter Wriston created a new product—certificates of deposit—that greatly boosted his career and helped turn City National Bank of New York into a “too big to fail” bank. That product was essentially unregulated by governmental regulatory agencies. You saw in Chapter 21 that Michael Milken took advantage of an unregulated product (junk bonds) to build a fortune. In this chapter you saw that Angelo Mozilo exploited another unregulated product (home mortgages by unregulated mortgage-writing firms) to build his fortune. The lack of any significant regulations associated with these new financial products contributed greatly to several economic crises, and to the destruction of the middle class as well. (By the 1990s Wriston, Milken, Mozilo and many other financial executives had perfected the practice of...
“privatizing profits, and socializing risk.”) In this decade of the 1990s financial executives created another new product—derivatives—which were also unregulated. These derivatives greatly contributed to the depression that began in 2007-2008. (The Mozilo mortgages that Wall Street re-packaged were a form of derivatives called collateralized debt obligations.)

Warren Buffett, the world-famous founder and director of Berkshire Hathaway Investments, described the very dangerous characteristics of these complex derivatives, considering them to be “time bombs” and “financial weapons of mass destruction.”xxi (See this source for Buffett’s complete description.) Still another description was:

> Derivatives combined impressively varied forms of mischief—vastly expanded use of leverage, incredible opacity, and an ever-tightening web of invisible threads among firms—into a single perilous package.xxii

After the financial collapse of 2007-2008, former Federal Reserve Board chairman Paul Volcker reportedly said that two types of financial derivatives, “credit-default swaps and collateralized debt obligations, had nearly destroyed the economy.” xxiii

These new and dangerous financial products are discussed more fully in Chapters 27, 28 and 30.

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ii Same source as note i, page 172.
iii Same source as note i, page 173.
iv Same source as note i, page 355.
v Same source as note i, page 361.
vi In his Chapters 13 and 14, Hedrick Smith, Who Stole the American Dream?, (Random House, 2012), reports in great detail many of the unethical and illegal practices employed by Wall Street, by many banks, and by mortgage-writing companies and their agents and brokers.
vi Same source as note i, page 362.
vi Same source as note i, pages 266-67.
xii Same source as note i, pages 369-70.
ixiii Same source as note i, page 286.
ixi Same source as note i, page 297.
ixiv Same source as note i, page 304.
ixv Same source as note i, page 302.
ixvi Same source as note i, page 306.
ixvii Same source as note i, pages 309-10.
ixviii Same source as note i, pages 312-13.
ixix Same source as note i, pages 312-17.
xii Same source as note i, page 288.
xix Same source as note i, page 349.
xiii Jacob S. Hacker & Paul Pierson, Winner-Take-All Politics, (Simon & Schuster, 2010), page 249.
CHAPTER 27: PRESIDENTS DURING THE 1990s

This chapter discusses the two men who were president during the 1990s, (1) George H.W. Bush and (2) William (Bill) J. Clinton. It also discusses (3) the Clinton economic boom, (4) the deregulation of financial institutions, and (5) the repeal of the Glass-Steagall Act.

George Herbert Walker Bush, Vice President of the United States from 1981 to 1988, was elected President in November 1988 and took office in January 1989. During his campaign for the presidency, Bush felt he had to promise there would be “no new taxes” in order to gain conservative support for his candidacy.i

Recall that during his eight years in office, not even once did President Reagan manage to balance the federal budget. Instead, his eight annual budget deficits caused the national debt to triple, increasing from $930 billion dollars when he took office to $2.7 trillion when he left. (See Chapter 22.) Because President Bush believed that budget deficits were harmful to America’s leadership role in the world, he tried to persuade Congress to reduce those deficits. But the Republicans in Congress would agree to reduce the deficit only through spending cuts, which was unacceptable to Democrats. To accomplish at least some deficit reduction, in 1990 Bush agreed to an increase in marginal income tax rates and the elimination of some tax exemptions for high-income earners. Conservative Republicans were outraged! (Bush later said he regretted signing the tax increase bill.)

Although these Bush-approved tax increases eventually had a favorable impact on economic growth (discussed on the next page), they did not significantly reduce the budget deficits during his presidency. As also reported in Chapter 22, the Bush presidency caused the national debt to grow by approximately $1.5 trillion, which represented a fifty percent increase during his four years in office. Because of the interest that had to be paid on that debt, none of those funds were available for any project or program that would promote the general welfare. Thus, the budget deficits during the twelve years of the Reagan and Bush presidencies were major contributors to the destruction of the middle class. And, for reasons described later, they also contributed to the second, conservative great worldwide depression that began in 2007-2008.

(Here it should be briefly noted that Bush, like Reagan before him, became deeply involved in military conflicts in the Middle East. President Bush’s son, who became the 43rd President of the United States in 2001, would likewise become deeply involved militarily in that part of the world, with disastrous economic consequences for the U.S.i This matter is discussed more fully in Chapter 32.)

On the domestic front, Bush worked to increase federal spending on education and childcare. In 1990 he signed the Americans with Disabilities Act and the re-authorization of the Clean Air Act, both of which contributed to the common good.iii He also signed the Immigration Act of 1990, which increased legal immigration by forty percent. Given that unemployment had been seven percent or higher from 1980 to 1986,iv an increase in immigration probably contributed to the declining economic fortunes of low-income Americans during the 1990s and thereafter.v

Two factors opposed Bush’s re-election in the presidential campaign of 1992. Economic growth was sluggish—unemployment was 6.8% in 1991, and 7.3% in the 1992 election year. (These were the eighth and ninth years of high unemployment since Regan was elected president in 1980. Republican presidents
The second factor opposing Bush’s re-election was the tax increase he approved after having made his “no new taxes” pledge. “Hard-right” conservative Republicans felt betrayed by Bush’s action and showed little enthusiasm during his campaign for re-election.

William (Bill) Jefferson Clinton was elected president in November 1992 when he received 43% of the vote to Bush’s 38%. The Electoral College vote was 370 for Clinton, 168 for Bush.

Clinton was a “moderate” Democrat, unlike Franklin Roosevelt or Lyndon Johnson, both of whom were very “progressive.” But times had changed. The 1990s were nothing like the 1930s, 1940s, 1950s, or 1960s. The Vietnam War and President Reagan had convinced many people that “government was the problem” because it was much too big. More importantly, the business community/Republican Party/conservative Democrats faction had coalesced in the late 1970s and developed into a powerful conservative force during the 1980s.

Nevertheless, in Clinton’s first year in office, the Democratically-controlled Congress passed, and Clinton signed, the Omnibus Budget Reconciliation Act of 1993. Not a single Republican voted for the Act, because it raised taxes on the wealthiest 1.2% of earners. President Clinton’s first budget (1993), which was based on those tax increases on the wealthy, barely passed in Congress. The House of Representatives voted 219 to 213 in favor of the budget, and the Senate voted 50 to 49 in favor. As noted, not one Republican in either house of Congress voted in favor of Clinton’s budget.

Recall here the tax increase President Bush signed in 1990. When combined with this Clinton tax increase, they represented the first significant tax increases in the U.S. since Nixon was president, some thirty years earlier. Given that Ronald Reagan espoused tax cuts for the wealthy (in his “supply-side economics,” or “trickle-down economics,” as it often was called), and given that he and Republicans claimed over and over that such tax cuts would cause significant economic growth and prosperity, and given that “supply-side economics” proved to be an utter failure, it is most useful to inquire into the economic consequences of the Bush and Clinton tax increases.

The Clinton economic boom. What economic growth or decline could be attributed to those two tax increases? According to the Bureau of Economic Analysis, those tax increases were followed by significant economic growth, as indicated by the following.

- In the several years prior to the 1990 Bush tax increase, the average annual growth rate of the U.S. economy was approximately 2.3 – 2.5%.
- After the Bush and Clinton tax increases took effect, the average annual growth of the economy rose to over 3%, continued rising to over 4%, reached a peak of about 4.5% in 1994-95, and then continued at that rate until about 1999-2000.

When those two tax increases were instituted, “…conservatives predicted disaster. Instead, the economy boomed, and incomes grew at their fastest pace since the 1960s.”

This period of economic growth was called the Clinton Boom. Unemployment fell from 6.8% to 3.9% when over 22 million jobs were created. Both personal incomes and industrial production increased significantly. In each of the first four years of the Clinton presidency, the annual budget deficit shrunk

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noticeably until the deficit essentially disappeared in 1997. The 1998 Clinton budget resulted in a surplus of $68 billion, the first budget surplus since 1969. Clinton’s 1999 budget resulted in a $126 billion surplus, and his 2000 budget had a $236 billion surplus, the largest surplus in U.S. history. President Clinton “presided over the longest period of peacetime economic expansion in American history.” At the time, economic analysts reported that the federal budget would be in surplus for years to come, and that the entire national debt would be completely eliminated sometime around 2010.

It should be noted that this fantastic economic growth and prosperity was associated with tax increases, not with tax cuts, as Reagan, Milton Friedman, Alan Greenspan and the Republican Party had been claiming for years!

During the first two years of Clinton’s presidency, the Democrats controlled the Senate 57 seats to 43, and the House of Representatives 258 seats to 176. Because not one Republican voted for it, Clinton’s first budget (employing the tax increase) would not have happened without Democratic control of Congress. All that changed with the mid-term election of November 1994 when the Republicans gained control of both houses of Congress, claiming 52 seats to 48 in the Senate, and 230 seats to 204 in the House. (This almost instantaneous reversal of party control of Congress was due, at least in part, to the very successful business community/Republican Party attack on Clinton’s proposed new health care plan of 1993-94.) Republicans remained in complete control of Congress for the next twelve years, until the election of 2006. For all practical purposes, the Republicans controlled the nation’s domestic agenda for the remainder of the 1990s, and for the first six years of the 2000s, just shortly before the financial and economic collapse of 2007-2008.

Deregulation of financial institutions. In the 1920s, speculation by financial institutions, including banks, was believed to have been a major contributor to the Great Depression of the 1930s. As a result, Congress in 1933 passed the Glass-Steagall Act, which prohibited commercial banking from participating in investment banking, and visa-versa. Over the years since then, financial and business executives had spent a great deal of time and money trying to repeal that hated act. And they had made some progress.

The loosening of New Deal regulations restricting banks had been underway for a long time and was now nearly complete. Increasingly the media supported it. The changes included the complete elimination of Regulation Q restrictions in 1982 by Congress; the Fed’s granting permission for banks to underwrite commercial paper, municipal bonds, and mortgage-backed securities; the Fed’s loosening of restrictions to enable commercial banks to underwrite equities up to 25 percent of business in 1989; and the refusal of Congress and President Clinton in both 1994 and 1999 to regulate derivatives.

In the 1990s, financial lobbying led to the creation of an association of dealers of derivatives whose purpose was to prevent the government from regulating derivatives. At the end of that decade the financial community would succeed in repealing the Glass-Steagall Act.

Repeal of the Glass-Steagall Act. In 1995 Clinton named Robert Rubin, a career Wall Street financier, to the post of Secretary of the Treasury. Lawrence Summers, a Harvard economist, was Clinton’s top financial advisor. In 1996, an election year in which he sought the support of the business community, Clinton nominated Alan Greenspan for a third term as chairman of the Federal Reserve Board.
For much of his tenure (Greenspan) suppressed growth too much in his battle against inflation while neglecting unemployment and ignoring the rampant over speculation in high-technology stocks and housing that low-interest-rate policies supported. Under Greenspan, banks and other bank-like financial institutions were far more free from government oversight and regulatory enforcement than at any time since the 1920s. …markets lurched from financial crisis to crisis under Greenspan’s tenure—a stock market crash in 1987, a thrifts crash in 1989, the collapse of junk bonds in 1990, a derivative crisis in 1994, the Mexican peso collapse in 1994, the Asian financial crisis of 1997, the failure of Long-Term Capital Management and the Russian default on debt in 1998, and the severe stock market crash of 2000.\(^x\)

Chapter 26 reported on Sandy Weill and how he circumvented the Glass-Steagall Act through behind-the-scenes meetings and conversations to create the giant financial services firm, Citigroup. Those meetings and conversations involved Greenspan, Secretary of the Treasury Rubin, and even Weill’s “friend,” President Clinton. Shortly thereafter (late 1998), Rubin left his post at Treasury and was immediately hired by Weill as a senior advisor because of Rubin’s reputation as a “tireless advocate of Glass-Steagall repeal.” \(^{xxi}\) The new Secretary of the Treasury, Lawrence Summers, also supported repeal of Glass-Steagall. In 1999 Congress passed the Gramm-Leach-Bliley bill, which finally repealed Glass-Steagall, and Clinton signed the bill into law in 2000.\(^{xxii}\)

Of this event, noted television commentator Bill Moyers said:

> After twelve attempts in 25 years, Congress finally repeals Glass-Steagall, rewarding financial companies for more than 20 years and $300 million worth of lobbying effort. Supporters hail the change as the long-overdue demise of a Depression-era relic.\(^{xxiii}\)

The ten largest banks in the country now controlled almost half of the nation’s banking assets, and that proportion was growing.\(^{xxiv}\) In fewer than eight years after the repeal of Glass-Steagall, almost all of the financial “houses-of-cards” institutions that were created in the previous twenty years would collapse. And the second, conservative great worldwide depression would begin.

\(^*\)

When Clinton took office in 1993, only about 20% of the public “trusted” him. That rating rose steadily over his years in office until it reached 45-47% in 2000.\(^{xxv}\) When he left the presidency in January 2001, Clinton had the highest approval rating of any president in over half a century.\(^{xxvi}\)

In his first two years in office, Clinton tried to restore prosperity growth for the vast majority of people. And given the economy’s performance from 1994 to 2000, he was successful. But when Republicans took control of Congress in 1994, he was no longer able to accomplish new domestic policies and programs supportive of growth for the middle and lower classes. Additionally, many question the wisdom of Clinton’s appointments of such ultra-conservatives as Greenspan, Rubin, and Summers.
Hussein’s Survival in Iran-Iraq War,” by Agence France Presse, June 9, 2004, (www.commondreams.org/headlines04/0609-01.htm). In the summer of 1990 when Iraq was threatening neighboring Kuwait, official U.S. communications with Iraq appeared not to oppose Iraq’s taking military action against its small neighbor. See (http://en.wikipedia.org/wiki/April_Glaspie#United_States_Ambassador_to_Iraq.) When Iraq invaded Kuwait, that military action led President George H.W. Bush to lead the U.S. into the 1991 “Gulf War” which, in turn, is linked to the U.S. invasion of Iraq under the country’s 43rd president, George W. Bush, some ten years later.

iii Same source as the first source listed in note i.


vi Same source as note v.


viii Same source as the first source listed in note i.


xi (http://meetthefacts.com/tag/omnibus_budget_reconciliation_act_of_1993/)


xiii “The Budget and Deficit Under Clinton.” See (http://www.factcheck.org/2008/02/the_budget_and_deficit_under-Clinton).

xiv Same source as note ix.

xv Alan Greenspan reportedly noted that there was a real possibility that series of surpluses would wipe out the debt in ten years, from “Senator Udall was there when Clinton balanced the budget and Greenspan feared a Debt-Free America.” See (http://www.squarestate.net/diary/2323/senator_udall_when_clinton_balanced_the_budget-and_greenspan_feared_a_debtfree_America).


xvii Jeff Madrick, Age of Greed, (Alfred A. Knopf, 2011), especially see page 312, but also see page 335.

xviii Same source as note xvii, page 312.


xx Same source as note xvii, page 226.


xxii Same source as note xvii, page 315.

xxiii See (http://www.ritholtz.com/blog/2012/05/how-we-ended-glass-steagall/)

xxiv Same source as note xvii, page 317.


xxvi See (http://en.wikipedia.org/wiki/Presidency_of_Bill_Clinton.)
CHAPTER 28: CONGRESS DURING THE 1990s

The Democrats controlled both houses of Congress during the four-year presidency of George H.W. Bush (1989-1992). In attempting to reduce the size of Reagan’s budget deficits, President Bush had to compromise with Congress by agreeing to the 1990 tax increase described in Chapter 27.

The Democrats also controlled Congress during the first two years of the Clinton presidency (1993-94), and it was in 1993 that Congress passed Clinton’s tax increase budget without even one Republican vote in either house of Congress. Taken together, the Bush and Clinton tax increases created the “boom years” associated with the Clinton presidency.

This chapter discusses (1) Stealth Government Action Against the American People: Congress allows the growing use of stock options to dramatically increase CEO compensation, (2) the Gingrich “Revolution,” (3) the Gingrich-Republican Party strategy to regain control of the House of Representatives, (4) Gingrich “closes down” government, (5) the Gingrich strategy is put on “hold,” but only temporarily, (6) the repeal of Glass-Steagall, (7) Democrats become “moderate Republicans,” and (8) Stealth Government Action Against the American People: Congressional Republicans relegate waitresses and waiters to poverty.

Stealth Government Action Against the American People: Congress allows the growing use of stock options to dramatically increase CEO compensation. During the 1990s the business community significantly increased its use of stock options to reward executives, and that development contributed greatly to the growing income inequality between CEOs and the average workers in their companies.

From 1990 to 2001, CEO annual compensation grew about 400 percent. To a great extent, that growth was due to the use of stock-option grants as a form of executive compensation. Stock options represented about 20 percent of executive compensation in the early 1990s. Twenty years later that figure tripled to about 60 percent of executive compensation.¹

More than half of all the money that the top one-tenth of 1 percent of American earners reported on their 2001 taxes represented the combined incomes of the top five executives at the five hundred largest American companies (italics added). Almost all the rest were financial traders and hedge-fund managers.²

The practice of stock-option grants began in the mid-1970s. It started with no fanfare, with no new bills passed by Congress, and with no presidential signings of new laws. It was started by the business community, but the government made no attempt to stop the practice, or even to control or regulate it.

In the 1970s, corporate boards of directors began granting CEOs, as part of their annual compensation, large quantities of company stock, either free or at bargain prices. Corporate boards called this “pay for performance” because CEOs would only benefit from the practice if the company’s stock price increased.

Unlike ordinary shareholders, the corporate brass did not face a downside risk. They would exercise their options only if the company’s stock went up, and … a fast-talking CEO can often cause a short-term run-up in the market price. The payoffs were astronomical, enough to vault a previously affluent corporate executive into the stratosphere of the super-rich. …today the top
Echelons of business and Wall Street constitute 60 percent of the very richest people in America—the richest 0.1 percent and stock options were the primary vehicle for the corporate super-rich. By 1980, only about 30 percent of CEOs had been granted company stock options, and by 1994, 70 percent were getting options. By 2000, “mega-option grants” of millions of shares or more had become the norm.iii

The use of stock options was controversial because they were not treated as an expense in the company’s accounting system. As a consequence, when CEOs exercised their stock options, they represented transfers of wealth from the shareholders of the company’s stock to corporate executives. Such transfers of wealth occurred without the permission of the shareholders.

Some of the sharpest criticisms of the stock option game came not from academics or liberal politicians, but from staunch capitalists such as John C. (Jack) Bogle, founder and longtime chairman of the Vanguard mutual fund family. Bogle contended that ordinary shareholders were being cheated by the massive stock grants given to CEOs because the value of everyone else’s shares was being diluted by the gift of free or low-cost shares to the executive elite. …Bogle derided the whole concept as a smokescreen for a massive “wealth transfer to (corporate) insiders” from ordinary investors.

Bogle also derided the idea that stock options linked the interest of management with the interest of shareholders. “This oft-repeated and widely accepted bromide turns out to be false,” Bogle protested. “Managers don’t hold the shares they acquire (like shareholders). They sell them, and promptly…. We rewarded our executives not for the reality of creating long-term economic value but for pumping up the perception of short-term stock market prices.” iv

There are other criticisms of the use of stock options. Academicians at the Harvard Business School charged that the practice caused CEOs to turn their backs on their social responsibilities.

“The dominant ethos today legitimizes the notion that human beings are relentless market maximizers who need literally to be bribed to focus solely on shareholder value—undermining other commitments managers might have to employees, customers, the community, or larger national and global concerns such as the environment or human rights,” asserted Harvard Business School professors Jay Lorsch and Rakesh Khurana. “It relieves the corporate institution of any meaningful responsibility to anyone but the transitory group of stockholders who buy and sell shares constantly.” v

The stock option practice finally provoked a political crisis in 1993 when the quasi-regulatory Financial Accounting Standards Board (FASB) announced that it intended (1) to rule that stock options were illegal because “failing to charge options as a business expense was deceptive accounting,” and (2) to require companies to charge them as a cost, just like executive salaries. Corporate America was outraged. It besieged the Securities and Exchange Commission (SEC) that oversaw the FASB. The director of the SEC later wrote …
“…nothing astonished me more than witnessing the powerful special interest groups in full swing when they thought a proposed rule or piece of legislation might hurt them, giving nary a thought to how the proposal might help the investing public. With laser-like precision, groups representing Wall Street firms, mutual fund companies, accounting firms, or corporate managers would quickly set about to defeat even minor threats. Individual investors, with no organized labor or trade association to represent their views in Washington, never knew what hit them.”

Business leaders reacted so explosively because making options a corporate expense would make major companies look bad. Big-name Silicon Valley companies had been issuing such a cornucopia of stock options that, if they were charged as an expense, company profits would plummet. Merrill Lynch estimated that expensing options would slash profits among leading high-tech companies by roughly 60 percent. At Cisco, the Internet equipment giant, a yearly $2.6 billion profit would have been cut nearly in half.

Warren Buffett backed the FASB rule. Expensing options, he asserted, would be more honest because it would expose the naked truth to investors. “Options are a huge cost of many corporations and a huge benefit to executives,” Buffett declared. Failing to value options fairly, he wrote in a Washington Post op-ed piece, “enables chief executives to lie about what they are truly being paid and to overstate the earnings of the companies they run.”

Congress quickly came to the rescue of corporate America the following year (1994). Led by Democratic Senator Joe Lieberman of Connecticut, the Senate voted 88-9 in favor of a resolution that condemned the FASB’s proposed actions as “reckless.” Fearful that Congress would eliminate the FASB and reduce funding for the Securities and Exchange Commission (SEC), the chairperson of the SEC directed the FASB to withdraw its proposed ruling. That Senate resolution presented CEOs with another ten years of bountiful wealth. For example, including stock options, Larry Ellison (CEO of Oracle) was paid $706 million in 2001. Michael Eisner (CEO of Disney) received $575 million in 1998, and Sandy Weill (CEO of Citigroup) received $621 million from 1997 to 2000.

All that changed in 2004 when the International Accounting Standards Board ruled that stock options must be treated as an expense, even in the United States. However, the U.S. business community was able to delay that international ruling from taking effect until two years later, in 2006. Perhaps the worst aspect of stock options was the direct “cheating” that occurred. Apple CEO Steve Jobs reportedly benefited greatly by the company’s altering the dates when stock options were actually issued. William McGuire, CEO of United Health Group, had to forego $620 million of his $1.1 billion in stock options when it was discovered that he had been “backdating” his stock options for years. A study by Harvard and Cornell University professors reported that “at least 850 CEOs were involved in fraudulently manipulating stock options, dishonestly cheating their own employees as well as mutual fund and 401(k) investors.” Most of these stock option illegalities received no publicity “because the SEC under (President George W.) Bush relied mostly on internal company probes to ferret out wrongdoing, rather than launching its own legal actions (italics added.)” The worst aspect of stock options was the direct “cheating” that occurred. Apple CEO Steve Jobs reportedly benefited greatly by the company’s altering the dates when stock options were actually issued. William McGuire, CEO of United Health Group, had to forego $620 million of his $1.1 billion in stock options when it was discovered that he had been “backdating” his stock options for years. A study by Harvard and Cornell University professors reported that “at least 850 CEOs were involved in fraudulently manipulating stock options, dishonestly cheating their own employees as well as mutual fund and 401(k) investors.” Most of these stock option illegalities received no publicity “because the SEC under (President George W.) Bush relied mostly on internal company probes to ferret out wrongdoing, rather than launching its own legal actions (italics added.)” The worst aspect of stock options was the direct “cheating” that occurred. Apple CEO Steve Jobs reportedly benefited greatly by the company’s altering the dates when stock options were actually issued. William McGuire, CEO of United Health Group, had to forego $620 million of his $1.1 billion in stock options when it was discovered that he had been “backdating” his stock options for years. A study by Harvard and Cornell University professors reported that “at least 850 CEOs were involved in fraudulently manipulating stock options, dishonestly cheating their own employees as well as mutual fund and 401(k) investors.” Most of these stock option illegalities received no publicity “because the SEC under (President George W.) Bush relied mostly on internal company probes to ferret out wrongdoing, rather than launching its own legal actions (italics added.)”
Regarding this practice of using stock options to dramatically increase CEO compensation, three observations are appropriate. First, the practice contributed significantly to growing income inequality by devaluing the market price of a company’s stock when it gave stock options to its CEO. The executive’s income increased while the ordinary shareholder’s wealth decreased. Second, it was instituted specifically for the purpose of deliberately disguising extremely large increases in executive compensation. Third, beginning in the 1980s, the stock prices of many companies were enhanced when those companies ceased sharing with their employees the benefits of increased productivity. (See Exhibit 25-2 in Chapter 25.) The wages of ordinary workers stagnated, but company profits increased. That resulted in rising stock prices because of higher company profits due to their lower labor costs. Higher stock prices meant even greater CEO compensation, which further contributed to increasing income inequality.

The Gingrich “Revolution.” Newton Gingrich was elected to the House of Representatives in 1978,xi became the House Minority Whip in 1989, and then Speaker of the House in 1995, when the Republicans took control of the Congress for the first time since 1954.xii Republicans took nine seats from Democrats to gain a 52 seat to 48 advantage in the Senate. They also took 54 seats from Democrats in the House to gain a 230 to 204 advantage. This victory was termed “the Gingrich Revolution,” which was based at least in part on the House Republicans’ “Contract With America.” The contract was very conservative, reportedly originating in the ultra-conservative Heritage Foundation.xiii Balancing the budget, lowering taxes, and reducing the size of government were the highlights of the contract (which was no different from Milton Friedman’s philosophy, which Ronald Reagan embraced).

The Gingrich-Republican Party strategy to regain control of the House of Representatives. Gingrich was an extremely conservative Congressman who had a clear strategy for Republicans to gain control of the House of Representatives for the first time in forty years. According to respected Washington-watchers Thomas E. Mann and Norman J. Ornstein:

> The core strategy was to destroy the institution in order to save it, to so intensify public hatred of Congress that voters would buy into the notion of the need for sweeping change and throw the majority bums out. His method? To unite his Republicans in refusing to cooperate with Democrats in committee and on the floor, while publicly attacking them as a permanent majority presiding over and benefitting from a thoroughly corrupt institution. (Gingrich used various tactics to) agitate Democratic leaders (who over-reacted to those tactics. That Democratic response) radicalized even moderate Republicans who had been content to work within the system as minor partners.xiv

The result was that Gingrich was able to attract more and more Republicans to his strategy. What then followed was a series of confrontations between House Republicans and the Democratic majority, all designed to make the House of Representatives appear to the public to be a completely dysfunctional and mismanaged institution under Democratic control.xv “Gingrich’s goal of causing voters to feel enough disgust at the entire Congress that they would throw out the majority was within reach: he attained it a little more than two years later” when Republicans gained control of Congress in 1994.xvi

Under Gingrich’s leadership in the House, Congress passed a capital gains tax reduction and welfare reform, which Clinton signed, but only after having vetoed several extreme versions of both bills. (Regarding the other goals stated in the “Contract With America,” the President of the Cato Institute...
reported that not even one of the 95 programs the “Contract” hoped to eliminate was in fact eliminated. Instead, the budgets for those programs actually increased by more than ten percent.)

**Gingrich “closes down” government.** The difficulties between Gingrich and Clinton continued, and conflict often arose because of legislation proposed by the Republican-controlled Congress and the veto pen of President Clinton. When in late 1995 Congress did not pass a budget acceptable to Clinton, Congress (i.e., Gingrich) forced the government to “close down” for twenty-eight days in late 1995 and early 1996. This government shutdown so damaged Gingrich’s public image that he resigned as Speaker of the House on November 5, 1998, and then retired from Congress in January 1999.

**The Gingrich strategy is put on “hold,” but only temporarily.** Readers should carefully note the Mann-Ornstein description (on the previous page) of the Gingrich strategy for regaining control of the House of Representatives. In spite of Gingrich’s embarrassing departure from Congress, it was not cause enough for the Republican Party to discard the strategy that resulted in it regaining control of the House. Instead, they merely put in on “hold,” to keep it for use another day when it might be helpful. Besides, when the Republican Party won the White House in the November 2000 election (with the help of the Supreme Court), they controlled all three branches of government: the White House, Congress, and the Supreme Court (see Chapter 29). The Republicans had no need for the Gingrich strategy under these circumstances. His strategy would not emerge again until 2008, when the Republican Party lost control of the Congress. (When that happened, Senate Republican leader Mitch McConnell and House Republican leader John Boehner would resurrect the Gingrich strategy with such zeal and determination that the Congress became the most dysfunctional it had ever been in its entire history. See Chapter 33.)

**The repeal of Glass-Steagall.** In November 1999 Congress passed the Gramm-Leach-Bliley Act, which repealed of the Glass-Steagall Act of 1933. Chapter 26 described in some detail how Sandy Weill completed the merger of Primerica and Citicorp, even though such a merger was in violation of the Glass-Steagall Act, then still in force. Chapter 27 added to that description with details regarding how Weill, Greenspan, Rubin, and Summers, apparently with Clinton’s approval, aggressively pushed for the repeal of Glass-Steagall. The repeal passed in the House, 343 to 85, with practically all Republicans voting for repeal and two-thirds of the Democrats joining them. The vote in the Senate was a different story. All 53 Republicans voted for the repeal, but only one Democrat (out of 45) voted with them. (The Glass-Steagall Act does not fade away. It again became a topic of public discussion shortly after the financial crisis of 2007-2008. See Chapter 31.)

**Democrats become “moderate Republicans.”** From 1989 to 1994, through the Bush and Clinton tax increases, Congress did attempt to reverse the declining prosperity of the middle class. But that effort was not strong enough and did not last long enough. During the remaining six years of the decade, when the Republicans controlled the legislative agenda, Congress’ efforts were again focused on those things that benefited the top 1% of earners: lowering taxes on the wealthy, eliminating regulations, and reducing the size of government. Only this time, they had more help than usual from the Democrats, about whom it was said “…could hardly be distinguished from moderate Republicans.”

Recall from Chapter 2 the story where President Roosevelt first told a group of petitioners that he agreed with what they were espousing, but then told them: “Now make me do it.” That is, he was telling them to get organized and put pressure on his administration to do what they were asking. Here in the 1990s...
ordinary middle and lower class workers did not have the resources to generate that kind of pressure. Without strong labor unions putting pressure on congressional Democrats to be more progressive, many Democrats were becoming more responsive to the pleas of the business community and to its potential as a source of campaign funds. \(^{xix}\) (The first signs that such a shift was occurring among Democrats was in Chapter 18, when Congressional Democrats in 1977-1978 did not stop the filibuster of a bill designed to reform Taft-Hartley. Also, Chapter 23 reported that some Democrats supported both Reagan’s tax cuts for the wealthy and his tax increases for the middle and lower classes.)

**Stealth Government Action Against the American People: congressional Republicans relegate waitresses and waiters to poverty.** Prior to 1966 “… the restaurant industry had successfully lobbied Congress to deny tipped workers any minimum-wage protection, leaving them to live on tips alone.” In 1966 the hourly minimum wage for tipped workers (mostly waitresses) was established at 50 percent of the regular minimum wage.

Over the next 30 years (1966-1996), the tipped wage sometimes rose to as high as 60 percent of the minimum wage, but it never fell below 50 percent…. Then, in 1996, the Republican-led Congress agreed to raise the minimum wage, but on the condition that the tipped wage remain frozen. It has not budged since, and today (2013) it is 29 percent of the minimum wage. \(^{xx}\)

That 1996 action by the Republican-led Congress, reflecting the wishes of the National Restaurant Association, essentially legislated the nation’s waitresses and waiters to the ranks of those in or near poverty.

The two “stealth government actions” reported in this chapter represent the sixth and seventh such actions put into place by the business community/Republican Party/conservative Democrats faction.

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Congressional action (or inaction) in most of the 1990s reflected the wishes of the business community/Republican Party/conservative Democrats faction. That is, Congress continued to function in a manner most favorable to the top 1% of earners, and most unfavorable to the middle and lower classes, as is witnessed by the two “stealth government actions against the American people” that are described in this chapter. It was not in the faction’s interests “to promote the general welfare” or “to establish justice,” and Congress’ legislative behavior reflected that point of view.

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\(^{i}\) Eduardo Porter, “Motivating Corporations to Do Good,” *New York Times*, July 16, 2014, pages B1, B5 reported: “In 1993, some 20 percent of executive compensation was based on stock, according to Lynn Stout of Cornell Law School. Today equity accounts for about 60 percent of the remuneration of the executives at companies in the Standard & Poor’s 500-stock index. With so much money tied up in stock options and the like, it is not surprising that executives will do almost anything to give their share price a boost regardless of what costs this might incur….” The data describing the increase in executive compensation is from “The Decline of the American Job, 1974-—,” *The American Prospect*, September-October 2013, pages 24-26. See the chart labelled, “So Who Benefited?”


\(^{iv}\) Same source as note iii, pages 116-117

\(^{v}\) Same source as note iii, page 117
vi Same source as note iii, pages 118-119.

vii Same source as note iii, pages 119-120.

viii Same source as note iii, page 112.

ix Same source as note iii, pages 119-120.

x Same source as note iii, pages 115-116.


xii The information in these paragraphs on Gingrich is based on (http://en.wikipedia.org/wiki/Newt_Gingrich).


xiv Same source as note xi, pages 33-34.

xv Same source as note xi, pages 35-37.

xvi Same source as note xi, page 38.

xvii See (http://en.wikipedia.org/wiki/Gramm%E2%80%93Leach%E2%80%93Bliley_Act).


xix For an in-depth discussion of Democrats becoming more like Republicans, see Jacob S. Hacker and Paul Pierson, *Winner-Take-All Politics*, (Simon & Schuster, 2010), Chapter 9, “Democrats Climb Aboard.”

CHAPTER 29: SUPREME COURT DURING 1990s

This chapter discusses (1) President Bush’s Supreme Court appointees make the Court “more conservative,” (2) President Clinton’s Supreme Court appointees fail to make the Court “more progressive,” (3) Supreme Court decisions affect “justice” and “the general welfare,” (4) Stealth Government Action Against the American People: courts allow “forced arbitration” clauses in consumer contracts to prevent class action lawsuits against corporations, and (5) the business community/Republican Party/conservative Democrats faction gains the Supreme Court as an ally.

President Bush’s Supreme Court appointees make the Court “more conservative.” When George Herbert Walker Bush became president in January 1989, the Supreme Court might have been labeled “middle of the road” philosophically. In reality, the court consisted of four conservative (some might say very conservative) justices appointed by Reagan, two justices who could be labeled neither conservative nor progressive, and three long-tenured justices who clearly had more progressive leanings.

When Justice William Brennan retired in 1990, President Bush appointed David Souter to his seat, as he was believed to be conservative.1 A year later, Thurgood Marshall, the court’s first and only African-American, retired. Marshall had been closely associated with the Supreme Court’s rejection of the “separate-but-equal” education policies practiced by southern states. While on the Supreme Court, Marshall’s voice and vote were very progressive. In his place, Bush nominated Clarence Thomas, also an African-American, but one who was very, very conservative. By his two nominations to the Court, Bush clearly tried to push the Court in a conservative direction.

President Clinton’s Supreme Court appointees fail to make the Court “more progressive.” Although in office for eight years, President Clinton had only two opportunities to nominate Supreme Court Justices. When Byron White retired from the Court in 1993, Clinton nominated Ruth Bader Ginsberg to replace him. From his voting record over his long tenure on the Court it was not possible to identify White as adhering to a specific judicial philosophy—either conservative or progressive.2 The general consensus might have been that Ginsberg gave the Court a push in the progressive direction, but White’s record probably did not allow such a judgment.

Harry Blackmun retired in 1994, and Clinton nominated Steven Breyer to replace him. Breyer was considered at least a moderate, or maybe even a little progressive. Since Blackmun had been very progressive toward the end of his Supreme Court career, it was not clear that Breyer’s appointment moved the court toward more progressivism.3

During the decade of the 1990s, the Supreme Court probably became even more conservative than it was during the eight years of Reagan’s presidency. It must be noted that throughout the 1990s the Supreme Court included seven Republican-appointed justices and only two Democratic-appointed justices. This Republican dominance clearly made its presence felt in the Bush v. Gore Supreme Court decision described in the next section.

Supreme Court decisions affect “justice” and “the general welfare.” In the 1990s, two Supreme Court decisions impacted the two United States Constitution goals this course is addressing—establishing justice, and promoting the general welfare. The first decision, in 1996, struck down state-run schools that
served only a single sex (males). That ruling removed what many saw as an injustice to females in states where such schools had been established.

In the 2000 presidential election, Democrat Albert Gore won the popular vote by more than half a million votes over the Republican nominee, George W. Bush. However, neither candidate clearly won the Electoral College vote because there was a dispute over who won Florida’s 25 electoral votes. The Florida Supreme Court ruled that there had to be recounts in certain Florida counties in order to determine which candidate won those counties, and from that, which candidate would win Florida’s 25 electoral votes, and thus the presidency.

In a five-to-four decision, the Supreme Court of the United States overruled the Florida Supreme Court decision to require a recount of votes in the designated counties. So the vote recount did not take place. (The five justices who decided in favor of Bush were all Republican-appointees.) That U.S. Supreme Court decision resulted in Florida’s 25 electoral votes going to Bush, making the final Electoral College vote count 271 for Bush and 266 for Gore. Bush was elected President, and the determining factor was the Supreme Court’s decision to prevent Florida from completing a recount that would determine the true winner of Florida’s electoral votes. That Supreme Court decision and the resulting George W. Bush presidency would prove to be a disaster for the U.S. economy and the general welfare of practically all Americans.

Stealth Government Action Against the American People: courts allowed “forced arbitration” clauses in consumer contracts to prevent class action lawsuits against corporations. When a consumer signs a credit card contract, a cellphone agreement, a cable television contract, or a payday loan agreement, the contract’s fine print is likely to include a “forced arbitration” clause. By signing such a contract or agreement, the consumer gives up her or his legal right to join with other like consumers in a class action lawsuit against the company issuing the contract. Instead, if the consumer believes the company is being unfair, dishonest, or doing something illegal, she or he must hire a lawyer and enter into individual arbitration with the company. Since the financial reward, for any individual consumer if they win the arbitration, is likely to be less than the legal fees incurred, there is no incentive to enter into such an arbitration.

“Forced arbitration” clauses allow companies to include conditions in their contracts which signees do not know about, do not like, or do not want, but which cost the signees a few or several dollars a month, or more. If there are hundreds of thousands of signees, those relatively small monthly amounts may total in the millions. Over the course of a year, those small amounts may total in the tens of millions of dollars. By including “forced arbitration” clauses in their contracts, companies benefit greatly, and they are not subject to costly class action lawsuits because of their unfair, dishonest, or illegal practices.

In the late 1990s, the National Arbitration Forum advertised its corporate services to corporate lawyers, suggesting that the only way for corporations to avoid being liable in class action lawsuits was to insert arbitration clauses with class action waivers into their contracts.

This business practice was well-established by the late 1990s, when a Consumer Reports article reported a manifold increase in the use of arbitration clauses in consumer contracts in the latter half of the 1990s. (This practice may have been in place in the early 1990s when the financial community began issuing subprime mortgages in great numbers. See Chapters 26 and 31.)
The use of forced arbitration clauses in consumer contracts facilitated the legal transfer of relatively small amounts of money each month from millions and millions of lower and middle class consumers to a relatively limited number of companies and their senior executives, thus making a big contribution to the country’s growing income inequality during the decade of the 1990s and the first decade of the 2000s. A Supreme Court decision gave this business practice its blessing, thus contributing even further to the income inequality disaster facing the nation.

In April 2011, the Supreme Court ruled on a case …, AT&T Mobility v. Concepcion, which was named for the lead plaintiffs, Vincent and Liza Concepcion, who signed a standard AT&T cellphone contract that, in fine print, forced dissatisfied consumers into individual arbitration. …a lower court ruled that AT&T’s bar on class-action lawsuits was unjust under California law. But Justice Antonin Scalia, writing for a 5-4 majority, cited a 1925 federal law, the Federal Arbitration Act, and reversed the decision. The text of the law was clear, Scalia said—it “was designed to promote arbitration,” and states couldn’t get in the way.

Judith Resnik, a professor at Yale Law School, (said) that Scalia’s interpretation was “in no way consistent with what we know Congress was doing in 1925.” Back then, “arbitration was negotiated between merchants, not imposed by merchants on their customers and employees.” Nevertheless, at least 139 class-action lawsuits have been thrown out by courts, according to the nonprofit group Public Citizens.

It has become harder and harder for ordinary people with legal problems to get into court and stay there. “This is all about access to justice,” Arthur R. Miller, a law professor at New York University says. “In a way it’s part of the class struggle. We are privatizing justice to the point the rich can afford it and everyone else can’t.”

Forced arbitration is another example of how the U.S. Government stealthily allowed the top 0.1 percent of earners to legally divert, for their own personal use, millions and millions of dollars each year from countless lower income and middle income consumers. It became part of the government’s growing “welfare for the rich” program. There were eight such “stealth government actions” in that program when the decade of the 1990s was coming to an end.

* 

The business community/Republican Party/conservative Democrats faction gains the Supreme Court as an ally. The five justices who voted to overrule the Florida Supreme Court were Kennedy, O’Conner, Rehnquist, and Scalia, all Reagan appointees, and Clarence Thomas, who had been appointed by President George H.W. Bush, the father of the candidate to be declared the winner because of the Supreme Court decision. Those same five justices joined together in 2011 to issue the decision that legitimized the use of “forced arbitration” clauses in consumer contracts. To many observers, it appeared that the business community/Republican Party/conservative Democrats faction had gained a most powerful ally—the Supreme Court of the United States.

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\(^1\) See (http://en.wikipedia.org/wiki/David_Souter#U.S._Supreme_Court_appointment).
In recent years views have changed regarding same-sex schools, and some government units now find it acceptable to establish schools and/or classes for only one sex.

For a very detailed description of the frantic activities of both Republicans and Democrats during the thirty-five days between election day and the Supreme Court’s decision, see Jeffry Toobin, Too Close to Call, (Random House, 2002). For a description of the U.S. Supreme Court’s intervention into the State of Florida’s vote recount after the November 2000 presidential election, see pages 182-185, 213-216, 227-228, 248-251, and 258-263 of the Toobin book.

Because this course has a focus on the U.S. Constitution’s goal of “establishing justice,” it is appropriate to note still another injustice that probably contributed to the one described in this paragraph. Florida is one of several southern states that have felony disenfranchisement laws which deny the right to vote to citizens who have been convicted of crimes, even after such individuals have paid their debt to society. “While George W. Bush won Florida by 537 votes in 2000, more than 800,000 Floridians with criminal records were barred from voting.” Clearly, the final vote count in the 2000 election in Florida would have been different if all, or a substantial portion, of those disenfranchised individuals had been permitted to vote. See “6 Million Americans Without a Voice,” New York Times, February 12, 2014, page A24.


Same source as note x.

CHAPTER 30: OTHER INSTITUTIONS DURING THE 1990s

and

SUMMARY OF THE 1990s

Several other developments during the decade of the 1990s involved efforts to further bolster the “prosperity” of financial and business executives and other individuals already in the very top slice of wealthy people. This chapter discusses: (1) creating litigation barriers to protect financial and business executives and institutions; (2) Brooksley Born tries to regulate derivatives; (3) public servants “feathering their nests”—institutionalized corruption; (4) the North American Free Trade Agreement, and (5) media no longer the public’s watchdog. Two other very important trends were: (6) greater usage of the filibuster; and (7) more and bigger private-equity firms.

Creating litigation barriers to protect financial and business executives and institutions. Two events in the mid-1990s gave greater legal protection to investment banks and individuals involved in investment banking, such as accountants, lawyers, rating agencies, etc. One involved the Supreme Court, which ruled that such organizations and personnel “could not be sued for participating in a fraud perpetuated by a client” unless they were the main perpetrators of the fraud. The ruling basically overturned more than half a century of precedents. “The court now worried about abuses of litigation, not abuses by Wall Street ….”

In 1995 the Republican-controlled Congress passed, over President Clinton’s veto, the Private Securities Litigation Reform Act which severely limited the ability of shareholders and similarly-interested parties to take legal action against corporations and investment bankers. In 1998 Congress passed additional amendments to that act, making it mandatory that such litigation be tried only in federal courts, thus making such litigation even more difficult to pursue. According to a noted hedge fund manager testifying before Congress, these two events “emboldened dishonest management to lie with impunity.”

In 1995 the Republican-controlled Congress passed, over President Clinton’s veto, the Private Securities Litigation Reform Act which severely limited the ability of shareholders and similarly-interested parties to take legal action against corporations and investment bankers. In 1998 Congress passed additional amendments to that act, making it mandatory that such litigation be tried only in federal courts, thus making such litigation even more difficult to pursue. According to a noted hedge fund manager testifying before Congress, these two events “emboldened dishonest management to lie with impunity.”

Brooksley Born tries to regulate derivatives. The financial and business community’s use of derivatives increased four-fold in only six years—from about $15 trillion in 1994 to about $60 trillion in 2000. Chapter 26 reported that Warren Buffett, one of the world’s most respected investment advisors, referred to derivatives as “financial weapons of mass destruction.” It appears that only one person in government—a woman—was concerned with the potentially destructive power of derivatives.

In the latter half of the 1990s Brooksley Born, the chairperson of the Commodity Futures Trading Commission (CFTC), believed that the unregulated use of derivatives caused the near collapse of the giant hedge fund, Long Term Capital Management. (CFTC was an independent agency of the federal government, and had the power to regulate derivatives if it deemed such action appropriate. The federal government had already intervened to prevent the collapse of Long Term Capital Management, but both Orange County in California and a two-hundred year old trading company had already declared Chapter 30 - 143
bankruptcy because of derivatives.) When Chairperson Born argued that the CFTC had regulatory authority over derivatives, she created quite a storm. Secretary of the Treasury Rubin said she had no power to regulate. Chairman of the Federal Reserve Board, Alan Greenspan, warned that her doing so might cause serious disturbances in U.S. financial markets. Lawrence Summers, President Clinton’s economic advisor, and Arthur Levitt, Jr., the head of the Securities Exchange Commission, participated in this “bullying” exercise. Born’s response was that, as an independent agency, CFTC had the right to regulate derivatives, because they were traded privately, and that “made it easier … to take big risks, or fraudulently manipulate deals.” In fact, in 1994 the Government Accounting Office had recommended regulating such derivatives. vii

Greenspan, Rubin and Summers scolded her … in a patronizing way…. …when Born tried to proceed, they had to persuade Congress to stop her. viii

Alarmed that Born and the CFTC might take regulatory action against derivatives, conservative Republican Senator Phil Gramm sheparded the Commodity Futures Modernization Act through Congress. That act specifically prohibited any regulation of derivatives by the CFTC. ix The year was 2000, less than ten years before the financial crisis of 2007. Many economists believe that unregulated derivatives played a major role in causing that crisis.

In 2009 Harvard University presented Brooksley Born with the “Profiles in Courage Award” for her heroic attempts to regulate a flawed financial instrument. x

Public servants “featuring their nests”—institutionalized corruption. According to Nobel-prize-winning economist Joseph Stiglitz: “It is generally recognized that providing money … conditional on a candidate’s providing a favor (supporting a bill) is corruption.” xi It is common practice for public servants to do favors for financial or business organizations and then, upon leaving public service, have those favors returned by a lucrative offer of employment.

As lobbying became more lucrative, an ever larger proportion of federal officials has turned to it. In the 1970s, only about 3 percent of retiring members of Congress went on to become Washington lobbyists. But by 2009 more than 30 percent did, largely because the financial incentives from lobbying had become so large. Starting salaries for well-connected congressional or White House staffers had ballooned to about $500,000. Former chairs of congressional committees and subcommittees commanded $2 million or more to influence legislation in their former committees. According to the Center for Public Integrity, between 1998 and 2004 (years picked because they straddled Democratic and Republican administrations) more than twenty-two hundred former federal officials registered as lobbyists, as did more than two hundred former members of Congress. xii

To illustrate this practice, three examples are presented here: a former conservative Democrat turned Republican (Senator Phil Gramm); a Republican (Robert Rubin) who served in a Democratic administration; and a retired Republican Congressman (Newt Gingrich).

Senator Phil Gramm’s wife, Wendy, was the chairperson of the CFTC in the late 1980s and early 1990s. While in that role she specifically gave permission to the Enron Corporation “to trade in self-designed derivatives free of CFTC supervision.” xiii When she left public service shortly thereafter, Mrs. Gramm
took a seat on Enron’s board of directors, where her services resulted in total compensation of approximately $1-2 million.\textsuperscript{xiv} (Enron’s sudden and embarrassing collapse some ten years later was due in part to the company’s careless use of derivatives.)

While chairman of the Senate Banking Committee in the late 1990s, Senator Gramm led the fight to deregulate banking.\textsuperscript{xxv} To Gramm, Wall Street was a “holy place,” to be held in respect and awe. When Gramm heard that the Security and Exchange Commission was considering recommending regulations to protect the public, he said to the Commission’s chairman: “Unless the waters are crimson with the blood of investors, I don’t want you engaging in any regulatory flights of fancy.”\textsuperscript{xxvi} Upon leaving public service Gramm was hired by UBS, Switzerland’s largest bank, as Vice Chairman of Investment Banking. Later, regulators discovered that one of UBS’s profitable businesses was the “facilitation of widespread tax evasion among wealthy Americans.”\textsuperscript{xxvii} Both the Senator and his wife enjoyed very lucrative careers after leaving public service.

Nobel prize-winning economist Paul Krugman considered Gramm to be the number two man responsible for the financial crisis of 2007, right behind the number one man, Alan Greenspan. CNN ranked Gramm number seven on its list of the ten people most responsible for the financial crisis. Both the Manchester Guardian and Time magazine included Gramm in their lists of the twenty-five people most responsible for the crisis.\textsuperscript{xviii}

\textit{Robert Rubin} was President Clinton’s senior economic advisor in 1993. Through his efforts, corporations were allowed to pay unlimited “performance-based” compensation to executives, which basically meant compensation gained through stock options. This …

… led to the wholesale granting of such stock options. In the ten years since the law was passed, with no cap on stock options, the average compensation of CEOs of Fortune 500 companies rose from $3.7 million a year to $9.1 million.\textsuperscript{xix}

After becoming Secretary of the Treasury in 1996 Rubin pressed Clinton to be financially conservative and not to pursue any social programs directed toward benefitting the general public. The Brooksley Born incident (discussed immediately above) reported that Rubin was very aggressive in defending the absence of government regulation of derivatives, which benefitted only business and financial executives while being harmful to the economy as a whole. Rubin was also very instrumental in persuading Clinton to approve the merger of Primerica Corporation and Citigroup. He then almost immediately moved from the Treasury Department to Citigroup to work on getting Congress to repeal the Glass-Steagall Act. (See Chapter 27.) In his ten years at Citigroup, Rubin “brought this company to ruin and left it a ward of the federal government.” For his efforts, Rubin “received in excess of $126 million in cash and stock over his time at the company.” \textsuperscript{xx}

\textit{Newt Gingrich}. After he left Congress, the great \textit{laizzes-faire} conservative, Newt Gingrich, was not above “feathering his own nest” by corrupting supposedly free markets. According to noted Washington-watchers, Mann and Ornstein, the system was “awash in money.”

One vivid example is “Newt, Inc.,” the name observers of Newt Gingrich coined after he left Congress. The industrious Gingrich created a web of for-profit and not-for-profit groups that garnered nearly $150 million in fees from a wide array of business and trade associations. Newt’s
influence-for-hire operation included the now well-publicized $1.6 million to $1.8 million from Freddie Mac to legitimize its efforts with House Republicans, and over $30 million from healthcare-related organizations. Gingrich said he did no lobbying, but of course, it’s hard to figure out what his clients were buying other than access to policy makers.xxi

In 2006, lobbyist Jack Abramoff was convicted of bribery and corruption and spent time in prison. He described what happened when he (his lobbying firm) made offers to Congressional staffers to come work for his firm after leaving government employment.

Now the moment I said that to them … we owned them. And what does that mean? Every request from our office, every request of our clients, everything that we want, they’re gonna do. And not only that, they’re gonna think of things we can’t think of to do.xxii

As public servants, Senator and Mrs. Gramm, Treasury Secretary Robert Rubin, and Congressman Gingrich cannot be credited with making any progress toward achieving the Constitutional goal of “promoting the general welfare.” In fact, they did not even try. But each of them made significant contributions to the excessive welfare of business and financial executives during the 1990s and 2000s, and each was able to greatly “feather their nest” after leaving public service.

These are not isolated cases. In 2012 the Center for Responsible Politics reported that more than 370 former Senate and Congressional personnel were then employed as lobbyists.xxiii Reportedly, in 2010 when Congress attempted to regulate Wall Street, “the financial services sector hired 1,447 former government officials as lobbyists…” xxiv This form of corruption had become “institutionalized.” xxv (Recall once again that Chapter 26 reported that the decade of the 1990s was the most corrupt since the 1920s.)

**North American Free Trade Agreement (NAFTA).** NAFTA was initiated by President George H.W. Bush, but signed into law by President Clinton on December 8, 1993. It was approved by Congress, mostly with the support of Republicans since it was predominantly pro-business. (Thirty-four of 43 Republican Senators voted for it, as did 132 of 176 Republican Representatives. Voting against it were 30 of 57 Democratic senators and 166 of 258 Democratic representatives.)

The agreement’s benefits were controversial, as NAFTA “contained no provisions for labor rights.” xxvi Proponents argued that it would create more jobs than it would destroy, while opponents believed well-paying jobs would disappear.xxvii Ross Perot, the third-party candidate in the 1992 presidential election, said if NAFTA is put into effect Americans will hear a “giant sucking sound” coming from the flight of American jobs mostly to Mexico. xxviii Perot’s comments were based on the report that Mexico paid workers about 10% of what American workers were paid.xxix Recent research revealed that as many as 7 million American jobs were lost by year 2000 due to NAFTA, and another 15 million jobs were lost in the next decade.xxx
EXHIBIT 30-1
Share of the Nation’s Income Going to the Top 1% of Earners

Although controversial then, and still controversial today, it is quite clear from Exhibit 30-1 (a duplicate of Exhibit 16-1) that the top 1% of earners benefitted greatly during the years NAFTA was taking effect. That group received about 14-15% of national income in the early-mid 1990s; by year 2000 that had increased to 22%—a whopping increase within only half a dozen years. Naturally, the other 99% of earners suffered an equivalent loss from about 85-86% of national income down to 78%. There were no noticeable benefits accruing to ordinary workers during these early NAFTA years.

Media no longer the public’s watchdog. The Constitution’s first amendment gave the media the power to act as watchdog—in the public’s interest—over the government and other institutions that might threaten the public’s welfare. In the past the media often performed that role with distinction. In recent years, however, there were many mergers in the media world, and “that translates to fewer companies owning more media sources, increasing the concentration of ownership.” That increased concentration (basically corporate ownership) undermined media’s role as the public’s watchdog.

Recall the description in Chapter 21 of Jack Welch’s career as CEO of General Electric. “…Welch was widely criticized for his harsh labor practices. He was belittled for closing down countless manufacturing operations.” In spite of Welch’s long track record of weakening the middle class, and thereby the entire economy, in late 1999 Fortune magazine named him “Manager of the Century.”

This chapter reported on Brooksley Born and the fact that she was correct in trying to prevent derivatives from damaging the economy. Three powerful men—Alan Greenspan, Robert Rubin, and Lawrence Summers—attacked her and accused her of not knowing what she was doing. With the passing of time,
all three would be strongly associated with events contributing significantly to the demise of the middle class. Yet, all three were featured on the February 15, 1999 cover of *Time* magazine, which called them “The Committee to Save the World.” Those *Fortune* and *Time* magazine profiles are indicative of the media’s fascination with business executives even when their actions contributed to the destruction of America’s middle class.

Those two examples are not the only indicators of the media’s loosening bonds with its “watchdog” legacy. In 1996, when the dot-com stock market bubble was forming, Federal Reserve Chairman Alan Greenspan referred to it as a “new era economy.” Four of the world’s foremost business publications (*Business Week, Fortune, Forbes,* and *The Economist*) were soon publicizing that new economy. High-technology companies began to significantly increase their advertising in those same publications, which then responded by providing editorial content that encouraged even more such advertising, in spite of the fact that *stock price-earnings multiples were reaching and surpassing levels attained just prior to the 1929 stock market crash that started the Great Depression.* Clearly, the media was pursuing profits rather than looking out for the public’s interest.xxxiv

When Sandy Weill was arranging the merger of his Primerica Corporation with Citicorp, *The Wall Street Journal* supported Weill’s rationalization for the merger with little apparent questioning of its potential downside effect on the economy. Shortly thereafter, when the Republican-controlled Congress terminated what little life still remained in the Glass-Steagall Act, the *New York Times* fully supported the act’s repeal with no apparent misgivings about its effect on the economy and ordinary consumers.xxxv

These events strongly indicate that the media was not serving as the public’s watchdog during the decade of the 1990s.

**Growing use of the filibuster.** Chapter 20 reported that the filibuster in the Senate was practically nonexistent prior to 1960, and that its use began noticeably in the 1960s, with an average of two per year. Filibuster usage increased to six per year on average in the 1970s, and continued increasing in the 1980s. During the 1990s the Senate averaged sixteen filibusters per year, thus making a sham of the fundamental democratic principle of “majority rule.” xxxvi

**More and bigger private-equity firms.** A very small proportion of Americans were getting much richer during the decade, gaining more income than they could possibly spend on personal goods and services. For example, Chapter 16 reported that increasingly during the 1970s-1990s …

…Washington deregulated Wall Street while insuring it against major losses. In so doing it turned Finance—which until then had been the servant of American industry—into its master, demanding short-term profits over long-term growth, and raking in an ever-larger portion of the nation’s profits. Between 1997 and 2007, finance became the fastest-growing part of the U.S. economy. The gains reaped by financial executives, traders, and specialists represented almost two-thirds of the growth in the gross national product. By 2007, financial and insurance companies accounted for more than 40 percent of American corporate profits and almost as great a percentage of pay, up from 10 percent during the (1950-1970s). Before and after the (2007-2008) bubble burst, the biggest Wall Street banks awarded tens of billions of dollars in bonuses. In 2009, the twenty-five best-paid hedge-fund managers together earned $25.3 billion, an average of $1 billion each.xxxvii
Exhibit 30-1 shows that the top 1% of earners increased their share of national income by almost 50%, from about 14-15% in the mid-1990s to 22% in year 2000. Since those earners were already very well off materially, much of that increased income went into investments of some type. Because of their very favorable tax advantages, many of those investment dollars were placed in limited partnerships such as venture capital funds, private-equity funds, real estate funds, and hedge funds. Reportedly, there were over a million such funds and there were millions of partners (investors) in those funds.xxxviii Those funds were very attractive to the top 1% of earners because they allowed investors to treat their profits as “carried interest” rather than ordinary income. “Carried interest” was taxed at the very favorable rate of only 20%, rather than at the current top tax rate of 39.6%. That very favorable tax advantage accrued only to investors in limited partnership funds of the types listed above. Such tax advantages were not given to other high income individuals such as top surgeons, architects, lawyers, artistic performers, and others. They were given only to certain financial investors.

The discussion here focuses only on private-equity firms. They existed exclusively to make profits for their owner-investors. They did this by buying companies as inexpensively as possible, and then laying off as much of the work force as would allow for maximizing profits. That is, they used the ruthless tactics you’ve read about in the discussions of Joe Flom, T. Boone Pickens, Carl Icahn, Michael Milken, and Jack Welch. (See Chapters 16, 21, and 26.)

The wealth and power of private-equity firms had grown steadily since the 1970s.xxxix Now the top 1% of earners was getting even wealthier. By investing in private-equity firms, those people could exploit that very favorable tax advantage noted above, which would make them even wealthier. As a result, private-equity firms continued to grow and that growth was likely to continue into the future. Since the management style of private-equity firms was most unfriendly to the workers in the firms they acquired, and to the communities in which those firms were located, that trend had severe negative effects on the living standards of the middle and lower classes. (Private-equity firms are discussed in more detail in Chapter 31.)

Seven developments and trends are discussed in this chapter. Each one of them contributed to growing income inequality and the destruction of the great American middle class.

**Summary of the 1990s**

- Angelo Mozilo’s Countrywide and other mortgage-writing companies exploited the mass failure of Savings & Loan Associations to become dominant in the home-mortgage market. Their greed and the lack of government regulations allowed them to create a housing bubble that greatly contributed to the second, conservative great worldwide depression that began in 2007-2008.
- Sandy Weill not only created the “too big to fail” bank, in the process of doing so he also led the charge to completely dismantle the Glass-Steagall Act. The repeal of that act essentially left the financial industry unregulated. As a consequence, Weill’s Citigroup was big enough and sufficiently unfettered to “bring down the economy itself,” and for all practical purposes it almost did in 2007-2008.
President George Herbert Walker Bush signed a tax increase bill that helped create the growing and prosperous economy of the 1990s, but he later regretted doing so.

President Clinton’s first budget was based on a tax increase on the wealthiest Americans. That tax increase, combined with President Bush’s earlier tax increase, provided the economy with a stimulus that resulted in the first U.S. Government budget surplus in almost thirty years. There were four such Clinton budget surpluses, in 1998, in 1999, in 2000, and 2001.

The Democratically-controlled Congress of 1993-94 passed the Clinton tax increase which (along with the Bush 1991 tax increase) resulted in a prosperous economy throughout the remainder of the decade. But not one Congressional Republican voted in favor of either of the two tax increases that proved so beneficial to the economic prosperity of the bottom 80% of earners.

President Clinton reappointed Alan Greenspan to a third term as Chairman of the Federal Reserve Board. He also appointed Robert Rubin to be Secretary of the Treasury, and Lawrence Summers as his top economic advisor. All three appointees basically worked against the Constitutional goal of promoting the general welfare.

In November 1994 the Republicans gained control of both houses of Congress for the first time since 1954. For all practical purposes, congressional Republicans controlled the domestic agenda for the remainder of the 1990s. During that period they made no effort to promote the general welfare and establish justice.

Newt Gingrich became Speaker of the House in 1995 when the Republicans gained control of Congress. Difficulties frequently arose between the Republican-controlled Congress and the veto pen of President Clinton. When Congress would not send Clinton a budget bill he could sign, congressional Republicans “closed down” the government for 28 days.

In 1999 Congress passed the bill that repealed the Glass-Steagall Act, and Alan Greenspan, Robert Rubin, and Lawrence Summers persuaded President Clinton to sign it. Banking and financial deregulation was now complete, opening the door to the financial crisis of 2007-2008.

Congress allowed both the sixth and seventh “stealth government actions against the American people” when it did not prevent businesses from making greatly expanded use of stock option to compensate executives, and then again when it refused to raise the minimum wage for waitresses and waiters.

President George H.W. Bush’s two Supreme Court appointees probably moved the Court in a more conservative direction. President Clinton’s two Supreme Court appointees were either moderates or progressives, but the two justices they replaced were also moderate or progressive. Consequently, Clinton’s appointees did not make the Court less conservative.

In the 2000 presidential election, Democratic candidate Albert Gore received more of the popular vote than did Republican candidate George W. Bush, the son of former President George H.W. Bush. However, neither candidate clearly won enough Electoral College votes to be declared president-elect because Florida had difficulty determining who was the winner in that state. Five conservative justices, all appointed by Presidents Ronald Reagan and George H. W. Bush, intervened to stop the Florida vote re-count process, resulting in the Republican candidate, George W. Bush, being awarded the presidency. To many observers, the Supreme Court had now become a very powerful ally of the business community/Republican Party/ conservative Democrats faction.
• Congress and the Supreme Court were active in giving financial and business executives greater legal protection from lawsuits by parties who believed they were defrauded by the financial and business communities.

• The Supreme Court, along with lower courts, created an eighth “stealth government action against the American people” when they allowed companies to use “forced arbitration” clauses in their consumer contracts.

• Alan Greenspan, Robert Ruben, and Lawrence Summers (in the Brooksley Born incident) prevented the establishment of regulations on derivatives, which Warren Buffet called “financial weapons of mass destruction.” That event, and the ones described in the two points immediately above, are examples of how government actions or inactions helped pave the way for the second, conservative great worldwide depression.

• Senator Phil Gramm, Treasury Secretary Robert Ruben, and Congressman Gingrich are examples of public servants doing favors for business organizations and then, upon leaving public service, having those favors returned by lucrative financial arrangements. The 1990s was a very corrupt decade.

• The North American Free Trade Agreement, supported predominantly by Congressional Republicans because of its pro-business characteristics, contributed to the destruction of the middle class through the loss of U.S. jobs to Mexico.

• Events during the decade of the 1990s indicated that the media was not serving in its traditional role as the public’s watchdog.

• The use of filibusters continued its upward growth in the 1990s, indicating that the democratic principle of “majority rule” was no longer applicable in the Senate.

• With more of the nation’s income going to the top 1% of earners, private-equity firms continued to grow, and due to their unfriendly actions toward workers and communities, that growth contributed to the destruction of the middle class.

Key Observations Regarding the Destruction of the Great American Middle Class and the Second, Conservative Great Worldwide Depression

The destruction of the great American middle class was encouraged by the following.

• The only positive developments supportive of the middle and lower classes during the 1990s were the President Bush and President Clinton tax increases. Those two revenue increases stimulated the U.S. economy and made it more robust throughout the 1990s than it had been since the 1960s. Yet, those tax increases occurred without the support of even one Republican Senator or Congressman. Without that period of high economic growth, the middle and lower classes would have experienced an even greater decline in prosperity throughout the 1990s.

• During the decade of the 1990s the business community/Republican Party/conservative Democrats faction was the principle force running the country, and it showed no inclination to fight for the general welfare of common people.

• Congress, with President Clinton’s support, approved financial deregulations most helpful to the financial community. The Garn-St. Germain Act deregulated the Savings and Loan industry, and
when it failed in the 1990s, that encouraged the growth of the unregulated mortgage-writing industry which, in turn, created the subprime mortgage market.

- Congress, again with President Clinton’s support, repealed the Glass-Steagall Act, and that allowed for the creation of "banks too big to fail," until the financial crisis of 2007-2008.

- Congress, at the request of Alan Greenspan, Robert Rubin, and Larry Summers, prevented Brooksley Born from regulating financial derivatives. That development, along with the two immediately above, were important causes of the financial crisis of 2007-2008.

- Congress and the Supreme Court, along with lower courts, created three more “stealth government actions against the American people.” There were now a total of eight such actions. The federal government’s “welfare for the rich” program was no longer a few isolated actions. It was developing into a broad program.

- During the decade of the 1990s the business community/Republican Party/conservative Democrats faction further solidified and strengthened its three-pronged strategy (described in Chapter 18) to take control of the country’s political-economic system. (1) President Clinton, along with advisors Robert Rubin and Lawrence Summers, leaned toward conservatism rather than progressivism, and consequently no effort was made to help labor unions regain some of the power they had lost over the previous two decades. In essence, labor unions were a “spent force” during the 1990s, completely incapable of challenging “the faction” in a manner that could once again bring growing prosperity to the middle and lower classes. (2) When the Republicans regained control of Congress in 1994, they quickly joined with the business community’s lobbying force, which now had been firmly established in Washington, D.C. for over twenty years, to regain complete control over the legislative process. There was absolutely no chance that that legislative process might begin working in a manner favorable to the middle and lower classes. (3) Congress and the Supreme Court put into place three more “stealth government actions against the American people.” There were now eight such “welfare for the rich” actions taking money and wealth from the lower and middle classes and transferring it to the top 0.1% of earners. The success of this third prong was made possible because the first two prongs of the strategy were already firmly established. “The faction’s” three-pronged strategy had proved to be very successful as the nation entered the twenty-first century.

- The top 1% of earners increased their share of the nation’s income from 14% in 1990 to about 22% in 2000, an increase of over 50%. (See Exhibit 30-1.) The remaining 99% of earners saw their share of national income drop from 86% to 78% during the decade, which represented a decline of about 10%.

Six things strongly encouraged the arrival of the depression that began in 2007-2008.

- Growing income inequality started in the 1980s and continued unabated during the 1990s (see the point immediately above). Since consumer spending accounts for about 70% of the force driving the U.S. economy (see Chapter 25), that force was significantly weakened over the 1990s. That weakening contributed to the continuing destruction of the middle class during the decade. When the first shock of the 2007-2008 crisis arrived, the consumer spending component of the economy was not strong enough to overcome it, nor was it strong enough to quickly help the economy gain recovery.
The Republicans controlled Congress from 1994 to 2006, the eve of the 2007-2008 financial crisis. Alan Greenspan, with his super *laissez-faire* economic philosophy, was still the chairman of the Federal Reserve Board. Two strong free-market supporters, Robert Rubin and Lawrence Summers, were in powerful positions in the Clinton administration. Working together, this trio achieved two objectives that created market and regulatory conditions that set the stage for the depression that started in 2007-2008. (1) They prevented any governmental regulations from being imposed on the use of financial derivatives. (2) They helped arrange for the complete repeal of the Glass-Steagall Act, which left the financial community essentially unregulated.

During his tenure, President Reagan had created an atmosphere which encouraged both financial recklessness and financial corruption. Consider three things. He severely reduced the operating budgets of many regulatory agencies ("starving the beast"), which resulted in those agencies being understaffed and unable to pursue their legislated goals. (See Chapter 22.) He appointed administrators to those agencies who were very friendly with the businesses the agencies were supposed to regulate, creating a situation that led to very little regulatory enforcement. Furthermore, his administration pursued no new regulations, even though the existing regulatory structure was far from perfect. These actions and inactions, and others mentioned in Chapters 22-24, encouraged business and financial executives in the 1990s to take actions they previously had been unwilling to try. That Reagan-created atmosphere remained in place throughout the 1990s, and even well into the 2000s.

The business community was being led by greed-driven executives who were directing their respective firms full-speed in the direction of financial crisis: Jack Welch was taking General Electric to its eventual government bailout (Chapter 21); Angelo Mozilo was driving Countrywide to bankruptcy (Chapter 26); Sandy Weill was transforming Citigroup into a “too big to fail” bank that would have failed had it not been for a government bailout (Chapter 26).

The 1990s was the most corrupt decade since the 1920s, and one of the most corrupt in the history of American business: actions taken by the Congress and the Supreme Court encouraged business and financial executives to take greater legal risks because of the immunity granted them by those two branches of government; a common practice among public servants was to grant special favors to businesses and then, upon leaving public service, have those favors returned in the form of lucrative employment opportunities.

Government and public institutions that previously had been concerned with justice and fairness for all citizens were no longer so engaged: through its increased use of the filibuster, the Senate was growing less concerned about protecting the democratic principle of “majority rule”; the Supreme Court showed signs of becoming more allied with the business community/Republican Party/conservative Democrats faction (Chapter 29); several events strongly suggested that the media was not serving as the public’s watch dog during the 1990s.

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iv Same source as note ii, page 325.

This section on Brooksley Born is based on the source in note v. But see also Hedrick Smith, *Who Stole the American Dream?*, (Random House, 2012), pages 224-226.

Same source as note ii, page 335.

Same source as note ii, page 240. The source in note iii corroborates this story on its page 249.


Same source as note iii, page 69.

Same source as note iii, page 198.

See (http://en.wikipedia.org/wiki/Phil_Gramm#United_States_Senate).

Same source as note iii, pages 197-98.

Same source as note iii, page 254.

Same source as note xv.

Same source as note ii, page 328.


Same source as note xxi.


The February 3, 2014 *New York Times* editorial, “The Capital’s Spinning Door Accelerates,” reports that the growth of this practice “shows that the current waiting period before congressional employees can lobby is far too easy to evade....” For a good description of why and how this form of corruption continues to grow, see Eric Lipton and Ben Protess, “Law Doesn’t End Revolving Door on Capital Hill,” “*New York Times*, February 2, 2014, pages 1, 20.


See (http://en.wikipedia.org/wiki/NAFTA%27s_effect_on_United_States_employment).


Same source as note ii, pages 199-200.

Same source as note ii, pages 321-324.

Same source as note ii, pages 313-315.

For a good discussion of this matter, see pages 241-244 of the source in note iii.

Same source as note xii, page 56.


CHAPTER 31: BUSINESS EXECUTIVES DURING THE 2000s

Chapter 26 reported that the decade of the 1990s was the most corrupt in America since the 1920s. The decade of the 2000s was equally corrupt, if not more so.

Enron’s 2001 collapse was the most spectacular, but it was just one of many corporate falls from grace. The names in the headlines changed—Tyco, Adelphia, HealthSouth, WorldCom—but the story, again and again, was the same: In a system riddled with conflicts of interest and self-dealing, executives looted their companies, enabled by pliant accountants and banks that happily took their fees, while docile or disinterested boards looked the other way. Companies brought to ruin, employees lost their jobs, and workers saw their pensions disappear—not just by the hundreds but by the thousands. Millions of middle-class Americans who had invested through mutual funds or pension plans also paid dearly. A few executives were found guilty of criminal wrong doing, but many, many more could view the carnage they inflicted from extremely comfortable retirements. The evidence that lax rules too often left foxes guarding the henhouse was overwhelming.i

That the business community had close ties with the Clinton administration was reported in Chapter 27. But “… once George W. Bush entered the White House, official lobbying expenditures skyrocketed, roughly doubling during his eight years in office. The connection between business and the GOP had been strengthening for thirty years, but not since the early twentieth century had the two sides combined such formidable political resources.” ii

Chapter 16 reported that the financial industry greatly increased its share of the nation’s income over the last three decades of the twentieth century. In 1972 Wall Street and the financial industry had earned about one-eighth of the nation’s income. By 2007 those segments captured fully one-third of our national income, an increase of greater than 150 percent in thirty-five years. iii Wall Street used this growth of their share of national income to protect the growth of their share of national income.

“According to the Center for Responsive Politics, spending on lobbyists escalated from $1.44 billion in 1998 to $3.47 billion in 2009, and almost all of these lobbyists represented big corporations and their executives.” iv Even the conservative New York Times columnist, David Brooks, observed the corruption surrounding and infesting the federal government.

In 1971, there were 175 registered lobbying firms. By 2009, there were 13,700 lobbyists spending more than $3.5 billion annually, and this doesn’t even count the much larger cloud of activist groups and ideological enforcers. … The unofficial pressure sector dominates the official governing sector.v

In the Prologue of his book, Who Stole the American Dream?, Hedrick Smith described how lobbying expenditures have become …

…even more lopsided in favor of Corporate America. From 1998 through 2010, business interests … spent $28.6 billion on lobbying compared with $492 million for labor, nearly a 60-to-1 business advantage. Today, no countervailing power matches the political clout of business.vi
This chapter also looks at three other forces that directly contributed to the destruction of the middle class: (1) tax cuts, private-equity firms and the growth of income inequality; (2) efforts to further reduce taxes on the wealthy; and (3) Anthony Mozilo, Sandy Weill, and Jack Welch in the 2000s. It also (4) summarizes the forces that caused the financial collapse of 2007-2008. Finally, it (5) re-visits and witnesses the Glass-Steagall Act resurrected.

Tax cuts, private-equity firms and the growth of income inequality. In 2012, Hedrick Smith, a respected observer of the U.S. economy, noted that “…America enjoyed its best period of sustained growth in the decades after World War II, from 1945 to 1973, even though income tax rates were far higher than today (italics added). It created not only unprecedented middle-class prosperity but also far greater economic equality than today.” vii Recall now that the 1991 and 1993 tax increases (discussed in Chapter 27) provided the stimulus that caused the booming economic prosperity of the 1990s. It is important to note that the country enjoyed greater economic prosperity and less income inequality when tax rates were higher.

Turn now to the George W. Bush tax cuts of the early 2000s. The Republican message—repeated constantly since the 1970s—was that tax cuts for the wealthy would result in greater economic growth. With the Bush tax cuts in place, income taxes on the wealthy were much lower than they were in the 1960s and 1970s, yet the promised economic prosperity did not happen. Worse yet, income inequality was much greater in the 2000s than in the 1960s and 1970s. The historical record shows that lower tax rates are associated with greater income inequality, while higher tax rates are associated with greater economic prosperity and lower income inequality.

Exhibit 16-1 is reproduced here as Exhibit 31-1. It shows that the Bush tax cuts led to even greater prosperity for business executives during the 2000s. In year 2000 the top 1% of earners received about 21-22% of the nation’s income. After recovering from the bursting of the “dot-com” bubble of 2001-2002, the top 1% received about 23.5% of national income in 2007. The increased prosperity of the top 0.1% of earners is even more telling. In 1974 they received 2.7% of national income, but that figure skyrocketed to 12.3% by 2007, an increase of more than 350% in a little over 30 years.viii However, that increase in prosperity for business executives also meant a decrease in prosperity for the bottom 99%. Thus, income inequality increased in those years when the income tax rates for the wealthy were lowered even more than they had been. Here again, more historical data indicates that lower tax rates result in greater income inequality.

But those statistics do not tell the real story of the increased prosperity of the richest persons in the U.S. Chapter 26 introduced Warren Buffett, the second richest person in the country. According to Buffett, in 1992 the richest 400 persons in the U.S. had an average income of $40 million per year. By 2009 that figure had grown to $225 million per year, an increase of almost 500% in less than twenty years.ix Over those 15-18 years the income tax rate on the wealthy fell from about 29% to about 21%. Yet, more than half of the wealthy paid an even lower tax rate. Of this, Buffett said “there’s been class warfare going on for the last 20 years, and my class has won. We’re the ones that have gotten our tax rates reduced dramatically.”x

According to former Secretary of Labor, Robert Reich, …
EXHIBIT 31-1

Share of the Nation’s Income Going to the Top 1% of Earners


... nothing impeded CEO salaries from skyrocketing to more than three hundred times that of the typical worker (up from thirty times during the (1950s-1970s)), while the pay of financial executives and traders rose into the stratosphere. Increasingly, the ranks of America’s super-rich were made up of top business and financial executives. More than half of all the money that the top one-tenth of 1 percent of American earners reported on their 2001 taxes represented the combined incomes of the top five executives at the five hundred largest American companies. Almost all of the rest were financial traders and hedge-fund managers (italics added).\textsuperscript{xii}

Most, perhaps almost all, of that additional wealth probably found its way into private equity firms, with very debilitating effect on the middle and lower classes.

Earlier chapters described the harsh business practices of Michael Milken, Jack Welch, Sandy Weill, and others. Because the sole purpose of private equity firms is to maximize profits, such firms strive to perfect those already-harsh business practices. Unfortunately, those practices are harmful to the companies they buy, the employees of those companies, and the communities within which the companies are located. (See Chapters 21 and 26.) Private equity firms are stereotyped as “barbarians at the gate,” and cast as “job destroyers more concerned with making money for investors than improving the companies they own.”\textsuperscript{xii} (Recent legal-tax analysis and court cases indicate that they are much worse than their stereotypical image.\textsuperscript{xiii}) There are over 1,000 such firms.\textsuperscript{xiv} Collectively, they own or control thousands of companies. At least a dozen of them are big, perhaps more. One such firm reportedly would be the thirteenth largest corporation in the U.S. if all of its 74 companies and 700,000 employees were...
integrated into one legal entity.\textsuperscript{xv} In a recent 12-month period another private equity firm made 19 new acquisitions, while three others acquired an additional 26 companies.\textsuperscript{xvi} And they are not above using financial assistance from the government to improve their wealth (i.e., they are true believers of “privatizing profits, but socializing risk”).

…Cerberus took over Chrysler in 2007 and soon went shopping for Washington assistance to keep the company afloat. …its CEO (was) one of those financial backers of the GOP who derides government interference in the market any time it threatens to help ordinary folk. (But he) quickly found a need for massive federal intervention to preserve a fraction of the Cerberus investment.\textsuperscript{xvii}

Private equity firms display two other characteristics that they try to keep very quiet. First, they prefer to operate behind the scenes, preferably even in the dark. Regarding publicity, a CEO of a large private equity firm said: “We don’t like that. (If any employee of the firm) gets his picture in the paper, we will do more than fire that person. We will kill him.”\textsuperscript{xviii} Second, it appears that super-wealthy people have more money than private equity firms know what to do with. The New York Times reported that the “private equity world is sitting on” $1 trillion that it must soon invest or return the money to the individual owners.\textsuperscript{xix} Given their reputations and behavioral practices, it is understandable why they operate in the dark.

At least some of the owners of private equity firms take advantage of the income tax breaks (described in Chapter 30) that are available only to a small, select group of people in the financial world. Those managers “convert certain management fees collected from their investors into fund investments, which are taxed at a far lower rate than ordinary income,”\textsuperscript{xx} at 15\% rather than at the highest income tax rate of 35\%. Such practice is controversial, but the “strategy is widely used within the industry.”\textsuperscript{xxi} Reportedly, the Internal Revenue Service was aware of such questionable behavior, but did not take any action to reduce or eliminate it. The consequences of that government inaction were that already-wealthy individuals accumulated even more wealth, thus contributing to even greater income inequality. When the financial crisis of 2007-2008 occurred, the income inequality that had been growing for almost thirty years became a very serious “drag” holding back the economy’s recovery from the resulting depression.\textsuperscript{xxii}

\textit{As income inequality grew, so also did the wealth and power of private equity firms. As private equity firms grew in number and wealth, their owners and investors exploited the above-noted tax breaks available only to a small group of people in the financial world, thus making them even wealthier and creating still greater income inequality. That cycle repeated itself again and again, and has contributed to the destruction of the great American middle class for at least twenty years, and probably longer.}

Very likely, all private-equity owners and investors are at the very top of the income scale, and they make their wishes and financial support know to the politicians who support their pro-business aspirations. That financial support has grown significantly over the last three decades. Reportedly, in 1980, the top 0.1 percent of donors to political campaigns contributed less than 10 percent of all campaign contributions. In 2012 that figure exceeded 44 percent, and that growth rate is probably indicative of the growth rate of private-equity firm wealth. Undoubtedly, the vast bulk of those contributions supported Republicans and
conservative Democrats, who worked diligently to increase income inequality in a manner favoring private-equity owners and investors.xxiii

Private-equity firms are havens for the richest 0.01% of earners, making them richer and therefore politically more powerful each year. The section immediately following describes how these very rich individuals use their wealth to increase their political power and then use that power to influence government in ways that will further enhance their wealth and political power. As the top 1% of earners become more successful in achieving those ends, the United States’ form of government becomes more and more a plutocracy and less and less a democracy.xxiv

Efforts to further reduce taxes on the wealthy. It is important to also note what two elite groups of business executives were doing at this time. The Americans for Tax Reform and the Club for Growth were two conservative organizations that reflected the business community’s passion for reducing income taxes on wealthy individuals.xxv Americans for Tax Reform (ATR) was started as a White House-directed activity in the latter part of Reagan’s presidency. Led by Grover Norquist, it relied financially on very large donations from a small number of well-heeled members. The goals of the organization were two-fold: (1) to recruit Republican candidates for office who were 100% dedicated to cutting taxes on the wealthy in order (2) to reduce government “down to the size where you could drown it in the bathtub,” (the so-called “starve the beast” strategy). With the funds collected, ATR financially supported candidates for office, but only if they pledged not to vote for tax increases and to give their full support to any and all tax cuts. In 2003 ATR had pledges from over 200 Republican Congressmen, over 40 Republican Senators, and one President George W. Bush.

Notably, signers of the pledge made up an absolute majority of members of the two crucial House committees (Ways and means, and Budget) that shaped the Bush tax cuts of 2001-2004.xxxvi (The Bush tax cuts are discussed in Chapter 32.)

Stephan Moore, who started the Club for Growth (CFG) in 1999, was an extreme conservative with experience at both the right-wing Heritage Foundation and the libertarian Cato Institute. CFG, like ATR, existed on large donations from relatively few wealthy donors. In the 2002 Congressional elections, CFG was a leading source of funds for Republican candidates, second only to the Republican Party itself.

…the Club for Growth also focused it energies on increasing the ranks of committed tax-cutters in Congress. The preferred technique was candidate recruitment for open seats, combined … with efforts to take out RINOs (“Republicans in name only”) …. …its efforts served to put moderates on notice. (As one House Republican) put it: When you have 100% of Republicans voting for the Bush tax cuts, you know they are looking over their shoulder and not wanting to have Steve Moore recruiting candidates in their district.xxxvii

Grover Norquist, Stephan Moore, and the members of their groups had only one real objective: to reduce taxes on the wealthy. They had absolutely no interest in either promoting the general welfare or establishing justice.

Angelo Mozilo, Sandy Weill, and Jack Welch in the 2000s. Already in the 1990s Angilo Mozilo’s Countrywide was issuing mortgages to the so-called “subprime market,” that is, to persons unable to afford mortgages, and often including persons with blemished credit. (See Chapter 26.) That subprime
market “ballooned,” increasing from $35 billion in the mid-1990s to $625 billion in 2005. Driven by
greed and afraid of losing market leadership, Mozilo pursued the subprime mortgage market aggressively.
The real estate bubble then burst, the mortgage market collapsed, and Mozilo’s Countrywide went
bankrupt. xxviii

Sandy Weill used every trick he knew and pulled every string available to him in 1998 to create
Citigroup, a “too big to fail” bank. (See Chapter 26.) He resigned as CEO in 2003 “under a dark cloud of
suspicion.” In 2008, to avoid collapse, Citigroup received a $45 billion bailout from the federal
government. xxix No other bank received as much government assistance. xxx Nevertheless, Citigroup and
other banks continued their corrupt and fraudulent practices even after they were “bailed out,” because
the regulatory system was incapable of preventing them from doing so. xxxi

General Electric, once a manufacturing giant, was transformed into a predominantly financial firm by
Jack Welch because he personally would get much richer by doing so. (See Chapter 21.) Welch left GE
in 2000, but not until he had pointed the company strongly into the subprime mortgage market. The
company continued in that direction until the onset of the financial collapse of 2007-2008, the collapse
that started the second depression in less than eighty years. General Electric then reported huge losses,
requiring a $140 billion bailout by the federal government.

The financial collapse of 2007-2008. The forces and events that caused this collapse are many and
complex. xxxii Only the main causes of the financial collapse, those described in the many chapters of this
course, are presented here.

- The great American middle class was at its peak in the mid-1970s when the bottom 99% of
earners received 91% of the national income, that is, when income inequality was very, very low.
By year 2008 that group of earners received only about 75% of the nation’s income, which
represented a 17-18% decline in purchasing power over those thirty years. Because 70% of the
force behind the U.S. economy is spending by consumers (see Chapter 25), that 17-18% decline
in consumer purchasing power meant that there was a serious structural weakness in the
economy. When financial markets collapsed in 2007-2008, there was not enough “oomph” in
consumer purchasing power to prevent the onset of a depression.

- Beginning with the Reagan administration, the business community/Republican Party/
conservative Democrats faction employed four tactics which, when used in combination, greatly
“encouraged” the financial crisis of 2007-2008: (1) they used tax cuts for the wealthy
accompanied by tax increases for the middle and lower classes; (2) they used their tax reduction
policy to create a huge, unprecedented national debt which they then falsely claimed as being
caused by federal government programs, the very ones that led to the creation of the great
American middle class; (3) they reduced business and financial regulations via the “starve the
beast” strategy, and that was accompanied by the appointment of administrators who “coddled”
rather than regulated the financial and business institutions they were obligated to regulate; and
(4) they finally achieved the complete repeal of the Glass-Steagall Act that previously prevented
financial institutions from simultaneously engaging in both “safe” commercial banking and
“speculative” investment banking. The repeal of Glass-Steagall was essentially “letting the fox
into the chicken coop.”

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Mortgage companies like Mozilo’s Countrywide kept issuing mortgages to people who could not afford them, and selling them to GE Capital, Citigroup and Wall Street firms that would repackage them into securities (i.e., turn them into “derivatives”). The rating agencies cooperated by giving those securities “good” and “safe” ratings. GE Capital, Citigroup and Wall Street firms then sold those derivatives to private citizens, mutual funds, pension funds, Fannie Mae, Freddie Mac and others. All this was possible because of the absence of government regulations that could prevent such fraudulent transactions.xxxiii

When homeowners began to default on their subprime mortgages, the monthly payment they were supposed to send into the financial system came to a halt, and money stopped flowing to the designated financial intermediaries. GE Capital, Citigroup and Wall Street firms were no longer able to pay their investors. The entire “house of cards” then collapsed, creating the financial crisis of 2007-2008. Several years later (2012), giant banks like Bank of America, JP Morgan Chase, Wells Fargo, Citigroup and others were battling on three fronts: “… with prosecutors who accuse them of fraud, with regulators who claim that they duped investors into buying bad mortgage securities, and with investors seeking to force them to buy back the soured loans.xxxiv

The Glass-Steagall Act “resurrected.” Only ten years after the repeal of the Glass-Steagall Act—and only four or five years after the financial crisis of 2007-2008—major players who helped cause the second great depression started calling for the re-instatement of Glass-Steagall. In July 2012, Sandy Weill “…called for a wall between a bank’s deposit-taking operations and its risky trading business. In other words, he would like to resurrect the regulation (the Glass-Steagall Act) that he once fought.” xxxv Other former financial institution executives who voiced similar opinions included Philip Purcell of Morgan Stanley, David Komansky of Merrill Lynch, John Reed of Citibank (the predecessor of Citigroup), and Sallie Krawcheck, the president of a division of Bank of America.

Apparently those high priests of finance were now willing to close the barn door long after the horse was gone.

The attack on Glass-Steagall really started with Milton Friedman and Ronald Reagan. Reagan died in 2004 and Friedman died two years later. One could only speculate what they might have said if they had lived to see their beloved “free markets” economic philosophy cause a second worldwide depression.xxxvi But in 2012 David Stockman, who was President Reagan’s budget director from 1981-85, made it very clear where he stood on the issue.

The greatest regulatory problem … is that giant Wall Street banks … are inexorably prone to speculative abuse…. Forget about “too big to fail.” These banks are too big to exist…. What’s needed is a restoration of Glass-Steagall…. xxxvii

* The business community pursued more and bigger private-equity firms, tax reductions for the wealthy, and a huge expansion of the subprime mortgage market. Each of those developments caused even greater income inequality. Those were just some of the things the business community/Republican Party/conservative Democrats faction did that caused the destruction of the great American middle class and brought on the financial crisis of 2007-2008.

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i Jacob S. Hacker and Paul Pierson, Winner-Take-All Politics, (Simon & Schuster, 2010), page 220.
viii Same source as note i, page 16.
x Same source as note ix.
xi Same source as note iv, page 56.

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xxxi For a description and discussion of these corrupt and fraudulent practices, see Joseph E. Stiglitz, *The Price of Inequality*, (W.W. Norton & Company, 2012), pages 204-205.

xxxi Those interested in the details of the collapse should read the excellent book by Bethany McLean and Joe Nocera, *All the Devils Are Here: The Hidden History of the Financial Crisis,* (Portfolio/Penguin, 2010). For a much shorter description of the overall financial crisis in the U.S. in the latter years of the decade of the 2000s, see Hedrick Smith, *Who Stole the American Dream?*, (Random House, 2012), pages 147-152.


xxxvi In 2013, noble-prize-winning economist Paul Krugman wrote “that the experience of the past 15 years … shows that Keynes was right and Friedman was wrong about the ability of unaided monetary policy to fight depressions,” See Paul Krugman, “Milton Friedman, Unperson,” *Liberal Opinion Weekly*, August 28, 2013, page 7.

CHAPTER 32: PRESIDENT GEORGE W. BUSH, 2001-2009

In 1998, the federal government achieved a budget surplus for the first time since 1969. It was the first of four Clinton budget surpluses. In 2001 the government was about to enjoy the fourth surplus. (See Chapter 27.)

In January 2001 George W. Bush became President of the United States after the Supreme Court intervened in the controversial state of Florida vote recount effort. (See Chapter 29.) In his address to Congress in February 2001, President Bush “vowed to eliminate $2 trillion of the federal debt over the next ten years.” (Recall from Chapter 22 that Reagan had made similar promises, which he failed to keep.) Bush also said he would find another $1 trillion to set aside for unforeseen events and emergencies. Given the budget surpluses that were still occurring, Bush also said that “the people of America are being overcharged,” and that, therefore, it was appropriate to give them a tax cut.

This chapter looks at (1) Stealth Government Action Against the American People: the business community helped President Bush pass his tax cuts for the rich, (2) President Bush’s tax cuts, (3) the effects of those tax cuts on the economy, (4) how Social Security payments “bolstered” the Bush presidency, (5) two extravagant Bush initiatives, (6) Stealth Government Action Against the American People: government bailed out “banks too big to fail” during the financial crisis of 2007-2008, but prevented distressed homeowners from declaring bankruptcy, (7) the growth of the national debt under Republican Presidents, and (8) the Republicans’ historical record of achieving the Constitutional goal of promoting the general welfare, versus the Democrats’.

Stealth Government Action Against the American People: the business community helped President George W. Bush pass his tax cuts for the rich. In 2001 Republicans controlled the House of Representatives by 9 seats, but in the Senate there was a 50-50 tie between the two parties. However, because the Republican vice-president (Dick Cheney) casts the tie-breaking vote, the Republicans controlled the Senate. Still, with the Democrats holding 50 seats, Bush’s proposed tax cut bill faced a likely filibuster in the Senate.

(In the passages below, the “Gang of Six” refers to the business community’s six top lobbyist groups: the National Association of Manufacturers, the U.S. Chamber of Commerce, the Business Roundtable (CEOs of the top 180 corporations), the National Federation of Independent Businesses, the National Association of Wholesalers-Distributors, and the National Restaurant Association.)

In terms of who wins and losses in a tax bill, ordinary voters get confused by the crossfire of claims and counterclaims. Tax policy, as one academic study put it, is “a highly technical realm that is ripe for concealment and mystification,” and the Gang of Six and the Bush White House were not above exploiting public confusion or gullibility. Democrats warned that 43 percent of the tax cut would go to the top 1 percent on the income scale. But the White House highlighted the promise of a quick tax rebate for average taxpayers--$300 for single people and $600 for couples. But that pitch masked the larger truth that as the years rolled on, the lion’s share of the tax cuts would go to the super-rich.

With the full court press by the Gang of Six reinforcing the White House push, the Bush bill, offering $1.35 trillion in tax cuts over a decade, passed the House 240-154 in May 2001. In the
Senate, Republicans sidestepped a Democratic filibuster by invoking the process of budget reconciliation—which required them to guarantee there would be no loss of revenue, an impossibility with such a huge tax cut (italics added). The Republican majority ignored that requirement and the looming deficits and passed the bill 58-33. iii

Through their handling of the proposed tax cut bills, President Bush and the Republican Party and their business community allies (the Gang of Six) essentially represented a “stealth” government faction working against the welfare of the lower and middle classes. At the time, the Republican Party, and apparently most Republican voters, showed no outrage at the well-known fact that those tax cuts would once again cause huge government deficits.

**President George W. Bush’s tax cuts.** In 2001 Bush pushed for a $1.35 trillion tax cut, one of the largest tax cuts in U.S. history. In fact, he pushed for tax cuts that year, and again in 2003. As Reagan had said before him, Bush now said that such tax cuts would stimulate the economy, lead to more growth, and reduce unemployment.iv It was Reagan’s “supply-side” and “trickle-down” economic argument all over again, only now it was re-packaged into the new message: if you cut taxes on the “job creators” (i.e., the rich), they will create more jobs. Some 450 economists disagreed with that thinking. They signed an Economic Statement Opposing the Bush Tax Cuts, in which they said that the proposed cuts would lead again to budget deficits, rather than the surpluses then being realized as a result of the Clinton tax increases.v Even Republican Senator John McCain could not “in good conscience support a tax cut in which so many benefits go to the most fortunate among us,” saying also that providing such benefits would be “irresponsible.” vi

Vice President Dick Cheney inserted himself into the public debate over the proposed tax cuts when he famously said, “Reagan proved deficits don’t matter.” vii That strategy—for Republicans to cause annual budget deficits and then leave the debt problems for the Democrats to deal with when they eventually came to power—was first proposed in 1980 to the Republican leadership by Irving Kristol, founder of the neoconservative journal, Public Interest, and father of Bill Kristol, the contemporary conservative writer. When put into practice by the Republicans, that strategy worked!

Under Reagan and the second President Bush, deficits and debt skyrocketed. And for much the same reason: increased defense spending without adequate revenues to fund it, along with massive tax cuts for the well-off. Clinton and, later, Obama, were left to “tidy up afterwards.” viii

Bush desperately needed Federal Reserve Board (FRB) chairman Alan Greenspan to give his much needed support to the proposed tax cuts. But Greenspan had supported Clinton’s tax increase in 1993, and had recently advised Congress to use the surpluses to reduce the federal debt. So it was not clear where he stood on such tax cuts. On the other hand, Greenspan definitely wanted to be reappointed as chairman of the FRB, and Bush would be president when the time came to do so. When Bush asked Greenspan to meet with him to discuss the proposed tax cuts, Greenspan told Bush “flat out that he also favored the idea of tax relief. Their courtship was mutual. Bush wooed Greenspan, who … was eager to join Bush’s bandwagon.” ix Greenspan needed Bush if his hopes for reappointment were to become reality.

Since Republicans controlled both houses of Congress (as they did from 1994 to 2006), Congress passed, and Bush signed, the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and
Growth Tax Relief Act of 2003. Both tax-cut bills passed by narrow margins, almost exclusively along party lines. Vice President Cheney had to cast his vote because in the Senate the vote was a 50-50 tie. Clearly, these were “Bush and Republican Party” tax cuts, not bipartisan tax cuts.

All told, more than a third of the 2001 tax cuts went to the richest 1% of Americans—a staggering $38,500 per household per year when all tax cuts took effect. The average taxpayer in the bottom 80% of the income distribution received a slightly more modest $600. Polls suggested that voters … overwhelmingly agreed that the tax cuts were unfairly distributed.

Overall, Bush’s tax and economic policies were a bonanza for the rich and a disaster for almost everyone else. From 2002 to 2007 the top 1% of earners averaged about 10% income growth per year. In contrast, “… the typical family’s income, at just $52,000, was below what it had been … in 2000. And in 2008, it fell to just over $50,000, lower than at any point since 1997.”

Effects of the tax cuts on the economy. Like Reagan’s tax cuts before his, Bush’s tax cuts were economically ineffective, as “job growth remained stagnant.” Unemployment was 4.2% when Bush became president in January 2001. In 2008, the last year of Bush’s presidency, unemployment had almost doubled to 7.2%. In the first year after the 2003 tax cut, the federal budget deficit was a huge $378 billion. “By October 2008, the national debt had risen to $11.3 trillion, an increase of over 100% from 2000 when the debt was only $5.6 trillion.”

Here it is helpful to review the effects of tax increases and tax decreases, and of high tax rates and of low tax rates, 1 since the end of World War II.

- In Chapter 31 Hedrick Smith was quoted as follows: “…America enjoyed its best period of sustained growth in the decades after World War II, from 1945 to 1973, even though income tax rates were far higher than today. It created not only unprecedented middle-class prosperity but also far greater economic equality than today.”
- The 1980s were Reagan’s decade, and his huge tax cuts resulted in (a) the highest unemployment rates since the Great Depression of the 1930s, (b) the largest federal budget deficits in U.S. history, and (c) the beginning of the destruction of the great American middle class by transferring a significant share of the nation’s income from the bottom 99% of earners to the top 1% of earners. (See Chapter 22.)
- The major economic factor of the 1990s was the 1991 and 1993 tax increases signed by Presidents George Herbert Walker Bush and Bill Clinton. Federal government tax revenues as a percentage of Gross Domestic Product (GDP) were 18% in 1992 when Clinton took office; they increased steadily to 21% in year 2000. Those tax revenue increases stimulated the economy to the extent that it “boomed, and incomes grew at their fastest pace since the 1960s.” (See Chapter 27.)
- The major economic factor of the 2000s was the 2001 and 2003 tax cuts pushed by President George W. Bush and the Republican-controlled Congress. Because of those tax cuts, federal government tax revenues as a percentage of GDP fell from 21% in 2000 to 16.1% in 2003, a decline of about 25%. In 2010, “U.S. tax revenues, as a percent of the nation’s economy, were … at their lowest level in sixty years—since 1950. …the United States has the third lowest overall tax rates of the twenty-eight most advanced economies in the world. Not only do
Germany, France, Canada, the United Kingdom, Japan, and New Zealand all have higher tax rates than the United States, but so do Turkey, Korea, Israel, and Iceland. Among developed countries, only Mexico and Chile tax less than the United States.xix As noted above, both unemployment and the national debt almost doubled during the Bush presidency.

- Milton Friedman, Ronald Reagan, the business community, the Republican Party, George W. Bush and others loudly proclaimed over and over again that tax cuts for the wealthy would lead to unprecedented economic growth. They were wrong! They had now tried that on two occasions in the last thirty years, and the results were disastrous failures both times.
- On the other hand, the unprecedented prosperity of 1945 to 1973 was associated with higher tax rates, and the Clinton “boom years” of the 1990s resulted from tax increases and significantly larger government tax revenues.

Social Security payments “bolstered” the economy during the George W. Bush administration. The economy under Bush was very weak, producing essentially no job growth in his eight years as president. The near doubling of unemployment from 4.2% to 7.2% under Bush meant that more and more people were without incomes. The resulting decline in consumer purchasing power meant that the economy was weakening.

But Social Security payments were there to bolster it. On average, about 47-49 million people received Social Security payments each year during Bush’s eight-year presidency.xx In 2001 those people received and spent some $430 billion. Those payments grew every year and totaled over $600 billion in 2008. Overall, Social Security payments totaled more than $4 trillion during Bush’s presidency. George W. Bush was a laissez-faire Republican to the core, and such Republicans have a burning desire to completely eliminate the Social Security program. Ironically, those $4 trillion in Social Security payments probably delayed the onset of the economic depression that started in 2007-2008, and they certainly prevented it from becoming as disastrous as the Great Depression of the 1930s. Thus, Bush’s presidency benefited significantly from a program that conservative Republicans despised.

Two extravagant Bush initiatives. Chapter 27 reported that both Republican Presidents Ronald Reagan and George Herbert Walker Bush were involved in military conflicts in the Middle East. Following the September 11, 2001 terrorist attack on New York City’s twin towers, there was a relatively short military engagement in Afghanistan, the home base of the terrorists. That was soon followed (on March 20, 2003) by President Bush’s (and Vice President Cheney’s and Secretary of Defense Donald Rumsfeld’s) decision to invade Iraq, purportedly because of its arsenal of nuclear and chemical weapons. Because the United Nations’ inspectors in that country did not find any such weapons, the Iraq war proved to be a war of choice rather than one of necessity.xxi (The effects of that war, its aftermath and costs, continue to this day (2013)). Nobel-Prize-winning economist Joseph Stiglitz estimated that the total cost of that war would eventually approach $3 trillion.xxii

A second initiative was the controversial Medicare Drug Benefit law that Bush pushed through Congress in 2005. Two respected Washington observers reported that the law resulted from “…the outrageous three-hour vote … in the wee hours of the morning, violating numerous House rules and norms….” xxiii The cost of that program was estimated at about $7 trillion.xxiv Many critics of the law—and there still are many—claimed that most of the $7 trillion was earmarked for insurance and pharmaceutical companies. For example, the law prevented Americans from importing less expensive drugs from other countries xxv
and prohibited Medicare from bargaining with the pharmaceutical companies over the prices of the drugs U.S. citizens bought through Medicare. That prohibition amounted “to a $50 billion annual gift to pharmaceutical companies.” xxvi

Together, these two initiatives totaled some $10 trillion. Since President Bush did not ask for new taxes to pay for them, the costs of those two initiatives went directly into the national debt.

Stealth Government Action Against the American People: government bailed out “banks too big to fail” during the financial crisis of 2007-2008, but prevented distressed homeowners from declaring bankruptcy. Shortly after the financial crisis of 2007-2008, President George W. Bush’s Secretary of the Treasury (Hank Paulson), the Chairman of the Federal Reserve Board (Ben Bernanke), and the head of the Federal Reserve Bank of New York (Timothy Geithner) warned of impending economic catastrophe for the nation if $700 billion was not immediately made available to the nation’s largest banks. President Bush told congressional leaders that if such funding were not forthcoming for the banks, the country’s economy would collapse, as per his comment that “this sucker could go down.” xxvii President-elect Obama also favored the government providing such financial support.

Paulson and Geithner then engineered the bailout in secret, deciding which financial institutions should receive what amounts of money, and on what terms. … The whole thing began to look like a giant insider deal created by Wall Streeters for Wall Streeters, at everyone else’s expense. Before coming to the Treasury, Paulson had headed Goldman Sachs, one of the most successful of the big banks. Geithner had been installed in the New York Fed by major bankers, including Robert Rubin, Treasury secretary under Bill Clinton, who also had headed Goldman Sachs and was now a top executive at Citigroup. While engineering the bailout, Paulson and Geithner consulted with Lloyd Blankfein, who was then CEO of Goldman Sachs. Not coincidently, perhaps, Citigroup and Goldman were the largest beneficiaries of the bailout.

When Paulson and Geithner considered whether to bail out the giant insurer AIG, which owed Goldman $13 billion, they consulted with Blankfein. They did not demand that Goldman … accept a penny less than what was owed them—even though, as the inspector general who oversaw the bailout subsequently noted in a critical report, Goldman would have collected far less had AIG been forced into bankruptcy. In effect, $13 billion went from taxpayers to AIG and then promptly from AIG to Goldman—although for many months Geithner and the Treasury refused to disclose that, and Goldman refused to acknowledge it (italics added).

(Throughout all this) Wall Street lobbied successfully against a proposal to allow homeowners to declare bankruptcy rather than forfeit their homes. The proposal would have given distressed homeowners more bargaining leverage with the banks that owned their mortgages. … (In the end) … Congress did not allow distressed homeowners to declare bankruptcy.

The giant bailout of Wall Street was sold to the American people as a way to save Main Street and jobs. But it appeared to do neither. The bankers on Wall Street mostly saved themselves, using the taxpayers’ money to keep their banks sufficiently solvent to do a new round of deals that generated them billions of dollars. Yet little or nothing trickled down to Main Street. Small businesses could not get loans. Few homeowners were able to renegotiate their mortgages, and large numbers lost their homes. xxviii
The bailout was a clear example of the government taking money and wealth from the middle and lower classes and transferring it to selected individuals in the top 0.01 percent of the income scale.

Just like Republicans, at least some Democrats also clearly preferred that their deliberations be kept private (i.e., “secret”). In 2009 Harvard University Law School professor Elizabeth Warren was the chairperson of the Congressional Oversight Panel for the Troubled Assets Relief Program (TARP) under President Obama. Not being a regular member of government, she was considered an “outsider.” In its third report, a somewhat critical one, the panel concluded “that American taxpayers were at far greater risk to losses in TARP than the Treasury had let on.” After that report had been issued, she had dinner with Obama’s director of his National Economic Council, Larry Summers, a fiscal conservative who had supported the Troubled Assets Relief Program. (See Chapters 27 and 30 for background on Summers.)

After dinner, “Larry leaned back in his chair and offered me some advice,” Ms. Warren writes. “I had a choice. I could be an insider or I could be an outsider. Outsiders can say whatever they want. But people on the inside don’t listen to them. Insiders, however, gets lots of access and a chance to push ideas. People—powerful people—listen to what they have to say. But insiders also understand one unbreakable rule: They don’t criticize other insiders. I had been warned.” Ms. Warren concluded.

Growth of the national debt under Republican Presidents Ronald Reagan, George H.W. Bush, and George W. Bush. Chapter 22 addressed this issue for Presidents Ronald Reagan, George Herbert Walker Bush, Bill Clinton, and George W. Bush. Reagan increased the national debt, as a percentage of GDP, from 32.5% to 53.1% during his eight-year presidency. George H.W. Bush further increased the debt to 66.1% of GDP during his four-year presidency. In his eight years in office, Bill Clinton reduced the debt significantly, down to 56.4% of GDP. But then George W. Bush increased the debt back up to a whopping 84.2% during his eight-year presidency. In less than thirty years, three Republican Presidents increased the country’s debt from 32.5% to 84.2% of the nation’s GDP. (Without the budget surpluses created by Clinton’s policies, the three Republican presidents would have increased the country’s debt from 32.5% of GDP to 93.8% of GDP.)

A graphic of the history of the national debt is most illuminating. (See Exhibit 32-1.) After reaching its peak during World War II, the national debt as a percentage of GDP declined steadily through the presidential administrations of Truman, Eisenhower, Kennedy, Johnson, Nixon, Ford and Carter. The exhibit shows that if President Reagan and the two Presidents Bush had balanced their budgets, as they all claimed they would do, the national debt would have been eliminated by the early 2000s. Not one of the three Republican presidents balanced even a single annual budget, and that failure is a significant factor in the destruction of the middle class and the onset of the second great worldwide depression.

Republicans’ versus Democrats’ historical record of achieving the Constitutional goal of promoting the general welfare. Economists have studied and evaluated the effectiveness of the policies of different presidential administrations in promoting the general welfare. Professor Larry Bartels, director of the Princeton University’s Center for the Study of Democratic Politics, conducted such research projects.

The Census Bureau provided annual family income data from 1947 to 2005, a period that included all presidents from Truman to George W. Bush. During that time, five Democratic presidents served for 28
years, and six Republican presidents served for 32 years. The study utilized annual income data “for families at the 20th, 40th, 60th, 80th, and 95th percentiles of the income distribution.” xxxi That is, researchers analyzed the annual incomes from families at the very top (the 20th percentile) of the lower class quintile, the annual incomes from families at the very top (the 40th percentile) of the lower-middle class quintile, the annual incomes from families at the very top (60th percentile) of the middle-middle class quintile, and the annual incomes from families at the very top (the 80th percentile) of the upper-middle class quintile. They also analyzed the annual incomes from families just below the richest 5% of earners (the 95th percentile).

The annual income data were placed into two categories: whether the data were from a year when a Republican was president or when a Democrat was president. Researchers then analyzed the year-to-year percentage changes in each family’s annual income under both a Republican president and a Democratic president. xxxii The table below shows the findings. Each entry in columns 2 represents the average annual income growth rate (%) for families when a Republican was president, broken out by the five income percentiles. Column 3 presents the same information for Democratic presidents.

<table>
<thead>
<tr>
<th>Income Percentile</th>
<th>Republican Presidents</th>
<th>Democratic Presidents</th>
</tr>
</thead>
<tbody>
<tr>
<td>20th percentile</td>
<td>0.43%</td>
<td>2.64%</td>
</tr>
<tr>
<td>40th percentile</td>
<td>0.80%</td>
<td>2.46%</td>
</tr>
<tr>
<td>60th percentile</td>
<td>1.13%</td>
<td>2.47%</td>
</tr>
<tr>
<td>80th percentile</td>
<td>1.39%</td>
<td>2.38%</td>
</tr>
<tr>
<td>95th percentile</td>
<td>1.90%</td>
<td>2.12%</td>
</tr>
</tbody>
</table>
For example, families at the 20th income percentile experienced a 0.43% growth rate in annual income under Republican presidents and a 2.64% growth rate under Democratic presidents. That is, families at that income level saw their annual incomes grow six times faster under Democratic administrations than under Republican administrations. Similarly, families at the 40th and 60th income percentiles enjoyed annual income growth rates three times and two times faster, respectively, under Democratic administrations than under Republican administrations. Even families at the 80th and 95th percentiles had greater annual income growth under Democratic administrations. According to Bartels, these findings “suggest that escalating (income) inequality is not simply an inevitable economic trend—and that a great deal of economic inequality in the contemporary United States is specifically attributable to the policies and priorities of Republican presidents.” xxxiii

A second study “examined employment data for the 64 years from the beginning of Harry Truman’s presidency to the end of George W. Bush’s. (The researcher) found that an average of two million jobs were created per year when a Democrat was president, compared with only one million annually when a Republican was president.” xxxiv

* * *

When George W. Bush became president in January 2001, the business community/Republican Party/conservative Democrats faction had already put in place eight “stealth government actions against the American people,” each of which transferred money and wealth from the middle and lower classes to individuals at the very top of the country’s income scale. The administration of President George W. Bush added the above-described two “stealth government actions” to that list, bringing to ten the total of such actions against the American people.

From the 1930s to the 2000s, Republican presidents generally pursued the laissez-faire economic philosophy, including tax cuts mainly for the rich. The policies of Democratic presidents focused on government involvement in the economy accompanied by high taxes mostly on the rich. It is helpful here to review the effectiveness of two very important issues in this course: tax cuts vs. tax increases; and the laissez-faire economic philosophy vs. government involvement in the economy.

- The country’s economic policies from the 1940s to the late 1970s (government involvement with high taxes on the rich) were very effective in reducing the size of the national debt while, at the same time, causing the robust economic prosperity that created the great American middle class.
- The economic policies of Republican Presidents Ronald Reagan, George H.W. Bush, and George W. Bush (laissez-faire and tax cuts for the rich) reversed the downward trend of the national debt and caused it to significantly increase in less than thirty years. While doing so, those policies essentially led to the destruction of the great American middle class.
- Democratic administrations from the mid-1940s to 2000 employed policies (government involvement and tax increases on the wealthy) that resulted in equal prosperity growth across all income levels.
- The policies put in place by Republican administrations from 1980 to 2008 (laissez-faire and tax cuts for the rich) caused income inequality overwhelmingly favoring the wealthy class over everyone else, and led to the second, conservative great worldwide depression in less than 80 years.
For a thorough discussion of the frantic activities of both Democrats and Republicans during the thirty-five days between election day and the Supreme Court’s decision, see Jeffrey Toobin, *Too Close To Call*, (Random House, 2002). For a description of the Supreme Court’s intervention into the State of Florida’s recount after the 2000 presidential election, see pages 182-185, 213-216, 227-228, 248-251, and 258-263 of the Toobin book.


See (http://en.wikipedia.org/wiki/economic_policy_of_the_george_w._bush_administration)

vi Same source as note ii.


x Same source as note vi.

xi For a discussion of the 2001 and 2003 tax cuts passed by Congress in spite of the public’s overwhelming opposition to those tax cuts, see the source in note iii, pages126-135.

xii Same source as note vii.

xiii Same source as note viii, page 253.

xiv According to Princeton economist, Alan Krueger, “The 2000s saw the worst record of job creation in the last 50 years, even before the recession that started in 2007.” See the source in note iii, page 137.

xv Same source as note v.


xviii Same source as note xvii.


xxi Same sources as note v.


xxviii Same source as note xxvii, pages 103-106. For a more complete discussion, see pages 101-107.


xxx Source: (http://zfacts.com/p/318.html)


xxxii To accurately reflect annual incomes attributable to different presidential administrations, “Partisan control measured from one year following inauguration to one year following subsequent inauguration.” See Table 2.1 on page 32 in the source in note xxxi.

xxxiii Same source as note xxxi, page 3.

Chapter 28 described the Newt Gingrich revolution that resulted in Republicans taking firm control of Congress in November 1994. (Republicans led Democrats by 52 seats to 48 in the Senate, and 230 to 204 seats in the House.) Republicans essentially maintained that level of control for the next 12 years, until the November 2006 election. Chapter 31 discussed the efforts of Grover Norquist and Stephen Moore to recruit only Republican candidates who took a pledge not to raise taxes, and to reduce taxes whenever the opportunity arose. George W. Bush became president after the November 2000 election, even though he was not elected by the popular vote. With these happenings, the business community/Republican Party/conservative Democrats faction (“the faction”) essentially gained complete control of the U.S. government in January 2001. (Gaining control of the legislative process and thus also control of the country’s political-economic system is the second prong in “the faction’s” three-pronged strategy. See Chapter 18.) Further, Karl Rove, the top strategist for President George W. Bush, believed his plan “would lead to a period of Republican dominance” for years to come.ii

During this decade the U.S. Congress was very involved in “stealth government actions against the American people.” Chapter 30 summarized the fact that eight such actions had been successfully executed during the 1970s–1999 period, three in the 1970s, two in the 1980s, and three more in the 1990s. Chapter 32 described two more such actions being put into place by the Bush administration during the 2000s. Six other such actions were put into place by Congress during this first decade of the new century. All sixteen of these “stealth government actions” functioned to transfer wealth from the lower and middle classes to individuals in the top 0.1% of earners and/or to somehow contribute to the growing income inequality. (This is the third prong of “the faction’s” three-pronged strategy to gain control of the country’s political-economic system. See Chapter 18.)

This chapter discusses (1) Stealth Government Action Against the American People: Congress’s new treaty greatly facilitated outsourcing U.S. manufacturing to China and increasing imports from China, (2) the Republican Congress gave tax cuts to the rich, and did not raise taxes to pay for war, (3) Congressional Republicans’ “no-tax-increase pledges” caused a conflict of interest, and a repudiation of their oath of office, (4) Stealth Government Action Against the American People: Congress allowed employers to steal billions of dollars from employees through legalized wage theft, (5) Stealth Government Action Against the American People; the new bankruptcy law of 2005 favored the rich over the middle class, (6) Stealth Government Action Against the American People: Congress and the president allowed U.S. companies to transform themselves into global corporations, and move high-tech jobs to foreign countries, (7) Senate Republicans again filibuster to prevent a vote to reform the Taft-Hartley Act, (8) Stealth Government Action Against the American People: Congress allowed the business community to block attempts to “cap” excessive CEO compensation, (9) Stealth Government Action Against the American People: Congress failed in its attempt to reform banks and financial institutions after the financial crisis of 2007-2008, (10) Republicans in Congress became obstructionists, creating a dysfunctional government, (11) two noted, nonpartisan Washington-watchers blamed Republicans for dysfunctional government, and (12) after President Obama was re-elected in 2012, Congressional Republicans “ratcheted-up” their obstructionist activities, essentially closing down Congress.

Stealth Government Action Against the American People: Congress’ new treaty greatly facilitated outsourcing U.S. manufacturing jobs to China and increasing imports from China. Prior to 2000,
U.S. trade with China was based on, and limited by, annual agreements between the two countries; that is, a new agreement was negotiated each year. Because that arrangement did not allow for the establishment of longer term relationships between U.S. and Chinese companies, the business community put pressure on Washington to make appropriate changes. Business people argued that freer trade with China (that is, longer-term trade agreements with China) would result in an export bonanza from which all Americans would benefit greatly.


When the House passed the new free trade agreement with China in May 2000, President Clinton proclaimed that it would “open China’s market to American products made on American soil—everything from corn to chemicals to computers.” In September, as the Senate was voting, George W. Bush, then the Republican presidential nominee, supported the trade deal, and … declared that it would “open markets to American products and help export American values, especially freedom and entrepreneurship.” Charlene Barshefsky, the U.S. Trade Representative, rhapsodized about the export potential for the United States “across all sectors and all fields of a magnitude unprecedented in the modern era.”

Business eagerly pushed for the new permanent trade agreement with China, replacing the annual agreements that were subject to bargaining and delays. The Business Roundtable (CEOs from the top 180 U.S. corporations), drumming up congressional votes, ran an ad envisioning massive export gains. “With 1.3 billion people, China is the world’s largest marketplace,” the Roundtable ad asserted. “A new trade agreement opens China’s market to our goods and services.”

A number of large U.S. industries joined in in trumpeting the same message: the automobile industry, farm equipment manufacturers, telecommunications companies, pharmaceuticals, and the electronics industry. But not everyone agreed with that optimistic message.

Organized labor opposed the trade pact, warning of massive job losses at home as U.S. firms moved plants to China in the chase for cheap labor. Smaller and mid-sized U.S. manufacturing firms feared that big multinationals were angling for ways to cut cost and squash smaller domestic competitors by producing cheap goods in China for export back to America.

“We were sold a bill of goods,” asserts Alan Tonelson of the U.S. Business and Industry Council, a trade group of two thousand smaller manufacturers. “We thought that expanding trade with countries like China, using multinational companies as the main traders, would tremendously increase U.S. exports to this huge, rapidly growing market. But that assumed that the multinationals largely saw China as an end-use customer. In fact, if you check their websites, it’s clear that they saw China as a production and export platform. I think the multinationals did this quite knowingly. They understood exactly what China offered. They looked at China like a super-Mexico.”

As U.S. trade with China increased year by year, so also did U.S. unemployment. Many of those who lost high-paying jobs in the manufacturing sector had to settle for lower-paying jobs in the service sector, or worse. Meanwhile, owners and executives of U.S. firms that were involved with outsourcing jobs to China were rewarded with significantly greater compensation, leading to even further increases in the
nation’s income inequality. For example, reportedly the “six Walmart heirs are worth as much as the bottom 41 percent of American households put together.”

The destruction of the middle class had been under way throughout the 1980s and 1990s. But it was only seriously wounded, and not yet dead. The outsourcing by U.S. businesses of its manufacturing to China during the 2000-2010 period provided that death blow. That “death blow” came about through a “stealth” action involving the U.S. Government and the business community.

An event (i.e., passage of the U.S.-China Relations Act of 2000) that had a gigantic negative impact on almost all ordinary Americans should have, in a democracy, been discussed openly and freely for all to see and consider. But that was not what happened.

The Republican Congress gave tax cuts to the rich, and did not raise taxes to pay for war. Having consolidated their power, Republican Congressional leaders pushed through Congress, and Bush signed, the tax cut of 2001 and the tax cut of 2003.

… nothing indicates so clearly the GOP’s turn to the right on economic issues … than the unrelenting priority placed on tax cuts for the wealthiest Americans. When … the party was forced to indicate its true priorities … the answer always came back the same: tax cuts for the rich.

Additionally, Republicans in Congress (with some Democratic help) gave full support to the Bush-Cheney-Rumsfeld decision to invade Iraq in 2003, even though history has shown that there was no justification for such aggression. Reflecting their pledges to Grover Norquist’s “American’s for Tax Reform” and Stephen Moore’s “Club for Growth,” Congress did not raise taxes to pay either for the Iraq war or the Medicare Drug Benefit Law of 2005. (As noted in Chapter 32, over time that anti-tax-increase policy probably added some $10 trillion to the national debt.)

Congressional Republicans’ “no-tax-increase-pledges” caused a conflict of interest, and a repudiation of their oath of office. When taking their oath of office, members of Congress swear to protect and defend the Constitution of the United States. One of the very specific goals of the Constitution is “to provide for the common defense.” The Constitution gives Congress the power to raise taxes to pay for the expenses of government, and the United States military is an expense of government. It is clearly a conflict of interest for Congress to vote to engage in a war while, at the same time, because of their Norquist/Moore pledges, refuse to raise taxes to pay for that war. Their pledges caused Congressional Republicans to repudiate their oath of office; yet they remained in office.

Stealth Government Against the American People: Congress allowed employers to steal billions of dollars from employees through legalized wage theft. “Wage theft is the illegal withholding of wages or the denial of benefits that are rightfully allowed an employee.” First passed in 1938, the Fair Labor Standards Act requires that workers be paid time and a half for hours worked beyond the standard forty hour work-week. The act did not apply to executives and managers.

In 2004, under President George W. Bush and a Republican controlled Congress, the Fair Labor and Standards Act was changed to reclassify many low-level supervisors and others as “executives and
managers.” The AFL-CIO claimed that millions of workers would be denied overtime pay as a result of those changes.viii

Wage theft became increasingly common after 2004 when those low-level working supervisors and others were reclassified as managers and executives. Because of that reclassification, millions of workers were forced to work more than forty hours a week without being paid overtime. That amounted to legalized wage theft. (Reportedly, the dollar value of wage theft greatly exceeded the combined dollar value of larceny, burglary, auto theft, and robbery.)ix

Under federal labor law, if you are an employee making, say, $11.50 an hour, … you would be entitled to time-and-a-half for every hour beyond 40 hours a week. However, if you earn $460 a week in salary you often are not entitled to time-and-a-half for overtime no matter how many extra hours you work—even though your salary works out to $11.50 an hour.

The differing treatment of hourly and salaried workers is an invitation to exploitation. By giving many low-paid workers white-collar titles like shift supervisor or assistant manager, employers justify paying them a salary rather than an hourly wage and deny them overtime.

Under labor law dating back to 1938, workers are supposed to get overtime unless they earn a salary high enough to qualify as a professional, an administrator or an executive.

The salary threshold that defines a white-collar salary has barely budged since 1975, the last time it was updated for inflation. Today, that threshold is stuck at $455 a week, or $23,660 a year, which is below the poverty line for a family of four. Once an employer pays a worker more than that in salary, the worker is commonly no longer eligible for overtime.

Simply updating the salary threshold for inflation would raise it to nearly $1,000 a week. This change would make an additional 6.1 million salaried workers eligible for overtime, including food service managers, customer service representatives, insurance claim processors and retail supervisors, according to recent estimates by the Economic Policy Institute.x

Since 1975 the U.S. Government (i.e., Congress) has not adjusted the $455/week salary threshold defining white collar workers. But, by changing the law in 2004 to reclassify some workers as “executives,” the United States Government has legalized—and encouraged—wage theft that denies millions of workers of the billions of dollars in overtime pay that is due to them according to the Fair Labor Standards Act of 1938. Those billions of dollars flow mostly to the top 0.1 percent of earners, thus contributing greatly to the income inequality plaguing the country.

Stealth Government Action Against the American People: the new Bankruptcy Law of 2005 favored the rich over the middle class. Republicans were already in control of both houses of Congress when George W. Bush became President. With such “friends” in high places, the financial industry began lobbying for new laws that would make it more difficult for ordinary individuals to file for bankruptcy when they could no longer pay their bills.

Average Americans couldn’t afford to pay off the stiff rates the financial industry was charging on loans and credit cards. They were declaring bankruptcy at record rates and denying banks usurious interest in the process. The financial industry’s better idea (was to) have Congress make
The financial industry claimed that it needed the new laws to prevent “high-income deadbeats” from using bankruptcy to avoid paying their credit card debts. According to one expert on bankruptcy, the idea “was to make it harder for people to get to bankruptcy court. The harder it is, the more expensive it is, the longer people put off filing for bankruptcy, (and thus) the longer they pay the big penalty fees to the banks.”

In 2005, … Congress passed the Bankruptcy Abuse Prevention and Consumer Protection Act, which raised the legal and financial barriers to bankruptcy filings. As expected, the number of personal bankruptcies plunged from just over 2 million in 2005 to about 750,000 in 2006. … the new law was actually creating obstacles for honest, financially busted debtors, just as consumer advocates had feared. As (the bankruptcy expert) put it, the law “functioned like a barricade, blocking out hundreds of thousands of struggling families indiscriminately.”

In the old economy, bankers issued credit just to strong, creditworthy customers who typically paid off their debts. The go-go New Economy went for easy credit and higher debt for all, especially people with risky credit records, and many more people wound up in bankruptcy. Over the past five years (the late 2000s), as the housing market nosed down and twenty-five million Americans lost solid, full-time jobs, more and more middle-class families turned to easy credit to stay afloat. That added to the profits of banks and credit card companies, but the more money they made, the more middle-class and working families sank into financial ruin.

This 2005 bankruptcy law may be a perfect example of a “stealth government” action: Congress passes a law that receives very little publicity, and that law legitimized banks and financial institutions taking money from the lower and middle classes and transferring it to the wealthiest 1% of earners.

Stealth Government Action Against the American People: Congress and the president allowed U.S. companies to transform themselves into global corporations, and move high-tech jobs to foreign countries. Chapter 31 reported that the decade of the 2000s was perhaps the most corrupt in America since the 1920s. Business expenditures on lobbying skyrocketed during the George W. Bush presidency, with business reportedly outspending labor by almost 60-to-1 during the decade. With that lopsided advantage in lobbying expenditures, business was likely “to get its way” in Washington on matters it considered of great importance.

That was evident in the declining income taxes that corporations were paying. (See the discussion in Chapter 35.) By 2010, corporate income taxes accounted for only 9% of the federal government’s total tax revenues, a decline of more than 70 percent since the 1950s and 1960s. The fact that there had been no public outcry over the unfair cuts in corporate income taxes is indicative of a “stealth government” in action. Also indicative of the presence of a “stealth government” was the mass outsourcing during the decade of the 2000s of high-tech jobs to India by supposed U.S. corporations, again without any noticeable outcry by President Bush or the Congress.

In the decade of the 2000s at least some corporate CEOs no longer saw their companies as “American,” and therefore no longer felt the need to manufacture or have operations in the U.S.
Alex Trotman, the CEO of Henry Ford’s old company, was among the first to openly sound that theme in the late 1990s. “Ford isn’t even an American company, strictly speaking,” he said. “We’re global.” Ron Rittenmeyer, CEO of EDS, the largest American-based IT services company, described his firm as “agnostic about specifically where we operate.” In 2005, former Intel CEO Barrett was so bullish about Intel’s global presence and operations in an interview with New York Times columnist Thomas Friedman that Friedman paraphrased Barrett as contending that “Intel can be a totally successful company without ever hiring another American.” In 2006, Cisco CEO John Chambers went further. “What we are trying to do,” he said, “is outline an entire strategy of becoming a Chinese company.”

… the National Science Board reported that 85 percent of the growth in R&D workers by U.S. multinationals between 2003 and 2009 had been abroad, while American-based employment in high-tech manufacturing had dropped 28 percent since 2000.

… IBM has become the flagship for outsourcing technology services, helping a fleet of U.S. firms to relocate as many as a couple of million high-end IT jobs to Asia, especially to India. If Wal-Mart pushed consumer manufacturing to China, IBM has been the driving force for pushing IT work offshore. Its own transformation has been stunning, implemented largely out of public view. In seven short years, from 2003 to 2010, IBM fired so many American IT professionals and hired so many engineers and computer programmers in India that IBM India’s workforce is now larger than that of IBM USA.

Since 2006, IBM has been secretive about revealing just where its 400,000-person global workforce is stationed. But the Times of India dug out the news that IBM’s Indian workforce—a mere 6,000 in 2003—had catapulted to 100,000, maybe even 130,000, by August 2010. In those same seven years, IBM cut its American workforce by 30 percent or more, from 135,000 in 2003 to under 100,00 by early 2011.

But to reduce the unflattering headlines, IBM went sub rosa with its firings. Although federal and state laws require companies to report “material events” such as large layoffs, IBM stopped announcing large job cuts in 2006.

Other large, well-known U.S. companies that went into high-tech job outsourcing in a big way were Accenture, Hewlett-Packard, Dell, Deloitte, Electronic Data Systems (EDS), Affiliated Computer Services, and Computer Sciences Corporation.

During the financial crisis of 2007-2008 and the economic depression that followed,

… the big Wall Street banks bailed out by taxpayers rebuffed President Obama’s pleas to “hire American.” Instead, they pushed ahead with overseas hiring, but like IBM, they kept it quiet. The Indian press broke the news that in 2011, J.P. Morgan Chase, Bank of America, and Citigroup had signed contracts to offshore $5 billion worth of new IT and back-office work to Indian firms. At home, the big banks were firing tens of thousands of employees.

With no public announcements by either Corporate or U.S. Government officials, former U.S. corporations, that had greatly benefitted from being such, quietly transformed themselves into global
corporations, moved thousands of high tech jobs out of the U.S. into foreign countries, and rejected many if not all responsibilities toward the United States and its citizens.

**Senate Republicans again filibuster to prevent a vote to reform the Taft-Hartley Act.** Because of the Iraq war and the very weak economy (described in Chapter 32), Bush’s approval rating declined sharply. In late 2006 it dropped to 34-37%, which very likely contributed to the Democrats regaining control of Congress in the November election that year. In the House of Representatives, Democrats gained 233 seats to the Republicans’ 198 seats. In the senate, the Democrats and the Republicans each controlled 49 seats, with the Senate’s other two seats being claimed by “independents,” who frequently voted with the Democrats.

The Democrats introduced The Employee Free Choice Act, which was designed to reform the harsh Taft-Hartley Act in three ways. (1) A company would be legally required to recognize a union if greater than 50 percent of their employees signed cards stating they wanted to form a union. (2) When such a condition occurred, the company would have to begin negotiating a labor contract with the union. (3) If the two negotiating parties could not reach an agreement within 120 days, they would have to submit to binding arbitration overseen by the National Labor Relations Board.

The Employee Free Choice Act was passed in the House of Representatives in March 2007 by a vote of 241-185. In the Senate, proponents of the bill could gather only 51 votes “in favor,” 9 votes short of the 60 votes needed to stop the Republican filibuster. Forty-eight Republican Senators voted to continue the filibuster, thus once again preventing a Taft-Hartley reform bill from even being voted on. As it had been doing since 1947, the business community/Republican Party/conservative Democrats faction was able to defend against an attack on the first prong of its three-pronged strategy—to severely weaken potential challengers to “the faction’s” goal of dominating the nation’s political-economic system. (See Chapter 18.)

**Stealth Government Action Against the American People: Congress allowed the business community to block attempts to “cap” excessive CEO compensation.** Chapter 25 graphically illustrated both the creation of the great American middle class, and what caused the increased income inequality that started in the late 1970s-1980s. (See Exhibit 25-2.) Prior to 1980 the average hourly wage of workers increased year-by-year at almost the same pace as year-by-year increases in worker productivity. That’s what created the great American middle class. But, beginning in the late 1970s the average hourly wage of workers stopped growing and leveled off, while worker productivity continued to increase at the same or even greater rates than before. That ever-widening gap between worker productivity and worker average hourly wage represented the growing income inequality between the earnings of ordinary workers and earnings of CEOs and, therefore, the beginning of the destruction of the great American middle class.

After the 2007-2008 financial crisis, when attempts were made to control or limit CEO annual earnings, the lobbying forces that were activated to prevent this from happening were some 65 times more powerful than the forces attempting to impose such upper limits. That massive lobbying effort was again used to engage “stealth” government on the side of the top 0.1 percent of earners against all other American workers.
Most of the time, lobbying is done in private, but sometimes it emerges in public view. … for example, the Business Roundtable dug in its heels when Barney Frank, then Democratic chair of the House Financial Services Committee, proposed giving shareholders the right to vote on CEO pay, bonuses, and options. For a decade, shareholder groups and investor advocates had complained that CEO pay packages were far too lavish and that Congress should give shareholders a vote on executive pay. But despite the corporate mantra about CEOs working for shareholder interests, CEOs were up in arms at the thought that shareholders might get a deciding voice in their pay.

The Business Roundtable, representing CEOs of America’s 180 largest corporations, sent its president, John Castellani, to inform Congress that the nation’s most powerful corporate leaders objected vehemently—even to a nonbinding advisory vote. “Corporations were never designed be democracies,” Castellani told a House Finance Committee meeting. “While shareholders own a corporation, they don’t run it.”

Barney Frank and his fellow Democrats were unmoved. The Democratic majority in the House passed a pro-shareholder bill. But typical of the power of stealth lobbying in Washington on a relatively low profile issue, the Business Roundtable and its allies in (the six top business community lobbying groups) found ways to stifle the shareholder bill in the Senate Banking Committee. *Without a vote being taken* (italics added), the bill died in its legislative crib. The investing public was largely unaware that its interests had been suppressed.

Once again “stealth government” worked against the interests of the middle and lower classes, thus contributing still more to the nation’s destructive income inequality.

**Stealth Government Action Against the American People: Congress failed in its attempt to reform banks and financial institutions after the financial crisis of 2007-2008.** Chapter 26 reported that the decade of the 1990s was the most corrupt in America since the 1920s, and then Chapter 31 reported that the decade of the 2000s was equally corrupt, if not more so.

After the financial crisis of 2007-2008, there was a public outcry over the corruption caused by the financial and banking industries. From 2009 through 2011 attempts were made (i) to prevent banks from trading on their own accounts (“the Volcker Rule”), (ii) to create a truly independent consumer protection agency, (iii) to pass a new Glass-Steagall Act, and (iv) to regulate financial derivatives. The result of those attempts was the Dodd-Frank Act, which became law in the summer of 2010. Wall Street banks had worked continuously to prevent such legislation. After it became law, the banks worked to severely weakening the legislation and/or to delay its implementation.

Passing the Volcker Rule against proprietary trading was a gain, though it was watered down with one loophole that allowed banks to speculate with up to 3 percent of their assets and another loophole that delayed implementing the Volcker Rule for seven years, long enough for banks to fight to expand the loophole and perhaps to elect a bank-friendly president in 2012 or 2016 who would wipe the Volcker Rule entirely off the books. *Ultimately, the concessions made to win the final Senate votes largely emasculated the reform* (italics added).
Stanley F. Stasch  
Professor Emeritus  
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Volcker later voiced his dismay: Reform was inadequate, and the biggest banks were larger than before the 2008 collapse. In late 2011, he suggested that the government was still stuck with the structural problem of megabanks too large and too interconnected to be allowed to fail. His solution was bold: Reduce the risks either “by reducing their size, curtailing their interconnections, or limiting their activities.” Similarly, Paul Krugman, a Nobel laureate in economics, found the law’s penalties and incentives not tough enough to force bankers to stop the risky trading practices that had caused the financial collapse. Jeffrey Lacker, president of the Federal Reserve Bank of Richmond, said the reform was so weak that it was destined to perpetuate the cycle of boom and bust and taxpayer rescue.

Politics—the enormous political power of the banks—was the core problem, the conservative, pro-business London Telegraph pointed out. “Such is the lobbying power of the big Wall Street institutions,” the British paper said, “that they not only caused a global economic crisis and then forced the U.S. government to pay for a massive bailout, but then used a slice of that bail-out to bribe politicians with campaign donations in order to block rule changes that might prevent a repeat performance.”

Some four years after the passage of the Dodd-Frank Act, a leading Republican Congressman reportedly said:

“In no way, shape or form does the Dodd-Frank Act end too big to fail,” said Representative Jeb Hensarling, the Texas Republican who is chairman of the House Financial Services Committee.

The Dodd-Frank Act required that each bank have an approved “living will,” a plan of action describing how the bank will …

… dismantle their operations and financial contracts in an orderly way in the event of impending failure. Last week—six years after the onset of the financial crisis, four years after Dodd-Frank and two years after the biggest banks submitted the first drafts of their living wills—the Federal Deposit Insurance Corporation and the Federal Reserve rejected the plans from 11 large banks as “unrealistic or inadequately supported.” The regulators said further that the banks had failed “to make, or even identify” structural and operational changes that would be needed to attempt an orderly resolution.

In a 2012 poll more than three-quarters of Americans agreed with the statement that “government is pretty much run by a few big interests looking out for themselves.”

**Republicans in Congress became obstructionists, creating a dysfunctional government.** Their loss of control of Congress caused Republicans in late 2006-early 2007 to become an *obstructionist force* to prevent any legislation that might improve the economy, or promote the general welfare, or establish justice where it was absent.

This Republican “obstructionist” strategy was more than just a continuation of the Gingrich-Republican Party strategy of the late 1980s-early 1990s to regain control of the House. (See Chapter 28.) Republicans worked diligently to prevent any legislation or government action that might have strengthened labor unions and consumer organizations to the point where they could seriously challenge the dominance “the
faction” had already achieved. If, by their loss of control of Congress, Republicans were prevented from taking any action favoring the business community/top 1% of earners, they would at least prevent progressive Democrats from doing anything to strengthen labor unions and consumer groups, or to promote the welfare of the middle and lower classes.

When Barack Obama was elected president in November 2008, Congressional Republicans became still more obstructionist, refusing even to address such critical issues as the housing/mortgage crisis brought about by the financial community’s recklessness, or the tremendous increase in unemployment, or other hardships imposed on the middle class by the depression that began in 2007-2008. Some Republican obstructionist examples include:

In October 2010, Mitch McConnell, the Republican leader in the Senate, famously told The National Journal, “The single most important thing we want to achieve is for President Obama to be a one-term president.” And that’s how he and his party acted.

Under Carter, Reagan, Bush 41, Clinton, and Bush 43, the Senate confirmed between 79 and 93 percent of the judicial nominees put forward during each administration’s first 18 months. The confirmation rate under Obama? Forty-three percent, or roughly half the historical norm. In 1981, 37 Senate Democrats voted for Ronald Reagan’s tax cuts: twenty years later 12 Senate Democrats voted for George W. Bush’s. In contrast, Obama pushed seven major bills before Republicans took control of the House in 2011. They received only 15 Republican votes—total. Since then, very few challenging pieces of legislation have even reached the floor of the Senate, thanks to the GOP’s record-shattering reliance on the filibuster. In the last three sessions of Congress, Republicans have threatened to filibuster on 385 separate occasions—equaling, in five short years, the total number of filibuster threats to seize the Senate during the seven decades from the start of World War I until the end of the Reagan administration. A recent study showed that…threatened or actual filibusters have affected 70 percent of major legislation. In the 1980s, that number was 27 percent. In the 1960s, it was 8 percent. “This level of obstruction is extremely unusual,” says Norman Ornstein, a congressional scholar at the conservative American Enterprise Institute. “And the core of the problem is the GOP.”

Republicans regained control of the House of Representatives in November 2010. They did so by “demonizing” the Affordable Care Act that the Democratically-controlled Congress passed in 2010. (The Republicans regained control of the House in 1994 by using the identical strategy. At that time, the business community/Republican Party viciously attacked President Clinton’s proposed new health care plan. See Chapter 27.) After returning to power in 2011 the Republican majority elected John Boehner as Speaker of the House. Boehner, who had been one of Newt Gingrich’s top lieutenants in the 1990s, quickly redeployed the strategy that Gingrich had used in 1994 to help Republicans regain control of the house.

The Postal Service has multiple financial problems, and, earlier this year, the Senate passed a bipartisan bill to deal with them. But the House leadership wouldn’t bring anything up for a vote. Speaker John Boehner never said why.

House of Representatives Republicans have an informal rule (the Hastart rule) that “bars a vote on legislation unless it has the support of a majority of Republicans.” Even if a majority of the entire
*House of Representatives wants to vote in favor of a bill, it would not be allowed to come up for a vote if a majority of Republicans oppose it.*

**Two noted, nonpartisan Washington-watchers blamed Republicans for dysfunctional government.** Thomas Mann and Norman Ornstein are two long-time Washington observers who are considered nonpartisan. They “argue that the debt limit fight (in 2010) revealed a crisis-level dysfunction that has left Washington paralyzed and unable to address America’s urgent problems.” In January 2010 the Senate voted on a resolution designed to break the then-existing impasse on the impending debt limit. Both Republican Senators Mitch McConnell and John McCain supported the resolution when it was created some months earlier. When it came up for a vote, the Republicans filibustered.

Among those who voted to sustain the filibuster were Mitch McConnell and John McCain. McCain was joined in opposition by six other original cosponsors, all Republicans. Never before have cosponsors of a major bill conspired to kill their own idea. … …the opinion editor of the *Washington Post* wrote of McConnell’s change of position, “No single vote by any single senator could possibly illustrate everything that is wrong with Washington today. No single vote could embody the full cynicism and cowardice of our political elite at its worst, or explain by itself why problems do not get solved. But here’s one that comes close.”

Mann and Ornstein also argued that “the Republican Party is mainly to blame for what’s wrong with Washington.”

…one of the two major parties, the Republican Party, has become an insurgent outlier—ideologically extreme; contemptuous of the inherited social and economic regime; scornful of compromise; unpersuaded by conventional understanding of facts, evidence, and science; and dismissive of the legitimacy of its political opposition. When one party moves this far from the center of American politics, it is extremely difficult to enact policies responsive to the country’s most pressing challenges.

In 2011, the former Republican senator from Nebraska, Chuck Hagel, called his party “irresponsible” and said he was “disgusted” by the antics of the Republicans over the debt ceiling.

The irresponsible actions of my party, the Republican Party, over this were astonishing. I’d never seen anything like this in my lifetime…. I was very disappointed. I was very disgusted how this played out in Washington, this debt ceiling debate. It was an astonishing lack of leadership by many in the Republican Party, and I say that as a Republican…. I think the Republican Party is captive to political movements that are very ideological, that are very narrow.

**After President Obama was re-elected in 2012, Congressional Republicans “ratcheted-up” their obstructionist activities, essentially closing down Congress.** The confirmation approval process for over 100 Obama cabinet position nominees was noticeably delayed by various Republican tactics. Republicans used Senate rules to block two Obama cabinet appointees from moving forward in the confirmation process “despite the fact that both have the support of a majority of senators.”
“It was rare in the past for a cabinet nominee to face a filibuster or blanket holds,” said Norman J. Ornstein, a scholar on the Congress for the American Enterprise Institute. “Now it seems almost routine.” xxvi

Congressional Republicans also ask appointees to provide written answers to hundreds of questions, primarily as a delaying tactic. One appointee was asked to answer over 1,000 questions, while others were asked to answer 200 or more questions.

By comparison, Henry M. Paulson, Jr., who served as one of George W. Bush’s Treasury Secretaries, received just 81 questions: 49 from Democrats and 32 from Republicans. xxxvii

Congressional Republicans basically ignored President Obama’s proposals during 2011 and 2012, when they controlled the House of Representatives. But that resistance stiffened even more after Obama’s re-election.

At every opportunity since they took over the House in 2011, Republicans made it clear that they have no interest in reaching a compromise with the White House. For two years, they held sham negotiations with Democrats that only dragged down the economy with cuts; this year they are refusing even to sit down at the table.

Senate and House Republicans are refusing to meet with Democrats to negotiate over budgets passed by each chamber. Four times in the last two weeks, Senate leaders have proposed beginning a conference committee to hash out a federal budget; four times they have been blocked by Republicans. … Knowing that their positions would be deeply unpopular with the public if their stubbornness were exposed in an open committee, Republicans would simply prefer not to talk at all. xxxviii

In 1995-1996, Newt Gingrich, the Republican Speaker of the House, completely shut down the government. For all practical purposes, Republicans closed down Congress in 2013.

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Republicans in Congress worked very hard—and very successfully—to sustain and reinforce the business community/Republican Party/conservative Democrats faction’s three-pronged strategy to gain control of the country’s political-economic system. They once again defeated attempts to reform the Taft-Hartley Act, which would have strengthened their major opposition, labor unions. From 2001-2006, with Bush in the White House and Republicans controlling both houses of Congress, the faction did in fact control the country’s political-economic system. Through Congress, they strengthened the third prong of their strategy by executing six additional “stealth government actions against the American people,” all of which functioned to transfer wealth from the middle and lower classes to the top 0.1% or earners and/or to otherwise further increase the nation’s already lopsided income inequality. After they lost control of Congress in early 2007, Congressional Republicans were effective in preventing any Democratic initiative that might improve the economic prospects of the middle and lower classes.
Congressional Republicans were steadfast in their purpose to reduce taxes for the wealthy and thereby cause additional budget deficits that could be used to argue for reducing even further the size of government, which they would then do by reducing taxes even further. Their policies overwhelmingly favored the top 1% of earners, especially the top 0.1%. But since they now did not have the votes to pursue their preferences, their goal was to prevent any economic prosperity from flowing to the lower and middle classes.

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iv Same source as note iii, page 261.
7 See (http://en.wikipedia.org/wiki/Wage_theft)
8 See (http://en.wikipedia.org/wiki/Fair_Labor_Standards_Act)
9 Same source as note vii.
x Same source as note iii, page 95.
xi Same source as note iii, page 95-96.
10 Same source as note iii, pages 278-279, and 282. For a complete description of IBM’s outsourcing activities, see pages 279-289.
11 Same source as note iii, page 288.
12 See (http://en.wikipedia.org/wiki/George_W._Bush)
15 Same source as note iii, pages 133-135.
16 Same source as note iii, pages 148-152. For a description of how the banking industry’s lobbyists prevented financial reform, see Floyd Harris, “Mortgages Without Risk, At Least for the Banks,” New York Times, November 29, 2013, pages B1, B5.
19 Same source as note iii, page 151.
20 For a detailed description of Republican obstructionism, see Thomas E. Mann and Norman J. Ornstein, It’s Even Worse Than It Looks, (Basic Books, 2012), especially Chapters 1-3. See also the source in note vi, pages 263-273.
23 Same source as note iii, page 341.
28 Same source as note xxx.
29 Same source as note xxxi, page xiv.
30 Same source as note xxxi, pages 53-54.
32 Same source as note xxxv, page 19.
33 Same source as note xxxv.
34 Same source as note xxxv.
CHAPTER 34: SUPREME COURT DURING THE 2000s

In spite of President Clinton’s appointments of Ruth Bader Ginsberg and Steven Breyer, at the end of the 1990s the Supreme Court was at least as conservative as it was during the Reagan and George H.W. Bush presidencies. (See Chapters 24 and 29.) For example, Chapter 29 discussed how the business community/Republican Party/conservative Democrats faction found a new ally when the Court intervened in the Bush v. Gore Florida vote recount case in November 2000.

When Chief Justice William Rehnquist died in 2005, President George W. Bush appointed John Roberts to fill his seat. The conservative Rehnquist was replaced by the even more conservative Roberts. Justice Sandra Day O’Conner retired the following year. “She frequently sided with the conservative block.” i Bush replaced her with Samuel Alito, who was more conservative than O’Conner and at least as conservative as Roberts, perhaps even more so. (With O’Conner’s departure, Ginsberg was now the only woman on the Court.) The Court then included five very conservative justices (Chief Justice Roberts and Associate Justices Alito, Kennedy, Scalia, and Thomas) who were appointed by Republican presidents Ronald Reagan, George H.W. Bush, and George W. Bush.

This chapter discusses cases that illustrate the Supreme Court’s favoritism towards corporations and its hostility to ordinary working people: (1) the Lilly Ledbetter case; (2) the Citizens United case; and (3) pro-business cases. It also discusses (4) the Court’s declining public image.

Lilly Ledbetter started working for the Goodyear Tire & Rubber Company in 1979.ii After several decades, when approaching retirement, she discovered she was receiving between $500 and $1,500 less per month in salary than male co-workers doing the same or equivalent work. She only recently learned of the wage differential because “pay information of fellow workers is typically confidential and unavailable for comparison.” iii She sued the company for discriminating against women. When her lawsuit made its way to the Supreme Court, conservative justices Alito, Kennedy, Roberts, Scalia, and Thomas used a procedural issue to vote 5 to 4 against her case, rather than vote on the merits of her petition. Reportedly, their rationale was that Ledbetter should have sued the company within 180 days of the date the employer makes the initial discriminatory wage decision,iv rather than within 180 days of discovering that the company had been discriminating against her for many years.

The Citizens United case. According to the Supreme Court’s very own Rule 14, “only questions set out in the petition or fairly included therein will be considered by the Court.” v Both the 2009 and 2010 court terms included the Citizens United case. During the first hearings on that case, the five conservative justices—especially Chief Justice Roberts—violated Rule 14 by judging on an issue that was not part of the petition.vi The story is as follows.

During the 2008 presidential primary election season, Citizens United, a small political organization, wanted to air a 90-minute movie depicting Democratic candidate Hillary Clinton in a very negative manner. “The Federal Election Commission … told Citizens United that it could not air or advertise the film during the primary season because it amounted to a 90-minute campaign ad that didn’t identify who paid for it.” vii Citizens United sued the Federal Election Commission, arguing that its First Amendment rights had been violated. When the case was argued in early 2009, Roberts raised an issue that that had not been addressed in the case’s petition. Justice Souter “accused the Chief Justice of violating the Court’s own procedures to engineer the results he wanted.” viii To avoid damaging the Court’s credibility
(as a result of the Roberts-Souter conflict), Chief Justice Roberts rescheduled the case for re-argument in the Court’s 2010 session, but at that time he reframed the case in a manner that was very different from the original petition. In the 2010 re-argument of the case, Roberts decreed that the Court would decide whether to declare the 2002 McCain-Feingold Campaign Financing Law unconstitutional (which was not an issue set out in the original Citizens United petition). And that was exactly what the five conservative justices did. They declared the McCain-Feingold law unconstitutional, and in so doing their decision “wiped out 100 years of precedent in campaign-finance law.”

The court under Roberts reached out in the Citizens United case … to decide a question that had not been raised by any of the parties … and in doing so overturned both one of its own precedents and a Congressional enactment.

The Court’s ruling meant that corporations were no longer restrained in contributing to a politician’s campaign fund. They were now free to spend as much money as they wished to support or defeat any candidate for any office. That outcome was not included in the petition of the original Citizens United case; it resulted because Chief Justice Roberts had violated the Supreme Court’s very own Rule 14.

Of the Supreme Court’s decision in the Citizens United case, world-famous economist Joseph Stiglitz wrote:

> The Court’s decision in balancing the interests of free speech with the interests of a balanced democracy, gave short shrift to the latter.

> The Court’s action was … just another reflection of the success of the moneyed interests in creating a system of … electing politicians who in turn appointed judges who would enshrine a corporation’s right to unbridled spending in the political arena.

Campaign financing in the United States was corrupt even before the Supreme Court’s Citizens United decision. But that decision made it even more so.

> In 2002, according to (the Public Interest Research Group) … more than half the money raised by U.S. House candidates came in contributions of $1,000 or more from just 0.09 percent of the population. The 2012 equivalent of that giving—$5,000 or more to a super PAC—came from only 0.000342 percent of Americans.

Senate Democrats in 2010 tried to lessen the corruptive effect of this Supreme Court decision by introducing the DISCLOSE Act, which would require revealing the names of all corporations and individuals that financially contributed to any political ad or communication. All 59 Senate Democrats were in favor of the bill, but they could not get even one Republican Senator to provide the vote needed to overcome the Republican filibuster that prevented a vote on the bill.

**The Court’s pro-business favoritism.** Citizens United was not the only case where the Supreme Court broke its own rules in order to allow the five conservative justices to alter legislation in a manner more in keeping with their political philosophy. In its June 23, 2012 editorial, “The Anti-Union Roberts Court,” the *New York Times* wrote:
The Supreme Court’s ruling this week in Knox v. Service Employees International Union is one of the most brazen of the Roberts court. It shows how defiantly the five justices act in advancing the aggressive conservatism of their majority on the court.\textsuperscript{xvi}

Under Roberts’ leadership the Court had definitely become more strongly pro-business.

In the last (Supreme Court) term, business groups achieved a series of victories, often by lopsided majorities. In cases with an individual on one side and business interests on the other, the court ruled for the business side 12 out of fourteen times, ….\textsuperscript{xvii}

During his Senate confirmation hearings in 2005, John Roberts likened judges to baseball umpires whose job it is to “…to make sure everybody plays by the rules. I will remember that it is my job to call balls and strikes and not to pitch or bat (italics added).”\textsuperscript{xviii} Charles Fried, a Harvard University Law School Professor who was a solicitor general during the Reagan administration, had closely observed the Citizens United case and said: “This is a court that under Chief Justice Roberts called a ball a strike, a strike a ball…. So who knows what to expect?”\textsuperscript{xix}

The Court’s declining public image. So how did the public view this very conservative Supreme Court? Under Chief Justice Roberts the Court’s reputation went into decline.\textsuperscript{xx} According to a (2012) New York Times/CBS News poll, “only 44 percent of Americans approve of the job the court is doing, down from 66 percent in the late ’80s—and three-quarters say the justices are swayed by their own personal and political agenda. That’s far from the reputation of independence and impartiality we expect from the nation’s highest court.”\textsuperscript{xxi}

Regarding the Supreme Court’s shift from impartiality to extreme conservatism and pro-business favoritism, when Sandra Day O’Conner retired from the Supreme Court, she reportedly said to her colleague Justice David Souter: “What makes this harder is that it’s my (Republican) party that is destroying the country.”\textsuperscript{xxii}

Clearly, the Supreme Court of the 2000s made no attempt to establish justice where it had been absent or to promote the general welfare. Instead, it further weighted the scales of justice in favor of business corporations and facilitated even greater prosperity for the richest 1% of the population at the expense of the bottom 99%. The conservative majority of the Supreme Court had solidified its alliance with the business community/Republican Party/conservative Democrats faction.

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\textsuperscript{i} See (http://en.wikipedia.org/wiki/Sandra_Day_O%27Conner)
\textsuperscript{ii} See (http://en.wikipedia.org/wiki/Ledbetter_v._Goodyear_Tire_%26_Rubber_Co.)
\textsuperscript{iii} Same source as note ii.
\textsuperscript{iv} Same source as note ii.
\textsuperscript{vi} For a very thorough and informative discussion and analysis of the Citizens United case, see Jeffrey Toobin, “Money Unlimited: How Chief Justice Roberts Orchestrated the Citizens United Decision,” New Yorker, May 21, 2012, pages 12-13 of a digital copy. Much of this paragraph is based on that source.

xi For a discussion of how “free to spend” corporations became as a result of this decision, see Thomas E. Mann and Norman J. Ornstein, It’s Even Worse Than It Looks, (Basic Books, 2012), pages 71-75. In its January 12, 2014 edition, the New York Times reported that 23 states were currently under control of the Republican party, that is, had both a Republican governor and Republicans in control of both houses of the state legislature. The Democrats only controlled 13 states in this manner. This development was made possible by the Supreme Court’s decision in the Citizens United case, and resulted from “…interlocking networks of political action committees, party organizations, and nonprofit groups, often based in states with forgiving campaign rules, that work in concert to raise contributions and shuffle money to thousands of local races around the country. In some states, liberal or conservative donors have established political nonprofits that function like shadow parties, often exempt from the contribution limits or disclosure requirements that apply to candidates and traditional parties.” See Nicholas Confessore, “A National Strategy Funds State Political Monopolies,” New York Times, January 12, 2014, pages A1, A20, and A21.


xiv Same source as in note x, pages 75-76.

xv See the discussion of the Knox versus Service Employees International Union case in the source in note iv.


xix Same source as note xvii.

xx For an in-depth analysis of important cases in the Roberts court, see Marcia Coyle, The Roberts Court, (Simon & Schuster, 2013).


CHAPTER 35: OTHER INSTITUTIONS DURING THE 2000s

and

SUMMARY OF THE 2000s

In the decade of the 2000s business executives were hurtling their businesses and the economy toward the financial crisis of 2007-2008; the Republicans controlled Congress from 2001 to 2006 and they did nothing to stop the dash toward that crisis; and the Supreme Court continued making decisions that allowed the business community to do as they pleased, which was to rush headlong towards the crisis. When George W. Bush became President in January 2001, the business community/Republican Party/conservative Democrats faction essentially gained control of the U.S. government. Based on its past record when controlling government, there was little hope that “the faction” would reduce or even slow the growing income inequality plaguing the middle and lower classes. By the end of the decade of the 2000s, “…according to the Central Intelligence Agency, … income distribution in the United States is now more unequal than in Uruguay, Nicaragua, Guyana, and Venezuela, and roughly on a par with Argentina. Income inequality is actually declining in Latin America even as it continues to increase in the United States. Economically speaking, the richest nation on Earth is starting to resemble a banana republic.”

This chapter discusses how ten forces and institutions contributed to the destruction of the middle class during the decade of the 2000s and/or to the nation’s growing income inequality and/or encouraged the onset of the economic depression that started in 2007-2008. Those forces/institutions are: (1) the Federal Reserve helped create greater income inequality; (2) the unemployed and the underemployed held back possible wage increases; (3) the U.S. trade balance with China was a catastrophe for employment; (4) U.S. multinational companies helped China steal U.S. technology; (5) labor unions couldn’t help because of the Taft-Hartley Act; (6) religious institutions joined with “the faction” against common people; (7) the uninformed and misinformed public contributed to the destruction of the middle class; (8) corporate taxes were “disappearing” as a source of federal government revenues; (9) media is no longer the public’s “watchdog; and (10) constitutional flaws make a mockery of the democratic principle of “majority rule.”

The Federal Reserve helped create greater income inequality. In his book, The Price of Inequality, Noble-prize-winning economist Joseph Stiglitz titled Chapter 8, “A Macroeconomic Policy and Central Bank By and For the 1 Percent.” He titled the leading section in that chapter, “How Modern Macroeconomics and Monetary Policies Have Hurt the 99 Percent.” Through its policies the Federal Reserve can work to keep inflation low, or it can try to reduce unemployment down to the lowest level possible, say, 3-4%. It can try to do one or the other, it can’t do both. Stiglitz argued that the Federal Reserve Board’s policy of keeping inflation low directly led to higher unemployment and lower incomes for workers in “the bottom 99 percent by forcing down wages as workers compete for jobs.”

The Fed also contributed to increased income inequality when it elected not to curb “the reckless and predatory lending, the abusive credit card practices…. Again, the banks were the winners; the rest the losers.” In allowing banks to continue such practices, the Federal Reserve created greater income inequality by transferring wealth from the middle and lower classes to the bankers and others in the top 1 percent.
Stiglitz also described how the Fed directly helped banks get richer by encouraging them not to lend money, that is, not to do the very thing banks are supposed to do to contribute to a prosperous economy.

The Federal Reserve lends to the banks at very low interest rates, rates that, especially in times of crisis, are far below the market rate. If a bank can borrow at close to zero, and buy a long-term government bond yielding, say, 3 percent, it makes a nifty 3 percent profit for doing nothing. Lend the banking system a trillion dollars a year, and that’s a $30 billion gift. But banks can often do better—they can lend to triple A-rated firms, prime customers, at much higher interest rates. If they can lend at just 10 percent, then the government’s willingness to lend them a trillion dollars at close to zero interest rate is a $100 billion a year gift. …(this) strategy puts the interests of the banks (and especially the large banks) and bankers ahead of the rest of our economy.”

The unemployed and the underemployed hold back possible wage increases. The financial crisis started in 2007-2008, but its underlying causes had been developing for years. When the crisis struck, it revealed that the economy was indeed very weak and that the resulting depression would be a long one. Flash forward to 2012. Joseph Stiglitz reported in his book that…“As of March 2012, some 24 million Americans who would have liked a full-time job couldn’t get one.” Furthermore, “…it would be years—2018 at the earliest—before the economy returned to full employment.” The huge number of unemployed and underemployed were a drag on the economy because they prevented wages from rising.

The U.S. trade imbalance with China was a catastrophe for employment. For many years after the end of World War II the U.S. was mostly a creditor nation, typically exporting more than it imported. That changed in the early 1980s when the country’s trade balance went into the red; it remains there to this day. After NAFTA was signed into law by President Clinton in 1993, the U.S. trade deficit began to grow even faster. China became increasingly significant as a U.S. trading partner in the early 1990s. (See Chapter 33.) By 2005 China was the U.S.’s third largest trading partner, after Canada and Mexico. From 1996 to 1999 the U.S. trade deficit with the entire world averaged about $180 billion/year. But then, from 2000 to 2008, that deficit averaged over $600 billion/year, reaching or exceeding about three-quarters of $1 trillion in each of 2005, 2006, and 2007.

From 2001 to 2010,…the red ink was overwhelming. We Americans bought $1.928 trillion more from China than we sold to China. As a result, China has become not only America’s main supplier, but America’s main banker, the largest holder of U.S. debt, with financial reserves topping $3.2 trillion, giving it enough financial leverage to wreak havoc with the American economy if it ever chose to sell off a large slice of its U.S. Treasury holdings. This is the opposite of what America’s business and political leaders promised.

When American consumers choose to buy a luxury German automobile, or when they indulge themselves with fine French or Italian wines, they are engaging in free trade. That is, German automobile manufacturers and French and Italian wine merchants have distribution systems that place their products on the open U.S. market where consumers choose whether or not to buy those products.

The trade which the U.S. developed with China was not this type of “free trade.” It was “outsourcing” rather than free trade. That is, instead of manufacturing in the U.S. those products to be sold to U.S. consumers, America’s business executives made the decision to outsource that manufacturing to China.
Labor costs in that country were only a tiny fraction (about 3%)\(^\text{x}\) of U.S. labor costs, because Chinese workers were almost completely without rights.\(^\text{xi}\)

With 80 percent of its suppliers located in China, Wal-Mart was the most extreme practitioner of this policy. A Duke University sociologist, Gary Gereffi, studied Wal-Mart’s practices in China.

“Wal-Mart and China have a joint venture. Both of them are geared to selling products in the United States at the lowest possible price, … and both are determined to dominate the U.S. economy as much as they can in a wide range of industries,” Gereffi replied. He explained how Wal-Mart coaches Chinese producers how to capture the American consumer market. “Wal-Mart gives Chinese suppliers the specifications for Wal-Mart products and they teach those suppliers how to meet those specifications. They have to do with price. They have to do with quality. They have to do with delivery schedule,” Gereffi said. “So Chinese suppliers learn how to export to the U.S. market through large retailers like Wal-Mart.”\(^\text{xii}\)

But Wal-Mart also had help from the U.S. Government, according to Dan Slane, a member of the U.S.-China Economic and Security Review Commission.

…we closed over 43,400 factories in the United States and lost almost 8 million jobs. Not only did our government ignore all this, but they intentionally refused to enforce the trade laws. When the Chinese figured that out, they had a field day.\(^\text{xiii}\)

The U.S. trade deficit with China was $33 billion in 1995, but increased steadily to $273 billion in 2010. From 1995 to 2005, the U.S.-China trade deficit averaged 23-24% of the total U.S. global trade deficit. In 2007-2008, that figure increased to 32%. In 2009-2010 it increased again to 44%.\(^\text{xiv}\)

That ballooning trade deficit with China contributed significantly to growing U.S. unemployment under the George W. Bush administration. And it wasn’t just manufacturing jobs that were outsourced to China. High-tech and other skill-intensive jobs were being outsourced.\(^\text{xv}\) Unemployment was 4.2% in January 2001 when Bush became President, but rose to 7.2% in 2008, resulting in the loss of some 15 million jobs during the 2000s.\(^\text{xvi}\) Reportedly, between 2002 and 2012 slightly more than 63,000 factories were shut down.\(^\text{xvii}\)

Although the destruction of the middle class was under way throughout the 1980s and 1990s, it was only seriously wounded, but not yet dead. The outsourcing by U.S. businesses of its manufacturing to China during the 2000-2010 period provided that death blow. Reportedly, “employment in the core manufacturing sector fell from 17.1 million to 11.8 million from January 2001 to December 2011.”\(^\text{xviii}\) Overall, outsourcing was estimated to be responsible for 12-13 percent—perhaps more—of the income inequality that resulted by 2010.\(^\text{xix}\)

Never in the history of the world has a nation so freely and so willingly given such a huge portion of it wealth and future well-being to another nation—not just any nation—but a nation that had been its political and military adversary for half a century.\(^\text{xx}\) Overall, U.S. workers and consumers received very little benefit from trade with China. Practically all of the rewards associated with that trade—and they were substantial—accrued to the business executives of the firms that engaged in that outsourcing: they became very wealthy, but they comprised less than 0.01% of the population.
For example, in 2005 the widow of the founder of Wal-Mart and her four children were the 6th, 7th, 8th, 9th and 10th wealthiest persons in the U.S., according to Forbes magazine’s list of the 400 richest Americans. Each one had reported wealth between $15 billion and $16 billion.

Ironically, China used that huge influx of wealth to improve and expand its education, to develop its infrastructure, to build the world’s most expansive and up-to-date high-speed railway system, to greatly improve housing for its people, to become one of the world’s leaders in renewable energy sources, and to host the 2010 Olympic Games. The U.S. did none of those things. Its educational system was in decline. By the mid-2000s its housing market bubble was about to burst. Its Interstate Highway bridges collapsed without causing apparent concern. In 2003-2004 the country’s infrastructure was ranked 8th in the world: in 2012 it was 25th. The U.S. was not a serious competitor in the developing world market for renewable energy. In 2011, according to the International Monetary Fund, of the 33 “advanced economies” in the world, only two countries had greater income inequality than the U.S.; the U.S. was tied for last with respect to the percentage of people reporting that they are experiencing “food insecurity”; the U.S. had one of the lowest “life expectancies at birth”; it had the highest prison population (per 100,000 citizens) by far; in only four countries were students’ math scores lower than in the U.S.; only seven countries reported a higher unemployment rate.

The U.S. did go to war in Afghanistan and Iraq, at an estimated cost of $3 trillion.

**U.S. multinationals and the U.S. Chamber of Commerce helped China steal U.S. technology.** U.S. multinational companies have led the way in setting up…

…at least 1,160 high-end research installations in China since 1999, plus more in India. The challenge from China … was sharply different from the Japanese trade challenge in the 1980s. Japan had resisted attempts by American multinationals to set up factories in Japan. By contrast, China welcomed foreign investors as a way to capture their technology and know-how. “China was much more clever than Japan with its investment policies,” observed C. Fred Bergsten, director of the Peterson Institute for International Economics. “It invited foreign direct investment and then took the American corporations hostage,” requiring them to transfer valuable technologies to China as a price of doing business there.

Some American corporate leaders concede that they are walking a delicate line by sharing know-how with China, but they say that is an unavoidable cost of doing business there. “China has a carrot and stick strategy—to sell to the Chinese government and state-owned enterprises, you have to make it in China…. The Chinese even have a policy of indigenous innovation. The idea is that in order to sell to the Chinese government, you have to have R&D and new technology done in China incorporated into your products. It’s a technology transfer requirement.”

The heads of some U.S. multinationals dislike this policy and note that it goes against global trading rules, but they shy away from strong public statements. Privately, they told the U.S. Chamber of Commerce that China’s policy is simply “a blueprint for technology theft on a scale the world has never seen before.” But, said the Chamber of Commerce, many U.S. multinationals are so increasingly dependent on their China profits,” that they “can’t afford to antagonize China.”
The Communist Party leadership has made “indigenous innovation” a cornerstone of its drive to make China “a technology powerhouse by 2020.” Evidently many U.S. multinational corporations and the U.S. Chamber of Commerce saw nothing wrong with such cooperative behavior so long as the top executives of those corporations personally enjoyed great financial rewards, even though the behavior negatively affected the middle and lower classes, and was likely to so affect the nation for a long time.

**Labor unions couldn’t help because of the Taft-Hartley Act.** The successful unionization of ordinary workers was a key force in the creation of the great American middle class from the 1930s to the 1970s. (See Exhibit 35-1, a duplicate of Exhibit 5-1.) But the general public did not strongly support labor unions in the 1970s and 1980s, and that contributed to their decline. (See Chapters 20 and 25.) Due to the absence of such support, the business community/republican Party/conservative Democrats faction (“the faction”) was able to use the Taft-Hartley Act to attack and deliver crippling blows to unions. By 2010, “private-sector union membership is right back where it was … the year Franklin Roosevelt became president. It’s as if the New Deal never happened.” (These attacks on unions are described in Chapters 3, 7, 12, 13, 15, 17, 18, 20, 22, 25, and 33.)

Here in the decade of the 2000s the middle and lower classes were in desperate need of assistance from some institution that could stand up to “the faction.” But unions no longer had the strength to battle such a formidable foe.

In 2006, the year before the Great Recession began, corporate profits garnered the largest share of national income since 1942, while the share going to wages and salaries sank to the lowest level since 1929.

Corporate profits were up and wages and salaries were down because unions were down. Exhibit 35-1 shows that union membership as a percentage of the workforce began declining in the 1960s, and declined even faster in the 1970s. After Reagan fired the air traffic controllers in 1981 (see Chapter 22) union membership declined even faster. The figure also shows that the share of national income going to the richest 10% of earners began increasing in the early 1980s and continued increasing thereafter. (See Figure 25-2 and the discussion explaining it.) The decline of labor union membership led to the growth of income inequality.

In the 1960s, at the peak of their power, labor unions managed collective bargaining for about 35% of the American work force. In addition, the presence of unions created a “spillover effect where non-unionized firms raised wages and benefits (in order) to compete with unionized firms for workers.” As a result, about 40-45% of the work force was paid union or near-union wages. But some forty years later, in 2012, only 11.3% of the work force was unionized. Consequently, a much larger percentage of the work force was non-union during the 2000s, and they were paid considerably less than comparable union workers. As reported by the Bureau of Labor Statistics, “among full-time workers, union members had … earnings of … about $49,000 annually, compared with about $38,600 annually, for comparable nonunion workers.”
EXHIBIT 35-1

Union Membership and Share of Income Going to the Top 10%


Here it is very helpful to ask and answer three questions. The first is: how much annual income was taken from the lower and middle classes due to the decline of unionized workers from about 35% (or more) of the work force down to 11%? The answer is over $300 billion per year. In a total work force of about 100 million individuals, that amounts to an average of $3,000 per year per worker. If 100 million individuals earned an additional $3,000 in each of the five years (2007-2012) since the onset of the current depression, the recovery from that depression would have occurred faster than it did and would have been much stronger.

If unionized workers were being paid 25% more per year than non-unionized workers ($49,000 vs. $38,600), the second question is: why didn’t more workers want to join unions? In fact, in a 2004 poll of non-unionized workers, some 55% said they would vote for a union at their place of business if they had the opportunity to cast such a vote. A 2005 poll inquired as to how important or unimportant several job characteristics were to workers. One such characteristic was: “A living wage that provided an income above poverty level for a full time worker.” Eighty-seven percent of the workers said that that characteristic was “essential” or “very important,” yet only 47% said their company was “doing well” on that characteristic. Many workers apparently did not feel that their employers were treating them fairly. It’s no surprise, then, that a majority of workers said they would vote for a union if given the chance.
The third question is: why didn’t more workers join unions? Chapter 25 answered that question by reporting that the cards were stacked against the workers “because the Congress of the United States and the last three presidents (Ford, Carter and Reagan) had deliberately ignored the wishes of the people.” Those wishes were also ignored throughout the 1990s and 2000s. In the 1990s Newt Gingrich and “the faction” had absolutely no inclination to reform the Taft-Hartley Act in a manner favorable to labor unions and thus to an increased prosperity for the middle and lower classes. Under President George W. Bush “the faction” was in even greater control of government. Taft-Hartley reform was never a consideration. Based on the information in Chapters 28 and 32, Newt Gingrich and George W. Bush should be added to the list of three former presidents who prevented more workers from joining unions.

Chapter 2 included the story about President Franklin Roosevelt meeting with a delegation that requested that a certain government program be established. After being convinced that the request was the right thing to do, Roosevelt said to them, “Now make me do it.” With their decline throughout the 1980s, 1990s, and into the 2000s, labor unions were no longer a strong force putting pressure on Democrats (“to make them do it”) to provide more support for the middle and lower classes. Consequently, the Democratic Party was free to drift away from “progressivism” and move toward being “moderate” or even “slightly conservative.”

In 2009 and 2010, when the Democrats both controlled Congress \(^{xxxiii}\) and occupied the White House, some Democrats tried to introduce a bill, The Employees Free Choice Act, that would make it easier for workers to form a union. (See Chapter 33.) The bill went nowhere. According to the former president of the Service Employees International Union, …

… labor unions were unable to persuade Congress to repeal just one part of Taft-Hartley by restoring “card check,” an informal method of union certification wherein union organizers quietly collect authorization cards from employees as an alternative to secret-ballot elections (which are easily manipulated by management). “The Democrats wouldn’t support it,” (the union leader) explained. “In the end, many of the Democrats don’t believe in unions. It’s not their funding base. In terms of their hard-dollar contributions, particularly for senators, they all come from a class who are not particularly pro-union. And there’s always this sense that (unions will) always be there, and (unions) will never go away, even though (unions are) sort of fading away in front of their eyes.” \(^{xxxiv}\)

*Once again an effort to reform the unjust Taft-Hartley Act did not succeed. In fact, it didn’t even get started. If unions couldn’t help themselves, if they were unable to get help from a Democratically-controlled Congress and a Democratic president, they certainly couldn’t help the middle and lower classes recover even some of the prosperity that was taken from them over the previous 30 years.*

Chapter 2 reported that the Chamber of Commerce in 1945 stated that “collective bargaining is part of the democratic process.” In a 2008 white paper, that same organization indicated that its position on labor unions had changed. Its position now was: “Unions are not the answer to increasing prosperity for American workers or the economy.” \(^{xxxv}\) Recall that Chapter 16 described how the business community moved *en masse* to the nation’s capital in the 1970s in order to first stop, and then defeat, the forces that had created the great American middle class. That chapter reported that in 1984 a former lobbyist for one of America’s top consumer products companies said: “When business really tries, when it is fully united
and raring to go, it never loses a big battle in Washington.” Based on the 2008 Chamber of Commerce position statement, it is clear that the business community was doing everything it could to keep labor unions from once again becoming a strong economic and political force.

They were successful! According to political scientists Hacker and Pierson: “Compared with other rich democracies, the United States stands out as the country with the greatest unfulfilled demand for union representation.” xxxvi

**Religious institutions joined with “the faction” against common people.** From the 1930s through the 1960s, along with labor unions, churches and religious institutions were the only organizations that fought for the welfare of common workers and for social justice for the lower classes. (See Chapters 15 and 25.) That changed with the growing middle class prosperity of the 1960s and 1970s. Chapter 25 reported that in the early 1980s the Roman Catholic Church’s bishops made an effort to once again champion social justice, economic opportunity, and the right to employment for all people. Unfortunately, by the end of that decade, the Vatican forced Catholic bishops to abandon that vision and focus instead on abortion and other “life issues.”

… the two popes who reigned for the last 34 years—first John Paul II and now Benedict XVI—appointed bishops who are far more theologically and politically conservative than their predecessors. Drawing on these popes’ teachings, this new generation of American bishops has steered the church’s social priorities toward opposition to abortion, gay marriage and secularism. xxxvii

(In 1998 the future Pope Benedict XVI) … reprimanded American bishops for supporting the use of condoms as a means of preventing the spread of AIDS. And in July 2004, he inserted himself into the presidential campaign by encouraging American clergy to deny communion to pro-choice politicians like (Democrat) John Kerry. xxxviii

In the 1970s and 1980s Christian conservatives became an important part of the Republican Party’s most reliable constituency, the so-called “pro-lifers.” xxxix During the 1990s they developed into a significant force. By 1994 …

… there were thirty-one state Republican parties … under the “moderate or strong” control of Christian conservatives. By 2002, that number had increased to forty-four. (The GOP) decided … that conservative Christian voters should be brought into alliance with other forces in the GOP, trading support on social issues the Christian Right cared most about for an economic agenda tailored to other interests. … the religious right has served as the shock troops for a (Republican) party committed to a business agenda. xl

(The very significant consequences of the Christian Right’s control of state legislatures is discussed below in the section on constitutional flaws.)

A 2007 Supreme Court decision raised the question of whether in the United States there was still a clear separation of church and state, as required by the first amendment of the Constitution. In a 5-4 decision the Supreme Court overturned established precedent that had allowed the use of so-called “partial-birth abortion” in cases where it was necessary in order to preserve the health of the mother. Two points should
be noted here: (a) that Supreme Court decision was much aligned with what the Vatican’s anti-abortion efforts were trying to accomplish; and (b) the five justices who voted to overturn established precedent were Roman Catholic Justices Alito, Kennedy, Roberts, Scalia, and Thomas. “… given the nature of the issue, the strength of the relevant precedent, and the inadequacy of the court’s reasoning,” some observers raised the question as to whether those five justices were influenced by their personal religious beliefs. Because of the breakdown of the vote in that 2007 Supreme Court decision, it appeared that the Roman Catholic Church had become an ally of “the faction,” a force that was notorious for its opposition to labor unions and social justice for common people.

Various signs indicated that Christian conservatives and the Catholic Church were siding with “the faction” during the 2000s, thereby making it unlikely that those religious institutions would assist the middle class in regaining some of the prosperity that had been taken from them over the previous 30 years or so.

The uninformed/misinformed public contributed to the destruction of the middle class. Approximately 50% of the American electorate do not participate in presidential elections. That percentage is even larger for the off-year Congressional elections. Since the vast majority of non-voters are middle and lower class, their non-participation bears much of the blame for the destruction of the middle and lower classes. But part of the blame also lies with uninformed and misinformed voters.

New York Times columnist, Bob Herbert, wondered “how the GOP has … been able to persuade so many voters of modest means that (the GOP’s) wrongheaded, favor-the-rich, country-be-damned approach was not only good for working Americans, but was the patriotic way to go.” That kind of political outcome is possible when voters are either uninformed or misinformed. Studies now indicate that many voters were indeed uninformed and/or misinformed.

According to noted political scientists Hacker and Pierson, “…that most voters are woefully ignorant about politics” is “completely uncontroversial among political scientists.” Perhaps the best illustration of that condition is the story of the man who told his congressperson to “keep your government hands off my Medicare.” Clearly, at least some of the public know little about government and politics.

A 2008 survey by the Cornell Survey Research Institute highlighted the seriousness of this matter. The survey findings strongly suggested that an uninformed or misinformed public must share a very significant portion of the blame for the destruction of the middle class from 1980 to 2010.

Astonishingly, more than half (57%) of the 1400 individuals surveyed said at the outset that they had never used any government social program. Respondents who answered in that manner were then given information about 21 different federal programs such as student loans, Social Security, the home mortgage interest deduction, and 18 others. After having received that information, almost all (94%) of those people reported that they had in fact used at least one of the 21 federal programs. On average, they had used four federal programs. These people were not just making minimal use of federal programs, they were moderate-to-heavy users. Yet they were unaware that the benefits they were receiving came from government programs. Other findings from the survey are shown in the following table. For example, the first row of the table reports that, among all of the respondents who had used the home
Among People Using the _______ Program … He/she/it ...had earlier reported that they had not used any government program.

<table>
<thead>
<tr>
<th>Program</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Mortgage Interest Deduction</td>
<td>60%</td>
</tr>
<tr>
<td>Student Loans</td>
<td>53%</td>
</tr>
<tr>
<td>Child/Dependent Care Tax Credit</td>
<td>52%</td>
</tr>
<tr>
<td>Social Security</td>
<td>44%</td>
</tr>
<tr>
<td>Veterans Benefits</td>
<td>40%</td>
</tr>
<tr>
<td>Medicare</td>
<td>40%</td>
</tr>
</tbody>
</table>

mortgage interest deduction, fully 60% reported at the outset of the survey that they had not used any government program.

The unfortunate conclusion from these findings is that a very large proportion of the public is using and benefitting from government programs without realizing that they are doing so. They represent the uninformed public.

Citizens can also be “misinformed” rather than “uninformed.” This occurs when they have or are given inaccurate information. That this happens is understandable. Much of what the government does occurs “behind the scenes” or “in the dark,” in such a manner that the citizenry is deprived of accurate information about matters of importance to them. For example, the U.S. government “subsidizes” or otherwise “assists” different population groups through different programs. This occurs in two ways: through the direct distribution of federal benefits such as Social Security or Medicare; and through the granting of tax breaks such as the home mortgage interest deduction or lower tax rates on capital gains and dividends. If the government does not make available information about who benefits from such programs, the public will be uninformed. But, if the public assumes that government programs distribute benefits equitably among different segments of the population, it will be misinformed. The following table shows how the government’s direct distribution benefits and tax breaks grants are allocated among the five income quintiles. The last column in the table is the sum of columns 2 and 3.

<table>
<thead>
<tr>
<th>Income Quintile</th>
<th>Average Annual Direct Distribution per Family ($000)</th>
<th>Average Annual Tax Break Grant per Family ($000)</th>
<th>Total Annual Benefits per Family ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 20% Lower Class</td>
<td>$18.0</td>
<td>$1.1</td>
<td>$19.1</td>
</tr>
<tr>
<td>Second Lowest 20% Lower-Middle Class</td>
<td>17.8</td>
<td>2.1</td>
<td>19.9</td>
</tr>
<tr>
<td>Middle 20% Middle-Middle Class</td>
<td>13.0</td>
<td>2.8</td>
<td>15.8</td>
</tr>
<tr>
<td>Second Highest 20% Upper-Middle Class</td>
<td>10.8</td>
<td>5.0</td>
<td>15.8</td>
</tr>
<tr>
<td>Highest 20% Upper Class</td>
<td>10.1</td>
<td>24.7</td>
<td>34.8</td>
</tr>
</tbody>
</table>
These data show that the government gives more assistance to the lower class and the lower-middle class than to the middle-middle class and the upper-middle class. (See column 4.) Such a relative allocation seems the “fair thing to do.” But on the other hand, the bottom row of the table clearly shows that the assistance the government gives to the upper class is way out of proportion and grossly unfair, compared with the bottom 80% of the population. Chrystia Freeland, author of Plutocrats: The Rise of the New Global Super-Rich and the Fall of Everyone Else, has commented on the government’s great generosity towards the rich at the expense of the non-rich.

The reality is that it is those at the top, particularly the tippy-top, of the economic pyramid who have been most effective at capturing government support—and at getting others to pay for it. The government’s great generosity towards the rich at the expense of the non-rich.

According to an analysis of government tax subsidies for education, retirement and savings, and housing during calendar year 2013,…

… the top 0.1 percent, with an average annual income of $7.6 million, received an average of $33,391 in federal tax payouts…. Those in the bottom 60 percent, who earn less than $65,000, got less than $1,000 on average. The information in the above table is obviously available somewhere within the government, but it is not widely disseminated or readily available to the public. Thus, most people do not know that the government is showing such favoritism toward the wealthy class or that it is being so unfair to the bottom 80%. In effect, the citizenry is misinformed by its own government. One can only wonder what the public’s reaction would have been if this information were universally known when President George W. Bush proposed his 2001 and 2003 tax cuts for the wealthy.

Who is to blame? It is the public’s responsibility to avoid being “uninformed” about government matters that somehow affect them. It is their civic duty! The general public is using and benefitting from numerous programs, although many people are not aware that they are “government programs.” Yet, significant numbers of people in the middle and lower classes cast votes for Ronald Reagan (twice), George Herbert Walker Bush, and George W. Bush (also twice), presumably because their messages that government was too big and should be reduced in size appealed to them. Since those people overwhelmingly used and appreciated the benefits of government programs, one can only conclude that they were “misinformed” about the true intentions of Republican leaders. And because they voted for the three Republican presidents who led the crusade to destroy the middle and lower classes, those members of the public must share a significant portion of the blame for the destruction of the great American middle class.

But who is responsible for the public being “misinformed?” Since government clearly had the information in the above table and did not widely publicize it, the obvious conclusion is that the government was the reason the public was “misinformed” about matters of great economic and political importance. In the decade of the 2000s, that government was controlled by the business community/Republican Party/conservative Democrats faction.

Corporate income taxes were “disappearing” as a source of federal government revenues. The section just above described how “much of what the government does occurs ‘behind the scenes’ or ‘in
the dark,’ in such a manner that the citizenry is deprived of accurate information of importance to them.” Corporate income tax revenues are a notable example of this phenomenon.

President Reagan’s 1980s tax cuts for individuals were well publicized, as were Presidents Bush’s and Clinton’s tax increases for individuals in the early 1990s. Chapter 32 reported that President George W. Bush’s tax cuts for wealthy individuals in the 2000s received lots of public commentary and criticism. Those tax decreases and increases were pretty much “out in the open” for the public to see. The same cannot be said for the federal government’s corporate income tax revenues.

For example, with very little or perhaps even no publicity, “the effective corporate tax rate in the United States fell to 17.8 percent in 2012 from 42.5% in 1960, according to the Federal Reserve Bank of St. Louis.” In 2010, the Government Accountability Office reported that companies “paid an average effective federal tax rate of 12.6 percent…..”

According to Citizens for Tax Justice and the Institution on Taxation and Economic Policy…

… the average tax rate from 2008 to 2012 on utility, gas and electric companies was 2.8 percent. The rate for industrial machinery sector was 4.3 percent, while the telecommunications industry averaged 9.8 percent. For the aerospace and military industry, it was 19.7 percent. Dozens of corporations including Verizon, Boeing, and Corning paid the government absolutely nothing.

Consider the following.

- In the early 1950s corporate income taxes accounted for about 32% of the federal government’s total tax revenues, while individual income taxes represented 41% of total tax revenues.
- By 2010 corporate income taxes accounted for only 9% of the federal government’s total tax revenues, while individual income taxes represented 42% of total tax revenues.
- Even worse, in 2010, individual income taxes plus payroll taxes accounted for 82% of the federal government’s total tax revenues, compared with only 9% from corporate income taxes.

These “disappearing” corporate income tax revenues contributed significantly to the growing national debt, as evidenced by the following. Over the last half century, federal government tax revenues averaged about 18% of GDP per year. Chapter 26 reported that Clinton’s presidency enjoyed four consecutive years (1998-2001) of budget surpluses, which resulted in a substantial reduction in the national debt. That happened because the federal government’s tax revenues in those years exceeded 20% of GDP, well above the 50-year average of 18%. If corporate tax revenues continue to “disappear,” the national debt will continue to grow.

As corporate tax revenue has withered as a share of the economy and as a share of total revenue, Washington has leaned more heavily on individuals to pay for government. In 2012, personal income taxes and payroll taxes raised $1.9 trillion, compared with only $242 billion raised from corporate taxes, a disparity that contributes to widening inequality and, in turn, to a slow economy and less social mobility.
The fact that there has been no public outcry over these unfair cuts in corporate income tax revenues is evidence that the federal government brought about these changes “behind the scenes” and “in the dark.”

**Media is no longer the public’s “watchdog.”** The destruction of the middle class and growing income inequality began in the late 1970s and continued throughout the 1980s, the 1990s, and the 2000s. This major economic catastrophe went essentially unaddressed by the nation’s media. It was first brought to the world’s attention in September 2011 when the “Occupy Wall Street” movement began in New York City and quickly spread to numerous other cities throughout the U.S. The effect was dramatic! In less than two months that movement caused a 400% increase in the media’s use of the term “income inequality.” The issue was now out in the open for everyone to see and discuss. If the media had truly been the “public’s watchdog,” it should not have taken them so long to shine the spotlight on the country’s severe and growing income inequality problem.

The media industry had become more and more concentrated over the last 40-50 years. In all reality, the media had become “corporate media” or “the business community’s media.” The Reagan administration encouraged that transformation, as follows:

For decades, radio and television broadcasters had been required to present multiple viewpoints on contentious public debates on the grounds that they were stewards of the public airwaves. But in 1987, members appointed by President Ronald Reagan to the Federal Communications Commission abolished this “fairness doctrine.” The change facilitated the creation of conservative talk radio and cable outlets to combat perceived liberal bias.

This change became quite apparent by the 1990s. As described in previous chapters, Alan Greenspan, Jack Welch, Richard Rubin, Sandy Weill, and Larry Summers all made significant contributions to the destruction of the middle class. Yet, influential publications like *Business Week, The Economist, Forbes, Fortune, New York Times, Time Magazine,* and the *Wall Street Journal* paid homage to these men in spite of the very serious damage they were doing to the middle class and the economy. (See Chapter 30.) A Princeton University professor of history who studied the media noted that …

… most news organizations (with notable exceptions) abandoned their roles as political referees. Many resorted to an atrophied style that resembled stenography more than journalism, presenting all claims as equally valid. Fact checking, once a foundation for all reporting, was now deemed the province of a specialized few.

In 2010 the Affordable Care Act was passed by Congress and signed by President Obama. It extended medical insurance protection to tens of millions of previously uninsured citizens. Because Congressional Republicans, and some business leaders, opposed the law, it was immediately challenged in court by 14 Republican state attorneys general. As those challenges progressed through the legal system, newspapers reported their outcomes, but they generally did so in a biased manner that favored the Republican Party and its patrons.

When judges ruled against the law, they got long front-page stories. When they ruled for it, they got shorter stories, inside the paper. Indeed, none of the cases upholding the law got front-page coverage, but every rejection of it did…. the effect was repeated news stories in which the Affordable Care Act was declared unconstitutional, and few stories representing the legal
profession’s consensus that it was not. (A Kaiser Family Foundation poll) found that fifty-one percent of Americans think that (the law) is unconstitutional.\textsuperscript{lx}

Given the concentration of ownership that has occurred in the media world over the last 40-50 years, it is no longer realistic to expect the media to perform its traditional role as “the public’s watchdog.” As a consequence, the media has allowed the destruction of the Great American middle class to progress for some 30 years without ever bringing it to the public’s attention.

Constitutional flaws make a mockery of the democratic principle of “majority rule,” create Congressional gridlock, and disenfranchise millions of voters. The Constitution of the United States is not a perfect document, although some politicians like to pretend that it is. Five types of constitutional flaws have contributed to destruction of the middle class: filibusters; gerrymandering of congressional voting districts; the Electoral College; a rural-oriented constitution in a predominantly urbanized country; and several others.

Filibusters. The U.S. Constitution does not contain the word “filibuster” or any other word that might lay the groundwork for its usage. Nevertheless, it takes the vote of 60 Senators to stop discussion of proposed legislation in order to have a yes or no vote on it. If only 41 Senators say they are not ready to stop discussion on the bill, it will not come up for a vote. Such action essentially “kills” the legislation. Furthermore, those 41 Senators might be from as few as 21 or 22 states whose combined population represents only about 11-15% of the total U.S. population.\textsuperscript{lxii} In effect, it is possible for representatives of fewer than 20% of the citizenry to stifle the wishes of a sizeable majority of the population. Thus, the use of the filibuster makes a mockery of “majority rule.”

The filibuster was rarely used prior to the 1960s, reportedly less than once a year on average. During the 1960s its usage increased to about two per year, and then averaged six per year during the 1970s. In the 1990s filibuster usage average 16 per year, but from 2006 to 2012 that number jumped to more than sixty per year. (See Chapters 15, 20 and 30.) Chapter 32 reported that from 2006 to 2011 “…Democrats have threatened to filibuster on 385 separate occasions—equaling in five short years the total number of filibuster threats to seize the Senate during the seven decades from the start of World War I until the end of the Reagan administration.” In 2011 an experienced Republican Congressional staff member wrote that “far from being a rarity, virtually every bill, every nominee for Senate confirmation, and every routine procedural motion is now subject to a Republican filibuster.”\textsuperscript{lxiii} Two long-time observers of Washington politics, Mann and Ornstein, reported that …

… especially since Obama’s inauguration in 2009, the filibuster is more often a stealth weapon, which minority Republicans use not to highlight an important national issue but to delay and obstruct quietly on nearly all matters, including routine and widely supported ones. It is fair to say that this pervasive use of the filibuster had never before happened in the history of the Senate.\textsuperscript{lxiv}

(One reason for filibustering) … is rank obstruction, to use as much precious time as possible on the floor of the Senate to retard progress on business the majority want to conduct, and to make everything look contentious and messy so that voters will react against the majority and against the policies the Senators do manage to enact.\textsuperscript{lxiv}
Gerrymandering Congressional voting districts. The Constitution requires that a census of the nation be taken each decade. Then, using the new population statistics, each state is required to re-draw its Congressional voting district boundaries to properly reflect the population changes and shifts that occurred in the ten years since the previous census. But the Constitution does not specify how the states should go about re-drawing those district boundaries. Except for the few states that assign the task to the courts or a commission, re-drawing boundaries is typically performed by each state’s legislature. The Republican Party, through its Republican State Leadership Committee, has a multi-year plan to gain control of state legislatures just prior to each decennial census and “then redraw state and Congressional districts to lock in partisan advantages.” The plan is very anti-democracy and very successful.

Both Democrats and Republicans gerrymander Congressional district boundaries, but because they control most state legislatures, only Republican gerrymandering is illustrated here. Successful Republican gerrymandering occurs when Congressional voting district boundaries are re-drawn in such a way that (A) as many Democratic voters as possible are included within a fewer number of districts, which Democrats will then win in a landslide, and (B) more districts are created where there exists something like a 53% to 47% favorable ratio of Republican to Democratic voters. Republicans then work very hard to win the (B) districts.

An earlier section in this chapter, Religious institutions joined with “the faction” against common people, reported that by 2002 there were forty-four states where the Republican parties were under “Strong or moderate” control of Christian conservatives. Those circumstances were still in place during the 2012 Congressional elections, which clearly illustrates the effectiveness of successful Republican gerrymandering. New York Times columnist Thomas L. Friedman wrote:

The political analyst Charlie Cook, writing in The National Journal …, noted that the 2010 election gave Republican state legislatures around the country unprecedented power to redraw political boundaries, which they used to create even more “safe, lily-white” Republican strongholds that are, in effect, an “alternative universe” to the country’s diverse reality. “Between 2000 and 2010, the non-Hispanic white share of the population fell from 69 percent to 64 percent…. But after the post-census redistricting and the 2012 elections, the non-Hispanic white share of the average Republican House district jumped from 73 percent to 75 percent, and the average Democratic House district declined from 52 percent white to 51 percent white. In other words, while the country continues to grow more racially diverse, the average Republican district continues to get even whiter.” According to Cook, the number of strongly Democratic districts decreased from 144 before redistricting to 136 afterward. The number of strongly Republican districts increased from 175 to 183. “When one party starts out with 47 more very strong districts than the other,” said Cook, “the numbers suggest that the fix is in for any election featuring a fairly neutral environment. Republicans would need to mess up pretty badly to lose their House majority in the near future.” In other words, there is little risk of political punishment for the Tea Party members now holding the country hostage.

When the 2012 Congressional elections were over, all of the Democratic candidates for the entire House of Representatives received 1.4 million more votes than all of the Republican candidates, but the Republicans won control of the House by 234 seats to 201 seats.
Two multi-state examples of close House of Representative races (based on the popular vote) illustrate the unfairness that can be caused by gerrymandering.

- In the states of Arizona, Florida, Illinois, Michigan, North Carolina, Ohio, Pennsylvania, Texas, Virginia, and Wisconsin Republican House candidates received only 7% more votes than Democratic candidates, but Republicans won 76% more seats than Democrats (109 seats to 62).
- In seven states where Republicans drew Congressional district boundaries, Republican House candidates received 16.7 million votes while Democrats received 16.4 million votes (a difference of less than 1% of the total vote), yet Republicans won 73 seats to the Democrats’ 34.

Election outcomes such as these clearly indicate that gerrymandering makes a mockery of the democratic principle of “majority rule.”

*The Electoral College.* The President of the United States is elected by the vote of 538 electors in the “Electoral College,” rather than by the popular vote. This relic from colonial times, when transportation and communications were primitive compared with the present, disenfranchises millions of voters.

Under the Electoral College system, the candidate that wins the popular vote in a state will be awarded all of the state’s electoral votes regardless of how large or small the margin of victory. If a state’s popular vote in presidential elections consistently favor one of the parties, such a state is considered “safe” for that party’s candidate. If a state’s popular vote sometimes favors one party and sometimes the other, it is a “swing” state that can go either way in a presidential election.

To illustrate voter disenfranchisement, consider the 1960 presidential election involving Republican candidate Richard Nixon and Democratic candidate John Kennedy. Nixon visited all 50 of the states during the campaign and Kennedy visited 49. Half a century later, in the 2012 presidential campaign, after the identity of the two candidates was established at their respective party conventions in August, both candidates chose to visit only ten states during the election—the same ten states. The other 40 states did not experience the personal attention of either candidate. All of those states were considered to be either safe “blue” states (certain to vote Democratic) or safe “red” states (certain to vote Republican). The candidates focused their campaigning efforts solely on the ten swing states. The result was that tens of millions of voters in those 40 states were effectively disenfranchised—their opinions and votes did not warrant personal visits by the candidates. That was because the candidates were responding only to the electors in the “swing states” of the Electoral College rather than to the entire voting public.

*A rural-oriented constitution in a predominantly urbanized country.* When the Constitution was written in 1787, less than 5% of the population lived in cities and towns. Colonial leaders were attempting to create a government, but the only geographical entities were the 13 colonies. Representatives from those colonies gathered to write the new nation’s constitution. Since very few cities existed, it was quite natural for them to use the colonies as the geographical-political basis for electing representatives to the new nation’s Congress.

Today, more than 90% of the population lives in cities and large urban areas; the predominantly urbanized population far outweighs the rural population. That reality dictates a completely different lifestyle than existed when the Constitution was written over two centuries ago. Today, …
…virtually every major city (100,000-plus population) in the United States of America had a
different outlook from the less populated areas that are closest to it. The difference is no longer
about where people live, it’s about how people live: in spread-out, open, low-density privacy—or
amid rough-and-tumble, in-your-face population density and diverse communities that enforce a
lower-common denominator of tolerance among inhabitants. lxxiii

Residents of densely-populated urban areas desire a government that deals appropriately with the
important issues of city life. And that is reflected in their votes, which are predominantly cast for
Democrats. For example, in the 2012 presidential election, 27 of the country’s 30 largest cities voted
Democratic. The only major cities that voted for the Republican candidate were his home town, Salt Lake
City, and Oklahoma City, Fort Worth, and Phoenix—the latter just barely. In fact, some of the most
Democratic (“blue”) cities in the nation were located in some of the most Republican (“red”) states.
Every one of Texas’ major cities—Austin, Dallas, Houston, and San Antonio—voted Democratic
(in the last two presidential elections). Other red-state cities that tipped blue include Atlanta,
Indianapolis, New Orleans, Birmingham, Tucson, Little Rock, and Charleston, S.C. …
In … Nevada, the only blue districts are … cities, like Reno and Las Vegas. lxxiv

Yet, the Constitution does not allow for a government that reflects the wishes of a country where there is
a dominance of urbanization over ruralism. Each state has two Senators. California’s two Senators
represent some 37 million people, while Wyoming’s two Senators represent the 560,000 citizens of that
state. lxxv Clearly, in the U.S. Senate, the citizens of California are not treated fairly when compared with
the citizens of Wyoming, and other sparsely-populated states such as North and South Dakota, Montana,
Nebraska, Kansas, Idaho, and others. “…a bias toward small states is … a bias towards conservatism.
After the 2004 election, for example, Republicans held 55 of the 100 Senate seats, even though
Democrats had won considerably more overall votes in those hundred elections (italics added).” lxxvi

In spite of the country’s move from ruralism to almost complete urbanization, the Constitution remains in
place as an 18th century relic that was never designed to deal with urbanization, nor is it capable of doing
so. This, too, makes a mockery of the democratic principle of “majority rule.”

Other flaws. (1) Unlike individual state constitutions which are often changed to reflect the needs of
modern society, it is extremely difficult to change the U.S. Constitution. lxxvii (2) Supreme Court justices
are selected in a very politically partisan manner, rather than by an independent, bipartisan commission.
(3) The U.S. Constitution allows former members of Congress and Congressional staffers to “feather their
nests” (see Chapter 30), thus perpetuating the types of corruption witnessed during the decades of the
1990s and 2000s. lxxviii (4) The U.S. Constitution encourages gridlock by allowing the Senate to require
confirmation of presidential appointees below the level of cabinet chiefs (Secretary of State, Secretary of
Defense, etc.). “The number of positions requiring Senate confirmation has grown to 1,400 from 280 in
the last half-century, and the average confirmation time has increased from 2 and ½ months to more than
10 months…. ” lxxix

* 

Ten forces and institutions are discussed in this chapter. Eight of them contributed to greater income
inequality and/or the destruction of the middle class. Labor unions were once a major force in the creation
of the great American middle class, but in the 2000s they were no longer strong enough to work for improving the general welfare. The unemployed and underemployed were a result of the destruction of the middle class, but their existence contributed to the financial crisis of 2007-2008 and the length and severity of the depression that followed.

*In the decade of the 2000s there were absolutely no forces or institutions—not even one—that was working to improve the prosperity of the middle and lower classes.*

**A Note on Technology**

It has been suggested that much or most of the country’s income inequality was created by the emergence of new technologies, such as the computer. Since the early 1900s the U.S. has experienced the introduction of one new technology after the other: domestic usage of electricity, mass-produced automobiles, motion pictures, the airplane, transcontinental telephone networks, radio, refrigeration, electric washing machines, television, air conditioning, plastics, antibiotics, pharmaceuticals, and still others.\(^{lxxx}\) None of them was associated with increased income inequality. On the contrary, those new technologies created new jobs, and those jobs were higher-paying because they required higher-skilled workers.

If in fact technology was the cause of increased income inequality, then both Europe and the U.S. would have experienced it to the same degree. That was not the case, as the U.S. has experienced it to a much greater extent. But even more important is the fact that the income inequality crisis began in the late 1970s “well before most people had ever seen a personal computer.”\(^{lxxxi}\)

According to Hedrick Smith, formerly of the *New York Times* and author of *Who Stole the American Dream*,\(^{lxxxii}\) if technology advances caused the income inequality crisis facing the U.S. today, “…we would see in other advanced economies the same hyperconcentration of wealth and the same stagnation of middle-class wages as in the United States. But we don’t.”\(^{lxxxiii}\)

Larry Bartels, Professor and Director of the Center for the Study of Democratic Politics at Princeton University, wrote that the country’s “escalating (income) inequality is not … an inevitable economic trend” due to such factors as demographics, culture, or technology.\(^{lxxxiv}\) Political scientists Hacker and Pierson reported that technological innovations “prove to be of surprisingly limited relevance” in explaining the country’s growth in income inequality.\(^{lxxxv}\)

On the other hand, in the late 1990s and the 2000s advances were made in transportation and communications technologies that facilitated the big increase in U.S.-China trade during that period. In the 2000s the Internet technology played an increased role in international economic activity. Both of those new technologies contributed to the loss of U.S. jobs to overseas workers in the 2000s and, thus, to greater income inequality, but neither was involved in the explosion of income inequality that occurred from the late 1970s to the mid-1990s.
Summary of the 2000s

- As they entered the decade of the 2000s business executives continued to pursue aggressively all business, economic, and political opportunities that could result in the increased prosperity of the top 1% of earners. That included increasing the size and number of private-equity firms and exploiting the tax advantages they enabled, as well as lobbying for further reductions in income tax rates for the wealthy.

- With the full repeal of the Glass-Steagall Act in the late 1990s, financial institutions were essentially left completely unregulated. Wherever there were regulations still in place, the Bush administration and Republican-controlled Congress negated or eliminated their effectiveness by appointing managers who were very friendly towards the industries they were supposed to regulate.

- Because of the above two points, the financial and business communities continued to issue subprime mortgages, securitize them, and then sell those often near-worthless securities to unsuspecting customers. In effect, they continued feeding fuel to the housing market bubble until it could no longer sustain itself. It burst in 2007-2008, creating the second, conservative great worldwide depression in less than 80 years.

- The tax cuts of 2001/2003 were “Bush and Republican Party” tax cuts, not bipartisan tax cuts. They significantly increased the after-tax incomes of the top 1% of earners, while the bottom 80% experienced after-tax income declines.

- The “tax cuts for the rich” policies of President George W. Bush, and President Reagan before him, failed to cause significant economic growth—as both presidents over and over claimed would be the result. That policy had now been tried on two separate occasions over the last 30 years and was a disastrous failure both times.

- Bush’s Middle East Wars and his Medicare Drug Benefit law were unfunded. Since no new taxes were raised to pay for them, trillions of dollars were added directly to the national debt.

- Taken together, the three most recent Republican presidents increased the national debt from 32.5% of the Gross Domestic Product to 84.2%. Reagan increased the debt from 32.5% to 53.1% of GDP; George H. W. Bush increased the debt from 53.1% to 66.1% of GDP; and George W. Bush increased it from 56.4% to 84.2% of GDP.

- The George W. Bush presidency added two more “stealth government actions against the American people” to the eight other such actions that had been put into place during the 1970s-1990s period.

- Economic researchers studied the effects on economic prosperity of the policies of Republican presidents, and also of Democratic presidents, from the mid-1940s to the mid-2000s. They found that the policies of Democratic presidents resulted in significant and equal prosperity growth across all income levels. On the other hand, the policies of Republican presidents caused phenomenal prosperity growth for the top 5% of earners, but little or no growth for the bottom 80% of earners. The overall result was income inequality overwhelmingly favoring the wealthy.
• Grover Norquist’s Americans for Tax Reform and Stephan Moore’s Club for Growth were successful in persuading more than 200 Republican congressmen, more than 40 Republican Senators, and President George W. Bush to sign pledges not to raise taxes on the rich and to reduce such taxes whenever the opportunity arose. Bush’s two tax cuts in the early 2000s were the rewards Norquist, Moore, and their wealthy club members reaped from their efforts. But in achieving those tax cut objectives, Congress was no longer the representatives of all of the citizens of the United States, but rather the representatives of the business community almost exclusively.

• The Republican-controlled Congress added six more “stealth government actions against the American people” to the ten other such actions that had previously been put into place. That brought the total of such actions to sixteen.

• The Republican Party had momentum going into the early 2000s: in the 1980s Reagan’s message that “government was the problem” was embraced by much of the public; the Gingrich revolution occurred in 1994 and Republican control of Congress lasted well into the 2000s; and when the Supreme Court granted George W. Bush the presidency in 2001, Republican leaders believed they were destined for a long period of “Republican dominance” in Washington. The Republicans were taken by surprise when they lost control of Congress in 2006, and were bitterly disappointed when they lost the presidency in 2008. The response of Congressional Republicans was to become an obstructionist force after 2006 and—after losing again in 2008—to carry that to extremes by creating a completely dysfunctional government.

• During the 20-year combined presidencies of Ronald Reagan, George H. W. Bush, and George W. Bush and with the appointments they made, the Supreme Court became significantly more conservative. President Clinton’s two moderate appointees to the Court were not sufficiently progressive to offset the strongly conservative views of Justices Alito, Kennedy, Roberts, Scalia, and Thomas.

• As a result of its very conservative composition, in the 2000s the Supreme Court demonstrated a strong pro-business/anti-labor bias that further contributed to the country’s increasing income inequality and the destruction of the great American middle class.

The other institutions and forces of the 2000s are summarized as follows.

• Employment growth was weak or almost non-existent from 2000 to 2006, and was followed by increasing layoffs that soon caused unemployment to reach depression-like levels.

• Outsourcing of U.S. jobs to China—both manufacturing jobs and high-tech jobs—increased dramatically throughout the decade, contributing greatly to increased unemployment, which caused even more income inequality.

• The business community/Republican Party/conservative Democrats faction (“the faction”) continued its assault on labor unions by filibustering the Employees Free Choice Act, a bill which attempted to reform part of the Taft-Hartley Act. The level of unionization in the work force had now fallen to about 11% (from a high of about 35% in the 1960s-1970s).

• Religious institutions—both Christian conservatives and the Catholic Church—had completely abandoned the fight for the economic well-being of common people. Instead they allied themselves with “the faction.”
The two developments immediately above make very clear that the two forces that had played principal roles in the creation of the great American middle class were no longer so engaged. By the decade of the 2000s labor unions had become too weakened to continue the fight, and religious institutions had switched allegiance and joined sides with “the faction.” The bottom 80% of earners now had no organized force fighting for the improvement of their economic well-being. They had been abandoned!

The general public demonstrated a surprisingly high level of ignorance about the number and character of the government programs in which they participated and whose benefits they appreciated. As a result, they accepted the anti-government rhetoric, voiced over and over again by Reagan and the two Bushes, that taxes on the rich should be reduced and that “big government” was the cause of the economic woes falling on the middle and lower classes. Because the ignorance was self-imposed, the general public shares much of the responsibility for the destruction of the middle class.

The government was responsible for the general public being misinformed about the extremely uneven and unfair distribution of federal benefits/tax-break grants primarily to the top 20% of earners, to the detriment of the bottom 80%.

The media was no longer the “public’s watchdog.” Since no institution stepped into that role, the general public was left to fend for itself in trying to discover and understand the corruption that “the faction” had spawned during the decades of the 1980s, 1990s, and 2000s.

Serious flaws in the United States Constitution were contributing to the growing income inequality. During the decade of the 2000s these flaws became more apparent. They include the increased use of the filibuster; gerrymandering of Congressional voting districts; the archaic Electoral College; a rural-oriented constitution in a predominantly urbanized country; partisan selection of Supreme Court justices; lobbying excesses by former Congressional persons; and others.

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iii Same source as note ii, page 241.
iv Same source as note ii, pages 239-240.
v Same source as note ii, page 245.
vi Same source as note ii, page xii and page 1.
ix Same source as note i, page 98.
xi See (http://www.census.gov/foreign-trade/balance/c5700.html), and “Trade in Goods with the World,” (http://www.census.gov/foreign-trade/balance/c0015.html).
xii See Chapter 16 of the Smith source in note ix for a detailed discussion of this high tech outsourcing, but especially pages 272-276.


xix Same source as note ix, page 78.

xx For a description of how generously U.S. companies treated China in order that they might be allowed to profitably employ Chinese labor instead of U.S. workers to perform fundamental business activities that historically had been performed in the U.S. by American workers, see the source in note ix, pages 272-276.


xxiv Same source as note ix, pages 274-276.

xxv Same source as note ix, but also see all of Chapter 16.

xxvi Same source as note i, pages 138-139.


xxx Same source as note xxix.

xxxi In 2012 there were 14.3 million union members, which represented 11.3% of the work force. If union members were 35% of the work force instead of 11.3%, there would be 30 million more unionized workers and they would be receiving $10,000/year more because they were unionized. $10,000/year more times 30 million workers equals $300 billion/year more. Same source as note xxviii.


xxxiii See the reference to Democratic Senators Ben Nelson, Arlen Spector, Blanche Lincoln, Tom Cooper, Diane Feinstein, and Claire McCaskill in the “110th Congress” paragraph in Employees Free Choice Act, (http://en.wikipedia.org/wiki/Employee_Free_Choice_Act)

xxxiv Same source as note i, page 190.


xl Same source as note xxxvi, pages 203-204.


xliii Same source as note xxxvi, page 109.


xlv Same source as note xxxiv.


xlvii Hedrick Smith, *Who Stole the American Dream?*, (Random House, 2012). For examples of “behind the scenes” and “in the dark” government activity that contributed to the destruction of the middle class, see APPENDIX: Stolen Dream Timeline: Key Events, Trends, and Turning Points, 1948-2012, especially the events after 1980.


For a good discussion of important media changes over the last 40-50 years, see the source in note xxxix, pages 58-67.


Each of the 21 least-populated states has less than 1% of the total population. The combined population of those 21 states is less than 12% of the total. See (http://en.wikipedia.org/wiki/List_of_U.S._States_and_Territories_by_State).

Same source as note xxxix, pages 54-55.

For a thorough discussion of filibusters and its companion tactic, “holds,” see pages 84-98 of this source.

Same source as note xxxix, page 90.

The Republican State Leadership Committee is the largest caucus of Republican state leaders, and its mission is to elect Republican Congressmen and other state-level Republican officeholders. See (www.rslc.com/).


In its January 12, 2014 edition, the New York Times reported that 23 states where currently under Republican Party control, that is, had both a Republican governor and Republicans in control of both houses of the state legislature. The Democrats only controlled 13 states in this manner. This development was made possible by the Supreme Court’s decision in the Citizens United case, and resulted from “…interlocking networks of political action committees, party organization, and nonprofit groups, often based in states with forgiving campaign financing rules, that work in concert to raise contributions and shuffle money to thousands of local races around the country. In some states, liberal or conservative donors have political nonprofits that function like shadow parties, often exempt from the contribution limits or disclosure requirements that apply to candidates and traditional parties.” See Nicholas Confessore, “A National Strategy Funds State Political Monopolies,” New York Times, January 12, 2014, pages A1, A20, and A21.

Same source as note lxvi.


Same source as note lxiii.


Same source as note xxxvi, see Part Four: Did Computers Create Inequality?.

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Same source as note xxvii. See also page xxi of the source in note lxxxii.


Same source as note xxxvi, page 290. See also pages 4-6.
The following consists of a summary and key observations regarding the destruction of the great American middle class and the second, conservative great worldwide depression in less than 80 years.

**Key observations from the 1940s to the 1980s** include the following (see Chapters 5, 10, 15, 20, and 25):

- Fifteen years after the passage of President Roosevelt’s New Deal programs, the business community was starting to organize its fight to regain the political power it had pre-1932. After the death of FDR, the business community was able to once again collaborate with the Republican Party and some conservative Democrats to pass the Taft-Hartley Act in 1947, over President Truman’s veto. That law proved to be the foundation of a political-economic force that would eventually bring about the destruction of the great American middle class.

- In 1952, after Republicans were absent from the White House for 20 years, Republican Dwight D. Eisenhower became president. Not a career politician, Ike was a popular World War II hero who also would have been elected if he had run as a Democrat. Without Ike at the top of the Republican ticket in 1952, it is quite likely that the Democratic candidate would have been elected. In other words, the Republican Party needed Eisenhower much more than Eisenhower needed the Republican Party. Consequently, Eisenhower could easily have pushed a reform of the Taft-Hartley Act through Congress, as he promised labor leaders he would do. But he did not! Taft-Hartley continued to exist in its very anti-labor form, and in less than 30 years it would lead to the severe weakening of labor unions and to the destruction of the great American middle class.

- In the 1960s, with a Democrat in the White House and Democrats in control of Congress, the labor movement had high hopes for reform of Taft-Hartley. However, in 1965 Senate Republicans were joined by enough conservative Democrats to sustain a filibuster that prevented the Taft-Hartley reform bill from even coming up for a vote.

- All of the presidents from Franklin Roosevelt (1933-1944) to Richard Nixon (1969-1974) pursued policies that encouraged the emergence and growth of the great American middle class. That changed when Gerald Ford (1974-1977) became president. He vetoed two bills that would have continued that encouragement. His successor, Jimmy Carter, did not provide supportive leadership on the Office of Consumer Representation bill, the Common Situs Picketing Bill, and the bill to reform the Taft-Hartley Act. Ford and Carter’s behavior was a reversal of 40 years of presidential support for the growth of the middle class, and that reversal also contributed to its eventual decline.

- The decade of the 1970s witnessed the formation of the very powerful, Washington-based business community/Republican Party/conservative Democrats faction (“the faction”). At its core were the six richest business organizations in the country: the National Association of
Manufacturers, the U.S. Chamber of Commerce, the Business Roundtable, the National Federation of Independent Businesses, the National Association of Wholesalers-Distributors, and the National Restaurant Association. Dozens of lesser business organizations joined in.

- In 1977-78 “the faction,” under the leadership of Republican Senators Orrin Hatch and Richard Lugar, was very successful in once again filibustering a bill to reform Taft-Hartley. That successful filibuster, along with the Reagan legacies noted immediately below, were powerful enough to begin overcoming the forces that had created the great American middle class.

- Reagan’s three major legacies—tax cuts for the wealthy combined with tax increases for the non-wealthy, attacking and severely weakening labor unions, and deliberately refusing to enforce established government regulations through selective budget cutting (“starving the beast”)—began shifting more of the nation’s income away from the middle and lower classes and redistributing it to the top 1% of earners. Those legacies, along with all six of the developments noted immediately above, were the political factors that were by far the most responsible for the onset of the destruction of the great American middle class.

- In the 1970s and 1980s the increased productivity of the U.S. economy created an ever increasing amount of wealth. Due to the seven observations immediately above, the business community in the early 1980s was able to prevent any share of that growing wealth from being passed on to ordinary workers. Instead, the rewards resulting from increased productivity went exclusively to business executives and their allies. That development was the coup de grâce that assured the continued destruction of the middle class for years to come.

- Reagan’s tax policies, and the resulting huge increase in the national debt, further contributed to the destruction of the middle class in two ways: first, the much larger national debt required the payment of annual interest charges, and that prevented those funds from being used to stimulate growth in the U.S. economy; and second, the tax burden associated with those annual interest charges fell most strongly on the middle and lower classes, which led to a reduction in their standard of living.

- When President Roosevelt agreed with a request (see Chapter 2) made by some petitioners, he also told them, “Now make me do it.” Because the labor movement during the 1980s had become too weakened to “make them do it,” the Democratic Party became more moderate. That is, without the powerful labor unions pushing the Democrats to be more aggressive in pursuing policies more beneficial to the middle class, Democrats “could hardly be distinguished from moderate Republicans” (Chapter 28). Furthermore, when the Catholic Church in the mid-1980s abandoned its traditionally-active support for social justice for the middle and lower classes, there no longer remained in the country any organized, strong force devoted to fighting for the general welfare of common people. The middle and lower classes had been abandoned.

- By their actions during the 1970s and 1980s, the business community/Republican Party/conservative Democrats faction (“the faction”) revealed the three-pronged strategy it was employing to gain control of the country’s political-economic system. (1) Severely weaken potential challengers (i.e., labor unions, primarily) to their goal of dominance in order to assure that “the faction” would be unhindered in making progress towards its goal. (2) Gain control of the country’s legislative process in order to assure that the country’s political-economic system primarily benefited the business community and its two allies. (3) With the first two prongs of the strategy firmly in place, use “stealth government actions against the American people” to take money and wealth from the lower and middle classes and transfer it
to individuals in the top 0.1 percent of the income scale. By the end of the 1980s (i) unions had been severely crippled, (ii) through its Republican and conservative Democratic allies, the business community had gained firm control of the nation’s legislative process and hence its political-economic system, and (iii) the U.S. Government had put in place five “stealth government actions against the American people.” Those actions took money and wealth from the two lower classes and distributed it to selected individuals at the very top of the upper class. It was the start of the government’s “welfare for the rich” program.

The following are significant developments from the decade of the 1990s. (See Chapter 30.)

- The only positive development supportive of the middle and lower classes during the 1990s was the tax increases of 1991 and 1993 signed by Presidents Bush and Clinton. Those two revenue increases stimulated the U.S. economy and made it more robust throughout the 1990s than it had been since the 1960s. Yet, those tax increases occurred without the support of even one Republican Senator or Congressman. Without that period of economic growth, the middle and lower classes would have suffered an even greater decline in prosperity throughout the 1990s.
- During the decade of the 1990s, especially after the Gingrich revolution in 1994, the business community/Republican Party/conservative Democrats faction was the predominant force running the country, and it showed no inclination to fight for the improvement of the general welfare of common people.
- Congress, with President Clinton’s support, approved financial deregulations most helpful to the financial community. The Garn-St. Germain Act deregulated the Savings and Loan industry and, when the industry collapsed, that encouraged the growth of the unregulated mortgage-writing industry which, in turn, created the subprime mortgage market.
- Congress, again with President Clinton’s support, repealed the Glass-Steagall Act, and that allowed for the creation of “banks too big to fail,” until the financial crisis of 2007-2008.
- Congress, at the request of Alan Greenspan, Robert Rubin, and Larry Summers, prevented Brooksley Born from regulating financial derivatives. That development, along with the two immediately above, were important causes of the financial crisis of 2007-2008.
- Congress and the Supreme Court created three more “stealth government actions against the American people.”
- In its December 2000 decision regarding the Florida recount vote of the Bush-Gore presidential election, the Supreme Court aligned itself with Republican Party, and hence with the business community.
- The three-pronged strategy used by the business community/Republican Party/conservative Democrats faction (“the faction”) to gain control of the country’s political-economic system was further strengthened and made even more effective. (i) Labor unions were unable to regain any of their former strength in the first two years of the Clinton presidency, and then were under constant attack once the Gingrich revolution occurred. (ii) Under Gingrich’s leadership the country’s political-economic system worked exclusively to support “the faction” and to be opposed to any effort to encourage prosperity growth for the lower and middle classes. (iii) By the year 2000 three more “stealth government actions against the American people” had been put into place by the federal government. The government’s “welfare for the rich” program now consisted of eight different actions working to transfer money and wealth...
from the lower and middle classes to the wealthiest individuals in the country. This program greatly contributed to the dramatic increase in income inequality during the decade.

- The top 1% of earners increased their share of the nation’s income from about 14% in 1990 to about 22% in 2000, an increase of over 50%. (See Exhibit 30-1.) The remaining 99% of earners saw their share of national income drop from 86% to 78% during the decade, which represented a decline of about 10%.

Six development of the 1980s and 1990s strongly encourage the financial crisis of 2007-2008 and the depression that followed.

- Growing income inequality started in the 1980s and continued unabated during the 1990s (see the point immediately above). Since consumer spending accounts for about 70% of the force driving the U.S. economy (see Chapter 25), that force was significantly weakened over the 1990s. That weakening contributed to the continuing destruction of the middle class during the decade. When the first shock of the 2007-2008 crisis arrived, the consumer spending component of the economy was not strong enough to overcome it. That weakness in consumer spending also could not prevent the crisis from deepening as far as it did, and then was not strong enough to quickly help the economy gain recovery. The result was the second, conservative great worldwide depression in less than eighty years.

- The Republicans controlled Congress from 1994 to 2006, the eve of the 2007-2008 financial crisis. Alan Greenspan, with his ultra laissez-faire economic philosophy, was still the chairman of the Federal Reserve Board. Two strong free-market supporters, Robert Ruben and Lawrence Summers, were in powerful positions in the Clinton administration. Working together, this trio achieved two objectives that created market and regulatory conditions that set the stage for the depression that started in 2007-2008. (1) They prevented any governmental regulations from being imposed on the use of financial derivatives. (2) They helped arrange for the complete repeal of the Glass-Steagall Act, which left the financial community essentially unregulated.

- While he was president, Reagan had fostered an “attitude” among business executives that remained in place throughout the 1980s, the 1990s, and even into the 2000s. That attitude encouraged both financial recklessness and widespread corruption. Three Reagan actions created that attitude. (1) He severely reduced the operating budgets of many regulatory agencies ("starving the beast"), which resulted in those agencies being understaffed and unable to pursue their legislated goals. (See Chapter 22.) (2) He also appointed administrators to those agencies who were very friendly with the businesses the agencies were supposed to regulate, creating a situation that led to much corruption and very little regulatory enforcement. Furthermore, (3) his administration pursued no new regulations, even though the existing regulatory structure was far from effective. These actions and inactions, and others mentioned in Chapters 22-24, encouraged business and financial executives in the 1990s to take reckless actions they previously had been unwilling to try.

- The business community was led by many greed-driven executives who were directing their respective firms full-speed in the direction of financial crisis: Jack Welch was taking General Electric to its eventual government bailout (Chapter 21); Angelo Mozilo was driving Countrywide, and the entire mortgage-lending industry, to bankruptcy (Chapter 26); Sandy
Weill was transforming Citigroup into a “too big to fail” bank that would have failed had it not been for a government bailout (Chapter 26).

• The 1990s was the most corrupt decade since the 1920s, and one of the most corrupt in the history of American business: actions taken by the Congress and the Supreme Court encouraged business and financial executives to take greater legal risks because of the immunity being granted them; a common practice among public servants was to grant special favors to businesses and then, upon leaving public service, have businesses return those favors in the form of lucrative employment opportunities (“feathering their nests”).
• Government and public institutions that previously were concerned with justice and fairness for all citizens were no longer so engaged: through its increased use of the filibuster, the Senate was growing less concerned about protecting the Democratic principle of “majority rule”; the Supreme Court showed definite signs of becoming more of an ally with the business community/Republican Party/conservative Democrats faction (see Chapter 29); several events strongly suggest that the media was not serving as the public’s watch dog.

The decade of the 2000s also contributed to the destruction of the middle class and encouraged the arrival of the financial crisis of 2007-2008.

• The unregulated financial and business communities continued to grant hundreds of thousands of subprime mortgages to individuals they knew could not afford to buy homes. They securitized those mortgages and sold those near-worthless financial derivatives to unsuspecting customers, thus creating a larger and more fragile house of cards while doing so. It would not take much of a disturbance to bring down that house of cards, and the economy with it.
• The “Bush and Republican Party” tax cuts of 2001 and 2003 further increased the nation’s income inequality. The bottom 80% of earners (because of their reduced purchasing power) were becoming less and less of a consumption force fueling the economy. Furthermore, those Bush tax cuts failed to provide the significant economic growth that Bush had promised. The economy was much weaker because of the Bush tax cuts.
• Because Bush did not ask Congress to raise taxes to pay for the Middle East wars and his Medicare Drug Benefit law, trillions of dollars were added to the national debt. The resulting increased interest payments on the debt further contributed to the nation’s growing income inequality, and that further weakened the economy.
• Because of Grover Norquist’s Americans for Tax Reform and Stephan Moore’s Club for Growth, Congress pledged not to take any action that would increase taxes on the wealthy. Consequently, there was little they could do, or would do, to avoid the coming financial crisis. In effect, Congress increasingly represented only the interests of the business community.
• The Supreme Court of the United States had a clear pro-business/anti-union and anti-labor bias, and gave strong indications of becoming an ally with the business community/Republican Party/conservative Democrats faction. Its decisions during the 2000s further encouraged the country’s growing income inequality.
• When the Republicans lost control of Congress in 2006 they became an obstructionist force determined to do nothing to improve the general welfare of the middle and lower classes, or to take any action to prevent the onset of the financial crisis of 2007-2008.
• The business community outsourced manufacturing jobs to China, thus exacerbating the already critical unemployment and underemployment situation in the U.S.
• Unions, religious groups, the general public, and the media proved helpless, unwilling or unable to join with the middle and lower classes in fighting to improve their general welfare.
• Constitutional flaws, which enabled the unfavorable developments noted here, were likely to remain in place for years to come.
• In spite of the country’s dire economic circumstances, the business community/Republican Party/conservative Democrats faction’s three-pronged strategy to take control of the country’s political-economic system was made even stronger and more effective during the 2000s. (1) Once again the efforts of labor union to regain some of its past power was rebuffed, but this time it did not require much of an effort by the business community and its allies. (2) Given the financial and business deregulations that had occurred since the late 1990s and 2000s, and the tax cuts for the wealthy that had been enacted, the business community and its allies demonstrated even greater control over the country’s political-economic system. (3) President Bush and Congress enacted eight more “stealth government actions against the American people.” By the end of the first decade of the 2000s, “the faction” (i) had rendered labor unions almost completely powerless, (ii) had almost total control of the legislative process from 2000 to 2006, and (iii) had now put into place a total of sixteen “stealth government actions” taking wealth and money from the lower and middle classes and transferring it to the 0.1% of individuals at the very top of the income scale. The government’s “welfare for the rich” efforts were now a very broadly-based program. As a consequence, the nation’s income inequality continued to grow during the decade.
• By 2007 some 23.5% of the nation’s income was going to the top 1% or earners, with only some 76.5% going to the bottom 90% of earners. This distribution of the nation’s income was essentially the same as the distribution of the nation’s income in 1928. (See Exhibit 31-1.) Based on this observation, the destruction of the great American middle class was now complete.

Because of the first ten of the above eleven developments, by 2006 and 2007 increasing unemployment and underemployment caused more and more subprime home buyers to default on their mortgage payments. The financial institutions that depended on those monthly payments could no longer make interest payments to their investors, so they also defaulted. Investors who were counting on those interest payments to maintain solvency were then in trouble, and the entire house of cards began collapsing. The housing bubble burst, the bottom fell out of the housing market, and numerous financial institutions faced insolvency. Soon the entire economy was affected, and the second, conservative great worldwide depression in less than 80 years was underway.

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So how best to describe the country’s economic condition at the end of the first decade of the 2000s? Income inequality grew steadily for the last 30-35 years and was now greater than it had ever been. The top 1% of earners were receiving about 25% of the nation’s income. Warren Buffett said: “there’s been class warfare going on for the last 20 years, and my class has won.” The richest 400 earners had average incomes of $40 million in 1992: by 2009 that figure had increased to $225 million, an increase of almost
500%. The bottom 80% of earners saw their share of national income decline from 86% in 1990 to 75% in 2010, a decrease of almost 15%.

Five quotes paint a clear but dismal picture of the country’s economic condition at the end of the first decade of the 2000s.

As of March 2012, some 24 million Americans who would have liked a full time job couldn’t get one. (Furthermore, …it would be years—2018 at the earliest—before the economy returned to full employment.¹

…ordinary workers were beginning to face more “low-paying jobs” and fewer “high-paying union jobs.” “The faction” argued that this change was due to “market forces.” In reality, there were more “low-paying jobs” and fewer “high-paying union jobs” because workers were being prevented from forming and joining unions by the Government of the United States.²

…private-sector union membership is right back where it was … the year Franklin Roosevelt became president (1933). It’s as if the New Deal never happened.³

Compared with other rich democracies, the United States stands out as the country with the greatest unfulfilled demand for union representation.⁴

…the straightforward choice we face as a nation (is): either we build an economy in which most workers earn enough to adequately support their families or we build a government with the wherewithal to subsidize the existence of a lower class that can’t survive on its own. We are doing neither.⁵

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² See Chapter 20.
⁴ Jacob S. Hacker and Paul Pierson, Winner-Take-All Politics, (Simon & Schuster, 2010), page 58.