



UNITED STATES ISSUES, IDEAS, AND INSTITUTIONS

CORE 100



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Part Three: Economics

Economics

America was founded on the principle of property rights, that is, the right of the owner to do whatever he wanted with his property, whether that property was a cow, a slave, or a corporation employing millions. But what about the rights of the slave, the employee or, for that matter, and this is not covered in this course, the rights of the cow? But an economy ruled only by the rights of private property not only had no room for the rights of employees, but, when the free market or *laissez faire* economy (don't worry, you will learn the meaning of these words) collapses, what should be the role of the government to bring the economy back to life, or to prevent the next collapse? That brings in the idea of government regulation of the economy, and the debate over the rightness or wrongness, the wisdom or foolishness of government intervention in the economy that has dominated American politics since the days of Hamilton and Jefferson until today's political struggles between conservatives and progressives. Prepare to have your fundamental ideas about the economy shaken, strengthened, or even changed by the debates you will be following in this last part of the course.

Overview: Competing Visions in Early America, 1787-1859

While the framing of the Constitution in 1787 provided a structure for governing, just what role that new government would play in the economy was an unanswered and contentious issue. Underlying that question were competing visions of the type of society America would be, and concerns about how best to secure the freedom(s) recently won. Even before the Constitution was ratified, parties began to form around these questions. Around Thomas Jefferson and James Madison gathered those calling themselves Republicans who believed that the Republic was best secured if based on the virtues of small, independent, family farmers: their self-reliance and self-sufficiency would require little from government but to stay out of their way and let them get on with the business of “looking to their own soil and industry” for their subsistence. That was fine, the Federalists who gathered around Alexander Hamilton would reply, if America wished to leave untapped the great resources of the new nation that would allow it to compete economically with the major powers of Europe. America, according to Hamilton, was “a Hercules in the cradle.” If nurtured, industry would flourish, cities would grow, and prosperity would result. This would require an active and robust central government that could create both the financial and transportation infrastructure conducive to commercial activity, and provide protection and stimulus for emerging manufacturing through government policy.

The choice of political economy was a stark one for the founding generation: Should America follow the path of industrialization that the major powers of Europe, particularly England, had recently embarked upon? Or should America, exceptional in both circumstance and character, remain an agrarian republic of small family farmers with some small-scale production of goods? These competing visions were often expressed at times in existential language:

The Republic would survive or fall only by following one course or the other.

In many ways, the very meaning of the American Revolution was contested: was it a revolution to secure the means for an expanding economy by which individuals could accumulate wealth, or one to secure the right of communities to defend themselves from rapacious individuals using the levers of economic and political power?

When the founding fathers left the Constitutional Convention in Philadelphia in 1787, about 95 percent of the population were farmers, cities were few, finished manufactured goods largely came from overseas or from the homes and small shops of Americans, and political authority and financial power were decentralized. By the mid-nineteenth century, it was clear to Americans that radical changes were taking place: rapid industrialization, urbanization, and immigration were making over the American landscape. Over 3,000 miles of canals were built by 1840 and over 20,000 miles of rail by 1860, linking the agricultural produce of the Midwest to the factory products of the Northeast; homes and small shops increasingly gave way to factories as the source of manufactured goods; and large financial institutions (i.e. corporations, banks, and the stock market) grew in size and importance. The number of cities with 10,000 people or more grew from thirteen in 1820 to ninety-three in 1860, and to those cities came a growing number of immigrants from Ireland, Germany and elsewhere (Between 1830 and 1860 approximately 4,500,000 immigrants came to America). Increasingly, people’s livelihoods were affected by the impersonal “invisible hand” of the market rather than the personal relationships that regulated traditional society, they were surrounded by strangers in urban areas rather than the familiar faces of their village neighbors, and they could witness new opportunities all around

them while sensing the passing of the old order based on custom. Many viewed those changes with great optimism and excitement, while others did so with anxiety and foreboding.

The following selections focus on the question of the appropriate role of the government vis-à-vis the economy in the first six decades of the Republic. In the first two documents, Jefferson and Hamilton argue for very different directions for the new nation to embark on. What are the major differences between the “Jeffersonian” and “Hamiltonian” visions? The next two documents pick up the debate in the early nineteenth century with Andrew Jackson’s “Veto of the National Bank Charter” and Henry Clay’s “American System.” Why does Jackson veto the bill renewing the charter of the National Bank? What does Clay propose in his “American System”? The fourth and fifth documents provide views on this question from those outside the political system. In *An Overland Journey*, Horace Greeley records his impressions as he travels west to San Francisco in 1859. What does he think of what he sees, and what does he propose be done in the future? Finally, in document five we hear from a women laborer in the new but quickly growing textile industry. How does the factory worker fit into this debate? Do her arguments echo any of the previous four documents?

MICHAEL BATSON

42. Thomas Jefferson: Notes on the State of Virginia (1781)

Introduction

Notes on the State of Virginia, *Thomas Jefferson's only full-length published book, was a comprehensive guide to the human and natural history of his home state. Written in 1781 while he was Governor of Virginia in reply to a series of questions put to him by the French diplomat François Barbé-Marbois, the work provided an account of the state's geography, plant and animal life, and its political, economic, and social systems. In Query XIX below, Jefferson responds to Marbois's question about "the present state of manufactures, commerce, interior and exterior trade" in Virginia. In addition to answering the question quantitatively, Jefferson expressed his opinions on the virtues of an agrarian society and the drawbacks and dangers of both cities and large-scale manufacturing.*

Query xix

The present state of manufactures, commerce, interior and exterior trade?

WE NEVER had an interior trade of any importance. Our exterior commerce has suffered very much from the beginning of the present contest. During this time we have manufactured within our families the most necessary articles of [cloathing]. Those of cotton will bear some comparison with the same kinds of manufacture in Europe; but those of wool, flax and hemp are very coarse, unsightly, and unpleasant: and such is our attachment to agriculture, and such our preference for foreign manufactures, that be it wise or unwise, our people will certainly return as soon as they can, to the raising [of] raw materials, and exchanging them for finer manufactures than they are able to execute themselves.

The political economists of Europe have established it as a principle that every state should [endeavor] to manufacture for itself; and this principle, like many others, we transfer to America, without calculating the difference of circumstance which should often produce a difference of result. In Europe the lands are either cultivated, or locked up against the cultivator. Manufacture must therefore be resorted to of necessity not of choice, to support the surplus of their people. But we have an immensity of land courting the industry of the husbandman. Is it best then that all our citizens should be employed in its improvement, or that one half should be called off from that to exercise manufactures and handicraft arts for the other? Those who labour in the earth are the chosen people of God, if ever he had a chosen people, whose breasts he has made his peculiar deposit for substantial and genuine virtue. It is the focus in which he keeps alive that sacred fire, which otherwise might escape from the face of the earth. Corruption of morals in the mass of cultivators is a [phenomenon] of which no age nor nation has furnished an example. It is the mark set on those, who not looking up to heaven, to their own soil and industry, as does the husbandman, for their subsistence, depend for it on casualties and caprice of customers. [Dependance] begets subservience and venality, suffocates the germ of virtue, and prepares fit tools for the designs of ambition. This, the natural progress and consequence of the arts, has sometimes perhaps been retarded by accidental circumstances: but, generally speaking, the proportion which the aggregate of the other classes of citizens bears in any state to that of its husbandmen, is the proportion of its unsound to its healthy parts, and is a good enough barometer whereby to measure its degree of corruption. While we have land to labour then, let us never wish to see our citizens occupied at a workbench, or twirling a distaff. Carpenters, masons, smiths, are wanting in husbandry: but, for the general operations of manufacture, let our workshops

remain in Europe. It is better to carry provisions and materials to workmen there, than bring them to the provisions and materials, and with them their manners and principles. The loss by the transportation of commodities across the Atlantic will be made up in happiness and permanence of government. The mobs of great cities add just so much to the support of pure government, as sores do to the strength of the human body. It is the manners, and spirit of a people which preserve a republic in vigour. A degeneracy in these is a canker which soon eats to the heart of its laws and constitution.

Questions:

1. *According to Jefferson, what were the benefits in America remaining primarily rural and agrarian?*
2. *Jefferson argued against economists who "have established it as a principle that every state should [endeavor] to manufacture for itself" by pointing out that America was very different from Europe. In what way was America unlike Europe and therefore could and should choose a different path of development?*
3. *Why was Jefferson apprehensive of cities?*

43. Alexander Hamilton: Report on the Subject of Manufactures (1790)¹

Introduction:

When Alexander Hamilton became the first Treasurer of the United States he was tasked with managing the public debt accumulated during the war, and with getting the new nation on sound financial footing. His Report on Public Credit, submitted to Congress in January of 1790, outlined plans for the federal government to consolidate the debt of the individual states and the national government, and to assume responsibility for paying them off. This was followed later that year by his Report on a National Bank² which called for Congress to charter a National Bank¹ that would hold federal revenue, issue bank notes, and extend credit to both the government and private entities. In his Report on the Subject of Manufactures (1791), excerpted below, he articulated an ambitious plan to support the new nation's infant industries and to encourage industrial development.

Hamilton's economic program to make America a commercial and manufacturing powerhouse faced strong opposition from those who feared its implicit proposal for a strong, centralized government; its potential to create an interdependent relationship between government officials and wealthy, private individuals; and its prioritization of both the financial and manufacturing sectors over agricultural interests.

[To the Speaker of the House of Representatives:]

The expediency of encouraging manufactures in the United States, which was not long since deemed very questionable, appears at this time to be pretty generally admitted. The embarrassments, which have obstructed the progress of our external trade, have led to serious reflections on the necessity of enlarging the sphere of our domestic commerce: the restrictive regulations, which in foreign markets abridge the vent of the increasing surplus of our Agriculture produce, serve to beget an earnest desire, that a more extensive demand for that surplus may be created at home: And the complete success, which has rewarded manufacturing enterprise, in some valuable branches, conspiring with the promising symptoms, which attend some less mature essays, in others, justify a hope, that the obstacles to the growth of this species of industry are less formidable than they were apprehended to be; and that it is not difficult to find, in its further extension; a full indemnification for any external disadvantages, which are or may be experienced, as well as an accession of resources, favourable to national independence and safety. . . .

It is necessary to advert carefully to the considerations, which plead in favour of manufactures, and which appear to recommend the special and positive encouragement of them; in certain cases, and under certain reasonable limitations. . . .

And it is also believed that the expediency of such encouragement in a general view may be [shewn] to be recommended by the most cogent and persuasive motives of national policy. . . .

¹ Source: Hamilton, Alexander. "Report on manufacturers." *Report On Manufacturers (January 18, 2009): 1. Academic Search Complete, EBSCO host (accessed April 28, 2015).*

² The bank (commonly known as the First Bank of the United States) was to be a private corporation with the government having a 20 percent stake and appointing 5 of its 25 Directors.

It is now proper to proceed a step further, and to enumerate the principal circumstances, from which it may be inferred—That manufacturing establishments not only occasion a positive augmentation of the Produce and Revenue of the Society, but that they contribute essentially to rendering them greater than they could possibly be, without such establishments. These circumstances are —

1. The division of Labour.
2. An extension of the use of Machinery.
3. Additional employment to classes of the community not ordinarily engaged in the business.
4. The promoting of emigration from foreign Countries.
5. The furnishing greater scope for the diversity of talents and dispositions which discriminate men from each other.
6. The affording a more ample and various field for enterprise.
7. The creating in some instances a new, and securing in all, a more certain and steady demand for the surplus produce of the soil.

Each of these circumstances has a considerable influence upon the total mass of industrious effort in a community. Together, they add to it a degree of energy and effect, which are not easily conceived. Some comments upon each of them, in the order in which they have been stated, may serve to explain their importance. . . .

The foregoing considerations seem sufficient to establish, as general propositions, That it is the interest of nations to diversify the industrious pursuits of the individuals, who compose them—That the establishment of manufactures is calculated not only to increase the general stock of useful and productive labour; but even to improve the state of Agriculture in particular; certainly to advance the interests of those who are engaged in it. . . .

If then, it satisfactorily appears, that it is the Interest of the United [s]tates, generally, to encourage manufactures, it merits particular attention, that there are circumstances, which Render the present a critical moment for entering with Zeal upon the important business. . . .

A full view having now been taken of the inducements to the promotion of Manufactures in the United states, accompanied with an examination of the principal objections which are commonly urged in opposition, it is proper in the next place, to consider the means, by which it may be effected, as introductory to a Specification of the objects which in the present state of things appear the most fit to be encouraged, and of the particular measures which it may be [adviseable] to adopt, in respect to each.

In order to a better judgment of the Means proper to be resorted to by the United states, it will be of use to Advert to those which have been employed with success in other Countries. The principal of these are.

- I. Protecting duties—or duties on those foreign articles which are the rivals of the domestic ones, intended to be encouraged
- II. Prohibitions of rival articles or duties equivalent to prohibitions
- III. Prohibitions of the exportation of the materials of manufactures
- IV. Pecuniary bounties . . . V. Premiums . . .
- VI. The Exemption of the Materials of manufactures from duty. . . .

- VIII. The encouragement of new inventions and discoveries, at home, and of the introduction into the United States of such as may have been made in other countries; particularly those, which relate to machinery.
This is among the most useful and unexceptionable of the aids, which can be given to manufactures. The usual means of that encouragement are pecuniary rewards, and, for a time, exclusive privileges
- X. The facilitating of pecuniary remittances from place to place —
Is a point of considerable moment to trade in general, and to manufactures in particular; by rendering more [easy] the purchase of raw materials and provisions and the payment for manufactured supplies. A general circulation of Bank paper, which is to be expected from the institution lately established will be a most valuable mean to this end
- XI. The facilitating of the transportation of commodities.
Improvements favoring this object intimately concern all the domestic interests of a community; but they may without impropriety be mentioned as having an important relation to manufactures. There is perhaps scarcely any thing, which has been better calculated to assist the manufactures of Great Britain, than the ameliorations of the public roads of that Kingdom, and the great progress which has been of late made in opening canals. Of the former, the United States stand much in need; . . .

The foregoing are the principal of the means, by which the growth of manufactures is ordinarily promoted. It is, however, not merely necessary, that the measures of government, which have a direct view to manufactures, should be calculated to assist and protect them, but that those which only collaterally affect them, in the general course of the administration, should be guarded from any peculiar tendency to injure them.

Questions:

1. *According to Hamilton, what were the benefits of manufacturing?*
2. *How did Hamilton propose to encourage the development of manufacturing in the United States?*

Overview: The Gilded Age and the Progressive Era, 1860-1912

The period from the eve of the Civil War to the presidential election of 1912 saw the United States undergo a “Great Transformation” as industrialization, urbanization, and immigration accelerated. Cities were becoming denser, dirtier, and more diverse. New York City had 1 million residents by 1880, both Chicago and Philadelphia by 1890. Increasingly those cities were populated by a growing diversity of peoples as approximately 25 million immigrants entered the United States between 1865 and 1915. They came from Ireland, Germany, Italy, Eastern Europe, Scandinavia, China, and elsewhere. The streets of American cities became a babel of tongues. By 1900, the Lower East Side of New York City had roughly 734 residents per acre, making it one of the densest places on earth. There, large numbers of Eastern European Jews and Italians lived, with the foreign born making up over 50% of the neighborhood’s population. For New York City as a whole, the foreign born population numbered 1,270,080, or 37 percent of the total population. Many came to escape poverty and/or persecution. Some came seeking adventure, some to join family members who had come over earlier. Most came for the economic opportunities. Their experience can be summed up by an anonymous Italian saying that hangs on a panel at Ellis Island: “Well, I came to America because I heard the streets were paved with gold. When I got here, I found out three things: first, the streets weren’t paved with gold; second, they weren’t paved at all; and third, I was expected to pave them.” In that sentiment is both frustration and promise. It would not be easy, but there would be work and opportunity.

There was plenty of work to be had. America was in a development frenzy. The Homestead Act of 1862 had encouraged westward settlement by offering 160 acres of public land to anyone who committed to living on and developing that land for at least five years. The 1872 Mining Act allowed individuals or partners to prospect for minerals on public lands and to claim by patent any mineral veins they found. The final spike of the Transcontinental Railroad was pounded in 1869, connecting the Atlantic Ocean to the Pacific Ocean. A trip across the country that would have cost \$1500 before, would now cost \$150. If you happened to be a farmer within earshot of the train whistle, you now had the world as a viable market for your produce. Everywhere along the railroad, towns would spring up, and cities would grow in the wilderness. By 1890, Lincoln, Nebraska had a population of 25,000.

Cattle from Texas would be driven to Abilene, Kansas, then travel east by rail to the emerging meatpacking industry in Chicago (hence, the Chicago Bulls) to be processed and end up on the dinner plates of east coast urbanites; iron would be mined and sent to the steel mills of Pennsylvania to be turned into the steel girders used for the astonishingly high buildings going up in America’s metropolises; trees would be felled in the Pacific Northwest to make railroad ties, furniture, homes, and fence posts; coal from deep under the ground would be mined and used to heat homes, run trains, and generate the energy for the proliferating factories; electronic telegraphs transmitted via the transcontinental wiring allowed people to communicate across long distances in minutes rather than weeks; and money flowed: from the vaults of east coast banks, the coffers of financiers, and the wallets of investors in the stock markets gushed the capital driving all this activity.

There were, however, costs to the scale and pace of all this development: The expansion of urban infrastructure was not keeping pace with the growing population: more and more people were crammed into existing housing, and were exposed to unsanitary conditions; although some improvements had been made, such as croton aqueduct system in New York City which brought clean water from Westchester to Manhattan replacing the tainted groundwater residents had been using,

outbreaks of disease remained common in most American cities. In tenements, mines, and factories could be found people laboring long hours for little pay. Steel workers at Carnegie's Homestead Steel Company worked grueling 12-hour shifts for \$10 a week, or just above the \$500 a year necessary for subsistence for a family of four. "Hard! I guess it's hard," said one laborer at the Homestead mill. "I lost forty pounds the first three months I came into this business. It sweats the life out of a man. I often drink two buckets of water during twelve hours; the sweat drips through my sleeves, and runs down my legs and fills my shoes." The same criticism about hours and pay was heard from cigar rollers, bakers, textile workers, lumberjacks, and miners; because families found it hard to survive on one salary, entire families often had to work. Children as young as eight could be found in canning factories, textile mills, and in coal mines: working in hazardous and unhealthy environments and denied an education, their chances of living to old age healthy and prosperous were greatly diminished; work for many was dangerous, with thousands of workers being injured and killed on the job each year;

Sitting atop of that society were a handful of extremely wealthy individuals. They would defend the free market and their own wealth by pointing to the incredible achievements and advances wrought by their practices. The human race benefited from their self-interest and from the ruthless competition they practiced, even if unintentionally. Adam Smith had taught them that "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our necessities but of their advantages." As inequality grew, some argued that it was merely the consequence of the "survival of the fittest": some had the natural intelligence and talent to thrive and some didn't. Often such arguments were couched in language of racial or ethnic superiority.

As industry continued to grow, disrupted periodically by the "panics" of 1857, 1873, 1893, and 1907, the criticisms grew. Powerful industrialists controlled the labor and livelihoods of armies of workers, wealthy financiers appeared to hold a disproportionate sway over the American economy, and both seemed increasingly to be able to bend the political system to their will. At first the rumblings came from the poor and the workers themselves. Workers believed that their labor contributed to a company's fortunes, and that they deserved a bigger share of the profits. They began to organize, seeking to use their collective power to address their working conditions. The American Federation of Labor, the International Ladies Garment Workers Union, the Industrial Workers of the World, the United Mine Workers, and the Knights of Labor were all formed in this period. Notable labor actions took place in the era as well: the "Great Railroad Strike" in 1877, the Haymarket Square Affair in 1886, the Homestead steel strike in 1892, and the "Uprising of the 20,000" in the garment industry in 1909. At first, the middle-class was horrified by these events. The trouble seemed to be caused by foreigners within those industries who would not assimilate to American ways, or radical groups of anarchists, socialists, or communists who were stirring up the workers. Many people in this period did turn to the theories of socialism or anarchism, believing they offered a more humane and democratic alternative to the cut-throat capitalism in their midst. Socialism would never take hold in America as it did in Europe, but millions did cast votes for socialist candidates during these decades. Eventually, many in the middle-class came to believe that workers were often pushed to such actions, and they began to build alliances with them. The National Consumers League was formed in 1891 with the mission "That the working conditions we accept for our fellow citizens should be reflected by our purchases." By 1890, a sense of change was in the air. The Progressive Era, as the period between 1890 and 1920 came to be known, was characterized by numerous reform movements. We can say, roughly, that the Progressives were concerned with three Is: Iniquity, Inefficiency, and Inequality. Some were concerned primarily with vice; some with making America's businesses, infrastructure, and government more manageable; and some with the concentrations of wealth and power on the one end of society and the

poverty and squalor on the other end. They all would say they were concerned with social justice, but didn't always agree on what exactly that meant. Journalists, preachers, professors, and photographers became swept up in the new movement. A new cohort of college educated women found in social reform an outlet for their energy and intellects. By 1912, the forces of Progressivism culminated in a Presidential election with two of the three candidates claiming the mantle of Progressive. Progressives have often been criticized for being paternalistic towards the poor, and for ignoring, or worse supporting, the segregation taking place in the south. There certainly were elements of both amongst progressives. Yet the movement was too broad and too varied to label the whole monolithically.

The following selections examine the debate place about laissez-faire capitalism in the second half of the nineteenth century, a time of rapid and dramatic change. The documents provide numerous perspectives and offer an abundance of opinions on the appropriate role of the government in the economy. Several questions were magnified in that intense period: What role did entrepreneurs play in the technological and economic progress? What role did the government play? What role should the government play in solving the social problems that arose as the economy and society modernized? Did innate individual talent and intelligence explain success or failure in life, or was inequality rooted in the social structure? What did the social classes owe each other? Was democracy strengthened or endangered by unfettered capitalism?

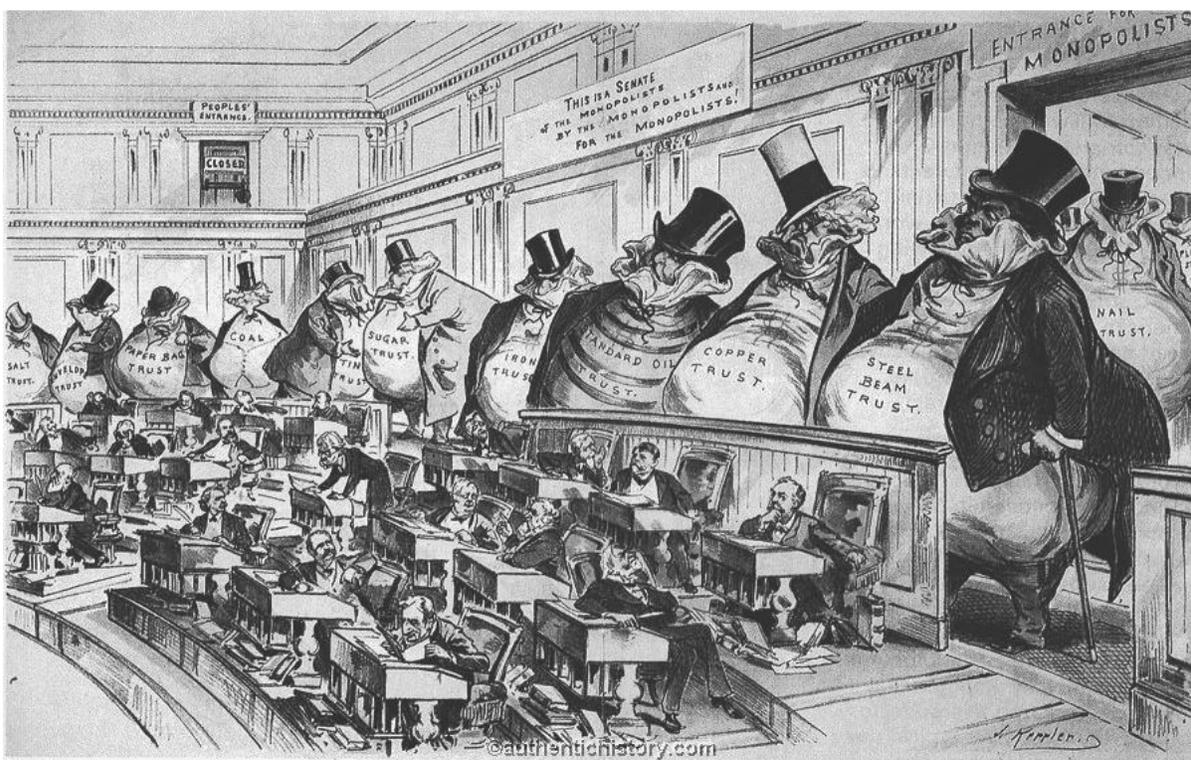
Was individual freedom secured or threatened by government intervention?

MICHAEL BATSON

44. Cartoon: “Bosses of the Senate,” by Joseph Keppler (*Puck*, 1889)

Introduction:

One of the defining images of late-nineteenth century Washington was this cartoon by Joseph Keppler, editor and cartoonist for Puck magazine. As businesses combined into ever bigger entities and great fortunes amassed in the hands of the few, a general concern with such concentrations of wealth and power grew throughout the last quarter of the nineteenth century. Most alarming to many was the influence that money and monopolies would have on politics.



Questions:

1. What is implied about the people's control of government in this cartoon?
2. Why do you think this cartoon resonated so deeply to people at the time?
3. Is a cartoon such as this more likely to make people cynical, or incite them to take action?

45. Andrew Carnegie: The Gospel of Wealth (1901)

Introduction:

As inequality grew and wealth began to concentrate into the pockets of the few at the top in the late-nineteenth century, many Americans became alarmed by what they perceived as the undermining of democracy and the emergence of an aristocratic class. In fact, many referred to the very rich as robber barons, likening them to the aristocratic nobility of medieval Europe who plundered and oppressed the poor. As the criticisms grew more numerous and intense, many of the rich began to mount defenses and counterarguments. Andrew Carnegie provided the most well-known and probably the most articulate defense of wealth in this period.

Carnegie immigrated to the United States from Scotland with his parents when he was a young teenager. He experienced poverty as a child and began work, first as a bobbin boy in a textile mill working 12 hours a day for \$1.20 per week, and then as a telegraph messenger. In 1901, Carnegie sold his steel company to J.P. Morgan for \$480 million (of which \$225 was his share), thus retiring as one of the richest men in American history. He spent the rest of his life in philanthropy, guided by the philosophy embraced in this document.

The problem of our age is the administration of wealth, so that the ties of brotherhood may still bind together the rich and poor in harmonious relationship. The conditions of human life have not only been changed, but revolutionized, within the past few hundred years. In former days there was little difference between the dwelling, dress, food, and environment of the chief and those of his retainers. The contrast between the palace of the millionaire and the cottage of the laborer with us today measures the change which has come with civilization.

This change, however, is not to be deplored, but welcomed as highly beneficial. It is well, nay essential, for the progress of the race, that the houses of some should be homes for all that is highest and best in literature and the arts, and for all the refinements of civilization, rather than that none should be so. Much better this great irregularity than universal squalor. Without wealth there can be no Maecenas [*this is an allusion to Rome, he was a wealthy patron of the arts*]. The ‘good old times were not good old times. Neither master nor servant was as well situated then as today. A relapse to old conditions would be disastrous to both—not the least so to him who serves—and would sweep away civilization with it. . . .

Objections to the foundations upon which society is based are not in order because the condition of the race is better with these than it has been with any others which have been tried. Of the effect of any new substitutes proposed, we cannot be sure. The socialist or anarchist who seeks to overturn present conditions is to be regarded as attacking the foundation upon which civilization itself rests, for civilization took its start from the day that the capable, industrious workman said to his incompetent and lazy fellow, “If thou dost not sow, thou shalt not reap,” and thus ended primitive Communism by separating the drones from the bees. One who studies this subject will soon be brought face to face with the conclusion that upon the sacredness of property civilization itself depends—the right of the laborer to his \$ 100 in the savings bank, and equally the legal right of the millionaire to his millions. . . .

We start, then, with a condition of affairs under which the best interests of the race are promoted, but which inevitably gives wealth to the few. . . .

There are but three modes in which surplus wealth can be disposed of. It can be left to the families of the decedents; or it can be bequeathed for public purposes; or, finally, it can be administered during their lives by its possessors. Under the first and second modes most of the wealth of the world that has reached the few has hitherto been applied. Let us in turn consider each of these modes.

The first is the most injudicious Why should men leave great fortunes to their children? If this is done from affection, is it not misguided affection? Observation teaches that, generally speaking, it is not well for the children that they should be so burdened. Neither is it well for the state. Beyond providing for the wife and daughters moderate sources of income, and very moderate allowances indeed, if any, for the sons, men may well hesitate, for it is no longer questionable that great sums bequeathed oftener work more for the injury than for the good of the recipients. Wise men will soon conclude that, for the best interests of the members of their families and of the state, such bequests are an improper use of their means. It is not suggested that men who have failed to educate their sons to earn a livelihood shall cast them adrift in poverty. If any man has seen fit to rear his sons with a view to their living idle lives, or, what is highly commendable, has instilled in them the sentiment that they are in a position to labor for public ends without reference to pecuniary considerations, then, of course, the duty of the parent is to see that such are provided for in moderation. . . .

As to the second mode, that of leaving wealth at death for public uses, it may be said that this is only a means for the disposal of wealth, provided a man is content to wait until he is dead before it becomes of much good in the world. Knowledge of the results of legacies bequeathed is not calculated to inspire the brightest hopes of much posthumous good being accomplished. The cases are not few in which the real object sought by the testator is not attained, nor are they few in which his real wishes are thwarted. In many cases the bequests are so used as to become only monuments of his folly. . . .

The growing disposition to tax more and more heavily large estates left at death is a cheering indication of the growth of a salutary change in public opinion. The state of Pennsylvania now takes—subject to some exceptions— one-tenth of the property left by its citizens. The budget presented in the British Parliament the other day proposes to increase the death duties; and, most significant of all, the new tax is to be a graduated one. Of all forms of taxation, this seems the wisest. Men who continue hoarding great sums all their lives, the proper use of which for public ends would work good to the community, should be made to feel that the community, in the form of the state, cannot thus be deprived of its proper share. By taxing estates heavily at death the state marks its condemnation of the selfish millionaire's unworthy life. . . .

There remains, then, only one mode of using great fortunes; but in this we have the true antidote for the temporary unequal distribution of wealth, the reconciliation of the rich and the poor—a reign of harmony—another ideal, differing, indeed, from that of the Communist in requiring only the further evolution of existing conditions, not the total overthrow of our civilization. It is founded upon the present most intense individualism, and the race is prepared to put it in practice by degrees whenever it pleases. Under its sway we shall have an ideal state in which the surplus wealth of the few will become, in the best sense, the property of the many, because administered for the common good; and this wealth, passing through the hands of the few, can be made a much more potent force for the elevation of our race than if it had been distributed in small sums to the people themselves. Even the poorest can be made to see this and to agree that great sums gathered by some of their fellow citizens and spent for public purposes, from which the masses reap the principal benefit, are more valuable to them than if scattered among them through the course of many years in trifling amounts. . . .

Thus is the problem of rich and poor to be solved. The laws of accumulation will be left free; the laws of distribution free. Individualism will continue, but the millionaire will be but a trustee for the poor; entrusted for a season with a great part of the increased wealth of the community, but

administering it for the community far better than it could or would have done for itself. The best minds will thus have reached a stage in the development of the race in which it is clearly seen that there is no mode of disposing of surplus wealth creditable to thoughtful and earnest men into whose hands it flows save by using it year by year for the general good. . . .

Such, in my opinion, is the true gospel concerning wealth, obedience to which is destined some day to solve the problem of the rich and the poor and to bring "Peace on earth among men goodwill.

Questions:

1. *What revolutionary changes did Carnegie suggest improved the lot of mankind, even the poor?*
2. *According to Carnegie, what particular responsibilities or obligations did the rich have to the rest of society?* 3. *Why does Carnegie suggest that the rich would be better caretakers for the poor than the government?*

46. Samuel Gompers: The American Labor Movement: Its Makeup, Achievements and Aspirations (1914)

Introduction:

Samuel Gompers was a co-founder and the first president of the American Federation of Labor (AFL), a post he held almost continuously from 1886 to 1924. In his time as president the AFL grew from an organization of 50,000 to one of nearly 3 million. Gompers, like unionists in general, believed that organized workers could lift their standard of living and improve their working conditions better through collective actions and bargaining than they ever could as individuals within large corporations. Gompers and the AFL advocated "craft unionism" whereby workers within a particular industry are organized by their craft or trade, and he believed in pure and simple unionism whereby the union focuses almost exclusively on bread-and-butter issues. Both approaches contrasted sharply with other unions of the time which sought to organize all workers in to "one big union" and to fight for broad and transformative social and political change. Gompers wrote this document in 1914 at a time when the AFL had a membership of 2 million and was very much a part of the established order.

The American Federation of Labor was formed in 1881 in Pittsburgh. . . . The Federation covers practically the whole field of industry. . . .

Recognizing the fact that associated effort is of greater influence and power to secure a given object than is individual effort the first purpose toward which the A. F. of L. directs its efforts is the encouragement of trade and labor unions and the closer federation of such unions. These efforts are concerned with local, state, national, and international bodies, the establishment of departments and central bodies in order that the organizations may aid and assist each other in industrial struggles. They aim at the protection of the rights and the interests of the members and of all working people, the promotion and the advancement of their economic, political, and social rights. They aim to make life more worth living in our day, so that the workers may be in a better position to meet any problem that may confront future generations. In a word, the organizations leave no effort untried by which the working people may find betterment in any field of human activity.

There is no limit to the courses which may be pursued by the A. F. of L. that are calculated to be of aid to the people of our country, . . .

The general object of the Federation is to better the conditions of the workers in all fields of human activity. Economic betterment in all directions comes first. The Federation has from time to time formulated definite programs for such improvements, but it has always concerned itself with first questions first. The conventions have passed resolutions recommending concrete ameliorative measures. . . .

The A. F. of L. declared that concerted effort should be made by the working people of the United States to secure the eight-hour workday. . . .

The A. F. of L. is in favor of a shorter workday, and a progressive decrease of working hours in keeping with the development of machinery and the use of productive forces. The Federation has recognized the need for greater opportunities and more time for rest, leisure and cultivation among the workers. . . .

The Federation favors securing more effective inspection of workshops, factories, and mines, and has worked for the accomplishment of that purpose.

The Federation does not favor the employment of children under 16 years of age and has endeavored to forbid such employment.

It favors forbidding interstate transportation of the products of convict labor and the products of all uninspected factories and mines.

The A. F. of L. favors direct employment of workers by the United States Government, state governments, and municipal governments without intervention of contractors, and has accomplished this to a large degree.

Wage and Hour Policy

The A. F. of L. is not in favor of fixing, by legal enactment, certain minimum wages. The attempts of the government to establish wages at which workmen may work, according to the teachings of history, will result in a long era of industrial slavery. . . .

There is now a current movement to increase wages by a proposal to determine a minimum wage by political authorities. It is a maxim in law that once a court is given jurisdiction over an individual it has the power, the field, and authority to exercise that jurisdiction. I fear the Greeks even when they bear gifts." An attempt to entrap the American workmen into a species of slavery, under guise of an offer of this character, is resented by the men and women of the American trade union movement.

If the legislature should once fix a minimum wage it would have the opportunity to use the machinery of the state to enforce work at that rate whether the workers desired to render services or not. I am very suspicious of the activities of governmental agencies. . . . The A. F. of L. has apprehensions as to the wisdom of placing in the hands of the government additional powers which may be used to the detriment of the working people. It particularly opposes this policy when the things can be done by the workmen themselves. . . .

Social Security for Workers

The A. F. of L. favors a system of non-contributing old-age pensions for workers who have reached a certain age to be established by legal enactment and maintained by governmental machinery. The Federation favors a general system of state insurance against sickness, disability, and accidents. It has not endorsed state insurance of unemployment. In regard to the problem of unemployment the Federation proposes to shorten the workday of the employees, that they may share with the unemployed the work that is to be performed, and thereby tend constantly toward the elimination of unemployment. The American workman refuses to regard unemployment as a permanent evil attending the industrial and economic forces of our country. The American workman proposes to share work with those who are unemployed and thereby to help to find work for the unemployed.

The A. F. of L. encourages and stimulates the workmen in their efforts to secure a constantly increasing share in the products of labor, an increasing share in the consumption and use of things produced, thereby giving employment to the unemployed, the only effective way by which that can be done.

Questions:

1. *What achievements of the labor movement did Gompers point to in this document?*
2. *Why was Gompers hesitant about legislative actions to address labor issues?*

47. Theodore Roosevelt: Address Before the Convention of the National Progressive Party, August 7, 1912

Introduction:

The 1912 election was notable for the inclusion in the race of a viable third party, the National Progressive Party.

The election was also significant because of the prominent debate about the appropriate role and activities of government.

The National Progressive Party nominee was Theodore Roosevelt who had already served as president from 1901 to 1909. Roosevelt's Presidency had been characterized by the expansion of federal powers to regulate big business, conserve public forests and waterways, and to provide consumer protections. Roosevelt's goal as president had been to use the "bully pulpit" of his office to ensure a "Square Deal" for the American people.

When Roosevelt became disappointed in his successor, Howard Taft, for what he perceived to be Taft's retreat on many of his progressive reforms, he decided to run for President again in 1912. When he lost the Republican nomination to Taft, he decided to run for President as head of the newly formed National Progressive Party. Many progressives flocked to the National Progressive Party believing that it offered the best chance to solve the social and economic problems of the rapid industrialization of the previous fifty years. Jane Addams, the progressive activist and co-founder of the Hull House, seconded his nomination at the convention.

This new movement is a movement of truth, sincerity, and wisdom, a movement which proposes to put at the service of all our people the collective power of the people, through their Governmental agencies, alike in the Nation and in the several States. We propose boldly to face the real and great questions of the day, and not skillfully to evade them as do the old parties. . . . No Hope From the Old Party Machines

The prime need today is to face the fact that we are now in the midst of a great economic evolution. There is urgent necessity of applying both common sense and the highest ethical standard to this movement for better economic conditions among the mass of our people if we are to make it one of healthy evolution and not one of revolution. . . .

Moreover, our needs are such that there should be coherent action among those responsible for the conduct of National affairs and those responsible for the conduct of State affairs; because our aim should be the same in both State and Nation; that is, to use the Government as an efficient agency for the practical betterment of social and economic conditions throughout this land. . . .

If this country is really to go forward along the path of social and economic justice, there must be a new party of Nationwide and non-sectional principles, a party where the titular National chiefs and the real State leaders shall be in genuine accord, a party in whose counsels the people shall be supreme, a party that shall represent in the Nation and the several States alike the same cause, the cause of human rights and of governmental efficiency.

Social and Industrial Justice to the Wage-Workers

I especially challenge the attention of the people to the need of dealing in far-reaching fashion with our human resources, and therefore our labor power. In a century and a quarter as a nation the American people have subdued and settled the vast reaches of a continent; ahead lies the greater task

of building upon this foundation, by themselves, for themselves, and with themselves, an American common wealth which in its social and economic structure shall be four square with democracy. . . .

In the last twenty years an increasing percentage of our people have come to depend on industry for their livelihood, so that today the wage-workers in industry rank in importance side by side with the tillers of the soil. As a people we cannot afford to let any group of citizens or any individual citizen live or labor under conditions which are injurious to the common welfare. Industry, therefore, must submit to such public regulation as will make it a means of life and health, not of death or inefficiency. We must protect the crushable elements at the base of our present industrial structure.

The first charge on the industrial statesmanship of the day is to prevent human waste. The dead weight of orphanage and depleted craftsmanship, of crippled workers and workers suffering from trade diseases, of casual labor, of insecure old age, and of household depletion due to industrial conditions are, like our depleted soils, our gashed mountain-sides and flooded river bottoms, so many strains upon the National structure, draining the reserve strength of all industries and showing beyond all peradventure the public element and public concern in industrial health.

Ultimately we desire to use the Government to aid, as far as can safely be done, in helping the industrial tool-users to become in part tool-owners, just as our farmers now are. . . .

We hold that under no industrial order, in no commonwealth, in no trade, and in no establishment should industry be carried on under conditions inimical to the social welfare. The abnormal, ruthless, spendthrift industry of establishment tends to drag down all to the level of the least considerate.

Here the sovereign responsibility of the people as a whole should be placed beyond all quibble and dispute.

The public needs have been well summarized as follows:

1. We hold that the public has a right to complete knowledge of the facts of work.
2. On the basis of these facts and with the recent discoveries of physicians and neurologists, engineers and economists, the public call formulate minimum occupational standards below which, demonstrably, work can be prosecuted only at a human deficit.
3. In the third place, we hold that all industrial conditions which fall below such standards should come within the scope of governmental action and control in the same way that subnormal sanitary conditions are subject to public regulation and for the same reason—because they threaten the general welfare. . . .

We stand for a living wage. Wages are subnormal if they fail to provide a living for those who devote their time and energy to industrial occupations. The monetary equivalent of a living wage varies according to local conditions, but must include enough to secure the elements of a normal standard of living—a standard high enough to make morality possible, to provide for education and recreation, to care for immature members of the family, to maintain the family during periods of sickness, and to permit of reasonable saving for old age.

Hours are excessive if they fail to afford the worker sufficient time to recuperate and return to his work thoroughly refreshed. We hold that the night labor of women and children is abnormal and should be prohibited; we hold that the employment of women over forty-eight hours per week is abnormal and should be prohibited. We hold that the seven day working week is abnormal, and we hold that one day of rest in seven should be provided in law. We hold that the continuous industries, operating twenty-four hours out of twenty four, are abnormal, and where, because of public necessity or of technical reasons (such as molten metal), the twenty-four hours must be divided into two shifts of twelve hours or three shifts of eight, they should by law be divided into three of eight.

Safety conditions are abnormal when, through unguarded machinery, poisons, electrical voltage, or otherwise, the workers are subjected to unnecessary hazards of life and limb; and all such occupations should come under governmental regulation and control.

Home life is abnormal when tenement manufacture is carried on in the household. It is a serious menace to health, education, and childhood, and should therefore be entirely prohibited. Temporary construction camps are abnormal homes and should be subjected to governmental sanitary regulation.

The premature employment of children is abnormal and should be prohibited; so also the employment of women in manufacturing, commerce, or other trades where work compels standing constantly; and also any employment of women in such trades for a period of at least eight weeks at time of childbirth.

Our aim should be to secure conditions which will tend everywhere towards regular industry, and will do away with the necessity for rush periods, followed by out-of-work seasons, which put so severe a strain on wage-workers.

It is abnormal for any industry to throw back upon the community the human wreckage due to its wear and tear, and the hazards of sickness, accident, invalidism, involuntary unemployment, and old age should be provided for through insurance. This should be made a charge in whole or in part upon the industries the employer, the employee, and perhaps the people at large, to contribute severally in some degree. . . .

Workingwomen have the same need to combine for protection that workingmen have; the ballot is as necessary for one class as for the other; we do not believe that with the two sexes there is identity of function; but we do believe that there should be equality of right; and therefore we favor woman suffrage. . . .

No people are more vitally interested than workingmen and workingwomen in questions affecting the public health. The pure food law must be strengthened and efficiently enforced. In the National Government one department should be intrusted with all the agencies relating to the public health, from the enforcement of the pure food law to the administration of quarantine. This department, through its special health service, would co-operate intelligently with the various State and municipal bodies established for the same end. . . .

Business and the Control of the Trusts

The present conditions of business cannot be accepted as satisfactory. There are too many who do not prosper enough, and of the few who prosper greatly there are certainly some whose prosperity does not mean well for the country. Rational Progressives, no matter how radical, are well aware that nothing the Government can do will make some men prosper, and we heartily approve the prosperity, no matter how great, of any man, if it comes as an incident to rendering service to the community; but we wish to shape conditions so that a greater number of the small men who are decent, industrious and energetic shall be able to succeed, and so that the big man who is dishonest shall not be allowed to succeed at all. Our aim is to control business, not to strangle it . . .

Conservation

There can be no greater issue than that of Conservation in this country. Just as we must conserve our men, women, and children, so we must conserve the resources of the land on which they live. We must conserve the soil so that our children shall have a land that is more and not less fertile than that our fathers dwelt in. We must conserve the forests, not by disuse but by use, making them more valuable at the same time that we use them.

Questions:

1. *What problems did Roosevelt see with the two traditional parties?*
2. *What social and economic issues did Roosevelt address in this speech?*
3. *What solutions did he propose to those problems?*
4. *According to Roosevelt, what role should the government play in ensuring social and industrial justice for workers?*

Overview: The Great Depression, 1928-1945

Early in the 20th Century, with the banking system of the United States fragmented and decentralized, the country experienced a number of bank panics and failures. These failures were shocks to the system, caused by a lack of confidence and suspicion of certain institutions.

The Panic of 1907 was a failed effort to take over the United Copper Co., which controlled the copper industry at the time. This takeover was attempted with aid of the Knickerbocker Trust, which served as a bank and umbrella company for major financial interests. When the attempt to gain full control of the company failed it led to a stock market crash, followed by a series of bank runs that caused a panic lasting approximately three weeks. It was J.P. Morgan, who was able to pull together investors to save the banking industry.

This Panic of 1907 was one of the most severe financial crises in the United States until the Great Depression. Over the following year GNP dropped by 11%, production dropped by 16%, and unemployment nearly doubled.

In 1913, Woodrow Wilson signed the Federal Reserve Act, which created a complex central banking system in the United States. This was an attempt to prevent any future panics by creating a flow of capital to halt bank failures. The dawn of the Federal Reserve System gave rise to a centralized control of monetary policy by managing the interest rate. This brought about an impressive increase in lending, exemplified by the era known as the Roaring 20's, the first instance of an economic boom in this new monetary age.

Money supply increased through loans of all kind. The modern industrial age took rise due to advances in industry, including the construction and automobile industries. The financial markets soared as a result of this and the new kinds of loans now available, called margin loans. "Buying on Margin" became a popular practice, allowing an investor to buy stock for 10% to 20% of the indexed price. This enabled small-time investors to buy stocks they previously could not afford, sell at a higher price, pay off the remainder of the loan, and pull a profit.

The stock market was soaring. By the beginning of 1929, the Dow Jones Industrial average had more than tripled in a half decade. It set record highs every year from 1924 to 1929, consecutively, with only a few temporary dips. Clearly, the United States was in the midst of a great bull market, a period of a significant rise in the market.

The banks eventually began calling in their margin-loans during the months prior to the depression. When investors could not cover their debts, it led to massive sell-offs and withdrawals. On September 3rd, 1929, the Dow Jones closed at 381 points. By Tuesday, October 29, 1929, a day known as "Black Tuesday," the Market had plunged over 50 points. Quickly, Americans began withdrawing their savings, leading to bank runs, and eventually, the failure of nearly half of the country's banks by 1933.

Although thriving on the surface, American prosperity had on the decline in the late 1920's, even before Black Tuesday. Ultimately, it was more than just a stock market crash that led to the severity of the Great Depression. The Federal Reserve Bank began raising rates in 1928, slowing the flow of capital into the economy. After Black Tuesday, it cut off the extension of credit, effectively halting the flow of money into the US economy.

The economy was heavily dependent on the automobile and construction industries, which were experiencing a notable decrease in sales and expenditures, respectively. Large corporations had over

expanded, now producing more goods than consumers could buy. With the country's large wealth gap, many Americans were unable to afford the very goods they were producing. Demand wasn't keeping up with supply. This inevitably caused factories to close their doors, thus leaving their workers unemployed.

The American credit system was also in a state of disarray. Large farmers with heavy mortgages could not keep up with their payments, as the prices of their crops were selling at too low a price. Small banks with heavy ties to agriculture began failing after farmers began defaulting on their loans. Large banks that were making risky investments also began failing after Black Tuesday.

America's role in International affairs also added to the severity of the Depression. After World War I, American banks issued heavy loans to European countries, which were unable to pay off these heavy debts. High American tariffs made it difficult for them to sell their goods to our large consumer economy. Out of necessity, European industry became more productive and their countries stopped importing American goods. Without being able to take part in international commerce, they defaulted on their loans in the midst of the Depression.

With the economy in this state of disarray, what was the correct solution to this crisis? Should direct action be taken or should the market correct itself? If you were becoming president as the United States was entering the Great Depression, what would be your response?

JOHN LENTINE

48. Franklin D. Roosevelt: First Inaugural Address, March 4, 1933

Introduction:

In 1921, young New York politician, Franklin D. Roosevelt was stricken with polio. Confined to a wheelchair, he was elected governor of New York in 1928. Four years later he was the Democratic nominee for president. In the general election Roosevelt won the popular vote 22.8 million to 15.8 million and the electoral vote 472-59, winning all but 6 states.

The Great Depression was at its lowest point by the time Roosevelt took office. Under the previous Hoover presidency, the economy lost 6.4 million jobs in four years, almost half of which were lost during his last year, leaving one in four Americans without work. The GDP had also declined by more than 25 percent since its 1929 peak. With the American economic system on the verge of collapse, the American people had good reason to be fearful.

In Franklin D. Roosevelt's 1st inaugural address, known as the "Fear Itself" speech, the President sees his primary task as restoring confidence to a badly shaken economy. Addressing the nation frankly, FDR points his finger at the "rulers of exchange." In giving the American people an enemy to target and the "lines of attack," he treats this economic crisis as though it was a war to be waged against a "common foe."

Roosevelt proved a very effective speaker over the radio, a brand new medium that could be utilized to reach the American people directly in their homes. This speech was the first of many in which he was able to actively exploit this medium to build and maintain the support of the American people.

I am certain that my fellow Americans expect that on my induction into the Presidency I will address them with a candor and a decision which the present situation of our Nation impels. This is preeminently the time to speak the truth, the whole truth; frankly and boldly. Nor need we shrink from honestly facing conditions in our country to-day. This great Nation will endure as it has endured, will revive and will prosper. So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance. In every dark hour of our national life a leadership of frankness and vigor has met with that understanding and support of the people themselves which is essential to victory. I am convinced that you will again give the support to leadership in these critical days.

In such a spirit on my part and on yours we face our common difficulties. They concern, thank God, only material things. Values have shrunken to fantastic levels; taxes have risen; our ability to pay has fallen; government of all kinds is faced by serious curtailment of income; the means of exchange are frozen in the currents of trade; the withered leaves of industrial enterprise lie on every side; farmers find no markets for their produce; the savings of many years in thousands of families are gone.

More important, a host of unemployed citizens face the grim problem of existence, and an equally great number toil with little return. Only a foolish optimist can deny the dark realities of the moment. Yet our distress comes from no failure of substance, We are stricken by no plague of locusts. Compared with the perils which our forefathers conquered because they believed and were not afraid, we have still much to be thankful for. Nature still offers her bounty and human efforts have multiplied it. Plenty is at our doorsteps, but a generous use of it languishes in the very sight of the supply. Primarily this is because the rulers of the exchange of mankind's goods have failed, through their own stubbornness and their own incompetence, have admitted their failure, and abdicated. Practices of the

unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men. . . .

Happiness lies not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort. The joy and moral stimulation of work no longer must be forgotten in the mad chase of evanescent profits. These dark days will be worth all they cost us if they teach us that our true destiny is not to be ministered unto but to minister to ourselves and to our fellow men. . . .

Our greatest primary task is to put people to work. This is no unsolvable problem if we face it wisely and courageously. It can be accomplished in part by direct recruiting by the Government itself, treating the task as we would treat the emergency of a war, but at the same time, through this employment, accomplishing greatly needed projects to stimulate and reorganize the use of our natural resources.

Hand in hand with this we must frankly recognize the overbalance of population in our industrial centers and, by engaging on a national scale in a redistribution, endeavor to provide a better use of the land for those best fitted for the land. The task can be helped by definite efforts to raise the values of agricultural products and with this the power to purchase the output of our cities. It can be helped by preventing realistically the tragedy of the growing loss through foreclosure of our small homes and our farms. It can be helped by insistence that the Federal, State, and local governments act forthwith on the demand that their cost be drastically reduced. It can be helped by the unifying of relief activities which to-day are often scattered, uneconomical, and unequal. It can be helped by national planning for and supervision of all forms of transportation and of communications and other utilities which have a definitely public character. There are many ways in which it can be helped, but it can never be helped merely by talking about it. We must act and act quickly.

Finally, in our progress toward a resumption of work we require two safeguards against a return of the evils of the old order; there must be a strict supervision of all banking and credits and investments; there must be an end to speculation with other people's money, and there must be provision for an adequate but sound currency.

There are the lines of attack. I shall presently urge upon a new Congress in special session detailed measures for their fulfillment, and I shall seek the immediate assistance of the several States. Through this program of action we address ourselves to putting our own national house in order and making income balance outgo. . . .

In the field of world policy I would dedicate this Nation to the policy of the good neighbor—the neighbor who resolutely respects himself and, because he does so, respects the rights of others—the neighbor who respects his obligations and respects the sanctity of his agreements in and with a world of neighbors.

If I read the temper of our people correctly, we now realize as we have never realized before our interdependence on each other; that we can not merely take but we must give as well; that if we are to go forward, we must move as a trained and loyal army willing to sacrifice for the good of a common discipline, because without such discipline no progress is made, no leadership becomes effective. We are, I know, ready and willing to submit our lives and property to such discipline, because it makes possible a leadership which aims at a larger good. This I propose to offer, pledging that the larger purposes will bind upon us all as a sacred obligation with a unity of duty hitherto evoked only in time of armed strife.

With this pledge taken, I assume unhesitatingly the leadership of this great army of our people dedicated to a disciplined attack upon our common problems.

Action in this image and to this end is feasible under the form of government which we have inherited from our ancestors. Our Constitution is so simple and practical that it is possible always to meet extraordinary needs by changes in emphasis and arrangement without loss of essential form. That is why our constitutional system has proved itself the most superbly enduring political mechanism the modern world has produced. It has met every stress of vast expansion of territory, of foreign wars, of bitter internal strife, of world relations.

It is to be hoped that the normal balance of executive and legislative authority may be wholly adequate to meet the unprecedented task before us. But it may be that an unprecedented demand and need for undelayed action may call for temporary departure from that normal balance of public procedure.

I am prepared under my constitutional duty to recommend the measures that a stricken nation in the midst of a stricken world may require. These measures, or such other measures as the Congress may build out of its experience and wisdom, I shall seek, within my constitutional authority, to bring to speedy adoption.

But in the event that the Congress shall fail to take one of these two courses, and in the event that the national emergency is still critical, I shall not evade the clear course of duty that will then confront me. I shall ask the Congress for the one remaining instrument to meet the crisis—broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe.

Questions:

1. *Who does Roosevelt point his fingers at for causing the depression? How does he use this “folk-devil” to rally support?*
2. *What rhetorical strategies does Roosevelt use to restore confidence? How does he define or explain the crisis facing America?*
3. *What appeals does Roosevelt make to citizens?*
4. *What specific measures does Roosevelt propose in order to deal with the crisis at hand?*

49. Franklin D. Roosevelt: The Second Fireside Chat, May 7, 1933

Introduction:

Speaking at the commencement address at Oglethorpe University on May 23, 1932, Franklin D Roosevelt said the following, "The country needs and demands bold and persistent experimentation. It is common sense to take a method and try it; if it fails, admit it frankly, and try another. But above all, try something."

FDR voices a pragmatic approach to problem solving and has been likened to a football coach who experiments with new plays when others fail. In his first year as President, Roosevelt signed the Emergency Banking Act to stabilize the volatile banking industry and created the Securities and Exchange Commission to police the stock market. That same year, he also signed the National Recovery Administration to craft a system of industrial self-regulation, backed by the US government.

In his years as President, Roosevelt addressed the nation in many speeches broadcast via radio. Millions of people found comfort and renewed confidence in these speeches, which became known as the "fireside chats." In the "Second Fireside Chat," Roosevelt notes several of the specific "experiments" being undertaken by the New Deal to help remedy the chaos resulting from the "lack of reasonable safeguards" that threatened our "process of civilization."

As you read, keep in mind that in the 1930s, the radio was the TV and Internet of its day. It allowed Roosevelt to connect with the average citizen, to come into their homes in a way that had never been done before. This first "media President" set the precedent and standard for all who followed.

Three months have passed since I talked with you shortly after the adjournment of the Congress. Tonight I continue that report, though, because of the shortness of time, I must defer a number of subjects to a later date.

Recently the most notable public questions that have concerned us all have had to do with industry and labor and with respect to these, certain developments have taken place which I consider of importance. I am happy to report that after years of uncertainty, culminating in the collapse of the spring of 1933, we are bringing order out of the old chaos with a greater certainty of the employment of labor at a reasonable wage and of more business at a fair profit. These governmental and industrial developments hold promise of new achievements for the Nation.

Men may differ as to the particular form of governmental activity with respect to industry and business, but nearly all are agreed that private enterprise in times such as these cannot be left without assistance and without reasonable safeguards lest it destroy not only itself but also our processes of civilization. The underlying necessity for such activity is indeed as strong now as it was years ago when Elihu Root said the following very significant words:

Instead of the give and take of free individual contract, the tremendous power of organization has combined great aggregations of capital in enormous industrial establishments working through vast agencies of commerce and employing great masses of men in movements of production and transportation and trade, so great in the mass that each individual concerned in them is quite helpless by himself. The relations between the employer and the employed, between the owners of aggregated capital and the units of organized labor, between the small producer, the small trader, the consumer, and the great transporting and manufacturing and distributing agencies, all present new questions for the solution of which the old reliance upon the free action of individual wills appears quite inadequate. And in many directions, the intervention of that organized control which we call government seems necessary to

produce the same result of justice and right conduct which obtained through the attrition of individuals before the new conditions arose.

It was in this spirit thus described by Secretary Root that we approached our task of reviving private enterprise in March, 1933. Our first problem was, of course, the banking situation because, as you know, the banks had collapsed. Some banks could not be saved but the great majority of them, either through their own resources or with Government aid, have been restored to complete public confidence. This has given safety to millions of depositors in these banks. Closely following this great constructive effort we have, through various Federal agencies, saved debtors and creditors alike in many other fields of enterprise, such as loans on farm mortgages and home mortgages; loans to the railroads and insurance companies and, finally, help for home owners and industry itself.

In all of these efforts the Government has come to the assistance of business and with the full expectation that the money used to assist these enterprises will eventually be repaid. I believe it will be.

The second step we have taken in the restoration of normal business enterprise has been to clean up thoroughly unwholesome conditions in the field of investment. In this we have had assistance from many bankers and business men, most of whom recognize the past evils in the banking system, in the sale of securities, in the deliberate encouragement of stock gambling, in the sale of unsound mortgages and in many other ways in which the public lost billions of dollars. They saw that without changes in the policies and methods of investment there could be no recovery of public confidence in the security of savings. The country now enjoys the safety of bank savings under the new banking laws, the careful checking of new securities under the Securities Act and the curtailment of rank stock speculation through the Securities Exchange Act. I sincerely hope that as a result people will be discouraged in unhappy efforts to get rich quick by speculating in securities. The average person almost always loses. Only a very small minority of the people of this country believe in gambling as a substitute for the old philosophy of Benjamin Franklin that the way to wealth is through work.

In meeting the problems of industrial recovery the chief agency of the Government has been the National Recovery Administration [N.R.A.]. Under its guidance, trades and industries covering over 90 percent of all industrial employees have adopted codes of fair competition, which have been approved by the President. Under these codes, in the industries covered, child labor has been eliminated. The work day and the work week have been shortened. Minimum wages have been established and other wages adjusted toward a rising standard of living. The emergency purpose of the N.R.A. was to put men to work and since its creation more than four million persons have been reemployed, in great part through the cooperation of American business brought about under the codes.

Benefits of the Industrial Recovery Program have come, not only to labor in the form of new jobs, in relief from overwork and in relief from underpay, but also to the owners and managers of industry because, together with a great increase in the payrolls, there has come a substantial rise in the total of industrial profits—a rise from a deficit figure in the first quarter of 1933 to a level of sustained profits within one year from the inauguration of N.R.A.

Now it should not be expected that even employed labor and capital would be completely satisfied with present conditions. Employed workers have not by any means all enjoyed a return to the earnings of prosperous times, although millions of hitherto underprivileged workers are today far better paid than ever before. Also, billions of dollars of invested capital have today a greater security of present and future earning power than before. This is because of the establishment of fair, competitive standards and because of relief from unfair competition in wage cutting which depresses markets and

destroys purchasing power. But it is an undeniable fact that the restoration of other billions of sound investments to a reasonable earning power could not be brought about in one year. There is no magic formula, no economic panacea, which could simply revive overnight the heavy industries and the trades dependent upon them.

Nevertheless the gains of trade and industry, as a whole, have been substantial. In these gains and in the policies of the Administration there are assurances that hearten all forward-looking men and women with the confidence that we are definitely rebuilding our political and economic system on the lines laid down by the New Deal—lines which as I have so often made clear, are in complete accord with the underlying principles of orderly popular government which Americans have demanded since the white man first came to these shores. We count, in the future as in the past, on the driving power of individual initiative and the incentive of fair profit, strengthened with the acceptance of those obligations to the public interest which rest upon us all. We have the right to expect that this driving power will be given patriotically and whole-heartedly to our Nation. . . .

Closely allied to the N.R.A. is the program of public works provided for in the same Act and designed to put more men back to work, both directly on the public works themselves, and indirectly in the industries supplying the materials for these public works. To those who say that our expenditures for public works and other means for recovery are a waste that we cannot afford, I answer that no country, however rich, can afford the waste of its human resources. Demoralization caused by vast unemployment is our greatest extravagance. Morally, it is the greatest menace to our social order. Some people try to tell me that we must make up our minds that for the future we shall permanently have millions of unemployed just as other countries have had them for over a decade. What may be necessary for those countries is not my responsibility to determine. But as for this country, I stand or fall by my refusal to accept as a necessary condition of our future a permanent army of unemployed. On the contrary, we must make it a national principle that we will not tolerate a large army of unemployed and that we will arrange our national economy to end our present unemployment as soon as we can and then to take wise measures against its return. I do not want to think that it is the destiny of any American to remain permanently on relief rolls. . . .

In our efforts for recovery we have avoided, on the one hand, the theory that business should and must be taken over into an all-embracing Government. We have avoided, on the other hand, the equally untenable theory that it is an interference with liberty to offer reasonable help when private enterprise is in need of help. The course we have followed fits the American practice of Government, a practice of taking action step by step, or regulating only to meet concrete needs, a practice of courageous recognition of change. I believe with Abraham Lincoln, that “The legitimate object of Government is to do for a community of people whatever they need to have done but cannot do at all or cannot do so well for themselves in their separate and individual capacities.”

I am not for a return to that definition of liberty under which for many years a free people were being gradually regimented into the service of the privileged few. I prefer and I am sure you prefer that broader definition of liberty under which we are moving forward to greater freedom, to greater security for the average man than he has ever known before in the history of America.

Questions:

1. *In this address, FDR mentions some specific measures taken to stabilize and revive the economy. What are they?*

2. *To some, the idea of public works runs contrary to the concept of a purely capitalistic system of free enterprise. FDR speaks of the greater danger arising from not having the government put people to work. What is it?*
3. *Lincoln said “when you do something for somebody that they should do themselves, you’re not helping them.” How did FDR use Lincoln’s idea to make the opposite argument?*

50. Herbert Hoover: Speech Protesting the New Deal, October 31, 1936

Introduction:

Herbert Hoover lost reelection in 1932 due to the public perception that he was ineffective in his handling of the great depression. Four years later, he denounced the measures taken by Roosevelt's New Deal.

At this time, Roosevelt was winning great political victories. This included the Wagner Act (The National Labor Relations Act of 1935), which allowed private sector employees to organize, unionize, engage in collective bargaining, and even go on strike. However, on the battlefield of the Supreme Court, Roosevelt was also suffering losses over the constitutionality of some of his laws, specifically the National Industrial Recovery Act and the Agricultural Adjustment Act.

In this speech, given on October 30, 1936, Hoover issues warnings about the present and future state of America under the New Deal, drawing parallels to events occurring in Europe at that time. As you read the speech, think about the emotional impact it must have had upon the American people who were witnessing events unfold in other parts of the world in the 1930s.

Through four years of experience this New Deal attack upon free institutions has emerged as the transcendent issue in America.

All the men who are seeking for mastery in the world today are using the same weapons. They sing the same songs. They all promise the joys of Elysium without effort.

But their philosophy is founded on the coercion and compulsory organization of men. True liberal government is founded on the emancipation of men.

This is the issue upon which men are imprisoned and dying in Europe right now. . . .

Freedom does not die from frontal attack. It dies because men in power no longer believe in a system based upon liberty. . . .

I gave the warning against this philosophy of government four years ago from a heart heavy with anxiety for the future of our country. It was born from many years' experience of the forces moving in the world which would weaken the vitality of American freedom. It grew in four years of battle as President to uphold the banner of free men.

And that warning was based on sure ground from my knowledge of the ideas that Mr. Roosevelt and his bosom colleagues had covertly embraced despite the Democratic platform.

Those ideas were not new. Most of them had been urged upon me.

During my four years powerful groups thundered at the White House with these same ideas. Some were honest, some promising votes, most of them threatening reprisals, and all of them yelling "reactionary" at us.

I rejected the notion of great trade monopolies and price-fixing through codes. That could only stifle the little business man by regimenting him under the big brother. That idea was born of certain American Big Business and grew up to be the NRA.

I rejected the schemes of "economic planning" to regiment and coerce the farmer. That was born of a Roman despot 1,400 years ago and grew up into the AAA.

I refused national plans to put the government into business in competition with its citizens. That was born of Karl Marx.

I vetoed the idea of recovery through stupendous spending to prime the pump. That was born of a British professor.

I threw out attempts to centralize relief in Washington for politics and social experimentation. I defeated other plans to invade States' rights, to centralize power in Washington. Those ideas were born of American radicals.

I stopped attempts at currency inflation and repudiation of government obligation. That was robbery of insurance policy holders, savings bank depositors and wage-earners. That was born of the early Brain Trusters.

I rejected all these things because they would not only delay recovery but because I knew that in the end they would shackle free men.

Rejecting these ideas we Republicans had erected agencies of government which did start our country to prosperity without the loss of a single atom of American freedom. . . .

Our people did not recognize the gravity of the issue when I stated it four years ago. That is no wonder, for the day Mr. Roosevelt was elected recovery was in progress, the Constitution was untrampled, the integrity of the government and the institutions of freedom were intact.

It was not until after the election that the people began to awake. Then the realization of intended tinkering with the currency drove bank depositors into the panic that greeted Mr. Roosevelt's inauguration.

Recovery was set back for two years, and hysteria was used as the bridge to reach the goal of personal government.

I am proud to have carried the banner of free men to the last hour of the term my countrymen entrusted it to me. It matters nothing in the history of a race what happens to those who in their time have carried the banner of free men. What matters is that the battle shall go on.

The people know now the aims of this New Deal philosophy of government.

We propose instead leadership and authority in government within the moral and economic framework of the American System.

We propose to hold to the Constitutional safeguards of free men.

We propose to relieve men from fear, coercion and spite that are inevitable in personal government.

We propose to demobilize and decentralize all this spending upon which vast personal power is being built. We propose to amend the tax laws so as not to defeat free men and free enterprise.

We propose to turn the whole direction of this country toward liberty, not away from it.

The New Dealers say that all this that we propose is a worn-out system; that this machine age requires new measures for which we must sacrifice some part of the freedom of men. Men have lost their way with a confused idea that governments should run machines.

Man-made machines cannot be of more worth than men themselves. Free men made these machines. Only free spirits can master them to their proper use.

The relation of our government with all these questions is complicated and difficult. They rise into the very highest ranges of economics, statesmanship and morals.

And do not mistake. Free government is the most difficult of all government. But it is everlastingly true that the plain people will make fewer mistakes than any group of men no matter how powerful. But free government implies vigilant thinking and courageous living and self-reliance in a people.

Let me say to you that any measure which breaks our dikes of freedom will flood the land with misery.

Questions:

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1. *Why does Hoover think his idea of government was the truly liberal government rather than Roosevelt's?*
 2. *In the speech Hoover issued warnings about what he saw as the inevitable outcomes of the New Deal. Some have parallels to history, others to events happening in the world of 1936. To what is he referring?*
 3. *Hoover is attempting to harness a certain emotion in his denunciation of the New Deal. What is it and what does he claim it will lead to?*
 4. *Compare and contrast the speech to "Roosevelt Rendezvous with Destiny" speech given before the democratic convention of June 1936.*

51. Franklin D. Roosevelt: Rendezvous with Destiny Speech Before the Democratic National Convention, June 27, 1936

Introduction:

On completing his first term in office and seeking reelection, Roosevelt delivered the following speech before his party's convention after his re-nomination to the Presidency.

In his first term, Roosevelt had accomplished some impressive goals. He created the Works Progress Administration (WPA), a national jobs program employing 2.1 million workers by building schools, bridges, roads, post offices, and parks. Through the National Labor Relations Board he was able to grow and strengthen labor unions. He also created Social Security, the state-run pension program.

Unemployment fell by approximately 2/3rds in Roosevelt's first term and most economic indicators had reached the levels of the late 1920s. His New Deal programs, while offering hope, were not as successful as he believed they would be. Would the country stay the present course or to return to the policies that had created the prosperity of the Roaring 20's?

In Roosevelt's Acceptance Speech, sometimes known as the "Economic Royalist Speech," he decries businessmen, industrialists, and capitalists who "seek to hide behind the Flag and the Constitution" but "forget what the Flag and the Constitution stand for." He illustrates the stark difference between the average American worker and the "royalists of the economic order," reaffirming that the "resolute enemy" is still "within our gates." Roosevelt, however, declares he will move ahead using his guiding theories of government, the greatest of which were the moral principles of faith, hope, and charity.

Speech given before the Democratic National Convention, Philadelphia, Pa. June 27, 1936

President Roosevelt:

"Senator Robinson, Members of the Democratic Convention, My Friends: Here, and in every community throughout the land, we are met at a time of great moment to the future of the nation. It is an occasion to be dedicated to the simple and sincere expression of an attitude toward problems, the determination of which will profoundly affect America.

I come not only as a leader of a party, not only as a candidate for high office, but as one upon whom many critical hours have imposed and still impose a grave responsibility.

For the sympathy, help and confidence with which Americans have sustained me in my task I am grateful. For their loyalty I salute the members of our great party, in and out of political life in every part of the Union. I salute those of other parties, especially those in the Congress of the United States who on so many occasions have put partisanship aside. I thank the governors of the several states, their legislatures, their state and local officials who participated unselfishly and regardless of party in our efforts to achieve recovery and destroy abuses. Above all I thank the millions of Americans who have borne disaster bravely and have dared to smile through the storm.

America will not forget these recent years, will not forget that the rescue was not a mere party task. It was the concern of all of us. In our strength we rose together, rallied our energies together, applied the old rules of common sense, and together survived.

In those days we feared fear. That was why we fought fear. And today, my friends, we have won against the most dangerous of our foes. We have conquered fear.

But I cannot, with candor, tell you that all is well with the world. Clouds of suspicion, tides of illwill and intolerance gather darkly in many places. In our own land we enjoy indeed a fullness of life greater than that of most nations. But the rush of modern civilization itself has raised for us new difficulties, new problems which must be solved if we are to preserve to the United States the political and economic freedom for which Washington and Jefferson planned and fought.

Philadelphia is a good city in which to write American history. This is fitting ground on which to reaffirm the faith of our fathers; to pledge ourselves to restore to the people a wider freedom; to give to 1936 as the founders gave to 1776—an American way of life.

That very word *freedom*, in itself and of necessity, suggests freedom from some restraining power. In 1776 we sought freedom from the tyranny of a political autocracy—from the eighteenth-century royalists who held special privileges from the crown. It was to perpetuate their privilege that governed without the consent of the governed; that they denied the right of free assembly and free speech; that they restricted the worship of God; that they put the average man's property and the average man's life in pawn to the mercenaries of dynastic power; that they regimented the people.

And so it was to win freedom from the tyranny of political autocracy that the American Revolution was fought. That victory gave the business of governing into the hands of the average man, who won the right with his neighbors to make and order his own destiny through his own government. Political tyranny was wiped out at Philadelphia on July 4, 1776.

Since that struggle, however, man's inventive genius released new forces in our land which reordered the lives of our people. The age of machinery, of railroads; of steam and electricity; the telegraph and the radio; mass production, mass distribution—all of these combined to bring forward a new civilization and with it a new problem for those who sought to remain free.

For out of this modern civilization economic royalists carved new dynasties. New kingdoms were built upon concentration of control over material things. Through new uses of corporations, banks and securities, new machinery of industry and agriculture, of labor and capital—all undreamed of by the Fathers—the whole structure of modern life was impressed into this royal service.

There was no place among this royalty for our many thousands of small businessmen and merchants who sought to make a worthy use of the American system of initiative and profit. They were no more free than the worker or the farmer. Even honest and progressive-minded men of wealth aware of their obligation to their generation, could never know just where they fitted into this dynastic scheme of things.

It was natural and perhaps human that the privileged princes of these new economic dynasties, thirsting for power, reached out for control over government itself. They created a new despotism and wrapped it in the robes of legal sanction. In its service new mercenaries sought to regiment the people, their labor, and their property. And as a result the average man once more confronts the problem that faced the Minute Man.

The hours men and women worked, the wages they received, the conditions of their labor—these had passed beyond the control of the people, and were imposed by this new industrial dictatorship. The savings of the average family, the capital of the small-businessmen, the investments set aside for old age—other people's money—these were tools which the new economic royalty used to dig itself in.

Those who tilled the soil no longer reaped the rewards which were their right. The small measure of their gains was decreed by men in distant cities.

Throughout the nation, opportunity was limited by monopoly. Individual initiative was crushed in the cogs of a great machine. The field open for free business was more and more restricted. Private enterprise, indeed, became too private. It became privileged enterprise, not free enterprise.

An old English judge once said: "Necessitous men are not free men." Liberty requires opportunity to make a living—a living decent according to the standard of the time, a living which gives man not only enough to live by, but something to live for.

For too many of us the political equality we once had won was meaningless in the face of economic inequality. A small group had concentrated into their own hands an almost complete control over other people's property, other people's money, other people's labor—other people's lives. For too many of us life was no longer free; liberty no longer real; men could no longer follow the pursuit of happiness.

Against economic tyranny such as this, the American citizen could appeal only to the organized power of government. The collapse of 1929 showed up the despotism for what it was. The election of 1932 was the people's mandate to end it. Under that mandate it is being ended.

The royalists of the economic order have conceded that political freedom was the business of the government, but they have maintained that economic slavery was nobody's business. They granted that the government could protect the citizen in his right to vote, but they denied that the government could do anything to protect the citizen in his right to work and his right to live.

Today we stand committed to the proposition that freedom is no half-and-half affair. If the average citizen is guaranteed equal opportunity in the polling place, he must have equal opportunity in the market place.

These economic royalists complain that we seek to overthrow the institutions of America. What they really complain of is that we seek to take away their power. Our allegiance to American institutions requires the overthrow of this kind of power. In vain they seek to hide behind the flag and the Constitution. In their blindness they forget what the flag and the Constitution stand for. Now, as always, they stand for democracy, not tyranny; for freedom, not subjection; and against a dictatorship by mob rule and the over-privileged alike.

The brave and clear platform adopted by this convention, to which I heartily subscribe, sets forth that government in a modern civilization has certain inescapable obligations to its citizens, among which are protection of the family and the home, the establishment of a democracy of opportunity, and aid to those overtaken by disaster.

But the resolute enemy within our gates is ever ready to beat down our words unless in greater courage we will fight for them.

For more than three years we have fought for them. This convention, in every word and deed, has pledged that the fight will go on.

The defeats and victories of these years have given to us as a people a new understanding of our government and of ourselves. Never since the early days of the New England town meeting have the affairs of government been so widely discussed and so clearly appreciated. It has been brought home to us that the only effective guide for the safety of this most worldly of worlds, the greatest guide of all, is moral principle.

We do not see faith, hope, and charity as unattainable ideals, but we use them as stout supports of a nation fighting the fight for freedom in a modern civilization.

Faith—in the soundness of democracy in the midst of dictatorships.

Hope—renewed because we know so well the progress we have made.

Charity—in the true spirit of that grand old word. For charity literally translated from the original means love, the love that understands, that does not merely share the wealth of the giver, but in true sympathy and wisdom helps men to help themselves.

We seek not merely to make government a mechanical implement, but to give it the vibrant personal character that is the very embodiment of human charity.

We are poor indeed if this nation cannot afford to lift from every recess of American life the dread fear of the unemployed that they are not needed in the world. We cannot afford to accumulate a deficit in the books of human fortitude.

In the place of the palace of privilege we seek to build a temple out of faith and hope and charity.

It is a sobering thing, my friends, to be a servant of this great cause. We try in our daily work to remember that the cause belongs not to us, but to the people. The standard is not in the hands of you and me alone. It is carried by America. We seek daily to profit from experience, to learn to do better as our task proceeds.

Governments can err, presidents do make mistakes, but the immortal Dante tells us that Divine justice weighs the sins of the cold-blooded and the sins of the warm-hearted on different scales.

Better the occasional faults of a government that lives in a spirit of charity than the consistent omissions of a government frozen in the ice of its own indifference.

There is a mysterious cycle in human events. To some generations much is given. Of other generations much is expected. This generation of Americans has a rendezvous with destiny.

In this world of our in other lands, there are some people, who, in times past, have lived and fought for freedom, and seem to have grown too weary to carry on the fight. They have sold their heritage of freedom for the illusion of a living. They have yielded their democracy.

I believe in my heart that only our success can stir their ancient hope. They begin to know that here in America we are waging a great and successful war. It is not alone a war against want and destitution and economic demoralization. It is more than that; it is a war for the survival of democracy. We are fighting to save a great and precious form of government for ourselves and for the world.

I accept the commission you have tendered me. I join with you. I am enlisted for the duration of the war.”

Questions:

1. *In this speech, Roosevelt makes historical reference to the tyranny of the 18th century aristocracy. Now he warns against what could be labeled the dangers of “Corporatocracy.” Explain and discuss.*
2. *FDR invokes the virtues of faith, hope and charity. Compare and contrast his reasoning and emotional appeals to those in the 1936 document entitled “Herbert Hoover Protests of the New Deal.”*
3. *In the last sentence President Roosevelt refers to the current situation as a war. Why does he do this, and in what ways was the depression like a war?*

Overview:
Post War Era, 1945-1980

During the Depression, President Franklin D. Roosevelt proved himself an advocate for a new economic theory-Keynesian economics, which states that during recessions, government investments could lower unemployment and stimulate the economy. This pumping of money into the economy is commonly referred to as “priming the pump,” and was used to inflate the economy during the Great Depression, by way of Roosevelt’s public works programs, and ultimately, World War II.

When the war began winding down, Roosevelt became increasingly concerned with the possibility of a post-war bust. There was bound to be an increase in supply of labor, without necessarily the jobs to support it. Ultimately, Roosevelt died before the war ended but his legacy certainly did not die with him.

Under Roosevelt’s former Vice President, Harry S. Truman, WWII came to an explosive end. Truman’s “Marshall Plan” extended a considerable amount of aid to Europe, removed many trade barriers, and brought Europe back to economic health. As Truman’s Secretary State, George Marshall—after whom the policy is named—said on the matter: “It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health to the world, without which there can be no political stability and no assured peace.”

The implementation of the “Marshall Plan” commenced in April 1948. Around this time, Truman’s foreign policy of “Containment” of the Soviet Union was also beginning. This would mean our military presence in many countries surrounding the USSR, preventing the spread of its sphere of influence. The North Atlantic Treaty Organization (NATO) treaty was signed in April 1949, combining the United States, Canada and many Western European countries into an intergovernmental military alliance. This was the official beginning of the “Cold War,” beginning massive amounts of military spending spanning nearly four decades.

During Truman’s presidency, the Roosevelt legacy of Progressive economic policies lived on. Truman set forth many ambitious proposals including an increase in minimum wage, expansion of Social Security, a call for universal health-care, and a continuation of some of Roosevelt’s public works programs. Although his “Fair Deal” was largely unsuccessful, the increases in family income, home ownership, and living standards under Truman were successes felt for decades to come.

When Dwight D. Eisenhower assumed the presidency, he staffed his cabinet with Keynesians as well as business interests. Although “Ike” was a Republican, and his party was economically conservative, he put forth a series of very progressive policies. He expanded Social Security to include the disabled and implemented a massive public works program in building the Interstate Highway System.

Ike’s tax rate on the top bracket was 90%, which led to the more conservative leaders of his party pressing him to lower taxes. The president declined to modify a formula that seemed to be working, as three of Eisenhower’s eight budgets were in surplus. Personal income was up by 45%, purchasing power was on the rise, and home ownership was following suit.

After Eisenhower left office, John F. Kennedy became president. With the country in a mild recession, Kennedy had every intention of continuing the Progressive economic policies that dominated the political landscape in the prior decades by passing his ambitious New Frontier policies. He increased social security benefits, expanded unemployment benefits, and raised the minimum wage. He also increased aid to economically distressed areas, expanded school lunch distribution, and

reintroduced food stamps. During his Presidency, GDP increases averaged 5.5%, production rose by 15%, and unemployment eased significantly.

After Kennedy's assassination, his vice-president, Lyndon B. Johnson continued to advance the ambitious Progressive agenda. Within his first months in office, at his first State of the Union Address, Johnson declared: "This administration today here and now declares unconditional war on poverty in America." Johnson's "War on Poverty" was spearheaded by the Office of Equal Opportunity and oversaw many antipoverty programs including Head Start and VISTA (now known as AmeriCorps). Johnson then signed the Civil Rights Act of 1964, which banned employment discrimination based on "race, color, religion, sex, or national origin." The Johnson agenda was dubbed the "Great Society," which increased federal education funding, led to programs such as Medicare and Medicaid, and expanded Social Security. The ultimate goal was to eliminate hunger and raise the standard of living in America.

After Johnson left office, the following decade saw high deficits and inflation as a result of the "Great Society," the Vietnam War, and Johnson's refusal to raise taxes to pay for it all. This left the following Administrations with the responsibility of balancing the budget and increasing the value of the dollar. The policies of Nixon, Ford, and Carter were met with minimal success and the American people were ready to experiment with new economic policies.

Did the New Deal end with Roosevelt's death? Does the post-war era reflect a continuation of Roosevelt's progressive vision? Did the country move in the right direction after the war? What were the impacts of these economic policies? Did we ultimately move toward a "New Frontier" and realize the "Great Society?"

JOHN LENTINE

53. Dwight D. Eisenhower: Farewell Address: The Military-Industrial Complex Speech, January 17, 1961

Introduction:

Before the 20th century, warfare was not the tremendous industrial effort it had become by Eisenhower's presidency. By the time he gave this address, the world had experienced many great wars. Rapid improvements in arms compelled us "to create a permanent armaments industry of vast proportions," in the United States, with the US government as the exclusive customer.

Although this greatly benefits the nation's ability to swiftly take to arms in the face of an immediate threat, Eisenhower warns us of the threats to our liberty and our democratic system. He dubs the cooperation between the defense industries and the councils of government the "Military-Industrial Complex."

In his Farewell Address, Eisenhower enlightens the American public as to how deep this partnership has infiltrated our very society. He encourages vigilance among the citizenry to guard against the influence of this industry, "both sought and unsought." Up until this point, the great economic question had to do with the proper role of the government in the private sector. This speech allows us to pose the question of the role of industry in the councils of government, and the impact that role can have on our democracy.

My fellow Americans:

Three days from now, after half a century in the service of our country, I shall lay down the responsibilities of office as, in traditional and solemn ceremony, the authority of the Presidency is vested in my successor.

This evening I come to you with a message of leave-taking and farewell, and to share a few final thoughts with you, my countrymen.

Like every other citizen, I wish the new President, and all who will labor with him, Godspeed. I pray that the coming years will be blessed with peace and prosperity for all.

Our people expect their President and the Congress to find essential agreement on issues of great moment, the wise resolution of which will better shape the future of the Nation.

My own relations with the Congress, which began on a remote and tenuous basis when, long ago, a member of the Senate appointed me to West Point, have since ranged to the intimate during the war and immediate post-war period, and, finally, to the mutually interdependent during these past eight years.

In this final relationship, the Congress and the Administration have, on most vital issues, cooperated well, to serve the national good rather than mere partisanship, and so have assured that the business of the Nation should go forward. So, my official relationship with the Congress ends in a feeling, on my part, of gratitude that we have been able to do so much together.

II. We now stand ten years past the midpoint of a century that has witnessed four major wars among great nations. Three of these involved our own country. Despite these holocausts America is today the strongest, the most influential and most productive nation in the world. Understandably proud of this preeminence, we yet realize that America's leadership and prestige depend, not merely

upon our unmatched material progress, riches and military strength, but on how we use our power in the interests of world peace and human betterment.

III. Throughout America's adventure in free government, our basic purposes have been to keep the peace; to foster progress in human achievement, and to enhance liberty, dignity and integrity among people and among nations. To strive for less would be unworthy of a free and religious people. Any failure traceable to arrogance, or our lack of comprehension or readiness to sacrifice would inflict upon us grievous hurt both at home and abroad.

Progress toward these noble goals is persistently threatened by the conflict now engulfing the world. It commands our whole attention, absorbs our very beings. We face a hostile ideology—global in scope, atheistic in character, ruthless in purpose, and insidious in method. Unhappily the danger it poses promises to be of indefinite duration. To meet it successfully, there is called for, not so much the emotional and transitory sacrifices of crisis, but rather those which enable us to carry forward steadily, surely, and without complaint the burdens of a prolonged and complex struggle—with liberty the stake. Only thus shall we remain, despite every provocation, on our chartered course toward permanent peace and human betterment.

Crises there will continue to be. In meeting them, whether foreign or domestic, great or small, there is a recurring temptation to feel that some spectacular and costly action could become the miraculous solution to all current difficulties. A huge increase in newer elements of our defense; development of unrealistic programs to cure every ill in agriculture; a dramatic expansion in basic and applied research—these and many other possibilities, each possibly promising in itself, may be suggested as the only way to the road we wish to travel.

But each proposal must be weighed in the light of a broader consideration: the need to maintain balance in and among national programs—balance between the private and the public economy, balance between cost and hoped for advantage—balance between the clearly necessary and the comfortably desirable; balance between our essential requirements as a nation and the duties imposed by the nation upon the individual; balance between actions of the moment and the national welfare of the future. Good judgment seeks balance and progress; lack of it eventually finds imbalance and frustration.

The record of many decades stands as proof that our people and their government have, in the main, understood these truths and have responded to them well, in the face of stress and threat. But threats, new in kind or degree, constantly arise. I mention two only.

IV. A vital element in keeping the peace is our military establishment. Our arms must be mighty, ready for instant action, so that no potential aggressor may be tempted to risk his own destruction.

Our military organization today bears little relation to that known by any of my predecessors in peacetime, or indeed by the fighting men of World War II or Korea.

Until the latest of our world conflicts, the United States had no armaments industry. American makers of plowshares could, with time and as required, make swords as well. But now we can no longer risk emergency improvisation of national defense; we have been compelled to create a permanent armaments industry of vast proportions. Added to this, three and a half million men and women are directly engaged in the defense establishment. We annually spend on military security more than the net income of all United States corporations.

This conjunction of an immense military establishment and a large arms industry is new in the American experience. The total influence—economic, political, even spiritual—is felt in every city,

every State house, every office of the Federal government. We recognize the imperative need for this development. Yet we must not fail to comprehend its grave implications. Our toil, resources and livelihood are all involved; so is the very structure of our society.

In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military industrial complex. The potential for the disastrous rise of misplaced power exists and will persist.

We must never let the weight of this combination endanger our liberties or democratic processes. We should take nothing for granted. Only an alert and knowledgeable citizenry can compel the proper meshing of the huge industrial and military machinery of defense with our peaceful methods and goals, so that security and liberty may prosper together.

Akin to, and largely responsible for the sweeping changes in our industrial military posture, has been the technological revolution during recent decades.

In this revolution, research has become central; it also becomes more formalized, complex, and costly. A steadily increasing share is conducted for, by, or at the direction of, the Federal government.

Today, the solitary inventor, tinkering in his shop, has been overshadowed by task forces of scientists in laboratories and testing fields. In the same fashion, the free university, historically the fountainhead of free ideas and scientific discovery, has experienced a revolution in the conduct of research. Partly because of the huge costs involved, a government contract becomes virtually a substitute for intellectual curiosity. For every old blackboard there are now hundreds of new electronic computers.

The prospect of domination of the nation's scholars by Federal employment, project allocations, and the power of money is ever present and is gravely to be regarded. Yet, in holding scientific research and discovery in respect, as we should, we must also be alert to the equal and opposite danger that public policy could itself become the captive of a scientific technological elite.

It is the task of statesmanship to mold, to balance, and to integrate these and other forces, new and old, within the principles of our democratic system—ever aiming toward the supreme goals of our free society.

V. Another factor in maintaining balance involves the element of time. As we peer into society's future, we—you and I, and our government—must avoid the impulse to live only for today, plundering, for our own ease and convenience, the precious resources of tomorrow. We cannot mortgage the material assets of our grandchildren without risking the loss also of their political and spiritual heritage. We want democracy to survive for all generations to come, not to become the insolvent phantom of tomorrow.

VI. Down the long lane of the history yet to be written America knows that this world of ours, ever growing smaller, must avoid becoming a community of dreadful fear and hate, and be instead, a proud confederation of mutual trust and respect.

Such a confederation must be one of equals. The weakest must come to the conference table with the same confidence as do we, protected as we are by our moral, economic, and military strength. That table, though scarred by many past frustrations, cannot be abandoned for the certain agony of the battlefield.

Disarmament, with mutual honor and confidence, is a continuing imperative. Together we must learn how to compose differences, not with arms, but with intellect and decent purpose. Because this need is so sharp and apparent I confess that I lay down my official responsibilities in this field with a

definite sense of disappointment. As one who has witnessed the horror and the lingering sadness of war—as one who knows that another war could utterly destroy this civilization which has been so slowly and painfully built over thousands of years—I wish I could say tonight that a lasting peace is in sight.

Happily, I can say that war has been avoided. Steady progress toward our ultimate goal has been made. But, so much remains to be done. As a private citizen, I shall never cease to do what little I can to help the world advance along that road.

VII. So—in this my last good night to you as your President—I thank you for the many opportunities you have given me for public service in war and peace. I trust that in that service you find some things worthy; as for the rest of it, I know you will find ways to improve performance in the future.

You and I—my fellow citizens—need to be strong in our faith that all nations, under God, will reach the goal of peace with justice. May we be ever unswerving in devotion to principle, confident but humble with power, diligent in pursuit of the Nation’s great goals.

To all the peoples of the world, I once more give expression to America’s prayerful and continuing aspiration:

Questions:

1. *Would a Military-Industrial Complex be possible under a truly “Free-Market?” A Laissez-Faire system?*
2. *Does Eisenhower’s military rank as a Five-Star General add or detract from his credibility on this issue? Why?*
3. *Is there evidence of a Military-Industrial Complex in American society today? If so, was Eisenhower’s prediction about its influence correct?*

53. Barry Goldwater: The Conscience of a Conservative (1960)

Introduction:

The dictionary defines the word conservative as “inclined to keep things the way they were in the past, opposed to change, especially any changes in tradition.”

In his bid for election in 1964 against incumbent President Lyndon Johnson, Republican nominee Barry Goldwater, the five-term United States Senator from Arizona, was a spokesman for conservatism. His 1960 book “The Conscience of a Conservative” was incredibly influential in reigniting the conservative movement in America and made Goldwater a political celebrity.

In this excerpt from his book, Goldwater articulates the reasoning behind conservative economic policies. He also voices his rationale for rejecting liberal policies since the New Deal, which his 1964 rival, President Johnson, would expand in his Great Society policies.

As you read this selection, remember that it was written in the context of the Cold War.

For many years it appeared that the principal domestic threat to our freedom was contained in the doctrines of Karl Marx. The collectivists—non-Communists as well as Communists—had adopted the Marxist objective of “socializing the means of production.” And so it seemed that if collectivization were imposed, it would take the form of a State owned and operated economy. I doubt whether this is the main threat any longer.

The collectivists have found, both in this country and in other industrialized nations of the West, that free enterprise has removed the economic and social conditions that might have made a class struggle possible. Mammoth productivity, wide distribution of wealth, high standards of living, the trade union movement—these and other factors have eliminated whatever incentive there might have been for the “proletariat” to rise up, peaceably or otherwise, and assume direct ownership of productive property. Significantly, the bankruptcy of doctrinaire Marxism has been expressly acknowledged by the Socialist Party of West Germany, and by the dominant faction of the Socialist Party of Great Britain. In this country the abandonment of the Marxist approach (outside the Communist Party, of course) is attested to by the negligible strength of the Socialist Party, and more tellingly perhaps, by the content of left wing literature and by the programs of left wing political organizations such as the Americans For Democratic Action.

The currently favored instrument of collectivization is the Welfare State. The collectivists have not abandoned their ultimate goal—to subordinate the individual to the State—but their strategy has changed. They have learned that Socialism can be achieved through Welfarism quite as well as through Nationalization. They understand that private property can be confiscated as effectively by taxation as by expropriating it. They understand that the individual can be put at the mercy of the State—not only by making the State his employer—but by divesting him of the means to provide for his personal needs and by giving the State the responsibility of caring for those needs from cradle to grave. Moreover, they have discovered—and here is the critical point—that *Welfarism is much more compatible with the political processes of a democratic society*. Nationalization ran into popular opposition, but the collectivists feel sure the Welfare State can be erected by the simple expedient of buying votes with promises of “free” hospitalization, “free” retirement pay and so on. . . . The correctness of this estimate

can be seen from the portion of the federal budget that is now allocated to welfare, an amount second only to the cost of national defense.³

I do not welcome this shift of strategy. Socialism-through-Welfarism poses a far greater danger to freedom than Socialism-through-Nationalization precisely because it *is* more difficult to combat. The evils of Nationalization are self-evident and immediate. Those of Welfarism are veiled and tend to be postponed. People can understand the consequences of turning over ownership of the steel industry, say, to the State; and they can be counted on to oppose such a proposal. But let the government increase its contribution to the “Public Assistance” program and we will, at most, grumble about excessive government spending. The effect of Welfarism on freedom will be felt later on—after its beneficiaries have become its victims, after dependence on government has turned into bondage and it is too late to unlock the jail.

But a far more important factor is Welfarism’s strong emotional appeal to many voters, and the consequent temptations it presents the average politician. It is hard, as we have seen, to make out a case for State ownership. It is very different with the rhetoric of humanitarianism. How easy it is to reach the voters with earnest importunities for helping the needy. And how difficult for Conservatives to resist these demands without appearing to be callous and contemptuous of the plight of less fortunate citizens. Here, perhaps, is the best illustration of the failure of the Conservative demonstration.

I know, for I have heard the questions often. Have you no sense of social obligation? the Liberals ask. Have you no concern for people who are out of work? for sick people who lack medical care? for children in overcrowded schools? Are you unmoved by the problems of the aged and disabled? Are you *against* human welfare?

The answer to all of these questions is, of course, no. But a simple “no” is not enough. I feel certain that Conservatism is through unless Conservatives can demonstrate and communicate the difference between being concerned with these problems and believing that the federal government is the proper agent for their solution.

The long range political consequences of Welfarism are plain enough: as we have seen, the State that is able to deal with its citizens as wards and dependents has gathered unto itself unlimited political and economic power and is thus able to rule as absolutely as any oriental despot.

Let us, however, weigh the consequences of Welfarism on the citizen.

Consider, first, the effect of Welfarism on the donors of government welfare— not only those who pay for it but also the voters and their elected representatives who decide that the benefits shall be conferred. Does some credit redound on them for trying to care for the needs of their fellow citizens? Are they to be commended and rewarded, at some moment in eternity, for their “charity”? I think not. Suppose I should vote for a measure providing for free medical care: I am unaware of any moral virtue that is attached to my decision to confiscate the earnings of X and give them to Y.

Suppose, however, that X approves of the program—that he has voted for welfarist politicians with the idea of helping his fellow man. Surely the wholesomeness of his act is diluted by the fact that he is voting not only to have his own money taken but also that of his fellow citizens who may have different ideas about their social obligations. Why does not such a man, instead, contribute what he regards as his just share of human welfare to a private charity?

³ *The total figure is substantially higher than the \$15,000,000,000 noted above if we take into account welfare expenditures outside the Depression of Health, Education and Welfare—for federal housing projects, for example.*

Consider the consequences to the recipient of welfarism. For one thing, he mortgages himself to the federal government. In return for benefits—which, in the majority of cases, he pays for—he concedes to the government the ultimate in political power—the power to grant or withhold from him the necessities of life as the government sees fit. Even more important, however, is the effect on him—the elimination of any feeling of responsibility for his own welfare and that of his family and neighbors. A man may not immediately, or ever, comprehend the harm thus done to his character. Indeed, this is one of the great evils of Welfarism—that it transforms the individual from a dignified, industrious, self-reliant *spiritual* being into a dependent animal creature without his knowing it. There is no avoiding this damage to character under the Welfare State. Welfare programs cannot help but promote the idea that the government *owes* the benefits it confers on the individual, and that the individual is entitled, by right, to receive them. Such programs are sold to the country precisely on the argument that government has an *obligation* to care for the needs of its citizens. Is it possible that the message will reach those who vote for the benefits, but not those who receive them? How different it is with private charity where both the giver and the receiver understand that charity is the product of the humanitarian impulses of the giver, not the due of the receiver.

Let us, then, not blunt the noble impulses of mankind by reducing charity to a mechanical operation of the federal government. Let us, by all means, encourage, those who are fortunate and able to care for the needs of those who are unfortunate and disabled. But let us do this in a way that is conducive to the spiritual as well as the material well-being of our citizens—and in a way that will preserve their freedom. Let welfare be a private concern. Let it be promoted by individuals and families, by churches, private hospitals, religious service organizations, community charities and other institutions that have been established for this purpose. If the objection is raised that private institutions lack sufficient funds, let us remember that every penny the federal government does *not* appropriate for welfare is potentially available for private use—and without the overhead charge for processing the money through the federal bureaucracy. Indeed, high taxes, for which government Welfarism is so largely responsible, is the biggest obstacle to fund raising by private charities.

Finally, if we deem public intervention necessary, let the job be done by local and state authorities that are incapable of accumulating the vast political power that is so inimical to our liberties.

The Welfare State is *not* inevitable, as its proponents are so fond of telling us. There is nothing inherent in an industrialized economy, or in democratic processes of government that *must* produce de Tocqueville's "guardian society." Our future, like our past, will be what we make it. And we can shatter the collectivists' designs on individual freedom if we will impress upon the men who conduct our affairs this one truth: that the material and spiritual sides of man are intertwined; that it is impossible for the State to assume responsibility for one without intruding on the essential nature of the other; that if we take from a man the personal responsibility for caring for his material needs, we take from him also the will and the opportunity to be free.

Questions:

1. *Why does the fact that Goldwater is addressing an audience during the Cold War give his argument serious gravity?*
2. *How well does this argument stand today? Why?*
3. *What are some of the remnants of Goldwater's argument that resonate with conservative thinking today?*
4. *How has the agenda of the conservative movement changed from the 1960s to today?*

54. Lyndon B. Johnson: Commencement Speech Delivered at the University of Michigan: The Great Society, May 22, 1964

Introduction:

When Pres. John F. Kennedy was assassinated in November 1963, there was fear that many of the goals and initiatives inspired by his “New Frontier” would be sidelined. Although hampered by growing discontent over an increasing unpopular war in Vietnam, Kennedy’s successor, Lyndon B. Johnson, not only accepted JFK social goals, but expanded them.

Johnson had eleven months until the next Presidential election, and used that time to rapidly move forward with his liberal economic agenda. His “Great Society” called for the elimination of poverty and racial injustice, and included policies such as the Civil Rights Act, Medicare, the Elementary & Secondary Education Act, and Head Start. It has been hailed by some as the most ambitious socio-political movement since FDR’s New Deal.

In this famous speech, delivered at the University of Michigan at Ann Arbor on May 22, 1964, LBJ coined the phrase “the Great Society” to motivate and challenge America towards his vision of the future.

I have come today from the turmoil of your capital to the tranquility of your campus to speak about the future of your country.

The purpose of protecting the life of our nation and preserving the liberty of our citizens is to pursue the happiness of our people. Our success in that pursuit is the test of our success as a nation.

For a century we labored to settle and to subdue a continent. For half a century we called upon unbounded invention and untiring industry to create an order of plenty for all of our people.

The challenge of the next half century is whether we have the wisdom to use that wealth to enrich and elevate our national life, and to advance the quality of our American civilization.

Your imagination, your initiative, and your indignation will determine whether we build a society where progress is the servant of our needs, or a society where old values and new visions are buried under unbridled growth. For in your time we have the opportunity to move not only toward the rich society and the powerful society, but upward to the Great Society.

The Great Society rests on abundance and liberty for all. It demands an end to poverty and racial injustice, to which we are totally committed in our time. But that is just the beginning.

The Great Society is a place where every child can find knowledge to enrich his mind and to enlarge his talents. It is a place where leisure is a welcome chance to build and reflect, not a feared cause of boredom and restlessness. It is a place where the city of man serves not only the needs of the body and the demands of commerce but the desire for beauty and the hunger for community.

It is a place where man can renew contact with nature. It is a place which honors creation for its own sake and for what it adds to the understanding of the race. It is a place where men are more concerned with the quality of their goals than the quantity of their goods.

But most of all, the Great Society is not a safe harbor, a resting place, a final objective, a finished work. It is a challenge constantly renewed, beckoning us toward a destiny where the meaning of our lives matches the marvelous products of our labor.

So I want to talk to you today about three places where we begin to build the Great Society—in our cities, in our countryside, and in our classrooms.

Many of you will live to see the day, perhaps fifty years from now, when there will be 400 million Americans—four-fifths of them in urban areas. In the remainder of this century urban population will double, city land will double, and we will have to build homes, highways, and facilities equal to all those built since this country was first settled. So in the next forty years we must rebuild the entire urban United States.

Aristotle said: “Men come together in cities in order to live, but they remain together in order to live the good life.” It is harder and harder to live the good life in American cities today.

The catalogue of ills is long: there is the decay of the centers and the despoiling of the suburbs. There is not enough housing for our people or transportation for our traffic. Open land is vanishing and old landmarks are violated.

Worst of all expansion is eroding the precious and time-honored values of community with neighbors and communion with nature. The loss of these values breeds loneliness and boredom and indifference.

Our society will never be great until our cities are great. Today the frontier of imagination and innovation is inside those cities and not beyond their borders. . . .

A second place where we begin to build the Great Society is in our countryside. We have always prided ourselves on being not only America the strong and America the free, but America the beautiful. Today that beauty is in danger. The water we drink, the food we eat, the very air that we breathe, are threatened with pollution. Our parks are overcrowded, our seashores overburdened. Green fields and dense forests are disappearing.

A few years ago we were greatly concerned about the “Ugly American.” Today we must act to prevent an ugly America.

For once the battle is lost, once our natural splendor is destroyed, it can never be recaptured. And once man can no longer walk with beauty or wonder at nature his spirit will wither and his sustenance be wasted.

A third place to build the Great Society is in the classrooms of America. There your children’s lives will be shaped. Our society will not be great until every young mind is set free to scan the farthest reaches of thought and imagination. We are still far from that goal. . . .

Each year more than 100,000 high school graduates, with proved ability, do not enter college because they cannot afford it. And if we cannot educate today’s youth, what will we do in 1970 when elementary school enrollment will be 5 million greater than 1960? And high school enrollment will rise by 5 million. College enrollment will increase by more than 3 million.

In many places, classrooms are overcrowded and curricula are outdated. Most of our qualified teachers are underpaid, and many of our paid teachers are unqualified. So we must give every child a place to sit and a teacher to learn from. Poverty must not be a bar to learning, and learning must offer an escape from poverty.

But more classrooms and more teachers are not enough. We must seek an educational system which grows in excellence as it grows in size. This means better training for our teachers. It means preparing youth to enjoy their hours of leisure as well as their hours of labor. It means exploring new techniques of teaching, to find new ways to stimulate the love of learning and the capacity for creation.

These are three of the central issues of the Great Society. While our government has many programs directed at those issues, I do not pretend that we have the full answer to those problems.

. . .

But I do promise this: We are going to assemble the best thought and the broadest knowledge from all over the world to find those answers for America. I intend to establish working groups to

prepare a series of White House conferences and meetings—on the cities, on natural beauty, on the quality of education, and on other emerging challenges. And from these meetings and from this inspiration and from these studies we will begin to set our course toward the Great Society.

The solution to these problems does not rest on a massive program in Washington, nor can it rely solely on the strained resources of local authority. They require us to create new concepts of cooperation, a creative federalism, between the national capital and the leaders of local communities.

Within your lifetime powerful forces, already loosed, will take us toward a way of life beyond the realm of our experience, almost beyond the bounds of our imagination.

For better or for worse, your generation has been appointed by history to deal with those problems and to lead America toward a new age. You have the chance never before afforded to any people in any age. You can help build a society where the demands of morality, and the needs of the spirit, can be realized in the life of the nation.

So, will you join in the battle to give every citizen the full equality which God enjoins and the law requires, whatever his belief, or race, or the color of his skin?

Will you join in the battle to give every citizen an escape from the crushing weight of poverty?

Will you join in the battle to make it possible for all nations to live in enduring peace—as neighbors and not as mortal enemies?

Will you join in the battle to build the Great Society, to prove that our material progress is only the foundation on which we will build a richer life of mind and spirit?

There are those timid souls who say this battle cannot be won; that we are condemned to a soulless wealth. I do not agree. We have the power to shape the civilization that we want. But we need your will, your labor, your hearts, if we are to build that kind of society.

Those who came to this land sought to build more than just a new country. They sought a new world. So I have come here today to your campus to say that you can make their vision our reality. So let us from this moment begin our work so that in the future men will look back and say: It was then, after a long and weary way, that man turned the exploits of his genius to the full enrichment of his life.

Questions:

1. *President Johnson mentions the specific places where the great society must begin. What are they? Why does he choose these places? What are some of the specific measures he wants undertaken in each place?*
2. *Why do you think President Johnson chose a college commencement to deliver the speech?*
3. *Philosophically and politically, what parallels can be drawn between LBJ's great society and FDR's New Deal?*

Overview: The Reagan Revolution, 1979-1992

Since the Great Depression, the economy of the United States had been viewed according to the theory of John Maynard Keynes, known as Keynesian Economics, which is called by economists the demand-side theory. According to this theory, economic growth and slumps can be controlled by government policies designed to influence aggregate demand - the total demand for goods and services in the economy. Although this theory was most appropriate for the Great Depression, there was an over application of it during most of the postwar era. This led to a stagnant economy and high inflation in the 1970s, otherwise known as stagflation.

After defeating President Jimmy Carter in the 1980 election, President Ronald Reagan was intent on increasing economic growth and employment in a way that did not exacerbate inflation, which was a large problem for the United States. In conjunction with a Federal Reserve policy of raising interest rates and tightening monetary policy, President Reagan signed an Economic Recovery Act of 1981, which established the policy of Reaganomics, and was the most significant change to the economic policy of the United States since the New Deal.

Also known as supply-side and trickle-down economics, Reaganomics' four policy objectives were to reduce government spending, reduce the tax rates for both capital and labor, reduce government regulations, and help tighten the money supply to help reduce inflation. These policy changes were designed to help increase savings and investments, increase economic growth, and restore the financial markets to a healthy status.

Although most of the policy objectives were met, the national debt nearly tripled from 1981-1989, due to large budget deficits from increased government spending and low tax revenue. However, these policy changes helped usher in one of the largest peacetime economic expansions in United States history by transforming a period of malaise and stagflation into a period of economic growth. During Reagan's tenure, unemployment dropped to 5.4%, and inflation dropped from 10% in 1981 to just 4% in 1988.

When President George H.W. Bush took office in 1989, he was immediately faced with the savings and loans crisis that started in 1986. This required massive federal expenditures to protect deposits that were at risk due to the collapse of a housing bubble. In addition to this, the economy was entering a recession and the budget deficits were increasing. Economists for the Bush Administration favored an easier monetary policy, but the Federal Reserve Chairman, Alan Greenspan, would not ease monetary policy until there were improvements in the budget deficit. It was now obvious that in order to obtain an easier monetary policy, a budget deal was needed.

President Bush was forced to renege on his campaign pledge of "no new taxes," and began working with Congress on a budget. He addressed the nation on October 2, 1990, to discuss the problem of the growing budget deficit, how that threatened the economy of the United States, and how the budget deal would help correct this problem. He then signed the 1990 Budget Enforcement Act, which was part of the Omnibus Budget Reconciliation Act of 1990.

According to the 1990 Budget Enforcement Act, revenues would be raised by \$159 billion and federal spending would be cut by \$324 billion. President Bush did indeed go back on his "no new taxes" pledge and raised the top income tax rate from 28% to 31%. This would help generate much needed revenue, and a rule was instituted that would supposedly reduce future deficits and bring spending under control. This would be known as PAYGO—Pay As You Go.

PAYGO stated that if new spending would be introduced, it would have to be offset by new taxes. Also, if spending was to be cut, taxes would also have to be cut. Along with automatic spending cuts and caps on discretionary spending, this helped put the United States on the path to a balanced budget.

The following selections illustrate how the United States emerged from a period of malaise and stagflation to economic growth, thus raising the question of the role of government in the market economy during the Reagan Administration. In addition, it will be understood how different economic problems require different economic solutions by comparing the policies of Reagan and Bush. In response to stagflation, how did Reaganomics help lead the United States economy away from New Deal policies and to a period of growth? While examining President Bush's response to the federal budget deficit, why was an increase in taxes and spending caps put in place? Finally, explain how the policies set by the Bush Administration helped preserve the Reagan Revolution.

JOSEPH FRUSCI

55. Jimmy Carter: Address to the Nation: The “Malaise” Speech, July 15, 1979

Introduction:

At the time of Jimmy Carter's election, the economic policies of the United States had been built on a Keynesian Model since the New Deal in 1933. With the United States faced with high inflation and a stagnant economy, some though there was a misapplication of the Keynesian model, as it was not designed to handle the financial problems of the late 1970s. In addition to this, the energy crisis was getting worse, and forced President Carter to hold a secret domestic summit at Camp David to meet with members of Congress, governors, labor leaders and academics. This resulted in President Carter giving this nationally televised speech outlining his plan to lead America out of the “malaise.”

During the past three years I've spoken to you on many occasions about national concerns, the energy crisis, reorganizing the government, our nation's economy, and issues of war and especially peace. But over those years the subjects of the speeches, the talks, and the press conferences have become increasingly narrow, focused more and more on what the isolated world of Washington thinks is important. Gradually, you've heard more and more about what the government thinks or what the government should be doing and less and less about our nation's hopes, our dreams, and our vision of the future.

Ten days ago I had planned to speak to you again about a very important subject—energy. For the fifth time I would have described the urgency of the problem and laid out a series of legislative recommendations to the Congress. But as I was preparing to speak, I began to ask myself the same question that I now know has been troubling many of you. Why have we not been able to get together as a nation to resolve our serious energy problem?

It's clear that the true problems of our Nation are much deeper—deeper than gasoline lines or energy shortages, deeper even than inflation or recession. And I realize more than ever that as president I need your help. So I decided to reach out and listen to the voices of America.

Many people talked about themselves and about the condition of our nation. This from a young woman in Pennsylvania: "I feel so far from government. I feel like ordinary people are excluded from political power."

And I like this one particularly from a black woman who happens to be the mayor of a small Mississippi town: "The big-shots are not the only ones who are important. Remember, you can't sell anything on Wall Street unless someone digs it up somewhere else first."

Several of our discussions were on energy, and I have a notebook full of comments and advice. I'll read just a few.

"We can't go on consuming 40 percent more energy than we produce. When we import oil we are also importing inflation plus unemployment."

"We've got to use what we have. The Middle East has only five percent of the world's energy, but the United States has 24 percent."

And this is one of the most vivid statements: "Our neck is stretched over the fence and OPEC has a knife."

So, I want to speak to you first tonight about a subject even more serious than energy or inflation. I want to talk to you right now about a fundamental threat to American democracy.

I do not mean our political and civil liberties. They will endure. And I do not refer to the outward strength of America, a nation that is at peace tonight everywhere in the world, with unmatched economic power and military might.

The threat is nearly invisible in ordinary ways. It is a crisis of confidence. It is a crisis that strikes at the very heart and soul and spirit of our national will. We can see this crisis in the growing doubt about the meaning of our own lives and in the loss of a unity of purpose for our nation.

The erosion of our confidence in the future is threatening to destroy the social and the political fabric of America.

The confidence that we have always had as a people is not simply some romantic dream or a proverb in a dusty book that we read just on the Fourth of July.

It is the idea which founded our nation and has guided our development as a people. Confidence in the future has supported everything else—public institutions and private enterprise, our own families, and the very Constitution of the United States. Confidence has defined our course and has served as a link between generations. We've always believed in something called progress. We've always had a faith that the days of our children would be better than our own.

Our people are losing that faith, not only in government itself but in the ability as citizens to serve as the ultimate rulers and shapers of our democracy. As a people we know our past and we are proud of it. Our progress has been part of the living history of America, even the world.

In a nation that was proud of hard work, strong families, close-knit communities, and our faith in God, too many of us now tend to worship self-indulgence and consumption. Human identity is no longer defined by what one does, but by what one owns. But we've discovered that owning things and consuming things does not satisfy our longing for meaning. We've learned that piling up material goods cannot fill the emptiness of lives which have no confidence or purpose.

The symptoms of this crisis of the American spirit are all around us. For the first time in the history of our country a majority of our people believe that the next five years will be worse than the past five years. Two-thirds of our people do not even vote. The productivity of American workers is actually dropping, and the willingness of Americans to save for the future has fallen below that of all other people in the Western world.

As you know, there is a growing disrespect for government and for churches and for schools, the news media, and other institutions. This is not a message of happiness or reassurance, but it is the truth and it is a warning.

These changes did not happen overnight. They've come upon us gradually over the last generation, years that were filled with shocks and tragedy.

We were sure that ours was a nation of the ballot, not the bullet, until the murders of John Kennedy and Robert Kennedy and Martin Luther King Jr. We were taught that our armies were always invincible and our causes were always just, only to suffer the agony of Vietnam. We respected the presidency as a place of honor until the shock of Watergate.

We remember when the phrase "sound as a dollar" was an expression of absolute dependability, until ten years of inflation began to shrink our dollar and our savings. We believed that our nation's resources were limitless until 1973, when we had to face a growing dependence on foreign oil.

These wounds are still very deep. They have never been healed. Looking for a way out of this crisis, our people have turned to the Federal government and found it isolated from the mainstream of our nation's life. Washington, D.C., has become an island. The gap between our citizens and our government has never been so wide. The people are looking for honest answers, not easy answers; clear leadership, not false claims and evasiveness and politics as usual.

What you see too often in Washington and elsewhere around the country is a system of government that seems incapable of action. You see a Congress twisted and pulled in every direction by hundreds of well-financed and powerful special interests. You see every extreme position defended to the last vote, almost to the last breath by one unyielding group or another. You often see a balanced and a fair approach that demands sacrifice, a little sacrifice from everyone, abandoned like an orphan without support and without friends.

We know the strength of America. We are strong. We can regain our unity. We can regain our confidence. We are the heirs of generations who survived threats much more powerful and awesome than those that challenge us now. Our fathers and mothers were strong men and women who shaped a new society during the Great Depression, who fought world wars, and who carved out a new charter of peace for the world.

We are at a turning point in our history. There are two paths to choose. One is a path I've warned about tonight, the path that leads to fragmentation and self-interest. Down that road lies a mistaken idea of freedom, the right to grasp for ourselves some advantage over others. That path would be one of constant conflict between narrow interests ending in chaos and immobility. It is a certain route to failure. Energy will be the immediate test of our ability to unite this nation, and it can also be the standard around which we rally. On the battlefield of energy we can win for our nation a new confidence, and we can seize control again of our common destiny.

In little more than two decades we've gone from a position of energy independence to one in which almost half the oil we use comes from foreign countries, at prices that are going through the roof. Our excessive dependence on OPEC has already taken a tremendous toll on our economy and our people. This is the direct cause of the long lines which have made millions of you spend aggravating hours waiting for gasoline. It's a cause of the increased inflation and unemployment that we now face. This intolerable dependence on foreign oil threatens our economic independence and the very security of our nation. The energy crisis is real. It is worldwide.

I am tonight setting a clear goal for the energy policy of the United States. Tonight setting the further goal of cutting our dependence on foreign oil by one half by the end of the next decade—a saving of over 4-1/2 million barrels of imported oil per day.

To ensure that we meet these targets, I will use my presidential authority to set import quotas. I'm announcing tonight that for 1979 and 1980, I will forbid the entry into this country of one drop of foreign oil more than these goals allow. These quotas will ensure a reduction in imports even below the ambitious levels we set at the recent Tokyo summit.

To give us energy security, I am asking for the most massive peacetime commitment of funds and resources in our nation's history to develop America's own alternative sources of fuel—from coal, from oil shale, from plant products for gasohol, from unconventional gas, from the sun, creation of this nation's first solar bank. 20 percent of our energy coming from solar power by the year 2000.

These efforts will cost money, a lot of money, and that is why Congress must enact the windfall profits tax without delay. It will be money well spent. Unlike the billions of dollars that we ship to foreign countries to pay for foreign oil, these funds will be paid by Americans to Americans. These funds will go to fight, not to increase, inflation and unemployment.

I'm asking Congress to mandate, to require as a matter of law, that our nation's utility companies cut their massive use of oil by 50 percent within the next decade urge Congress to create an energy mobilization board.

I ask Congress to give me authority for mandatory conservation and for standby gasoline rationing. And I'm asking you for your good and for your nation's security to take no unnecessary trips, to use

carpools or public transportation whenever you can, to park your car one extra day per week, to obey the speed limit, and to set your thermostats to save fuel. I tell you it is an act of patriotism.

Every gallon of oil each one of us saves is a new form of production. It gives us more freedom, more confidence, that much more control over our own lives.

You know we can do it. We have the natural resources. We have more oil in our shale alone than several Saudi Arabias. We have more coal than any nation on Earth. We have the world's highest level of technology. We have the most skilled work force, with innovative genius, and I firmly believe that we have the national will to win this war.

Questions:

1. *Why was President Carter appealing to the American people?*
2. *How did President Carter outline his strategy for leading America out of the crisis?*
3. *In your opinion, explain how this crisis of confidence affected the U.S. Economy?*
4. *In examining the message, explain why one might object to President Carter's ideas.*

56. Ronald Reagan: Address to the Nation on the Economic Recovery Act of 1981, September 24, 1981

Introduction:

The Economic Recovery Act of 1981 marks the beginning of "Reaganomics," the most serious attempt at changing economic policy in the United States since the "New Deal." Through major policy changes, Reaganomics sought to reduce the size of government as a means of increasing the growth of the U.S. economy. These changes were designed to reduce high inflation, as well as jump start a stagnant economy. Some scholars have seen Reaganomics as an important component in second longest peacetime economic expansion in U.S. history.

President Ronald Reagan

Address to the Nation on the Program for Economic Recovery -
Reaganomics September 24, 1981

Good evening

Shortly after taking office, I came before you to map out a four-part plan for national economic recovery: tax cuts to stimulate more growth and more jobs, spending cuts to put an end to continuing deficits and high inflation, regulatory relief to lift the heavy burden of government rules and paperwork, and, finally, a steady, consistent, monetary policy.

We've made strong, encouraging progress on all four fronts. The flood of new governmental regulations, for example, has been cut by more than a third. I was especially pleased when a bipartisan coalition of Republicans and Democrats enacted the biggest tax cuts and the greatest reduction in Federal spending in our nation's history. Both will begin to take effect a week from today.

These two bills would never have passed without your help. Your voices were heard in Washington and were heeded by those you've chosen to represent you in government. Yet, in recent weeks we've begun to hear a chorus of other voices protesting that we haven't had full economic recovery. These are the same voices that were raised against our program when it was first presented to Congress. Now that the first part of it has been passed, they declare it hasn't worked. Well, it hasn't; it doesn't start until a week from today.

There have been some bright spots in our economic performance these past few months. Inflation has fallen, and pressures are easing on both food and fuel prices. More than a million more Americans are now at work than a year ago, and recently there has even been a small crack in interest rates. But let me be the first to say that our problems won't suddenly disappear next week, next month, or next year. We're just starting down a road that I believe will lead us out of the economic swamp we've been in for so long. It'll take time for the effect of the tax rate reductions to be felt in increased savings, productivity, and new jobs. It will also take time for the budget cuts to reduce the deficits which have brought us near runaway inflation and ruinous interest rates.

The important thing now is to hold to a firm, steady course. Tonight I want to talk with you about the next steps that we must take on that course, additional reductions in Federal spending that will help lower our interest rates, our inflation, and bring us closer to full economic recovery.

I know that high interest rates are punishing many of you, from the young family that wants to buy its first home to the farmer who needs a new truck or tractor. But all of us know that interest rates

will only come down and stay down when government is no longer borrowing huge amounts of money to cover its deficits.

These deficits have been piling up every year, and some people here in Washington just throw up their hands in despair. Maybe you'll remember that we were told in the spring of 1980 that the 1981 budget, the one we have now, would be balanced. Well, that budget, like so many in the past, hemorrhaged badly and wound up in a sea of red ink.

I have pledged that we shall not stand idly by and see that same thing happen again. When I presented our economic recovery program to Congress, I said we were aiming to cut the deficit steadily to reach a balance by 1984. The budget bill that I signed this summer cut \$35 billion from the 1982 budget and slowed the growth of spending by \$130 billion over the next 3 years. We cut the government's rate of growth nearly in half.

Now, we must move on to a second round of budget savings to keep us on the road to a balanced budget.

Our immediate challenge is to hold down the deficit in the fiscal year that begins next week. A number of threats are now appearing that will drive the deficit upward if we fail to act. For example, in the euphoria just after our budget bill was approved this summer, we didn't point out immediately, as we should, that while we did get most of what we'd asked for, most isn't all. Some of the savings in our proposal were not approved, and since then, the Congress has taken actions that could add even more to the cost of government.

The result is that without further reductions, our deficit for 1982 will be increased by some 18—or, pardon me—\$16 billion. The estimated deficit for '83 will be increased proportionately. And without further cuts, we can't achieve our goal of a balanced budget by 1984.

Now, it would be easy to sit back and say, "Well, it'll take longer than we thought. We got most of what we proposed, so let's stop there." But that's not good enough.

In meeting to discuss this problem a few days ago, Senator Pete Domenici of New Mexico, chairman of the Senate Budget Committee, recalled the words of that great heavyweight champion and great American, Joe Louis, just before he stepped into the ring against Billy Conn. There had been some speculation that Billy might be able to avoid Joe's lethal right hand. Joe said, "Well, he can run but he can't hide." Senator Domenici said to me, "That's just what we're facing on runaway Federal spending. We can try to run from it, but we can't hide. We have to face up to it."

He's right, of course. In the last few decades we started down a road that led to a massive explosion in Federal spending. It took about 170 years for the Federal budget to reach \$100 billion. That was in 1962. It only took 8 years to reach the \$200 billion mark, and only 5 more to make it \$300 billion. And in the next 5, we nearly doubled that. It would be one thing if we'd been able to pay for all the things government decided to do, but we've only balanced the budget once in the last 20 years.

In just the past decade, our national debt has more than doubled. And in the next few days, it'll pass the trillion dollar mark. One trillion dollars of debt—if we as a nation needed a warning, let that be it.

Our interest payments on the debt alone are now running more than \$96 billion a year. That's more than the total combined profits last year of the 500 biggest companies in the country; or, to put it another way, Washington spends more on interest than on all of its education, nutrition, and medical programs combined.

In the past, there have been several methods used to fund some of our social experiments—one was to take it away from national defense. From being the strongest nation on Earth in the post World

War II years, we steadily declined while the Soviet Union engaged in the most massive military buildup the world has ever seen.

Now, with all our economic problems, we're forced to try to catch up so that we can preserve the peace. Government's first responsibility is national security, and we're determined to meet that responsibility. Indeed, we have no choice.

Well, what all of this is leading up to is, "What do we plan to do?" Last week I met with the Cabinet to take up this matter. I'm proud to say there was no handwringing, no pleading to avoid further budget cuts. We all agreed that the "tax and tax, spend and spend" policies of the last few decades lead only to economic disaster. Our government must return to the tradition of living within our means and must do it now. We asked ourselves two questions—and answered them: "If not us, who? If not now, when?"

Let me talk with you now about the specific ways that I believe we ought to achieve additional savings, savings of some \$6 billion in 1982 and a total of \$80 billion when spread over the next 3 years. I recognize that many in Congress may have other alternatives, and I welcome a dialog with them. But let there be no mistake: We have no choice but to continue down the road toward a balanced budget, a budget that will keep us strong at home and secure overseas. And let me be clear that this cannot be the last round of cuts. Holding down spending must be a continuing battle for several years to come.

Now, here's what I propose. First, I'm asking Congress to reduce the 1982 appropriation for most government agencies and programs by 12 percent. This will save \$17\1/2\ billion over the next several years. Absorbing these reductions will not be easy, but duplication, excess, waste, and overhead is still far too great and can be trimmed further.

No one in the meeting asked to be exempt from belt-tightening. Over the next 3 years, the increase we had originally planned in the defense budget will be cut by \$13 billion. I'll confess, I was reluctant about this because of the long way we have to go before the dangerous window of vulnerability confronting us will be appreciably narrowed. But the Secretary of Defense assured me that he can meet our critical needs in spite of this cut.

Second, to achieve further economies, we'll shrink the size of the nondefense payroll over the next 3 years by some 6\1/2\ percent, some 75,000 employees. Much of this will be attained by not replacing those who retire or leave. There will, however, be some reductions in force simply because we're reducing our administrative overhead. I intend to set the example here by reducing the size of the White House staff and the staff of the Executive Office of the President.

As a third step, we propose to dismantle two Cabinet Departments, Energy and Education. Both Secretaries are wholly in accord with this. Some of the activities in both of these departments will, of course, be continued either independently or in other areas of government. There's only one way to shrink the size and cost of big government, and that is by eliminating agencies that are not needed and are getting in the way of a solution.

Now, we don't need an Energy Department to solve our basic energy problem. As long as we let the forces of the marketplace work without undue interference, the ingenuity of consumers, business, producers, and inventors will do that for us.

Similarly, education is the principal responsibility of local school systems, teachers, parents, citizen boards, and State governments. By eliminating the Department of Education less than 2 years after it was created, we cannot only reduce the budget but ensure that local needs and preferences, rather than the wishes of Washington, determine the education of our children.

We also plan the elimination of a few smaller agencies and a number of boards and commissions, some of which have fallen into disuse or which are now being duplicated.

Fourth, we intend to make reductions of some \$20 billion in Federal loan guarantees. Now, these guarantees are not funds that the government spends directly. They're funds that are loaned in the private market and insured by government at subsidized rates. Federal loan guarantees have become a form of back door, uncontrolled borrowing that prevent many small businesses that aren't subsidized from obtaining financing of their own. They are also a major factor in driving up interest rates. It's time we brought this practice under control.

Fifth, I intend to forward to Congress this fall a new package of entitlement and welfare reform measures, outside social security, to save nearly \$27 billion over the next 3 years. In the past two decades, we've created hundreds of new programs to provide personal assistance. Many of these programs may have come from a good heart, but not all have come from a clear head—and the costs have been staggering.

In 1955 these programs cost \$8 billion. By 1965 the cost was \$79 billion. Next year it will be \$188 billion. Let there be no confusion on this score: Benefits for the needy will be protected, but the black market in food stamps must be stopped, the abuse and fraud in Medicaid by beneficiaries and providers alike cannot be tolerated, provision of school loans and meal subsidies to the affluent can no longer be afforded.

In California when I was Governor and embarked upon welfare reform, there were screams from those who claimed that we intended to victimize the needy. But in a little over 3 years, we saved the taxpayers some \$2 billion at the same time we were able to increase the grants for the deserving and truly needy by an average of more than 40 percent. It was the first cost-of-living increase they'd received in 13 years. I believe progress can also be made at the national level. We can be compassionate about human needs without being complacent about budget extravagance.

Sixth, I will soon urge Congress to enact new proposals to eliminate abuses and obsolete incentives in the tax code. The Treasury Department believes that the deficit can be reduced by \$3 billion next year and \$22 billion over the next 3 years with prompt enactment of these measures. Now that we've provided the greatest incentives for saving, investment, work, and productivity ever proposed, we must also ensure that taxes due the government are collected and that a fair share of the burden is borne by all.

Finally, I'm renewing my plea to Congress to approve my proposals for user fees—proposals first suggested last spring but which have been neglected since.

When the Federal Government provides a service directly to a particular industry or to a group of citizens, I believe that those who receive benefits should bear the cost. For example, this next year the Federal Government will spend \$525 million to maintain river harbors, channels, locks and dams for the barge and maritime industries. Yacht owners, commercial vessels, and the airlines will receive services worth \$2.8 billion from Uncle Sam.

My spring budget proposals included legislation that would authorize the Federal Government to recover a total of \$980 million from the users of these services through fees. Now, that's only a third of the \$3.3 billion it'll cost the government to provide those same services.

None of these steps will be easy. We're going through a period of difficult and painful readjustment. I know that we're asking for sacrifices from virtually all of you, but there is no alternative. Some of those who oppose this plan have participated over the years in the extravagance that has brought us inflation, unemployment, high interest rates, and an intolerable debt. Now, I grant they were well-intentioned, but their costly reforms didn't eliminate poverty or raise welfare recipients from dependence to self-sufficiency, independence, and dignity. Yet, in their objections to what we've proposed, they offer only what we know has been tried before and failed.

I believe we've chosen a path that leads to an America at work, to fiscal sanity, to lower taxes, and less inflation. I believe our plan for recovery is sound, and it will work.

Tonight, I'm asking all of you who joined in this crusade to save our economy to help again, to let your representatives know that you will support them in making the hard decisions to further reduce the cost and size of government.

Now, if you'll permit me, I'd like to turn to another subject which I know has many of you very concerned and even frightened. This is an issue apart from the economic reform package that we've just been discussing, but I feel I must clear the air. There has been a great deal of misinformation and, for that matter, pure demagoguery on the subject of social security.

During the campaign, I called attention to the fact that social security had both a short- and a long-range fiscal problem. I pledged my best to restore it to fiscal responsibility without in any way reducing or eliminating existing benefits for those now dependent on it.

To all of you listening, and particularly those of you now receiving social security, I ask you to listen very carefully: first to what threatens the integrity of social security, and then to a possible solution.

Some 30 years ago, there were 16 people working and paying the social security payroll tax for every 1 retiree. Today that ratio has changed to only 3.2 workers paying in for each beneficiary. For many years, we've known that an actuarial imbalance existed and that the program faced an unfunded liability of several trillion dollars.

Now, the short-range problem is much closer than that. The social security retirement fund has been paying out billions of dollars more each year than it takes in, and it could run out of money before the end of 1982 unless something is done. Some of our critics claim new figures reveal a cushion of several billions of dollars which will carry the program beyond 1982. I'm sure it's only a coincidence that 1982 is an election year.

The cushion they speak of is borrowing from the Medicare fund and the disability fund. Of course, doing this would only postpone the day of reckoning. Alice Rivlin of the Congressional Budget Office told a congressional committee, day before yesterday, that such borrowing might carry us to 1990, but then we'd face the same problem. And as she put it, we'd have to cut benefits or raise the payroll tax. Well, we're not going to cut benefits, and the payroll tax is already being raised.

In 1977 Congress passed the largest tax increase in our history. It called for a payroll tax increase in January of 1982, another in 1985, and again in 1986 and in 1990. When that law was passed we were told it made social security safe until the year 2030. But we're running out of money 48 years short of 2030.

For the nation's work force, the social security tax is already the biggest tax they pay. In 1935 we were told the tax would never be greater than 2 percent of the first \$3,000 of earnings. It is presently 13.3 percent of the first \$29,700, and the scheduled increases will take it to 15.3 percent of the first \$60,600. And that's when Mrs. Rivlin says we would need an additional increase.

Some have suggested reducing benefits. Others propose an income tax on benefits, or that the retirement age should be moved back to age 68. And there are some who would simply fund social security out of general tax funds, as welfare is funded. I believe there are better solutions.

I am asking the Congress to restore the minimum benefit for current beneficiaries with low incomes. It was never our intention to take this support away from those who truly need it. There is, however, a sizable percentage of recipients who are adequately provided for by pensions or other income and should not be added to the financial burden of social security.

The same situation prevails with regard to disability payments. No one will deny our obligation to those with legitimate claims, but there's widespread abuse of the system which should not be allowed to continue.

Since 1962 early retirement has been allowed at age 62 with 80 percent of full benefits. In our proposal we ask that early retirees in the future receive 55 percent of the total benefit, but—and this is most important—those early retirees would only have to work an additional 20 months to be eligible for the 80-percent payment. I don't believe very many of you were aware of that part of our proposal.

The only change we proposed for those already receiving social security had to do with the annual cost-of-living adjustment. Now, those adjustments are made on July 1st each year, a hangover from the days when the fiscal year began in July. We proposed a one-time delay in making that adjustment, postponing it for 3 months until October 1st. From then on it would continue to be made every 12 months. That one-time delay would not lower your existing benefits but would, on the average, reduce your increase by about \$86 one time next year.

By making these few changes, we would have solved the short- and longrange problems of social security funding once and for all. In addition, we could have canceled the increases in the payroll tax by 1985. To a young person just starting in the work force, the savings from canceling those increases would, on the average, amount to \$33,000 by the time he or she reached retirement, and compound interest, add that, and it makes a tidy nest egg to add to the social security benefits.

However, let me point out, our feet were never imbedded in concrete on this proposal. We hoped it could be a starting point for a bipartisan solution to the problem. We were ready to listen to alternatives and other ideas which might improve on or replace our proposals. But, the majority leadership in the House of Representatives has refused to join in any such cooperative effort.

I therefore am asking, as I said, for restoration of the minimum benefit and for inter-fund borrowing as a temporary measure to give us time to seek a permanent solution. To remove social security once and for all from politics, I am also asking Speaker Tip O'Neill of the House of Representatives and Majority Leader in the Senate Howard Baker to each appoint five members, and I will appoint five, to a task force which will review all the options and come up with a plan that assures the fiscal integrity of social security and that social security recipients will continue to receive their full benefits.

I cannot and will not stand by and see financial hardship imposed on the more than 36 million senior citizens who have worked and served this Nation throughout their lives. They deserve better from us.

Well now, in conclusion, let me return to the principal purpose of this message, the budget and the imperative need for all of us to ask less of government, to help to return to spending no more than we take in, to end the deficits, and bring down interest rates that otherwise can destroy what we've been building here for two centuries.

I know that we're asking for economies in many areas and programs that were started with the best of intentions and the dedication to a worthwhile cause or purpose, but I know also that some of those programs have not succeeded in their purpose. Others have proven too costly, benefiting those who administer them rather than those who were the intended beneficiaries. This doesn't mean we should discontinue trying to help where help is needed. Government must continue to do its share. But I ask all of you, as private citizens, to join this effort, too.

As a people we have a proud tradition of generosity. More than a century ago, a Frenchman came to America and later wrote a book for his countrymen, telling them what he had seen here. He told them that in America when a citizen saw a problem that needed solving, he would cross the street and

talk to a neighbor about it, and the first thing you know a committee would be formed, and before long the problem would be solved. And then he added, “You may not believe this, but not a single bureaucrat would ever have been involved.”

Some years ago, when we were a young nation and our people began visiting the lands of their forefathers, these American tourists then were rather brash, unsophisticated by European standards, but blessed with a spirit of independence and pride. One such tourist, an elderly, smalltown gentleman, and his wife were there in Europe listening to a tour guide go on about the wonders of the volcano, Mt. Aetna. He spoke of the great heat that it generated, the power, the boiling lava, et cetera.

Finally the old boy had had enough of it, turned to his wife, and he said, “We’ve got a volunteer fire department at home that’d put that thing out in 15 minutes.” Well, he was typical of those Americans who helped build a neighbor’s barn when it burned down. They built the West without an area redevelopment plan, and cities across the land without Federal planning.

I believe the spirit of voluntarism still lives in America. We see examples of it on every hand—the community charity drive, support of hospitals and all manner of non-profit institutions, the rallying around whenever disaster or tragedy strikes. The truth is we’ve let government take away many things we once considered were really ours to do voluntarily, out of the goodness of our hearts and a sense of community pride and neighborliness. I believe many of you want to do those things again, want to be involved if only someone will ask you or offer the opportunity. Well, we intend to make that offer.

We’re launching a nationwide effort to encourage our citizens to join with us in finding where need exists, and then to organize volunteer programs to meet that need. We’ve already set the wheels of such a volunteer effort in motion.

As Tom Paine said 200 years ago, “We have it within our power to begin the world over again.” What are we waiting for? God bless you, and good night.

Questions:

1. *Why did President Reagan sign the Economic Recovery Act of 1981?*
2. *How did this legislation seek to improve economic conditions in the United States?*
3. *In your opinion, explain how this was a major policy shift from the New Deal?*
4. *Based on your understanding, why would you object to this new relationship between government and the market economy?*

Overview:

The Clinton Years to the 2008 Financial Crisis, 1993-2010

After his presidential election victory in 1992, President Bill Clinton reaffirmed the policies of tax increases and PAYGO in 1993, and signed the Balanced Budget Act of 1997. In conjunction with the technology boom of the 1990s, the economy of the United States experienced the largest economic expansion in its history eclipsing that of the Reagan years. The budget deficit reached a balance of zero in 1997 and there were budget surpluses from 1998 to 2001, with the federal government receiving more tax revenue than was being spent.

This period of economic prosperity strengthened the push for further government deregulation, particularly of the financial sector. Although some feared that the financial sector would return to widespread unregulated speculative trading (which led to the stock market crash of 1929) many in the Senate believed that the new economy was different from what it was prior to the Great Depression, and that bankers would self-regulate their own institutions. Since popular support was behind the idea of deregulation, the Financial Services Modernization Act of 1999, also known as the Gramm-LeachBliley Act, passed the Senate 90-8, as well as the House 362-57, and was signed into law by President Clinton on November 12, 1999. Commonly referred to as the GLB Act, it repealed the provisions of the Banking Act of 1933, otherwise known as the Glass-Steagall Act, which separated commercial and investment banks. With those provisions repealed, banks could now come together and use FDIC insured deposits to engage in risky, speculative investing, which contributed to the growth of financial institutions “too big to fail.” The description of “too big to fail” refers to a financial institution that is so large and integrated into the economy that its failure would danger the country.

This economic boom of the late 1990s was accompanied by a decrease in unemployment, which led to a housing market boom. Many Americans began to purchase new homes for the first time, and existing homeowners began to finance purchases from the growing equity of their homes. As borrowing requirements eased, greater levels of credit, including home mortgages, were extended to people, often beyond their ability to pay, paving the way to a subprime mortgage disaster.

Many of this subprime lending was packaged with other mortgages rated as safe, creating derivatives known as mortgage backed securities. These mortgage backed securities were then lumped with various assets to create collateralized debt obligations (CDO). Many of these CDOs were handled by financial institutions that were considered “too big to fail,” and insured through credit default swaps, becoming toxic assets when the housing market crisis hit in 2007–2008.

Throughout the late 1990s and early 2000s, a housing market bubble was growing. When the economy began to slow down, the job market was drying up, leaving many with subprime mortgages unable to afford their homes. The housing market bubble burst in 2007, which led to systemic risk amongst many of the “too big to fail” financial institutions that were heavily invested in CDOs that became toxic assets and threatened the entire global economy.

After careful negotiating and planning between the US Treasury Department, Federal Reserve, and Federal Government, Congress passed the Troubled Asset Relief Program (TARP) and President George W. Bush signed it into law on October 3, 2008. It was the largest bailout of the financial system in history, allocating \$700 billion to buy up toxic assets and loosen credit markets through capital injections. Although the global economy was saved from a depression, it would now enter what became known as the Great Recession. A year later, President Barack Obama would sign the American Recovery and Reinvestment act, the largest economic stimulus package since the New deal.

The following selections will illustrate how financial deregulation contributed to the rise of risky speculative investing in the housing market. This raises again the key core question of the role of government in the market economy. There were similarities in how the Great Depression and Great Recession came about, but responses by the federal government and Federal Reserve were different. Try to explain the similarities between the New Deal of the Great Depression and the stimulus package of 2009. While examining monetary policy after the 1929 stock market crash and the 2007-2008 financial crises, how did the Federal Reserve respond differently during the two events? Finally, contrast financial regulations enacted during the New Deal and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

JOSEPH FRUSCI

57. President Bill Clinton: Signing Statement, The Gramm-Leach-Bliley Act, November 12, 1999

Introduction:

After the recession of George H.W. Bush, the United States entered its longest peacetime economic expansion in U.S. History. By signing the GLB Act, the provisions of the Glass-Steagall act that separated commercial and investment banks were repealed, allowing commercial and investment banks to come together, paving the way for banks labeled "too big to fail." This law provided access to individual's investments and savings accounts for institutions to engage in speculative trading.

President Bill Clinton Statement on Signing the Gramm-Leach-Bliley Act

November 12, 1999

Today I am pleased to sign into law S. 900, the Gramm-Leach-Bliley Act. This historic legislation will modernize our financial services laws, stimulating greater innovation and competition in the financial services industry. America's consumers, our communities, and the economy will reap the benefits of this Act.

Beginning with the introduction of an Administration-sponsored bill in 1997, my Administration has worked vigorously to produce financial services legislation that would not only spur greater competition, but also protect the rights of consumers and guarantee that expanded financial services firms would meet the needs of America's underserved communities. Passage of this legislation by an overwhelming, bipartisan majority of the Congress suggests that we have met that goal.

The Gramm-Leach-Bliley Act makes the most important legislative changes to the structure of the U.S. financial system since the 1930s. Financial services firms will be authorized to conduct a wide range of financial activities, allowing them freedom to innovate in the new economy. The Act repeals provisions of the Glass-Steagall Act that, since the Great Depression, have restricted affiliations between banks and securities firms. It also amends the Bank Holding Company Act to remove restrictions on affiliations between banks and insurance companies. It grants banks significant new authority to conduct most newly authorized activities through financial subsidiaries.

Removal of barriers to competition will enhance the stability of our financial services system. Financial services firms will be able to diversify their product offerings and thus their sources of revenue. They will also be better equipped to compete in global financial markets.

Although the Act grants financial services firms greater latitude to innovate, it also contains important safety and soundness protections. While the Act allows common ownership of banking, securities, and insurance firms, it still requires those activities to be conducted separately within an organization, subject to functional regulation and funding limitations.

Both the Vice President and I have insisted that any financial services modernization legislation must benefit American communities by preserving and strengthening community reinvestment. I am very pleased that the Act accomplishes this goal. The Act establishes an important prospective principle: banking organizations seeking to conduct new nonbanking activities must first demonstrate a satisfactory record of meeting the credit needs of all the communities they serve, including low- and moderate-income communities. Thus, the law will for the first time prohibit expansion into activities

such as securities and insurance underwriting unless all of the organization's banks and thrifts maintain a "satisfactory" or better rating under the Community Reinvestment Act (CRA). The CRA will continue to apply to all banks and thrifts, and any application to acquire or merge with a bank or thrift will continue to be reviewed under CRA, with full opportunity for public comment. The bill offers further support for community development in the form of a new Program for Investment in Microentrepreneurs (PRIME), to provide technical help to low and moderate income microentrepreneurs.

The Act includes a limited extension of the CRA examination cycle for small banks and thrifts with outstanding or satisfactory CRA records, but expressly preserves the ability of regulators to examine these institutions at any time for reasonable cause, and does not affect regulators' authority in connection with an application. The bill also includes a requirement for disclosure and reporting of CRA agreements. The Act and its legislative history have been crafted to alleviate burdens on banks and thrifts and those working to stimulate investment in underserved communities. It is critical that depository institutions and their community partners continue efforts that have led to the highest home ownership rate in our history, including a particularly dramatic increase in recent years in minority and low-income home ownership. My Administration remains committed to ensuring that implementation of these provisions does not in any way diminish community reinvestment, and stands ready to remedy any problems that may arise.

Last May, I proposed strong and enforceable Federal privacy protections for consumers' financial information. I am very pleased that the Act provides a number of the new protections that I proposed.

Under the Act, financial institutions must clearly disclose their privacy policies to customers up front and annually, allowing consumers to make truly informed choices about privacy protection. For the first time, consumers will have an absolute right to know if their financial institution intends to share or sell their personal financial data, either within the corporate family or with an unaffiliated third-party. Consumers will have the right to "opt out" of such information sharing with unaffiliated third parties. These protections constitute a significant change from existing law, under which information on everything from account balances to credit card transactions can be shared or sold by a financial institutions without a customer's knowledge or consent, including the sale of information to telemarketers and other nonfinancial firms.

Of equal importance, these restrictions have teeth. For the first time, the Act allows privacy protection to be included in regular bank examinations. The Act grants regulators full authority to issue privacy rules and to use the full range of their enforcement powers in case of violations. The Act grants new, and needed, rulemaking authority under the existing Fair Credit Reporting Act. In addition, it establishes new penalties to prevent pretext calling, by which unscrupulous persons use deceptive practices to determine the financial assets of consumers. The Act will specifically allow the States to provide stronger privacy protections if they choose to do so.

Although these are significant steps forward, we will continue to press for even greater privacy protections—especially choice about whether personal financial information can be shared within a corporate family. Privacy is fundamental to Americans, and to my Administration.

The Act also streamlines supervision of bank holding companies and preserves financial regulation along functional lines. Activities generally will be overseen by those regulators who are most knowledgeable about a given financial activity, including the Securities and Exchange Commission for securities activities and State regulators for insurance activities. Given the broad new affiliations permissible under this legislation, I fully expect our regulators to work together to protect the integrity of our financial system. The bill also promotes the safety and soundness of our financial system by

enhancing the traditional separation of banking and commerce. The bill limits the ability of thrift institutions to affiliate with commercial companies.

There are provisions of the Act that concern me. The Act's redomestication provisions could allow mutual insurance companies to avoid State law protecting policyholders, enriching insiders at the expense of consumers. We intend to monitor any redomestications and State law changes closely, returning to the Congress if necessary. The Act's Federal Home Loan Bank (FHLB) provisions fail to focus the FHLB System more on lending to community banks and less on arbitrage activities and short-term lending that do not advance its public purpose.

The Act raises certain constitutional issues with respect to the insurance privacy provisions in title V. The Act might be construed as contrary to Supreme Court decisions that hold that the Congress may not compel States to enact or administer a Federal regulatory program. I interpret section 505(c) of the Act, however, as providing States with a constitutionally permissible choice of whether to participate in such a program. States that choose to participate will gain the powers listed in section 505(c); States that decline will not. I believe that the Congress, in giving States a choice (in section 505(c)) whether to "adopt regulations to carry out this subtitle," intended to allow States to accept or decline all of the rulemaking and enforcement obligations assigned to State authorities under sections 501-505 of the Act. This interpretation is consistent with the explanation in the conference report that both the rulemaking and enforcement roles of State insurance authorities are voluntary not mandatory. Section 332(b) of S. 900 provides for Presidential appointment of the board of directors of the National Association of Registered Agents and Brokers (NARAB), established by the bill in the event that certain stated conditions occur. Because members of the NARAB board would exercise significant Federal governmental authority under those conditions, they must be appointed as Officers pursuant to the Appointments Clause of the Constitution. Under section 332(b)(1) of the bill, the President would be required to make such appointments from lists of candidates recommended by the National Association of Insurance Commissioners. The Appointments Clause, however, does not permit such restrictions to be imposed upon the President's power of appointment. I therefore do not interpret the restrictions of section 332(b)(1) as binding and will regard any such lists of recommended candidates as advisory only.

The Gramm-Leach-Bliley Act is a major achievement that will benefit American consumers, communities, and businesses of all sizes. I thank all of those individuals who played a role in the development and passage of this historic legislation.

WILLIAM J. CLINTON

Questions:

1. *Why did President Clinton sign the Gramm-Leach-Bliley Act in 1999?*
2. *How did the GLB Act repeal the banking provisions of the Glass-Steagall Act?*
3. *In your opinion, explain how this paved the way for banks to become "too big to fail?"*
4. *If this legislation leads to banks becoming "too big to fail," how would you build legislation to ensure this does not happen?*

58. President George W. Bush: Address to the Nation on the Economic Crisis, September 24, 2008

Introduction:

With banks too big to fail engaging in risky, speculative trading, there was a flood of subprime mortgages, resulting in the bursting of the housing bubble and a steep decline in real estate values. In addition, nearly all of the banks that had become too big to fail began to fail, threatening the global economy. Similar to the crash of 1929, credit markets began to freeze and the United States experienced the greatest financial crisis since the Great Depression. This led to TARP, which may have prevented a second Great Depression.

Good evening. This is an extraordinary period for America's economy.

Over the past few weeks, many Americans have felt anxiety about their finances and their future. I understand their worry and their frustration.

We've seen triple-digit swings in the stock market. Major financial institutions have teetered on the edge of collapse, and some have failed. As uncertainty has grown, many banks have restricted lending, credit markets have frozen, and families and businesses have found it harder to borrow money.

We're in the midst of a serious financial crisis, and the federal government is responding with decisive action.

We boosted confidence in money market mutual funds and acted to prevent major investors from intentionally driving down stocks for their own personal gain.

Most importantly, my administration is working with Congress to address the root cause behind much of the instability in our markets.

Financial assets related to home mortgages have lost value during the house decline, and the banks holding these assets have restricted credit. As a result, our entire economy is in danger.

So I propose that the federal government reduce the risk posed by these troubled assets and supply urgently needed money so banks and other financial institutions can avoid collapse and resume lending.

This rescue effort is not aimed at preserving any individual company or industry. It is aimed at preserving America's overall economy.

It will help American consumers and businesses get credit to meet their daily needs and create jobs. And it will help send a signal to markets around the world that America's financial system is back on track.

I know many Americans have questions tonight: How did we reach this point in our economy? How will the solution I propose work? And what does this mean for your financial future?

These are good questions, and they deserve clear answers.

First, how did our economy reach this point? Well, most economists agree that the problems we're witnessing today developed over a long period of time. For more than a decade, a massive amount of money flowed into the United States from investors abroad because our country is an attractive and secure place to do business.

This large influx of money to U.S. banks and financial institutions, along with low interest rates, made it easier for Americans to get credit. These developments allowed more families to borrow money for cars, and homes, and college tuition, some for the first time. They allowed more entrepreneurs to get loans to start new businesses and create jobs.

Unfortunately, there were also some serious negative consequences, particularly in the housing market. Easy credit, combined with the faulty assumption that home values would continue to rise, led to excesses and bad decisions.

Many mortgage lenders approved loans for borrowers without carefully examining their ability to pay. Many borrowers took out loans larger than they could afford, assuming that they could sell or refinance their homes at a higher price later on.

Optimism about housing values also led to a boom in home construction. Eventually, the number of new houses exceeded the number of people willing to buy them. And with supply exceeding demand, housing prices fell, and this created a problem.

BUSH: Borrowers with adjustable-rate mortgages, who had been planning to sell or refinance their homes at a higher price, were stuck with homes worth less than expected, along with mortgage payments they could not afford.

As a result, many mortgage-holders began to default. These widespread defaults had effects far beyond the housing market.

See, in today's mortgage industry, home loans are often packaged together and converted into financial products called mortgage-backed securities. These securities were sold to investors around the world.

Many investors assumed these securities were trustworthy and asked few questions about their actual value. Two of the leading purchasers of mortgage backed securities were Fannie Mae and Freddie Mac.

Because these companies were chartered by Congress, many believed they were guaranteed by the federal government. This allowed them to borrow enormous sums of money, fuel the market for questionable investments, and put our financial system at risk.

The decline in the housing market set off a domino effect across our economy. When home values declined, borrowers defaulted on their mortgages, and investors holding mortgage-backed securities began to incur serious losses.

Before long, these securities became so unreliable that they were not being bought or sold. Investment banks, such as Bear Stearns and Lehman Brothers, found themselves saddled with large amounts of assets they could not sell. They ran out of money needed to meet their immediate obligations, and they faced imminent collapse.

Other banks found themselves in severe financial trouble. These banks began holding on to their money, and lending dried up, and the gears of the American financial system began grinding to a halt.

With the situation becoming more precarious by the day, I faced a choice, to step in with dramatic government action or to stand back and allow the irresponsible actions of some to undermine the financial security of all.

I'm a strong believer in free enterprise, so my natural instinct is to oppose government intervention. I believe companies that make bad decisions should be allowed to go out of business. Under normal circumstances, I would have followed this course. But these are not normal circumstances. The market is not functioning properly. There has been a widespread loss of confidence, and major sectors of America's financial system are at risk of shutting down.

The government's top economic experts warn that, without immediate action by Congress, America could slip into a financial panic and a distressing scenario would unfold.

More banks could fail, including some in your community. The stock market would drop even more, which would reduce the value of your retirement account. The value of your home could plummet. Foreclosures would rise dramatically.

And if you own a business or a farm, you would find it harder and more expensive to get credit. More businesses would close their doors, and millions of Americans could lose their jobs.

Even if you have good credit history, it would be more difficult for you to get the loans you need to buy a car or send your children to college. And, ultimately, our country could experience a long and painful recession.

Fellow citizens, we must not let this happen. I appreciate the work of leaders from both parties in both houses of Congress to address this problem and to make improvements to the proposal my administration sent to them.

There is a spirit of cooperation between Democrats and Republicans and between Congress and this administration. In that spirit, I've invited Senators McCain and Obama to join congressional leaders of both parties at the White House tomorrow to help speed our discussions toward a bipartisan bill.

I know that an economic rescue package will present a tough vote for many members of Congress. It is difficult to pass a bill that commits so much of the taxpayers' hard-earned money.

I also understand the frustration of responsible Americans who pay their mortgages on time, file their tax returns every April 15th, and are reluctant to pay the cost of excesses on Wall Street.

But given the situation we are facing, not passing a bill now would cost these Americans much more later.

Many Americans are asking, how would a rescue plan work? After much discussion, there's now widespread agreement on the principles such a plan would include.

It would remove the risk posed by the troubled assets, including mortgage-backed securities, now clogging the financial system. This would free banks to resume the flow of credit to American families and businesses.

Any rescue plan should also be designed to ensure that taxpayers are protected. It should welcome the participation of financial institutions, large and small. It should make certain that failed executives do not receive a windfall from your tax dollars.

BUSH: It should establish a bipartisan board to oversee the plan's implementation, and it should be enacted as soon as possible.

In close consultation with Treasury Secretary Hank Paulson, Federal Reserve Chairman Ben Bernanke, and SEC Chairman Chris Cox, I announced a plan on Friday.

First, the plan is big enough to solve a serious problem. Under our proposal, the federal government would put up to \$700 billion taxpayer dollars on the line to purchase troubled assets that are clogging the financial system.

In the short term, this will free up banks to resume the flow of credit to American families and businesses, and this will help our economy grow.

Second, as markets have lost confidence in mortgage-backed securities, their prices have dropped sharply, yet the value of many of these assets will likely be higher than their current price, because the vast majority of Americans will ultimately pay off their mortgages.

The government is the one institution with the patience and resources to buy these assets at their current low prices and hold them until markets return to normal.

And when that happens, money will flow back to the Treasury as these assets are sold, and we expect that much, if not all, of the tax dollars we invest will be paid back.

The final question is, what does this mean for your economic future? Well, the primary steps—purpose of the steps I've outlined tonight is to safeguard the financial security of American workers, and families, and small businesses. The federal government also continues to enforce laws and regulations protecting your money.

The Treasury Department recently offered government insurance for money market mutual funds. And through the FDIC, every savings account, checking account, and certificate of deposit is insured by the federal government for up to \$100,000.

The FDIC has been in existence for 75 years, and no one has ever lost a penny on an insured deposit, and this will not change.

Once this crisis is resolved, there will be time to update our financial regulatory structures. Our 21st-century global economy remains regulated largely by outdated 20th-century laws.

Recently, we've seen how one company can grow so large that its failure jeopardizes the entire financial system.

Earlier this year, Secretary Paulson proposed a blueprint that would modernize our financial regulations. For example, the Federal Reserve would be authorized to take a closer look at the operations of companies across the financial spectrum and ensure that their practices do not threaten overall financial stability.

There are other good ideas, and members of Congress should consider them. As they do, they must ensure that efforts to regulate Wall Street do not end up hampering our economy's ability to grow.

In the long run, Americans have good reason to be confident in our economic strength. Despite corrections in the marketplace and instances of abuse, democratic capitalism is the best system ever devised.

It has unleashed the talents and the productivity and entrepreneurial spirit of our citizens. It has made this country the best place in the world to invest and do business. And it gives our economy the flexibility and resilience to absorb shocks, adjust, and bounce back.

Our economy is facing a moment of great challenge, but we've overcome tough challenges before, and we will overcome this one.

I know that Americans sometimes get discouraged by the tone in Washington and the seemingly endless partisan struggles, yet history has shown that, in times of real trial, elected officials rise to the occasion.

And together we will show the world once again what kind of country America is: a nation that tackles problems head on, where leaders come together to meet great tests, and where people of every background can work hard, develop their talents, and realize their dreams.

Thank you for listening. May God bless you.

Questions:

1. *How did the availability of easy credit and subprime mortgages contribute to the financial crash of 2008?*
2. *In the midst of the financial crisis, why were banks labeled too big to fail?*
3. *In your opinion, did the \$700 billion bailout avert a larger financial crisis?*

4. *Some economists argue that bailouts create a moral hazard. How would you craft legislation that alleviates the financial crisis without encouraging the belief that the government will always rescue banks from the results of their mistakes (“moral hazard”)?*

59. President Barack Obama: Remarks at Signing of the American Recovery and Reinvestment Act, February 17, 2009

Introduction:

As the monetary policy of Quantitative Easing increased the money supply, the federal government followed the footsteps of the New Deal by putting together a spending package to stimulate a struggling economy and prevent unemployment from continuing to rise. In the theory of Keynesian economics, the effects of a recession can be mitigated with increased government spending. President Obama signed the American Recovery and Reinvestment Act, which contained over \$800 billion for job creation. Many economists credit the stimulus package with easing the impact of the great recession, and reviving the U.S. economy.

Denver Museum of Nature and Science
Denver, Colorado

THE PRESIDENT: Thank you, everybody. Please have a seat. You guys can sit down, too.
(Laughter.)

It is great to be back in Denver. (Applause.) I was here last summer—we had a good time—(laughter)—to accept the nomination of my party and to make a promise to people of all parties that I would do all that I could to give every American the chance to make of their lives what they will; to see their children climb higher than they did. And I'm back today to say that we have begun the difficult work of keeping that promise. We have begun the essential work of keeping the American Dream alive in our time. And that's why we're here today. (Applause.)

Now, I don't want to pretend that today marks the end of our economic problems. Nor does it constitute all of what we're going to have to do to turn our economy around. But today does mark the beginning of the end—the beginning of what we need to do to create jobs for Americans scrambling in the wake of layoffs; the beginning of what we need to do to provide relief for families worried they won't be able to pay next month's bills; the beginning of the first steps to set our economy on a firmer foundation, paving the way to long-term growth and prosperity.

The American Recovery and Reinvestment Act that I will sign today—a plan that meets the principles I laid out in January—is the most sweeping economic recovery package in our history. It's the product of broad consultation and the recipient of broad support—from business leaders, unions, public interest groups, from the Chamber of Commerce and the National Association of Manufacturers, as well as the AFL-CIO. (Applause.) From Democrats and Republicans, mayors as well as governors. It's a rare thing in Washington for people with such diverse and different viewpoints to come together and support the same bill. And on behalf of our nation, I want to thank all of them for it, including your two outstanding Senators, Michael Bennett and Mark Udall, as well as all the members of your congressional delegation. They did an outstanding job and they deserve a big round of applause. (Applause.)

I also want to thank Joe Biden for working behind the scenes from the very start to make this recovery act possible. I want to thank Speaker Pelosi and Harry Reid for acting so quickly and for proving that Congress could step up to this challenge.

I have special thanks to Max Baucus, who's the Chairman of the Finance Committee. Without Max, none of this would have happened. He had to work overtime, and push his committee to work overtime. And I want to thank all the committee chairs and members of Congress for coming up with a plan that is both bold and balanced enough to meet the demands of this moment. The American people were looking to them for leadership, and that's what they provided.

Now, what makes this recovery plan so important is not just that it will create or save 3.5 million jobs over the next two years, including 60,000-plus here in Colorado. It's that we're putting Americans to work doing the work that America needs done—(applause)—in critical areas that have been neglected for too long; work that will bring real and lasting change for generations to come.

Because we know we can't build our economic future on the transportation and information networks of the past, we are remaking the American landscape with the largest new investment in our nation's infrastructure since Eisenhower built an Interstate Highway System in the 1950s. (Applause.) Because of this investment, nearly 400,000 men and women will go to work rebuilding our crumbling roads and bridges, repairing our faulty dams and levees, bringing critical broadband connections to businesses and homes in nearly every community in America, upgrading mass transit, building high-speed rail lines that will improve travel and commerce throughout our nation.

Because we know America can't out-compete the world tomorrow if our children are being out-educated today, we're making the largest investment in education in our nation's history. (Applause.) It's an investment that will create jobs building 21st century classrooms and libraries and labs for millions of children across America. It will provide funds to train a new generation of math and science teachers, while giving aid to states and school districts to stop teachers from being laid off and education programs from being cut.

In a place like New York City, 14,000 teachers who were set to be let go may now be able to continue pursuing their critical mission. It's an investment that will create a new \$2,500 annual tax credit to put the dream of a college degree within reach for middle-class families and make college affordable for 7 million students—(applause)—helping more of our sons and daughters aim higher, reach further, fulfill their God-given potential. (Applause.)

Because we know that spiraling health care costs are crushing families and businesses alike, we're taking the most meaningful steps in years towards modernizing our health care system. It's an investment that will take the long overdue step of computerizing America's medical records to reduce the duplication and waste that costs billions of health care dollars, and medical errors that cost thousands of lives each year.

Further, thanks to the actions we've taken, 7 million Americans who lost their health care along the way will continue to get the coverage they need, and roughly 20 million more Americans can breathe a little easier knowing that their health care won't be cut due to a state budget shortfall. And a historic commitment to wellness initiatives will keep millions of Americans from setting foot in the doctor's office in the first place—because these are preventable diseases and we're going to invest in prevention. (Applause.)

So taken together with the enactment earlier this month of a long-delayed law to extend health care to millions more children of working families— (applause)—we have done more in 30 days to advance the cause of health care reform than this country has done in an entire decade. And that's something we should be proud of. (Applause.)

Because we know we can't power America's future on energy that's controlled by foreign dictators, we are taking big steps down the road to energy independence, laying the groundwork for new green energy economies that can create countless well-paying jobs. It's an investment that will double the amount of renewable energy produced over the next three years. Think about that—double the

amount of renewable energy in three years. (Applause.) Provide tax credits and loan guarantees to companies like Namaste, a company that will be expanding, instead of laying people off, as a result of the plan that I'm about to sign.

And in the process, we will transform the way we use energy. Today, the electricity we use is carried along a grid of lines and wires that date back to Thomas Edison—a grid that can't support the demands of this economy. This means we're using 19th and 20th century technologies to battle 21st century problems like climate change and energy security. It also means that places like North Dakota can—that can produce a lot of wind energy can't deliver it to communities that want it, leading to a gap between how much clean energy we are using and how much we could be using.

The investment we're making today will create a newer, smarter electric grid that will allow for broader use of alternative energy. We will build on the work that's being done in places like Boulder—a community that's on its own—that's on pace to be the world's first Smart Grid city. (Applause.) This investment will place Smart Meters in homes to make our energy bills lower, make outages less likely, and make it easier to use clean energy. It's an investment that will save taxpayers over \$1 billion by slashing energy costs in our federal buildings by 25 percent; save working families hundreds of dollars a year on their energy bills by weatherizing over 1 million homes. And it's an investment that takes the important first step towards a national transmission superhighway that will connect our cities to the windy plains of the Dakotas and the sunny deserts of the Southwest.

Even beyond energy, from the National Institutes of Health to the National Science Foundation, this recovery act represents the biggest increase in basic research funding in the long history of America's noble endeavor to better understand our world. And just as President Kennedy sparked an explosion of innovation when he set America's sights on the moon, I hope this investment will ignite our imagination once more, spurring new discoveries and breakthroughs in science, in medicine, in energy, to make our economy stronger and our nation more secure and our planet safer for our children.

Now, while this package is composed mostly of critical investments, it also includes aid to state and local governments to prevent layoffs of firefighters or police recruits in—(applause)—recruits like the ones in Columbus, Ohio, who were told that instead of being sworn in as officers, they were about to be let go. It includes help for those hardest hit by our economic crisis like the nearly 18 million Americans who will get larger unemployment checks in the mail. About a third of this package comes in the forms of tax cuts—by the way, the most progressive in our history—(applause)—not only spurring job creation, but putting money in the pockets of 95 percent of hardworking families in America. (Applause.) So unlike the tax cuts that we've seen in recent years, the vast majority of these tax benefits will go not to the wealthiest Americans, but to the middle class—(applause)—with those workers who make the least benefiting the most.

And it's a plan that rewards responsibility, lifting two million Americans from poverty by ensuring that anyone who works hard does not have to raise a child below the poverty line. So as a whole, this plan will help poor and working Americans pull themselves into the middle class in a way we haven't seen in nearly 50 years.

What I'm signing, then, is a balanced plan with a mix of tax cuts and investments. It's a plan that's been put together without earmarks or the usual pork barrel spending. It's a plan that will be implemented with an unprecedented level of transparency and accountability.

With a recovery package of this size comes a responsibility to assure every taxpayer that we are being careful with the money they work so hard to earn. And that's why I'm assigning a team of managers to ensure that the precious dollars we've invested are being spent wisely and well. We will—(applause)—Governor Ritter, Mayor Hickenlooper, we're going to hold governors and local officials

who receive the money to the same high standard. And we expect you, the American people, to hold us accountable for the results. And that's why we've created Recovery.gov—a web site so that every American can go online and see how this money is being spent and what kind of job is being created, where those jobs are being created. We want transparency and accountability throughout this process. (Applause.)

Now, as important as the step we take today is, this legislation represents only the first part of the broad strategy we need to address our economic crisis. In the coming days and weeks, I'll be launching other aspects of the plan. We will need to stabilize, repair, and reform our banking system, and get credit flowing again to families and businesses. We will need to end the culture where we ignore problems until they become full-blown crises instead of recognizing that the only way to build a thriving economy is to set and enforce firm rules of the road.

We must stem the spread of foreclosures and falling home values for all Americans, and do everything we can to help responsible homeowners stay in their homes—something I'll talk more about tomorrow. And we will need to do everything in the short term to get our economy moving again, while at the same time recognizing that we have inherited a trillion-dollar deficit, and we need to begin restoring fiscal discipline and taming our exploding deficits over the long term.

None of this will be easy. The road to recovery will not be straight. We will make progress and there may be some slippage along the way. It will demand courage and discipline. It will demand a new sense of responsibility that's been missing from Wall Street all the way to Washington. There will be hazards and reverses. But I have every confidence that if we are willing to continue doing the critical work that must be done—by each of us, by all of us—then we will leave this struggling economy behind us, and come out on the other side, more prosperous as a people.

For our American story is not—and has never been—about things coming easy. It's about rising to the moment when the moment is hard, and converting crisis into opportunity, and seeing to it that we emerge from whatever trials we face stronger than we were before. It's about rejecting the notion that our fate is somehow written for us, and instead laying claim to a destiny of our own making. That's what earlier generations of Americans have done, that's what we owe our children, that's what we are doing today.

Press Release

The American economy is in the midst of a crisis unlike any we have seen in our lifetime. The economy lost 3.6 million jobs in the last 13 months, the biggest job loss since the end of World War II. Many experts believe unemployment could reach double digits if no action is taken. In light of this historic economic weakness, President Obama is signing the American Recovery and Reinvestment Act, a nationwide effort to create jobs and transform our economy to compete in the 21st century. The legislation represents the most ambitious effort to stimulate the economy in our nation's history. It will:

- Create or save 3.5 million jobs over the next two years. Based on an analysis by the Council of Economic Advisers, the legislation will meet the goal of creating or saving at least 3.5 million jobs over the next two years. Jobs created will be in a range of industries from clean energy to health care, with over 90% in the private sector.
- Provide nearly 40 percent of the package in direct relief to working and middle class families: The package includes a Making Work Pay tax credit for 95% of workers and their families. In addition, the package provides direct relief for families by expanding unemployment insurance and offering payments to Social Security beneficiaries and veterans. The vast majority of the

remainder of the package is provided in state fiscal relief and investments that also benefit working families.

- Double renewable energy generating capacity over three years. It took 30 years to reach current levels of renewable energy production. This package will double that level over the next three years—enough to power 6 million American homes.
- Creates a Clean Energy Finance Authority and Renewable Tax Credits that together will leverage an additional \$100 billion in private investment in the renewables sector. The finance authority will provide loan guarantees and other financial support to help ease credit constraints for renewable energy investors and catalyze new private sector investment.
- Make a \$150 billion investment in our nation's infrastructure—the largest investment since the interstate highway system in the 1950s: It includes historic investments in public transit and high speed rail, an unprecedented effort to upgrade our nation's electricity grid, and a new initiative to expand broadband coverage throughout the nation.
- Protect health care coverage for millions of Americans during this recession. The legislation provides a temporary increase the Federal Medical Assistance Percentage so that no state has to cut eligibility for Medicaid and SCHIP because of budget shortfalls. This investment will protect roughly 20 million people whose eligibility might otherwise be at risk. It will also generate considerable state economic activity, jobs and wages.
- Enact the most significant expansion in tax cuts for low- and moderate-income households ever: Under current law, a family of four earning the minimum wage currently lives below the poverty line. Under the plan, that family will be lifted out of poverty by a combination of an \$800 Making Work Pay tax credit and \$1,200 from an expanded child tax credit. All told, more than 2 million people would be lifted out of poverty by the plan.

Questions:

1. *Why does the federal government put together a spending program to help revive the economy?*
2. *How is the stimulus package similar to previous policies under the New Deal?*
3. *Did the stimulus package mitigate the effects of the recession?*
4. *Comparing this stimulus package to FDR's New Deal, explain why you might object to this Obama stimulus package.*

60. President Barack Obama: Remarks at Signing of Dodd-Frank Wall Street Reform and Consumer Protection Act, July 21, 2010

Introduction:

In response to the financial crisis, President Obama signed this massive legislation designed to deliver financial reform in hopes of preventing another financial crisis on the scale of 2008, as well as providing consumer protection from predatory mortgage lending. An amendment to this legislation that called for breaking up “too big to fail banks,” known as Brown-Kaufman, did not pass. However, the Volcker Rule did pass which prevented banks from using insured deposits when trading securities, derivatives, futures, and options. The Volcker Rule is often seen as a renewal of the idea of the Glass-Steagall Act.

THE PRESIDENT: We are gathered in the heart of our nation’s capital, surrounded by memorials to leaders and citizens who served our nation in its earliest days and in its days of greatest trial. Today is such a time for America.

Over the past two years, we have faced the worst recession since the Great Depression. Eight million people lost their jobs. Tens of millions saw the value of their homes and retirement savings plummet. Countless businesses have been unable to get the loans they need and many have been forced to shut their doors. And although the economy is growing again, too many people are still feeling the pain of the downturn.

Now, while a number of factors led to such a severe recession, the primary cause was a breakdown in our financial system. It was a crisis born of a failure of responsibility from certain corners of Wall Street to the halls of power in Washington. For years, our financial sector was governed by antiquated and poorly enforced rules that allowed some to game the system and take risks that endangered the entire economy.

Unscrupulous lenders locked consumers into complex loans with hidden costs. Firms like AIG placed massive, risky bets with borrowed money. And while the rules left abuse and excess unchecked, they also left taxpayers on the hook if a big bank or financial institution ever failed.

Now, even before the crisis hit, I went to Wall Street and I called for common-sense reforms to protect consumers and our economy as a whole. And soon after taking office, I proposed a set of reforms to empower consumers and investors, to bring the shadowy deals that caused this crisis into the light of day, and to put a stop to taxpayer bailouts once and for all. Today, thanks to a lot of people in this room, those reforms will become the law of the land.

For the last year, Chairmen Barney Frank and Chris Dodd have worked day and night—Barney and Chris have worked day and night to bring about this reform. And I am profoundly grateful to them. I would be remiss if I didn’t also express my appreciation to Senator Harry Reid and Speaker Nancy Pelosi for their leadership. It wouldn’t have happened without them.

Passing this bill was no easy task. To get there, we had to overcome the furious lobbying of an array of powerful interest groups and a partisan minority determined to block change. So the members who are here today, both on the stage and in the audience, they have done a great service in devoting so much time and expertise to this effort, to looking out for the public interests and not the special interests. And I also want to thank the three Republican senators who put partisanship aside—judged

this bill on the merits, and voted for reform. We're grateful to them. And the Republican House members. Good to see you, Joe.

Now, let's put this in perspective. The fact is, the financial industry is central to our nation's ability to grow, to prosper, to compete and to innovate. There are a lot of banks that understand and fulfill this vital role, and there are a whole lot of bankers who want to do right—and do right—by their customers. This reform will help foster innovation, not hamper it. It is designed to make sure that everybody follows the same set of rules, so that firms compete on price and quality, not on tricks and not on traps.

It demands accountability and responsibility from everyone. It provides certainty to everybody, from bankers to farmers to business owners to consumers. And unless your business model depends on cutting corners or bilking your customers, you've got nothing to fear from reform.

Now, for all those Americans who are wondering what Wall Street reform means for you, here's what you can expect. If you've ever applied for a credit card, a student loan, or a mortgage, you know the feeling of signing your name to pages of barely understandable fine print. What often happens as a result is that many Americans are caught by hidden fees and penalties, or saddled with loans they can't afford.

That's what happened to Robin Fox, hit with a massive rate increase on her credit card balance even though she paid her bills on time. That's what happened to Andrew Giordano, who discovered hundreds of dollars in overdraft fees on his bank statement—fees he had no idea he might face. Both are here today. Well, with this law, unfair rate hikes, like the one that hit Robin, will end for good. And we'll ensure that people like Andrew aren't unwittingly caught by overdraft fees when they sign up for a checking account.

With this law, we'll crack down on abusive practices in the mortgage industry. We'll make sure that contracts are simpler—putting an end to many hidden penalties and fees in complex mortgages—so folks know what they're signing. With this law, students who take out college loans will be provided clear and concise information about their obligations.

And with this law, ordinary investors—like seniors and folks saving for retirement—will be able to receive more information about the costs and risks of mutual funds and other investment products, so that they can make better financial decisions as to what will work for them.

So, all told, these reforms represent the strongest consumer financial protections in history. In history. And these protections will be enforced by a new consumer watchdog with just one job: looking out for people—not big banks, not lenders, not investment houses—looking out for people as they interact with the financial system.

And that's not just good for consumers; that's good for the economy. Because reform will put a stop to a lot of the bad loans that fueled a debt-based bubble. And it will mean all companies will have to seek customers by offering better products, instead of more deceptive ones.

Now, beyond the consumer protections I've outlined, reform will also rein in the abuse and excess that nearly brought down our financial system. It will finally bring transparency to the kinds of complex and risky transactions that helped trigger the financial crisis. Shareholders will also have a greater say on the pay of CEOs and other executives, so they can reward success instead of failure.

And finally, because of this law, the American people will never again be asked to foot the bill for Wall Street's mistakes. There will be no more tax funded bailouts—period. If a large financial institution should ever fail, this reform gives us the ability to wind it down without endangering the broader economy. And there will be new rules to make clear that no firm is somehow protected because it is “too big to fail,” so we don't have another AIG.

That's what this reform will mean. Now, it doesn't mean our work is over. For these new rules to be effective, regulators will have to be vigilant. We may need to make adjustments along the way as our financial system adapts to these new changes and changes around the globe. No law can force anybody to be responsible; it's still incumbent on those on Wall Street to heed the lessons of this crisis in terms of how they conduct their businesses.

The fact is every American—from Main Street to Wall Street—has a stake in our financial system. Wall Street banks and firms invest the capital that makes it possible for start-ups to sell new products. They provide loans to businesses to expand and to hire. They back mortgages for families purchasing a new home. That's why we'll all stand to gain from these reforms. We all win when investors around the world have confidence in our markets. We all win when shareholders have more power and more information. We all win when consumers are protected against abuse. And we all win when folks are rewarded based on how well they perform, not how well they evade accountability. In the end, our financial system only works—our market is only free—when there are clear rules and basic safeguards that prevent abuse that check excess, that ensure that it is more profitable to play by the rules than to game the system. And that's what these reforms are designed to achieve—no more, no less. Because that's how we will ensure that our economy works for consumers, that it works for investors, that it works for financial institutions—that it works for all of us.

This is the central lesson not only of this crisis but of our history. Ultimately, there's no dividing line between Main Street and Wall Street. We rise or fall together as one nation. So these reforms will help lift our economy and lead all of us to a stronger, more prosperous future.

And that's why I'm so honored to sign these reforms into law, and I'm so grateful to everybody who worked so hard to make this day possible. Thank you very much, everybody. (The bill is signed.)

Questions:

1. *How was Dodd-Frank designed to protect consumers in the event of another financial crisis?*
2. *Would this reform be good not only for consumers, but for the economy?*
3. *Explain whether or not Dodd-Frank will protect the economy during another recession.*
4. *How would you replace Dodd-Frank with legislation might better regulate the financial sector?*