The Market Economy v. Welfare Capitalism

Define and explain the difference between the ideas of welfare capitalism versus a market economy. Briefly compare the differences between: FDR’s New Deal, Lyndon Johnson’s “Great Society” and show how these two programs led to the Reagan revolution.

1. **Concept number one**: Define and explain “People’s Capitalism” and compare it to a market economy.
   
   A. As we have discussed the nation’s history since the Civil War; it is clear that the economy went through **two major phases**:
   
   1. The **first phase** began with the formation of this country in the late 1700’s and lasted until the Great Depression. The **first phase**, as we discussed, reached its peak in the late 1800’s and early 1900’s as it was characterized by the rise of big business.
   
   2. The **second phase** began with the New Deal in the 1930’s and has been called by some as “welfare capitalism” or “people’s capitalism.”

   B. The difference between the **first phase** and the **second phase** is that in the first phase the American economy was a **market economy**, dependent on the decisions of private buyers and sellers. The **second phase** is called a “**mixed economy**”. In a **mixed economy** the state of the economies health is determined to a considerable extent by the federal government through taxes, bank credits, direct spending and subsidies.

   1. A **mixed economy** is a partnership between private enterprise and government. Because the government rarely adopted consistent or long-term programs of control, long-term planning by business becomes difficult or very costly if the business’ plans do not compliment future government strategies.

   2. The **mixed economy** developed as a consequence of the depression of the 1930’s, World War II, and the Cold War; the President and Congress felt it was necessary to develop tools to influence employment, inflation, prices, and wages in order to **stabilize the economy** and **stimulate the economic growth** of the country.

   3. Ever **since the New Deal**, government policies—consciously or otherwise—has been directed towards **guaranteeing the income (entitlement programs) of various segments of society**—thus people’s capitalism.

   4. The economic boom of the 1940’s and 50’s sparked a theory that “people’s capitalism” could entirely eliminate poverty.

   5. By the standard of 1935-1936, poor families had increased their incomes by as much as 120 percent by 1962. Thus; it appeared that affluent America would soon eliminate poverty.

   6. Lyndon Johnson became President in November of 1963 after Kennedy’s death. In January 1964, President Johnson called for a “**war on poverty**.” After his
overwhelming victory at the polls in 1964, together with his majorities in both houses of Congress, Johnson in January of 1965 laid out the philosophy of his "Great Society."

Johnson stated: “The Great Society rests on abundance and liberty for all. It demands an end to poverty and injustice, to which we are totally committed in our time.”

II. **Concept number two:** Briefly compare FDR’s New Deal with Lyndon Johnson’s “Great Society.”

A. Johnson wanted to accomplish more than FDR. The New Deal helped most people except the very poor. The very bottom – racial minorities, tenant farmers, unskilled workers—who received much less.

B. Johnson wanted to offer a “Better Deal” as he used the term in 1964. Although LBJ included something for everyone in his reform package, he concentrated on the unfortunate, on those “who had been forgotten and passed over and passed by.” The people he most wanted to help “are the ones who’ve never held real jobs and aren’t equipped to handle them....” They have no motivation to reach for something because the sum total of their lives has been associated with being on the losing end of everything.

C. FDR had launched his New Deal amidst the greatest economic catastrophe in American history. Johnson, on the other hand, unveiled his Great Society during an era of affluence, a time when most Americans lived comfortably.

D. Johnson recognized that the economic boom that took place in the late 1950’s and early 1960’s had not benefited or addressed the problems of those at the very bottom of the economic and social order.

1. Johnson believed that if government didn’t help those people at the lower end of the social and economic scale they would become desperate, and even dangerous to society. (Johnson’s theory is somewhat similar to TR’s theory about the mob and the plutocracy.)

2. Johnson wanted to unify America behind his leadership; thus he saw building a consensus (between rich and poor) as the central task of his leadership.

3. Johnson, unlike many Americans did not believe the interest of business and labor, blacks and whites, rich and poor to be fundamentally in conflict – that is you could not help one without hurting the other.

4. Thus Johnson concentrated on enlisting the business community to get involved in his programs.

5. Johnson pointed out, aiding the dispossessed would provide better trained and better educated workers for their factories, create more consumers for their
products, and defuse the seething discontent that threatened the stability of their cities and business. Johnson maintained: “doing something about poverty is economical in the long run.”

6. As a result of his beliefs, Johnson announced he would wage war on poverty, build a great society, and provide education and health care for all – and he would do it cheaply. This would prove to be an impossible feat, especially when he was fighting a major war in Vietnam at the same time.

III. Concept number three: Briefly discuss the successes and failures of Johnson’s Great Society and its impact on future economic policy.

A. In his statement about a Great Society, Johnson said it rested upon “liberty for all.” To help accomplish that liberty, Johnson was able to get Congress to pass two Civil Rights Acts. The first Act was passed in July of 1964. The Civil Rights Act of 1964 is considered to be one of the key centerpieces of Johnson’s legislative achievements.

1. The Act forbade discrimination on account of race in places of public accommodation: it prohibited discrimination by labor unions and prospective employers on account of color or sex; (sex for women was added by Congress because it was that that equality for women would kill the bill—it didn’t and the women’s movement gained a major step forward) it contained fresh guarantees for Blacks for voting rights.

2. The Civil Rights Act of 1964 also established the Equal Employment Opportunity Commission to monitor enforcement of the law. To speed up school desegregation, it empowered the Department of Justice to institute court challenges against alleged discriminatory practices in local school districts.

B. To continue the concept of “liberty for all” the second Civil Rights Act, the Voting Rights Act of 1965 was passed. With the Voting Rights Acts of 1965 Southern Black leaders believed that Blacks would be able to obtain economic and social justice in society.

1. The voting act passed by Congress in the summer of 1965, provided federal officials could register Black voters in any county in which the Justice Department found that the number of Blacks voting in the presidential election of 1964 was less than 50 percent of those old enough to vote. In this way the deliberate delays in registration by local officials could be circumvented.

2. Four days after the President signed the bill, federal examiners began to register Blacks in selected counties in Alabama, Mississippi, and Louisiana. The enactment of the 1965 law was an indication, in itself, of how far the country had come in protecting Civil Rights for Blacks.
3. All over the country in the middle 1960s it appeared that, as the nation created ever more powerful machinery for achieving the long-neglected goal of equality, both Black impatience and White resistance mounted.

4. The result of this struggle between impatience and resistance was widespread and devastating riots for 1967 and 1968. On April 4, 1968, Dr. Martin Luther King Jr. the inspired leader of the Montgomery bus strike and numerous other civil rights demonstrations was assassinated by a white man in Memphis. King had been participating in a protest movement in support of striking Black garbage collectors in Memphis.

5. In their frustration at the news of King’s death, thousands of Blacks in Washington, D. C., Baltimore, Chicago, and Kansas City, along with 120 other cities across the nation, went on a rampage of rage. All told, 46 persons died, more than 2,600 were injured, and some 22,000 were arrested. Property losses were placed at $45 million.

C. Besides the Civil Rights Acts of 1964 and 65 the most important legislation of the Great Society was the Economic Opportunity Act which created the Office of Economic Opportunity (OEO). The OEO administered smaller agencies and programs. One of which, the Job Corps, enrolled youth from the inter-city for schooling and on-the-job training. A second Volunteers I Service to America (VISTA), known as “the domestic Peace Corps,” was intended to train community workers and organize self-help projects in the slums. Another OEO project was Head Start, designed to help disadvantaged preschool-age children, mostly in the inner cities, to overcome their cultural deprivation.

D. Also passed, in 1964 and 65 as part of Johnson’s War on Poverty were two acts that would aid education.

1. In 1964 the old question of whether the federal government should aid the schools or leave the matter to the traditional local authorities ceased to be an issue when Congress Passed the National Defense Education Act of 1964 and the Elementary and Secondary Education Act of 1965.

2. The Elementary and Secondary Education Act of 1965 authorized the spending of more than a billion dollars over the next 3 years for grants to the states to raise educational levels in the low-income school districts.

3. The act was a landmark in educational history because it provided aid for the first time to children in private, church-supported schools as well as to those in public schools. Because of the need for improved education in a technically advanced economy, the traditional objection to federal aid to church-supported schools on the grounds that it would violate the constitutional separation of church and state were abandoned. President
George W. Bush supported this program as part of his goal to be an educational President.

E. In 1965 Johnson had urged Congress to pass a bill authorizing the federal government to supplement the rent payments of the poor living in privately owned housing, but it was not until September of 1966 that he was able to get the federal funds to help the poor pay for housing.

F. Another major law passed as a result of Johnson’s Great Society, and one that was originally introduced by Kennedy, was the Medicare Act of 1965. In 1965 the United States was the only major industrial nation without a comprehensive medical plan. The Medicare Act provided that basic hospitalization costs, including nursing home care for all persons over 65, would be paid out of social security taxes.

G. Many white middle-class Americans had little enthusiasm for the war on poverty, since they believed they were footing the bill for troublemakers and freeloaders. Meanwhile, some of the poor complained that the programs failed to fulfill their promise of putting an end to poverty.

1. However, the powerful events of the late 1960’s helped blunt the development of the Great Society. Soon the “war on poverty” programs were competing for funds with the war in Vietnam. Johnson promised to deliver both guns and butter, gun took top priority. By the end of his term in 1968, entitlement spending on social and economic programs totaled about 30% of the total spending of the federal government.

2. A federal entitlement is a provision of law providing a legal right to payments from the U.S. Treasury. Most entitlements are paid to individuals; some are paid to state or local governments. Entitlements are a form of “spending authority” for which the funds are not provided in advance, but must be paid by the federal government. By 1990 entitlement programs, which included pensions, income security and health care made up 44% of the federal budget and were growing much faster than the rate of inflation. The national defense consumed another 24% of the budget while interest on public debt was another 15%. That left about 16% of the budget for domestic discretionary spending like: running the government, crime control and improving and maintaining our roadways.

H. Johnson’s Success: With the passage of the 1964 and 1965 Civil Rights Acts Johnson achieved his greatest successes in his attempt to create a more equality in society. In a speech at Howard University in June 1964 Johnson stated:

1. Freedom from slavery is not enough, he pointed out, “You do not wipe away the scars of centuries by saying: Now, you are free to go where you want,
do as you desire, and choose the leaders you please. You do not take a man who for years has been hobbled by chains, liberate him, bring him to the starting line of the race, saying ‘you are free to compete with all the others,’ and still justly believe you have been completely fair. Thus it is not enough to open the gates of opportunity. All our citizens must have the ability to walk through those gates. This is the next and more profound stage of the battle for civil rights.”

2. Johnson was right, and he should be given the credit for having the vision and leadership for leading the country in this direction.

3. In his “war on poverty” Johnson was partially successful. In 1959 about 20% of all American families were ill housed, ill clad, and ill nourished. By 1969 only 13.7% of the America people lived below the poverty level. By 1979 the figure had dropped to 12.4%. In 1989, 13.1% of Americans lived below the poverty level.

4. By 1991 that figured had increased to 14.5% as a result of the 1990 recession. However as a result of the 1990 Budget Agreement of the Bush administration, the 1993 Clinton tax increase and budget cuts, and the continued economic prosperity during the Clinton administration the figured dropped to 11.3% by 2000. As a result of the economic recession in 2002 the figured jumped back up to 11.7% by the end of 2002.

I. Johnson’s failures are not only centered on the Vietnam War, but also on the financial impact his entitlement programs would have on the economic future of the country. The total amount of money to be spent on entitlement programs is determined by the number of persons eligible and the payment to which each is entitled. Many payments are indexed to the inflation rate or other price changes. If inflation goes up faster than the rate of income the government receives, than the government is forced by law to spend more money on entitlements than it is making—thus the national debt goes up in order to pay for social programs.

IV. Concept number four: Discuss Ronald Reagan’s responses to Johnson’s Great Society.

A. As President, Reagan launched what was called the Reagan revolution. Reagan’s sense of his own economic mission is summed up in a line he used when he was President and when the subject of the deficit came up: “Look, I was elected to do five things on the economic front.” He would then tick them off on the fingers of his right hand and then would say: “Now I’m batting four out of five. And that’s an average of .800—which is pretty good hitting in any baseball league I ever heard of.”

B. The Big FIVE are:
   1. Attack what Reagan called Big Government—to cut government red tape and to get the government off people’s backs through deregulation,
2. **Reduced** income-tax rates,

3. “Cut civilian spending....” Thus cut **entitlement programs**.

4. Create a sound monetary policy that would produce a **balanced budget**,

5. Create a **strong defense** by increased military spending,

C. One of Reagan's main accomplishments, although it was not one of the big five, was he inspired the American people to believe in themselves and their government again. This was done at a time when **public confidence in government** was at an extraordinarily low point.

D. Reagan had sensed a growing middle-class disillusion with the cost of Johnson’s “great society” and the entitlement programs of a Democratic Congress. In the late 1970’s the Carter administration became a victim of huge increases in overseas oil prices and the subsequent inflation caused soaring interest rates which sent the democratically controlled economy into a recession.

E. Reagan campaigned on the slogan: “Are you better off today than you were four years ago?” Reagan thus won acceptance for himself, his **supply-side economics** and the 1980 Presidential election. Reagan’s economic policy of “supply-side economics” was based on the theory that by **cutting income taxes the stagnant economy** would be **revived** by his **trickle down economic theory** as we discussed earlier and that government would receive **increased revenues at lower tax rates**.

1. Discuss the “trickle down” and “grass roots” theories.

2. Reagan and the Republican Party in general believe by **cutting income taxes** and **giving incentives to private enterprise** a stagnant economy will be **revived**. The core belief for both Reagan and the Republican Party is that it is better for private enterprise to solve the economies problems than the government. The belief is that the benefits of the incentives given to private enterprise **trickle down** to the common man in the form of new jobs created and more purchasing power.

3. The Democratic Parties attempts to us the power of the federal government to aid the common man through **entitlement programs** is called the “grass roots” approach.

F. Reagan took office in January of 1981 and by the summer of 1981 the nation had sunk into a deeper recession with increased unemployment. In the summer of 1981 the Federal Reserve Board under its Carter-appointed chairman, Paul Volcker, clamped down hard on the nation’s money supply.
G. Volcker believed the move was a necessary remedy for run-away inflation, but the immediate result was massive unemployment and the nation’s worst recession since the Great Depression.

1. Reagan backed Volcker and “stayed the course,” as his popularity sank to a first-term low of 35 % in January 1983. By then, however, the harsh medicine prescribed by Volcker had succeeded in sharply reducing inflation.

2 By spring of 1983, the Reagan economic recovery had begun, and would prove to be, up to that time, the longest peace time recovery in our history. Bush would start the longest peacetime expansion in United States history in 1991. The Reagan recovery extended through Reagan’s second term, and carried over into the first year of the Bush administration before another recession hit in 1990.

3 The Reagan-Volcker program worked: high interest rates killed the 12.5 % inflation rate that had developed in the last year of the Carter administration. As inflation dropped interest rates came down and economic expansion picked up as a result of a larger supply of money made available by lower interest rates and lower taxes.

4. Once economic expansion picked up unemployment dropped and the economy was on its way to recovery. Inflation averaged only 4.4 % during Reagan’s last year in office. Meanwhile, the negative side of the Reagan years was that the national debt nearly tripled from $994.8 billion in 1981 to $2.684 trillion by 1988.

H. Reagan’s response to those who blame him for the huge increase in the national debt is as follows:

“Deficits, as I’ve often said, aren’t caused by too little taxing, they are caused by too much spending. Presidents don’t create deficits, Congress does. Presidents can’t appropriate a dollar of taxpayers’ money; only congressmen can—and Congress is susceptible to all sorts of influences that have nothing to do with good government.”

“Presidents can propose a budget, lobby to get it passed, and do their best to make sure that government agencies under their control within the executive branch don’t waste the money appropriated by Congress. They can veto spending bills passed by Congress. But under our system of separation of powers, it is Congress that determines the programs government finances and how much money is appropriated for each of them.”

“Spending for government ‘entitlement’ programs—money committed by Congress for various programs in past years that is as good as spent before the administration ever gets a shot at writing its budget—accounts for 48 % of federal spending. To
many members of Congress, this money is off-limits forever: Once a program gets started, it’s virtually impossible to reduce or stop it. Every one of these programs—most of which were born or expanded enormously during the explosive growth of big government in the 1960’s and 1970’s—develops a powerful constituency in Congress.” Reagan, *An American Life*, page 336.

Regardless of who is at fault, Reagan’s economic policies and leadership did bring and end to the high inflation of the Ford and Carter years and lead to an economic recovery that was the second longest peace time recovery in our history. However, the deficit-financed economic boom of the Reagan years gave way to a persistent recession that would afflict the Bush administration and create the toughest challenge for President Bush.