

Bill of Rights in Action



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THE WPA: PUTTING THE NATION TO WORK IN THE GREAT DEPRESSION

THE WORKS PROGRESS
ADMINISTRATION WAS PRESIDENT
FRANKLIN D. ROOSEVELT'S BIGGEST
NEW DEAL JOBS PROGRAM. IT STILL
DRAWS CONTROVERSY TODAY.

The Great Depression of the 1930s caused massive unemployment. Before the stock market crash in 1929, the unemployment rate was 3.2 percent. Following the crash, it shot up. When Franklin D. Roosevelt took office as president in 1933, a quarter of the workforce, 12 million Americans, had lost their jobs.

The financial crisis in 1929 caused employers to cut production

and lay off workers. Without a paycheck, unemployed workers sharply reduced their spending, which in turn led to more business cutbacks and job losses. No broad social safety net existed, such as unemployment insurance, Social Security, and welfare. Limited aid was available from private charities and local governments.

In 1932, FDR was the Democratic governor of New York when he decided to run for president against Herbert Hoover, a Republican. FDR directed his campaign to “the forgotten man” and promised “a new deal for the American people.”

Roosevelt defeated Hoover, winning strong Democratic majorities in both houses of Congress. In his Inaugural Address, FDR declared, “Our greatest primary task is to put people to work.”

During his presidential campaign and early days in office, FDR called for cutting spending to balance the federal budget. This had been the traditional government response to economic depressions. But with a quarter of American workers jobless and the



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FRANKLIN D. ROOSEVELT served as president from 1933 until his death in 1945.

economy at a standstill, FDR soon decided that the economic emergency required massive federal action. This became the basis of his New Deal.

During the New Deal, Roosevelt together with Congress passed dozens of major laws to help bank depositors, stock investors, farmers, business owners, and others recover from the Great Depression. None of his New Deal programs was more dramatic than his federal jobs programs to put the nation back to work.

Early Work Relief Programs

By 1933, four years after the Great Depression began, the needs of the unemployed, homeless, and hungry overwhelmed charities and state relief efforts. Most local governments attempted to provide “direct relief” to those in need. This usually involved small cash aid and vouchers (similar to coupons) for food, clothing, ►

ECONOMIC CRISES

With the recent economic turmoil, it seems appropriate to devote this edition of *Bill of Rights in Action* to economic crises, past, present, and future. Our first article explores the WPA, the major jobs program of the New Deal. The second article examines a looming crisis—our national debt—and differing ideas on how to address it. The last article looks at several economic bubbles in history, including Tulipmania, which inflated the price of a single tulip bulb to thousands of dollars.

U.S. History: The WPA: Putting the Nation to Work in the Great Depression

Current Issues: A Guide to the Federal Budget Deficit and National Debt

World History: Tulipmania and Economic Bubbles

This issue introduces our new CRF logo and format for *Bill of Rights in Action*. We hope you like our new look.

US HISTORY

and rent. As the Great Depression worsened, however, local governments struggled to help even the neediest families, let alone all those who were unemployed.

Roosevelt always preferred “work relief.” As governor of New York, he had set up the first and largest state work relief program, putting the unemployed to work, mainly building roads. Roosevelt believed it was important for the unemployed to get back to work quickly, not only to earn a paycheck again, but also to keep up their skills and restore their sense of self-respect.

Within his first year in office, the New Deal created four federal work relief programs:

- **Civilian Conservation Corps:** CCC employed unmarried young men from families on direct relief to improve national parks and forests.
- **Federal Emergency Relief Administration:** Through FERA, Congress provided grants to states that contributed matching funds to employ jobless workers. Most FERA workers enjoyed the first federal minimum wage (30 cents an hour).
- **Public Works Administration:** PWA financed local government construction projects like schools, hospitals, bridges, harbors, and airports. Much of the funding went to construction materials and heavy equipment, so the PWA was not as labor intensive as other New Deal work relief programs.
- **Civil Works Administration:** Fearing increased suffering as winter approached, FDR established CWA in November 1933. CWA temporarily employed over 4 million unemployed workers.

The Beginning of the WPA

The temporary CWA work relief program ended in 1934. By that summer, more than a year into Roosevelt’s presidency, the nation’s economy had improved little. The unemployment rate had dropped only three points.

U.S. Unemployment 1929-1943

YEAR	NUMBER	PERCENT
1929	1,550,000	3.2
1930	4,340,000	8.9
1931	8,020,000	16.3
1932	12,060,000	24.1
1933	12,830,000	25.2
1934	11,340,000	22.0
1935	10,610,000	20.3
1936	9,030,000	17.1
1937	7,700,000	14.3
1938	10,390,000	19.1
1939	9,480,000	17.2
1940	8,120,000	14.6
1941	5,560,000	9.9
1942	2,660,000	4.7
1943	1,070,000	1.9

Source: Bureau of the Census. *Historical Statistics of the United States, Colonial Times to 1970*

The U.S. Chamber of Commerce and other conservative groups complained that the government jobs programs were unfairly competing with private enterprise. In addition, federal spending had soared, causing huge budget deficits. In the eyes of these critics, New Deal policies were undermining business confidence to invest and hire, thus holding back economic recovery.

Many of FDR’s advisors, however, argued that only a bigger and ongoing federal work program could pump enough money into the economy to stimulate private business to begin hiring again. But Roosevelt hesitated, hoping the economy would recover soon.

Despite persisting high unemployment, FDR had won the confidence of most Americans. In the 1934 fall midterm congressional election, Democrats picked up even more seats in the Senate and House of Representatives.

In his 1935 State of the Union Address, a politically strengthened Roosevelt declared, “Work must be found for able-bodied but destitute [needy] workers.” He again emphasized restoring worker “self-respect, their self-reliance and courage and determination.”

Roosevelt outlined his ideas for a much larger work relief program aimed at the most desperate unemployed. Work under this program must be “useful” and what “the nation needs and cannot afford to neglect,” he said.

Roosevelt promised his new jobs program would not compete with private businesses. He said wages should be larger than direct relief but smaller than what private employers paid. He also wanted a high percentage of the funding spent on labor rather than materials and equipment.

On April 8, 1935, Congress approved \$4.8 billion for additional work relief. FDR then created by executive order the Works Progress Administration (later renamed the Works Project Administration). The president introduced the WPA to the public in a radio “fireside chat.” He said he soon expected to see “the dirt to fly.” Project applications from state and local governments and federal agencies flooded into the WPA.

The WPA established a “security wage” of up to almost \$100 per month, based on the worker’s region and skill level. The average WPA wage was below that set by private employers. The WPA set maximum hours of work in order to employ more workers. The new program also employed workers for no more than 18 months unless certifying them as needy.

The WPA established special divisions for youth and women. The WPA's National Youth Administration provided part-time jobs for high school and college students to keep them in school. The Division of Women's and Professional Projects provided funding for typists, teachers, nurses, librarians, and other non-manual labor workers.

WPA wages for women lagged behind those for men. Most assumed men were the head of households and should get top priority for well-paying jobs.

Black Americans, underrepresented on the WPA job rolls, faced hiring quotas and racial segregation. The WPA usually put them in low-paid unskilled jobs regardless of their education and training.

WPA Projects

Road building was the most common work. But WPA workers also built many other things—water and sewer systems, college sports stadiums, rural airstrips, electric power lines, parks and public swimming pools. San Antonio, Texas, got its now-famous River Walk. The Statue of Liberty got a makeover. WPA workers also put up tens of thousands of public buildings—libraries, hospitals, firehouses, city halls, and many schools.

Some WPA construction projects like golf courses and yacht marinas drew controversy because they seemed to benefit the wealthy. Probably the most spectacular of these projects was the Timberline Lodge on Mt. Hood near Portland, Oregon. Local people hoped an upscale ski lodge would draw business into the area. Hundreds of WPA workers built access roads, the lodge, and even its furniture. It is still operating today.

The WPA ranged far beyond construction. It expanded “production-for-use” projects pioneered by FERA. These projects included women’s “sewing rooms,” vegetable gardens, canning, furniture making,

shoe repair, mattress making, and school lunch programs.

The WPA could not compete with private business by selling any of the goods made in its projects. Instead, they distributed the goods free to those on direct relief. Even so, businesses complained that this took trade away from them.

The WPA also found work for professionals and white-collar workers. These jobs included recording folk songs, indexing deeds, providing health services, and operating museums, libraries, and archaeological digs.

In Kentucky, nearly 100 women rode horses into remote poor areas to deliver library books to families and schools. WPA “packhorse librarians” were soon reaching thousands of rural people without access to libraries in many other states.

Probably the most controversial WPA program was the Federal Art Project. This provided employment for artists, musicians, writers, and theater companies, putting thousands to work. They created murals, sculptures, and posters and taught art and music classes. Musicians, singers, dancers, and theater companies performed, often free to the public. The most famous writing project developed guidebooks for each state

and many cities. Critics complained that many of these projects tended to support the labor movement, leftist causes, and particularly the Democratic Party. This was true in some cases, but most projects were free of politics.

By the end of 1936, WPA projects employed millions of workers across the United States. When floods, hurricanes, fires, and other natural disasters struck, WPA workers helped in the recovery.

The End of the WPA

In the presidential election year of 1936, conservative Republicans and business groups attacked the WPA as a socialist experiment bankrupting the country. FDR struck back against what he called the “business and financial monopoly.” In November, he won reelection in a landslide victory.

By 1937, unemployment was down to 14 percent. This was more than 10 points lower than it was when FDR entered the White House in 1933.

Henry Morgenthau, Roosevelt’s secretary of the treasury, recommended cutting spending and balancing the federal budget. Morgenthau argued this policy would gain the confidence of businesses to invest in the ►



WOMEN WORK in a WPA sewing room in New York City.

National Archives

economy and create jobs. Harry Hopkins, head of the WPA, opposed this policy. He argued for more work relief spending to reduce unemployment further and stimulate the economy.

Never comfortable with the huge budget deficits, Roosevelt sided with Morgenthau. Along with other cuts, he reduced WPA spending by two-thirds. This ended the jobs of over a million WPA workers. With fewer paychecks in the economy, private businesses cut back and laid off employees. By 1938, unemployment was back up to 19 percent.

Roosevelt quickly reversed course, resumed deficit spending, and expanded the WPA's rolls to more than 3.5 million workers. This reduced unemployment somewhat and ended the so-called "Roosevelt Recession," but not the Great Depression itself.

Opposition continued to build against the WPA. Many worried that it added to the national debt, which had tripled under FDR (it was \$16 billion under Hoover in 1931 and \$40 billion under FDR in 1939).

FDR raised corporation taxes and the income tax on wealthy individuals to help pay for the WPA and other New Deal programs. Conservative critics claimed this prevented private businesses from hiring more workers, thus prolonging the Great Depression. These critics also pointed out that despite the WPA's record of creating jobs, the nation's unemployment rate had never gone lower than 14 percent under Roosevelt.

WPA opponents also charged that many projects were wasteful boondoggles. Also, despite efforts by the WPA to separate itself from politics, complaints mounted that some project managers pressured workers to contribute to the Democratic Party. In addition, conservatives in Congress began to investigate radicalism in the Federal Art Project.

In the 1938 midterm congressional election, the Republican Party surged

back. It gained 81 seats in the House and eight in the Senate. Although the Democrats still commanded majorities in both houses of Congress, Republicans and conservative Democrats joined to cut WPA funding. The following year, the Hatch Act was passed, outlawing political activity by federal employees. This was aimed at preventing future WPA abuses.

By 1939, war had erupted in Europe and Asia. The WPA began to take on military projects, such as building training camps and airfields.

When the U.S. entered the war in 1941, federal deficit spending skyrocketed to pay for tanks, planes, and other war production. Factories were hiring again while many men entered the military. As a result, unemployment dropped swiftly.

With unemployment at 1.9 percent, Roosevelt closed the WPA in June 1943. From 1935 to 1943, the WPA spent more than \$10 billion and employed over 8 million jobless workers, most of them from the direct relief rolls. The WPA was the most massive government jobs program the nation had ever seen.

The WPA left behind:

- 650,000 miles of roads and 78,000 bridges
- 125,000 public buildings (one-third of them schools)

- 800 airports
- 8,000 parks and 2,100 public swimming pools
- 475,000 works of art

WPA workers also provided services such as serving 900 million hot school lunches, performing 225,000 concerts, and operating 1,500 nursery schools. When Roosevelt ended the WPA in the middle of World War II, he said it had "earned an honorable discharge."

FOR DISCUSSION AND WRITING

1. What was the difference between "direct relief" and "work relief" during the Great Depression? Why did FDR favor "work relief"? Which, if any, do you think is better? Why?
2. WPA projects took place in every county. Are there buildings or other WPA projects that still exist in your county? (Consider visiting a site, taking pictures, and writing a description of its original and current use.)
3. How did the New Deal and its critics differ over the best way to reduce unemployment and end the Great Depression?

ACTIVITY

A WPA for Today?

Form small groups to discuss and decide this question: Should the federal government create a WPA-like program to help reduce today's unemployment? The groups should consider the following in their discussions:

- What were the most important accomplishments of the New Deal's WPA?
- What were its most important flaws and failings?
- How are such things as government debt, environmental requirements, kinds of jobs, and the "social safety net" different today?
- What difficulties do unemployed high school dropouts, factory workers, college graduates, government employees, and older workers face in today's economic recession?

Each group should prepare to report and defend its decision.

A GUIDE TO THE FEDERAL BUDGET DEFICIT AND NATIONAL DEBT

MANY ECONOMISTS WARN THAT THE UNITED STATES WILL LIKELY FACE AN ECONOMIC CATASTROPHE IN A FEW DECADES UNLESS IT SLOWS THE NATIONAL DEBT'S GROWTH. TO DO THIS, THE FEDERAL GOVERNMENT NEEDS TO CUT ITS TRILLION-DOLLAR ANNUAL BUDGET DEFICIT.

1. What are the federal budget deficit and national debt?

A **budget deficit** occurs when the government spends more than it collects in taxes and other income during a fiscal year. (The federal government's fiscal year is Oct. 1–Sept. 30.) In 2011, the federal budget deficit is projected to reach \$1.5 trillion. That is \$1,500,000,000,000.

Whenever the federal government runs a deficit, it has to borrow money to pay for its excess spending. Most often, the Federal Reserve, the nation's central bank, auctions U.S. Treasury securities (bills, notes, and bonds) to investors willing to lend the government money. They will earn interest on the securities they buy.

The **national debt** is the total amount the government owes from its borrowing. The total is currently about \$13.8 trillion. The national debt has two parts: **public debt** and obligations. The public debt consists of Treasury securities held by investors outside the federal government. It currently is about \$9 trillion of the \$13.8 trillion total debt.

Americans hold half of the Treasury securities that make up the U.S. public debt. Foreign investors, including governments, hold the other half. China has purchased nearly \$1 trillion in U.S. Treasury securities, the most held by any foreign country.

The **obligations** part of the national debt consists of debts the

government owes to itself. For example, the federal government has borrowed from the Social Security Trust Fund and given it Treasury securities. Such internal government obligations make up the rest of the national debt.

2. How is the national debt related to Gross Domestic Product?

One way to measure the growth of a nation's debt is to calculate its percentage of the Gross Domestic Product, or GDP. The GDP is the value of all the goods and services produced by a country in one year. The U.S.'s GDP for 2010 was \$13.3 trillion (adjusted for inflation). By this measure, the public debt, all those Treasury securities held by Americans and foreigners, amounted to about 62 percent of GDP (expressed as 62%/GDP) in 2010. Economists are not sure at what percentage of GDP the public debt would create an economic crisis. A clear warning sign would be 100%/GDP.

3. How much is the national debt likely to grow if we do not control it?

Established in 1971, the Congressional Budget Office (CBO) provides an independent evaluation of federal budget matters. In January 2011, the CBO made its "baseline" projection of the budget deficit and public debt. This projection assumes current budget laws remain in place.

For example, it assumes that scheduled spending cuts will take place and that tax cuts scheduled to expire will do so.

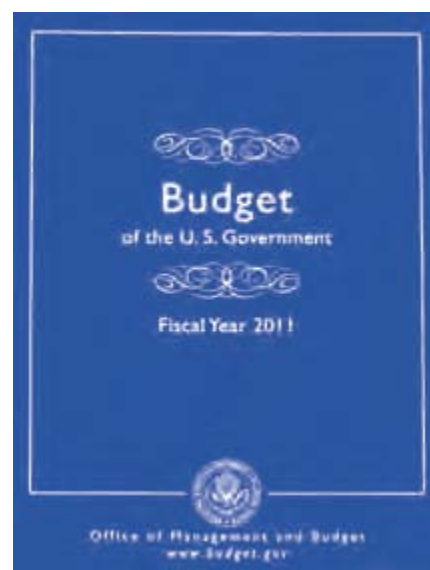
Based on this assumption, CBO projects budget deficits will "drop markedly" from about \$1.5 trillion in 2011 to \$533 billion in 2014. But increasing costs of entitlements (such as Medicare) will again force deficits to increase to \$763 billion and the public debt to 77%/GDP by 2021 and ever higher after that.

If Congress renews the tax cuts and fails to make the scheduled spending cuts, then the CBO projection gets much worse. Federal revenues would decrease and expenditures would rise, and the public debt would reach 97%/GDP in 2021.

4. How did we get such a large debt?

Throughout most of U.S. history, the federal government maintained balanced budgets (no deficit spending) and moderate debt except during wars and times of economic crisis. After World War II, the U.S. had a public debt of 108%/GDP, the highest public debt to GDP ratio ever reached by the country.

Following the war, the economy prospered, although it did occasionally go into recession. Presidents ►



Truman and Eisenhower adopted the policy of balancing the budget over the course of the business cycle. This meant running deficit budgets during recessions when tax revenues declined and balancing the budget or running a surplus when revenues increased as prosperity returned.

Defense spending surged to 56 percent of the federal budget in the 1950s as Cold War tensions with the Soviet Union intensified. Federal spending at home, however, remained stable. President Eisenhower favored tax cuts, but only if the debt was being reduced. At the end of his presidency in 1960, the public debt had been cut to below 50%/GDP.

The debt-to-GDP ratio continued dropping and hovered around 25 percent until the 1980s. During the Reagan administration, Congress cut taxes and sharply increased Cold War defense spending, which produced large budget deficits. Later in the Reagan administration, Congress raised taxes to try to control deficit spending, but the debt-to-GDP ratio had risen to 41 percent.

During the administration of President George H. W. Bush, Congress increased taxes and reduced

deficit spending to slow the growth of the public debt. In the Clinton administration, Congress further reduced spending and increased taxes to achieve budget surpluses. This resulted in stabilizing the public debt at about 35%/GDP.

When George W. Bush became president in 2001, Congress cut taxes and secured a new Medicare drug benefit for seniors. The country also went to war in Afghanistan and Iraq. The loss of tax revenue plus the additional spending plunged the federal budgets back into deficit and more public debt, which increased to 40%/GDP by 2008.

Then the “Great Recession” hit the economy. President Bush and Congress responded with \$168 billion in government spending to stimulate the economy. The stimulus spending and government programs to aid banks and other financial institutions further added to the federal budget deficit and public debt. By the time President Bush left office in January 2009, the public debt was approaching 50%/GDP.

President Barack Obama continued Bush’s anti-recession spending policies. Congress also passed a new \$814 billion stimulus program of tax

cuts and government spending, the largest in U.S. history. The combined budget deficits under the Bush and Obama administrations increased the public debt from \$3.3 trillion in 2001 to about \$9 trillion or 62%/GDP by the end of 2010.

Late in 2010, President Obama and Republicans in Congress agreed on a tax reduction deal to stimulate the economy. This included renewing the Bush administration tax cuts for all income levels for two years. In addition, the deal enacted two-year reductions on the estate (inheritance) tax, investment taxes, and the Social Security payroll tax. The deal also continued other tax breaks and extended unemployment benefits for 13 months. This package may add nearly \$1 trillion to the public debt over the next two years. Supporters, however, are hoping that the tax cuts and unemployment benefits will help stimulate the economy and actually increase federal revenues.

One piece of good news in the recent era of federal deficit budgets and soaring debt is that the U.S. is paying historic low interest on the Treasury securities it auctions to investors. The low interest rates reflect the current view of lenders that the U.S. is still a safe bet for investing their money.

5. What will happen if we do not fix the deficit and debt problem?

This question arouses much debate among economists, politicians, and others. Some economists believe the following is likely to happen if large federal budget deficits continue to cause the public debt to soar over the next few decades: The U.S. public debt-to-GDP ratio may reach a “tipping point” when investors decide the U.S. is no longer a safe bet to pay off what it owes. They may demand very high interest for Treasury securities, or they may refuse to buy them at all. As a condition for lending any more money, investors may force the government



THE U.S. CONSTITUTION requires that any bill raising revenue must originate in the House of Representatives.

to impose crushing taxes and adopt drastic spending cuts on everything from defense to Social Security pensions. Runaway inflation may result if the U.S. tries to pay its public debt by printing money or reducing the dollar's value. In this scenario, families and businesses will suffer from high interest on borrowing, high prices, high taxes, wage cuts, business failures, high unemployment, and severe cuts in all government services.

6. How can we reduce the deficit and debt?

One answer is to deal with the budget: Cut spending, raise taxes, or do a combination of the two. But trying to do any of these things provokes great political controversy. Many Americans oppose raising taxes, and most Republicans have promised never to raise taxes. A lot of Americans also oppose cutting spending on popular programs. Many Democrats have pledged never to cut Social Security or Medicare. A political battle line has formed, and it makes cutting spending or raising taxes difficult to achieve.

Another answer is to grow the economy. Economic growth will produce more tax revenue, which could then be used to reduce the deficit and slow the growth of the debt. A 1 percent increase in economic growth over 10 years could increase federal tax revenues by \$2.5 trillion in that period. (It would also lower the debt-to-GDP ratio.)

But how to grow the economy also stirs controversy. President Obama calls for more government spending for education, research in such areas as electric car batteries, and improvements in infrastructure (highways, bridges, high-speed trains). Conservatives argue economic growth will take off when investment and business tax rates are reduced, the Bush administration tax cuts are made permanent, and regulations on businesses are removed.



7. What cuts in federal spending could be made to reduce the deficit and debt?

Discretionary spending is the amount in the federal budget that Congress and the president decide on each year. One target for cuts in discretionary spending is defense, which makes up 20 percent of the federal budget. Defense spending is currently about \$700 billion a year, an amount far higher than any other country. In fact, it equals the combined amount spent on defense by every other country in the world.

About \$160 billion of defense spending goes for the wars in Afghanistan and Iraq. Other costs include military personnel, machinery (ships, aircraft, missiles, nuclear weapons), and bases around the world.

Another 20 percent of the federal budget consists of non-defense discretionary spending. Current popular proposals to cut discretionary spending such as freezing federal worker pay and eliminating “earmarks” (projects sponsored by members of Congress) add up to only a tiny fraction of discretionary spending.

Most non-defense discretionary spending is for services to the public provided by federal departments, agencies, and programs. These include the federal courts and prisons, national parks, foreign diplomacy, environmental protection, disaster relief, aid to schools and colleges, aid to the arts, the space program, food

safety, medical research, highway construction, and many others.

The biggest targets for reducing the budget deficit are **entitlements**, which are government benefits and payments set by law. The major entitlement programs are Social Security, Medicare, and Medicaid (health care for the poor). Other entitlements include veterans’ benefits, child health care, unemployment insurance, the welfare to work program, and food stamps. Entitlement spending accounts for over half of the federal budget.

Among all the entitlements, Medicare’s cost (\$468 billion in 2010) is increasing the fastest. A large part of our population is growing older and living longer. Medicare accounts for about 15 percent of all federal spending.

An analysis by Congressional Budget Office projects that Medicare spending cuts and taxes in the new Obama health-care law would reduce the deficit by \$230 billion over 10 years. (Some economists have challenged this projection and argue the health-care law will add to the deficit.) Others propose replacing Medicare with a less costly grant to seniors to buy health coverage from competitive private insurance companies.

At present, Social Security payments do not add to the national debt. The payroll tax deducted from most worker paychecks has more than covered this entitlement. The Social Security Trust Fund also holds ►



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each year. For example, Americans took \$131 billion in mortgage interest deductions in 2010.

9. What are the recommendations of the National Commission on deficits and the debt?

In 2010, President Obama appointed the bipartisan National Commission on Fiscal Responsibility and Reform to study and make recommendations on reducing the deficit and national debt. The majority of the National Commission members agreed on a plan, consisting of 75 percent spending cuts and 25 percent tax increases, to solve the nation's deficit and debt problem.

The National Commission majority submitted recommendations that would cut the budget deficit by \$4 trillion through 2020 and reduce the public debt to 30%/GDP by 2040. Among its list of guiding principles, the majority cautioned against acting too quickly, which might undermine the recession recovery.

Treasury securities that the U.S. is obligated to pay off with interest.

Fewer younger workers, however, now pay into the Social Security system relative to the growing number of older retired workers who are collecting benefits. Unless this problem is fixed, the government will have to make cuts in Social Security benefits, raise payroll taxes, increase the retirement age, or fund them with public debt.

8. What federal taxes could be increased or created to raise more revenue for deficit and debt reduction?

In addition to spending cuts, tax increases or new taxes can also help reduce the budget deficit and slow the public debt's growth. Relative to the Gross Domestic Product (GDP), federal tax revenues are at the lowest level since 1950.

All of the following proposals draw great controversy. Critics argue that they will slow, or perhaps even derail, the economy.

The tax cuts under President Bush reduced federal revenue, pumped up the budget deficit, and added to the public debt. Ending these tax cuts would contribute trillions of dollars to deficit and debt reduction over a 10-year period.

With the top 1 percent of U.S. income earners enjoying tax rates

that are one-third lower than they were in 1970, some are proposing a special "millionaire's tax" on annual income above \$1 million. A number of states are already collecting such a tax on the rich to help close their budget deficits.

In addition, raising estate and financial investment (capital gains and dividends) taxes back to what they were under President Clinton

Some have proposed new taxes such as a temporary national sales tax dedicated to deficit reduction.

would reduce the budget deficit by billions of dollars each year.

Some have proposed new taxes such as a temporary national sales tax dedicated to deficit reduction. Making taxable the health insurance benefit provided by a worker's employer would add \$3 trillion in new tax revenue between 2012 and 2030.

Another way to raise tax revenue would be to eliminate "tax expenditures." These are all the credits, deductions, exemptions, and other tax breaks for individuals and businesses that reduce the federal taxes they owe

The section below summarizes the key recommendations made by the National Commission majority:

Defense and Non-Defense Discretionary Cuts and Savings

- In 2013, return discretionary spending to 2008 pre-recession levels.
- All discretionary defense spending, except for current wars, should be subject to cuts and savings.
- Non-defense discretionary spending cuts should include a 10 percent reduction in the federal workforce, a federal worker pay freeze, and savings in all federal programs.

Health Care Entitlement Cuts and Savings

- Cut the cost of Medicare payments to doctors by paying them based on the quality instead of the quantity of the services they provide.
- Require an annual \$550 deductible for Medicare patients that they must pay for services before Medicare picks up the cost.
- Enact medical malpractice lawsuit reform that limits money claims for damages caused by doctors.
- Starting in 2020, put a limit on total federal healthcare spending growth.
- Review possible increases in the share paid by federal workers, military personnel, and veterans for their health-care programs.

Social Security Entitlement Cuts and Savings

- Raise the age for full retirement benefits from 66 to 68 in 2050 and 69 in 2075. Provide a hardship exemption for those who are physically unable to work past 62.
- In 2020, increase to \$190,000 the maximum taxable wage subject to the Social Security payroll tax to collect more revenue. (The current maximum wage subject to the Social Security payroll tax is \$106,800.)

Tax Increases and Reforms

- Reduce or eliminate all credits, deductions, exemptions, and other “tax expenditures” for individuals and businesses. For example, limit the home mortgage interest deduction to a family’s primary residence.
- Make all capital gains and dividend investment income taxable at the regular income tax rate instead of the current lower 15 percent rate.
- Increase the federal gasoline tax by 15 cents a gallon to pay for federal transportation and highway construction costs.
- Tax increases such as those listed above would cut the deficit and make it possible to reduce income and corporate tax rates, which would encourage economic growth. ►

Standards Addressed

WPA

National High School U.S. History Standard 24: Understands how the New Deal addressed the Great Depression, transformed American federalism, and initiated the welfare state. (1) Understands the first and second New Deals (e.g., the success of the relief, recovery, and reform measures associated with each). (5) Understands the significance and ideology of FDR and the New Deal (e.g., whether the New Deal was able to solve problems of depression...).

California History-Social Science Standard 11.6: Students analyze the different explanations for the Great Depression and how the New Deal fundamentally changed the role of the federal government. (4) Analyze the effects of and the controversies arising from the New Deal economic policies and the expanded role of the federal government in society and the economy since the 1930s (e.g., Works Progress Administration...).

National Debt

National High School U.S. History Standard 31: Understands economic, social, and cultural developments in the contemporary United States. (5) Understands major contemporary social issues and the groups involved....

National High School Economics Standard 6: Understands the roles government plays in the United States economy. (2) Understands that most federal tax revenue comes from personal income and payroll taxes and these taxes are used to fund social security payments, the costs of national defense, medical expenditures, and interest payments on the national debt.

National High School Economics Standard 8: Understands basic concepts of United States fiscal policy and monetary policy. (2) Understands the concepts of balanced budget, budget deficit, and budget surplus. (3) Understands that when the government runs a budget deficit, it must borrow from individuals, corporations, or financial institutions to finance the excess of expenditures over tax revenues. (4) Knows that the national debt is the total amount of money that the government has borrowed over all the years it ran deficits that have not been repaid.

California History-Social Science Standard 11.11: Students analyze the major social problems and domestic policy issues in contemporary American society.

California History-Social Science Standard 12.3e: Students analyze the influence of the federal government on the American economy. (3) Describe the aims of government fiscal policies (taxation, borrowing, spending) and their influence on production, employment, and price levels.

Tulipmania

National High School World History Standard 27: Understands how European society experienced political, economic, and cultural transformation in an age of global intercommunication between 1450 and 1750. (10) Understands factors that influenced the economic and political development of the Dutch Republic... (e.g., characteristics of the Dutch Republic that affected commerce and religion, and enabled Amsterdam to gain commercial supremacy over the northern Italian city-states in the late 16th century....

National High School Economics Standard 3: Understands the concept of prices and the interaction of supply and demand in a market economy. (3) Understands that changes in supply or demand cause relative prices to change; in turn, buyers and sellers adjust their purchase and sales decisions.

California History-Social Science Standard 7.11: Students analyze political and economic change in the sixteenth, seventeenth, and eighteenth centuries (the Age of Exploration, the Enlightenment, and the Age of Reason). (3) Examine the origins of modern capitalism;... the elements and importance of market economy in seventeenth-century Europe; the changing international trading and marketing patterns....

California History-Social Science Standard 12.2e: Students analyze the elements of America’s market economy in a global setting. (2) Discuss the effects of changes in supply and demand on the relative scarcity, price, and quantity of particular products. (8) Explain the role of profit as the incentive to entrepreneurs in a market economy.

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About Constitutional Rights Foundation

Constitutional Rights Foundation is a non-profit, non-partisan educational organization committed to helping our nation’s young people to become active citizens and to understand the rule of law, the legal process, and their constitutional heritage.

Established in 1962, CRF is guided by a dedicated board of directors drawn from the worlds of law, business, government, education, and the media. CRF’s program areas include the California State Mock Trial, youth internship programs, youth leadership and civic participation programs, youth conferences, teacher professional development, and publications and curriculum materials.

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10. What was the reaction to these recommendations?

Liberals charged that the National Commission relied too much on spending cuts and too little on taxing the rich, who benefited most from the Bush tax cuts. They also warned against slashing government spending when the country needs additional federal economic stimulus and help for 15 million jobless Americans.

Conservatives objected to the tax increases recommended by the National Commission. They believe increasing taxes will slow economic growth. They argued that major cuts in mostly non-defense discretionary spending and tax cuts to stimulate economic growth are the solutions to the debt problem.

Some liberals and conservatives warn against taking immediate action on cutting the deficit. They believe it could trigger another recession. They want to focus on growing the economy. More growth means more tax revenue to decrease the deficit and debt. But their prescriptions for growing the economy differ. Conservatives want further tax cuts across the board. Liberals want to invest heavily in education, job retraining, and infrastructure and to lower taxes for those with low incomes. These prescriptions, however, would require increasing the deficit and debt in the short run.

FOR DISCUSSION AND WRITING

1. Why should Americans worry about the growing national debt?
2. What are the differences between “discretionary” and “entitlement” spending? Which kind of spending do you think would be hardest for Congress and the president to cut? Why?
3. Which one of the National Commission’s recommendations do you like the most and which one the least? Why?

ACTIVITY

How Would You Solve the Federal Deficit and Debt Problem?

- A. Students should first individually answer the three questions listed below.
- B. Students should then meet in small groups to discuss their answers and try to reach agreement on them.
- C. Each group should report to the class the result of its discussion.
- D. As an extended activity, students can make specific spending and tax choices to try to solve the deficit and debt problem by doing one or both of the online budget simulations linked to on the CRFBlog at: <http://crfblog.org/?p=1985>

Questions for Individual Response and Discussion

1. Review question 10 in the article. What approach do you think the U.S. should take in fixing the deficit and debt problem? (Check one.)
 - ☐ cuts in federal spending alone
 - ☐ increases in existing taxes and new taxes alone
 - ☐ a combination of spending cuts and tax increases; state a percent for each:
spending cuts _____%
tax increases _____%
 - ☐ a combination of spending cuts and tax cuts
 - ☐ delay major deficit and debt reduction and increase federal spending for investment in economic growth (e.g., education, job retraining, infrastructure)

☐ delay major deficit and debt reduction and reduce taxes on all Americans.

2. Review question 7 in the article. Rank the following federal spending targets 1–4 from the target you think should be cut the most (1) to the one you think should be cut the least (4). The percentages indicate approximate share of the federal budget.

___ defense discretionary spending (20%)

___ non-defense discretionary spending (20%)

___ Social Security, Medicare, and Medicaid entitlement spending (40%)

___ other entitlement spending (14%)

(The remaining 6% is for required interest payments on the public debt.)

3. Review question 8 in the article. Check any of the following tax policies below with which you agree.

☐ cancel all the Bush tax cuts

☐ cancel the Bush tax cuts for only those with incomes over \$250,000

☐ raise the estate tax rate for inheritances over \$1 million

☐ raise capital gains and dividend (investment) tax rates

☐ impose a special tax on annual incomes above \$1 million

☐ enact a 6% national sales tax for deficit reduction only

☐ eliminate all tax deductions and other “tax expenditures” for individuals and businesses

☐ no tax increases and no new taxes

TULIPMANIA & ECONOMIC BUBBLES

THROUGHOUT HISTORY, MANY ECONOMIC BUBBLES HAVE OCCURRED. THE RECENT HOUSING BUBBLE, FOR EXAMPLE, GREATLY DAMAGED OUR ECONOMY. THE FIRST MODERN BUBBLE WAS DUTCH TULIPMANIA, WHEN AT THE BUBBLE'S PEAK IN 1637, TRADERS WERE PAYING THOUSANDS OF DOLLARS FOR A SINGLE TULIP BULB.

Tulips grew wild in Central Asia. By the early 1500s, Turks were cultivating “the flower of God” in the Ottoman Empire. Hundreds of varieties emerged, many with beautiful colors and shapes.

The flower grows from a tulip bulb. New multiple colors, showy markings, and unusual petal shapes sometimes occur on a flower. The rarest tulip flowers display spectacular markings of “flames” or “flares.”

The brilliance and unpredictability of tulips caught the attention of European flower collectors. The first tulips reached the Dutch Republic in 1562.

The most important Dutch province was Holland, with its major seaport of Amsterdam. Holland grew into the center of a rich Dutch commercial empire that stretched from Asia to the Americas. In the 1600s, its trading ships outnumbered those of all other European countries combined.

Holland excelled at the spice trade, shipbuilding, cloth manufacturing, and banking. Amsterdam had its own active stock exchange. While the rest of Europe stagnated in feudalism, the Dutch Republic entered its Golden Age and became a pioneer in modern capitalism.

As many Dutch merchants became rich, they looked for ways to enjoy their new wealth. They built grand houses, hired artists to paint their portraits, and collected things like tulips.

The Tulip Bubble

Tulip trading became a fad among rich Dutch merchants. They bought and sold tulip bulbs among themselves, planted them in September, and anxiously awaited their blooms in April and May. They collected tulips as they did works of art, to enjoy their beauty and rarity.

For years, only wealthy Dutch merchants traded tulips. But in the 1630s, tulips became fashionable in France. With a developing export market for tulip bulbs and the continuing demand from collectors, other well-off Dutch merchants saw a chance to get rich in the tulip trade. These tulip bulb traders, called “florists,” were only interested in making a profit. They never intended to grow the beautiful flowers.

The Dutch tulip business expanded. Growers opened new gardens to produce the highly desired bulbs. Soon, the profit-minded florists were buying and selling tulip bulbs at ever-higher prices, especially for the rare varieties.

The first economic bubble in modern capitalism began to inflate. Economic bubbles occur when buyers and sellers rapidly drive up the price of some asset, like stocks, houses, or even tulip bulbs, far beyond their apparent worth.

Tulip trading took place in the summer. Collectors bought and sold individual tulips among themselves when the bulbs were lifted from the ground and dried to prevent rotting. The speculating florists not only traded by the bulb, but also by a bulb's weight.

The florists hated that they could only trade in the summer. By 1636, they created a special written contract for buying and selling in the wintertime when the bulbs were planted underground. For example, in December, a tulip grower might agree to sell a particular bulb for 500 guilders (a Dutch unit of gold money) when it was lifted after blooming in the spring. The buyer was betting that by then the tulip would be selling for more, say 700 guilders, on the open market. He would pay the grower 500 guilders and make a nice profit of 200 guilders.

This was an odd contract. When the deal was made in December, the seller did not have the bulb in hand, and the buyer usually did not pay him any money. The actual exchange of bulb for guilders would occur in the future, in the summer after the bulb had bloomed and been lifted. Today, we call this kind of agreement a “futures contract.”

The florists usually conducted their futures trading in taverns. They formed organizations called “colleges” to oversee their auctions. Members of these tavern colleges not only bid on actual bulbs, but also bought and sold futures contracts.

In the winter of 1636–37, bidding in the taverns reached a frenzy. The prices of individual tulip bulbs rose to incredible levels. On February 5, a public tulip bulb auction took place ►



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in Alkmaar, Holland. One bulb sold for 4,203 guilders (roughly \$50,000 in today's purchasing power). The entire collection of 124 bulbs (still in the ground) sold for a total of 90,000 guilders, equal to about \$1 million today. This was the bubble's peak.

On the same day as the Alkmaar auction, Haarlem florists 15 miles away were having second thoughts about the high bidding. If they bid high prices for bulbs, they would have to find people in the spring who would pay even higher prices. It dawned on them that this was unlikely. Suddenly, bulb demand dropped in the tavern colleges, prices collapsed, and the tulip bubble popped. Panic spread among the florists in other towns.

Futures contracts were always risky. If a contract called for a buyer to pay a seller 500 guilders for a bulb at lifting time but the market price for it had dropped to 200 guilders, the buyer still owed the seller 500 guilders. The buyer would have to take a loss of 300 guilders. This situation repeated itself among the florists as tulip prices crashed.

If the buyer did not have the money to pay his obligation, the seller could keep his bulb and sell it for the depressed market price. But he would feel cheated. The buyer had promised to pay him the full agreed price.

When the price of bulbs collapsed, many sellers went to court, demanding the buyers pay what they agreed to pay. But the Dutch Republic had passed laws banning futures contracts, and the courts refused to enforce them. The sellers turned to the Dutch government, but it refused to take action and referred the issue to the town governments. The problem of what to do about the futures contracts remained at a standstill until a year later when the Haarlem city council ruled that buyers could cancel their contracts by paying 3.5 percent of the original contract's sale price. The seller would get this money and



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TRADERS MILL ABOUT the floor of the New York Stock Exchange, c. 1930s.

keep ownership of the bulbs. Most other Dutch towns adopted this compromise. By 1639, the tulip bubble crisis was over.

Tulipmania was the first major economic bubble in modern capitalism. Because it was limited in scope, it did not cause a great deal of economic damage. Other bubbles have proved far more devastating.

Mississippi and South Sea Bubbles

In 1717, John Law, a Scottish financier, gained the confidence of the debt-ridden French royal government. It let him set up a bank and the Mississippi Company. It granted the company a monopoly on trade between France and its colonies of Louisiana and Canada, connected by the Mississippi River.

Law promised the royal government he could stimulate commerce and end the national debt. His bank would print paper money and his Mississippi Company would develop trade, especially with Louisiana, which he described as rich in gold and silver.

Law offered to pay government debt holders with shares of his Mississippi Company. He also sold shares to investors.

The lure of Louisiana gold and silver drew many investors. At one point, soldiers had to maintain order

in the stock exchange as investors fought over buying shares. The share price rose by almost 200 percent in 1719. Even poor working class people tried to scrape together money to buy shares. The French invented a new word, "millionaire," to describe the big buyers and sellers of Mississippi stock.

Then, the Mississippi Bubble popped. Investors began to take profits by cashing in their shares for gold coin. Law attempted to keep share prices up by printing more paper money and using it to buy stock. But this led to uncontrolled national inflation, especially harming the poor who had to pay more for food and other necessities.

In 1720, share prices dropped to almost nothing. Thousands of investors, poor and millionaires alike, were ruined. The French economy fell into a depression for several years.

At the same time in England, another bubble developed. The South Sea Company got the exclusive right to trade with Spanish South America (then called the South Seas). The company and English government persuaded many government debt holders to exchange their bonds for stock in the trading company.

The company's directors spread rumors about the rich trade with South America, although this turned out to be only one commercial ship per year plus some slave ships. The rumors

sparked a speculating frenzy among all classes of people from common workers to lords and politicians.

When profit-takers started selling shares in the company, however, the prices dropped. News of the Mississippi Bubble crash in France sped up the South Sea Bubble collapse. Widespread economic distress occurred in the country.

1929 Stock Market Bubble

Another major bubble occurred in the 1920s when speculation in stocks took off. As the stock market rose, hundreds of thousands of ordinary Americans invested heavily in it. They believed the rise in share prices would never end.

To keep up with the other investors who were getting rich quick, many bought stock “on margin.” An investor would pay a stockbroker a portion of a stock’s price and borrow the rest from the broker. When the stock increased in price, the investor would sell it, pay off the loan from the broker, and keep the rest as profit. Eventually, investors were borrowing up to 90 percent of a stock’s price from their brokers.

Investors kept buying stocks. Few bothered to worry that many companies’ actual earnings and profits did not justify their high stock prices.

In an attempt to tamp down speculation on Wall Street, the Federal Reserve increased interest on loans. This also made it more difficult for businesses to borrow, which slowed down the economy. In summer 1929, a decline in construction and car sales warned that a business cycle recession might be on the way. But the party on Wall Street continued.

Finally, in October 1929, stock market prices began to slip and then drop sharply. On October 29, panic selling hit the New York Stock Exchange. On “Black Tuesday,” the value of stocks dropped by millions of dollars.

Stock investors who did not sell soon enough lost money. Those who

still owed their stockbrokers for “on margin” loans found themselves in worse economic trouble. For the U.S. economy, the 1929 stock market crash signaled the beginning of the Great Depression.

U.S. Housing Bubble

The United States has experienced two recent bubbles. In the late 1990s, the dot-com bubble began. Many new Internet start-up companies attracted investors who saw the Internet’s promise. Even though companies produced no income, more people invested, and their stock prices soared. In 2000, the bubble burst, many Internet companies went out of business, and investors lost their money.

The second bubble also began in the 1990s. Low interest rates for borrowing fueled a boom in U.S. house buying and construction. Home prices doubled and even tripled in parts of the country.

Seculators bought and sold homes for astonishing profits. A TV show even focused on “house-flipping.” But the big driver of the housing bubble was the lending industry. Eager to make money in the red-hot real estate market, banks and other lending companies made it too easy for people to buy houses that they could not afford. In many cases, lenders approved home loans with

little or no down payment and never checked the buyers’ income.

Millions of otherwise unqualified home buyers entered the housing market. Housing prices kept going up, and many believed they would keep going up.

Many lenders pushed buyers to sign new types of risky loans called “subprime mortgages.” A homeowner might pay only a low interest rate for a few years and then face an interest “reset.” Some homeowners would enter these agreements because they didn’t understand them. Others believed they could always sell their house for a profit. Still others thought interest rates would fall.

When the loans were reset, however, many homeowners found that they did not have enough income to pay the monthly mortgage. The only alternative for these distressed homeowners was to sell their houses, hoping to pay off their mortgage debt. But as thousands and then millions of homeowners across the country tried to sell their houses, real estate prices plunged, and the housing bubble burst in 2007. Millions found themselves “underwater,” owing more for their homes than they could get by selling them.

Many banks and lending companies that held subprime mortgages failed when homeowners could not pay their mortgages. In many cases, however, the original lenders had bundled these risky loans and sold them to big banks and Wall Street investment companies. They, in turn, resold them as investments to other U.S. and foreign financial organizations. After the housing bubble burst, they also were at risk, holding trillions of dollars worth of dead loans.

The U.S. housing bubble led to a collapse in housing prices and construction along with a financial crisis. Frightened consumers, burdened with debt and homes that had lost much of their value, cut back on spending. Businesses laid off workers, and the Great Recession began. ►



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FOR DISCUSSION AND WRITING

1. What is a bubble?
2. How are the tulip, Mississippi, and housing bubbles different from one another. How are they similar?
3. Both the Bush and Obama administrations passed laws to help subprime mortgage borrowers renegotiate their loans, which would then be backed by the federal government. These laws were aimed at keeping people in their homes. Some oppose this help for people whose bad judgment led them to buy houses they could not afford. What do you think?

ACTIVITY

What Can Be Done to Prevent Bubbles?

In July 2010, President Barack Obama signed a financial reform act into law, ending a long period of financial deregulation beginning in the 1980s. Among other things, the new law:

- Expands banking regulations beyond banks to other financial companies.
- Gives federal regulators the power to control and even shut down troubled companies.
- Creates a new office to protect consumers of financial products. One thing it will do is create a short, clear mortgage form so that home buyers can understand their loans.

The law contains many other regulations on banks and financial instruments.

Two questions: Do you think that regulations can prevent or alleviate bubbles and the problems they cause? Or do you think that bubbles are natural to capitalism and we should just let the market run its course?

In small groups, discuss these questions, decide on your answers, and prepare to report your answers and reasons to the rest of the class.

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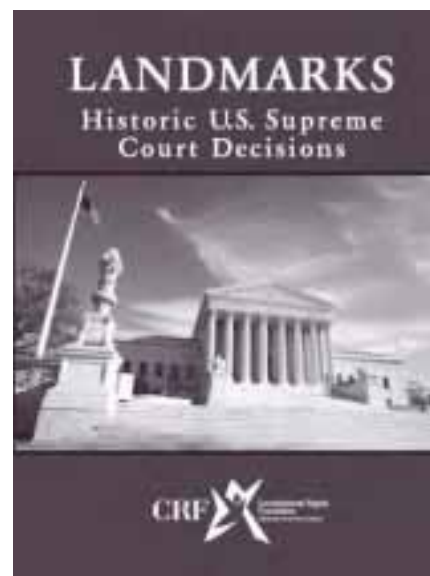
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Grades 9-12

Mapp v. Ohio (1961)
Gideon v. Wainwright (1963)
Miranda v. Arizona (1966)
U.S. v. Nixon (1974)
Regents of UC v. Bakke (1978)
Texas v. Johnson (1989)
Bush v. Gore (2000).



15

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The CAP curriculum incorporates a range of interactive learning strategies, which are central to good classroom instruction. They include class discussion, simulations and role-play activities—all promising approaches outlined in the germinal *The Civic Mission of Schools* report. The report identified research-based promising approaches that promote the development of student civic content and capacity gains.



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