A NATION BACK TO WORK: THE ROLE OF PUBLIC POLICY IN RESTORING THE AMERICAN DREAM AFTER THE FINANCIAL CRISIS OF 2008

A Thesis submitted to the Faculty of The School of Continuing Studies and of The Graduate School of Arts and Sciences in partial fulfillment of the requirements for the degree of Master of Arts in Liberal Studies

By

Maisha K. Thorpe, B.B.A.

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ABSTRACT

Working middle class Americans are experiencing financial insecurity and fear due to one of the most damaging financial recessions seen since the Great Depression. Middle class Americans have lost jobs in record numbers, that will never return and now they possess skills that are no longer valuable. The decline of U.S. based manufacturing industries was made more evident by this Great Recession and it is expected that workers who lost their jobs to these industries will be forced to find work in another field. These circumstances have created an increased awareness of impending workforce trends in our midst.

Our economy is quickly shifting to a knowledge-based economy from a skills-based one. Evidence shows that millions of main street Americans, who built and maintained their middle class livelihoods on skills-based industries, will be left behind. We also have an additional skills shortage due to the aging of our workforce, combined with a demographic shift in upcoming generations with less education and earning potential. Consequently, scores of workers with less education, who then earn much less, will result in a reduced national standard of living. All of these domestic societal conditions: structural unemployment, growing skills shortage, reduced standard of living, falling educational achievement, equate to America’s declining competitive advantage in
a global economy. If America loses its competitive advantage, what is ultimately at stake is its global political leadership and overall economic prosperity.

This thesis discusses the implications of current societal conditions by first reviewing in detail the credit crisis and its effects on the working middle class and on U.S. based manufacturing industries; followed by an analysis of predicted workforce trends directly impacting the current crisis. Public policies used as crisis management tools during the Great Depression and the Great Recession are reviewed to demonstrate their effectiveness and challenges.

This thesis proposes that public policies should not be solely used as crisis management tools, but that we should approach societal issues discussed in this thesis holistically, with the understanding that complex areas of national public policy must work together simultaneously to maintain America’s competitive advantage in a global world. Ultimately, it will take bold legislative measures to restore America’s greatness (political leadership and competitive advantage) – to restore the American Dream.
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I acknowledge my first thesis mentor, Dr. Betty Duke, for her guidance and support. I also acknowledge my final thesis mentor, Dr. Douglas McCabe for review of my project. I am most grateful to my family and friends who encouraged my efforts and believed that I would be successful. I am especially thankful to my mother, Azizi Awolana, for her thorough reading and editing of this project, but I am most thankful for her encouragement to obtain a masters degree. I am also thankful for the wealth of research about workforce policies, may it continue to be abundant and poignant.
DEDICATION

I dedicate this thesis project to my son, Myles-Christian, and my daughters, Naomi and Grace. I pray that the future of work in the United States allows them to live their best lives while achieving the American Dream. This project is also dedicated to my husband, Marquette, whose work ethic is humbling, honorable and measured with love.
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CHAPTER ONE
INTRODUCTION: DRASTIC TIMES

Structural Unemployment and the Working Middle Class

The rate of unemployment that exists today, more specifically, the rate of structural unemployment, is disheartening. Structural unemployment occurs when a worker’s skills are no longer suitable or match the types of jobs available in the labor market. This is the challenging reality of millions of workers whose careers have simply run their course. Their skills are obsolete. The companies that employed them cannot afford to any longer or considering these drastic economic times these companies may no longer exist. In addition, it should not be assumed that the competencies required for the previous job qualifies these workers to work in a different industry. Desirable transferrable skills are luxuries most workers do not have today.

These working middle class Americans do have minor dependent children, young adults in college, mortgages, and car notes, in addition to being caregivers for family members. What defines them as the middle class can vary by which economist you ask. Nan Mooney explained in her book, (Not) Keeping Up with Our Parents: The Decline of the Professional Middle Class that, “the government has no official definition [for the middle class] – perhaps in support of our guise as a classless society…."¹ She further explains:

¹ Nan Mooney, (Not) Keeping Up with our Parents: The Decline of the Professional Middle Class (Boston: Beacon Press, 2008), 20.
for most people, membership in the middle class is far more mobile and indistinct than a number preceded by a dollar sign. It’s a catchall category housing everyone who’s not rich and not poor, the class into which you rise and out of which you can fall. Membership in the middle class is sustained by constant effort and, though it can open a vein of opportunity that opportunity is by its very nature insecure.

For the purpose of this thesis, the middle class is defined by an annual income of $35,000-$110,000, access to services like higher education, health care, child care, quality elementary education programs and stable neighborhoods, as well as their aspirations and achievements to homeownership.²

They value (1) effort optimism – a belief in “hard work” to strive for success and that the nature of work is a positive good; (2) material well-being – the belief that progress and prosperity is a right, thus “hard work pays off”; and (3) conformity – the belief that all men are created equal; with cooperativeness and good citizenship we all can share in success, thus “hard work pays off for all men”.³ Although these working Americans continue to have aspirations while holding true to their values, the reality is that many of them no longer have jobs to maintain their working middle class lives. For them, college tuition is increasing, so are property taxes, childcare, the cost of health


insurance and living necessities (i.e. food, toiletries, etc.). As a result, the American dream is being deferred. Former Executive Director of the Drum Major Institute for Public Policy (DMI) simply noted what is truly at stake in a DMI Op-ed piece called The Middle-Class Squeeze, “…when the American Dream doesn’t work for the middle class, it also denies poor and low-income Americans access to the ladder of economic mobility.”

Structural unemployment is one of the many reasons working middle class Americans no longer have jobs. To discuss this issue specifically, this thesis profiles displaced auto manufacturing workers. Structural unemployment is uniquely personified by the auto worker’s experience since this particular manufacturing industry was already experiencing a labor decline prior to the financial crisis of 2008. Automobile manufacturing also had an extremely difficult struggle during the financial crisis of 2008, requiring a government bailout of two of the Detroit Three (better known as Ford, General Motors (GM) and Chrysler). Additionally, from a historical perspective, automobile manufacturers, influenced by unions, promised to ensure that auto workers always had access to a middle class lifestyle by providing a “steady level of purchasing

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5 Batista Schlesinger, "DMI Op-Ed."
power, comprehensive health benefits lasting into retirement, and various forms of workplace rights.\textsuperscript{6}

Originally known as an industry of opportunity, author of Automobile Workers and the American Dream, Ely Chinoy noted that the automobile industry once:

\ldots created new economic heroes, brought fabulous wealth to its owners and managers, and promised spectacular wages to men whose fathers had worked for a dollar a day\ldots Heading the list was Henry Ford, the farm boy and mechanic whose swift climb to worldwide fame and astonishing wealth provided a giant-size example of what could be done. As the man held responsible for the wonders of the assembly line, Ford became the symbol of the mass production age which would bring abundance to the millions.\textsuperscript{7}

Auto manufacturing workers have been the backbone of the moving assembly line since its invention by Ford.\textsuperscript{8} In the moving assembly line’s first decade, auto manufacturing workers’ production increased from 40,000 to 2 million cars annually.\textsuperscript{9} By 1955, auto manufacturing workers made the Detroit Three (then called the Big Three) the largest producer of all cars sold in the United States.\textsuperscript{10}

\begin{itemize}
  \item \textsuperscript{7} Ely Chinoy, \textit{Automobile Workers and the American Dream} (Urbana: University of Illinois Press, 1992), 12.
  \item \textsuperscript{9} Chinoy, \textit{Automobile Workers}, 27.
  \item \textsuperscript{10} Ibid., 28.
\end{itemize}
During this time, the United States enjoyed being the world’s most successful mass-production economy, which required both rigorous discipline and narrow skill.\textsuperscript{11} Auto workers on the factory floor who demonstrated mechanical or management skills saw their careers move up the ranks quickly, establishing an industry tradition steeped in opportunity.\textsuperscript{12} Until the 1970’s, this high volume mass production era changed the nature of work, the accessibility of automobiles and other products, and created a workforce that was instrumental in the advancement of labor relations polices and unionization.

Today working middle class auto manufacturing workers, part of a declining industry, are experiencing chronic job insecurity caused by structural unemployment which in turn is affecting their satisfaction on the job and their well-being.\textsuperscript{13} Although this thesis will not explore the health impact of auto workers, we can image how complex many areas of this issue are, even at the surface. Structural unemployment’s complexity is something scholars write about, politicians fight about, and special interest groups lobby about regularly. Individually, employment and education/training policies greatly influence the decisions made to address this issue for these workers. This thesis will not


\textsuperscript{12} Chinoy, \textit{Automobile Workers}, 14.

attempt to explore the many complexities of this issue, there are many; let us leave that to
the scholars, politicians, and special interests groups to work through. The focus of this
thesis will be to discuss the critical need to converge the conversation, the legislation and
administration of economic, employment and education policies in an attempt to reduce
structural unemployment and play a leadership role in the recovery of our nation’s
workforce. This thesis proposes that public policies should not be solely used as crisis
management tools but that we should approach societal issues holistically, with the
understanding that complex areas of national public policy must work together
simultaneously. If done properly, universal access to the middle class will be accessible,
but it will take bold legislative measures to restore America’s greatness – to restore the
American Dream.

This thesis will focus on five thematic areas. Chapter Two - State of the Union:
Hazardous Path to Profits, begins with a chronological timeline of the credit crisis. Two
years following the Financial Crisis of 2008, Americans are still experiencing drastic
times, including suffering from high rates of unemployment (structural or otherwise), and
financial ruin. The goal of this chapter is to provide a foundation to understand how this
nation followed a very hazardous path to today’s current reality with no consideration for
the ripple effects or long term repercussions on the American workforce.

Chapter Three - Spotlight: Predicted Workforce Trends will demonstrate how the
Financial Crisis of 2008 shone light on predicted workforce trends already at play in our
economy. This thesis will focus on two specific trends: (1): the growth of a knowledge-
based economy along with the corresponding reduction of a skills-based economy; (2): a
demographic shift in population, education, and earnings. For instance this thesis will discuss how the face of the American workforce is changing, along with the work itself. Rapid technological change, globalization, as well as, the graying of the workforce (Boomer demographics) are changing the world of work as we know it.\textsuperscript{14} It is easy to rattle off the positive changes: innovations in technology (automation, telecommunications, wireless devices, internet/social media, etc.), the ability to expand a global consumer-base, along with the ability to reduce production costs by relocating operations overseas. While the negative effects include loss of jobs to cheaper workers overseas, along with the decline or elimination of U.S. - based labor markets, these too are contributors to structural unemployment.

Chapter Four - Crisis Management: The Role of Economic, Employment and Education/Training Polices Then, will explore the role national public policy has played as a dynamic crisis management tool of the government by reviewing two historical value-based policy lessons from the New Deal Era (also a notable financial crisis): The Emergency Relief Appropriations Act of 1935 (FERA) and the National Labor Relations Act (NLRA) – Wagner Act. A review of policy criticisms is also discussed.

Chapter Five – Crisis Management: The Role of Economic, Employment and Education/Training Police Now, will comparatively analyze the Obama Administration’s value-based policy approach in the midst of today’s financial crisis. Specific analysis will be provided of the American Recovery and Reinvestment Act of 2009 (Recovery

Act), as well as the Jobs for Main Street Act of 2010 (Jobs Bill). Following this policy analysis will be an exploration of the critical opinions on these policy solutions.

Chapter Six - Bold Measures to Restore Greatness – The American Dream, summarizes the complex problem discussed throughout this thesis then discusses what is at stake for America if we do not address this issue quickly and boldly. Specifically, a reflection on how failures in these policy areas are contributing to America’s risk for a reduced national standard of living and a declining competitive advantage in a global economy. It will note that the effects of the 2008 financial crisis are substantial, as they continue to threaten the political leadership and economic prosperity of the United States. This thesis will offer a solution approach that integrates the policy areas with a strategic long term focus for national prosperity in mind.
CHAPTER TWO

STATE OF THE UNION: HAZARDOUS PATH TO PROFITS

Credit Crisis Overview

History shows us that there are two cyclical waves that affect each other; one for politics and the other for economic growth and contraction.¹ Interdependently, American politics and economics often create a synergy of national prosperity, but it is more evident to Americans when they are at odds. Financial uncertainty is always challenging despite knowing that politics and economics are destined to tip the scales from time to time between abundance and scarcity. Notable examples of drastic tipping in history are the market crash of 1929, followed by the Great Depression during the Herbert Hoover (Republican) and Franklin D. Roosevelt (Democrat) presidencies; the serious recessions of 1974-5 and 1981-2, respectively during the Gerald Ford (R) and the Ronald Reagan (R) presidencies; the Black Monday crash of 1987 during the George H.W. Bush (R) presidency and now the Great Recession – the financial crisis of 2008 during the George W. Bush (R) and Barack Obama (D) presidencies.

Today, we are in the midst of one of the worst economic climates since the Great Depression, along with one of the worst political declines undermining America’s role as a global leader. Author Robert Kuttner, eloquently noted in his book *The Squandering of America: America’s Economic Crisis and the Power of a Transformative Presidency*:

¹ Kurt Andersen, "That was then......and this is Now," *Time*, April 6, 2009, 35.
Americans have the good fortune to live in a nation that has stood for political liberty and economic prosperity since its founding. Even in the republic’s early years, when we cherished our isolation from the troubled world, the American idea was a beacon to other nations. In the twentieth century, a bolder, more outward-looking America came to stand for enlightened leadership globally. At home, a more democratic America became a more balanced society. Public policies promoted broad prosperity and economic security, by harnessing the creative, often chaotic power of capitalism for the general good.

The question is, “How did we squander America’s political global leadership and economic prosperity” so quickly? The answer is we simply overleveraged both. The current global economy has been dismal and full of uncertainty since the fall of 2008, when the world banking system fell apart. Dubbed by journalists, The Great Recession, the length of the crisis is still unknown. Kuttner stated that Americans pessimistically “think the pain will be lasting and the effects permanent: only 12% expect economic recovery to begin within six months, half believe it will be another year or two, and 14% believe we are at the start of a long-term decline.”

Economists, politicians and academics continue to debate the cause, who is to blame, and how exactly to fix the Financial Crisis of 2008. Conservatives believe that

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the crisis is the result of unwise government policies. Others believe it was pure market failure, thus capitalism at its worse. Nonetheless, the crisis is having a surprisingly unbiased affect on both Wall Street and Main Street. A phrase popularized by politicians, “Main Street” is commonly used to describe working or middle class Americans, as opposed to “Wall Street” which represents Corporate America or big-business.

Despite the international debate, here is the basic set of sequences that resulted in the Credit Crisis—the Economic Crisis – the Great Recession of 2008 simply stated by Richard Posner: “low interest rates, a housing bubble, the collapse of the bubble, the collapse of the banking system, frenzied efforts at resuscitation, a drop in output and employment, signs of deflation, an ambitious program of recovery.” Let us explore these sequences historically to fully understand the current economic conditions in which a crisis of this magnitude could manifest.

In 1977, President Jimmy Carter signed into law the Community Reinvestment Act (CRA). As a public policy initiative, Michael Hlinka, a contributor in The Financial Crisis and Rescue: What Went Wrong? Why? What Lessons Can be Learned?, explained that the CRA was created “to encourage lending institutions to meet the needs of

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5 Ibid., 1.
borrowers in all segments of their communities.”⁶ According to the CRA, companies that received insurance from the Federal Deposit Insurance Corporation (FDIC) would be subject to evaluation by the appropriate regulatory agencies to ensure compliance with the act’s criteria. For companies with failed evaluations, the penalties were severe.⁷

When President Bill Clinton took office, he too wanted to increase home ownership for all Americans. Under his administration, in 1994, the Department of Housing and Urban Development (HUD) launched a series of highly publicized cases against financial institutions; forcing them to prove in court that their lending practices were not racially discriminatory. In response, lending institutions further reduced their lending criterion.⁸ Consequently, homeownership rose from 64.9% in 1977 to 66.4% in

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⁷ Ibid., 155.

⁸ Ibid., 156.
1998, which continued in the following years to rise as shown in Figure 1 below.\textsuperscript{9}

![Figure 1: United States Homeownership Rate 1960-2004\textsuperscript{10}]

Taking on more risk, lending institutions reduced their standards on home loans, and lowered interest rates, causing a long period of healthy growth, but ultimately, creating the housing investment bubble.\textsuperscript{11} Americans, comfortable with the positive


market conditions, also took on more financial risk.\textsuperscript{12} Niall Ferguson explained in his October 2008 \textit{Time Magazine} article, “The End of Prosperity”: “[i]n the case of households, debt rose from about 50\% of GDP in 1980 to a perch of 100\% in 2006. In other words, households now owe as much as the entire U.S. economy can produce in a year”.\textsuperscript{13} American’s once saved about 15\% of their income, but by the 1980s the rate was 4\%; today the number is in the negative range.\textsuperscript{14} “The average American has nine credit cards with a total of $17,000 balance”, explained Nancy Gibbs in her October 2008 \textit{Time Magazine} article, “Real Patriots Don’t Spend.”\textsuperscript{15} According to the Federal Reserve, in 1968 consumers’ total credit debt was $8 billion (in current dollars) while consumer debt in 2008 stood at $2.6 trillion.\textsuperscript{16} 

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\textsuperscript{12} Ibid.
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\textsuperscript{16} This statistic is originally from Federal Reserve website but is listed at Hoffman, Brinker & Roberts, "Credit Card Debt Statistics," Hoffman, Brinker & Roberts, \url{http://www.hoffmanbrinker.com/credit-card-debt-statistics.html} (accessed October 11, 2009).
\end{flushright}
Figure 2 below demonstrates the progressive growth of consumer debt in both consumer credit and home mortgage debt since the 1980’s.

![Chart showing Consumer Debt Outstanding through Q1 '07](http://www.mybudget360.com/wp-content/uploads/2008/02/consumerdebt06q3.gif)

**Figure 2: Consumer Debt Outstanding 2007 Q1**

Americans benefited from the legislative actions of Presidents Carter and Clinton by becoming homeowners; however the availability of credit to purchase other products was also enticing.

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Figure 3 below demonstrates the steady detrimental growth of debt per U.S. family in credit card balances, mortgages, home equity loans and other purchases from 1998 through 2007.

![Debt Per U.S. Family, in 2007 dollars](image)

The subprime mortgage market, with a new financial product called Adjustable rate mortgages (ARMS), was a major tipping point in the set of sequences resulting in so many Americans becoming overleveraged. *The Tipping Point*, a bestselling book by Malcolm Gladwell, suggests that ideas, products, messages and behaviors spread like

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viruses. First, noted finance professor, John Hull, author of Financial Crisis and Rescue, describes the origins of the subprime mortgage market and ARMS:

Subprime first mortgages made house purchase possible for many families that had previously not been considered to be sufficiently creditworthy to qualify for a mortgage. These families increased the demand for real estate and prices rose. To mortgage originators, the combination of more lending and higher house prices meant that the lending was well covered by the underlying collateral [the house]. If the borrower defaulted, the house could be repossessed and the lender would not take a loss. Now naturally, mortgage originators looked for ways to continue the trend towards more lending and higher house prices. The problem with higher house prices was that it was difficult to continue to attract new first-time buyers. To overcome this problem, mortgage originators became creative in the way they designed mortgages. Adjustable rate mortgages (ARMS) were developed....

The subprime mortgage market with ARMS, demonstrated the three conditions Gladwell indicated create a Tipping Point phenomenon. First, is the concept of contagiousness, which is a property of many things from colds, yawning, new fashion trends, and including easy access to credit. Second, little causes have big effects, and thirdly, change happens not gradually but at one dramatic moment.

ARMS had a contagious effect on Americans who could not resist easy access to progress and prosperity, which we discussed previously is their right based on hard work. Striving for success, they went to work every day in order to one day buy a house in a

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21 Gladwell, The Tipping Point, 10.

22 Ibid., 9.
better neighborhood, or to buy a better car to get to work. We know that homeownership is distinctly connected to achieving the American Dream, causing it to be one of the most emotional purchases Americans make in their lifetime. It is not surprising that lenders continued to attract buyers with ARM loans, offering lower interest rates, called “teasers” for the first one to three years of the loan. Mortgage brokers were known to be aggressive in their tactics to attract more buyers, which led to predatory lending. Americans excited to be achieving the dream of homeownership often were not financially savvy about the types of mortgage loans they committed to, and at times mortgage brokers were accused of being deceptive in how they presented the financial obligations to new homeowners.

Nonetheless, after that short period, the “teaser period,” the loan would adjust to a higher rate, consequently increasing the mortgage payment due to the lender. With an ARM loan, Americans found that they could no longer afford their mortgages once the terms of the loan adjusted to the new higher rate. This is Gladwell’s second condition of the tipping point, little causes have big effects: All over America, individual homeowners were struggling to pay for the dream they thought they had finally achieved.
This eventually resulted – in the big effect – in nationwide foreclosures leaving a large number of houses on the market, starting in 2007 until present day (see Figures 4 and 5). With so many homes for sale saturating the market, increased competition was consequently driving housing prices down drastically.\(^{23}\) Homes were losing their market value, causing homeowners to commonly owe more to the lender than they could sell the house for to a prospective buyer, resulting in the collapse of the housing bubble – the one dramatic moment – the tipping point.

\begin{figure}[h]
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\caption{U.S. Prime Loans Fixed Rate Delinquent and in Foreclosure\(^{24}\)}
\end{figure}


According to the Mortgage Bankers Association (MBA), two in 15 home mortgages were at least one payment past due or in foreclosure at the end of June 2009, which is the highest combined delinquency and foreclosure rate since the MBA began keeping such records in 1972. In the MBA’s August 20, 2009 press release, Jay Brinkmann, the MBA’s chief economist, stated, “As for the outlook, it is unlikely we will see meaningful reductions in the foreclosure and delinquency rates until the employment situation improves. In addition, in some areas where a number of borrowers have mortgages that are larger than the current value of their homes, any life events such a divorce or loss of a job is likely to translate into foreclosures until prices in those areas

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25 Ibid.

recover, not just flatten.”

Brinkmann stated in another article that “[t]here has been a dramatic shift in the type of loans that are going bad. For a couple of years, subprime loans made up a big chunk of delinquencies and foreclosures. But in the last year there has been a surge of delinquencies and foreclosures on prime, fixed-rate loans (see figure 5).…Today delinquencies are driven less by loan type and increasingly by fundamental issues of the economy. It's job losses, it's drops in home prices that have been causing the problems.”


According to the U.S. Bureau of Labor Statistics, the unemployment rate for May 2009 was 9.4%, which is the highest rate ever recorded by the Bureau since Nov/Dec 1982 when the rate was 10.8% (see figure 6). As Brinkmann explained, job losses continue to play a significant role in our sequence of events that caused the economic conditions we are experiencing to date.

To explore the current unemployment situation, we have to discuss how banking institutions were affected by, or if you are asking for differing opinions, how the banks

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30 Ibid.
caused, the collapse of the housing bubble. Banks function on a fractional reserve system, allowing them to loan or invest a majority of the funds that Americans deposit for profit.\textsuperscript{31} First let it be clear: the bank takes a large risk; no matter how stable or well run, the bank can not meet the demands of depositors should they all want their money back immediately. On a good day, operating like this increases the bank’s financial leverage while making shareholders returns high, as well as, increasing the bank’s stock price. On the other hand, on a bad day, banks find themselves between a big rock and a hard tight place when the higher leverage burns them.\textsuperscript{32}

During the growing housing bubble, creative financial innovation continued; banks and mortgage companies, in cahoots, bundled groups of mortgage loans together to sell them on the stock market through investment banks, without the ability to predict which loans in the bundle were good or bad. These are called mortgage-backed securities. Investment banks, like Lehman Brothers, Goldman Sachs, Merrill Lynch, and U.S.-based banks, became interwoven in the money market while becoming more vulnerable for the other’s risk taking. With minimal industry (self-imposed or federal) regulations, investment and retail banks only expected a default rate of 1\% on the packaged mortgage loans being sold on the stock market. This means that for every one hundred mortgages bundled they only expected one mortgage to default, further


\textsuperscript{32} Ibid., 37-39.
rationalizing from their perspective that this risk was worth taking in order to profit significantly from these new types of securities.

By the spring of 2007, to the dismay of the banks, the mortgage default rate on mortgage-backed securities jumped to 18% and continued to rise, eliminating the bank’s profits and their capital.33 Washington Mutual, Citibank, Wachovia and large institutions like, Bear Stearns, and J.P. Morgan Chase, carried significant amounts of mortgage-backed securities, leaving them unable to cover the loses. Author Robert Barbera proclaimed in his book, *The Cost of Capitalism*, that it was a moral hazard for many mortgage companies [and banks] to issue credit to home buyers with the understanding that they were not in the business of holding the mortgages. This moral hazard, translated into companies lending large amounts of money to individual Americans, who may not have been qualified to borrow the money, just to sell the loans on the stock market for higher profits, which ultimately caused a financial melt down for investors around the world.34

Ultimately, some banks went bankrupt; some were sold, while others were bailed out by the United States government. Hanging on for dear life, banks began deleveraging: holding on to their capital, refusing to lend money, along with aggressively calling loans that were due – this resulted in the credit crisis or credit freeze. Richard Posner explained that borrowing and lending increases current economic activity. Unfortunately, a sudden sharp decline in borrowing and lending reduces that activity,

33 Ibid, 45.

causing a domino effect of reduced consumption and production; triggering a vicious
cycle. This credit freeze ultimately produces a high rate of unemployment of both human
and capital resources.35

Manufacturing Exodus

In sum, high risk lending, borrowing and investing, the reduction of consumption
by consumers and businesses, and a collapse of the banking industry, resulted in an
exorbitant number of layoffs, causing nationwide unemployment.36 What is ultimately
revealed is that this crisis fast forwarded the decline of manufacturing industries and
labor trends that were being ignored by this nation (which will be explored in a future
chapter). One of the trends that will be discussed is the growth of a knowledge-based
economy along with the corresponding reduction of a skills-based economy. This
transition between two types of economies is resulting in structural unemployment. As
more manufacturing industries embrace technological innovations, they require less
manual human skills. They, in turn, create more jobs that require knowledge based skills,
like computer analysis or strategic management, which often requires more post-
secondary education.

For instance, the “virtual collapse” of the U.S. automobile industry is a classic
example of an industry whose decline was brought to light during the crisis, and which
demonstrated significant structural unemployment as a result. Ultimately, this is why it is
critical we converge the conversation, the legislation and the administration of economic,

35 Posner, A Failure of Capitalism, 30.

36 Ibid., 35.
employment and education/training policies in a proactive attempt to reduce structural unemployment in this country. Although provided the most media attention over the last 2-3 years, car manufacturing was not the only industry affected by the crisis or the reduction of manufacturing trends in the United States. Textile, construction, apparel, agriculture (farming), food processing, electronic devices, metals and plastics fabrication, and transportation (airplane, bus, tire) are other examples of manufacturing industries detrimentally affected.

In June 2010, NewYorkTimes.com reported that although manufacturing jobs were growing, since companies were receiving more orders, fostering a need to bring people back to work; it is less likely that all the jobs lost to this industry will ever be recovered due to a structural decline.37

Manufacturing employment lost 2,066,000 jobs (a 15.1% decline), since the Great Recession began in 2007 (see Figure 7).\textsuperscript{38} Most of these jobs will not return, therefore the millions of manufacturing workers who lost their jobs during this recession will be forced to find work in another field.\textsuperscript{39} 

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{image}
\caption{Manufacturing Employment Relative to Level in Dec. 2007}
\end{figure}

Uniquely, the car manufacturing industry is largely dependent on individual consumers receiving credit to purchase cars, thus making this a good example for

\textsuperscript{38} Ibid

\textsuperscript{39} Ibid.

\textsuperscript{40} Ibid.
discussion for this thesis. In October 2008, at the peak of the credit freeze (banks refusing
the lend money to consumers), General Motors (GM) car sales slumped to an astounding
45% as a result; with all U.S. car sales down 30 percent.\footnote{Bill Saporito, "Is GM Worth Saving?: The Automaker May Not Deserve a Bailout, But Losing it Could Wreck the Economy," \textit{Time}, November, 24, 2008, 35.} To save cost for survival
measures, car manufacturers immediately reduced suppliers, closed plants, stopped
supplies to franchises; all resulting in massive job losses.\footnote{Ibid.} This multiplier effect was
better explained by the Center for Automotive Research (CAR): GM, Ford and Chrysler,
also known as the Detroit Three, employed hundreds of thousands of people annually.
Massive plant closings caused layoffs at parts-makers and other suppliers which resulted
in more layoffs in the hundreds of thousands. Together, these several million plus
people, when employed, kept another million employed.\footnote{Ibid., 36.}

For instance, in Flint, Michigan, the GM auto plant that once employed 80,000
employees now only employs 8,000.\footnote{Joseph R. Szczesny, “Flint, Michigan: Electric Cars Bring Revival Hopes," \textit{Time}, October 16, 2009, \url{http://www.time.com/time/business/article/0,8599,1930671,00.html} (accessed November 12, 2009).} Imagine the domino affect 72,000 unemployed
workers from this plant have on the economy locally in Flint, then the State of
Michigan…and now nationally. This is a devastating problem happening all over the
country, compounding already drastic times. Something can be done if social public
policy legislation works to create positive change for workers in Flint, and the millions
like them nationwide; policies used as a measure of improving these drastic times must reflectively consider its influences (values), its roles, along with its sustainability.
CHAPTER THREE
SPOTLIGHT: PREDICTED WORKFORCE TRENDS

Former *Time Magazine* columnist, Kurt Anderson, noted in his essay, “That Was Then……and This Is Now”, “even if deep down everyone knew that the spiral of over leveraging and overspending and the prices of stocks and houses were unsustainable, no one wanted to be a buzz kill.”\(^1\) In retrospect, being the buzz kill is still the least of concern for working middle class Americans who are experiencing financial ruin, especially those affected on Main Street. It may be safe to say that many Americans wish someone had been the buzz kill to save them from their current misery. Unfortunately, more bad news was on the horizon.

With the financial economy in shambles, and with no one to save them, the United States’ workforce may not have realized that they have been speeding toward detrimental trends that were forecasted by researchers over a decade ago, creating a much needed spotlight on the already declining workforce. Think tanks projected critical workforce trends that until now were not being taken very seriously by policy makers, employers or economists. These trends are often the elephants in the room since they heavily involve disparities in education and earnings along racial demographics.

Thankfully, discussing the elephant in the room is encouraged by think tanks and non-profits like The National Center for Public Policy and Higher Education, the Global Institute on Education and the Workforce, and the Hudson Institute. They discuss these

\(^1\) Kurt Andersen, "That Was Then......and This is Now," *Time*, April 6, 2009, 34.
trends and regularly promote/support policies that, if ignored, will result in effects that are perilous for the United States as a whole. The anticipated follow up to Hudson Institute’s 1987 best seller, *Workforce 2000*, the sequel, *Workforce 2020: Work and Workers in the 21st Century*, discusses trends like the global integration of the U.S. economy, the continuing shift of production from goods to services, in addition to how skills and education, or the lack thereof, are strongly influencing earnings and the diversification of the workforce.² This thesis focuses on two major complex trends that if left unaddressed for much longer will significantly affect America’s political liberty and economic prosperity: (1) growth of the knowledge-based economy and (2) a demographic shift in population, education and earnings.

**Growth of the Knowledge-based Economy**

The continued speed of light pace of technological change, the automation of manufacturing jobs, and the globalization of jobs relocating abroad that now require more “brains rather than brawn,” is officially the transition of a knowledge-based economy.³ According to the Organisation for Economic Co-operation and Development (OECD), a membership of 33 governments committed to democracy and market economy through research, policy comparison and international problem solving, “the term ‘knowledge-based economy’ results from a fuller recognition of the role of knowledge and technology

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³ Ibid., 3
in economic growth”. Particularly, the U.S. economy is more strongly dependent on the production, distribution and use of knowledge than ever before. More importantly, new issues and questions are being raised regarding the implications of the knowledge-based economy for employment and the role of government in the development and maintenance of the knowledge base.

There is a great deal of economic theory involved in understanding the trend of knowledge-based economy. At its most general understanding, technological innovations have changed and will continue to change the nature of the way we do business today. It changes the way work is done, also known as productive processes, which typically increases productivity and reduces the cost of production. In the past, for example, we saw this happen with the introduction of the factory assembly line mass production of the automobile discussed in previous chapters. Henry Ford developed during the early 1900’s a new mass production paradigm that significantly changed the way work was done in car manufacturing. Ford’s success is succinctly described below:

Ford’s brilliance was that he understood the societal needs of the market—low-cost automobiles, and he invented the manufacturing system that reduced the cost of making them...With the aid of the moving assembly line, within just 13 years the number of Ford Model T’s produced in Dearborn increased from 40,000 to 2 million units annually. Nevertheless, the availability of high-quality interchangeable parts was a main technological enabler for the success of mass

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4 "The Knowledge-Based Economy," Organisation for Economic Co-operation and Development (OECD), [http://0-www.oecd.org.library.lausys.georgetown.edu/document/14/0,3343,en_2649_34269_1 894478_1_1_1_1,00.html](http://0-www.oecd.org.library.lausys.georgetown.edu/document/14/0,3343,en_2649_34269_1894478_1_1_1_1,00.html) (accessed October 17, 2009).

5 Ibid.

production. Prior to interchangeable parts, each piece of a product had to be individually made and fitted in the product assembly. This involved time-consuming precision labor throughout the entire production process. The availability of interchangeable parts technology dramatically reduced production costs and allowed the use of low-skilled workers to build cars. Mass production succeeded in lowered production cost, which, in turn, enabled reduction of the unit price. As prices lowered, more people could afford to buy the products, increasing the market for cars and resulting in even more sales, and therefore even greater production. More production created greater economies of scale, which lowered costs further; the lower costs enabled a further reduction in prices, and so on….7

Ford’s new paradigm changed not only automobile manufacturing, but it mechanized manufacturing in agriculture and later in other products like refrigerators and televisions. From 1913, the mass production era continued until its peak in 1955 when there was little variety but a high volume per product. For instance, in 1955 six car models by GM, Ford, and Chrysler accounted for 80% of all cars sold in the United States.8 During this time, the United States enjoyed being the world’s most successful mass-production economy, which required both rigorous discipline and narrow skill.9 Despite great success during the high volume mass production era, it was soon after this peak that the United States lost its competitive edge as a mass producer of standardized

7 Koren, "Globalization and Manufacturing Paradigms,” 27.
8 Ibid., 28.
People began to demand more than mass-produced standard goods and services because often they could afford more. Family income doubled between 1946 and 1972 in the United States, and America’s economic ‘golden age’ was mirrored in the rest of the world. As the world got richer, the appeal of standardized commodities and services declined. Competition shifted rapidly to new kinds of value added that required new kinds of skills….The traditional competition based on the ability to mass produce standardized goods and services and sell them at low cost has been gradually displaced by a competition based on a diverse mix of requirements and new value added…. [like quality, variety, customization, convenience, consistency, speed and continuous innovation and social responsibility.]

A significant foundation of the knowledge-based economy is the invention of completely new technologies. The 1980’s saw the introduction of the personal computer (PCs), and with it arrived new industries, companies and occupations. Thus, soon after, the Internet and the information technology (IT) age was born. IT and innovations in telecommunications spurred a major shift to service-sector growth with a focus on customization, which continues to fuel the decline of manufacturing in the United States.

This decline is evident. The Hudson Institute noted in Workforce 2020 that at the beginning of the 20th century, 63 percent of American workers manufactured goods and in 1900, 40 percent of the workforce farmed. By 1990, only 22 percent of the nation’s total workforce manufactured goods, with farmers making up less than 5 percent of the

10 Ibid.
11 Ibid.
12 Judy, D’Amico, and Geipel, Workforce 2020, 12.
workforce.\textsuperscript{13} They also noted that from 1983 to 1993 the manufacturing sector lost 627,000 jobs, demonstrating a shift from physical to white-collar work. The Bureau of Economic Analysis estimates that 83 percent of the American workforce will be in the service sector by 2025.\textsuperscript{14}

Figure 8 further demonstrates the decline of the percentage of GDP of the U.S. private manufacturing sector from 32\% in 1950 to 13.4\% in 2007.\textsuperscript{15}

![Figure 8: Manufacturing share of the U.S. Gross Domestic Product, 1950–2007 (as a percentage of the private industry). Source U.S. Dept of Commerce, Bureau of Economic Analysis.\textsuperscript{16}]

From 1950, the manufacturing sector was constantly the highest in GDP percentage until 2005; in 2006, the real-estate sector moved ahead (14.9\%) with

\textsuperscript{13} Ibid., 44.

\textsuperscript{14} Ibid.

\textsuperscript{15} Koren, "Globalization and Manufacturing Paradigms,” 4.

\textsuperscript{16} Ibid.
manufacturing second (13.8%), which aligns with the housing market bubble discussed in Chapter Two. 17

As a major economic sector in the U.S., the automation of car manufacturing has continued to evolve, spawned by new technologies and the globalization of production. This industry is transitioning into a knowledge-based economy, which is causing several major implications for auto workers: a change in the nature of the work, resulting in a shift in the type and location of jobs available, and the job security of the past may no longer exist.

As the nature of the work changes with the economy, there will be an increase in demand for highly skilled and well-educated workers, placing a value on both adaptability and flexibility, requiring workers to master technology and quickly cope with innovative changes in the workplace. 18 Employers seek workers who have mastered reading/writing, analytical and evaluation skills that allow them to use higher-level thinking strategies to solve company problems. 19 Better automation and information flow allows companies to do more with fewer employees as well. 20 Despite the fact that there

17 Ibid.
18 Judy, D'Amico, and Geipel, Workforce 2020, 49.
will be fewer in number, these types of jobs will pay the best and offer access to upward mobility. Consequently, competition for these jobs is intense.\textsuperscript{21}

Additionally, knowledge-based jobs are more geographically mobile; this is in contrast to manufacturing work in the past which was centrally based in metropolitan areas where the factories were located. \textit{Workforce 2020} noted that, “globalization will increase U.S. consumption of imported goods and services produced by low-skilled workers overseas.”\textsuperscript{22} Two-pronged, globalization will also increase the likelihood U.S. based companies will move manufacturing plants abroad to take advantage of lower production costs by using low-skilled workers overseas. Lastly, there will be pressure for employers in highly competitive markets, like auto sales, to only pay workers the value of what they produce, linking pay to performance.\textsuperscript{23} Workers unable to produce will not be retained; and on the other side of this coin, if consumers fail to purchase the products, workers will again no longer be needed.

Auto workers who are unable to adapt to these implications will suffer. The reality is many are struggling to adapt while others are making good efforts to do so. Nevertheless, the job security in this industry is fading quickly. Noted in an earlier chapter, influential union negotiators ensured that automobile manufacturers provided auto workers access to a middle class lifestyle by providing a “steady level of purchasing

\textsuperscript{21} Ibid., 26.

\textsuperscript{22} Judy, D'Amico, and Geipel, \textit{Workforce 2020}, 49.

\textsuperscript{23} Ibid.
power, comprehensive health benefits lasting into retirement, and various forms of workplace rights.”

For example, the United Auto Workers (UAW) union negotiated contracts highly favoring auto workers, which have progressively provided full benefits, perks, job and wage protections and a certain sense of job security since the 1950s. For decades, autoworkers enjoyed income gains, full health care benefits for themselves and their spouses into retirement, and full pension benefits. Additionally, they received access to a supplemental unemployment fund allowing autoworkers to receive almost full or full pay with health care when plants were closed. Also known as pay guarantees or jobs bank, these benefits created a feeling of entitlement for autoworkers that they have known their entire careers, especially since the time car manufacturing was booming in the U.S in the early 1900s until the 1950s.

Generations of autoworkers knew about the corporate obligations (benefits/perks) that their grandfathers, fathers and uncles enjoyed receiving; making it easy to join ranks in the guaranteed middle class lifestyle. Unfortunately, those days of prosperity are over. The financial burden of benefits packages rendered the U.S. manufacturing


25 Ibid.

industry vulnerable to serious competition domestically and internationally; this is in addition to the hardship of the financial crisis of 2008 on automakers and the workforce trends causing years of industry decline already at play.27

Consequently, some autoworkers are failing to embrace the changes in technology, and the fact that the unions no longer have leverage with the manufacturers in contract negotiations, is leading to extensive concessions. Workers are losing access to overtime, annual income increases, and ultimately, they are losing their jobs. Failing to adapt to the changes in the industry, the changes in the nature of the work, as well as, the changes in the union contracts (or the job security) because the corporations are no longer obligated to them, is causing many autoworkers a great deal of distress. To be competitive, auto manufacturers will embrace new innovations in automobiles, such as chip, electric, and solar technologies. This will require a new breed of better trained, knowledge-based workers further confirming the trend that a knowledge-based economy has arrived.

**Demographic Shift in Population**

Compounding the knowledge-based economy trend in the U.S. are the major demographic changes in population that will be detrimental to workforce conditions as the U.S. moves into the future, threatening its’ political leadership and economic prosperity. In relation to the looming skills shortage, one of the most widely talked about demographic shifts in population is the aging of the workforce.

27 Cohn, "Auto Destruct," *New Republic*, 16.
The Baby Boom generation (also known as the Boomers) are about 78 million strong according to the U.S. Census Bureau. Born from 1946 through 1962, they are reaching traditional retirement age now, or will over the next decade. Following the Boomers are the Generation Xers (b. 1963-1979), followed by the Millennials (b. 1980 to mid 1990s). Figure 9 demonstrates the birthrates in the United States between 1940 and 1980, highlighting the Baby Boomer Generation in red.

Figure 9: The distribution of birth rates in the U.S. with the Baby Boomers highlighted in red.

The skills shortage of major concern is caused by the decline in births between 1963 and 1980 (also demonstrated in Figure 9), resulting in a gap in the number of

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working-age adults entering the labor market during the 1980s through the 1990s.³⁰ Rob Salkowitz documented in his book, *Generation Blend* that “a widely quoted report from the U.S. Bureau of Labor Statistics estimated a shortfall of 10 million workers by 2010, based largely on the anticipated retirement of Boomers.”³¹ Noticeably, this gap is already being felt by the work world as Boomers begin to retire. Salkowitz continued that shortages in skilled workers are already affecting many industries, for instance, “a wave of retirements may carry away 60-70 percent of the public-sector workers in the United States by 2012,” where the median age of the workforce is older.³² In *Workforce Crisis*, Ken Dychtwald, Tamara Erickson and Robert Morison, summarized this issue simply:

We will have too few young workforce entrants to replace the labor, skills, and talent of boomer retirees. The more immediate the loss of skills and experience is already threatening the performance of many corporations. Since the generation after the boomers is much smaller, companies can no longer rely upon a relative profusion of younger workers. Even when they successfully hire and retain young workers, they are still trading experience for inexperience.³³

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³¹ Ibid.

³² Ibid., 22.

³³ Dychtwald, Erickson, and Morison, *Workforce Crisis*, 12.
Figure 10: Labor Force needed to maintain economic growth.\footnote{Figure adapted from Ken Dychtwald, Tamara J. Erickson, and Robert Morison, \textit{Workforce Crisis: How to Beat the Coming Shortage of Skills and Talent} (Boston: Harvard Business School Press, 2006), 10.}

Figure 10 demonstrates this gap.

Unexpectedly, the Financial Crisis of 2008, discussed in detail in Chapter 2, has affected this trend significantly. Current economic conditions have changed the behavior of Boomers significantly. Predicted in \textit{Workforce 2020}, older workers may be unable to afford retirement because their large numbers will drain Social Security and Medicare benefits, making it unlikely that either benefit will be generous to recipients by 2020.\footnote{Judy, D'Amico, and Geipel, \textit{Workforce 2020}, 94.}

As matter of fact, the trustees of the Social Security system projected in 1996 that the system would continue to produce a positive cash flow until 2011, but will be completely
exhausted by 2029 if no corrective measures are taken.\textsuperscript{36} Boomers will soon find that Social Security benefits paid out will eventually exceed taxes paid in.\textsuperscript{37} Further compounding this issue, Boomers may also lack the supplemental savings to retire, and their pensions, if they still exist, recently took a major hit in the stock market during the Financial Crisis of 2008.

Let us discuss the evolution of pensions very briefly. Unions in Detroit, during the 1960s and 70s, succeeded in creating pensions for autoworkers which often included retirement income and health benefits that outlived the employee and were passed on the a surviving spouse.\textsuperscript{38} During this same time period, the private sector transitioned from defined-benefit pension plans to defined-contribution plans. A defined-benefit pension pools contributions into a single fund, on behalf of all participants, with the plan sponsor (the company) bearing the risk with little bearing on investment performance. A defined-contribution pension, a 401(k)-type plan, places all contributions in individual accounts on behalf of each participant with the benefits directly linked to investment performance, shifting the risk to the worker.\textsuperscript{39}

\textsuperscript{36} Ibid., 95.

\textsuperscript{37} Ibid.

\textsuperscript{38} Tom Osenton, \textit{Boomer Destiny: Leading the U.S. through the Worst Crisis since the Great Depression}, (Westport: Praeger, 2009), 98.

Private sector workers with defined-contribution plans increased from 14.4 million in 1980 to 46.9 million in 1999 (a 225% increase). In contrast, workers covered by a more traditional pension (defined-benefit plan) decreased from 30.1 million in 1980 to 22.6 million in 1999 (a 25% decrease). There were also reports that companies have been dropping the defined-benefit plans as a part of bankruptcy proceedings, while other companies have significantly underfunded pension plans with a reported short fall of more than $275 billion in 2003 (this is up from $18.46 billion in 1999). With life expectancies increasing, Boomers are justifiably concerned that they will outlive their savings since their retirement pension plans took such a major hit recently in the stock market. This is also coupled with the fact that Social Security and Medicare benefits are projected to be drained.

**Demographic Shift in Education and Earnings**

Also compounding the graying of the workforce trend, there is huge concern about a mass exodus of Boomers who matriculated to college in large numbers in the early 1960s, creating one of the most educated generations in history. Boomers slated to retire will leave with a wealth of leadership experience, industry skills, and institutional knowledge that will be detrimental to the work world as we know it; creating a national brain drain. Unfortunately, today the number of workers with high school diplomas and college degrees is decreasing, causing the earning potential of the workforce to decline.

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40 Ibid.

41 Ibid.

Thus there are a lot less workers prepared for jobs in this knowledge-based economy and a lot less are prepared to take over vacant leadership roles in major corporations and industries.\textsuperscript{43}

It is estimated that 80 percent of the labor shortage will involve skills, not necessarily the numbers of workers potentially available. This brings us to recall previous discussions in this chapter and earlier chapters about structural unemployment and its effects on the workforce.\textsuperscript{44} Structural unemployment occurs when a worker’s skills are no longer suitable or no longer match the types of jobs available in the labor market. If Boomers do not leave the workforce as fast as predicted due to the lack of funds as mentioned, the trend of a brain drain may be curbed slightly.

\textsuperscript{43} The National Center for Public Policy and Higher Education, Policy Alert: Income of U.S. Workforce Projected to Decline if Education Doesn’t Improve, (San Jose: The National Center for Public Policy and Higher Education, 2005).

\textsuperscript{44} Dychtwald, Erickson, and Morison, Workforce Crisis, 9.
An additional trend affecting demographic population trends is education and earnings, which are also leading the U.S. towards detrimental circumstances. The National Center for Public Policy and Higher Education noted in a policy alert report entitled, *Income of U.S. Workforce Projected to Decline IF Education Doesn’t Improve*, that “the greatest increase in population growth in the U.S. workforce is occurring among those racial/ethnic groups with the lowest level of education”. A Business Week article reporting on the National Center for Public Policy and Higher Education’s report noted a key reason for concern: “As the highly educated Boomers retire, industries will struggle to replace them with mounting numbers of Hispanics and African Americans, who are far less likely to earn degrees (see Figure 11). Because workers with fewer years of education earn so much less, U.S. living standards could take a dive unless something is done.

Figure 11: Projected Change in U.S. Population by Age and Race/Ethnicity, 2000 to 2020


Ibid.
Workforce 2020 explained that “…Whites and Asians are far more likely than blacks and Hispanics to complete a four-year undergraduate program in the allotted time. Only 43 percent of blacks and 49 percent of Hispanics complete their degrees on schedule, whereas 58 percent of whites and 66 percent of Asians do so”. Figure 12 below demonstrates the population projections by race, while figure 13 (on next page) indicates that despite the growth of bachelor degrees among minorities, there is still a significant gap evident.

Figure 12: In the U.S., the white portion of the working-age population (ages 25 to 64) is declining, while the minority portion is increasing. 

Notes: Population projections are based on historical rates of change for immigration, birth, and death. Pacific Islanders are included with Asian-Americans. Alaska Natives are included with Native Americans. Projections for Native Americans are based on 1990 Census. The Census category “other races” is not included.

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48 The National Center for Public Policy and Higher Education, Policy Alert.
Figure 13: Percentage of the working-age population (ages 25 to 64) with bachelor’s degree or higher has increased for all racial/ethnic groups, but the gaps between groups have widened.\textsuperscript{49}

The National Center for Public Policy and Higher Education report also noted that this “projected decline in educational levels coincides with the growth of a knowledge-based economy that requires most workers to have higher levels of education.”\textsuperscript{50} The report also declared that “a drop in the average level of education of U.S. workers would depress personal income levels for Americans, in turn creating a corresponding decrease in the nation’s tax base.”\textsuperscript{51} This is problematic for a host of reasons; the U.S. tax base pays for public services, government operations, unemployment benefits, public

\textsuperscript{49} Ibid.

\textsuperscript{50} Ibid.

\textsuperscript{51} Ibid.
transportation, public utilities, health care, social security, and the public education system.

Naturally, the increasing diversification of the U.S. population changes the diversification of the workforce. The Hudson Institute’s *Workforce 2020* stated that it is increasingly critical for new workforce entrants – whether minority or white, male or female – to gain new skills.\(^{52}\) All workers, autoworkers as well, will need to improve their education and skills to be competitive and to reach higher incomes.\(^{53}\) These workforce trends prove that the economic climate has changed; specific actions are required of individual workers as well as Congress with regard to our domestic public policy agenda.

We are at a cross-road in the policy arena that will determine if the United States can make critical changes and needed sacrifices for the betterment of all workers. American middle class workers have a value system that truly believes in the American Dream. They understand that hard work can pay off for all workers when we all can share in the success.\(^{54}\) This can be achieved by approaching the issue of structural unemployment holistically, with the understanding that two complex areas of national public policy must rethink how policies are influenced, formulated, and implemented. Job creation and career skills retraining are critically needed for working middle class Americans to regain their footing and become a thriving workforce again. If not


\(^{53}\) Ibid.

\(^{54}\) du Bois, "The Dominant Value Profile of American Culture," 1233.
achieved, this financial crisis, and the workforce trends and their implications will continue to threaten the political leadership and economic prosperity of the United States, ultimately resulting in a reduced standard of living across the nation, and a declining competitive advantage for the United States in the growing global economy.
CHAPTER FOUR
CRISIS MANAGEMENT: THE ROLE OF ECONOMIC, EMPLOYMENT AND EDUCATION/TRAINING POLICIES THEN

In previous chapters, we established who the working middle class is, and how structural employment has affected them. We discussed how the financial crisis of 2008 occurred and how it shone light on several detrimental workforce trends. The next two chapters seek to explore how the United States government uses national public policy solutions as a crisis management tool during financial crises. The role economic, employment and education/training policies play is influenced by America’s goal to relieve the burden of the working class during drastic times.

History has shown that the financial crisis of 2008 was not the first time the American workforce experienced major upheaval which culminated in extreme national financial insecurity. The Great Depression of 1933-1941 began as an ordinary recession, but later became the worst economic collapse in America.1 In October 1929, values on the New York Stock Exchange abruptly collapsed, eliminating the steady prosperity built during the early 1920s. Author Robert Himmelberg documented in his book, *The Great Depression and the New Deal*, the prosperity of the 1920s prior to the Crash:

It was the newer, highly innovative industries that fueled the expansion of the 1920s. During the decade auto registration rose from 9 to 27 million as the automobile industry, led by Henry Ford’s highly affordable Model T, put ownership within the reach of a mass market. Electrical goods too flooded

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markets from new American factories as refrigerators replaced the “ice box” in a high proportion of urban homes, brooms gave way to vacuum cleaners, and radios brought entertainment, sporting events, and news in the homes. ²

The 1920s was also the time that Americans significantly increased their consumption patterns due to a wider opportunity to purchase consumer goods with installment payments or credit. They were also drawn into lucrative stock market investments, far more than ever before this time.³ Authors, Jim Couch and William Shughart II, acknowledge in their book, *The Political Economy of the New Deal*, that investors of the 1920s displayed ‘an inordinate desire to get rich quickly with a minimum of physical effort’ demonstrating that Americans in the new millennium did not behave all that differently than in the 1920s. ⁴

Unfortunately, this decade of prosperity came to an abrupt end when the stock market crashed in October 1929 causing one of the most devastating economic downturns in history, while leaving a quarter of the workforce unemployed.⁵ It should be noted that before the October 1929 crash the country was already facing an economic downturn, which destroyed consumer and business confidence, causing them to hesitate about spending. Despite the prosperity of many Americans during the 1920s, many others were not prospering as fast or at all. Anthony Badger, author of *The New Deal: The


³ Ibid., 7.


⁵ Ibid., 5.
Depression Years, 1933-1940, explained that during this time “too many Americans received incomes that could only sustain subsistence purchases.”\textsuperscript{6} He also explained that per capita income rose 28 percent during 1920-29, but per capita income for farms only rose 10 percent, causing the agricultural industry in the United States not to fare as well as other industries.\textsuperscript{7} Badger states accordingly:

The industrial and urban economy simply did not grow fast enough to absorb the surplus rural population. Nor did the lower-income workers proportionately share in the fruits of prosperity. Profits gained from rising productivity were not translated into higher wages….Structural poverty, irregular employment, and low wages meant that America was a consumer society without the capacity to consume.\textsuperscript{8}

For instance, communities dependent on automobile manufacturing began feeling the decline earlier in the year 1929. The average number of autoworkers employed in car manufacturing factories in Detroit dropped by 21.5 percent during the same period the year before.\textsuperscript{9} With cars sales tanking, Michigan’s unemployment rate had risen to 10.2 percent by April 1930.\textsuperscript{10} The national rate was 6.6 percent, while the Detroit and Flint rate was over 13 percent during the same time.\textsuperscript{11}


\textsuperscript{7} Ibid.

\textsuperscript{8} Ibid.

\textsuperscript{9} Ibid., 20.

\textsuperscript{10} Ibid., 20-21.

\textsuperscript{11} Ibid., 21.
As unemployment rose rather quickly, the economic condition all over the country continued to get worse as well. With detrimental results, the rising unemployment, the reduction of personal income, and the sharp reduction of spending quickly caused a series of banking panics leading to continued financial constriction.

Badger further explains:

In the absence of branch banking, too many banks in rural areas were small and lacked sufficient reserves to weather inevitable economic fluctuations. In 1930 as agriculture collapsed these banks were particularly vulnerable. 1,345 failed that year and their failure in turn made the plight of the farmer worse. As banks ran into trouble, so investors withdrew their funds to safeguard their assets and to meet Depression expenses. Their withdrawals put yet more pressure on the banks. The banks then tried to improve their cash position. They put more pressure on debtors, froze more assets, and slowed the economy further. As the economy worsened, the banks suffered more. 2,294 banks failed in 1931, 1,453 in 1932. The crisis spread from the rural banks to the large metropolitan institutions and in the autumn of 1932 moved from a crisis of individual banks to the complete collapse of credit in whole states. 12

As a result, one out of four workers were unemployed; most lost their savings in the bank failures, causing them to be unable to pay their mortgages, and many eventually lost their homes. Additionally, farmers lost their farms, their land and livelihood, causing poverty, suicide, and destitution to become pervasive across the United States. Something had to be done on a broader national level and quickly.

Shortly after being inaugurated, Franklin D. Roosevelt (FDR) gathered his cabinet advisors to discuss plans to alleviate the nation’s unemployment issues. 13 In his This Wilson Quarterly journal article, “The New Deal Reconsidered,” Bradford Lee noted:

12 Ibid., 31.

Apart from keeping their countrymen alive, [Roosevelt and his advisors] first goal was to bring the economy out of the Depression. Their second objective was to make the distribution of wealth and especially income more equal—or, as they were wont to say, more “balanced.” The major cause of the Depression, in Roosevelt’s view, was the relatively small amount of purchasing power in the hands of farmers and workers; the cure was redistribution of income. Finally, the New Dealers hoped to realign the groupings in American politics to keep the Democratic Party in power.14

FDR’s New Deal became the most famous First Hundred Days of his presidency, ultimately reshaping American institutions and providing the more than needed provisions to a struggling nation.15 History professor Roger Biles, explained in his journal article, Robert F. Wagner, Franklin D. Roosevelt, and Social Welfare Legislation in the New Deal that, “few scholars have disagreed with the assessment that the New Deal broke new ground in the area of social welfare by expanding the federal government’s role in providing aid to the unemployed and greater security for workers.”16 Until this time, public relief was most often provided by local governments, with state governments establishing legal guidelines and providing state aid to run hospitals or other types of categorical relief.17 Local governments were promptly over


15 Ibid., 62.

burdened by the soaring unemployment rate, which in the summer of 1932 was at 20%. As a crisis management tool to quickly relieve the burden, not only on the unemployed but the local and state governments providing relief, FDR sent 15 major legislative proposals to congress and 13 other major laws in his First Hundred Days. 

**Federal Emergency Relief Act and Administration (FERA)**

Among those proposals and laws was the Federal Emergency Relief Act, one of the first large-scale federal relief programs approved by Congress. The Act established the Federal Emergency Relief Administration (FERA) (1933-1937) and appropriated $500 million to FERA to spend over the first two years. Established as a cooperative program between the federal government and the states, half of the funds were allocated between the states on a matching basis – $1 of federal money for every $3 of state/local expenditures— and the other half, at FERA discretion, was dispersed based on need.

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18 Ibid.


21 Ibid.

22 Ibid.
FERA issued grants-in-aid to states that then dispersed them to local governments, which actually administered relief programs.  

FDR is quoted saying, “if farmers starve today, we will all starve tomorrow” and from his perspective, the previous Administration’s *laissez-faire* individualism approach would not cure the imbalances between technological change, production capacity or consumer income. From a social justice view, FDR and the New Dealers understood that for the unemployed, an opportunity to provide hard work for a fair wage would give them control of their own fate by restoring their economic security and their personal value system. Author Bradford Lee further explained:

> From the start, Roosevelt put his faith instead in “structural” measures that would directly raise prices and wages. If farmers got more money for the crops and workers got more for their labor, they would buy more goods; if there were increased demand and higher prices, businessmen would earn greater profits… “The aim of this whole effort,” Roosevelt declared, “is to restore our rich domestic market by raising its vast consuming capacity.”

With his policy intentions clear, FDR appointed Harry Hopkins of Iowa to run FERA. Hopkins’ relief programs under FERA were deemed the key to FDR’s early success in providing much needed relief for his fellow Americans quickly upon taking office.

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25 Ibid., 41.


Author Badger noted that Hopkins “perhaps more than any other New Dealer, also dreamed of a welfare system in which every American was guaranteed a measure of economic security” and “as a relief administrator, Hopkins combined compassion with tough-mindedness.” Hopkins established the doctrine that FERA would provide public relief as a right to citizens in need, which they could expect from their government.

With three primary objectives, FERA set out to provide relief measures, provide work for employable citizens and offer a diverse number of relief programs. Under Hopkins’ direction, FERA allegedly spent $5 million within two hours of his taking the helm.

Hopkins quickly found that the nation’s relief needs went beyond the $500 million appropriated, causing him to threaten Congress for more funding on numerous occasions. Between 1933 and 1935, Congress appropriated a little more than $4,000 million to FERA via five separate pieces of legislation with expanded direction for Hopkins to distribute funding directly to local governments at his discretion. Despite

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28 Ibid.
29 Ibid., 192.
31 Ibid.
this financial increase, FERA was disadvantaged by its lack of funds relative to the
enormous need. Badger noted in his book, *The New Deal* the following:

In 1935 FERA paid $25 to $29 per family per month which...was the average
pre-Depression weekly wage if regularly employed industrial worker and lagged
far behind the $100 or more per month regarded by many as the minimum
subsistence level. Yet for all these limitations in 1935 over $3 billion was spent
in public relief aid compared to $208 million in 1932. The FERA was largely
responsible for this quantum leap and its existence rescued many Americans from
the threat of starvation.\(^{35}\)

Despite this leap, Hopkins believed that direct relief should be replaced with work relief,
which would provide proper jobs to the unemployed, avoiding the humiliating nature of
direct relief. First, Hopkins led FERA to impose wage and hour policies on state and
local programs. Seeking the elimination of “unduly depressed wage rates, excessive
hours of work, widespread disregard of skilled differentials, and the absence of definitive
hourly and daily wage policies,” noted by authors Arthur Edwards Burns and Peyton Kerr
in their journal article, *Recent Changes in Work-Relief Wage Policy*.\(^{36}\) While the same
authors in another article, *Survey of Work-Relief Wage Policies*, noted that “FERA work-
relief policies represented a point of view concerning relief employment problems rather
than hard-and-fast regulations. The actual administration of relief was a state and local

\(^{35}\) Badger, *The New Deal*, 196.

\(^{36}\) Arthur Edward Burns, and Peyton Kerr, "Recent Changes in Work-Relief Wage
www.jstor.org.library.lausys.georgetown.edu/stable/1804230](http://0-
www.jstor.org.library.lausys.georgetown.edu/stable/1804230) (accessed October 16,
2010).
responsibility” and states exercised wide discretion in applying the policies, and practices varied between the states.³⁷

Despite state discretion, monthly earnings did increase through work-relief employment as shown in the recreated table below:

<table>
<thead>
<tr>
<th>Year and months (1933)</th>
<th>Number of persons employed</th>
<th>Average monthly earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>May</td>
<td>1,902,000</td>
<td>$13.23</td>
</tr>
<tr>
<td>June</td>
<td>1,645,000</td>
<td>13.76</td>
</tr>
<tr>
<td>July</td>
<td>1,679,000</td>
<td>12.85</td>
</tr>
<tr>
<td>August</td>
<td>1,718,000</td>
<td>13.85</td>
</tr>
<tr>
<td>September</td>
<td>1,439,000</td>
<td>15.26</td>
</tr>
<tr>
<td>October</td>
<td>1,464,000</td>
<td>16.96</td>
</tr>
<tr>
<td>November</td>
<td>1,553,000</td>
<td>13.98</td>
</tr>
<tr>
<td>December</td>
<td>167,000</td>
<td>20.77</td>
</tr>
</tbody>
</table>

Figure 14: Work Relief Employment and Earnings May through December, 1933³⁸

Hopkins then secured $400 million for the Civil Works Administration (CWA), a short term work relief program that adopted the pre-established wage policies. Author Badger explained:

The [program] was launched in breathtaking speed. On 2 November Roosevelt gave his approval; on 15 November Hopkins outlined his plans to local officials; by 23 November the CWA was paying its first [checks] to 814,511 workers. By Christmas 3.5 million were employed. By 18 January 1934 the workforce totaled 4.2 million…. The bulk of the projects – 95 percent—were for road building and

³⁷ Ibid., 713.

³⁸ Ibid., 714.
repairs and for the construction and repair of public buildings. Two million laborers worked on 500,000 miles of roads in record-breaking cold temperatures. CWA workers built and improved 40,000 schools, 3,500 parks, playgrounds and athletic fields, and 1,000 airports.\(^{39}\)

CWA was later replaced by FERA’s Emergency Work Relief Program, which continued to be heavily engineering and construction projects. Alternatively, the Emergency Work Relief Program also provided projects for white-collar workers. Noted in the University of Washington’s Digital Collections essay, *The Federal Emergency Relief Administration (FERA)*, “it had been estimated that there were about 560,000 white-collar workers between the ages of 16 and 64 on the relief rolls in March 1935, approximately 11 percent of all employable persons were on relief rolls at this time.”\(^{40}\) Hopkins understood that meeting the relief needs of this population adequately became a concern that had to be addressed.

For instance, after noticing an increasing number of unemployed teachers on the rolls, Hopkins implemented an emergency education program that allowed FERA to put to work thousands of teachers teaching the unemployed who wanted instruction. The success of the program was quickly evident:

In March 1935, at the peak of the emergency education program, more than 44,000 persons were employed and the number of pupils was slightly higher than 1,724,000. Each state could choose to develop or emphasize any or all of the following, depending on local conditions: 1) General adult education; 2) literary classes for adults; 3) vocational education; 4) vocational rehabilitation; and 5) nursery school for pre-school children from underprivileged homes.\(^{41}\)


\(^{40}\) University of Washington Libraries Digital Collections, "Essay.”

\(^{41}\) Ibid.
Despite demonstrating effectiveness in providing work-relief, FERA was phased out due to uncontrolled expenses and with significant criticism. Congress and state governors complained about the power Hopkins had when administering grants in the early start of FERA. Hopkins imposed conditions on federal grants requiring states come up with funds of their own to match. Hopkins was also known to ask for additional funds from the state and if they did not comply he would pull the federal grant completely.

For example, John Joseph Wallis explained in his article, “The Political Economy of the New Deal Fiscal Federalism,” that “on 20 December 1933 Hopkins discontinued grants to Colorado until the legislature acted to cooperate on a reasonable basis” and “Hopkins also suspended grants to Missouri and threatened to cut off grants in a number of other states.”

Using the grants in a strategic manner, Hopkins was able to increase state and local participation in providing relief but Wallis noted that “some state governors claimed he was ‘playing politics with relief’, other governors vigorously disputed federal authority, and every governor must have wondered what kind of strategic behavior on his part would lead to the largest federal grant with the lowest possible state expenditure.”

Hopkins was also known to sanction states by taking over the administration of relief in a state. He did so in six states, mostly due to the states’ unwillingness to share the burden of the relief and administer relief in a manner

43 Ibid., 518.
consistent with Hopkins’ intentions. In the end, state administrators knew that they were under Hopkins’ thumb and “when faced with an all-or-nothing offer with unemployment at 20 percent, few politicians took the zero option,” declared Wallis.

Despite the complaints and congressional inquiries, FERA met its intended objectives and provided much needed relief to the unemployed and their families. Facing a daunting crisis, FDR and Hopkins managed the crisis with unprecedented legislative policies to create immediate and long term change.

**National Labor Relations Act (NLRA) – Wagner Act**

FDR and the New Dealers’ success in creating jobs during the Great Depression was critical, but they also set out to provide workers with social justice in the workplace as well. Conditions for workers were commonly unsafe, thus not worker centric, and rarely protected workers from management abuses. Jonathan Cohn declared in his article, “Auto Destruct,” the following:

Building cars has never been cushy. And, as the late as the mid-1930s, it was a good deal worse than that – particularly during times, such as the Great Depression, when the high demand for jobs put workers at the mercy of management. At factories like the General Motors complex in Flint, Michigan, work was tedious, physically demanding, and frequently dangerous. Injuries abounded as foremen sped up assembly lines in an effort to weed out weaker workers. Workers were afraid to take breaks lest capricious supervisors gave away their jobs…They didn’t have formal or legal channels for recourse. Collective action wasn’t much of an option, either, since carmakers were under no obligation to bargain with unions and had few constraints on their anti-union activities.

44 Ibid., 519.

45 Ibid., 518.

Additionally, author Joyce Shaw Peterson declared in her book, *American Automobile Workers 1900-1933*, that autoworkers complained about mass production features of their work on the factory floor, like the “tension of their work, the pace of the line, the inability to exert control over pace, the impossibility of making a mistake without having it affect everybody else.”\(^47\) She noted that men, including foremen, were known to break down mentally and physically due to these conditions, especially the sped-up nature of the assembly line implemented by management, which during this time “symbolized auto work even for many who had never seen the inside of an auto factory.”\(^48\) When companies shifted pay to group output, meaning men were paid according to how a group of workers or a department produced an output on the assembly line, the tension of the work and the pressure to move faster increased.\(^49\) These work conditions often made faster workers help the slower ones along or “there were instances of workers fighting outside the plant, faster workers beating up slower ones to persuade them to work faster and keep pay rate high.”\(^50\)

The irregularity of the work and abuse by foremen were also major complaints of the autoworkers. Peterson explained:


\(^{48}\) Ibid., 43.

\(^{49}\) Ibid., 48.

\(^{50}\) Ibid., 49.
Men might wait long hours and be told to go home. Or they might work a few
days and be laid off. Or it could be weeks of steady overtime and then nothing.
“How many days are you going to work this week?” was the standard question
from the auto worker’s wife; and the worst of it was that he had no way of
knowing...Seniority had no bearing on layoffs; therefore, predicting how much
employment workers would have during a year was difficult...With no seniority,
the foreman could exert considerable pressure on the men to do him favors in
order to retain their jobs when layoffs occurred. Workers complained about
foreman asking them to work on their houses on Saturday, cut their lawns, buy
liquor from their stills...make regular dollar contributions, and even contribute
their wives for sexual favors. While some of these complaints suggest legends,
foreman did make personal demands and the system provided no process whereby
workers’ complaints could be heard.51

Despite these work conditions, the auto industry still was an attractive place to work,
compared with other limited alternatives, due to its reputation as a high-wage industry
that eventually “submerged” the complaints and maintained management control until the
Great Depression.52 This coincides with the rarity of company unions and the
ineffectiveness of auto industry walkouts before 1933.53 Peterson further explained that
“the pace might be rugged, the work rules rigid and dehumanizing and the work itself
mind-numbing and grueling, but as long as the paycheck was one of the highest in the
nation for blue collar labor, unionization never scored large successes.”54

With its hardship on workers and the bottom line of auto manufacturers, the
depression provided the right opportunity to talk about the problems on the factory floor.

With the intention to transform life on the factory floor in many industries, including

51 Ibid., 53.

52 Ibid., 70.

53 Ibid., 103.

54 Ibid., 104.
automobile manufacturing, FDR signed into law the National Labor Relations Act (NLRA) on July 5, 1935. Also known as the Wagner Act after its chief sponsor, Senator Robert R. Wagner, the NLRA ultimately protected workers right to join or form unions and engage in collective bargaining. Wagner possessed a personal passion for an economic recovery plan and compassion for factory workers, which is noted by his earlier success during the previous administration in passing “fifty-seven bills that instituted guarantees ranging from shorter workdays to minimum requirements for fresh air and sunshine, the most significant being a compulsory workmen’s compensation law…,” explained Roger Biles in his article, “Robert J. Wagner, Franklin D. Roosevelt, and Social Welfare Legislation in the New Deal.”

The National Labor Relations Act of 1935 (NLRA or Wagner Act) was a profound victory for organized labor in the United States, establishing the National Labor Relations Board (NLRB), charged with ensuring workers the right to bargain collectively. The NLRB possessed the power to issue cease and desist orders against employers in violation of the Act and had the authority to compensate workers with back pay if it was deemed that they were improperly discharged. The law also prohibited child labor, established a minimum wage, and banned several unfair labor practices by both


companies and unions. Additionally, companies could not discriminate against union members in the workplace, which established legislative favoritism for unions.58

Author Anthony J. Badger, in his book *The New Deal: The Depression Years, 1933-1940*, declared Robert Wagner, along with his advisers, and the National Labor Relations Board (NLRB) responsible for establishing the framework of the Act. Badger went on to explain that they had two goals for the Act: first, that labor organizations should enable workers to gain a more equitable share of the national income ultimately, providing more purchasing power, which “Wagner believed was a pre-condition for genuine economic recovery.” 59 The second goal was to establish a model of industrial relations to include impartial arbitration provisions advocated by academics trained in labor relations problems.60 FDR and Wagner used this legislation to provide social justice to workers, giving them protections not previously available.

Protections via the Wagner Act made a difference by making the unions less vulnerable to employers, but it took some time to show these benefits and required Supreme Court intervention. Thomas E. Hall and J. David Ferguson, authors of *The Great Depression: An International Disaster of Perverse Economic Policies*, described the situation:

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58 Ibid.


60 Ibid.
From 1935 to 1937 workers would vote for union representation only to see the company refuse to bargain collectively with the workers’ bargaining unit. The ongoing labor unrest associated with strikes over union representation continued. There were several violent strikes during this period, including a disastrous episode in U.S. labor history: the Memorial Day Massacre outside a Republic Steel Plant in Chicago left ten workers dead and many more seriously wounded. According to testimony before a congressional committee investigating the incident, the steel companies had prepared for the strike by “spending $43,901.88…for machine guns, revolvers, tear gas, and bombs.”

Violence at auto factory plants was documented by author Joyce Shaw Peterson in *American Automobile Workers 1900-1933*. The Ford Hunger Strike of March 7, 1932, sponsored by the Detroit Unemployed Council, had the goal of dramatizing the plight of the unemployed and included grievances on behalf of workers still employed at Ford. Peterson described the event succinctly:

As the marchers assembled on Detroit’s west side, they carried banners demanding GIVE US WORK and WE WANT BREAD NOT CRUMBS. As their numbers increased to almost 3,000, they proceeded without incident through Detroit to the Dearborn city line. Instead of being allowed to present their petition, the marchers were met at the Dearborn city line by fifty Dearborn policemen who ordered them not to cross into the city. Defying the police order, the marchers continued into windblown tear gas and on to the Ford employment gate where a battle ensued between marchers, Dearborn police, and Ford servicemen. The marchers, angered by the tear gas and police refusal to allow them to move ahead, picked up rocks and chunks of frozen earth and hurled them at the police, who, with the Ford servicemen, opened fire, killing four marchers and wounding at least fifty others.

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61 Hall and Ferguson, *The Great Depression*, 143.

Before the Wagner Act, unions would often collapse, or membership would drastically drop, if they were defeated by the employer after a failed strike or negotiation. \(^{63}\) NLRB decisions eventually forced employers vehemently against the Act to recognize unions. \(^{64}\) Unionization and the position of organized labor grew significantly once the Wagner Act was upheld by the Supreme Court in 1937, allowing unions to gain negotiating power without a great deal of violence. \(^{65}\)

The Wagner Act also raised the wage differential between unionized and nonunionized workers. In *The Great Depression: An International Disaster of Perverse Economic Policies*, Thomas E. Hall and J. David Ferguson declared that “when the act passed in 1935, unionized workers earned about 2 percent more than nonunion workers. By 1939, the differential was around 10 percent, and by 1941 it was over 23 percent.” \(^{66}\) Additionally, unionization created a sense of job security for workers who often arrived at the factories not knowing whether they would be hired, fired or told to go home early. Unionized workers felt more secure knowing that each day they went to work they had a job. Unions also created a system of “industrial justice” in the form work rules, seniority rights and formalized grievance procedures designed to protect workers, thus greatly improving the work conditions for American workers. \(^{67}\)

\(^{63}\) Badger, *The New Deal: The Depression Years*, 136.

\(^{64}\) Ibid., 137.

\(^{65}\) Hall and Ferguson, *The Great Depression*, 143.

\(^{66}\) Ibid.

\(^{67}\) Cohn, "Auto Destruct," 15.
It is with little surprise that employers were at the top of the list of critics of the Wagner Act, which seeks to protect employees. During the time of the Act, employers contended that the Act discriminated against them and provided no avenue for employers to file complaints.\(^{68}\) They also believed that the Act only prohibited employer coercion but established no penalties for abuses by unions.\(^{69}\) Additionally, they contested the notion that the Act assumes that there is a fundamental conflict of interests between management and labor, and erroneously concludes that unionization under government protection will resolve this conflict.\(^{70}\) Employers have also been critical of the NLRB and its administration of the Act predominantly on the basis that the Act is prejudicial against them.\(^{71}\)

Unions also were critical of the NLRB because after it resolved the anti-union practices of employers it took measures to professionalize industrial relations by creating federal guidelines of collective bargaining and restricted union freedoms.\(^{72}\)

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\(^{69}\) Ibid., 33.

\(^{70}\) Ibid., 32.

\(^{71}\) Ibid., 35.

\(^{72}\) Badger, *The New Deal: The Depression Years*, 142.
government protections that accompanied the restrictions, unions reluctantly followed the guidelines.\textsuperscript{73}

Ultimately, the National Labor Relation Act of 1935 and its governing board, the National Labor Relations Board, were successful in improving the working conditions and wages that have been discussed in detail. FDR and Wagner succeeded in providing the social justice that they intended, and used legislation as a crisis management tool during the Great Depression.

\textsuperscript{73} Ibid., 143.
CHAPTER FIVE
CRISIS MANAGEMENT: THE ROLE OF ECONOMIC, EMPLOYMENT AND EDUCATION/TRAINING POLICIES NOW

Like Franklin D. Roosevelt (FDR), President Barack Obama was inaugurated during a time of drastic economic crisis. When Obama took office in January 2009, Congressional Digest noted in their April 2009 issue, that “he faced widespread recession among global economies, a domestic housing and banking crisis, a $1.3 trillion budget deficit, and the highest U.S. jobless rate in a quarter of a century – with household wealth having plummeted 18 percent since 2008. This financial meltdown was generally thought to be the most critical the country had experienced since the Great Depression.”¹

Uniquely, both presidents were challenged to turn a major crisis into an opportunity. Time Magazine’s managing editor, Richard Stengel, in its’ July 6, 2009 issue noted, “[FDR] was a modern paradox: a revolutionary for stability, a political innovator who was intent on building a system that would be less risky for the American people.”² Stengel concluded, “That’s the same challenge Obama faces today.”³


³ Ibid.
Chapter Two discussed in great detail the state of the union today and provided a detailed context for the circumstances in which the Obama Administration is currently legislating crisis management. Obama, like FDR, has been intensely determined to seize the occasion to shape a legacy of reforms that will be durable for future generations.\textsuperscript{4} It is also important to note, unlike the well documented Great Depression, the Great Recession of 2008 is still an active crisis in recovery, thus corrective measures and their full impact are still in progress and under analytical review.

\textit{American Recovery and Reinvestment Act of 2009 (Recovery Act)}

One of the Obama Administration’s first priorities toward economic justice and opportunity was the American Recovery and Reinvestment Plan (“Plan”). The Plan proposed the creation of three to four million jobs by the end of 2010, tax cuts and fiscal relief to the states, business tax cuts, federal funding for construction and manufacturing industries, investments in clean and renewable energy, and a middle class tax cut.\textsuperscript{5} The plan quickly resulted in the enactment of the American Recovery and Reinvestment Act of 2009 (Recovery Act) on February 17, 2009, becoming the $787 billion economic “booster shot” and the largest domestic spending effort in U.S. history.\textsuperscript{6}


Often compared to FDR’s New Deal, the Recovery Act is almost all genuine stimuli spending. Christina Romer, Chair of the President’s Council on Economic Advisors, in a speech at the National Association for Business Economics 25th Annual Washington Economic Policy Conference on March 3, 2009 agreed:

And this is the stuff of conventional textbook stimulus – tax cuts for 95 percent of families; direct aid to people hurt by the recession, through increased spending on programs like unemployment insurance and Food Stamps; checks to state and local governments so they don’t cut services and raise taxes; and direct government spending on infrastructure, education, energy efficiency, and other valuable programs.7

In their working paper, *Distributional Impact of the American Recovery and Reinvestment Act: A Microsimulation Approach*, authors Ajit Zacharias, Thomas Masterson, and Kijong Kim, also noted that according to the administration, the Act’s “transfers and tax cuts are expected to provide relief to low-income and vulnerable households especially hurt by the economic crisis and, at the same time, support aggregate demand.

Below is a detailed breakdown of the Recovery Act spending in dollars with a pie chart (on next page) demonstrating its many areas of focus.8

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American Recovery and Reinvestment Act

<table>
<thead>
<tr>
<th>Program</th>
<th>$ in Billions</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Cuts</td>
<td>268</td>
<td>37%</td>
</tr>
<tr>
<td>State and Local Gov</td>
<td>144</td>
<td>19%</td>
</tr>
<tr>
<td>Infrastructure and Science</td>
<td>111</td>
<td>14%</td>
</tr>
<tr>
<td>Social Programs</td>
<td>81</td>
<td>10%</td>
</tr>
<tr>
<td>Health Care</td>
<td>59</td>
<td>7%</td>
</tr>
<tr>
<td>Schools and Training</td>
<td>53</td>
<td>7%</td>
</tr>
<tr>
<td>Energy</td>
<td>43</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>1%</td>
</tr>
</tbody>
</table>

Figure 15: Breakdown of Recovery Act Spending in Dollars by Program.

Figure 16: Breakdown of Recovery Act Spending in Dollars by Program (Pie Chart).

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10 Ibid.
As mentioned earlier, when aspiring to create positive change for American workers, it is important that policies used as a measure of improving drastic times must reflectively consider its influences (values), and its roles, along with its sustainability. Obama and his administration have been clear about what values influence their policies. In his speeches and writings, Obama has proclaimed a need for economic justice and economic opportunity to reclaim the American Dream. “At this time of economic crisis, when so many people are in need of help, this work [of helping Americans] could not be more urgent,” stated President Obama in a March 2009 Time Magazine column called Viewpoint. He states, “…while we can’t necessarily bend history to your will, you can do your part to see that, in the words of Dr. King, it ‘bends toward justice.”\(^{11}\)

In his February 24\(^{th}\) address to a joint session of Congress, he also declared that America was emerging from an era when “too often, short term gains were prized over long-term prosperity” and “critical debates and difficult decisions were put off for some other time on some other day.”\(^{12}\) He continued, “the day of reckoning has arrived” and it was “time to act boldly and wisely – to not only revive this economy, but to build a new foundation for lasting prosperity.”\(^{13}\) The Recovery Act distinctly provides economic justice and opportunity focused on investments to rebuild America. Additionally, it demonstrates the Administration’s value for the middle class and working families by providing direct economic relief for those who have been suffering the most.


\(^{12}\) "Reshaping National Priorities," *Congressional Digest*, 97.

\(^{13}\) Ibid.
According to the Government Accountability Office (GAO) report, *Recovery Act: Status of States’ and Localities’ Uses of Funds and Efforts to Ensure Accountability*, “[as] of November 27, 2009, $69.1 billion, or about one quarter of the approximately $280 billion of total Recovery Act funds for programs administered by States and localities, had been paid out. Health, education, and training accounted for almost 85 percent of Recovery Act outlays to date for programs administered by States and localities.”\(^\text{14}\) This is further demonstrated by the figure 17.

![Figure 17: Recovery Act funds for programs administered by States and localities paid out by November 27, 2009.](http://www.recovery.gov/Accountability/Documents/d10231.pdf)

The Recovery Act declared big goals at the start and Congress ensured that there would be accountability, including the timely tracking of the number of jobs saved or created by


\(^\text{15}\) Ibid.
addressing it in the bill’s legislation. “Title XV requires entities that receive ARRA [Recovery Act] appropriations from Federal agencies (e.g., grant, loan, or contract recipients; states) to include in their quarterly reports to the agencies estimates of the number of direct jobs created and retained…,” according to the March 2010 Congressional Digest Report, *Recession Job Loss and Creation: Measuring Impact*. Using these accountability tools, this stimulus crisis management legislation has shown positive affects in slowing job loss demonstrated by the chart below.

![Figure 18: Job losses by month pre and post Recovery Act.](image)

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In its February 2010 report, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From October 2009 Through December 2009*, the Congressional Budget Office estimated “that in the fourth quarter of the calendar year 2009, ARRA [the Recovery Act] added between 1.0 million and 2.1 million to the number of workers employed in the United States, and it increased the number of full-time-equivalent jobs by between 1.4 million and 3.0 million.”

Despite positive gains, the Recovery is still marred by the same controversy that existed when the initial Plan was proposed by then President-elect Obama, and when the Act was on Capitol Hill for passage. The April 2009 Congressional Digest, *Reshaping National Priorities: The Obama Economic Agenda* noted, “The stimulus package provoked a fierce debate on Capitol Hill – despite initial pledges of bipartisan cooperation on both sides – and passed without a single Republican vote in the House and only three in the Senate.”

Democrats have been adamantly positive about the Recovery Act, despite some who have expressed concern that it was not big enough to overcome job losses and

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19 "Reshaping National Priorities," *Congressional Digest*, 97.
stabilize the economy. Supporter, Christina Romer, Chair of the President’s Council on Economic Advisors declared, “In my mind, the American Recovery and Reinvestment Act, together with the financial stabilization plan and housing reforms…may provide just such a Rooseveltian moment…When the history of this [economic] episode is written, I believe the Recovery Act signed on February 17th will be seen as the beginning of the end of the worst recession in postwar history.”

Republicans, not nearly as optimistic, were noted in the April 2009 Congressional Digest, *Reshaping National Priorities: The Obama Economic Agenda* as:

…[objecting] to the bill’s massive size and high price tag, saying it would lead to a permanent expansion of government that would place additional burdens on taxpayers and constrain markets. They charged that the package contained wasteful spending on special interest projects, without addressing the mortgage crisis or providing tax relief that would create private-sector jobs. Some on the far right accused the Democrats of using the economic crisis to impose a socialistic agenda.

Economists have also been significantly divided on the Recovery Act’s value and effectiveness. UCLA professor of Economics and director of the Ettinger Family Program in Macroeconomics Research, Lee E. Ohanian, explained in his *Forbes Magazine* guest commentary the following:

There are a number of economists who strongly object to even the basic idea that government spending is a useful tool during this crisis. For example, 1995 Nobel Laureate Robert Lucas called multiplier estimates from Economy.com “schlock economics”; John Cochrane of the University of Chicago has called government spending stimulus “a fallacy”; Robert Barro of Harvard called one version of the

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20 Ibid.

21 Romer, "Fiscal Policy and Economic Recovery."

22 "Reshaping National Priorities," *Congressional Digest*, 97.
[Recovery Act] “the worst bill that has been put forward since the 1930s.”… On the other side of the debate, however, Nobel Laureate Paul Krugman has written that “first-rate economists keep making truly boneheaded arguments against [stimulus].” Others, like Robert H. Frank of Cornell, have also come out punching for stimulus.23

Ohanian goes on to basically explain that arguments in favor come from the view that government spending increases aggregate demand, which increases real output and income; while spending skeptics believe “that the impact of government spending depends critically on what the spending is on, and how it is ultimately financed…. [and] studies that include the important requirement that higher spending must be ultimately financed with higher tax rates find that government spending expansions do not expand the economy.”24 Either way this legislation was specifically used to resolve issues caused by the Great Recession.

**Jobs for Main Street Act of 2010 (Jobs Bill)**

In spite of the debate over the Recovery Act, and despite success slowing job losses, families and small businesses were still struggling to make ends meet. The Great Recession has led to wage cuts and a reduction in education and health services that have been detrimental to working families. President Obama, on December 8, 2009, proposed additional incentives to ignite hiring on Main Street, specifically noting that more government intervention is still required.25


24 Ibid.

25 "Legislative Background on the Jobs Bill," *Congressional Digest* 89, no. 3 (March 2010): 79, [http://0-
In response, the House quickly modified a current measure, the Commerce-Justice-Science Appropriations Act of 2010, by substituting the Jobs for Main Street Act of 2010 (Jobs Bill) as Division A of the Act and the Statutory Pay-As-You-Go Act of 2009 as Division B. Revised, the Act passed in the House (H.R. 2847) on December 16, 2009. A unique aspect of the House’s version of the Jobs Bill was it would be partly funded by redirecting $75 billion unused funds from the Troubled Asset Relief Program (TARF), also known as the Wall Street Bailout. In its March 2010 issue, Congressional Digest explained in *Job Creation: Seeking Bipartisan Solutions to Put People Back to Work*, exactly how the bill would help Main Street:

The $154 billion measure [Jobs Bill] includes $27.5 billion for highway projects and $8.4 billion for public transit. It also provides $23 billion to prevent teacher layoffs and allows the U.S. Small Business Administration to continue backing loans to small businesses. Other expenditures would support law enforcement jobs, Amtrak, water quality improvements, green technology projects, housing rehabilitation, and rental assistance. More than half the funding in the bill -- $79 billion – would go towards social safety net programs, such as extended unemployment benefits, Medicaid, COBRA (portable health insurance coverage for those in between jobs).

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26 Ibid.


Additionally, the bill intended to specifically stabilize public service jobs such as teachers, firefighters, and police officers by allocating $23 billion for an Education Jobs Fund, $1.18 billion to hire over 5,550 law enforcement officers nationwide, and $500 million to retain, rehire, and hire firefighters. Nearly 6,000 firefighters have been laid off or are subject to layoffs due to the Great Recession.29 In the area of training and education, the Jobs Bill would allocate $300 million to support low- and moderate-income undergraduate and graduate students through the College Work Study program; and another $750 million would be used for competitive grants intended to support job training in high-growth and emerging industries like health care and green industries.30

Despite its great ambition, and support from President Obama, the Jobs Bill was significantly dismantled in the Senate. To expedite passage, the Senate attempted to work across party lines to compromise on a smaller version of the bill. Delayed by record breaking snow storms in February 2010, the Senate was under a great deal of pressure as important provisions of the Recovery Bill (i.e., the unemployment benefits extension) were set to expire.31 Although still dubbed the Jobs Bill, it was after 123 House and Senate amendments were proposed and negotiated revising the bill, that the

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29 "Jobs for Main Street Act Summary," Congressional Digest, 77-96.

30 Ibid.

31 "Legislative Background on the Jobs Bill," Congressional Digest, 79.
Senate passed the bill on March 17, 2010. President Obama signed the bill into law, as it was re-titled the Hiring Incentives to Restore Employment Act of 2010 (HIRE Act).

The result of a significant dismantling of the original $150 billion package, the HIRE Act was enacted as a $17.6 billion dollar effort to spark hiring nationwide by providing “employers an exemption from their 6.2% Social Security payroll contribution for every new employee hired through the rest of the year, as long as that employee had been out of work for at least 60 days. An additional $1,000 income tax credit would be allowed for every new employee kept on the payroll for 52 weeks,” noted writer James Oliphant in his March 17, 2010 Los Angeles Times article, Jobs bill headed to Obama’s desk. Additionally, the Jobs Bill will fund $20 billion into highway and transit programs with the intention to fund more American infrastructure growth right before the start of the construction season. In the May 2010, HRFocus News Brief column, HIRE Act Will Bring Tax Breaks to Employers Hiring Unemployed Workers, produced by the Institute of Management & Administration, it was noted that “… the law establishes a new $4.6 billion Build America Bonds program that will provide an optional direct


subsidy payment in lieu of a tax credit for bonds issued for certain school and energy projects. The program will be modeled after a similar program that was part of the [Recovery Act].”35

Thomas L. Hungerford, a Section Research Manager and Jane G. Gravelle, a Senior Specialist in Economic Policy, explained in their January 22, 2010 Congressional Research Service report, *Business Investment and Employment Tax Incentives to Stimulate the Economy* the following:

Employment and Wage subsidies are designed to increase employment directly by reducing a firm’s wage bill. A firm’s wage bill for labor includes wages and salaries paid to employees, the cost of fringe benefits (e.g., health insurance and pensions), hiring costs, and taxes paid such as the employer’s share of the payroll tax. These subsidies can take many forms. For example, earnings or time spent working can be subsidized. Furthermore, the subsidies can be incremental or non-incremental – that is, new hires are subsidized or all workers are subsidized. The subsidies can be targeted to certain groups of workers such as disadvantaged individuals, or can be available for any worker.36

The HIRE Act specifically encourages employer’s efforts on retaining new hires of unemployed workers, but experts are not in agreement that employer tax incentives will result in the projected job increases that bill supporters projected.


Supporters reported that the Jobs Bill will create 250,000 jobs by the end of 2010 and many more in 2011. The CBSNews.com article, *Jobs Bill Signed Into Law by Obama* by Brian Montopoli noted that, “Democrats say it is the first step in a series of bills designed to encourage job growth” and “In signing the bill, called the HIRE Act, the president said that while government can't be the only solution to address lagging employment in the wake of the recession, it can serve to ‘promote a strong, dynamic private sector’ that can drive job creation.” IRS Commissioner, Doug Shulman stated, "These tax breaks offer a much-needed boost to employers willing to expand their payrolls, and businesses and nonprofits should keep these benefits in mind as they plan for the year ahead."

Critics and organization opponents of the Jobs Bill expressed grave concerns about it repeating the failures of the Recovery Act by funding programs included in the original stimulus bill that have failed to produce real results or real jobs. “Opponents also objected to the use of the Wall Street bailout money, which they argued should go

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38 Ibid.


instead toward reducing the deficit, now at $1.4 trillion. Record unemployment benefits, they contended, have contributed to a wave of Federal borrowing and State tax hikes that will stifle job growth for years to come,” explained in the Congressional Digest March 2010 issue article, *Job Creation: Seeking Bipartisan Solutions to Put People Back to Work.*

Additionally, Thomas L. Hungerford and Jane G. Gravelle documented concerns about the effectiveness of tax subsidies in their January 22, 2010 Congressional Research Service report, *Business Investment and Employment Tax Incentives to Stimulate the Economy:*

Evidence provided in various studies suggests that incremental tax credits have the potential of increasing employment, but in practice may not be as effective in increasing employment as desired. There are several reasons why this may not be the case. First, jobs tax credits are often complex and many employers, especially small business, may not want to incur the necessary record-keeping costs. Secondly, since eligibility for the tax credit is determined when the firm files the annual tax return, firms do not know if they are eligible for the credit at the hiring decisions are made. Third, many firms may not even be aware of the availability of the tax credit until it is time to file a tax return. Lastly, product demand appears to be the primary determinant of hiring.

Ultimately, more time is required to determine and analyze the results of both the Recovery Act and the Jobs Bill. In the meantime, it is important to address what is at stake if these crisis management tools fail to address structural employment or assist the working middle class through the Great Recession.

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41 Obey, Oberstar, Miller, Holt et al., "Job Creation," *Congressional Digest, 65.*

42 Hungerford and Gravelle, *Business Investments.*
CHAPTER SIX
BOLD MEASURES TO RESTORE GREATNESS – THE AMERICAN DREAM

The Problem Revisited

Author Nan Mooney stated it best in her book, *(Not) Keeping Up With Our Parents: The Decline of the Professional Middle Class*, “The story of the middle class has long been the story of mainstream America”\(^1\) and “over the course of twentieth century, the story of the middle class has traveled from one of comfort and even prosperity to one characterized by financial insecurity and fear.”\(^2\) This financial insecurity and fear, especially felt by the working middle class, is more real today because it is compounded by one of the most damaging financial recessions seen since the Great Depression. Two years into this recession, the U.S. Department of Labor, Bureau of Labor Statistics (BLS) reported in their *Employment Situation Summary* (released February 5, 2010), that in January 2010 “the number of persons unemployed due to job loss was 9.3 million…. [and] Since the start of the recession in December 2007, the number of long-term unemployed [those jobless for 27 weeks and over] has risen by 5.0 million.”\(^3\) BLS also reported employment in manufacturing was little changed after experiencing steep job losses earlier in the recession, but there were job gains in motor

\(^1\) Mooney, *(Not) Keeping Up with our Parents*, 20.

\(^2\) Ibid.

vehicles, parts and plastics, and rubber products, which is positive progress for the American autoworker featured throughout this thesis. 4

Even with the progress of the Recovery Act, the Jobs Bills and other measures, these continue to be drastic times for the United States. Structural unemployment is a distinctive feature of the larger unemployment problem and crisis. Middle class Americans have lost jobs in record numbers that will never return, and now they possess skills that are no longer valuable. We saw a virtual collapse of the banking and automobile industries, requiring rescue bailouts by the federal government, just to stay afloat. We have also seen an overall decline of U.S. based manufacturing industries, causing more workers to lose jobs and forcing them to find work in other fields, if possible.

This reality has created an increased awareness of impending workforce trends. Our economy is quickly shifting to a knowledge-based economy, from a skills-based one. Technological change, founded by the innovation of the personal computer, the Internet, and innovations in telecommunications and automation, shifted the way this nation and the world do business. Accordingly, globalization has changed the nature of work, and increased the demand for highly skilled and well-educated workers. Millions of Main Street Americans, who built and maintained their middle class livelihoods on skills-based industries that are now declining, will be left behind.

Adding to these millions left behind without sought after skills is the looming trend that 78 million Baby Boomers (“Boomers”) will be entering retirement. As one of

4 Ibid.
the most educated generations, their departure is expected to compound the already established skills shortage because the generation after the Boomers is significantly smaller in numbers; and they are also less educated and less experienced. Therefore, they are not prepared to take over the ranks of major corporations or the leadership ranks in the education or social sectors, which are currently held by Boomers.

At the end of the day, President Obama explained that, “this is about more than displaced workers. Our failure to respond to globalization is causing a race to the bottom that means lower wages and stingier health and retiree benefits for all Americans. It’s causing a squeeze on middle-class families who are working harder but making less and struggling to stay afloat…”


What is at Stake: America’s Global Political Leadership and Economic Prosperity?

We have established that we have millions of middle class workers suffering from structural unemployment in a fast-paced, globalized knowledge-based economy. Impacted by this same shift in the economy, we also have an additional skills shortage due to the aging of our workforce, combined with a demographic shift in the upcoming generations with less education and earning potential. Consequently, scores of workers with less education, who earn much less, will produce a reduced national standard of living. This is problematic for a host of reasons, but most importantly, this is problematic because the U.S. tax base pays for public services, government operations, unemployment benefits, public transportation, public utilities, health care, social security,
and the public education system. We cannot afford to underfund basic services and needs, which are most often used by the working middle class.

There is no question that America was made great by its leadership in universal education with the establishment of public schools in the 19th century, then leading the way in creating some of the world’s most prestigious universities. Today, education is one of the largest areas of public spending and over the last few decades it is one of the most fiscally eroded. “America, which used to take the lead in educating its young, has been gradually falling behind other advanced countries,” plus “we have a college graduation rate that’s slightly below the average across all advanced economies… [and] the crisis has placed huge additional stress on our creaking educational system,” explained Paul Krugman in his October 9, 2009 New York Times Op-Ed column, “The Uneducated American.”

All of these domestic societal conditions: structural unemployment, growing skills shortage, reduced standard of living, and falling education rankings and achievement, equate to America’s declining competitive advantage in a global economy. If America loses its competitive advantage, what is ultimately at stake is its global political leadership and economic prosperity, which has been in place since its founding.

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7 Kuttner, The Squandering of America, 3.
Solution Proposed: Embrace, Invest, Innovate and Create

We must play a leadership role in the recovery of our nation’s workforce to maintain our global political leadership and economic prosperity. The solution is to urgently embrace the current knowledge-based economy by simultaneously focusing on three areas of domestic public policy: economic, employment, and education/training policies. We should no longer only approach domestic policy in these three areas as a crisis management tools, as was done during the Great Depression and now during the Great Recession. Crisis management is a reactionary position from which to make decisions and often fails to allow you to strategically plan for long term improvements or for future opportunities to flourish.

Public policy conversations, legislation and implementation must be developed with long range goals in mind. This can be achieved by approaching each societal issue discussed in this thesis holistically, with the understanding that these complex areas of national public policy must work together simultaneously to maintain America’s competitive advantage in a global world. If done properly, universal access to the middle class will again be accessible; ensuring that the American dream is once again sustainable for all Americans. President Obama understands this. In his historic inauguration speech he eloquently expressed, “The success of our economy has always depended not just on the size of our gross domestic product, but on the reach of our prosperity; on the ability to extend opportunity to every willing heart – not out of charity, but because it is
the surest route to our common good.”

Seeking our common good for the American Dream is attainable, as it is a core value of the middle class to believe in cooperativeness and good citizenship so that we all can share in the fruits of success (“hard work pays off for all men”). To this end we must Embrace, Invest, Innovate and Create with strategic intention to be a great nation on purpose.

![Diagram](Figure 19: Integration of Economic, Employment and Education/Training Policies is critical.]

To embrace the current knowledge-based economy we must implement strong education/training policies that invest in this nation’s human capital – the American

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9 du Bois, "The Dominant Value Profile of American Culture," 1232-1239.

10 Author’s diagram to emphasize the major areas of policy that need to be intertwined.
workers – at all levels of elementary, secondary, higher education and workforce training. This will lead to sound economic policies that invest aggressively in innovations for global markets, thus creating new industries, which in turn support employment policies that create jobs (see graphic above). Then Speaker of the House of Representatives, Nancy Pelosi, concurred with this proposed solution during the House floor debate on H.R. 2847, the Jobs for Main Street Act when she stated, “Innovation begins in the classroom and is central to our competitiveness… and [to] keep us number one in the world’s economy.”

President Obama also understood this approach when he stated, “If we are to promote free and fair trade –and we should—then we must make a national commitment to prepare every child in America with the education they need to compete in the new economy; to provide retraining and wage insurance so even if you lose your job you can train for another….”

To be successful with the proposed process of embrace, invest, innovate and create, America’s public policy efforts should be focused on the “top 100 cities…where most Americans live, work and play.” This top 100 idea belongs to Bruce Katz, the


12 Talbott, Obamanomics, 90.

founding director of the Metropolitan Policy Program at the Brookings Institution. In his November 1, 2010 *Time Magazine* article, “City Centered,” he explains:

If we unleash the energies in our metros, we can compete with anyone. Our 100 largest metropolitan areas constitute a new economic geography, seamlessly integrating cities and suburbs, exurbs and rural towns. Together, they house almost two-thirds of our population, generate 74% of our gross domestic product (GDP) and disproportionately concentrate the assets that drive economic success: patents, advanced research and venture capital, college graduates and Ph.D.s, and air, rail and sea hubs. This intense concentration is the magic elixir of modern economies.

When cities collect networks of entrepreneurial firms, smart people, universities and other supporting institutions in close proximity, incredible things happen. People engage. Specializations converge. Ideas collide and flourish. New inventions and processes emerge in research labs and on factory floors. New products and companies follow.14

He went on to explain that this approach is working around the world with the rise of Brazil, India and China. All have experienced rapid urbanization with “supersize metro economies like São Paulo, Mumbai and Shanghai” due to investments in “advanced research, renewable energy, modern ports, high speed rail and urban transit.”15 America has an opportunity to maintain its political leadership and economic prosperity in this same way by embracing the current knowledge-based economy, investing in this nation’s human capital – the American workers, investing in innovations for global markets and creating jobs in our top 100 cities.

Imagine how great this nation could be with 100 supersize metro economies. In, *Good to Great and the Social Sectors*, Jim Collins poignantly concluded, “Greatness is

14 Ibid.

15 Ibid.
not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice, and discipline.”\(^{16}\) It will take bold legislative measures in these three aforementioned areas of public policy, legislated by choice and administered with discipline, to restore America’s greatness – to restore the American Dream for all.

\[^{16}\text{James C. Collins, Good to Great and the Social Sectors: Why Business Thinking is Not the Answer (Boulder: J. Collins, 2005).}\]


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