Ford, Carter, and the Economic Malaise: Crash Course US History #42

Crash Course: U.S. History
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===== Introduction (0:00) =====

Hi, I'm John Green, this is *Crash Course U.S. History*, and today we're going to talk about one of the most important periods in American history, the mid to late 1970s. Stan, why is there nothing on the chalkboard, we can't find a picture of Gerald Ford somewhere around here? Don't worry, CrashCourse fans, we got one. Thanks for your support through Subbable that paid for this 90 cent Gerald Ford photograph. These really are the years when everything changed in the United States, and amidst all that turmoil, something wonderful was born.

Mr. Green, Mr. Green! Strong with the force this episode is.

No, Me from the Past, Yoda doesn't show up 'til *Empire Strikes Back*, which came out in 1980, I'm referring of course to the fact that we were born, it's the beginning of a John Green era! From here on out, almost everything we discuss will have happened in my lifetime, or as most CrashCourse viewers refer to it, that century before I was born. But it wasn't just the birth of me and the death of Elvis, the late 1970s were truly a period of momentous change, and for most Americans it sucked.

(Intro)

===== Decline of Manufacturing (1:02) =====

So how Americans reacted to those no-good-very-bad years really has shaped the world in which we find ourselves. The big story of the 1970s is economics, 25 years of broad economic expansion and prosperity came to a grinding halt in the 1970s, meaning that our party was over. And what did we get instead? Inflation and extremely slow growth - the worst hangover ever. Just kidding, the worst hangover was the Depression. The second-worst hangover was the 2008 recession and then the third-worst hangover was *Hangover Part 3*. It was the fourth-worst hangover in American history, narrowly beating out America's fifth-worst hangover, *The Hangover Part 2*.

What happened in the American economy in the 1970s was the result both of long-term processes and unexpected shocks. The long-term process was the gradual decline of manufacturing in the US in relation to competing manufacturing in the rest of the world. Part of this was due to American policy. After World War II, you'll remember that we promoted the economic growth of Japan, Germany, South Korea and Taiwan, ignoring the tariffs that they set up to protect nascent industries and effectively subsidizing them by providing for their defense. And not having to build nuclear arsenals of their own really allowed them to invest in their domestic economies. And then one day a bunch of Toyotas and Mercedes showed up and you could drive them up to like 40 000 miles before they would break down and we were like, "Wait a second!"

In 1971, for the first time in the 20th century, America experienced an export trade deficit, importing more goods than it exported, which is the same problem that my aunt has with QVC. I mean, they hardly import anything from her. One reason for this deficit was because the dollar was linked to gold, making it a strong currency but also making American products more expensive abroad. So Nixon took the U.S. off the gold standard, hoping to make American goods cheaper overseas and reduce imports. But that didn't really work because the U.S. was also competing against cheaper labor costs and cheaper raw materials and more productive economies. And in many cases this growing global competition put American firms that couldn't compete out of business. This was especially true in manufacturing. In 1960, 38% of Americans worked in manufacturing. In 1980, it was 28%. Today, it's 9. Not 9%, 9 people. Stan wants me to tell you that that was a joke, it actually is 9%.

The unionized workers were hit particularly hard. In the 1940s and 1950s, unions had won generous concessions from corporate employers including paid vacation and health benefits and especially pensions, which employers would agree to as a kind of deferred compensation so they wouldn't have to pay higher wages to people while they were working. And this worked great! Until people started to retire. So by 1970, competition led employers to either eliminate high-paying manufacturing jobs or else to increase automation or to shift workers to lower-wage regions of the U.S., or even overseas.

Meanwhile, the northern industrial cities, particularly the Rust Belt of the Midwest, were becoming the empty urban playgrounds that we know and love today. Detroit and Chicago had lost half of their manufacturing jobs by 1980 and smaller cities fared even worse. As industry moved away, they found their tax bases dried up and they were unable to provide even basic services to their citizens. I mean, with the World of Wall Street "fat cats" this is hard to imagine today but in 1975, New York City faced bankruptcy.

===== Oil Shocks and Stagflation (4:12) =====
In addition to these long-term structural changes to the American economy and our demographics, the 1970s saw two oil shocks that sent the economy into a tailspin. In 1973, in response to western support of Israel, middle-eastern Arab states suspended oil exports to the U.S., which led to the price of oil quadrupling. This resulted in long lines for gasoline, dramatically higher oil prices and Americans deciding to purchase smaller, more fuel-efficient cars, which is to say Japanese cars. Also, prices of everything else went up because oil is either used for the production of or transportation of just about everything.

I mean, with '70s inflation, this 90 cent portrait of Gerald Ford would have cost at least a buck ten. The paint that covers the green parts of Not America? Oil-based. The plastic that comprises the DVDs of *Crash Course: World History*, available now at dftba.com? Oil-based. Those are a fantastic bargain and they would have been way more expensive if the price of oil was higher.

And then, in 1979, a second oil shock came to the United States after the Iranian revolution. Wait, Stan, did we say 1979? We gotta put up a picture of Jimmy Carter! Bam! Sorry, Gerald Ford, there's a peanut farmer in town.

So during the 1970s, inflation soared to 10% per year and economic growth slowed to 2.4%, resulting in what came to be known as "stagflation". Unemployment rose and a new economic statistic was born - the misery index, the combination of unemployment and inflation. At the beginning of the decade it was 10.8, by 1980 it had doubled. If you're looking for the roots of America's contemporary economic inequality, the 1970s are a good milestone since according to our old friend Eric Foner, "Beginning in 1973, real wages essentially did not rise for twenty years."

===== Gerald Ford (5:49) =====

Americans got to experience the joy of two years of Jerry Ford before poor Jimmy Carter had a chance to fail at approving the economy. The only president never to have been elected even to the vice-presidency, Gerald Ford was so insignificant in American history that we already replaced him on the chalkboard. One of Ford's first acts was to pardon Nixon, making him immune from prosecution for obstruction of justice. That very unpopular decision probably made it impossible for Ford to win in 1976.

Coincidentally, WIN was the only memorable domestic program that Ford proposed. It stood for "Whip Inflation Now" and it was basically a plea for Americans to be better shoppers, spend less and wear "WIN" buttons. Thirty-five years later, Charlie Sheen would turn winning into an incredibly successful social media campaign but sadly at the time there was no Twitter. Inflation did drop but unemployment went up, especially during the recession of 1974 and 1975, where it topped 9%. Now Ford would have liked to cut taxes and reduce government regulation but the Democratic Congress wouldn't let him. So that's Ford, probably best known today as the first president to be satirized on *Saturday Night Live*.

===== Jimmy Carter (6:52) and The Mystery Document (7:16) =====
Then, in 1976, we got a new president, Jimmy Carter! Now Jimmy Carter is generally considered by historians to have been a failure as president, although he's often seen as a really good ex-president. He tried to fight the inflation part of stagflation and to do it he acted in some rather un-New Deal Democrat ways. He cut government spending, de-regulated the trucking and airline industries, and he supported the Fed's decision to raise interest rates.

Oh, it's time for the Mystery Document? The rules here are simple. I read the Mystery Document, I guess the author, if I'm wrong I get shocked. Alright let's see what we got today.

> I want to speak to you first tonight about a subject even more serious than energy or inflation. I want to talk to you right now about a fundamental threat to American democracy. I do not mean our political and civil liberties. They will endure. And I do not refer to the outward strength of America, a nation that is at peace tonight everywhere in the world, with unmatched economic power and military might. The threat is nearly invisible in ordinary ways. It is a crisis of confidence. It is a crisis that strikes at the very heart and soul and spirit of our national will. We can see this crisis in the growing doubt about the meaning of our own lives and in the loss of a unity of purpose for our nation. The erosion of our confidence in the future is threatening to destroy the social and political fabric of America.

It's Jimmy Carter's Crisis of Confidence speech! My favorite speech ever made that also cost a president twenty points of approval rating. So Carter says that Americans have lost their ability to face the future and some of their can-do spirit. The rest of the speech talks about how Americans' values are out of whack, how Americans are wasteful and need a more vibrant approach to the energy crisis. Let me tell you a lesson from history, Jimmy Carter. You don't get re-elected by telling Americans how to do more with less. You get re-elected by telling Americans "More, more, always more, more for you. More, more, more. I promise." The speech ultimately called for a renewal of spirit but all people remember is the part where Jimmy Carter was criticizing them and it's gone down as a great example of Carter's political ineptitude.

Domestically, Carter paid lip service to liberal ideas like energy conservation, even installing solar panels on the White House but his bigger plan to solve the energy crises was investment in nuclear power. And nuclear power did grow although never to the extent we saw in certain European countries partly because of the accident at Three Mile Island in 1979 when radioactive vapour was released into the air. This of course spurred public fears of a nuclear meltdown and drove a huge anti-nuclear energy movement.

Now in many ways Carter was more important as a foreign policy president but as with his energy initiatives, he's mostly remembered for his failures. Aiming to make human rights a cornerstone of America's foreign policy, Jimmy Carter tried to turn away from the Cold War framework and focus instead on combating third world poverty and reducing the spread of nuclear weapons. Let's go to the Thought Bubble.

===== Thought Bubble: Carter's Foreign Policy (9:36) =====
Carter's notable changes included cutting off aid to Argentina during its Dirty War and signing a treaty in 1978 that would transfer the Panama Canal back to Panama. His greatest accomplishment was probably brokering the Camp David Accords. This historic peace agreement between Egypt and Israel has, as we all know, led to a lasting peace in the Middle East - just kidding! But it has been a step in the right direction and one that's lasted. But the U.S. continued to support dictatorial regimes in Guatemala, the Philippines and South Korea. Carter's most significant failure in terms of supporting international bad guys, though, is the Shah of Iran.

Iran had oil and was a major buyer of American arms but the Shah was really unpopular and our support of him fueled anti-American sentiments in Iran. Those boiled over in the 1979 Iranian Revolution, especially after Carter allowed the Shah to get cancer treatments in America, which in turn prompted the storming of the American embassy in Tehran and the capture of 53 American hostages. The Iranian hostage crisis lasted 444 days and although Carter's Secretary of State did negotiate their release, it didn't happen until the day Carter's successor Ronald Reagan was inaugurated. The inability to free the hostages and the botched rescue attempt, Affleck's *Argo* notwithstanding, added to the impression that Carter was weak.

Events in the Middle East also increased Cold War tensions, especially after 1979 when the USSR invaded Afghanistan. Carter claimed that the invasion of Afghanistan was the greatest threat to freedom since World War II and proclaimed the Carter Doctrine, which basically said that the U.S. would use force, if necessary, to protect its interests in the Persian Gulf region. In direct response to the Soviets, the U.S. put an embargo on grain shipments and organized the boycott of the 1980 Olympics in Moscow. Thanks for another dose of good news, Thought Bubble.

===== Conclusion (11:18) =====

So despite focusing on Carter, I'll again stress that the real story of the 1970s was the economy. High inflation and high unemployment had monumental effects in shaping America and no president could have dealt with it effectively. Not Carter, not Gerald Ford, not anyone. The truth is, history isn't about individuals. Oil shocks and inevitable systemic changes led to the poor economy and that weakened support for New Deal liberalism and increased the appeal of conservative ideas like lower taxes, reduced regulations and cuts in social spending. All of which, for the record, started under the Democrat Jimmy Carter, not the Republican Ronald Reagan.

More abstractly, the economic crisis of the 1970s dealt a serious blow to the Keynesian consensus that government action could actually solve macroeconomic problems. I mean according to the economic theory that had prevailed for the previous fifty years, unemployment and inflation were supposed to be inversely proportional, the so-called Phillips curve. When that relationship broke down and we had both high inflation and high unemployment, it undermined the entire idea of government intervention. And that opened the door for a different way of thinking about economics that emphasized the economy as an aggregate of individual economic decisions. Now that might sound like a small thing but

whether you think individual choices or governmental policies really make economies work or not work turns out to be pretty freakin' important. And this has really come to shape the contemporary American political landscape, especially when it comes to taxes, which we'll talk more about next week. Thanks for watching.

===== Credits (12:45)=====

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