

Globalization and the American Economy

by Sophia



WHAT'S COVERED

Advocates of free trade argue that a global free market will promote progress and prosperity throughout the world. Also known as globalization, this philosophy is based on the premise that markets should operate with as little government restraint as possible. During the 1990s, the United States experienced a sustained period of economic growth, which reinforced the belief that America had won the Cold War and that globalization would provide a prosperous future.

This tutorial examines globalization and the “new” American economy in four parts:

1. “No New Taxes”

The tax cuts and increased military spending during Ronald Reagan’s presidency, although favorable to wealthy Americans and supported by advocates of national defense, led to increases in the national debt and the federal budget deficit during the early 1990s.



DID YOU KNOW

The federal budget deficit was three times larger in 1989 than it was in 1980 when Reagan was elected. A budget deficit occurs when government expenditures exceed tax revenue.

Reagan’s former vice president, **George H. W. Bush**, promised to continue Reagan’s economic policies when he won the Republican nomination for president in 1988. During the Republican National Convention in 1988, Bush famously said, “The Congress will push me to raise taxes, and I’ll say no, and they’ll push, and I’ll say no, and they’ll push again, and I’ll say to them, ‘Read my lips: no new taxes.’”



PEOPLE TO KNOW

George H. W. Bush

Vice president under Ronald Reagan and Republican president from 1989 to 1993, who navigated the collapse of the Soviet Union and the “new world order” that followed the end of the Cold War, including Operation Desert Storm, which turned back Saddam Hussein’s invasion of Kuwait.

Following his election, Bush found himself in a difficult position: He had to balance the budget and reduce the deficit without breaking his “no new taxes” promise. While he struggled to solve these problems, Congress became increasingly divided along partisan lines over tax cuts and economic policy.

➔ **EXAMPLE** During the Bush administration, Congress was controlled by the Democrats, who

wanted to raise taxes on the wealthiest Americans. In contrast, Congressional Republicans supported tax cuts and wanted the federal government to reduce domestic spending.

In October 1990, the federal government shut down briefly when President Bush vetoed the budget proposed by Congress. They subsequently compromised and agreed to the Omnibus Budget Reconciliation Act of 1990, which was designed to reduce the deficit by cutting government spending and raising taxes. The compromise meant that President Bush had reneged on his “no new taxes” promise, which outraged conservatives.



DID YOU KNOW

The majority of Republican Congressmen voted against President Bush’s budget compromise measure. Economic recession and growing unemployment during late 1991 and early 1992 exacerbated the differences between President Bush and conservative Republicans. The unemployment rate increased from 5.9% in 1989 to almost 8% by the summer of 1991.

The recession led many Americans to question whether the president could solve the nation’s economic problems. The growing frustration with the president was noteworthy since, just months earlier, a large majority of citizens approved of his handling of **Operation Desert Storm**.



TERM TO KNOW

Operation Desert Storm

The U.S. name of the campaign waged by coalition forces against Iraq from January to April 1991.

2. “New Democrats”

The foremost challenger to George H. W. Bush during the election of 1992 was the Democratic candidate **Bill Clinton**. The generational contrasts between Bush and Clinton were striking. Bush came from a wealthy New England family and was a veteran of World War II. After the war, he graduated from Yale and, with family funding, began a successful career in the Texas oil industry before turning to government service.



PEOPLE TO KNOW

William J. Clinton

Democratic president from 1993 to 2001, who, as a “New Democrat,” advocated a compassionate conservatism that combined socially liberal policies with fiscal conservatism.



DID YOU KNOW

George H. W. Bush was a navy pilot who flew 58 missions in the Pacific during World War II, earning the Distinguished Flying Cross.

Bill Clinton was one of the millions of **baby boomers** who were born after World War II.



TERM TO KNOW

Baby Boomers

Large generation of Americans born between 1946 and 1964.

As a student at Georgetown University during the 1960s, Clinton supported the Civil Rights Movement and the **antiwar movement**.



TERM TO KNOW

Antiwar Movement

The movement against the Vietnam War.

In 1968, Clinton received a Rhodes scholarship to Oxford University in England. He did not complete his studies at Oxford, but he returned to the United States and earned a law degree from Yale in 1973. He then became a law professor at the University of Arkansas and entered politics shortly thereafter. He was elected governor of Arkansas in 1978. He lost his bid for reelection to a Republican opponent in 1980 but won another term as governor in 1982. He continued to hold that office until 1992.

During the presidential campaign, Clinton appealed to Democratic voters and attracted others who were frustrated by the economic recession. He labeled himself a “**New Democrat**.”



TERM TO KNOW

New Democrat

A member of the Democratic Party who combined the party’s liberal social policies with economic conservatism.

According to Clinton, this label meant that he supported **identity politics** movements (including those that supported gay rights and gender equality), which the Democrats had been trying to mold into an effective coalition since the 1970s. However, as a “New Democrat,” Clinton’s agenda included elements of the economic conservatism advanced by Ronald Reagan during the 1980s, including deregulation, the reduction of federal bureaucracy, and free trade.



TERM TO KNOW

Identity politics

Political movements or actions intended to further the interests of a particular group based on culture, race, ethnicity, religion, gender, or sexual orientation.

As the result of a platform that raised taxes on the wealthy, reduced domestic spending (especially spending on social welfare programs), and promoted free trade, Clinton won the 1992 election. He received 370 votes in the Electoral College; President Bush received 188. The Democratic Party also won control of both houses of Congress.

3. Proposed Reform and Partisan Backlash

Following his inauguration, Clinton’s administration worked to implement its plans to fix the economy and shrink the budget deficit. The federal deficit was \$60 billion when Clinton took office.

The plans included increased taxes on the wealthy and lower taxes for low-income Americans.

➞ **EXAMPLE** In 1993, Congress passed a Budget Reconciliation Act that raised taxes on the top 1.2% of Americans, lowered taxes for 15 million low-income citizens, and provided tax breaks to 90% of small businesses. The act passed without receiving a single Republican vote.

In addition to addressing the economy, the Clinton administration sought to make progress on other domestic issues to honor Democratic commitments to the disadvantaged, minority groups, and women. Initially, the primary focus of this agenda was health-care reform.

Most Americans were unhappy with the U.S. health-care system. For many of them, health insurance had

become unaffordable. When the president announced his plans for health-care reform in September 1993, many observers assumed it would win Congress approval. He appointed his wife, **Hillary Clinton** (also a Yale Law School graduate and attorney), to lead the reform effort.



C. Everett Koop, who served as surgeon general during the Reagan administration and was a health-care reform advocate, helped First Lady Hillary Clinton promote the Health Security Act in the fall of 1993.



PEOPLE TO KNOW

Hillary Clinton

Wife of President Bill Clinton who, as first lady, spearheaded the failed effort toward health-care reform under the Clinton administration.

When the 1,342-page Health Security Act was presented to Congress in late 1993, it promised to provide universal coverage to all Americans. No one would be rejected based on preexisting medical conditions. Employers would be required to provide health care to their employees, and the bill limited the amount people would have to pay for medical services.

The plan was supported by a number of organizations, including the American Medical Association and the Health Insurance Association of America. However, as the 1994 midterm elections approached, Congressional Republicans strongly expressed their opposition to the bill. They called it “Hillarycare” and claimed it was an unacceptable expansion of federal power that would prevent people from exercising their right to choose a health-care provider.

To rally opposition to Clinton and the Health Security Act, **Newt Gingrich** and Richard (Dick) Armey, two leaders of the Republican minority in the House of Representatives, wrote the **Contract With America**.



TERM TO KNOW

Contract With America

A list of eight legislative reforms that Republican representatives promised to enact if they won a majority in Congress in the 1994 midterm elections.



PEOPLE TO KNOW

Newt Gingrich

Republican leader in the House of Representatives in the 1990s, who helped prepare the Contract With America in a successful attempt to generate a Republican majority in Congress to block the policies of the Clinton administration.

The administration’s health-care bill was not passed by Congress, and the reform effort ended by September 1994. During the midterm elections in November, the Republicans gained seven seats in the Senate and 52 in the House, giving the Party control of both houses of Congress for the first time since the 1950s. The Republicans began working to implement the Contract With America, which called for decreased spending on some domestic programs (and the elimination of others) and tax cuts.

For the remainder of Clinton’s time in office during the 1990s, a Democratic White House and a Republican Congress battled over government spending and the economic agenda, as in the following two examples:

- In December 1995, the federal government briefly shut down when President Clinton and Congress were unable to agree on a budget.
- Despite the objections of many Democrats, President Clinton signed a Republican-backed bill—the Personal Responsibility and Work Opportunity Reconciliation Act—in August 1996. The act set time limits on welfare benefits and established work requirements that recipients had to meet before receiving government assistance.

4. Globalization and the New Economy

Despite growing partisanship in Washington during Clinton’s administration, the United States enjoyed a

prolonged period of economic expansion. Each year, the number of jobs increased, while the budget deficit shrank. Increased tax revenue, budget cuts, and economic growth transformed the annual federal budget deficits of the early 1990s into record budget surpluses by 2000.

A number of factors contributed to U.S. economic prosperity at the end of the 20th century.

1. Decreasing budget deficits

The amount of money that the federal government had to borrow decreased as the federal deficit shrank. This freed up capital for use in the private sector. Investment of this capital, combined with the low-interest rates set by the Federal Reserve, fueled economic growth and increased consumer confidence and purchasing power.

By 2000, almost 68% of Americans owned homes, the most in the country's history. In addition, inflation dropped to 2.3%, and the unemployment rate reached a 30-year low of 3.9%.

2. Technological change and the rise of the Information Age

The increasing use of personal computers in business and at home, and the advent of the internet during the 1990s, led to widespread belief in a "new economy": one in which computers linked by the internet would transform labor, disseminate knowledge, and promote prosperity.



DID YOU KNOW

In 1994, the Clinton administration launched an official White House website.

Companies, including Apple and IBM, sold computers for office and home use, while Microsoft marketed its Windows operating system and productivity software. California's Silicon Valley, along with Seattle, Washington, and other locations, emerged as a center of technological innovation.

By 2000, nearly half of all American households owned a personal computer, which they used to send electronic mail (email), enjoy a variety of entertainment, and shop via the internet.

3. Globalization

The increase in the availability of investment capital and the spread of computer usage occurred simultaneously with another component of Clinton's economic agenda: the promotion of free trade.

In 1993, Congress approved the North American Free Trade Agreement (NAFTA), which eliminated tariffs and trade restrictions between the United States, Canada, and Mexico. The agreement created the world's largest common market in terms of population: It included 425 million people.

NAFTA, along with increased digital communication via the internet, indicated the growing impact of **globalization** on the U.S. economy and on the lives of individual Americans.



TERM TO KNOW

Globalization

The ever-increasing interconnectedness of the world, facilitated in the late 20th century by free trade agreements and the increasing movement of people and goods across national boundaries.

NAFTA and other free trade agreements were a boon to American corporations and consumers. As a result of the agreement, U.S. corporations, including Ford and General Electric, began to manufacture their products in *maquiladoras* in northern Mexico, where they paid workers far less than in the United States and avoided labor and environmental regulations. Thanks to NAFTA, the companies imported the products to the United States tariff-free, where they offered them to consumers at lower prices.

However, free trade agreements (including NAFTA) also increased U.S. trade deficits and advanced the

process of deindustrialization in the United States. Americans who worked in manufacturing found their jobs outsourced to countries where labor was cheaper. Companies that tried to continue manufacturing in the United States were often forced to reduce workers' wages (or eliminate jobs) to keep up with international competitors.



BIG IDEA

Increased investment, the arrival of the Information Age, and free trade all contributed to significant economic prosperity at the end of the 20th century. The economy at that time was significantly different from the American economy of 1900. Manufacturing jobs, once the foundation of the economy, were moving overseas. A growing number of lower-paying jobs in service industries (e.g., restaurants, hotels, and retailers) took their place. The rise of the Information Age caused some to hope that high-paying, high-tech jobs in digital industries would compensate for the loss of manufacturing work, but it remained to be seen whether the United States would make the investments necessary to ensure that Americans would have the required skills.



SUMMARY

The growing deficits caused by President Reagan's tax cuts and President Bush's promise of "no new taxes" contributed to partisan division over economic policy. To bridge the gap, President Bill Clinton tried to be a "New Democrat" who was liberal on social policy but conservative regarding the economy. Economic prosperity during the 1990s exposed the nation to the promise and perils of globalization.

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TERMS TO KNOW

Antiwar Movement

The movement against the Vietnam War.

Baby Boomers

Large generation of Americans born between 1946 and 1964.

Contract With America

A list of eight legislative reforms that Republican representatives promised to enact if they won a majority in Congress in the 1994 midterm elections.

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