

**BUSINESS**



# Athens State University Economic Updates



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This publication is provided as a service by the Logistics, Technical, and Program-matics Institute (LTPI) at Athens State University and concentrates on providing access to the expertise and research capabilities of the University's College of Business to government and businesses. The University publishes an annual update to provide data and information on the economy of north Alabama and to assist the professional community to quickly respond to a growing global demand from a cross-section of businesses. Our faculty are leading efforts with both government and business agencies to provide economic impact assessments, marketing analysis, employee climate surveys, training, and personnel growth, and we stand ready to assist with your requirements.

## Facts Are Stubborn Things by Dr. Thomas Pieplow

*Editor's Note: This article was submitted prior to the COVID-19 pandemic.*

"It was the best of times, it was the worst of times," wrote Charles Dickens in his novel *A Tale of Two Cities*. The period was 1775 and had similar parallels to today—a time of contradictions in the midst of pockets of prosperity. For many, today indeed represents the best of times economically, and a wealth of statistics supports that proposition. The unemployment rate is at a 50-year low; over 500,000 jobs were added the first two months of this year; wages are rising for the first time in over a decade; inflation remains low with lower-wage workers experiencing the fastest pay increases, a shift from when wage growth was concentrated at the top. Even the "misery index," a measure combining the unemployment and inflation rates invented by economist Arthur Okun during the Carter administration, is at its lowest mark since the days of President Truman.

What we are experiencing economically is also eerily similar to a period a century ago known as "The Roaring Twenties." This was a decade of economic growth and widespread

prosperity, driven by a boom in construction and the rapid growth of consumer goods. The automobile, airplane, washing machine, radio, assembly line, refrigerator, garbage disposal, electric razor, instant camera, jukebox, and television were all invented and brought to market during this time. This, too, was the "best of times" with a booming stock market and a high degree of consumer confidence. However, what followed in 1929 was the "worst of times" that became known as "The Great Depression." During that 12-year period, our nation had low productivity, extremely high unemployment, and no economic growth. Those hardest hit were considered lower and middle class. While most economic data shows no signs of our economy weakening, there are serious and long-standing structural imbalances with our government's finances. These have now reached a point that will leave decision-makers with limited options.

Our propensity to incur annual budget deficits that are added to our national debt will force the next generation of leaders to make extremely unpopular decisions. In 1992, when our nation's



**Dr. Thomas Pieplow**  
Professor of  
Logistics & Supply Chain Mgt.

debt totaled \$4 trillion, Presidential candidate H. Ross Perot made reducing our national debt his campaign priority. Perot famously warned of the consequences on CBS's "60 Minutes" when he famously told Morley Safer, "The debt is like a crazy aunt we keep down in the basement. All the neighbors know she's there, but nobody wants to talk about her."

We are entering the home stretch of this year's election season. Over the next six months, candidates will share their strategies on a variety of topics

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## Andrew Carnegie—American Hero or Robber Baron? by Dr. William Wilkes

In 1973, I was living in Houston, Texas, working for a subsidiary of an American International Company. This is where I was when given the



**Dr. William Wilkes**  
Professor of Economics

responsibility to develop an AFE (authorization for expenditure) to build and start up a new manufacturing facility in Dunfermline, Scotland, making oilfield equipment. The facility was to be located on property owned by the Earl of Elgin which we "rented" for a period of 100 year, a typical arrangement in the United Kingdom/Scotland. With considerable help from my colleagues, I successfully completed the project which was approved by the Board of Directors in 1974 for \$5 million (equivalent to \$29 million in today's dollars).

When I started the project, I was not aware that Andrew Carnegie was born in Dunfermline on November 25, 1825. He and his family immi-

grated to the United States in 1848 in search of better opportunities. I became indirectly involved with Carnegie when my company rented a council house located on the street below where his birthplace was located. In fact, a walk up the hill to the house was part of a provided tour.

The town of Dunfermline is quite proud of Carnegie who would spend vacations in the town and later in life spent summers in Skibo Castle which he owned. He repaid the town with financial contributions to the various parks and the famous abbey located in Dunfermline.

Although Andrew Carnegie was highly regarded, history of his entre-  
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*“...there is no doubt that Andrew Carnegie was a very difficult person to deal with when it came to putting on his ‘robber baron’ hat.”*



Childhood home of Andrew Carnegie in Dunfermline, Scotland

preneurial success is mixed. There is no doubt that he and other of the more famous and powerful U.S. industrialists of the 19th century made their fortunes through the formation of trusts, engaging in unethical business practices, exploiting workers, and paying little attention to their customers or competition.

Alternatively, are those who credit the “captains of industry” with the explosive growth of American capitalism during this period as the ones who enabled the United States to enjoy the rapid rate of economic growth during the last part of the 19th century and first part of the 20th century. Without their amassing of great wealth in oil, steel, railroads, and banks, the resources needed for the industrial revolution during this period would never have been available and growth would have been slowed. This results in a “chicken or egg” quandary—did the increased demand for primary resources create the large growth or does the credit of the large growth of

the U.S. economy go to the robber barons?

Regardless of the direction of causation, there is no doubt that Andrew Carnegie was a very difficult person to deal with when it came to putting on his “robber baron” hat. In my experience in Scotland, I could imagine this was a trait Carnegie could have learned from the coal and steel industry in Scotland where management ruled with an iron hand.

While Carnegie considered himself a champion of the working man, the famous Homestead strike at one of his steel mills in Pennsylvania caused many to question his core feeling in this

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including reducing the cost of health care, expanding educational opportunities, and reforming the criminal justice system. These are not new; in fact, every administration and Congress since Lyndon Johnson has established federal programs, policies and laws to address these issues with varying degrees of success. But as we listen to candidates from both sides of the political spectrum today articulate their vision and plans, there is one underlying question every voter, regardless of political persuasion, must ask—how do we pay for it? Whether it be the topics mentioned above or other “hot button” issues such as immigration or national defense, the common denominator is an ever-growing demand for federal dollars.

It is vital we understand the distinction between a budget “deficit” and our national “debt.” This year, the federal government will spend approximately \$4.6 trillion; but with tax revenue projected to be no more than \$3.6 trillion, our nation will finish 2020 with a “deficit” of \$1 trillion. This means our government must borrow 21 cents of every dollar spent this year. This borrowing must be paid back, because if it is not, it becomes debt.

2020 will not be the first time our government incurred a deficit. In fact, the U.S. has run multibillion dollar deficits almost every year in modern history, though never at the magnitude seen today. As outlined earlier, every year we operate at a deficit it is added to our national debt, which today stands at \$23.6 trillion.

Similar to a home or car loan, interest payments represent the price we pay to borrow money; and as we borrow more, federal interest costs rise and compound. Many will look at their personal finances and conclude the federal government should operate no differently. Every household makes tough decisions on what can be afforded and where to cut spending. The perils of borrowing were warned about as far back as 700 B.C. when King Solomon declared that “the borrower is slave to the lender.” But as easy as “cutting waste” may sound, this strategy is problematic and virtually impossible for several reasons. First, while there is a clear majority of Americans in favor of cutting government waste, defining those specific programs is extremely problematic. For instance, those involved in the defense sector see the weapons produced and services

provided as vital to protect our way of life, as well as the hundreds of thousands of jobs created and sustained through their programs. However, while others acknowledge the responsibility of government to provide for the common defense, many ask why we must spend more than the next seven nations behind us COMBINED.

Second, over 70 percent of this year’s spending will be on “mandatory” programs such as Social Security, Medicare, Medicaid, and interest on the debt which must be fully funded first. So if the decision were made to live within the \$3.6 trillion of revenue available, simply said, the options would lead to catastrophic consequences. Remember, \$3.2 trillion in this year’s spending is mandatory and off limits, leaving Congress and the Executive Branch less than \$400 billion to pay for “discretionary” requirements such as national defense, education, homeland security, the environment, foreign assistance, criminal justice, the sciences, NASA, and transportation. Assuming Congress did not eliminate any of these departments and simply allocated to each department equally, dis-

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## Facts Are Stubborn... *(continued from p. 2)*

cretionary programs would see approximately 28 percent of their requirements funded.

The third challenge is reducing any debt of this magnitude. To place into a context that better illustrates a debt of \$23.6 trillion, if this were allocated to every man, woman, and child in America equally, every person would owe over \$72,000. But with 44 percent of Americans paying no federal income taxes, apportioning to every taxpayer would be \$128,000 each. With deficits projected to increase over the next decade by another \$13.1 trillion, the interest on debt will become one of the largest elements of our annual budget. This year, our government will spend \$1.1 trillion on Social Security, \$700 billion on national defense, \$670 billion on Medicare, \$480 billion on Medicaid, and \$400 billion in interest.

Why be concerned? Based on budget projections and the demographic shifts driving program requirements, in nine years our spending on Social Security will increase 64 percent to \$1.8 trillion; Medicare grows 79 percent to \$1.2 trillion; Medicaid requirements will necessitate an additional 61 per-

cent to \$785 billion; while the interest we pay will more than double to \$807 billion, more than what will be spent on national defense. Every dollar consumed by interest payments means less available to invest in areas outlined at the beginning. Even though interest rates are at all time lows, it is simply a matter of time before that changes; and as they do, borrowing costs will increase significantly. In fact, by 2050 the Congressional Budget Office (CBO) forecasts that interest costs will constitute more than double what the federal government spends on research and development, national defense, and education combined.

This issue is apolitical—the challenges today have been caused by both parties and can only be resolved in a bipartisan manner. Tough choices are required now because further delay will only leave the next generation with even bleaker choices. The structural changes needed will require a combination of cuts to, or even elimination of, popular programs. This will also require tax increases and an even greater financial sacrifice from every citizen, not just “the rich.” A long-held populist argument is that the

wealthy must sacrifice more. The fact is, the U.S. already has one of the most progressive systems of taxation in the world. High-income people already pay the highest tax rates, and data reflects that the top 1 percent of earners already pay 39 percent of all income taxes collected.

In closing, while more revenue is required, no nation has ever “taxed” its way to prosperity. While the recent tax cut has certainly helped in the short-term growth we are experiencing, any tax reductions without corresponding cuts to programs is irresponsible at best because it only exacerbates our debt. This is no different than going to a restaurant, ordering a nice meal, and then telling the waiter or waitress to send the bill to our children and grandchildren without them knowing anything about it. If our nation had decided to take Mr. Perot’s warning almost 30 years ago and made the changes necessary to eliminate a \$4 trillion problem, our nation would be far better positioned to address the pressing issues faced today.

## Andrew Carnegie... *(continued from p. 2)*

area. The events that developed building up to the actual strike brought out, what some felt, was Carnegie’s robber baron character. The history of the strike is well documented and centered around a downturn in the steel industry which prompted Carnegie to attempt to lower wages. This was obviously rejected by the union and ultimately turned violent after the managers called in the Pinkerton armed guards to protect the plant and resulted in at least 10 deaths before the management was able to take back control of the plant. The irony of this event was that Carnegie was on vacation in Scotland during the strike and put Henry Clay Frick in charge who was determined to break the strike. In fact, prior to leaving for vacation and during the time in Scotland, Carnegie told Frick that he fully supported any actions Frick wanted to take to break the strike, which lasted for five months. As a result of Carnegie’s absence and full support of Frick, many held him accountable for his manager’s actions.

Several events occurred following the Homestead strike that demonstrated his true moral integrity. First, there was no doubt that Carnegie was a “broken spirit” as he tried to recover from the devastating

events, especially the deaths of the strikers. What followed was evidence that he wanted to retire after 50 years of working in the railroad and steel industry, becoming regarded as one of the prominent industrialists in the United States, instrumental in the growth of the U.S. and one of the wealthiest men in the world—not bad for the son in a family whose father immigrated to the United States for a better living.

In 1901, Andrew Carnegie sold Carnegie Steel to industrialist John Pierpont Morgan for \$480 million which some believe made him the wealthiest of the so-called robber barons. Included in this group was John Rockefeller who also wanted to be the richest man in the United States. This resulted in Carnegie and Rockefeller entering what appeared to be a battle of philanthropists to see who could give the largest amount of money to charitable causes.

This was truly a remarkable turn for Carnegie, who strove to be the wealthiest person in the United States, to dedicate the rest of his life to donating some \$350 million (90% of his wealth) to a multitude of various activities including:

- Public libraries in all parts of the world

- Endowed organizations dedicated to research in science, education, world peace, and other causes
- The legendary New York City Carnegie Hall
- The Carnegie Institution for Science, Carnegie Mellon University, and the Carnegie Foundation

In two of his most famous quotes, Andrew Carnegie stated that the rich have “a moral obligation to distribute [their money] in ways that promote the welfare and happiness of the common man.” Carnegie also said, “the man who dies thus rich dies disgraced” (The History Channel).

Although Carnegie sold Carnegie Steel in 1901, an event in January 1904 was the second demonstration of his compassionate moral integrity. A terrible explosion in a mine near Pittsburgh killed 181 men. He was profoundly shaken and wrote in a letter, “I can’t get those widows and children of the mine out of my head.” During the initial phase of the disaster, two men, Selwyn Taylor and Daniel Lyle, gave their lives trying to save men who were trapped in the mine.

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## College of Business

Athens State University  
College of Business  
300 North Beaty Street  
Athens, AL 35611

Phone: 256-216-5352  
Fax: 256-216-5351  
Email: [thomas.pieplow@athens.edu](mailto:thomas.pieplow@athens.edu)  
Email: [bill.wilkes@athens.edu](mailto:bill.wilkes@athens.edu)

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Front and back view of Carnegie Medal

Carnegie produced medals in the honor of the two men which were presented to their families, making Taylor and Lyle the first Carnegie Heroes (CBS News).

Although the mine disaster occurred in 1901, the original Hero Trust Fund was started in 1904. As stated in the purpose, "The Carnegie Trust Fund awards the Carnegie medal to individuals in the United States and Canada who risk their lives to an extraordinary degree saving or attempting to save the lives of others." The headquarters are in Pittsburgh, Pennsylvania, and awards are made each year based on an exhaustive research to verify the validity of the applicant. It is funded by a trust established by the Carnegie family and is planned to continue well into the future.

The Carnegie Medals have remained virtually the same over the years. Andrew Carnegie's profile in relief dominates the obverse of the medal. The reverse carries as background, in low relief, the outline of the United States

and Canada, the Commission's field of operation, and the seals of the two countries in high relief. Initially, gold, silver, and bronze were used to strike the medal, with the type of metal varying on the commission's assessment of the heroic act being recognized. However, over the years, gold and silver metals were discontinued and bronze remains the metal of choice (<https://www.carnegiehero.org/>).

It should be noted that the initial Hero Trust Fund covered only residents of the United States and Canada. However, during a vacation to Dunfermline, Scotland, in 1908, Carnegies decided to form an equivalent fund in the United Kingdom. This was followed by the establishment of nine similar funds in the European continent. The purpose of these additional funds is essentially modeled by the purpose of the United States/Canada fund.

As might be expected, headquarters of the United Kingdom Hero Trust Fund are located in Dunfermline, Scotland, through which I discovered the awards given to recipients in the U.K. are different than in the U.S.

Several years ago, while living in Athens, Alabama, I purchased a pocket watch which was awarded to an individual for saving a swimmer in the East Coast of England. Provided is a photo of the watch front with a plain, but elegant, seal that stands for C-Carnegie, H-Hero, T-Trust, F-Fund. The inscription reads:

Presented by  
The Trustees of the  
Carnegie Hero Trust Fund  
—To—  
Fredrick C. Scott  
Whitley Bay  
For Heroism of Saving Life  
1st October 1913

The Trust Fund in Dunfermline verified the authenticity of the award.

Andrew Carnegie died on August 11, 1919. In the last 20 years of his life he was able to enjoy the philanthropic activities which became a very important aspect of his life and which continues today and into the future.



Carnegie Hero Trust Fund award from the United Kingdom