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The Great Prosperity: 1947–1975

One of my earliest memories is the day my father brought home a TV—a large, square box with a tiny, round tube on the front, which, when switched on, would pick up shadowy shapes and voices from somewhere beyond. We weren't rich by a long shot, but my father had returned from the war with enough money to rent a store and fill it with women's cotton blouses and skirts. Factories were humming. Workers had paychecks, and the blouses and skirts sold. And with some of the profits my father bought our TV. We were the first family on the block to have one, and I remember neighbors crowding around it to watch Milton Berle in *Texaco Star Theater.* Within the decade, almost every family had its own TV.

Call it the Great Prosperity—the three decades from about 1947 to 1975. During this era, America as a whole implemented the basic bargain. The nation provided its workers enough money to

buy what they produced. Mass production and mass consumption proved perfect complements. Almost everyone who wanted a job could find one with good wages, or at least wages that were trending upward. During this quarter century, everyone's wages grew—not just those in the top 1 percent, or the top 10 percent.

Go back to Figure 1 (page 21) and that long valley between the peaks and you'll see during these years a time of widely shared prosperity. The wages of lower-income Americans grew faster than those at or near the top. The pay of workers in the bottom fifth more than doubled over these years—a faster pace than the pay of those in the top fifth. By the late 1940s, the nation was "more than halfway to perfect equality," as the National Bureau of Economic Research dryly observed.

Productivity also grew quickly during these years, defying the self-serving predictions of those who said wide inequality was necessary for rapid growth because top executives and innovators needed the incentive of outsized earnings. Labor productivity—average output per hour worked—doubled, as did median incomes. Expressed in 2007 dollars, the typical family's annual income rose from about $25,000 to $55,000. The bargain was cinched.

So how did we go from the Great Depression to a quarter century of Great Prosperity? And from there, to thirty years of stagnant incomes and widening inequality, culminating in the Great Recession? It was no accident.

It is still possible to find people who believe that government policy did not end the Great Depression and undergird the Great Prosperity, just as it is possible to uncover people who do not believe in evolution. To be sure, the U.S. government refrained from doing what many of Europe's social democratic countries did—directly redistribute income from the rich to the poor and middle class, and nationalize industries. Nonetheless, it actively created the *conditions* for the middle class to fully share in the nation's prosperity. It did so by pushing the economy toward full employment, creating a more progressive income tax, enhancing the bargaining power of average workers, building up Social Security, providing workers with a strong safety net when they couldn't work, and improving their productivity.

Franklin D. Roosevelt never fully understood Keynesian economics, despite the efforts of Marriner Eccles and others to educate him, but FDR proved the success of Keynesianism. He proved it not so much by the relatively tempered government spending of the New Deal but by the astonishingly huge spending demanded by World War II. By the end of the war, when the national debt equaled almost 120 percent of the entire economy, most Americans who survived were better off than they were before the war began because they had been put to work. And although policymakers worried that the economy would thereafter slip back into depression or stagnation—"All alike expect and fear a post-war collapse," wrote economist Alvin Hansen of Harvard University—the feared collapse never came. By then the middle class—its pockets bulging with pay accumulated during the war that it was not allowed to spend during wartime—had the means to buy, and its pent-up demand for houses, cars, appliances, and almost every bit of baby paraphernalia imaginable created new jobs. And as the economy grew, the debt shrank as a percentage of it. "We're all Keynesians now," Richard Nixon purportedly proclaimed in 1971.* By then even a conservative like

*In fact, Nixon didn't actually say this. He said, "I am now a Keynesian in economics." The famous "We're all Keynesians now" came from a cover story in the December 31, 1965, edition of *Time* magazine, which attributed the quote to Milton Friedman. Even this wasn't precisely accurate. In a commentary appearing in the February 4, 1966, edition of *Time,* Friedman clarified that he had actually said, "In one sense we are all Keynesians now, in another, nobody any longer is a Keynesian."

Nixon had accepted government's ability to keep people employed, to fill the breach when consumers and businesses did not spend enough.

The Great Prosperity also marked the culmination of a reorganization of work that had begun during the Depression. Employers were required by law to provide extra pay—time and a half—for work stretching beyond forty hours a week. This created an incentive for employers to hire additional workers when demand picked up. Employers also were required to pay a minimum wage, which improved the pay of workers near the bottom as demand grew and employers needed more lower-skilled workers. When workers were laid off, generally during an economic downturn, government provided them with unemployment benefits, usually lasting until the economy recovered and they were rehired. Not only did this tide families over but it kept them buying goods and services—an "automatic stabilizer" for the economy in downturns. (With its anti-union "open shops" and its abundance of farm and domestic workers unprotected by labor laws, much of the South continued to lag behind, however.)

Perhaps most significantly, government increased the bargaining leverage of ordinary workers. They were guaranteed the right to join labor unions, with which employers had to bargain in good faith. By the mid-1950s, almost a third of all workers were unionized. And the unions demanded a fair slice of the American pie. United Auto Workers president Walter Reuther, among others, explicitly invoked the basic bargain: "Unless we get a more realistic distribution of America's wealth," he threatened, "we won't get enough to keep this machine going." Employers relented, and the higher wages kept America's great economic machine going better than ever by giving average workers more money to buy what they produced. And because health and pension benefits were not taxed, big employers added ever more generous provisions.

Everyone's pay in a big company, including even that of top executives, reflected bargains struck among big business, big labor, and, indirectly, government. (Postwar, regulators still set many rates and prices, awarded valuable licenses and contracts, and also settled labor disputes.) It would have been unseemly, not to say politically unwise, for executives to take home disproportionately large pay packages. The overall result was that as corporations did better, so did all their employees.

A college sociology textbook of 1956 titled *The American Class Structure* noted how far America had come from the class divisions of Middletown in the 1920s, and attributed much of the change to the new organization of production. "All are employees, not owners. Their places in the system depend upon the rules of bureaucratic entry and promotion; business is coming more and more to assume the shape of the government civil service." The author went on to show how corporate bureaucracies had a leveling effect on incomes, as the bottom rungs were elevated and the top rungs constrained by civil service–like job categories. "Income is determined by functional role in the bureaucracy. The trend of income distribution has been toward a reduction in inequality. Owners have been receiving a smaller share relative to employees; professionals and clerks have been losing some of their advantages over operatives and laborers."

Americans also enjoyed security against the risks of economic life—not only unemployment benefits but also, through Social Security, insurance against disability, loss of a major breadwinner, workplace injury, and inability to save enough for retirement. In 1965 came health insurance for the elderly and the poor (Medicare and Medicaid). Poverty among the elderly dropped by half. Economic security proved the handmaiden of prosperity. In

requiring Americans to share the costs of adversity, it enabled them to share the benefits of peace of mind. Peace of mind and security freed them to consume more of the fruits of their labors.

The government sponsored the dreams of American families to own their own home by providing low-cost mortgages and interest deductions on mortgage payments. In many sections of the country, government subsidized electricity and water to make such homes affordable. And it built the roads and freeways that connected the homes with major commercial centers. The interstate highway system—forty-one thousand miles of straight four-lane (sometimes even six-lane) freeways to replace the old two-lane federal roads that meandered through cities and towns—became the single most ambitious public works program in American history. Begun under President Dwight Eisenhower and justified in the halls of Congress as a means of speeding troops, tanks, and munitions across the nation in the event of war, it did much more than that—generating sprawling suburbs and shopping malls, boosting auto sales, vastly enlarging the construction industry, creating an enormously extended trucking industry, and radically reducing the cost of transporting and distributing goods across America.

Government also widened access to higher education. The G.I. Bill paid college costs for those who returned from war. The expansion of public universities—whose tuitions averaged about 4 percent of median family income during the Great Prosperity in contrast to the 20 percent then demanded by private universities—made higher education affordable to the American middle class. Consequently, college enrollments surged. By 1970, 70 percent of the nation's four-year students were in public universities and colleges. The federal government, especially the Defense Department, also underwrote a growing portion of university research, particularly in the sciences.

Cold War defense spending generated what might be called an "industrial commons" that spilled over into commercial production. The military-industrial complex, as Eisenhower so decorously dubbed it, invented small transistors that eventually were utilized in everything from televisions to wristwatches. The Department of Defense also researched and produced hard plastics, optical fibers, lasers, computers, jet engines and aircraft frames, precision gauges, and sensing devices. These found their way into such indispensables of modern life as graphite tennis rackets, remote-controlled television sets, microwave ovens, and cell phones. The Pentagon also gave birth to the nation's first computers. New fighter jets and engines morphed into commercial jet aircraft. Boeing's famously profitable 707 began life as the Air Force KC-135 tanker. Eventually, the Defense Advanced Research Projects Agency would give birth to the Internet.

Notwithstanding all this, the nation also found the time and the money in these years to rebuild Western Europe and Japan—spending billions of dollars to restore foreign factories, roads, railways, and schools. "The old imperialism—exploitation for foreign profit—has no place in our plans," President Harry Truman magnanimously pronounced in his Point Four program of technological assistance to developing nations. "What we envisage is a program of development based on the concept of democratic fair-dealing." (He might have added: "and the containment of the Soviet menace.") The effort proved an astounding success. The years 1945 to 1970 witnessed the most dramatic and widely shared economic growth in the history of the world, which contributed to America's Great Prosperity. In helping to restore the world's leading economies and thus keep communism at bay, the new global system of trade and assistance created vast new opportunities for American corporations—far richer, larger, and more technologically advanced than any other country's—to expand and prosper.

Government paid for all of this with tax revenues from an expanding middle class whose incomes were rising rapidly. Revenues were also boosted by those at the top of the income ladder. Income tax rates on America's top earners remained as high as if not higher than they were during World War II. The top marginal tax rate during the war ranged from 79 percent to 94 percent. In the 1950s, under President Dwight Eisenhower, whom few would call a radical, it was 91 percent. In 1964, the top rate dropped to 77 percent. It was 77 percent again in 1969, when Richard Nixon became president. Even after exploiting all possible deductions and credits, the typical high-income taxpayer during the Great Prosperity paid a federal tax of well over 50 percent of his earnings. But contrary to what conservative commentators had predicted would happen, the high tax rates did not reduce economic growth. To the contrary, they enabled the nation to expand middle-class prosperity, which fueled growth.

The Great Prosperity that lasted for a quarter century after World War II grew out of an economy profoundly different from the one that led up to the Great Depression of the 1930s. During the Great Prosperity, government enforced the basic bargain—using Keynesian policy to achieve nearly full employment, giving ordinary workers more bargaining power, providing social insurance, and expanding public investment. Consequently, the share of total income that went to the middle class grew while the portion going to the top declined. But here's the interesting thing: Because the economy expanded so buoyantly, just about everyone came out ahead—including those at the top.

Public support for government's new role had been founded in the Great Depression and World War II, in whose wake Americans shared a larger sense of common purpose. We were all in it together, rising or falling together, connected to one another in ways we had barely noticed before the Depression. None of us could prosper unless prosperity was widely shared. The historian James Truslow Adams coined the phrase "the American dream," and defined it as "a better, richer, and happier life for all our citizens of every rank."

America of that era still harbored vast inequalities, of course. The very poor remained almost invisible. Through much of the era, blacks were still relegated to second-class citizenship. Few women dared aspire to professions other than teaching or nursing. (In 1957 United Airlines proudly announced that its "executive" service between New York and Chicago featured comfortable slippers, a steak dinner, and "no women on board except for two stewardesses.") But such barriers would eventually weaken or disappear. And although the era also engendered a blandness, uniformity, and materialism that many found abhorrent—as *Mad Men,* the television drama about advertising executives in the early 1960s, demonstrates brilliantly and outrageously—the Great Prosperity offered more Americans more opportunities than ever before to make whatever life they wanted. And it proved that widely shared income gains were not incompatible with economic growth; they were, in fact, essential to it.