

CH. 5 – SOURCES OF THE US
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Economic Boom, 1945-68
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Learning Intentions

In this section, you should understand:

- The causes of the boom.
- The role of the multinational corporation.
- The military-industrial complex.
- The impact of demographic growth.

The **CAUSES** *of* **THE BOOM**

The Boom

During the Second World War the US economy entered a boom period which lasted until the end of the 1960s. After the war was over some Americans feared the return of the Great Depression, but this did not happen.

Instead the US economy **grew rapidly** in the late 1940s and through the 1950s and 1960s. Indeed, the economy more than doubled in size between 1945 and 1960. Throughout this time unemployment remained low, and inflation averaged only 2.5 per cent a year from 1951-70 as the US enjoyed *'the greatest prosperity the world has ever known'*. In the process, the US became the **world's dominant economic power**. The US population in the late 1940s was only 7 per cent of the population of the whole world, yet the country produced half the world's manufacturing output and possessed over 40 per cent of the world's income.

By the end of the 1960s many Americans had become homeowners, high consumers and were well educated. Generally Americans were much better off. By 1960, for example, families could buy about 30 per cent more than they could in 1950.

What Caused the Boom?

The Influence of the Second World War on the US Economy

The huge expansion in **war industries** eliminated the high unemployment of the Great Depression of the 1930s. It also brought millions of **women** into the workforce. Family earnings increased during the war and so did **savings** because there was nowhere to spend the money. By 1945, there was \$140 billion in private savings. These savings were used after the war to boost **consumer spending**.

The war also increased **government revenue** as more people were brought into the tax net. In 1940, the government collected \$7 billion in tax. This rose to \$51 billion by 1945. This paid for war expenses, along with borrowing. The economy grew enormously because of the extra spending. The US economy almost **doubled** during the war, even allowing for inflation.

Companies also benefited from the war as their profits increased, especially those on government contracts. Many companies grew much bigger because of **mergers** (joining of companies). By the end of the war, three-quarters of manufacturing industry was controlled by 100 companies (or corporations). These companies had the resources to develop **new technology** which kept American companies ahead of their competitors.

America also benefited from the war in another way. The US mainland was **undamaged** during the war, so the country did not have to spend money on reconstruction like European and Asian countries. The US also benefited by **exports** to these areas. In the case of countries in Western Europe, for instance, Marshall Aid funds were used by those countries to buy in American goods.

KEY CONCEPT: TECHNOLOGICAL DEVELOPMENT

Technological Development is the application or use of scientific discoveries in industry.

REVIEW QUESTIONS

1. List four features that show that the US enjoyed growing prosperity in the 1950s and 1960s.
2. How did each of the following factors in the second World War help the US economy to grow;
 - a. War industries
 - b. Mergers
 - c. New technology
 - d. No war damage
 - e. Exports

Public Investment

US government spending (or public investment) increased dramatically from \$10 billion in 1940 to \$580 billion in 1980. Much of government spending went on the huge military budget; from 1945-70, 60 per cent of all federal spending went on **defence**. But there was also increased spending on **highways** (roads), **education** and **welfare**. This gave a huge boost to the economy. Its importance can be seen in the mild recessions of 1953-4 and 1957-8, which were mainly due to cutbacks in government spending.

The defence spending was due to Cold War rivalries. A conscript army was maintained, some of it abroad in Western Europe and Asia. The US was directly involved in **two major wars** - the Korean War and the Vietnam War, as well as a number of smaller conflicts. There was also huge spending on **weapons research and development** - military aircraft, missiles, ships, submarines and space exploration. The US also benefited from sales of its weapons to other countries. This led to the growth of many **corporations** and involved many thousands of workers. States in the south and south-west, from Florida to California - known as the **Sun Belt** - flourished. The latter benefited most from the new high-tech and defence industries.

Government was also involved in other areas of the economy. The **Employment Act** stated that the federal government should try to achieve maximum employment, production and purchasing power. Many government economists followed **Keynesian economic ideas**, which stated that government spending had a large influence on economic growth and employment.

Public Investment

In 1944, the government passed the **GI Bill of Rights**. This gave aid to veterans to buy houses, start businesses and educate themselves. By 1956, about 8 million veterans benefited from further education. This helped the economy grow through the provision of increased **skills** and a boost to the **construction industry** (more schools and colleges).

Government investment in the **Highways Act 1956** had an important influence on economic growth. Over 15 years the government invested \$43 billion in major roads crossing the continent. This gave an immediate boost to construction and employment in the various states involved. But it also gave an indirect boost to the car industry and to interstate trade and commerce.

The government spent a great deal on the **social welfare programme** put in place by the New Deal in the 1930s. This was added to during the 1950s and especially during President Johnson's **Great Society** programme in the 1960s. By the end of the 1960s this had the effect of reducing the amount of poverty in the country.

REVIEW QUESTIONS

1. After the war, where did the government increase spending and investment?
2. How did defence spending boost the economy?
3. How did Keynesian economic ideas help?
4. What was the impact on the economy of;
 - a. The GI Bill of Rights
 - b. The Highway Act
 - c. The social welfare programme?

Other Factors

- The American economy also benefited from **cheap energy** (oil) and **technological advances**.
- There were significant advances in research and development - these increased **productivity** (output per worker) and **real per capita income**. Output per worker rose by about 35 per cent in each decade.

The rapid technological expansion occurred in electronic and electrical companies, tobacco, soft drinks, chemicals, plastics and pharmaceutical industries. The number of scientists and engineers involved in industrial research grew six times between 1945 and 1961. Some inventions were more influential than others. In particular, **transistors**, which were invented at the end of the 1940s, were used in machines from computers to hearing aids. In another example, **medicine**, it was estimated that 80 per cent of drugs prescribed in 1956 had been developed in the previous 15 years.

REVIEW QUESTIONS

1. What other factors boosted the US economy in this period?

The DEVELOPMENT OF THE US INDUSTRIAL *Structure*

The Multinational Corporation, 1945-68

After the Second World War one of the features of the changing American economy was the **concentration of economic power** in business and industry. In 1945, there were over 300 recorded mergers in manufacturing and mining; this had increased to over 2,000 in 1969. These mergers created very large companies or corporations. In 1955, 30 per cent of manufacturing sales was controlled by just 50 of over 300,000 manufacturing companies.

Some of these companies became **multinational corporations** - that is, they built and operated factories or plants outside the US. Some of the largest were Exxon, Standard Oil, Ford and General Motors. They operated on a worldwide scale because they bought raw materials from a variety of countries and sold their products in these and other countries. In the process, the US became the **world's largest overseas investor**. In 1950, foreign investment amounted to \$19 billion, but this increased to over \$160 billion by 1973. It was estimated that by the end of the 1960s over 1,200 US companies had manufacturing or marketing subsidiaries abroad. They became a form of **economic imperialism**.

However, US **foreign investment declined** in the late 1970s and into the 1980s as the US economy itself was in trouble. Between 1945 and the 1960s, the US accounted for most of the world's foreign investment, but by 1980 this had declined to less than half. The type of investment also changed. By the 1980s most US multinationals were investing in service industries - banking, fast food, hotels and financial services - as US home industry changed to more service-orientated industries.

KEY CONCEPT: CORPORATE CAPITALISM

Corporate Capitalism was part of the economic, political and social system based on private property, business and industry. The large companies or corporations which controlled the system wanted to make increased profits.

REVIEW QUESTIONS

1. How was there a concentration of economic power in the US economy after the war?
2. What are multinational corporations and how do they operate?

Causes of Multinational Expansion

The expansion of the US multinational corporation was due to a number of factors:

- Many businesses became **successful** in the home market in the US and these businesses tended to invest abroad.
- US multinationals had **advantages** of greater technology, higher productivity and better management skills compared to European or Asian competitors.
- The multinational corporations developed partly in response to the **growth of world markets** it became easier to control widespread operations by improvements in communications and transportation.
- Another factor in the rise of the American multinational was the **huge investment in research and development**, which paid off with many new products. However, the costs of exporting these were high, so it was easier to build a factory in or near the foreign market to cater for that market.
- Federal **tax laws** encouraged firms to invest abroad. US firms were liable for tax in the host country, but not in the US unless their earnings were brought back to the US. The attraction of host countries was **lower corporation tax** than the US.
- The federal government also helped by **insuring companies** against losses in politically unstable countries, particularly in South America.

Causes of Multinational Expansion

- The **US dollar** became the world's main currency.
- The growth of the **European economy** in the 1950s and 1960s, especially the development of the **European Economic Community (EEC)**, provided another prosperous market.

A number of factors influenced the **pattern** of US foreign investment. Most of the foreign investment was in Western Europe and Canada. In Western Europe most of the investment was in **manufacturing**, but in some of the less developed countries there was investment in producing raw materials. This concentration of investment in a couple of areas was caused by a number of factors:

- The spread of Communism in Eastern Europe and Russia excluded these areas.
- The growing **independence movements** (or decolonisation) in Africa and Asia created unstable political conditions which put off investors. This was sometimes followed by the **nationalisation** (government ownership) of industry and raw materials.
- **Japan** deliberately kept out foreign investment.

Concerns about Multinationals

The growth of the multinational corporation caused **concern** over the ability of the US government and foreign governments to control their operations. These corporations were able to take advantage of host country economic policies designed to build up their own economies. Some were involved in **transfer pricing** where they were able to avoid making profits in high-tax countries. The US government, **supported** by Congress, was also concerned about the growth of the huge **corporations** because they wanted to maintain competition. They feared that a smaller number of companies would control the prices of products to increase their profits. Foreign investment became increasingly important to corporations and this can be seen in the use of **bribes to politicians**. These were illegal payments to political campaign (election) funds, and also to federal government officials. By 1976, 150 corporations admitted to involvement in these activities. Exxon, Lockheed Aircraft and Gulf Oil Corporation were some of the major corporations involved.

REVIEW QUESTIONS

1. What caused the expansion of multinational corporations?
2. Why was most US financial investment in Western Europe and Canada?
3. Why are some people concerned about the influence of multinational corporations?

Globalisation

The growth of US multinational corporations was one part of the **globalisation** process - the closer **integration** of the world's economies and growing **interdependence** between different places. Through this growing integration, the fortunes of the US economy affected other parts of the world. US multinational corporations were part of the growing **internationalisation** in both trade and politics. They spread new ideas, especially cultural values, to other countries. Indeed, their success depended on a world based on **consumer goods**, particularly American goods, such as **Coca-Cola**, **IBM** and **Levi's jeans**. They were part of the **Americanisation** of the world, with similar pop music - jazz and rock 'n' roll - and films. Critics accused them of spreading American culture and undermining local cultures. In spite of the increasing popularity and acceptance of American products in Europe, Americanisation also gave rise to **anti-American feelings** in some countries.

Global Trade System

The growth of the multinational corporations was eased by the development of a number of international agreements and organisations which created conditions for free trade. Some historians suggest that the US set up a trade system that suited their interests:

- The **International Monetary Fund** was established in 1946 to promote international co-operation in finance and to encourage stability in exchange rates. The US dollar became the cornerstone of the currency market.
- The **World Bank** provided loans for development programmes.
- At the same time, the **General Agreement on Tariffs and Trade** (GATT) was signed in 1947. This began a process of reducing tariffs on goods which was continued with further agreements, or **rounds**, in later years, such as the Kennedy Round in the 1960s.

This structure made greater trade and globalisation possible.

Supporters and Critics of Globalisation

The intense conflict between those who favoured globalisation and those who opposed it did not come until the 1990s. However, the arguments of the debate were outlined long before in the 1970s and 1980s.

- **Supporters:** Those who favoured globalisation argued that increased world trade reduced worldwide poverty. By boosting economic growth, they said it helped poorer countries catch up with richer countries. They also pointed out that less developed countries increased their share of world trade. Supporters also said that when industry was set up in foreign countries, it improved the skills of the local workforce.
- **Critics:** Critics of globalisation argued against that. They said larger US corporations invested in poorer countries only because they made greater profits from lower wages. They said freer trade only opened markets for the benefit of multinational corporations. They also argued against the spread of American culture.

This globalisation increased the wealth of the better-off states (initially the US and later Western Europe and Japan) at the expense of the less developed world - adding to the growing rift between the **richer** and **poorer** countries. Some regarded globalisation as a form of **imperialism**.

KEY CONCEPT: IMPERIALISM

Imperialism occurs when one country has a great deal of power or influence over others, especially in political and economic affairs. Sometimes the imperial power may actually take over the weaker countries.

REVIEW QUESTIONS

1. What is globalisation? How did the US set up a trade system to suit its own interests?
2. What did (i) supporters and (ii) opponents of globalisation say about it?

THE Military-Industrial Complex

The Military-Industrial Complex

Another aspect of the US industrial structure which developed in the 1950s and 1960s was the **military-industrial complex**. In 1961, in his farewell speech to the American people, President Eisenhower warned about the dangers of the **complex**, whose influence was felt in *'every city, every State house, every office of Federal Government'*. This was the **link** (or connection) between the Department of Defense and the major corporations which provided military equipment. He was concerned that the political leadership might not be able to control this powerful and growing combination.

Eisenhower was concerned that its influence would undermine the values of the **republic** and the **democratic process**. He feared its influence would dominate domestic and foreign policy, heightening tensions with the Soviet Union. He was afraid that it would favour an **aggressive anti-Communist policy** and not favour peaceful co-existence. The Cold War threatened to make the military too powerful in American life, and that was a potential threat to freedom of education and scientific research. He urged Americans to guard against its increased power.

The **corporations** involved in the military-industrial complex included McDonnell Douglas, Lockheed and Boeing. The generals and admirals benefited from increased money for the armed forces. The complex also included the **politicians** whose states or cities benefited from armaments contracts and the growth of the armaments industry. This involved the space programme by the end of the 1950s. In the early 1960s, 22 of the 50 states in the US had a great dependency on military spending. However, it was not only selfish gain which motivated politicians and army commanders. They firmly believed in keeping the US strong in its struggle against Communism.

The Missile Gap

The relationship between lobbyists (for the arms industry), politicians and arms contractors became known as the **Iron Triangle** and its influence posed problems for political leaders. In the Presidential election of 1960, John F. Kennedy campaigned on the issue of the **missile gap** between the USSR and the US. This suited arms contractors and army leaders, who encouraged talk of a missile gap, even though there was none, in the hope of increased military spending. They used their influence with members of Congress. This was one of the factors - along with heightened Cold War tensions - which encouraged Kennedy to increase defence spending by over 10 per cent for each year from 1961-3 when he became President.

REVIEW QUESTIONS

1. What is the military-industrial complex?
2. Why was President Eisenhower concerned about it?
3. Who benefitted from the military complex?
4. What was the missile gap and how did it influence President Kennedy's policies?

Demographic Growth: Population Increase AND MOVEMENT

Demographic Growth: Population Increase and Movement

One of the most significant aspects of post-war American history was the rapid growth in population and its geographic distribution. The US population increased from 131 million in 1940 to 226 million in 1980 - an increase of 95 million (or almost 75 per cent). Each decade from 1940-80 saw large percentage increases in population the largest occurring during the 1950s, when the population grew by almost 20 per cent.

Causes

Birth and Death Rates

The most important cause of the rising population was the increased **birth rate**. The birth rate increased after the Second World War with the return of 12 million servicemen and the improving economy. This caused the post-war **baby boom** which lasted into the 1960s. There were 3.5 million births in 1947 and 4.3 million births in 1960.

Along with the increased birth rate, there was a decline in the **death rate** due to **better food** and improvements in **medicine**. New drugs such as penicillin controlled sickness and disease. The new polio vaccine eliminated polio, and tuberculosis, which was once a serious killer, was controlled by new medicines and improved living standards. Even when the birth rate declined in the 1970s and 1980s, there was still a further decline in the death rate so that the population continued to rise.

Causes

Immigration

Immigration also contributed to population growth, though to a much lesser extent. In all, about 11 million immigrants came to the US between 1940 and 1980. Some were refugees from mainly Eastern and Central Europe after the Second World War. Others came in after the Hungarian Rising in 1956 and after Castro took over Cuba in 1959. In total, refugees amounted to about 20 per cent of all immigration.

Greater numbers of immigrants came from **Canada** and **Mexico**. In the latter case, this was because of a shortage of **farm labour** in the south-west states. Legal Mexican immigrants were far outnumbered by **wetbacks** - those who swam across the Rio Grande to get to the US. By the 1970s, America was experiencing large **Asian immigration**, but this was controlled by new immigration laws (1965) which allowed in people with special skills or qualifications. However, the overall impact of immigration was small between 1945 and 1980 so that the proportion of foreign-born people living in the US declined to 5 per cent in 1970. But the new immigration of the 1970s and 1980s pushed that proportion up again by 1990.

Causes

Population Structure and Mobility

The increase in the birth rate and the decline in the death rate changed the **age structure** of the population. There were now **more younger people** and **more older people**. The younger people became the **teen market** - the so-called Pepsi Generation - for clothes, music, cars and increased college places. This contributed to the **general consumer boom** of the 1950s and 1960s, which itself was caused by a growing, wealthier population. In the case of the increased numbers of older people, there was greater federal spending on health and welfare to cater for their needs.

The rapidly growing economy created **greater mobility** in the population. There was movement from cities to the suburbs and from the countryside to the cities, both within states and between states. By 1960 over 60 per cent of the population lived in cities of half a million or more; this increased to over 75 per cent by 1980. The spread of these cities, particularly from Washington through New York to Boston, created the idea of a **conurbation** or **megalopolis** - a vast sprawling built-up area. At the same time the farm population declined rapidly in the US. Increased farm mechanisation and farm size resulted in the farm population dropping from 7 million in 1935 to less than 2 million by 1980.

REVIEW QUESTIONS

1. Explain how the following caused rapid population increase in the US after the Second World War:
 - a. Birth and death rates
 - b. Immigration
2. How did the population structure change and what were its effects?

Causes

Growth of Suburbs

Within the cities there was huge movement from the inner or central city to the **suburbs**, helped by new roads, the widespread use of cars and cheaper houses. It was here that the vast new housing estates and new towns, such as Levittown in Long Island, were created. Between 1950 and 1970, American cities lost population to their suburbs, ranging from 10 per cent in New York to 35 per cent in Detroit, and the overall population of the suburban areas grew by 35 million.

The growth of the suburbs had a number of **social consequences**:

- The people of the suburbs were **white and middle class**. This left the centre of the city to the poor and the wealthy.
- It also **divided the races**, as blacks migrating from the South largely took over the central city areas. No blacks were allowed to buy houses in Levittown.
- The suburbs were mainly for living in, so that huge **traffic jams** were caused by people commuting to work. It wasn't until the 1970s that significant numbers of people both lived and worked in their communities as schools, churches, shops, businesses and industries developed.

Causes

Growth of Suburbs

- **Businesses declined** in the city centre - some newspapers, cinemas, hotels and shops closed and buildings decayed. The decay was contributed to by the failure of urban renewal projects and housing projects.
- Some criticised the sameness or **conformity** of the suburbs - Mam, Dad, two kids and the dog. *'Suburbs are small, controlled communities where for the most part everyone has the same living standards, the same weeds, the same number of garbage cans, the same house plans, and the same level in the septic tank.'* They saw it as a threat to **individualism**. Some criticised them as places where everyone *'buys the right car, keeps his lawn like his neighbours, eats crunchy breakfast cereal and votes Republican'*. William Whyte in *The Organization Man* said that white suburbs had some good points, but he also said that they were similar to a large corporation which threatened to squash the individual drive or spirit that made America great.
- Later observers noted that the suburbs **provided houses** when there was a shortage. They also noted that **individualism** did break out, so that with additions and changes no two houses looked the same.

Causes

Interstate Mobility

There was also mobility from **state to state**. By 1960, one-quarter of Americans were living in a different state to the one they were born in. The greatest beneficiaries of the movement were the states of the **Sun Belt** in the south and south-west, from California on the west coast to Florida on the east coast. The new people were largely following the spread of the new high-tech industries, though the elderly who moved to Florida and Arizona followed the sun. As a result of this movement, California became the most populous state in the US.

There was also the opposite movement from the southern states, with the large migration of **black Americans** to the north and north-west. Between 1940 and 1970, 4.5 million blacks left the South for the North. This migration changed the population structure in the cities. In 1950, there was no city in the US with a majority black population. By 1970 there were four, and a number of others had significant black populations. **Washington, DC**, which was three-quarters white in 1940, became three-quarters black by 1970. This movement of blacks to the cities coincided with the movement of whites to the suburbs. It highlighted the **racial differences** between the central cities and the suburbs.

REVIEW QUESTIONS

1. Why did the suburbs grow and what were the social effects of this?
2. What was interstate mobility?