

THE GREAT BOOM 1950-2000

HOW A GENERATION OF AMERICANS
CREATED THE WORLD'S MOST
PROSPEROUS SOCIETY

ROBERT SOBEL



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For Carole
With Love and Gratitude

I do not mean that there is any lack of wealthy individuals in the United States; I know of no country, indeed, where the love of money has taken stronger hold on the affections of men and where a pro-founder contempt is expressed for the theory of the permanent equality of property. But wealth circulates with inconceivable rapidity and experience shows that it is rare to find two succeeding generations in the full enjoyment of it.

–Alexis de Tocqueville, 1835

Sixty years ago there were no great fortunes in America, few large fortunes, and much poverty. Now there is some poverty (though only in a few places can it be called pauperism), many large fortunes, and a greater number of gigantic fortunes than any other country in the world. ... One may surmise that the equality of material conditions, almost universal in the last century, still general sixty years ago, will more and more diminish by the growth of the very rich class at one end of the line and of a very poor class at the other end.

–Lord James Bryce, 1890

Since the New Deal and the 1930s there has been a revolutionary development in the technology of industry and in the fiscal policy and social doctrine of government. The assumption of reformers from Theodore Roosevelt through Woodrow Wilson to Franklin Roosevelt was that the poor could be raised up only by a redistribution of wealth. The basic assumption of the pre-war reformers is being dissolved. We have come into an era when the class struggle, as Marx described it a hundred years ago, has been overtaken by events.

–Walter Lippmann, 1960

PROLOGUE

The Great Boom opens by discussing how Americans came out of World War II with dreams, plans, and hopes, but few optimistic expectations. How did Americans who in 1945 imagined their futures might not be particularly bright come to accomplish so much during the ensuing fifty-plus years? Their children were able to build upon strong economic foundations, although some rejected their parents' goals; but in general, they too succeeded in realizing similar ambitions and, from their own experiences, learned not to attempt to dictate the scenarios for their children's lives. The grandchildren of the World War II GIs are now the junior managers and Internet entrepreneurs, and are starting to make headlines in the business and political press. They are not yet on the national scene—that is the role their parents still fill. After all, as these words are being written, George W. Bush, the son, not the grandson, of the former president, who is a World War II veteran, is being considered for the GOP presidential nomination. But their turns will arrive. And when they do come onto the national stage, their ambitions, goals, and styles are likely to differ from those of their parents. But not wholly.

It is important to remember that the world was not born *de novo* with the coming of peace in 1945; the GI generation had to make do with what they found when they returned home. Alterations in the social and economic fabric before and since took place, and there were many changes in their lives and the country. Often these arrived in unanticipated ways, and doubtless other changes will do so into the new millennium. The continuities in the lives of individuals and societies are as important as the shifts.

Americans did not enter a bright new world in 1945 or return to the tarnished one they recalled when World War II began, whether they dated back to the fighting in China in the 1930s, in Europe in 1939, or to the attack on Pearl Harbor on December 7, 1941. In many ways these new veterans and other survivors of the war retained the values that had proved useful during military service, while picking up where they left off when the war started to affect their lives. Nor did the shifts in their viewpoints and values that occurred in this period come to a discernable end decades later. The heritage of these people lives on in the influences they had on their offspring. So their legacy continues to affect all of us, as well as those to come.

The persistence of those experiences and the values they inculcated in the population became more obvious toward the end of the 1990s. The popularity of two recent World War II films, *Saving Private Ryan* and *The Thin Red Line*, the best-seller status of Tom Brokaw's *The Greatest Generation*, the revival of swing dancing, and re-enactments of World War II battles in various parts of the country, akin to those of Civil War encounters, indicate that this age continues to live in the imaginations of individuals born well after World War II had ended. And this has become even more evident in recent years, as President Clinton's impeachment "crisis" and the maxims that were drawn from it have become topics of wide national concern. Many have noted the differences between the moral tone of the Clinton presidency and most of those that preceded it.

For me, the planning, research, and writing of this book was a pilgrimage. *The Great Boom* is, in varying ways, an autobiographical work. I have vivid memories of the war and post-

World War II period. I knew GIs who emerged from the war. I attended college with them and shared their hopes, fears, and aspirations. Their children and grandchildren were in my classes at Hofstra University, and I have kept in touch with many of them over the years. I feel as though I know them very well indeed.

A few months after V-E Day, then a teenager playing stickball in the streets of the Bronx, I was approached by a young sailor on his way home. He had a duffel bag slung across his back and a wide smile on his face. That sailor—he seemed to be my age—beckoned. Would I do him a favor? Of course. We walked together to a nearby house, and he asked me to stand in front of the door and ring the bell. I did so, and in a minute a young woman appeared. She looked somewhat disappointed at seeing me. Clearly she had been expecting someone else. With this, the sailor popped out from behind a bush and the two of them grinned widely at one another, followed by the most angelic smiles I have ever seen. The sailor then thanked me and offered me a quarter, obviously to pay for the service I had performed. “I can’t take anything from you,” I blurted. I returned the coin and started to cry. From the look on his face I think he knew why. At least I hope he did. I owed him and millions of others like him so much. I have never lost that feeling. I walked away and went home. It was not the time for stickball.

One more story: In 1957, I was hired as an instructor at Hofstra College on Long Island, and my wife and I were ready to purchase a house. I insisted on looking at Levittown, and we bought what was advertised as a two-bedroom ranch home there for \$10,500. We were the second owners. The people from whom we purchased the house had a GI mortgage, which we assumed; and the monthly payment, including taxes, came to less than \$100. My wife and our parents were delighted. It was a good buy, they said. I felt the same, but for different reasons. We would be living in a house that had been occupied by a World War II veteran, and I would have an important connection with people to whom I and my generation owe so much.

As it happened, I was to remain at Hofstra until retirement forty-one years later, but at the time we moved from Levittown. I occasionally drive past that house, to recall what it meant to me in the 1950s. Over this period I instructed former GIs and Korean War veterans (of whom I was one), followed by the baby boomers and then their children—three generations from the 1950s to the end of the twentieth century. I have vivid memories of all of this, some of which have spilled over into the narrative you are about to read.

But despite such experiences, this is decidedly not a personal narrative, but rather what I hope is a serious and objective study of a protean period in the history of the United States and the world.

These words are being written at a time when the American economy has been performing well, the securities markets continue on to new highs on a regular basis, and the world marvels at the successes racked up by the American version of free-enterprise capitalism. The euro has now become the currency of much of continental Europe, but in real terms the dollar remains the preferred money for international dealings. Those fearing for their future squirrel dollars away, in the sure knowledge that while other currencies may decline in value, the dollar will always be accepted anywhere in the world. OPEC has long conducted its petroleum business in terms of dollars, and a wide band of countries have adopted currency boards, the closest thing possible to a dollar-standard. At one time currencies were not

trusted unless they were freely convertible into gold at a specific rate. Now the dollar fills the role once played by gold. And all this a half century after World War II and at the end of the first decade of victory in the Cold War.

Many Americans have benefited economically from the Great Boom. So has the nation as a whole. (For that matter, so has the world.) Problems remain today, but these are strikingly different from those of the immediate postwar period. Writing during the stock market boom of the late 1990s, *New York Times* reporter Peter Applebome noted that “until recently, true wealth for most Americans seemed as distant as Bombay.” Applebome continued, writing that “almost half of American households now own stock either directly or through pension or retirement plans, compared to less than a third at the beginning of the decade and less than one in ten in the 1960s.” Thus, Applebome indicates that his original comment was not quite accurate. But is this so? The effect of the bull market, he suggests, has made “millions wealthy and millions more think they should be.” Even so, if we factor out homeownership, out of 5 households have more debt than assets.

Author Robert Frank, in his *Luxury Fever* (1999), reports that half of the respondents to a questionnaire claimed to have savings of less than \$3,000, and that another 40 percent thought it would be a “big problem” to pay an unexpected bill of \$1,000. According to his calculations (the methodology and categorizations are not discussed in any meaningful detail), 1 out of 7 Americans falls into the category of “poverty.” If this is actually so, how can one justify the theme of this book and the suggestions made by Applebome? This matter will be addressed in the pages that follow. The underlying thesis of this book, stated simply, is that few Americans of the mid-1940s expected to become wealthy enough to pay off the mortgage on a fairly modest home, take vacations overseas, send their offspring to private colleges, retire to a sunny spot in the South, or leave behind a meaningful financial package for their children and grandchildren.

What do those people see when they look back to that period and consider their own accomplishments and those of the country? At the dawn of the new millennium, the American people face a central question born of the great boom of the postwar period: how to adjust to the fact that many have been quite successful economically and professionally over the past half century. This was due to their own innate qualities, their hard work, good fortune, and the nature of the economy. Others have not been so fortunate. Do the former owe a debt of any kind to the latter? Former Commerce Secretary Peter Peterson, in *Gray Dawn* (1999), and others have suggested that the wealthy should forgo government pension benefits since they really don't need them. Perhaps so economically, but the prospect of the government reneging on its contracts is not particularly pleasing. Also, why let it go at that? Why not confiscate private pensions, and private wealth? This is not about to happen, but this is where such thoughts logically lead.

The economically successful Americans have become accustomed to the reality that in a free society some will wind up ahead and others will fall behind. The price of success for the society as a whole may be the failure of some of its members. One response would be to ignore them, but that is not likely to happen given the American penchant for charity and philanthropy. Even so, this is a sensitive matter that sets off economic, social, racial, and generational conflicts.

Finally, it is not impossible to imagine that the problem may one day resolve itself

through the workings of the new Internet economy, alterations in value systems, demographic changes, and other, perhaps unimaginable, changes that await Western civilization in the years to come.

It has been a fascinating journey, from the end of World War II to the post-Cold War period, from the time when I was a high school student to my retirement from teaching and my granddaughters entering preschool. One can only imagine that the most interesting years are ahead.

Robert Sobel
May 1999

INTRODUCTION

All history can show no more portentous economic phenomenon than today's American market. It is colossal, soaking up half the world's steel and oil and three-fourths of its cars and appliances. The whole world fears it and is baffled by it. Let U.S. industry slip 5 percent, and waves of apprehension sweep through foreign chancelleries. Let U.S. consumer spending lag even half as much, and the most eminent economists anxiously read the omens. The whole world also marvels at and envies this market. It is enabling Americans to raise their standard of living every year while other countries have trouble in maintaining theirs. And of course the whole world wants to get in on it. For it still can punish the incompetent and inefficient, and still reward handsomely the skillful, efficient, and daring.

-Fortune, June 1953

In recent years, a great deal of attention has been paid to the disparity of incomes and wealth in the United States between the very rich and the abject poor. While some of the figures employed by the pundits are suspect, it would appear, from reading and observation, that a large gap between the economic winners and losers truly does exist. On the one hand, there is the class of Americans financially capable of enrolling their children in private schools, purchasing expensive automobiles, going on costly vacations, and investing in Internet stocks, while on the other are the homeless and others who are the failures in the race for economic security. There are insufficient estate planners who have the requisite credentials and records of success to satisfy the requirements of the wealthy, and there is a shortage of social workers who cater to the needs of the abjectly poor (and a lack of public funds to pay them). In between these extremes lies the majority of the population, which does not require the services of either social workers or estate planners.

As far as the man or woman in the street is concerned, there are many more wretched poor than financially comfortable Americans. They are seen on the streets of the cities, and they are the subjects of television specials. Politicians discuss programs geared to end the cycle of poverty, which is considered one of the most pressing problems facing the American people. But the experts are usually wrong in their estimates of just how many poor people exist in America, largely due to the matter of definition. They have an inflated impression because they assume all poor people are alike, and that all require assistance from the government. We know about the homeless who gather at soup kitchens and who have attracted the attention of private and public institutions. The so-called working poor had not entered the public consciousness until fairly recently. What, if anything, should be done about them?

In recent years a body of opinion has appeared that holds that the persistence of poverty

partially a result of the well-meaning but misbegotten programs meant to alleviate poverty but that in effect actually do the opposite. In addition, there is the deeply felt conviction on the part of others that the poor have only themselves to blame for their circumstances, that they would take advantage of opportunities offered by a friendly society and government if they could migrate into the middle class. As it is, their failure to do so is a source of regret and, more important, shame. As author Edward Luttwak suggests, "Living in a country that so greatly respects and admires high-earning winners, losers find it hard to preserve self-esteem."

Understandably, much less attention has been paid to wealthy Americans. How many of them are there? Start out by realizing that if one takes pension benefits and other income into account, there are many more than is imagined. A recent book by Thomas Stanley and William Danko, *The Millionaire Next Door* (1998), was a long-term best-seller. It was followed by Richard McKenzie and Dwight Lee's *Getting Rich in America: 8 Simple Rules for Building Fortune and a Satisfying Life* (1999). The authors claim that one's background doesn't matter when it comes to amassing wealth, blithely saying, "In fact, it is relatively easy." The authors write, "Most people want to get rich so they can have a good life. But, if anything, things work the opposite. If you lead a good life—a responsible life—and put in productive effort, then you'll get rich." The methods are quite simple: study, work hard, be honest, forthright, faithful, and frugal. In addition, get and stay married and "resist temptation." The authors came up with some curious statistics. If at the age of eighteen a would-be millionaire cut back \$1.50 per day on alcohol, soft drinks, and junk food, by the time he or she retired, the savings would amount to \$290,363 (if the money were invested to return 8 percent over the years).

Perhaps this is the place to reiterate that most statistics of this nature, some of which will appear in this book, have to be taken with several grains of salt. But what about the observation by a *New York Times* reporter who in December 1998 noted that "in 1998, 30,000 families bought houses in Westchester that cost \$1 million or more. That's a 50 percent jump from 1997, and testimony to the American economy's capacity to churn out affluent people like so many assembly-line Cadillacs." For that \$1 million, a broker noted, the buyer might expect a five-bedroom, three-bathroom, one-car-garage home in Bronxville on less than one-quarter of an acre, without a swimming pool. "If you want a mansion," she added, "you're looking at \$2.5 million."

Who can afford such homes? "The recently enriched," was her reply. "The houses the new rich pine for are taken by the older rich. When one does become available, there are plenty of unabashedly young tycoons to put in bids, ratcheting up prices."

Who are those older rich? Often a husband and wife whose children fled the coop several years ago and who are now grandparents many times over. Where did their money come from? That million-dollar home might have set them back \$125,000 in the late 1950s, and the down payment for it might have been obtained from the sale of a small tract house purchased ten years earlier, and savings from a job the husband obtained after graduating from college, which he attended by virtue of the GI Bill of Rights. With degree in hand, he found work and opened a professional practice, perhaps moved on to other jobs, saved when he could, and then invested part of his savings in the stock market.

Several scholars have claimed that the number of millionaires in America today, absent

those pensions and other benefits, is in the neighborhood of 50,000 to 100,000. But in 1984 Palo Alto investment firm, Thompson Tuckman Anderson, estimated that there were 15,280 millionaires living in the northern third of Silicon Valley alone. Apparently what that firm did was to calculate the value of the stocks and options owned by individuals who worked for the electronics firms in the area, and went on to note that "Silicon Valley represents the greatest concentration of new wealth in the United States." Probably true, but it is also the case that such individuals, had they attempted to sell their holdings and "go liquid," would realize less than that magic million-dollar level due to lack of liquidity and the bite of capital gains taxes.

In any case, the number must be much larger today, especially if one takes into account the value of education and training, which, in the nature of things, does not find its way onto balance sheets and into brokerage accounts. There must be many thousands of surgeons who already possess the training and professional relationships to earn close to a million dollars or so each year by plying their craft. The entrepreneur whose company issued stock in an initial public offering, which came out at \$15 and within a couple of days was selling for \$50, cannot judge his wealth by multiplying the number of shares he still owns by the current market price, yet this exercise is now performed regularly by financial journalists.

Students of such matters often present figures for wealth and incomes as though they are interchangeable. But the figures for wealth put together by government agencies and concocted by journalists are questionable. The reader might ask himself or herself how the government, or anyone else for that matter, knows how wealthy he or she is? And how does one tote up wealth? Placing a dollar value on salable skills, such as those of the surgeons, as has been noted, is quite difficult.

Income is another matter. In 1995 the Census Bureau estimated that 6.3 percent of the nation's families were in the \$100,000-and-above bracket. Adjusting for inflation, this was approximately three times as many as there had been a quarter of a century ago. This does not mean, however, that the family remained the same as it was then. Indeed, 4 out of 5 of those families are comprised of multiple earners. Even so, the bureau disclosed that 2 million men and 300,000 women had received six-digit remuneration in 1995. These ranks include individuals not thought of as wealthy a generation or so ago. Managers of fast-food operations, airline pilots, and high school teachers about to retire fall into that category along with the vast majority of doctors. Some 250,000 lawyers are in the \$100,000-and-above category. Simply stated, \$100,000 isn't what it used to be. Nor is \$1 million. In 1995 more than 68,000 tax returns were for family units with more than \$1 million in income.

There must be hundreds, perhaps thousands, of millionaires who are unaware of their status. They don't take the trouble to tote up their assets and subtract liabilities, to determine their net worth. One of these, a colleague of mine at Hofstra University, informed me a few years back that he intended to purchase an automobile, a used vehicle of course, since that had always been his style. When I replied that one as wealthy as he could certainly afford a new model, he protested. "I'm not wealthy," was his rejoinder. A few days later, after he had gathered all of his papers for my perusal, I demonstrated that, taking into account his forthcoming pension (to which he had been contributing for more than twenty years), along with the value of his home and investments, he was worth more than \$1 million. He was both surprised and puzzled. "I had no idea," he said, "but I still lack the twenty thousand dollars or so in liquid assets to buy a new car for cash." There is one more factor to consider

My friend was a professor of economics. One must wonder what went on in his classes.

This book is written with that professor (now happily retired, driving a used Taurus) in mind. It begins with a study of Americans like him (perhaps his parents), who at the end of World War II expected to have lives of relative penury. Instead they became wealthier in fact than any previous generation in history, and did so in an almost absentminded fashion. This was the generation, in the words of Franklin D. Roosevelt on taking office, that had “a rendezvous with destiny.” Such was not what the President had in mind in 1933, of course, but that appointment was kept more than once; it is chronicled in the first few chapters of this book, and referred to throughout the subsequent chapters.

How did this come about? Those expecting to read here about the growth of the American economy in the past half century may be disappointed, although the subject is covered in an oblique fashion. Rather, I have chosen to concentrate on the entrepreneurial vehicles created and developed in this period that were employed in the creation of wealth for Americans whose horizons in the 1940s were quite limited. Later, some of them would apologize to their children and grandchildren about the kind of world they were leaving them. The litany they cite includes fears of atomic conflagrations followed by nuclear winters, environmental pollution, fallout shelters, racism, sexism, the Korean Conflict and Vietnam War, global warming, population growth, support of dictatorial regimes, insufficient health care, the devaluation of education, the list goes on, from people who apparently never tire of finding fault with what they have accomplished—and failed to achieve. Some members of that generation were surprised when in the 1960s they discovered that their progeny did not appreciate either their values or their accomplishments. In any case, this book represents an attempt to present the other side of the ledger.

Where did all of this wealth come from?

First of all, education. This was the best-educated generation in American history. More attended college than ever before, and did so at a time when college educations were far more rigorous than they are today. As one who has been involved with higher education, as student and professor, for more than half a century, I can attest to the verity that freshman courses of the 1950s were comparable to advanced ones today, and current freshman courses in such subjects as English and history are on the same level as high school courses of the earlier period. Nor is this conclusion based solely on my own experience, but rather on discussions with colleagues from all parts of the country, who teach or have taught in colleges ranging from the highly selective to those with virtually open admissions policies. The educations received by students in the 1950s and 1960s prepared them for a business and professional world in which they could succeed, and provided them with the analytical skills necessary to continue their educations long after they left the classrooms. This matter will be discussed in some detail later on.

Next in importance in creating their wealth was the investment that was at the time not perceived as such: their homes. Homeowning became more affordable during this period than ever before. Over time the purchasers came to look upon their homes as investments as well as abodes, but that derived from experience, not intent. At first they simply wanted affordable, decent homes, something many of them had not known before the war. Houses purchased for \$12,000 in the early 1950s might have been sold for \$120,000 or more two or three decades later. By the late 1990s, homeowners were being informed by realtors like the

one in Westchester County or her counterpart in the Silicon Valley that the golden age had ended. One advertisement carried the baleful news: "For 1998 we can expect increases in home prices on the order of only 5 percent." Not bad for a couple purchasing a \$150,000 home with a \$110,000 mortgage, intending to remain there for a decade or more. Do the arithmetic and you'll see what I mean.

Those World War II veterans, armed with diplomas, found their places in an economy that was far more exuberant than they had been led to believe it would be. They soon became trainees at a time when the ailing corporations of the 1930s, energized during World War II, and still converting from their wartime roles, had jobs to fill. In the 1950s, they would confront a teacher shortage in the burgeoning public schools, awash with babies born in the "Great Boom" of the late 1940s and early 1950s. So those who opted for teaching careers would enter the job market at the best time in history. The veterans and others in the cohort who attended graduate and professional schools, which soon would unleash waves of lawyers and doctors upon the nation, did so when demands for their services were high and remuneration excellent. Many became salesmen at a time when the consumer culture was making its mark, assisted along the way with credit cards. New industries were developing on a regular basis, and these required personnel. A goodly percentage of them came from the ranks of those veterans.

And a sizable number became involved with the securities markets. As recently as the late 1940s it appeared that most Americans intended to avoid investing in the stock market. Memories of the 1929 Crash and its aftermath did not die easily. Despite a now forgotten stock market boom in the 1933–1936 period, few Americans were drawn to stocks. The prosperity of wartime America had no impact on sales of securities. Nor did the failure of the nation to fall into a new depression after the war soften such attitudes.

By the early 1950s, however, the generalized prosperity could no longer be ignored, and the effects were felt in several ways. First of all, more middle-class Americans were becoming open to the idea of investments. Next, aware of the need for salesmen to service this new population, stock brokerage expanded, though in ways that would have astounded the brokers of the 1920s. Since a new generation of investors required a new approach, this was provided by such rising revolutionaries (a term not used lightly) as Charles Merrill at the brokerage firms and Keith Funston at the New York Stock Exchange.

As important as these "salesmen" were, in time another factor—mutual funds—would prove even more consequential. First came the "load funds" that were sold by armies of part-time salesmen who received commissions on each placement. Then the so-called no-load funds, offered by such companies as Fidelity, T. Rowe Price, Vanguard, Scudder, and others, became even more significant. Whatever their provenance, mutual funds emerged as compelling investment vehicles for a new generation prepared to enter the investment market. Thus, the new interest in securities affected several large groups of wealth-seekers: salesmen, analysts, managers, and traders at the funds and investment banks; investment bankers taking new companies to market as well as servicing the old ones to provide a "product" for customers; the customers themselves; and a wide variety of support personnel.

At the same time, major changes were taking place in the area of employee compensation. Onerous tax laws led company executives to seek remuneration that was "off the books." This included first-class expense-account treatment on business trips and the use of corpora-

assets such as vacation lodges and automobiles. More important were the granting of options to purchase corporate stock at preferred prices, retirement packages, employment buyouts and other devices that imaginative accountants thought up in this period to attract and hold managements.

For their part, workers received their share of the pie in the form of retirement plans of their own, as the term coined in the 1950s by management consultant Peter Drucker. “pension plan socialism,” took root in large and small companies alike. Through the vehicle of 401(k) plans, American workers were assured of comfortable if not lavish retirement while self-employed workers might take out Keogh plans to accomplish similar objectives. The government made it possible for almost all to have individual retirement accounts (IRAs), which added to the mix. In 1945 the more prescient workers realized that Social Security checks would provide no more than a fraction of what would be needed for a comfortable life after retirement, and knew that they had to save for that stage of their lives. This awareness was the unspoken factor that motivated much of what Americans did in the way of wealth creation during the second half of the twentieth century.

Such was the case into the late 1960s, a period marked by political unrest related to the civil rights movement and the Vietnam War, but during which economic prosperity continued. Then, in 1973, the Organization of Petroleum Exporting Countries (OPEC) first started to raise the price of petroleum, then embargoed the United States, and followed with further price increases. That set off a period of dislocation, which brought an end to some of the wealth-producing elements of the 1950s and 1960s, shook up the securities markets, and marked the beginning of the troubling era of “stagflation” (economic stagnation combined with high inflation). Americans who clung to the old ways of creating wealth suffered, but those capable of adjusting to the new dispensation profited greatly.

Two relatively small but significant groups did not overly concern themselves with the creation of wealth. One because of family inheritances, the other because their personal values did not place a premium on wealth. In the past, inherited wealth formed the bulk of the wealthy of the next generation. Such was not the case after World War II; many entrepreneurial newcomers were able to enter the ranks of the rich because the existence of new industries and buoyant real estate and securities markets now provided abundant opportunities.

The second group emerged out of what originally was known as the “New Left.” Some became part of the “Beat Generation” and went through other incarnations in the 1960s and beyond. These dropouts dismissed America’s “materialist culture,” in favor of lifestyles that they considered more spiritual or communal.

As these words are being written, many pundits seem to believe that America—and perhaps the world—is on the edge of a social and economic change on the magnitude of the Industrial Revolution, involving electronics, computers, and telecommunications. Whether this is so or whether those sages are confusing a turn in the road with something entirely new remains to be seen. In any case, I have elected to treat this matter separately so the reader can trace the origins of electronics and computers, when both appeared at the very beginning of the post-World War II period and then seemed more like science fiction than the stirrings of a new society. The implications of these developments are considered toward the end of the book as a prelude to a new way of living. The people involved are not entirely part of the “Gre

Boom” during which Americans finally cast off the doubts and fears inherited from the 1930s but they do embody the shape of the new ways that have little reference to the old.

In July 1945, scientist Vannevar Bush, who had been instrumental in the creation of the atomic bomb, sent a long report to President Harry Truman urging him to plan for an aggressive governmental role in promoting scientific research after the war. “It has been basic United States policy that Government should foster the opening of new frontiers,” said Bush. “It opened the seas to clipper ships and furnished land for pioneers. Although these frontiers have more or less disappeared, the frontier of science remains.”

If the sages, including Bush, are correct in their analysis, the grandchildren of the servicemen and -women who had memories of massive unemployment, military service against the Germans and Japanese, and the dropping of the atomic bombs will create a new kind of civilization in which the past truly is a prelude, but perhaps nothing more than that bearing as much relevance to the economy and possibilities of the twenty-first century as does the Homestead Act of more than a century ago to the present.

One final note: The path to success that existed half a century ago remains, but to it have been added other passages. Indeed, there are so many routes to wealth and success today that it is not possible to list them all. The securities markets, once ancillary to housing, represent one such route. Because of the successes of parents and grandparents, today’s young people may one day inherit more than they realize. They very likely will live longer, and have more years to save and invest money—in their IRAs, Keoghs, and 401(k) plans, among others. Will their lives be better, or richer, or more satisfying? Who can measure such things? When I asked a World War II veteran about this, he spoke for a while about his grandchildren, whose lives were so much easier than his had been. And then he added, “I wouldn’t trade my yesterdays for their tomorrows.” After a moment, he smiled and said, “That isn’t an original thought, you know. I read it somewhere.” Original or not, I had no doubt of his sincerity. But it does provide something to ponder as you read about how a generation of enterprising Americans created and dealt with the “Great Boom” of the second half of the twentieth century.

COMING HOME: A TIME OF DESPAIR AND HOPE

Turn from the war, to the postwar future. I think of the fearful men in the high places of economic power who are frightened at the thought of peace, and the cynical men who are starting to say that there is no right to full employment in any society. I think of the near certainty that our powerful industrial leaders will have learned nothing at the end of this war, and that like the fabulous lemmings of Norway they will march into the sea of economic chaos, moved as by some tropism to seek destruction; different, however, from the lemmings in that they carry with them the economic destiny of a whole people.

—Max Lerner, “The Human Condition: 1944,” *PM*, August 1, 1944

One of the most articulate and popular journalists and academics of mid-twentieth-century America, Max Lerner was a passionate New Dealer who, when World War II broke out, was teaching at Williams College and writing articles for a wide variety of newspapers and magazines. Invited to become a columnist at the liberal New York newspaper *PM*, Lerner accepted the assignment, commenting on the war, home front, politics, and anything else that struck his fancy.

After the successful D-Day invasion of Europe on June 6, 1944, Lerner’s thoughts turned to the peace that soon was to come. While welcoming the impending end of the war, Lerner was not optimistic at the prospect. The arithmetic of the situation was compelling. It indicated that the bad times of the late 1930s would soon return. Lerner wrote:

Today there are some 65,000,000 Americans fighting and working—roughly 10,000,000 in the armed forces, roughly 55,000,000 in all forms of industry and agriculture. This compares with about 45,000,000 in 1939. The difference is 20,000,000. Take off 5,000,000 for the women who will not want jobs after the war and for a standing Army. That still leaves 15,000,000—a figure comparable with the unemployment at the depth of the depression.

The thought was neither new nor original.

Lerner’s apprehensions echoed those of many New Dealers during the late 1930s, when talk of an end to federal programs that created jobs sparked rejoinders that discontinuing such policy would return the country to the sorry state it had been in prior to the New Deal.

A Bleak Past and Bleaker Future

At the time there was a generalized lack of confidence in what passed for free enterprise, more particularly, in the economy's ability to right itself without programs inspired by intellectuals from New York and other centers of abstract thought, and then implemented by Washington bureaucrats. In advanced intellectual circles it was modish to believe that the country could be saved only by an American version of what once had been hailed as the "Mussolini Miracle" of Italy, before opinion turned against the Italian dictator following his alliance with Adolf Hitler.

This was understandable, given the severity of the Great Depression and the perceived successes of the New Deal, and to be anticipated, for during the 1930s the death knell for capitalism was being sounded throughout the world. In 1937 President Roosevelt spoke of a nation in which one-third of the population was ill-housed, ill-clad, and ill-nourished. The situation hadn't changed much at the time World War II erupted two years later, when the unemployment rate was more than 17 percent. According to the 1940 census, which calculated earnings on the basis of wages and salaries alone and excluded returns from investments, 70 percent of the American people fell into the Census Bureau's category of "earnings poverty."¹ In 1938 presidential adviser Adolf A. Berle, Jr., spoke of the "obvious financial and industrial crisis which is plainly indicated within the next few years." The following year another adviser, Harry Hopkins, said, "With twelve million unemployed we are socially bankrupt and politically unstable. This country cannot continue as a democracy with ten million or twelve million unemployed. It just can't be done." Then came the war and the end of unemployment its replacement being widespread labor shortages. But the idea of capitalism's dead end had not died. Would those predictions come true once the war ended?

This is not to suggest—as it was later on—that the Roosevelt Administration welcomed entry into the war as a solution to the problems of unemployment and depression. Even so the thought was not completely alien to some. At Princeton in 1936 a group of students organized what they called Veterans of Future Wars, which attempted to obtain a federal bonus of \$1,000 for each of the 15 million Americans bound to serve during such a conflict. Lewis Gorin, Jr., a Princeton senior, its first national commander, later wrote *Prepared Patriotism*, in which he said that the bonus should be paid before the World War veterans squeezed the country dry with their demands for bonuses. The movement gathered tens of thousands of members on campuses throughout the country, and soon there was an auxiliary organization, the Association of Future Gold Star Mothers, which demanded government-paid trips to Europe during the next war so they could visit the graves of their sons who would die in combat. Another student organization, Future Profiteers, demanded advances on war contracts. It was a short-lived movement, however, falling apart with the arrival of the 1936 presidential election. It should be noted that most members eventually did serve in the armed forces during World War II.²

There were other reasons to expect bad times ahead, and not only for the short run. Demography seemed to dictate decline. In a 1943 article dealing with postwar expectations the editors of *Fortune* stated that "unless the economic, social, and cultural structure of the nation undergoes great postwar changes, the birth rate will recommence its downhill trend which had begun in the nineteenth century and continued, with interruptions, into the 1930s."

A 1938 poll indicated that 79 percent of American women were in favor of birth control, with 3 out of 4 giving the reason as “family income,” or, to be more precise, the lack of same. The *Fortune* writer concluded that the American impulse to limit births, which would become permanent, would add to economic problems:

It has always been assumed in this country that an increasing population was not only normal but desirable. Now that the U.S. is faced with the leveling off of the population and the possibility of numerical decline, we must look ahead to the social, political, and economic effects implicit in those changes, and try to decide how to meet them. If the population should become stationary, capital investments, industry, and business could no longer be founded on numerical growth: they would have to be based on conservation and improvement rather than expansion, on quality rather than quantity. A stationary population or a somewhat smaller population would not necessarily be dangerous to the country’s economic and social life so long as we took cognizance of it and adjusted our life to it.

The writer suggested that because of the expected population decline, it would become necessary for aged workers to remain on the job longer than anticipated. Ewen Clague of the Social Security Board recommended retraining working men and women at around the age of forty-five for jobs they might hold in their old age. *Fortune* concluded that by 1980 more than half of American voters would be more than forty-five years old, and would demand additional benefits from Social Security, and perhaps even government-provided medical care. How could the anticipated stagnant postwar economy deal with such matters?

Max Lerner and *Fortune* were not alone in their forebodings. University of New Mexico president J. Philip Wernette, who had been trained in economics; predicted:

Immediately after the war there will be a brief restocking period, when business and employment will be fairly good. When the restocking stimulus has spent its force, however, the outlook for the decades ahead is for continuous, chronic world depression, broken by occasional periods of severe depression. That is what we may expect, unless something is done to prevent it.

Alvin Hansen, a leading Keynesian economist, was troubled by the same forces he perceived in the economy and society as a whole. In his popular book *After the War, Full Employment* (1943), Hansen argued:

When the war is over, the Government cannot just disband the Army, close down munitions factories, stop building ships, and remove all economic controls. We want an orderly program of demobilization and reconstruction. The government cannot escape responsibility.

Paul Samuelson, soon to become the country’s best-known academic economist by virtue of his highly popular textbook, agreed, predicting a major depression unless the government acted to stimulate the economy, and other experts took up the cry. As with Lerner, Samuelson’s reasoning was based on experiences following the end of World War I and the

the coming of the Great Depression:

The final conclusion to be drawn from our experience at the end of the last war is inescapable. Were the war to end suddenly within the next six months, were we again planlessly to wind up our war effort in the greatest haste, to demobilize our armed forces, to liquidate price controls, to shift from astronomical deficits to even the larger deficits of the thirties—then there would be ushered in the greatest period of unemployment and industrial dislocation which any economy has ever faced.

The war was over within two years, not six months. The transition to a peacetime economy was both swift and chaotic; even before the Japanese surrendered, a large number of consumer items were freed from the price controls imposed during the war, and Washington canceled many contracts for ordnance, including 30 percent of those for aircraft. In mid-1945, with the war over, meat, butter, and tire rationing ended and additional products were freed from War Production Board controls. The armed forces were soon demobilized. On V-J Day there were more than 12 million men and women on active duty. Two years later, that number had been reduced to 1.5 million. Within the defense-oriented sectors of the economy the job loss was 2.6 million. The GNP declined by 1.6 percent from 1945 to 1946. The government conducted the largest surplus property sale in history, as factories were disposed of at 20 percent of cost.

Economic decline was the gospel during the immediate postwar period. It even found its way into the college textbooks. One of the most popular of the time, *An American History* (1950) by the noted historians Merle Curti, Richard Shryock, Thomas Cochran, and Fred Harrington, informed freshman American history students that major economic problems were occurring as the servicemen were being discharged:

Even at home, all was not well. Prosperity appeared to depend in substantial part on exports for which foreign countries could not pay; and on an armament program which increased an already staggering tax burden. The individualism and the opportunity of an earlier America seemed to have faded; and some felt that the United States had suddenly grown old. Predictions of disaster were common, and despair became fashionable in intellectual circles. No longer did Americans speak of the inevitability of progress. Rather they talked of a confused and uncertain future.

Almost half a century later, former *Economist* analyst and Englishman-turned-American Michael Elliot wrote what by then had become the standard view of the situation at the end of the war.

When the war in Europe started in 1939, America was struggling, battered and bruised, from an economic recession that was far deeper and more wounding than anything known in Europe. ... At the end of World War II, by contrast, America bestrode the narrow world like a colossus. Its military machine, enjoying scientific and technological advances far beyond those available to any other fighting men, had won two wars, each a wide ocean away from home. On the twin rocks of its economic and military might, America then built a society which was the envy of the world—a society in which

ordinary working people could enjoy a standard of living, with spacious homes and modern appliances, beyond the dreams of those in other nations. The outside world was kept at bay, like children pressing their noses to the panes of a party to which they have not been invited.

How could those seers at the end of World War II have been so wrong? Put it down to the mindset developed during the Great Depression and sustained throughout the war. How could they have failed to perceive the strengths the nation possessed, such as the activities of the returned veterans, a key element in the prosperity that would mark the scene in post–World War America?

The arithmetic that led the pundits to anticipate a depression was compelling and convincing. Absent massive federal public-works programs larger than anything attempted in the 1930s, the United States would sink back into depression. Samuelson was convinced that “peacetime prosperity could be assured only if the slack left by business investment and expenditures could be taken up by government expenditures.”

Before the war, Samuelson had been an ardent New Dealer, and his highly successful textbook reflected his beliefs in the wisdom of government intervention in the economy. Later, in the 1960s, he would argue for a major government role even when all was going well with the private sector. Not so historian Richard Hofstadter, generally categorized as a moderate who, unlike Samuelson, did not offer prescriptions for reform or play a political role. Writing in *The American Political Tradition and the Men Who Made It* (1948), which like Samuelson’s economics textbook became a best-seller in the late 1940s and afterward, Hofstadter started by stating, “Since Americans have recently found it more comfortable to see where they have been than to think of where they are going, their state of mind has become increasingly passive and speculative.”

Hofstadter also wrote:

An awareness of history is always a part of any culturally alert national life; but I believe that what underlies this overpowering nostalgia of the past fifteen years is a feeling of insecurity. The two world wars, unstable booms, and the abysmal depression of our time have profoundly shaken national confidence in the future. During the boom of the twenties it was commonly taken for granted that the happy days could run on into an indefinite future; today there are few who do not assume just as surely the coming of another severe economic slump. If the future seems dark, the past by contrast looks rosier than ever.

Academics and government officials were not alone in believing the end of the war would usher in a new depression. Scores of perfectly respectable and intelligent businessmen agreed. Perhaps the most visible of these was Sewell Avery, the CEO of Montgomery Ward, one of the nation’s leading retailers.

In his 1945 message to shareholders, Avery predicted hard times ahead, for which Montgomery Ward was well prepared. Avery’s beliefs were not derived from the sources referred to by Samuelson and government economists. Rather, they came from the writings of Geoffrey Moore, an eccentric business-cycle theorist, who noted similarities between credit growth in the 1920s and what was happening in the immediate post–World War II period.

leading him to conclude that a bust was in the making. In addition, Avery kept charts and statistics on his desk going back to the Napoleonic Wars, prepared to show and explain them to any and all. After doing so, he would invariably ask, "Who am I to argue with history?" As a result, Montgomery Ward did not expand in the late 1940s and early 1950s, while arch-rival Sears Roebuck purchased land in suburbs throughout the country and erected department stores that helped destroy Avery and his company.

Avery might have had better fortune in defending his position by observing that Congress seemed to agree with him. By large majorities in both houses, a rather conservative Congress passed the Employment Act of 1946. Originally it was called the Full Employment Act of 1946 but in its final form the "Full" was dropped, because Congress was fearful of defining "full employment." This was to be a typical compromise bill. The old New Dealers were interested in full employment, but also in eliminating poverty in America. The thought at the time was that if unemployment could be ended it would dispose of the issue, since a person who was employed was, by definition, not poor. The legislation declared:

It is the continuing policy and responsibility of the Federal Government to use all practicable means ... to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities ... and to promote maximum employment, production, and purchasing power.

Leon Keyserling, a member of the Council of Economic Advisers created under the terms of the act, addressed the issue in 1947, in an article titled "Must We Have Another Depression?" His answer, almost two years after the war had ended and when the nation's major macroeconomic problem was inflation and not depression, was not particularly encouraging. "While all economists do not agree as to the causes of the last depression, a listing of the causal factors generally agreed upon indicates that many of these factors are again present now or will be present within a few years." He went on to list some of them:

The tendency of our productive capacity to outrun our mass buying power, the chronic weakness of such bellwether industries as residential construction, the seeming reluctance of capital investment to expand as dynamically as once it did, the uncertain elements in foreign trade, the enormous disparities in the price and wage structure, and huge differentials in the price of the enjoyment of national income by regions and individuals.

So it was that a virtual army of analysts, both governmental and private, from all parts of the political spectrum, believed there would be a conversion effort similar to that which followed World War I, which is to say that, absent military threats, the United States would return to the essentially peacetime, non-military economy it enjoyed during the 1920s, and that the economic results would be disastrous. But there was no such conversion, as the depression-scenario analysis was dashed by events on the foreign landscape.

America: 1945

What kind of a country did those veterans find when they got off the troop ships and returned home? For one thing, it was shabbier than when they left. Maintenance of private property had been neglected for a decade and a half. There was little in the way of new clothing in the stores. Some foodstuffs were still rationed, as was gasoline. Tires were recapped, often several times. If the veterans looked closely at women's legs, which of course they did, the newly discharged servicemen might have realized that the look of white stockings appeared to be stockings had been achieved through the application of cosmetics.

The city centers were still there, where one might shop in department stores, and towns and villages had centers as well, often with a "Main Street." There one might find "first-run movie houses," where a single film was showing. In the neighborhoods were second- and third-run movie houses, with double features, an "A" and a "B" film, which changed weekly. Depending on the neighborhood where one lived, the moviegoer who did not venture far might have seen a steady diet of Warner Brothers, Metro-Goldwyn-Mayer, Twentieth Century-Fox, or Paramount films, since the chains had affiliations with the major studios. In 1945, 85 million Americans went to the movies each week, approximately 2 out of every 3 adults and children.

Radio was even more important to that generation. Practically every home had a receiver since this was the most inexpensive form of entertainment and information. Few homes had more than one, however. The radio was placed in the living room, and the family gathered there the evenings to listen. Later on, when television made its appearance, the running joke was "What did we look at [when listening to the radio]?" The answer was, "The radio." There were three major networks, two owned by RCA's National Broadcasting Corporation, and the other by the Columbia Broadcasting System, as well as several regional networks and many independent stations. Some isolated areas could receive few stations, but in the cities more than a dozen were available.

Radio and motion-picture fare was decidedly optimistic. The heroes always won in the end while the villains suffered defeat. If there was extramarital sex, the perpetrators would be punished for their actions. This was the way it had to be, since motion pictures operated under a code of conduct, and radio was licensed by the government. The upbeat messages were what audiences of the time had come to expect.

Most theaters were not air-conditioned (as distinguished from air-cooled) in the summer. Neither were the homes. In tenements, sleeping on fire escapes was widespread, and on hot summer nights urbanites would escape to the parks, or to air-cooled movie houses, equipped with large fans placed on the stage. Nor did the automobiles of this period come equipped with air-conditioning.

The serviceman heading home with his duffel over his shoulder would have seen boys and girls dressed informally, but not the adults. Just about every male who was not a day laborer wore a jacket, tie, and hat, while women wore dresses or suits. Slacks were permitted for women working in factories, but not in offices. To appear in public not wearing the correct clothing would have seemed improper, even disrespectful. If the serviceman was going to a middle-class apartment house, he would find the elevator there operated by a uniformed man or woman.

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