A History of the U.S. Economy in the Twentieth Century

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He has taught introductory economics in a number of contexts. At Stanford University and the University of Minnesota, he has taught large lecture courses of 300-500 students. At Stanford, he won the award for excellent teaching in a large class (more than 30 students) given by the Associated Students of Stanford University. At Minnesota, he was named a Distinguished Lecturer by the Department of Economics. He has also been a guest speaker for groups of teachers of high school economics, visiting diplomats from eastern Europe, talk radio shows, and community groups. He has recorded several courses for The Teaching Company: Economics: An Introduction, Legacies of Great Economists, and A History of the U.S. Economy in the Twentieth Century.

Since 1989, Tim has written an economics opinion column for the San Jose Mercury News, and many of his columns have been disseminated nationally over the Knight-Ridder-Tribune wire. He and his wife live near Lake Harriet in the southwest corner of Minneapolis.
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A History of the U.S. Economy in the Twentieth Century

Scope:

This series of ten lectures offers an introductory look at "A History of the U.S. Economy in the 20th Century." An economy operates on many levels, and so must these lectures. The discussion must touch on the lives of ordinary people: their patterns of consumption, work and education. It must describe the rise and fall of industrial conditions and unions. At the national level, the discussion moves to government budget and monetary policies, and the conditions of growth, employment, and inflation. Finally, at the international level, there are issues of how people, capital, and goods flow across borders.

Each lecture covers one decade of America's economic history during this century. In the first lecture we discuss the status of both the country and the economy at the turn of the century. We also discuss the role of the federal government regarding mergers, social legislation, and inflation. Overall this decade is marked by financial chaos.

In the second lecture we discuss the government’s creation of various federal institutions and the consequences that World War I had on both the government and the economy as a whole. We also examine Frederick Taylor’s concept of scientific management and conclude with a discussion of the gentle changes in living standards.

Although titled “The Roaring 1920s,” the third lecture begins with a discussion of the Recession of 1920-1921. This recession was followed by the consumption boom marked by the transforming technologies of electricity and the automobile as well as developments in macroeconomic policy. It is this boom which then gave the decade its nickname.

The fourth lecture highlights the Great Depression, which we learn was most likely caused by a mismanaged monetary policy. We also examine the merits of the New Deal and its role in the economic recovery of the United States.

World War II and its aftermath dominate the fifth lecture which covers the 1940s. We survey the economic effects of the war, and examine how the effects actually contributed to the country’s economic recovery. More specifically, we look at the war’s effects on the federal budget and the reshaping of the U.S. economy. We conclude this lecture with an examination of the global institutions built by the United States to restore trust in the world.

Our task in Lecture Six is to determine whether or not the quiet boom of the 1950s was beneficial for the U.S. economy. We learn that while this decade revealed many healthy signs of prosperity, it remained plagued by controversies and thus, future economic uncertainty.

We pick up with the uncertainty as we investigate the 1960s in Lecture Seven. We look at the various ways that macroeconomic issues influence the way our country is run. We also discuss the building of the Great Society and antitrust and immigration issues.

This uncertainty takes us to Lecture Eight and the confusion of stagflation which lingered throughout the 1970s. This decade witnessed two recessions and the creation of price controls, floating exchange rates, and expanding global trade. We also closely examine the productivity slowdown of the 1970s.

In Lecture Nine, we examine the effects of 1970s inflation on the 1980s economic stability. This leads us into a discussion of the causes and consequences of the budget and trade deficits. We conclude this lecture by looking at the changing market structure and its effects on deregulation.

In the tenth and final lecture of this series, we focus on the misperceptions of the inequality and insecurities of the 1990s and discuss an economic and social agenda for the twenty-first century.

Of course, knowing what happened in economic history does not offer easy answers to today's problems. Times change; the past rarely offers a perfect template for the present. But knowing the history does help discussions about the present to get off on the right foot, free of at least some of the myths and ignorance that can so easily lead us astray. As always in the study of history, knowing where we came from helps us to learn who we are and where we are.
Lecture One
The Curtain Opens on the 20th Century

Scope: This introductory lecture previews the entire set of lectures. Beginning with the 1900s, we will take an in-depth look at the demographics and economics of the time, while we make comparisons to the present day. This leads into a discussion of the popular issues of the decade. We then look at the federal government and how it began to play a role in economic policy. Following this, we examine how inflation, the gold standard and the Panic of 1907 led to financial chaos.

Outline

I. We begin with a preview of this lecture series.
   A. These lectures include a study of people’s lives and work, the climate for business, the national economy, and the international context in which these took place.
   B. Although containing aspects of all of the following, the lectures are not a history of politics, society, business or government.

II. Examining the lives of Americans in the 1900s provides a snapshot of the U.S. economy during this time.
   A. The living standard and population of the 1900s offer a point of comparison to the present day.
      1. The United States, which had one of the highest per capita gross domestic products (GDP) in the world, took over global industrial leadership at the turn of the century.
      2. The population was about one-third of what it is today, with African Americans being the largest minority group.
   B. What is America doing and making at this time?
      1. Economic growth resulted from the utilization of both greater amounts of labor and the land’s rich natural resources.
      2. America produced manufactured goods because it had the economy to take advantage of these resources.
   C. Although sufficient, living conditions paled in comparison to today.
      1. A minority of households had electricity and running water.
      2. People traveled mainly by foot and lived near where they worked.
      3. Limited living space forced people to share rooms.
   D. The health and education standards of the time were quite lacking.
      1. Life expectancy was forty-seven years and infant mortality was around fourteen percent.
      2. Despite high rates of illiteracy and a short school year, the U.S. education system was one of the best in the world.
   E. Men and women experienced quite different working worlds.
      1. Men typically worked sixty hours per week, with similar percentages in farm, manual or white-collar jobs.
      2. Most were unskilled laborers who worked at the same place for a short time and worked until they were too sick to continue.
      3. Less than twenty percent of women were in the paid labor force, and those who were, were paid by how much they produced.
      4. Yet women had extensive work taking care of the household jobs.
   F. In adjusted numbers, the per capita GDP of 1900 would equal $5000.
      1. This GDP per capita of $5,000 was a fifth of what it is today.
      2. This was still a high standard of living.

III. There existed, between the turn of the century and the present, similar economic concerns.
   A. Transportation and communications contributed to the globalization of the economy.
      1. The fall in transportation costs equalized prices across borders.
2. Communications altered investing across the oceans.

B. A surge in immigration caused a controversy similar to that of today.
   1. For any economic issue it is important to recognize who is helped and who is hurt.
   2. This wave of immigration hurt the existing low-skilled workers but benefited consumers by providing cheaper products.

C. The transforming technologies of electricity and the internal combustion engine paved the way for other innovations.
   1. Electricity, although not a mystery, was not widespread.
   2. The internal combustion engine created a great deal of excitement.

D. The written word and the predatory actions of many big companies caused people to both fear and lose trust in large corporations.
   1. A popular article on Standard Oil described how Rockefeller drove many businesses to bankruptcy. * see note
   2. Sinclair’s, *The Jungle*, a political polemic portrayed the underside of the Chicago meat-packing industry.
   3. Many companies merged, driving the competition out of business.
   4. These companies used complicated financial and legal actions which further disillusioned the public.

IV. During the 1900s the federal government began to play a role in the country’s economic affairs.
   A. With only a tiny federal budget, no income tax, and no federal reserve system, the federal government was virtually invisible.
   B. Much of the government policy toward mergers was a reaction to Standard Oil.
      1. The Sherman Antitrust Act was a reaction to the big mergers but due to ambiguous wording, was not very effective.
      2. We discuss how and why trusts were formed.
   C. Social legislation competes with the interests of both big business and the Supreme Court.
      1. The Supreme Court threw out all types of social legislation such as income tax formation, worker regulation, and pay standards.
      2. The Supreme Court decided on cases which hurt unions, limited women’s ability to work, and helped the meat packers.
      3. It is important to study the legislation to see who it actually helps and who it regulates.

V. The 1900s were marked by inflation, financial chaos and the last frontier of red-blooded capitalism.
   A. The banking system, not in good shape, was run under outdated laws with different rules for big and small banks.
   B. The economy ran on the Gold Standard
      1. The gold standard meant that gold was traded for money and money was traded for gold.
      2. Economists created adjustments to improve this gold standard.
   C. How the panic of 1907 led to the creation of the Federal Reserve.
      1. We discuss the origins of the recession.
      2. The government created the Federal Reserve out of a series of authorizations it passed to alleviate this panic.
   D. The 1900s marked the peak of the era of entrepreneurial, red-blooded, cut-throat capitalism.
      1. Few laws controlled what businesses could and could not do.
      2. People wanted to make as much money as possible and felt they were on top of the world.
      3. The country’s enormous resources gave it a false sense of security.

Recommended Reading:

Supplemental Reading:
Bruce Bringhurst, *Antitrust and the Oil Monopoly: The Standard Oil Cases, 1890-1911*.
Questions to Consider:

1. Review some of the ways that the economic issues of the early twentieth century are similar to those of the late twentieth century. Based on your own insights and beliefs, can you also discuss some of the ways in which these issues seem different now?

2. Discuss the role that government played in economic policy in the first decade of this century.

3. People in their eighties and nineties often have vivid memories of the standard of living they experienced as children, close to the start of the century. If you know someone like this, ask them some questions about practical details of their early life. How was their house lighted? Heated? Was there running water? How many people lived in how many rooms? How did they travel about? What jobs did their father and mother do? Did they have siblings who died young? If you are someone like this -- that is, an older person who remembers these times -- reflect on your own experience.

* Note: on the tape, the lecturer misspeaks and mistakenly uses the pronoun “he” to refer to “muckraker” Ida Minerva Tarbell (1857 – 1944) who was, as her name indicates, a woman. Her writings on “big business” as it was practiced in the late 19th and early 20th centuries ran in McClure’s magazine and were also published in book form (History of the Standard Oil Company and The Nationalizing of Business, 1878 –1898).
Lecture Two

Big Government is Conceived: Income Tax, the Federal Reserve, World War I

Scope: During the second decade of the twentieth century the government created and developed institutions which built up the country. These institutions included the federal income tax, the Federal Reserve, and antitrust legislation. World War One caused economic changes such as the transformation of the United States into an international creditor and an increase in both government spending and revenue. The government created a federal debt ceiling, regulated labor, and nationalized certain industries. Finally, the war boom led to a recession. Meanwhile, both business and government adapted Frederick Taylor’s ideas of scientific management.

Outline

I. The government began building institutions for the country.
   A. The government established and developed the income tax.
      1. Past income taxes were short-lived and critically unsuccessful.
      2. One argument stated that the income tax would offset the changes in the economy which made certain people rich.
      3. Tariffs, the main source of government revenue at the time, hurt the poor people more than the rich people.
      4. Only the top two percent of earners paid this incomes tax, and thus it was not sufficient to fund big government.
   B. The government established the Federal Reserve System.
      1. The Federal Reserve set up a system of twelve interconnected banks in districts throughout the country.
      2. Member banks owned their regional federal banks, which despite lessening the importance of local banks linked them together.
      3. The Federal Reserve encouraged banks to avoid bank runs, which led to their collapse.
      4. The Federal Reserve still lacked both real regulatory power and a clear sense of how it should act.
   C. Attitudes toward antitrust law and competition shifted.
      1. The spirit of the Supreme Court shifted as it attempted to break up Standard Oil and American Tobacco.
      2. Despite the rhetoric, businesses disliked tough competition and wanted a well-organized system.
      3. The Supreme Court based its decisions on companies’ predatory actions rather than their share of the market.

II. World War One caused economic changes for the United States.
   A. The United States changed from being an international debtor to an international creditor.
      1. The economy had been built on money borrowed from Europe.
      2. During World War I, the United States ran a trade surplus due to an increase in exports.
      3. The U.S. economy used its earnings to pay off its debts and make loans to European countries.
   B. The government increased spending and raised revenue.
      1. Paying the soldiers increased federal spending.
      2. The government raised and expanded the income tax to subsidize this spending.
   C. Congress passed a federal debt ceiling to help cover new spending.
   D. The war altered the regulation of labor.
      1. During the war, the government controlled labor to prevent shortfalls.
      2. Firms reacted by increasing work restrictions.
      3. The new industry in the north attracted blacks from the south.
E. The government began to nationalize and run certain industries.
   1. The federal government requisitioned commodities and took over factories.
   2. The government took control of the railroad, telephone, and telegraph industries.
   3. Infighting among agencies prevented the government from achieving success.

F. Wartime inflation led to a postwar recession and the lifting of government controls.
   1. After the war the government canceled contracts and eliminated price controls.
   2. Inflation during the war led to postwar recession.
   3. The economic effects of World War I resemble those of other wars.

III. Taylorization and a rising standard of living also played an economic role.

   A. Taylorization, a globally prominent theory of scientific management, changed both business and labor.
      1. Leaders of all types of countries hailed Frederick Taylor’s ideas.
      2. Scientific management saw the world as a positive sum game.
      3. Taylor’s studies allowed workers to earn higher wages and owners to earn higher profits.
      4. Using Taylor’s principles, governments and big companies organized workers more efficiently.

   B. This decade witnessed both an improved standard of living and the establishment of big government.
      1. Electrified homes and automobiles became more widespread.
      2. New products, larger and better-run factories, and different organizations of labor developed.
      3. The birth of big government marked this decade.
      4. Overall, government’s relationship with the modern industrial economy changed.

Recommended Reading:
Harold Underwood Faulkner, American Economic History, p. 525-28 and Chapter 27.

Supplemental Reading:
Clarence Thompson, The Taylor System of Scientific Management.
Marc A. Eisner, Antitrust and the Triumph of Economics.
Charles D. Wrege, Frederick W. Taylor: The Father of Scientific Management.

Questions to Consider:
1. Review the original justification for the income tax and how that justification was implemented. How does it differ from the reasons often given for the income tax today?
2. Based on the experience of World War I, what effects does war have on the size and intrusiveness of government?
3. Based on the experience of World War I, would you expect big labor to be opposed to a national war effort? What about big business?
Lecture Three
The Roaring 1920s

Scope: Prior to discussing the decade’s boom, we examine the causes and consequences of the recession of 1920-1921. Electrification and the automobile facilitated this consumption boom and greatly affected the U.S. economy. Also, the government and the Federal Reserve used macroeconomic policy to spur this growth. This growth led to virtuous circles which in turn led to increased inequality. Limits on immigration, an expansion of the education system, and the electrification of industry affected labor conditions. Finally we learn about the connection between economic growth and rising wages and the importance of putting economic transformations into perspective.

Outline

I. Ironically, a recession began the Roaring 1920s.
   A. This recession had numerous underlying causes.
      1. Shrinking government spending slowed down the economy.
      2. Countries abroad, many recovering from the war, decreased purchases of U.S. goods.
      3. A rise in interest rates hurt banks and the economy as a whole.
   B. Consequences of the recession included effects on the economy, prices and, unemployment.
      1. The economy shrunk by twenty percent.
      2. Falling prices hurt borrowers the most.
      3. Unemployment rose to ten percent.
   C. American farms felt this recession most sharply.
      1. A cycle of productivity increased but foreign markets shrunk.
      2. Both farm prices and population fell dramatically.
      3. As farmers became more productive, farm prices fell.
   D. People began to understand the pattern of recessions.
      1. A recession included a sharp contraction with high unemployment followed by a quick turn-around in the economy.
      2. People became used to this pattern of how recessions worked.

II. A consumption boom followed the recession.
   A. Electrification made possible life-changing household appliances.
      1. Electrification reached many households.
      2. This led to a major innovation in electric appliances.
   B. These new appliances and ideas changed the nature of shopping.
      1. Branches of department stores opened up in residential areas.
      2. The first small shopping malls were formed.
   C. The automobile led to various social transformations.
      1. Automobiles created new living and traveling vistas.
      2. Paved roads and housing grew tremendously.
      3. Automobiles became the country’s largest industry and led the way to other inventions.
   D. The AT&T monopoly was born.

III. The government used macroeconomic policy in new ways.
   A. The Federal Reserve engaged in monetary policy.
      1. The Federal Reserve used its power to adjust interest rates.
      2. The Federal Reserve understood the broad theories and had the willingness to act differently.
   B. The government ran a budget surplus every year throughout the decade.
   C. Andrew Mellon experimented with supply-side economics.
1. Mellon cut the tax rate numerous times, yet the government still collected the same amount of tax revenues.
2. The growth of the 1920s resulted from numerous factors, with lower taxes playing only a minor role.

IV. The 1920s reshaped growth and the conditions of labor.
   A. The economy’s growth led not only to increased production but also to inequality.
      1. High demand led businesses to invest more, which in turn stimulated production.
      2. High technology jobs, which required special education only accessible to some, increased income inequality.
   B. Limits on immigration took place.
      1. Labor unions supported these limits which began during World War I.
      2. The country established quotas to limit the number of immigrants.
      3. These limits contained racist underpinnings and benefited unskilled workers already in the country.
   C. A broad expansion of education affected the conditions of labor.
      1. The percentage of adolescents receiving high school diplomas increased as education laws were enforced.
      2. Those able to get the additional education prospered.
      3. Education substantially contributed to economic growth, but these gains in education led to further inequality.
   D. The electrification of industry forced businesses to rebuild.
      1. Using this new electricity, industry rebuilt its plants.
      2. Electricity also changed the factories’ orientation.
   E. Consumers incurred debt and speculated more during the 1920s.
      1. Consumers used debt more frequently and paid high interest rates.
      2. Stock market trading increased dramatically every year.
      3. Real estate speculation deals pumped up the economy.

V. We learned certain lessons from the high-tech 1920s which we can apply to the high tech 1990s.
   A. An inescapable link exists between economic growth and rising wages.
      1. Wages can only rise to a certain level.
      2. Rising wages depend on economic growth.
   B. Putting economic strength and the impacts of technology into perspective seems wise.
      1. Transforming technologies impact life over the course of decades.
      2. In the 1990s we have not yet reached the point where computers will truly transform our standard of living.
      3. Few people expected the Great Depression during the 1920s.

**Recommended Reading:**

**Supplemental Reading:**
John B. Rae, *The American Automobile Industry*.
Peter J. Ling, *America and the Automobile: Technology, Reform and Social Change*.
Bernard C. Beaudreau, *Mass Production, the Stock Market Crash, and the Great Depression*.
Michael E. Parrish, *Anxious Decade: American in Prosperity and Depression*. 
Questions to Consider:

1. Review the economy’s experience with inflation and deflation in the aftermath of World War I. (Hint: for experience with inflation, you’ll have to consider the previous lecture). In times of high inflation, is the value of your money growing or shrinking? Is the size of the economy exaggerated or diminished? Consider the same questions for a time of deflation.

2. Explain how the electrification of the country changed the pattern of consumer purchases, the daily lives of women, and the characteristics of the workplace.

3. It is sometimes argued that supply side tax cuts, like those pushed by Andrew Mellon in the 1920s, are the main driving force behind economic growth. What are the criticisms of this view? Are there reasons other than stimulating growth to avoid the highest tax rates?
Lecture Four
The Depression Decade of the 1930s

Scope: This lecture describes both the notoriety and the causes of the Great Depression. Its causes included the stock market crash, a decline in aggregate demand, and most importantly a mismanagement of monetary policy. Next, we discuss the major elements of the New Deal and assess their merits and economic viability. While many of the regulations created during the 1930s benefited society, they did little to produce an economic recovery.

Outline

I. What made the Great Depression so “great”?
   A. It was the worst of a group of similar downturns.
   B. It was one of the longest, deepest recessions.
   C. It entailed strong deflation, high unemployment, and increased homelessness.
   D. Many consider the Depression the most important economic event of the twentieth century.

II. Several causes contributed to the Great Depression.
   A. People underestimated the potential of the normal economic process.
   B. The stock market crashed.
      1. Buying on margin and expanding industry contributed to this crash.
      2. In an attempt to quell speculation, the Federal Reserve reduced the money supply, which led to a small downturn.
      3. People were slightly too optimistic beforehand but became far too pessimistic afterward.
      4. Based on historical review, most economists agree that the crash alone did not cause the Depression.
   C. A decline in aggregate demand slowed down the economy, but only to a certain extent.
      1. Business investment fell dramatically but this had begun earlier.
      2. The theory of tired consumers held little weight.
      3. Hoover increased government spending until the election.
      4. The Smoot-Hawley tariff reduced exports, but they represented only a small part of the economy.
   D. Mismanagement of monetary policy was the main cause of the Depression.
      1. The difference between low nominal interest rates and high real interest rates confused people.
      2. The Federal Reserve did not understand that bank failures contributed to a lack of credit for consumers.
      3. The gold standard forced the United States and other countries to raise interest rates, which in turn strangled the economy.
      4. Policy deadlocks within the Federal Reserve led to periods of indecision.

III. The New Deal entailed various new laws and regulations.
   A. The New Deal created a vast web of industrial regulation.
      1. The National Recovery Administration intended to set up fair competition codes, but it actually created a monopoly.
      2. The Agricultural Adjustment Act attempted to help farmers earn more.
      3. Banking and financial acts regulated credit and stock exchanges.
   B. The New Deal empowered unions.
      1. In 1935 the separate industrial unions merged.
      2. The Wagner Act of 1935 gave unions a stamp of approval.
   C. The government created Social Security and income support programs.
      1. The government carefully divided Social Security in two.
      2. Social Security relied, and has always relied, on current workers to support current retirees.
3. The government passed other acts to support families and guarantee jobs.

D. The minimum wage law pitted the north against the south.
1. The north supported the minimum wage because it wanted to keep the jobs from moving to the south.
2. Poor black workers in the south migrated to the north, because the minimum wage forced them to lose their jobs.

IV. Did the New Deal lead to economic recovery?
A. Economic patterns developed during the latter half of the 1930s.
1. In 1935-36 an economic boom occurred.
2. Another recession and stock market crash took place in 1937.
3. The government took buying power out of the economy with its tax and spending decisions.
4. The Federal Reserve, worried about inflation, raised the reserve requirement for banks, which decreased consumer buying power.

B. We evaluate the New Deal on economic terms.
1. Some regulations and laws helped increase social welfare.
2. The New Deal regulations should have focused on growth and economic recovery.
3. Roosevelt’s ideas of regulating prices, stopping competition, and cutting production only worsened matters.
4. Ironically, the economy finally turned around, once the New Deal regulations were determined unconstitutional.

Recommended Reading:

Supplemental Reading:
Lester A. Chandler, *America’s Greatest Depression 1929-1941*.
Peter Temin, *Did Monetary Forces Cause the Great Depression*.
Ronald C. Tobey, *Technology as Freedom*.
Arthur Schlesinger, *The Coming of the New Deal*.

Questions to Consider:
1. Discuss the possible causes of the Great Depression, including the stock market crash of 1929, misguided policy choices of Herbert Hoover, the wave of bank failures, mismanagement of the money supply, and the Smoot-Hawley tariff.
2. What were the key elements of the New Deal? Which of these elements remain of central importance in the economy today?
3. Why are economists skeptical that the New Deal contributed much to recover from the Depression?
Lecture Five
The 1940s: World War II and its Aftermath

Scope: This lecture discusses how World War II led to tremendous growth but was not the sole factor in ending the Great Depression. The war did expand the income tax, raise the government debt and increase the size of the government. It also reshaped the economy as a whole; the government intervened in markets, unions grew, jobs shifted in nature, wages compressed, labor markets for minorities changed, health care spending rose, and the baby boom was born. Finally the United States government contributed to rebuilding global institutions by developing the Marshall Plan, the International Monetary Fund and the General Agreement on Trade and Tariffs.

Outline

I. The economy skyrocketed during World War II.
   A. The 1940s witnessed staggering economic growth rates.
   B. Unemployment plummeted and inflation remained under control.
   C. The size and scope of the military effort were overwhelming.
   D. Economists took pride in helping win World War II.
      1. Economists increased production by using their training and understanding of the economy.
      2. Both the soldiers’ bravery and the economist’s production controls contributed to the economy’s success.
   E. Two major doubts lingered regarding the role of World War II in pulling the nation out of the Depression.
      1. For the decade as a whole, the gain fell short of extraordinary.
      2. The economy had the potential to move briskly even if the war did not happen.

II. World War II changed the federal budget
   A. The government expanded the levels and rates of the income tax.
   B. The government increased the debt dramatically by borrowing money to support the war.
   C. The government grew in size during this decade.
      1. The government grew during the war and did not resume its normal size when the war ended
      2. Increased government intake decreased the number of dollars available for consumption.

III. World War II reshaped the economy as a whole.
   A. The government intervened in markets.
      1. The government issued cost-plus contracts to manufacturers.
      2. The government bought plants during the war.
      3. The government developed wage, price, rent, and production controls.
      4. These controls led to circumvention of the laws.
      5. Attitudes toward big business and monopolies changed.
   B. World War II also affected unionization and labor relations.
      1. During the war the government seized businesses to prevent strikes.
      2. The Taft-Hartley Act weakened the bargaining position of unions.
   C. The nature of jobs shifted.
      1. As technology forced companies to train and retain higher quality workers, employees received job security and better pay.
      2. Fringe benefits, such as health insurance, became more prevalent.
   D. World War II also caused a great compression of the wage structure.
      1. A trend toward greater income equality began.
      2. World War II increased the demand for unskilled labor which helped poor people earn a decent wage.
      3. The minimum wage also contributed to this compression.
   E. The labor market status of women and minorities improved marginally.
1. Despite continued desegregation, black men began to earn higher wages, as they got into union, defense, and shipping jobs.
2. Women, despite continued discrimination against them, gradually became a greater part of the workforce.

F. Health care spending exploded.
   1. New drugs, surgeries, and medical techniques were developed.
   2. Big health insurance companies formed and people became connected to health insurance plans through their jobs.

G. World War II legitimized the connection between public policy and science.
H. An enormous boom in child births will have effects for many decades.

IV. The United States helped form global institutions to rebuild trust.
   A. The Marshall Plan assisted European nations in their war recovery.
      1. The necessity of this assistance was unclear.
      2. Smart people, among other factors, truly rebuilt the economies.
   B. The Bretton Woods conference produced three offspring.
      1. The International Monetary Fund encouraged international trade by stabilizing exchange rates.
      2. The International Bank for Reconstruction and Development, also known as the World Bank, provided loans to poor countries.
      3. The General Agreement on Trade and Tariffs (GATT), despite its weak nature, controlled tariffs and international trade.

V. The Employment Act of 1946 gave the federal government the responsibility to maintain high employment, growth, and stable prices.

Recommend Reading:

Supplementary Reading:
James Atelson, *Labor and the Wartime State*.

Questions to Consider:
1. Discuss the effects of World War II on the following: the size of the government budget; the income tax; the size of the federal budget deficit; rates of union membership; and fringe benefits.
2. Discuss the intended purposes of the International Monetary Fund, the International Bank for Reconstruction and Development, and the General Agreement on Trade and Tariffs.
3. Why are some economists skeptical that World War II was necessary for recovery from the Great Depression?
Lecture Six
The Quiet Boom of the 1950s

Scope: The lecture begins with a quick look back on the first half of the century and then follows with a discussion of the economy of the 1950s. This decade, while realizing healthy growth, also produced a feeling of stagnation as unemployment, inflation, and public policy all slowed as the 1950s neared their close.

The 1950s had both healthy signs as well as looming difficulties that would persist throughout the rest of the century. These healthy signs included gains in wealth, science, technology, and education and a decline in the poverty rate. But issues such as the military industrial complex, urban decline, exposure to foreign trade, unionization, and the growth of service sector jobs concerned people.

Outline

I. We begin by taking stock of the first fifty years of the century.
   A. Population doubled since the start of century.
   B. Gross Domestic Product grew by a factor of almost five in real terms.
   C. The standard of living, measured by per capita GDP, more than doubled.
   D. Life expectancy increased remarkably and infant mortality plummeted.

II. The 1950s economy had two conflicting perspectives.
   A. Although mild, the unemployment rate rose gradually.
   B. Inflation fluctuated between the Korean War and the end of the decade.
   C. Varying growth rates caused concern.
      1. The country had a healthy growth rate during the Korean War.
      2. The economy began to stagnate at the end of the decade.
   D. The government ran small budget deficits throughout the decade.
      1. The debt grew more slowly than the economy did.
      2. Slowly growing deficits concerned people.
      3. Budget deficits served as an automatic stabilizer for the economy.
   E. The broader public policy agenda of the 1950s was quiet.
      1. Other than the Korean War, the government enacted few major policies.
      2. It was unknown if this economic stability was healthy or stagnant.

III. Gains in wealth, science, and education signified the health of the economy.
   A. People in the 1950s felt they were becoming more affluent.
      1. Electricity and electric appliances spread throughout the country.
      2. Minorities and rural areas did not achieve the same prosperity.
   B. The poverty rate declined.
      1. Although the poverty line did not exist, poverty declined.
      2. Nonetheless, economic growth uplifted the poor tremendously.
   C. The importance of science and technology grew.
      1. National research and development spending doubled.
      2. Machinery became more automated.
      3. Businesses developed new industrial processes.
   D. The decade witnessed gains in education.
      1. The typical student completed nine years of school.
      2. The GI Bill made college more accessible to the average person.
      3. The growth in need for skilled workers led to the doubling of higher education enrollments.

IV. The changes in the economy also sent warning signals.
A. The development of the military-industrial complex raised concern.
   1. Defense spending was more than half of government spending.
   2. The economy and the government focused heavily on defense.
   3. The military-industrial complex supported government-sponsored research and development.
   4. Defense spending expanded the economy and built the science and technology base of the country.
   5. Nevertheless, civilian-oriented spending and civilian-focused research and development stimulated the economy even more than defense spending did.

B. The suburbs and cities grew.
   1. Growth in metropolitan areas occurred in surrounding communities.
   2. The government built federal highways.
   3. Urban problems developed as tax bases and real estate declined, and as businesses moved out toward the suburbs.

C. The country became further exposed to foreign trade.
   1. Exports, higher than imports, increased relative to the economy.
   2. The trade surplus gave the country money to invest overseas.
   3. Trade increased growth and helped the U.S. economy.

D. The debate on unions ensued.
   1. Unionization peaked at 35 percent in the early 1950s and has since continued to decline.
   2. Unionized workers usually received higher wages.
   3. The union played a role in the broad social trend in workplace improvement, but not as the leader.
   4. Although never prevalent or strong, unions contributed to gains in the workplace

E. Growth in service-sector jobs greatly transformed the labor market.
   1. Service jobs had slowly outpaced goods-producing jobs throughout the century.
   2. Farm-sector jobs diminished and manufacturing jobs remained steady.
   3. Therefore, the service sector provided all of the growth in labor.

F. The 1990s work issues began in the 1950s, and the U.S. economy has achieved success in these areas.

**Recommended Reading:**

**Supplementary Reading:**
Robert Heilbroner and Peter Bernstein, *The Debt and the Deficit.*
David Halberstam, *The Fifties.*

**Questions to Consider:**
1. Why is there a dispute over whether the 1950s were a time of economic health?
2. Compare the following situations in the 1950s and today: the size of the military-industrial complex; the power of unions; the importance of manufacturing jobs in the economy; the problems of urban sprawl.
Lecture Seven
The 1960s and the End of Certainty

Scope: In this lecture we discuss how macroeconomic uncertainty affected the economy. Tax cuts, as well as increased military and social spending, marked this decade. Similarly the Great Society was established, based upon the Civil Rights Act of 1964, Medicare and Medicaid, the War on Poverty, and the expansion of the regulatory state and of scientific research and exploration. Finally, sentiment toward antitrust and immigration changed.

Outline

I. There was a short distance from macroeconomic certainty to uncertainty.
   A. The Council of Economic Advisors (CEA) suggested that President Kennedy should propose a tax cut.
      1. The CEA thought that a tax cut would stimulate the economy.
      2. The tax cut, along with the lowered interest rate, spurred the economy and led to both falling unemployment and inflation.
   B. The timing of the tax cut revealed that it probably did not cause the drop in unemployment.
   C. The country had difficulty in paying for both guns and butter.
      1. The Vietnam War (guns) led to a huge increase in defense spending.
      2. The country also greatly increased social spending (butter).
   D. The 1960s experienced a boom and in turn the requisite hangover.
      1. Increased government spending created a boom in the mid 1960s.
      2. High demand caused inflation to rise.
   E. Professor Taylor distills the economic wisdom of the 1960s.
      1. The concern that the economy would grow too fast and thus lead to “fiscal drags” proved illogical.
      2. The idea of fine-tuning fiscal policy to avoid recessions took too long to take hold.
      3. The “incomes policy” to avoid inflation did not work, because inflation is an overall process.
      4. Encouraging growth with rapid monetary expansion might actually cause inflation by putting even more money in the economy.
      5. Balancing the budget to prevent the government from soaking up the extra money was extremely difficult to do.

II. The building of the Great Society had far-reaching economic effects.
   A. The Civil Rights Act of 1964 affected education, wage differentials, and labor force participation.
      1. The amount of segregated schools diminished following the Act.
      2. Wages differentials between blacks and whites narrowed.
      3. Fewer African American men participated in the labor force.
      4. Despite a decrease in discrimination, education and labor force opportunities for blacks still needed improvement.
   B. The government became more involved in health care.
      1. Medicare successfully provided health care for the elderly.
      2. Medicaid provided health care for the poor.
      3. The lack of cost-consciousness plagued these programs.
   C. The War on Poverty increased job programs and welfare, but it also coincided with the levelling-out of the poverty rate.
   D. The government expanded the regulatory state.
      1. The government instituted regulations for food, water, pollution, automobile safety, youth employment, and consumer products.
      2. These subtle regulations controlled aspects of the various problems, but they did not solve them.
   E. Science became more popular for civilian uses.
      1. New technology and smarter workers led to economic growth.
2. The focus of research and development shifted to civilian-oriented projects.

III. The government changed both antitrust and immigration laws.
   A. Antitrust laws moved between two extremes.
      1. One side argued for the necessity of competition, which hindered mergers of any consequence.
      2. Monopolies caused only a one-time price increase.
   B. Companies formed conglomerates to bypass monopoly laws.
   C. Immigration rose dramatically, and its sources shifted.
   D. Immigration became based on family ties instead of on skill level.

IV. We conclude with a review of the 1960s.
   A. Good intentions and activism highlighted the decade.
      1. The prevailing attitude was oriented toward problem-solving.
      2. Good intentions and activism were not always reality-based.
   B. A cost-benefit analysis of every solution proved to be a useful strategy.

Recommended Reading:

Supplementary Reading:
Marvin E. Gettleman and David Mermelstein, *The Great Society Reader*.
David Zarefsky, *President Johnson’s War on Poverty*.

Questions to Consider:
1. Explain the idea of fiscal fine-tuning, using the Kennedy tax cut as an example. What are some of the problems with using such a policy.
2. The fight for civil rights made gradual progress over the century, especially including the greater labor market opportunities for blacks around World War II and the Supreme Court’s Brown decision to desegregate schools in 1954. Did the Civil Rights Act of 1964 represent only the ratification of this ongoing process of change, or was it the agent of additional or accelerated change?
3. Make a list of things the government attempted to do in the 1960s. Set aside your beliefs about whether the intentions were good or the problems were real, and answer this question: Judged by actual results as you see them, to what extent was each program a success or a failure?
Lecture Eight
Stagflation and the 1970s

Scope: Snarling inflation and roaring stagflation marked the decade of the 1970s, as wage and price controls, combined with the oil shortages, led to two recessions. The 1970s also marked a return to the global economy as the country instituted both floating exchange rates and increased global trade. Most importantly, a major slowdown in productivity marked the 1970s. Finally the government enacted new welfare entitlement programs, such as Medicare and Social Security.

Outline

I. Snarling inflation and roaring stagflation marked the 1970s.
   A. The inflationary legacy of the 1960s spilled over into the 1970s.
   B. President Nixon imposed wage and price controls on the U.S. economy.
      1. The controls were neither a disaster nor a complete success.
      2. The controls encouraged evasion of the law.
      3. Demand grew faster than supply, which led to shortages.
      4. Wage and price controls did not stop inflation.
   C. The Organization of Petroleum Exporting Countries (OPEC) oil embargo mainly caused the 1973-1974 recession.
      1. OPEC’s oil embargo caused shortages and massive price hikes.
      2. As an input for many other industries, oil had a broad-based effect on the economy.
      3. This triggered a deep recession, as the economy shrank.
      4. Unemployment and inflation both reached double-digit rates.
   D. In the mid 1970s people adjusted and the economy recovered.
   E. The end of the decade witnessed another recession.
      1. The political chaos in Iran led to another oil shortage.
      2. The effect of higher oil prices was felt throughout the whole economy.
      3. Once again, both unemployment and inflation reached high levels.
      4. This stagflation confused economists.

II. The impact of the global economy hit the United States with renewed force.
   A. The United States adopted floating exchange rates.
      1. Countries sought to exchange their accumulated dollars for gold.
      2. A new system set the value of the dollar to the market standards of supply and demand.
   B. Global trade expanded in the 1970s.
      1. GATT talks reduced tariffs, which increased trade.
      2. The shock of the higher oil prices forced businesses to restructure.
      3. In general, when imports rise, so do exports.

III. The productivity slowdown became the single most important event of the decade.
   A. Productivity slowed down dramatically during the late 1960s and early 1970s and had terrible effects on the U.S. economy.
   B. Several theories were advanced to explain this productivity slowdown.
      1. The oil shock forced business to redesign their processes.
      2. Investment in science decreased.
      3. The rise in inflation in the 1970s disrupted the economy.
      4. Increasing number of unskilled women entered the labor market.
      5. Environmental regulation imposed high costs on businesses.
      7. Although not likely, unions played a role.
      8. Labor shifted toward the service industry.
C. A larger labor force rather than increased productivity produced the growth.

IV. Entitlements and dependence programs evolved.
   A. Social Security and Medicare took off in the 1970s.
      1. Medicare costs rose dramatically.
      2. Social Security payments increased automatically to match inflation.
      3. Overall costs of these entitlements rose tremendously.
   B. The War on Poverty struggled during this decade.
      1. Poverty rates stayed basically stable throughout the decade.
      2. Inner cities, demand for skilled workers, and breakdown of two-parent families caused the poverty rate to remain static.
      3. Welfare payments declined thirty percent throughout the decade and continued to fall through the 1990s.

V. Stress and dislocation marked the 1970s.
   A. People had a hard time understanding the limitations on both knowledge and the power of government.
   B. Although not a happy time, it was a necessary step to maturity.

Recommended Reading:
Sidney Weintraub, Our Stagflation Malaise: Ending Inflation and Unemployment.

Supplementary Reading:
Otto Eckstein, The Great Recession with a Postscript on Stagflation.
William J. Wilson, The Truly Disadvantaged: The Inner City, the underclass and Public Policy.
Dankwart Rustow, Oil and Turmoil: America Faces OPEC and the Middle East.

Questions to Consider:
1. Why did Nixon impose wage and price controls? How well did the controls work?
2. Describe the general pattern of the “oil shock” recessions of the 1970s. Your explanation should include events in the middle east, the price of oil, how oil affects the economy, and actions of the Federal Reserve.
3. Discuss the possible reason for the great productivity slowdown of the 1970s. Which reason do you find most plausible? Can those reasons for the slowdown be reduced, either by the natural course of events or by policy choices?
Lecture Nine
A Decade of Debt: The 1980s

Scope: The early 1980s still felt the effects of the 1970s inflation. Federal Reserve Chair Paul Volcker used recessions to finally end the devastating inflation. Next, we discuss how a combination of increased defense spending, the income tax cut, the expansion of social security, and the higher government interest payments caused the trade and budget deficits. The consequences of these deficits included the crowding-out of domestic investment, the growing trade deficit, the returning of the United States to debtor nation status, and the slowing of long-term growth. Finally markets changed as deregulation hit the airline, savings and loan, and oil industries. Also, IBM and AT&T faced antitrust concerns, and the popularity of mergers and leveraged buyouts increased.

Outline

I. The strangling inflation of the 1970s spilled over into the early 1980s.
   A. Federal Reserve Chairman Paul Volcker used a recession to break the inflation.
      1. Volcker focused on creating a long-term environment in which people could foresee an end to inflation.
      2. This led to a recession which killed off inflation.
   B. Partisan statistics are often based on biased looks at the past.

II. Budget and trade deficits hit the 1980s simultaneously.
   A. A pattern in budget deficits ensued since World War II.
      1. Prior to the 1980s, the debt-to-GDP ratio fell.
      2. In the 1980s the deficits grew extremely large.
   B. There were four main causes of the higher budget deficits.
      1. Defense spending increased, but then reversed later in the decade.
      2. The income tax cut left people with more money to spend, and it encouraged rich people to pay taxes, but this only partly contributed to the recovery.
      3. Social Security expanded by building up a trust fund for future recipients through raising Social Security taxes.
      4. Government interest payments rose, since the government owed interest on the money it borrowed to pay for the deficit.
   C. The higher budget deficits affected business investment, trade deficits, and the long-term growth rate of the United States.
      1. The deficits forced the government to crowd out private business investment.
      2. Consumption outpaced production, which led to rising trade deficits.
      3. The United States reverted to debtor nation status.
      4. Deficits slowed down long-term growth.

III. The United States changed its attitude toward markets and deregulation.
   A. Airline deregulation successfully altered the whole airline industry.
      1. New airlines, which offered cheaper fares, were founded.
      2. Many airlines merged, which contracted the industry.
      3. Increased competition made this deregulation a success.
      4. Airlines created hubs and frequent-flier programs to increase business.
   B. The savings and loan deregulation did not achieve the same success.
      1. As interest rates grew, the government deregulated the savings and loans to help them compete with other investment options.
      2. This deregulation helped some savings and loans to survive.
      3. The struggling savings and loans made risky investments, hoping the government would rescue them.
      4. Although this deregulation was not successful, the government, at the time, had little choice but to deregulate.
C. The deregulation of the oil industry lowered the price of oil.
   1. The deregulation broke the OPEC cartel.
   2. Global searches for oil expanded as prices were no longer fixed.

D. The antitrust stories of IBM and AT&T took different paths.
   1. The government and IBM disagreed on the semantics of how much of the computer market IBM controlled.
   2. The industry evolved, and IBM no longer held control of the industry.
   3. AT&T agreed to break itself up, and this new competition led to falling phone rates.
   4. A flood of innovation in telecommunications occurred.

E. Despite their popularity, mergers and leveraged buyouts did not lead to a national takeover by monolithic corporate entities.
   1. Big companies did not control an enormous share of the market.
   2. The mergers and takeovers in the 1980s forced companies to pay out money to shareholders.

IV. The 1980s were a time of cutting markets loose and making them work. However, problems of private and government debts accumulated.

**Recommended Reading:**

**Supplementary Reading:**
G. Calvin Mackenzie and Saranna Thornton, *Bucking the Deficit: Economic Policymaking in America*
Alan Stone, *Wrong Number: The Breakup of AT&T.*

**Questions to Consider:**
1. What are the consequences of a higher budget deficit? Explain how these consequences occur, and how they affect long-term growth.
2. Compare the income tax changes of the 1980s to those of the early 1960s and the 1920s. Which was supported on grounds of encouraging compliance with taxes? Which was supported on demand side grounds? Which was supported on supply side grounds? In the end, were the effects all that different?
3. Discuss an example of where deregulation went well, and an example of when it went poorly.
Lecture Ten
Inequality and Insecurity in the 1990s

Scope: This final lecture begins by comparing current standard of living with the one at the turn of the century. Next, we discuss the largely misunderstood insecurities of the 1990s workplace. The decade began with low job growth and a minor recession, which caused people to feel insecure about their job and the economy as a whole. The boom in mergers and the growth of inequality also contributed to this feeling of insecurity.

In the final part of this concluding lecture, we discuss a possible economic agenda for the twenty-first century. We discuss the prudent use of monetary policy to prevent inflation and recessions, the benefits of opening global trade, and the importance of reducing the federal budget deficit. Also we discuss the power of markets and the importance of planning for the aging of the baby boomers, getting the most out of all people in the workforce, and nurturing the various seeds of growth.

Outline

I. The U.S. economy produced an astonishing standard of living for American workers during the twentieth century
   A. By the 1990s, GDP had exceeded by a factor of five its level in 1900.
   B. In the 1990s, people consumed a healthy variety of foods.
   C. Appliances seemed magical compared to those available in 1900.
   D. Medical, travel, and educational advances would have made the 1990s standard of living unimaginable to people living in the early part of the century.
   E. The standard of living had risen despite a myriad of obstacles.

II. Despite this growth, people in the 1990s had certain insecurities.
   A. A shallow recession led off the decade; it produced slower job growth.
   B. The merger boom of 1995 reached an all-time high and focused on a few industries.
      1. Most of these mergers took place in the telecommunications, defense, and healthcare industries.
      2. To workers, these mergers seemed unpleasant.
      3. Yet mergers allowed the market to exert some discipline over companies and create efficiencies in the marketplace.
   C. The growth of inequality continued in the 1990s.
      1. Inequality levels in the 1990s equaled those of the 1940s.
      2. This inequality started in the 1970s, crossed borders, and continued to expand throughout the 1990s.
      3. An increase in the demand for highly-skilled technology workers caused this inequality.
      4. Complaints attributing the inequality to increased trade and immigration were not persuasive.
   D. The perception of job insecurity differed from reality.
      1. The fear of decreasing job creation was irrational.
      2. Overall the population had the same number of secure jobs, but different groups now experienced this security and insecurity.
      3. The media focused on layoffs rather than job creation.
      4. The mental image people held of a secure job differed from the jobs people actually had.
   E. Job insecurity led to economic insecurity.

II. What is the ideal economic agenda for the twenty-first century?
   A. The Federal Reserve must conduct prudent monetary policy.
      1. The Federal Reserve should and will control inflation.
      2. The Federal Reserve should and will control the money supply to prevent another Great Depression.
   B. Open global trade will continue to lead to economic growth.
      1. The United States integrated its manufacturing sector with the rest of the world.
2. The United States should develop rules for foreign investment, government subsidies, and other subtle trade barriers.
3. The United States should continue to embrace global trade.

C. The government should continue to reduce the federal budget deficit.
   1. Until the deficit shrinks, the per capita GDP will not grow.
   2. The nation must continue to save and invest.

D. The country should take advantage of the power of markets.
   1. The amount of farms had shrunk but their size had grown.
   2. The government deregulated the telecommunications industry.
   3. The United States must structure the health care system to provide better service while controlling costs.
   4. Banks need different types of regulation, which would allow them greater freedom.

E. The United States should plan for the aging of the baby boomers.
   1. The boomers will age at the same time; life expectancy continues to expand; and men retire earlier.
   2. The government must tinker with Medicare and Social Security to help these programs to survive.
   3. The country needs to develop different ways to use the elderly in the workforce.
   4. People must rethink both their future and retirement planning.

F. The country must get the most out of all participants in the work force.
   1. Despite gains in women-owned businesses, big companies need to allow women to reach higher levels.
   2. African Americans need access to both the same education and jobs that whites receive.
   3. The country must create more realistic job expectations for low-skilled workers.

G. The country must attend to the sources of growth.
   1. The government must stop borrowing capital, so that there will be enough for other investments.
   2. The government must increase research and development spending.
   3. The country needs another surge in education such as a dramatic expansion in higher or K-6 education.
   4. The three seeds of growth all come together.

IV. Despite few major changes, the 1990s have some major issues lurking under the surface which the country must deal with before they come to a head.

Supplementary Reading:
Samuel R. Reid, *Mergers, Manager, and the Economy*.
Richard H. Timberlake, *Monetary Policy in the United States*

Questions to Consider:
1. List some reasons that people are economically insecure in the 1990s that have solid evidence to support them. Also list some reasons for insecurity that may not be so well-supported by the evidence.
2. How would you describe the change in general attitude toward the power of markets between the 1930s and the last two decades of the century?
3. What would be your economic priorities for America in the twenty first century.
Glossary

**Aggregate Demand:** The total expenditure on goods and services by all sectors of the economy.

**Bretton Woods Conference:** An international conference of 45 nations held at Bretton Woods, New Hampshire, during July 1944, to set up a comprehensive international arrangement to govern world trade and payments.

**Clayton Act:** An act passed in 1914 which more clearly specified what constituted anticompetitive behavior.

**Consumption:** Household expenditures on final goods and services.

**Council of Economic Advisors:** A three-person branch of the Executive Office of the President that was established by Employment Act of 1946 to provide the president with economic advice and to write the annual *Economic Report of the President*.

**Debt:** Receiving the use or possession of goods, services, or assets in exchange for a promise to repay in the future, usually with interest.

**Deficit:** The excess of government expenditures over revenues (fiscal deficit) or the excess of international payments over international receipts (balance of payments deficit).

**Deflation:** A slowing down of the growth rate of the economy in an attempt to lower prices.

**Depression:** A prolonged period of very low economic activity associated with negative growth rates of real GNP and high unemployment.

**Economic growth:** Increased output of goods and services.

**Economics:** A social science that attempts to explain the behavior and interactions of economic actors in terms of value that they exchange.

**Employment Act of 1946:** An act passed on February 20, 1946 that sought “high” levels of employment, production, and purchasing power.

**Exports:** An outflow of goods and services giving rise to a source of foreign exchange.

**Federal Reserve:** The central bank of the United States, established by the Federal Reserve Act of 1913.

**Federal Trade Commission Act:** An act passed in 1914 which more clearly specified what constituted anticompetitive behavior.

**General Agreement on Tariffs and Trade (GATT):** A small international organization, formed in 1948 and located in Geneva, to promote the expansion of multilateral trade by reducing trade barriers.

**Glass-Steagall Act:** The Banking Act of 1933, which prohibited commercial banks and trust companies from engaging in investment banking, and prohibiting investment banks from accepting deposits.

**Gold Standard:** An international monetary arrangement in which the central bank must stand ready to exchange gold for its currency at a preannounced price. It is a type of fixed exchange rate.

**Gross Domestic Product:** The value of final goods and services within the country.

**Imports:** An inflow of goods and services into a country requiring foreign exchange in the transaction.

**Inflation:** An increase in the general price level.

**Interest rate:** The rental price of money.

**International Bank for Reconstruction and Development (IBRD):** The official name of the World Bank, established in 1944 by the Bretton Woods agreement. The World Bank was originally chartered to provide long-term, low-interest loans to developing countries.

**International Monetary Fund:** Established by the Bretton Woods agreement of 1944; began to operate in March 1947. It was designed to stabilize exchange rates with the dollar, which was tied to gold.
Macroeconomics: The branch of economics that studies relationships among economic aggregates such as output, the price level, interest rates, exchange rates, and unemployment.

Marshall Plan: U.S. aid (over $15 billion) given to Europe between 1948 and 1952 to help its recovery from World War II.

Merger: A combination of two or more companies or corporations into one, by issuing stock of the controlling corporation to replace the greater part of that of the other or others.

Monetary policy: Control of the money supply and credit by manipulating short-term interest rates or bank reserves in order to affect the economy.

Real interest rate: The nominal interest rate minus the expected inflation over the term of the security.

Recession: A downturn in business activity that does not depend on any one variable but is usually associated with slower real GNP growth and rising unemployment.

Smoot-Hawley tariffs: The tariff barriers erected in 1930 in which the U.S. Congress raised the average import levy to almost sixty percent, the highest level in American history.

Taft-Hartley Act: This act gave the president the power to declare a cooling-off period after a strike.

Tariff: A tax on imported goods which raise the cost of imported goods to domestic residents.

Taylorization: Frederick Taylor’s concept of scientific management in relation to the workplace.

Trust: An industrial or business combination, now illegal in the United States, in which management and control of the member corporations are vested in a single board of trustees, who are thus able to control a market, absorb or eliminate competition, fix prices, etc.

Unemployment rate: Those workers without jobs or on temporary layoff who are actively looking for employment divided by the sum of those employed and unemployed.
Statistical Snapshot of the U.S. Economy in the Twentieth Century

The tables that follow offer a broad statistical overview of the U.S. economy in the twentieth century. The statistics should be used with caution, for several reasons. One is that statistics are not always directly comparable over long periods of time; for example, the manner in which "unemployment" or "gross domestic product" is calculated in 2000 will be different from how it was calculated in 1900, and statistics from early in the century are especially open to questions of interpretation. A second reason to beware is that some of the figures (say, the government spending figures for 1920) are heavily influenced by particular events near that year (for 1920, the end of World War I). A third reason is that some of the figures are extrapolated by methods that are sometimes quick and dirty; in particular, all numbers provided for 2000 are estimates, usually based on extrapolations from trends in the mid-1990s. Despite these reasons for careful consideration, I do believe that there is a feel that one develops from looking at numbers which isn't available from a purely verbal description, or in any other way.

For those interested in looking up data for intervening years, let me suggest a few sources. For basic economic data that covers the last 40 years or so, my two standard desk references are the *Economic Report of the President*, published annually by the Council of Economic Advisors, and the *Statistical Abstract of the United States*, published annually by the Bureau of the Census. Both of these volumes can be ordered in paperback from the U.S. Government Printing Office in Washington, D.C. For basic economic data on the first five or six decades of the century, and for the 18th and 19th century as well, the indispensable reference is the *Historical Statistics of the United States: Colonial Times to 1970*, a two-volume work published by the Bureau of the Census in 1975, which includes statistics from colonial times up through 1970. All of these sources will be available in any college or university library, and in many city or local libraries as well. All three sources—especially the *Statistical Abstract* and the *Historical Statistics*—also give the original source of their information, so that if you have access to a good government documents library, you can look up more detailed information in that way as well.

Now a few words of explanation about each column in the tables of statistics.

**Population.** These totals are from the U.S. Department of the Census, and should be self-explanatory.

**Gross domestic product.** GDP is a standard way of measuring the size of an economy. Over time, the measure has sometimes been "gross national product," but for our purposes here, the distinction between GDP and GNP is a small accounting difference that does not matter. However, the numbers in this table are expressed in what economists call "nominal" dollars, which just means the dollars that were being used at that time. In other words, inflation is not taken into account in this column. This tends to make the figures at the beginning of the century look especially small, because they are expressed in the relatively high-valued dollars of that time, before inflation had eaten away at their value. For a measure that uses "constant" dollars, look at the next column.

**GDP in constant dollars.** Dollars in 1990 are not worth the same as dollars in 1970s or 1930 or 1900, because of inflation and deflation over the years. So to compare the size of the economy at different times without the confusing effects of inflation, it is necessary to adjust the GDP figures for dollars from one time period. This column expresses all the GDP figures in terms of 1995 dollars.

**Per capita GDP in real dollars.** This figure is calculated by dividing the constant-dollar GDP by the population. It provides a very basic comparison of the standard of living at different times.

**Price level.** The inflation rate is the change in the price level each year. To keep track of inflation over time, it is customary to use a "price index," which only means that the price level in one particular year is arbitrarily set equal to 100, and then all other years are compared to that year. In this table, the price level for 1900 is set equal to 100, so all other year are relative to 1900. For example, the price level of 557 in 1970 means that prices were 5.57 times higher in 1970 than in 1900 (that is, 557/100). To calculate the inflation rate over any decade, you must calculate the percentage change in the price level over that decade. For example, the inflation rate from 1910 to 1920 would be the percentage change between the price level in those two years: that is, (269/121) x 100 = 222%.

**Average civilian unemployment rate for the decade.** Giving the unemployment rate for any given year can be deceiving, because it could be a good year with a low rate, or a bad year with a high rate. So the table shows the average for the decade; for example, the number beside 1940 is the average annual unemployment rate from 1940-1949.
Exports/GDP. This is a simple way of looking at how much the domestic economy depends on foreign sales, and thus thinking about the effects of global forces on the U.S. economy. Specifically, the calculation is merchandise exports (that is, not services) divided by GDP. Of course, one could also use imports/GDP for this purpose. For most of the century, exports and imports were fairly similar, so it makes little difference which one is used. But in the 1980s, imports begin to exceed exports by a considerable margin (thus the trade deficit), so using imports would give a higher figure than the last few entries in this table.

Federal government spending/GDP. Looking at federal spending divided by the size of the national economy at that time gives a sense of the relative impact of the federal government. For much of the century, federal spending and taxes were fairly similar, so using tax receipts/GDP would tell a very similar story. Of course, this would not be true during period of large budget deficits, like war years, the Depression, and the period from the early 1980s through the 1990s.

Total government spending/GDP. This measure includes not only federal spending, but also state and local spending. The pre-1940 estimates are especially quick and dirty extrapolations; reliable annual estimates of state and local spending have not been compiled for every year in this time frame.

Federal debt/GDP. Looking at deficits in a particular year can be misleading, since the deficit can rise and fall for many reasons. Thus, this measure looks at the total federal debt accumulated over time, and puts it in perspective by dividing by the size of the economy in that year.

Share of population under 18. A quick measure of the importance of children in the nation. Note the baby boom and the decline that followed.

Share of population over 65. A quick measure of the relative importance of the elderly in the population.

Women as a share of all workers. A way of seeing of one of the century's most important labor market trends: women entering the workforce. To figure out the men's share of all workers, just subtract from 100%. For example, in 1970, men were 100-37 = 63% of the workforce.

Life expectancy. This measure tells something about general living standards in a country, and also about what health care can accomplish. Technically, it is the expectation of years of life at birth in that year. Since women tend to outlive men, life expectancies for women are slightly higher than the number given here, while life expectancies for men are slightly lower.

Infant mortality rate. In international comparisons, this is often taken as a general measure of the access to health care, and also of the extent of social problems that lead to sicker children. A high infant mortality rate—that is, many infants dying in the first year or two of life—clearly brings down the overall average life expectancy. The measure here is, out of every 1000 infants born, what number of die in their first year?

Average years of school completed. A basic measure of the country's educational effort. Specifically, this is a measure of average years of school completed by those 25 years of age and older. This measure gives a sense of the education level of the typical adult, but since it is an average for all adults, it is slow to change over time.
<table>
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# TABLE TWO

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<th>Exports/GDP</th>
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<td>Federal Gov't Spending/GDP</td>
<td>Total Gov't spending/GDP</td>
<td>Accumulated Federal Debt/GDP</td>
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<tr>
<td>Year</td>
<td>Share of Population 17 and Under</td>
<td>Share of Population Over 65</td>
<td>Women as Share of All Workers</td>
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# TABLE FIVE

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<th>Year</th>
<th>Life Expectancy</th>
<th>Infant Mortality Rates Per 1000 Births</th>
<th>Average Year of School Completed</th>
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Sources for Additional Detail and Information

To the best of my knowledge, there is no book that provides a wide-ranging economic history of the United States in the 20th century for a popular audience. Thus, many of the books and articles listed here are fairly heavy reading. Others will be more useful as sources for data than to read cover-to-cover. Of course, these lectures also draw on a variety of books, articles and statistical sources not listed here.

Smiley, Gene, *The American Economy in the Twentieth Century*. Cincinnati: South-Western Publishing, 1994. This book does an especially good job of touching on all the important economic issues from 1920 to the present. However, because it touches on everything, it sometimes touches very lightly. It will not be especially easy to read for those without much background in economics.

Atack, Jeremy and Peter Passell, *A New Economic View of American History*. New York: W.W. Norton and Company, 1994. The last seven chapters of this book range from the end of the 19th century through the first four decades of the 20th. The strength of this book is its close acquaintance with the writings of economic historians. There are many helpful tables and charts, and references to other work. However, the order and level of discussion will again not always be very accessible to those without much background in economics.

Lebergott, Stanley, *Pursuing Happiness: American Consumers in the Twentieth Century*. Princeton: Princeton University Press, 1993. This beautifully written, easily accessible book is full of interesting tidbits about how American patterns of consumption have evolved during this century, together with a rock-ribbed economist's defense of the proposition that this higher level of consumption is indeed a good thing for humanity.

Goldin, Claudia, "Labor Markets in the Twentieth Century," National Bureau of Economic Research, Working Paper Series on Historical Factors in Long Run Growth, #58. Forthcoming as a chapter in Engerman, Stanley and Robert Gallman, *Cambridge Economic History of the United States*. Cambridge: Cambridge University Press. This chapter offers a good compact overview of many themes in the U.S. labor market over the 20th century, together with a number of useful tables. The *Cambridge Economic History* is coming out in a number of volumes, and since the first volume only covered up through colonial times, I am not sure how long we will have to wait for the volume covering the 20th century (where this paper would appear) to be published. But the working paper is available in many university libraries, or you can order a copy for a nominal charge (about $5) through the NBER (phone 617-868-3900).


U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States*. Washington, D.C., Government Printing Office, published annually. For facts about the state of the U.S. economy in the last decade or so, this should be your handy desk reference. The Statistical Abstract collects a vast array of information from other publications, and gives you the highlights. Since they try to keep it fairly up to date, this book is somewhat weaker on historical statistics. However, the sources for the original information are published under the tables in the Abstract, so if you have access to a government documents library (most universities have one), you can look up information that is more detailed or covers more time. If I am just going back a few years, I often just look in my older copies of the Statistical Abstract!

U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970*. Washington, D.C.: U.S. Government Printing Office, 1975. This two-volume set is a sort of super-abstract, covering major statistical series, as the title says from colonial times to 1970. You'll notice in looking through the book that there are times when there ways of calculating the data change; for example, the way inflation or unemployment are estimated for the early 19th century are a lot different than the way they are estimated now. This offers a useful caution: historical statistics are usually fairly accurate in a general sense, but it's wise to be a little suspicious if anyone claims they are exact in a precise sense.
Bibliography

Recommended Reading:


Supplementary Reading:


