Golden Years for the USA – 1945-1975

and why now is different

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In this 2016 election season, I am surprised at how little the political pundits seem to understand of history, and especially economic history and the way America in 1916 differs from the America of fifty years ago.

There is an almost universal superficiality to the analysis of history and an unwillingness to draw any but the most simplistic conclusions from history, and only those conclusions that fit with an already entrenched prejudice.

I was born in 1940 in the UK, and lived for the first five years of my life in a suburb of London. During the war, I was too young to understand much of the meaning of war, and all the horrors of the 'blitz', but as I grew up and started to learn things, I became aware of the huge cost of war in both blood and treasure.

When I was 5 or 6, I recall my parents and their adult friends being worried about what would happen when the military were 'demobilized' and whether the country would immediately slip back into the economic depression of the 1930s … and I imagine this same conversation was going on in the United States at around this time as well.

This probably explains why Clement Atlee became the Prime Minister in 1945 in the first general election after the war, defeating Winston Churchill who had been Prime Minister for the war years. The Labour Party must have seemed to be more likely to do better for the economy and workers than a less interventionist Conservative Party.

In reality neither political party had much ability to improve the immediate post-war economic conditions in Britain. Britain's financial wealth had been consumed by the war. Britain was on the winning side, but at a huge cost.

One of the biggest factors in Britain's post-war economic stress was the amount owed to the United States as a result of the lend lease program during the war and a bilateral loan negotiated in 1946 by a team led by John Maynard Keynes and fully repaid in 2006, some 60 years later!

From the outbreak of war in Europe in 1939 to the 1960s or later, industrial economics in Britain were very different from industrial economics in the United States. Britain had draconian rationing and price controls during most of this time, and in addition and excess profits tax. There was to be no 'profiteering' from the circumstances of war and post war shortages. During the war shortages were endemic throughout the economy, and the situation was aggravated by the industrial destruction caused by bombing.

During the war years in the United States, there were hardly any constraints on prices and profits, and there was tremendous demand for everything needed for the allied war effort was .

> *In the late 1960s I had an interview for a senior financial management position at Curtis-Wright, an American company that was a major supplier of aircraft engines during the Second World War. I was show a graph of company profits going back several decades. The profits made by the company during the war years were huge, many times anything they had ever made during peacetime, either before or after the war.*

In the United States, just as in Britain, there was a concern that post war demobilization would end up resulting in a return to the unemployment and depression of the 1930s. The policies implemented in the mid 1940s, rather than returning the USA to depression, resulted in launching a thirty year period of socio-economic progress … arguably one of the greatest periods of progress ever seen

The soldiers, sailors and airmen who served in the second world war have been called 'the greatest generation', and there is no question that they made great sacrifice in order to win the war. During the war these people also learned a lot.

It should also be remarked that the decisions made to avoid a return to the depression of the 1930s were also very critical. Returning servicemen were given the opportunity to get formal education on a scale that had never before been possible … the so called GI Bill.

There were also policies to facilitate home ownership … the creation of the Federal Housing Administration and subsidies to enable people to get mortgages to buy homes.

In turn the building of homes created employment and helped to absorb the vast numbers of demobilized service personnel into the labor force.

As suburbs in America grew and grew, the need for transport increased to the benefit of the American automobile industry … and all the suppliers to this industry.

In addition, a very rich America had the resources to help the world, especially a devastated Europe. The Marshal Plan which had a huge role in rebuilding continental Europe after the war set the stage for a modern Europe which has been more stable and more at peace than at any time in its previous history also helped to build markets for all sorts of products that America could produce and Europe needed.

At the same time, as industrial production in the United States grew and grew, the demand for labor also grew, and labor solidarity meant that wages and benefits for American workers tended to keep pace with productivity and profits.

> *I visited North America in the summer of 1960 and 1961 with the Cambridge University Canada Club. It was an amazing experience, and an eye opener. I learned something of how hard American workers worked, and how well paid they were for this work. This contrasted with the low wages and 'feather bedding' that was far too prevalent in the English work force of the period. I also saw industrial pollution that appalled me whether it was in the environs of Sudbury, Ontario or the Connecticut River in the USA. I also learned a little about the race divide in the United States of America, something that was somehow missing from my prim and proper education in the UK.*

The golden years of amazing American progress … for the white majority … came to an end in the 1970s, and for the subsequent 40 years almost everything possible has been done to disadvantage the American worker.

This graph prepared by Robert Reich, Secretary of Labor in President Bill Clinton's administration, sums up the situation.

Compared to the rest of the world, there was a huge amount of wealth in the United States in the 1960s, and it was reasonably well distributed between those that were owners and those that were workers.

> *I migrated to the United States in 1966, and was able to earn more in one month in the United States than I could earn in one year in England or in Europe. Fast forward 50 years and it is arguable that a young employed person in Europe is now better off than most young people in the United States.*

So what has happened in the last 50 years

The late 1960s were described in the contemporary business press as the GoGo years. The management community were starting to deploy management information systems, and there was the beginning of financial engineering. Financial wealth was created as never before using mergers and acquisitions, many based on assumptions of rapid economic growth and the benefits of synergy and consolidation.

This started to come apart in the early 1970s, but everything fell apart in 1973 when the OPEC oil cartel … the Organization of Petroleum Exporting Countries … was formed. Almost instantly the price of a barrel of crude oil increased from US$3.50 to US$13.50

Ronald Reagan in the United States and Margaret Thatcher in the UK made it much more difficult for labor unions to win better wages and benefits for workers. Some of this was worth doing because work rules and 'feather bedding' were significant constraints on improving productivity and economic efficiency. At the same time, reducing the bargaining power of workers vis-a-vis employers set the stage for the historic reduction in worker pay relative to investor reward.

Technology has been an important part of making the world a better place for all of history but especially so since the beginning of the industrial revolution. By the 1970s the world's rich economies had the capability to produce everything needed to satisfy the basic human needs of their populations and became surplus economies rather than shortage economies. This changed the way the economy worked in fundamental ways, and most importantly the correlation between more economic activity and better standard of living and quality of life was disrupted.

As technology continued to become more powerful, productivity continued to improve and the demand for workers diminished, aggravating the deteriorating situation of workers already weakened by the actions of leaders like Ronald Reagan and Margaret Thatcher.

http://www.curtisswright.com/company/history/

Michele Wucker has talked about gray rhinos for several years … and then published a book called 'The Gray Rhino' with the subtitle 'How to Recognize and Act on the Obvious Dangers We Ignore'. This is a description of the book:

> *A 'gray rhino' is a highly probable, high impact yet neglected threat: kin to both the elephant in the room and the improbable and unforeseeable black swan. Gray rhinos are not random surprises, but occur after a series of warnings and visible evidence. The bursting of the housing bubble in 2008, the devastating aftermath of Hurricane Katrina and other natural disasters, the new digital technologies that upended the media world, the fall of the Soviet Union...all were evident well in advance.*
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> *Why do leaders and decision makers keep failing to address obvious dangers before they spiral out of control? Drawing on her extensive background in policy formation and crisis management, as well as in-depth interviews with leaders from around the world, Michele Wucker shows in The Gray Rhino how to recognize and strategically counter looming high impact threats. Filled with persuasive stories, real-world examples, and practical advice, The Gray Rhino is essential reading for managers, investors, planners, policy makers, and anyone who wants to understand how to profit by avoiding getting trampled.*

In basic economics it is taught that money is a medium of exchange and a store of value, but in modern times, money is also the dominant metric of the money economy. Unfortunately currency money is not a good metric or store of value. Money used to be backed by gold, or other tangible value ... but no more.

The terrible failure of money currency to serve as a store of value is caused by many factors, not least of which is the use of money as a metric of performance, and the idea that success is the accumulation of as much money wealth as possible. Another is the role of money and monetization in the economy, and the use of money to manage the performance of the economy. All of this adds up to a series of vicious spirals any or all of which can get out of control and create crisis.

Community value ... quality of life ... is far more than just money ... and while money could be used as the metric for community value it introduces distortion that can and should be avoided. The Community Value Unit (CVU) is a construct that serves simply to record the creation of something of value. This something need not be tangible ... but it must be real. When there are activities that create value, the activity can be recorded using the CVU measure, and the account is equivalent to being paid in CVUs.

Example: The value of elder care

> *Older people sometimes cannot look after themselves ... others need to help them. People can be paid wages to do this, but the money has to exist in order for the wages to be paid. Family and friends can do this ... or volunteers ... and do it free. In every case, however, the care has important value ... community value ... that can and should be measured in Community Value Units (CVUs).*

The utility of a CVU is enhanced by a component of the CVU system that allows an accumulation of CVUs to be monetized. A holder of CVUs can exchange them for money either through a (capital) market mechanism or by their redemption by grant funds. A market based valuation of CVUs is facilitated by multiple series of CVUs each linked to a specific community. A CVU will have a high value where the underlying community is performing well and the CVU is in demand or there is donor interest in the community.

Just as the value of a money currency is debased when here are too many in circulation. So also with CVUs. However, the value of a CVU for a specific community is enhanced when the community is performing well and there is surplus production in the community.

CAVEAT: In some jurisdictions, rules and regulations about money and banking may limit or even prohibit use of CVUs

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