

Middle Class Rising: Federal Policies in Post-World War Two America

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Abstract

This paper, by offering an historical approach to public policy analysis, studies the federal policies aimed at encouraging prosperity during the three decades after World War II. It features key legislative acts that were based upon Keynesian concepts to establish activist labor policies that promoted job creation with the goal of full employment. It identifies common themes across periods of partisan change to develop the markers or modalities of public policies that succeeded during this era of middle class prosperity. Lessons for today emerge as the analysis unfolds.

There is a widespread consensus — based on ample empirical evidence — that the United States experienced wage compression in the post-World War Two era. In their 1992 work, Claudia Golden and Robert A. Margo found "extraordinary" wage compression by education, job experience and occupation from 1940 to 1970. They also found that the wage differentials had returned to 1940 levels by the late 1980s. Golden and Margo identified economic and demographic factors that contributed to the changes in wage structure.¹ Subsequent research on wage compression as well as the reversal of the trends in the past few decades has focused on labor market factors, human capital, and technological transformations.² The research, however, gives scant attention to the question: what distinguishes federal policies in the United States in the post-World War Two period from the post-1980 era that might have affected the income distribution?

Immediately after the war, the Employment Act of 1946 gave the federal government the mandate as well as the tools to alleviate recessions and foster high levels of employment. President Harry Truman put the activist fiscal policies of the Employment Act in full throttle. Most notably, the Housing Act of 1949 committed to ensuring as much production as is "necessary to enable the housing industry to make its full contribution toward an economy of maximum employment, production, and purchasing power."

¹ Claudia Golden and Robert A. Margo, "The Great Compression: The Wage Structure in the United States at Mid-Century," *The Quarterly Journal of Economics*, Vol. 107, No. 1, Feb. 1992.

² Lawrence R. Jacobs and Theda Skocpol, editors, *Inequality and American Democracy: What We know and What We Need to Learn*, New York: Russell Sage, 2005; Claudia Goldin and Lawrence Katz, "Long-Run Changes in the Wage Structure: Narrowing, Widening, Polarizing," *Brookings Papers on Economic Activity*, Feb. 2007; Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States," *The Quarterly Journal of Economics*, Vol. 118, No. 1 (Feb. 2003); Larry M. Bartels, *Unequal Democracy: The Political Economy of the New Gilded Age*, New York: Russell Sage, 2008; Tony Adkitson, Thomas Piketty and Emmanuel Saez, "Top Incomes in the Long Run of History," *The Journal of Economic Literature*, Vol. 49, No. 1, 2011; and Lawrence Katz and Robert Margo, "Technical Change and the Relative Demand for Skilled Labor: The United States in Historical Perspective," National Bureau of Economic Research Working Paper Series, Feb., 2013.

Although it is commonplace to associate activist fiscal policies with the Democrats, the rate of federal infrastructure spending to the Gross Domestic Product (GDP) had its sharpest rise during the Eisenhower years.³ The Federal Interstate Highway Program of 1956 remains the premier example of infrastructure spending on public works that reaps multiplicative benefits for the economy and the American people.

Finally, a "space war" with the Soviet Union that was prompted by the Sputnik launch led U.S. policymakers to embark on a surge of spending for space exploration, science and technology. Then-Senate Majority Leader Lyndon Baines Johnson pushed the National Aeronautics and Space Act of 1958 through Congress. President Dwight Eisenhower worked with Congress to increase spending for the education of scientists, engineers and other high-skilled workers. When President John Kennedy took office, the broad shoulders that build so many houses and highways across the country were preparing to lift the United States to the moon.

This paper features key legislative acts that were based upon Keynesian concepts to establish activist labor policies that promoted job creation with the goal of full employment. The legislation highlighted is illustrative of these policies.

Background

There was a commonly held view that the administration of President John Kennedy was the first to put Keynesian economic principles into practice. The tax cuts of 1964 and the activist labor policies of President Lyndon Johnson's War on Poverty became the textbook cases. More recent research reveals that a commitment to activist labor policies aimed at the goal of full

³ Ruth Ellen Wasem, *Tackling Unemployment: The Legislative Dynamics of the Employment Act of 1946*, Kalamazoo, MI: Upjohn Institute Press, 2013, (Hereafter Wasem, *Tackling Unemployment*).

employment emerged in the immediate post-World War II period and continued through the 1950s.⁴

In response to the Great Depression, the New Deal initiated a more activist federal role in the economy. While many of the ingredients for the federal role in job creation were formulated during the New Deal, confidence in the federal government's capacity to achieve full employment grew out of the war mobilization efforts of World War II. Indeed, the performance of the United States economy during the war validated the idea of compensatory spending and made full employment a realizable objective of federal policy.

In 1941, the National Resources Planning Board (NRPB) circulated a draft of a proposal for postwar planning that has proven to be seminal. This report, published as *After the War—Full Employment* in January 1942, was written by Alvin H. Hansen, commonly referred to as the "American Keynes." He proposed six policy measures to ensure full employment during the reconversion that can be summarized as follows:

- 1) Retention of progressive (graduated) tax structure and broadened tax base, with major emphasis on the individual income tax and less reliance on the corporate income tax;
- 2) Sharp reduction in defense consumption taxes;
- 3) Adequate plans by private enterprise for private investment projects in manufacturing plants and equipment, in railroads, public utilities and housing;

⁴ John W. Sloan, *Eisenhower and the Management of Prosperity*, University of Kansas Press, 1991 (Hereafter Sloan, *Eisenhower and the Management of Prosperity*); Margaret Weir, *Politics and Jobs: The Boundaries of Employment Policy in the United States*, Princeton, NJ: Princeton University Press, 1992. (Hereafter Weir, *Politics and Jobs*); Michael A. Bernstein, *A Perilous Progress: Economists and Public Purpose in Twentieth-Century America*, Princeton University Press, 2001 (Hereafter Bernstein, *A Perilous Progress*); and, Hugh Wilson, "Eisenhower and the Development of Active Labor Market Policy in the United States: A Revisionist View," *Presidential Studies Quarterly*, Sept., 2009, (hereafter Wilson, "Eisenhower and the Development of Active Labor Market Policy").

- 4) Adequate programs of public improvement projects including a nationwide development of national resources, express highways, urban redevelopment;
- 5) Expansion of public welfare expenditures such as federal aid to education, public health, old age pensions, and family allowances; and,
- 6) International collaboration to pursue internal policies designed to promote active employment, to explore developmental projects in backward countries, and to implement ways and means of opening outlets for foreign investment, of promoting world trade, and for the effective worldwide use of productive resources.⁵

In 1944, a group of economists working in various federal agencies were tasked with developing a plan for full employment after the war. Their resulting paper, "Postwar Employment," was not published but proved seminal for future policies. Several critical factors and assumptions that constituted the framework of the report proved the policy blueprint. The economic achievements during the war had demonstrated the United States' capacity to produce, and the country would not have tolerated a return to the prewar production levels and accompanying unemployment. The report gave primary emphasis to policies that directly encouraged private business investments and consumer demand; however, the report stated that government fiscal policy, on both the revenue and expenditure sides, must be the ultimate stabilizing factor. Some key uses of the federal budget and fiscal policies were discussed. The report, furthermore, explored the need for sufficient flexibility in the administration of the economic program for adequate legislative

⁵Alvin Hansen, *After the War -- Full Employment*, National Resources Planning Board (Washington: U.S. Government Printing Office, 1942).

supervision and control as well as for coordinated action by federal, state, and local governments.⁶

Originally introduced as the Full Employment Act of 1945, the legislation that became the Employment Act of 1946 was the first piece of seriously considered, comprehensive economic legislation from the perspective of the consumer and working person. It became the foundation of economic policy for many years. The Act provided the justification for compensatory spending, tax cuts, job-creation tax credits, and other Keynesian tools, which the many subsequent administrations used to buoy the U.S. economy.

The Employment Act stated that the federal government would maintain “conditions under which there will be afforded useful employment for those able, willing, and seeking to work.” The Employment Act promoted “maximum employment,” promising an economic climate of employment opportunities. Nothing in the Employment Act precluded defining maximum employment in Keynesian terms, yet nothing required it. The importance of the Employment Act was that it clarified the federal responsibility to assure maximum employment.⁷

The Employment Act did not require compensatory spending, nor did it require a balanced budget and a tax plan to ensure it. The absence of such specific language freed subsequent policymakers to use the most acceptable fiscal and monetary practices to meet the objectives of the act. Clearly, Keynesian fiscal policies such as compensatory spending implicitly fell within the “all practical means” and “all plans, functions, and resources” that the federal government might use. Most significantly, the Employment Act emphasized two key elements that Hansen

⁶Letter to Alvin Hansen, July 15, 1944, Gehard Colm Papers, Truman Presidential Library (Colm Papers); Memoranda to J. Weldon Jones, August 5 and August 11, 1944, Colm Papers; and typed report titled *Postwar Employment*, stamped confidential and dated October, 1944, Colm Papers.

⁷ Wasem, *Tackling Unemployment*.

had highlighted earlier—1) maximum production and 2) purchasing power—and instituted “consumer Keynesianism.”⁸

Finally, the Employment Act established the federal structures for economic planning. On January 6, the U.S. Chamber of Commerce had publicly recommended a permanent government commission on unemployment and business fluctuations. Although the U.S. Chamber of Commerce roundly rejected what it called “totalitarian collectivism,” it acknowledged that “numerous techniques and policies for shortening periods of income and job losses and avoiding extreme fluctuations are known.” Most scholars hail the law for this accomplishment: creating a flexible and accountable apparatus for national economic planning. In this regard, the Employment Act heralded a new era in the federal role.⁹

Housing Act of 1949

An economic recession began in late 1948. The Council of Economic Advisers agreed on their assessment of the economic situation as well as the proper course of action to address the unemployment level, which was approaching 6 percent. President Truman and many in Congress supported their actions to reverse the downturn. As it turned out, the recession was short-lived.¹⁰

The key legislative accomplishment of Truman's legislative agenda known as the "Fair Deal" was the Housing Act of 1949. It was the result of a hard-fought negotiation between the Congress and the Executive Branch. Much as he had with the Employment Act of 1946, the

⁸ Ibid.

⁹ "Chamber Favors Commission to Advise U.S. on Economics," by Felix Cotton, International News Service, *Washington Post*, Jan. 7, 1946, p.4; and Wasem, *Tackling Unemployment*.

¹⁰ Oral History Interview with Leon Keyserling, by Jerry N. Hess, Washington, D. C., May 3, 1971; Oral History Interview with Dr. Edwin G. Nourse, by Jerry N. Hess, Washington, D. C., March 7, 1972.

highly respected conservative Senator Robert Taft played a critical role in finetuning the liberal proposal of earlier Congresses into a bill that gained bi-partisan support. He joined with Democratic Senators Robert Wagner and Allen Ellender as well as President Truman to finalize an Act with objectives that rang with middle class aspirations:

"The Congress declares that the general welfare and security of the Nation and the health and living standards of its people require housing production and related community development sufficient to remedy the serious housing shortage, the elimination of substandard and other inadequate housing through the clearance of slums and blighted areas, and the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family, thus contributing to the development and redevelopment of communities and to the advancement of the growth, wealth, and security of the Nation. The Congress further declares that such production is necessary to enable the housing industry to make its full contribution toward an economy of maximum employment, production, and purchasing power."

The key features of the Housing Act in this context paper were government subsidies in the following area:

- Title I of the Act authorized federal funding for slum clearance, i.e., urban renewal.¹¹
- Title II authorized a substantial increase in home mortgage insurance through the Federal Housing Administration (FHA).

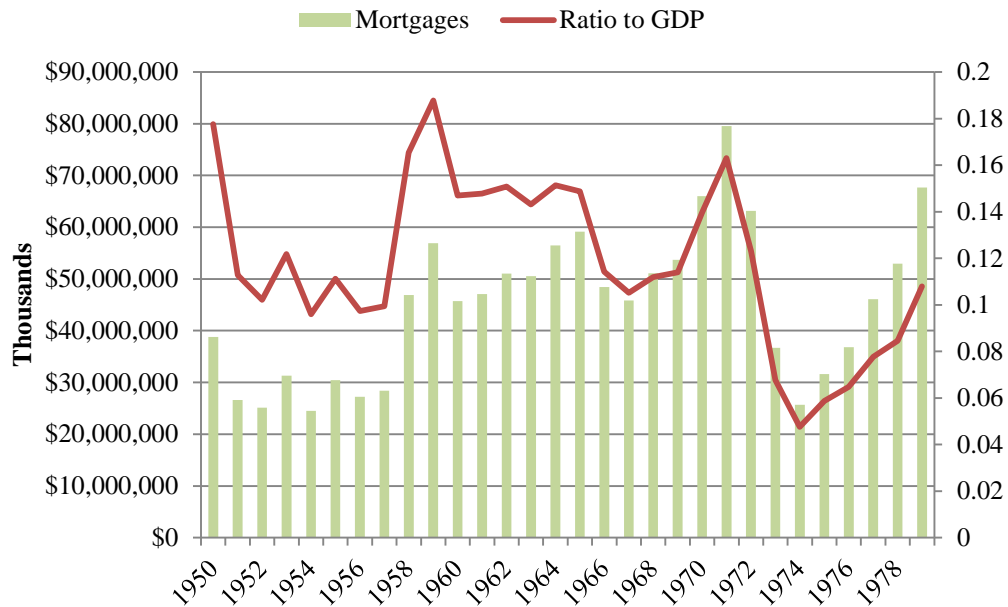
¹¹ It is beyond the scope of this paper to discuss the adverse consequences urban renewal had on low-income people, particularly minorities. Low-income minority communities were disproportionately displaced by urban renewal, and other research has well documented these results. For example, see: Alexander von Hoffman, "A Study in Contradictions: The Origins and Legacy of the Housing Act of 1949," Fannie Mae Foundation, *Housing Policy Debate*, vol. 11, issue 12, 2000 (Hereafter Hoffman, "A Study in Contradictions: The Origins and Legacy of the Housing Act of 1949.")

- Title III authorized federal funding for 135,000 public housing units per year, totaling 810,000 units by 1954.

The Housing Act was truly a "bricks and mortar" approach to job creation and prosperity.

Figure 1 shows the volume of FHA mortgages and loans (in constant dollars), particularly in the early and in the late 1950s. The National Housing Act of 1934 had created the FHA as part of President Franklin Roosevelt's New Deal legislative agenda. After passage of the 1949 Act, new home construction grew substantially. Many observers attribute the rise in home ownership during the postwar period to the FHA mortgages and loans.

Figure 1. Total FHA Mortgages and Loans and as a Ratio to GDP Per Capita, 1950-1979 (Constant 2005 Dollars)

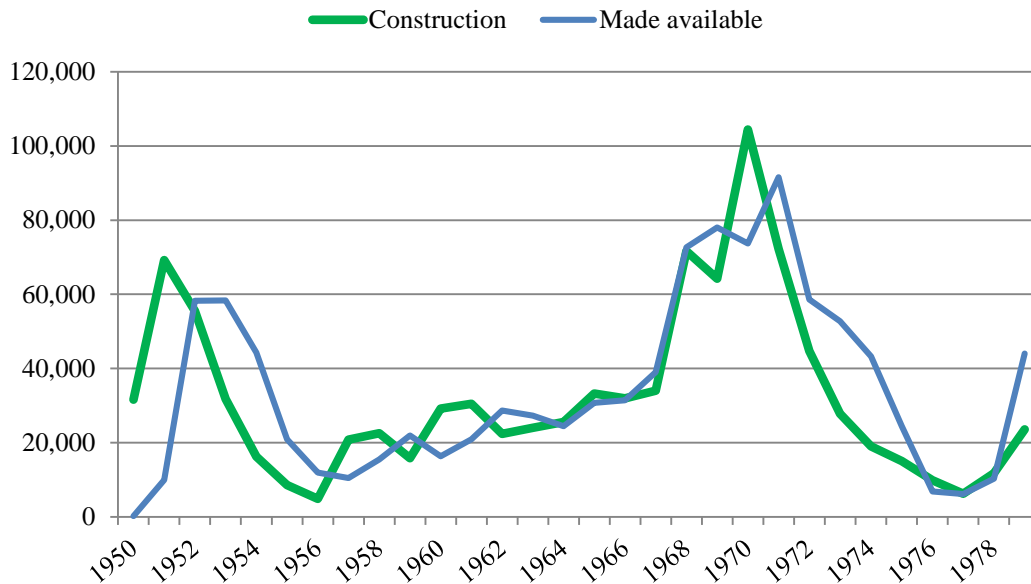


Source: author's calculations from U.S. Housing and Urban Development 1979 Statistical Yearbook and Bureau of Economic Analysis.

Funding for public housing spiked when the Act first went into effect, as Figure 2 shows. The federal government bore all capital costs for the construction of public housing. However,

shortages of materials brought on by the Korean War led Truman to scale back construction of public housing.¹²

Figure 2. Low-Income Public Housing Under the Housing Act of 1949: Construction and Units Made Available, 1950-1979



Source: U.S. Housing and Urban Development 1979 Statistical Yearbook.

The Housing Act of 1968 established a goal of producing 26 million housing units over the subsequent ten years and committed that 6 million of those units would be federally subsidized. The resulting federal investments led to the zenith of the federal role in public housing, as Figure 2 illustrates. However, President Richard Nixon imposed a moratorium on all new federal housing construction commitments, including public housing, in 1973. He argued that the programs did not provide decent housing to families and cost the federal government too much to build and maintain. Nixon’s moratorium ended when Congress authorized the Housing and Community Development Act of 1974, which created the Section 8 program that continued the

¹² John M. Quigley, Michael A. Stegman, and William C. Wheaton, "A Decent Home: Housing Policy in Perspective," *Brookings-Wharton Papers on Urban Affairs*, 2000; and, Hoffman, "A Study in Contradictions: The Origins and Legacy of the Housing Act of 1949."

shift to subsidizing privately owned with less reliance on new construction. The focus of federal housing assistance policy shifted away from the construction of new public housing units to the use of the private housing market through the Section 8 program.¹³

Interstate Highway Act of 1956

In response to the recession of 1953-1954, the Eisenhower Administration supported demand-oriented strategies to buoy the economy. Council of Economic Advisors (CEA) Chairman Arthur Burns clashed vigorously with Secretary of the Treasury George Humphrey on what the proper federal response to the recession should be. Although Eisenhower was generally considered an economic conservative, he was persuaded by Chairman Burns's advocacy of anti-recession policies in the form of tax cuts and deficit spending, and Burns prevailed in 1954. CEA member Neil Jacoby later confirmed that "Keynesian economic thinking played a key role in the recession of 1954 under Eisenhower." The revisionist analysis of Eisenhower's economic policy during his first term maintain that his advisors were moderate Republicans who accepted Keynesian principles for federal intervention during economic recessions.¹⁴

The federal interstate highway program remains the premier example of spending on public works that reaps multiplicative benefits for the economy and the American people. President Eisenhower himself recognized that the federal highway program would "have some effect in leveling out the peaks and valleys in our economic life," when he proposed the legislation.¹⁵ The Federal Aid Highway Act of 1956 authorized appropriations for the 13-year period from FY1957

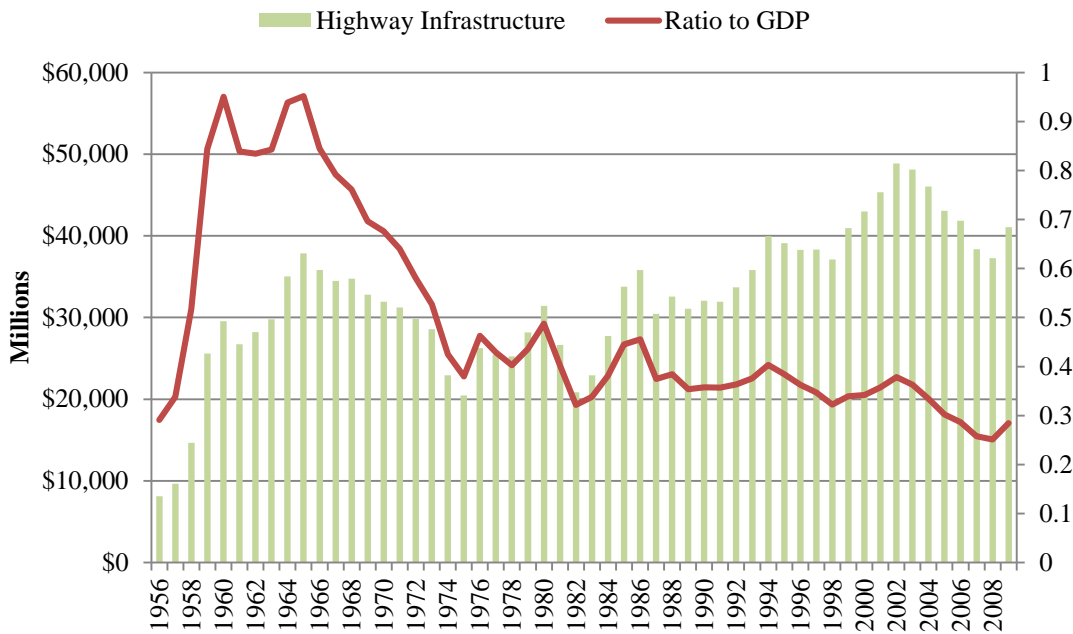
¹³ Frank S. Kristof, "Federal Housing Policies: Subsidized Production, Filtration and Objectives: Part 1," *Land Economics*, vol. 48, no. 4, Nov. 1972; Alexander von Hoffman, "A Study in Contradictions: The Origins and Legacy of the Housing Act of 1949," *Housing Policy Debate*, vol. 11, no. 12, 2000.

¹⁴ Sloan, *Eisenhower and the Management of Prosperity*; Wilson, "Eisenhower and the Development of Active Labor Market Policy;" and, Saul Engelbourg, "The Council of Economic Advisors and the Recession of 1953-1954," *The Business History Review*, Vol. 54, No. 2, (Summer, 1980).

¹⁵ John W. Sloan, *Eisenhower and the Management of Prosperity*, University of Kansas Press, 1991, p. 134.

through FY1969 for this highway system. To make the federal aid highway program self-financing, the Highway Revenue Act of 1956 was incorporated as Title II of this legislation and imposed new taxes and increased others levied on highway users who directly benefitted from this program. Secretary of Commerce Sinclair Weeks reported to President Eisenhower that a total of \$3.7 billion had been allocated to the states for highways by March 16, 1957.¹⁶

Figure 3. Federal Spending for Highway Infrastructure: Total Spending and as a Ratio to GDP Per Capita, 1956-2005 (Constant 2005 Dollars)



Source: author's calculations from *Federal Spending for Infrastructure, 1956-2009*, Congressional Budget Office and Bureau of Economic Analysis.

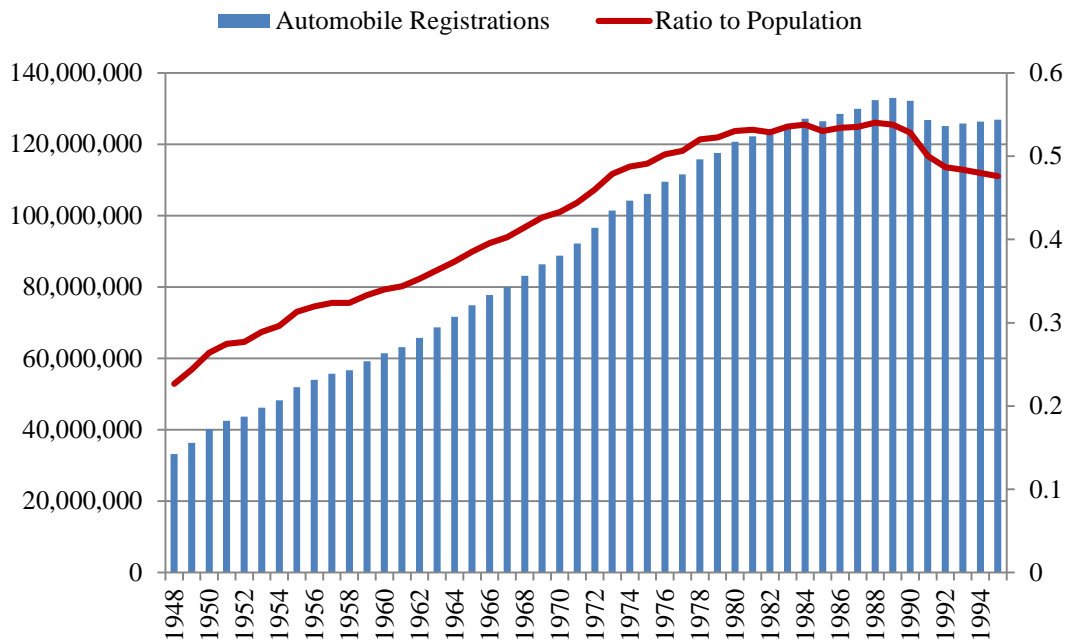
The highway program brought more benefits because the construction of federal interstate highways reached almost all corners of the nation. The interstate system opened communities up for commerce, facilitating the movement of agricultural products and manufactured goods. It was arguably the result of the intense lobbying of the construction, road building, trucking, and

¹⁶ Memorandum to the President from Sinclair Weeks, Secretary of Commerce, March 16, 1957, Eisenhower Presidential Papers, Eisenhower Presidential Library.

automobile industries that resulted in long-term funding for the Act, rather than the 2-year appropriations authorities that were typical at that time.¹⁷

Engineers, contractors, truckers, and laborers were not the only winners from the Interstate Highway Act. Farmers found it easier to get their crops to market. As roads improved and travel times between destinations shortened, the U.S. automobile industry ramped up their sales effort. Figure 5 shows the surge in automobile registrations in the post-World War II period. Tag lines such as "*See the USA in Your Chevrolet*" also helped tourism. Motels, restaurants and gas stations sprung up along the newly build roads.¹⁸

Figure 4. Total Number of Automobiles Registered and as a Ratio to Population, 1948-1994



Source: State Motor Vehicle Registrations, by Years, 1900 - 1995, U.S. Department of Transportation, Federal Highway Administration.

¹⁷ Wilson, "Eisenhower and the Development of Active Labor Market Policy."

¹⁸ Much as the urban renewal efforts of the Housing Act had negative consequences for low-income minority communities, so too did the local implementation of the Highway Act disproportionately displace these communities.

National Aeronautics and Space Act of 1958

The final program featured in this paper is "(A)n Act to provide for research into the problems of flight within and outside the Earth's atmosphere, and for other purposes." Although not typically viewed as a "public works" program, the National Aeronautics and Space Act of 1958 authorized a burst of federal spending that harnessed the nascent technological forces. When the federal government ratcheted up its commitment to aeronautical and space sciences, the impact on prosperity had the potential to be awesome.

On October 4, 1957, the Soviet Union successfully launched the first artificial Earth satellite, named Sputnik. Although the initial reaction from the Eisenhower administration was deemed low-key, within a few days President Eisenhower received a budget breakdown and progress report on the U.S. satellite program proposal Eisenhower had approved on May 27, 1957.

Eisenhower's response focused on manpower. The President met with a select group of the top scientists in the United at the White House on October 16, 1957 to ask them if they honestly thought the United States was being out-distanced in science. Minutes of the meeting indicated that the scientists who answered the question emphasized how the Soviet Union was prioritizing science as part of their national identity. The scientists stated there was an urgent need for more leadership in science – one scientist saying that leadership was more critical than for money at that point in time.¹⁹

¹⁹ Robert A. Divine, *The Sputnik Challenge: Eisenhower's Response to the Soviet Satellite*, New York and Oxford, Oxford University Press, 1993 (hereafter Divine, *The Sputnik Challenge: Eisenhower's Response to the Soviet Satellite*) ; memorandum for the President from Percival F. Brundage, Director of the Bureau of the Budget, October 8, 1957, central file, Eisenhower Presidential Papers, Eisenhower Presidential Library; and, confidential memorandum of conference with the President, from Brigadier General A. J. Goodpaster, October 5, 1957, Eisenhower Presidential Papers, Eisenhower Presidential Library.

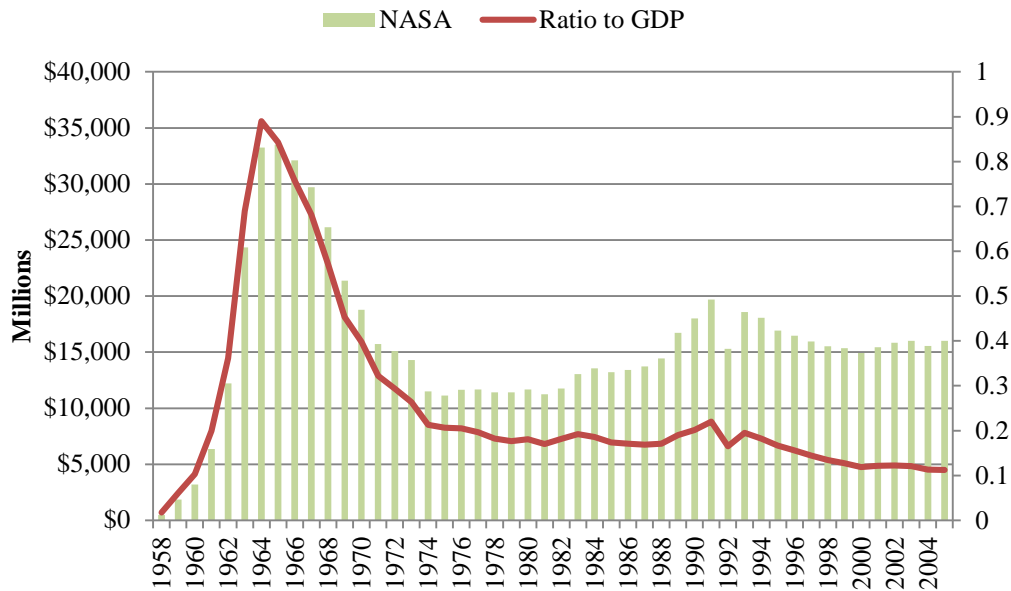
In the weeks following, the Eisenhower Administration developed legislation to advance space science and science education. The President reportedly argued with conservative members of his own party to push the necessity of federal action. The National Defense Education Act of 1958 became the largest federal subsidy for education since the G.I. Bill.²⁰

Meanwhile, then-Majority Leader Lyndon Johnson had placed himself as chairman of the Special Committee on Space and Astronautics. This committee, which had jurisdiction over space exploration, which included the control, development, and use of astronomical resources, personnel, and equipment, drafted the National Aeronautics and Space bill. The legislation incorporated President Dwight Eisenhower's proposal on space science, and it gained widespread bipartisan support. The final version, enacted as the National Aeronautics and Space Act of 1958 (Public Law 85-568), established the National Aeronautics and Space Administration (NASA) and authorized substantial appropriations for the "space race."²¹

²⁰ Wilson, "Eisenhower and the Development of Active Labor Market Policy;" and Divine, *The Sputnik Challenge: Eisenhower's Response to the Soviet Satellite*.

²¹ Divine, *The Sputnik Challenge: Eisenhower's Response to the Soviet Satellite*.

**Figure 5. Total NASA Appropriations and as a Ratio to GDP Per Capita, 1958-2005
(Constant 2007 Dollars)**



Source: author's calculations from NASA Budget Documents and Bureau of Economic Analysis.

In May 1961, astronaut Alan Shepard became the first American in space, and President John Kennedy went on to commit that the United States would be first on the Moon. When he assumed the Presidency after Kennedy's assassination, Johnson continued Kennedy's dedication to the Moon landing, saying "I do not believe that this generation of Americans is willing to resign itself to going to bed each night by the light of a Communist moon." Figure 5 illustrates how NASA funding accelerated in the 1960s, both in appropriations and as a ratio to GDP per capita, during the Kennedy and Johnson Presidencies.²²

A Few Words on Tax Policy

The relationship between full employment policy and tax policy was one of the key features of Hansen's *After the War—Full Employment* report and was a major point of debate over the

²² Alan Wasser, "LBJ's Space Race," *The Space Review*, June 2005.

Employment Act of 1946.²³ The rates of the 1950s were quite high by contemporary standards, as Figure 6 shows, especially for the upper income levels. Many political leaders of the 1940s and 1950s, such as Sen. Robert Taft, argued that tax rates should be increased to balance the budget when additional federal spending was necessary. Taft, for example, voted to increase taxes to pay for the Korean War.²⁴

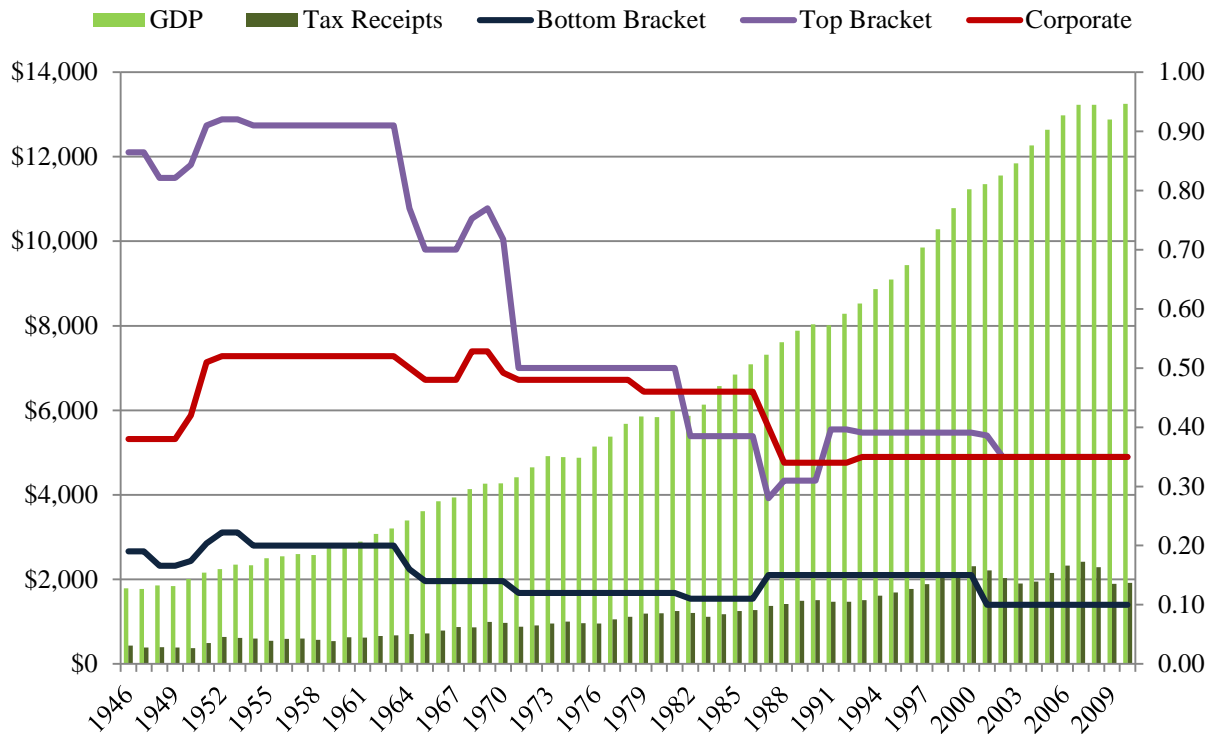
Walter Heller, chairman of the Council of Economic Advisers for President Kennedy, advocated passing tax cuts during the 1960s. Congress and the Kennedy administration listened: they cut taxes sharply, as Figure 6 shows, for the lowest tax bracket as well as the top tax bracket. The tax cut, enacted in early 1964, after Kennedy's death, cut the top marginal income tax rate from 91 percent to 70 percent and reduced the corporate income tax rate from 52 percent to 47 percent. Much has been written about the implementation of Keynesian economics by Heller and his colleagues on the Council of Economic Advisers, Kermit Gordon and James Tobin. In its 1962 report, the council established a 4 percent unemployment level as the interim target for full employment. Heller, Gordon, and Tobin maintained that unemployment could be reduced without increasing inflation.²⁵

²³ Wasem, *Tackling Unemployment*.

²⁴ Patterson, James T. *Mr. Republican: A Biography of Robert A. Taft*. Boston: Houghton Mifflin, 1972; John W. Sloan, *Eisenhower and the Management of Prosperity*, University of Kansas Press, 1991.

²⁵ Bernstein, Michael A., *A Perilous Progress: Economists and Public Purpose in Twentieth-Century America*, Princeton University Press, 2001.

**Figure 6. GDP, Federal Tax Receipts, and Tax Rates, 1946-2010
(Constant 2009 Dollars)**



Source: Internal Revenue Service Individual Time Series Statistical Tables and Bureau of Economic Analysis; author's calculations. Reprinted from *Tackling Unemployment* (Upjohn: 2013).

Shortly after he left the helm of the CEA, Heller wrote: "Most of the observers of the 1961-1965 experience under the new economic policy have focused on the workings and wonders of the 1964 tax cut. Not that it didn't work or that it wasn't wonderful. But I think we have overdone the tax-cut story a bit. To get a balanced view, and beyond tax cuts to expenditure increases and beyond fiscal stimulants and expansion of demand to the companion structural measure designed to increase productively and maintain stability."²⁶

The prosperity of the 1960s, arguably fueled by activist fiscal policies, afforded the Congress and Presidents Kennedy and Johnson the opportunity to establish education and job training programs aimed at those left behind in the expanding economy. The Area Redevelopment Act of

²⁶ Walter Heller, *New Dimension of Political Economy*, Cambridge, MA: Harvard University Press, 1966, p. 70

1961 subsidized training for workers in economically depressed areas. The Public Welfare Amendments of 1962 authorized the Community Work and Training Program, which permitted the states to enroll adult Aid to Families with Dependent Children recipients in "workfare" programs. The Manpower Development and Training Act and the Trade Adjustment Assistance Act, both enacted in 1962, aided workers who were displaced by automation and trade policies. The Economic Opportunity Act of 1964 established a set of employment and job training programs, including Job Corps.

The Great Inflation of the 1970s²⁷

In addition to a deliberate policy choice to not raise taxes to pay for the war in Vietnam, a sharp increase in oil prices sent inflation spiraling out of control. As the rising oil prices fueled inflation, the anti-inflation policies competed with job creation to be the top economic priority. The presumed relationship between unemployment and inflation, known as the Phillips curve, was a stable trade-off for policymakers. By the 1970s, this balancing act no longer appeared valid, and the fiscal and monetary policies based upon the Phillips curve became ineffective.²⁸

While Republicans had long feared inflation more than unemployment, survey research data had shown that unemployment was a greater concern for the American public than inflation until the 1970s. But as prices began to rise faster than real wages, the balance of public opinion began to tip. The administration of President Richard Nixon tried wage and price controls in three phases between 1971 and 1974; however, the Nixon efforts only temporarily slowed the rise in prices

²⁷ Michael Bryan of the Federal Reserve Bank of Atlanta labeled the "Great Inflation" as the defining macroeconomic event of the second half of the twentieth century.

²⁸ Weir, *Politics and Jobs*; and, Peter Temin, "The Causes of American Business Cycles: An Essay in Economic Historiography."

and inadvertently sparked food and fuel shortages. In 1974, President Gerald Ford unsuccessfully pushed voluntary measures to encourage more thrift known as Whip Inflation Now (WIN).²⁹

The Full Employment and Balanced Growth Act of 1978 became best known as Humphrey-Hawkins, a reference to its sponsors, Rep. Augustus Hawkins (D-CA) and Sen. Hubert Humphrey (D-MN). Quite significantly, Humphrey-Hawkins established a dual mandate of full employment and price stability, and it required the Federal Reserve to use monetary policy to pursue full employment as well as curb inflation. The debate leading up to the passage of the Full Employment and Balanced Growth Act of 1978 is considered to be the “last hurrah” of Keynesian dominance in U.S. policymaking, rather than the major step forward its sponsors hoped it would be.³⁰

There was a rise in capital infrastructure spending in response to the spike in unemployment during the mid-1970s. Congress and the Carter administration increased capital infrastructure spending generally and as a rate of GDP from 1977 through 1980. The stimulus package included public works, public employment, and an expansion of the Comprehensive Employment and Training Act (CETA). Unemployment dropped correspondingly until the recession of the early 1980s.³¹

Ascendancy of Supply-Side Economics

It was in the 1980s that federal policy priorities shifted away from employment stimulation and "consumer Keynesianism." Unemployment spiked to its highest levels since the Great

²⁹ Douglas A. Hibbs, "Public Concern about Inflation and Unemployment in the United States: Trends, Correlates, and Political Implications," *Inflation: Causes and Effects*, (NBER, University of Chicago Press, 1982); Tom W. Smith, "America's Most Important Problems--A Trend Analysis, 1946-1976," *Public Opinion Quarterly*, Vol. 44, No. 2, Summer 1980

³⁰ Weir, *Politics and Jobs*; House Committee on Financial Services, Hearings on the Conduct of Monetary Policy under the Humphrey-Hawkins Full Employment and Balanced Growth Act, Washington, D.C. July 17, 2007.

³¹ Wasem, *Tackling Unemployment*.

Depression, rising above 10 percent for several months and staying above 8 percent for two years. In response, Congress and the administration of President Ronald Reagan cut infrastructure spending generally and as a rate to GDP (Figure 6). Although there were limited increases in capital infrastructure spending during mid-1980s, the Reagan administration advocated use of tax policy as its main tool to address the recession and high levels of unemployment.³²

Congress and the Reagan administration enacted further tax cuts for upper income earners and corporations. These cuts were a response to the recession and high levels of unemployment, and their proponents hoped the cuts would have a stimulating effect comparable to the tax cuts of the 1960s. The “New Federalism” articulated by President Reagan and embodied in the tax cuts, moreover, shifted the major responsibility for job creation back to the private sector. As Reagan famously said, “Government is not the solution to our problem; government *is* the problem.” Supply-side economics had replaced three decades of activist labor market policies.³³

Conclusion

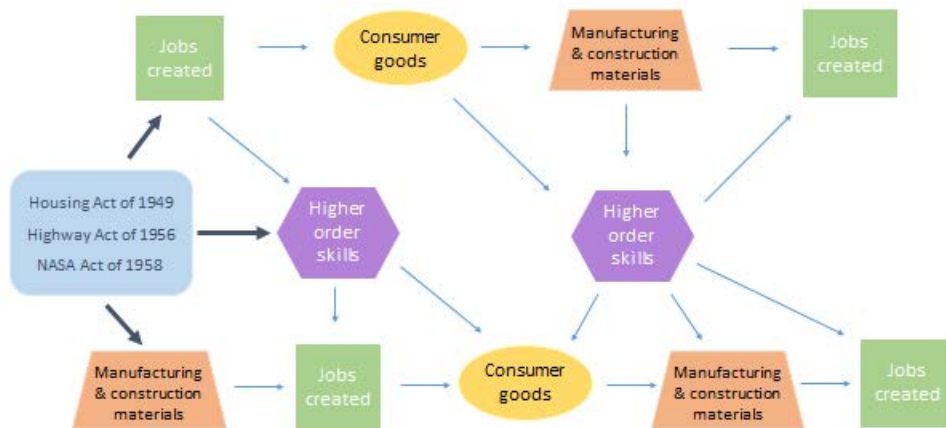
The Housing Act, the Highway Act, and the National Aeronautics and Space Act each authorized a major amount of public money in direct spending or government subsidies for activities that: 1) directly created jobs for workers with a wide range of skills and abilities; 2) directly required substantial of manufactured materials, construction materials, heavy machinery, etc.; and 3) directly necessitated the higher order skills of architects, engineers, scientists, and

³² Bernstein, *A Perilous Progress*; Wasem, *Tackling Unemployment*; W. Elliot Brownlee and Hugh Davis Graham, *The Reagan Presidency: Pragmatic Conservatism and Its Legacies*, University of Kansas Press, 2003; and, Kim Phillips-Fein, *Invisible Hands: The Businessmen's Crusade Against the New Deal*, New York: Norton, 2009.

³³ Jones, Charles O., editor, *The Reagan Legacy: Promise and Performance*, Chatham House, 1988; W. Elliot Brownlee and Hugh Davis Graham, *The Reagan Presidency: Pragmatic Conservatism and Its Legacies*, University of Kansas Press, 2003; Bernstein, *A Perilous Progress*; Kevin Phillips, *Boiling Point: Democrats, Republicans, and the Decline of Middle Class Prosperity*, New York: Random House, 1993.

mathematicians and other expertly trained people. The federal government made multi-year commitments to these endeavors, enabling a rippling effect of increased consumerism and increased demand for more manufactured materials and construction materials, for more consumer goods, for more laborers, and for more people with higher order skills. Figure 7 presents a simple diagram of illustrating this potential impact.

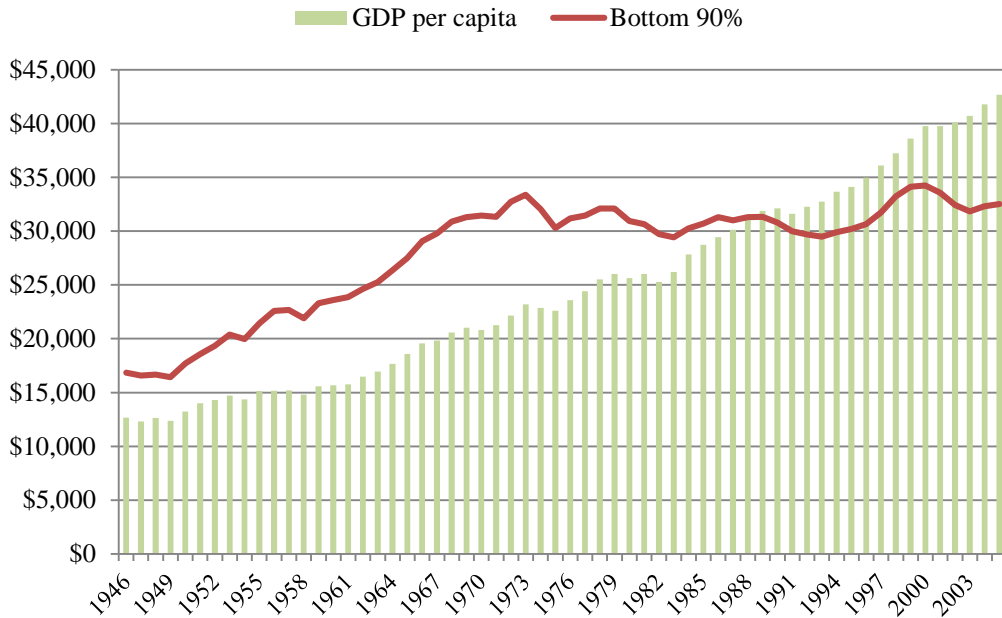
Figure 7. Diagram of Legislations' Potential Impact



These federal programs, albeit illustrative examples, ably drew on the positive demographic, economic, and technological factors nascent in postwar United States. Personal income of those who considered themselves "middle class" rose substantially in the post-World War II period. The Bureau of Economic Analysis's personal income data as well as income data from the World's Top Income Database convey a picture of the relative prosperity of Americans over the past sixty years. Figure 8 shows that the per capita personal income of the bottom 90% grew faster than the GDP per capita did until the 1970s. When inflation spiked and supply-side

economics grew in popularity, the tide turned against Keynesian concepts to establish activist labor policies that promoted job creation.³⁴

Figure 8. Per Capita Personal Income of the Bottom 90% and Per Capita GDP, 1946-2005 (Constant 2009 Dollars)



Source: author's calculations from the World Top Incomes Database and the Bureau of Economic Analysis.

The final figure illustrates quite simply the watershed that the 1980s marked in the prosperity of working class and middle class residents of the United States. The per capita personal income of the bottom 90% grew by 83.7% from 1946 to 1980. The per capita personal income of the top 10% experienced even more robust growth -- 105.3% -- from 1946 to 1980. Conversely, per capita personal income of the bottom 90% grew by only 5.2% from 1981 to 2005, while the per capita personal income of the top 1% grew by 100.2% from 1981 to 2005.

³⁴ For further discussion of the World's Top Income Database, see Tony Adkitson, Thomas Piketty and Emmanuel Saez, "Top Incomes in the Long Run of History," *The Journal of Economic Literature*, Vol. 49, No. 1, 2011.

Figure 9. Percentage Increase in Per Capita Income by Income Groupings: 1946-1980 Compared with 1981-2005



Source: author's calculations from the World Top Incomes Database.

Although it cannot be said that the activist labor market and fiscal policies highlighted in this paper directly created the prosperity of the postwar period, they no doubt had a role in facilitating it. During the post-World War II period, federal policies sought to harness and direct the economic, demographic, and technological forces toward maximum employment. This period of sustained prosperity lifted many working people into the middle class.

The term middle class is arguably a social construct that is romanticized more often than it is measured. In the context of this paper, "Middle Class Rising" becomes a steady job, a modest home, a new car, and children who dream of being astronauts.