The need to produce war supplies had given rise to a huge military-industrial complex (a term coined by Dwight D. Eisenhower, who served as the U.S. president from 1953 through 1961). It did not disappear with the war's end. As the Iron Curtain descended across Europe and the United States found itself embroiled in a cold war with the Soviet Union, the government maintained substantial fighting capacity and invested in sophisticated weapons such as the hydrogen bomb. Economic aid flowed to war-ravaged European countries under the Marshall Plan, which also helped maintain markets for numerous U.S. goods. And the government itself recognized its central role in economic affairs. The Employment Act of 1946 stated as government policy "to promote maximum employment, production, and purchasing power."

The United States also recognized during the postwar period the need to restructure international monetary arrangements, spearheading the creation of the International Monetary Fund and the World Bank — institutions designed to ensure an open, capitalist international economy.

Business, meanwhile, entered a period marked by consolidation. Firms merged to create huge, diversified conglomerates. International Telephone and Telegraph, for instance, bought Sheraton Hotels, Continental Banking, Hartford Fire Insurance, Avis Rent-a-Car, and other companies.

The American work force also changed significantly. During the 1950s, the number of workers providing services grew until it equaled and then surpassed the number who produced goods. And by 1956, a majority of U.S. workers held white-collar rather than blue-collar jobs. At the same time, labor unions won long-term employment contracts and other benefits for their members.

Farmers, on the other hand, faced tough times. Gains in productivity led to agricultural overproduction, as farming became a big business. Small family farms found it increasingly difficult to compete, and more and more farmers left the land. As a result, the number of people employed in the farm sector, which in 1947 stood at 7.9 million, began a continuing decline; by 1998, U.S. farms employed only 3.4 million people.

Other Americans moved, too. Growing demand for single-family homes and the widespread ownership of cars led many

Americans to migrate from central cities to suburbs. Coupled with technological innovations such as the invention of air conditioning, the migration spurred the development of "Sun Belt" cities such as Houston, Atlanta, Miami, and Phoenix in the southern and southwestern states. As new, federally sponsored highways created better access to the suburbs, business patterns began to change as well. Shopping centers multiplied, rising from eight at the end of World War II to 3,840 in 1960. Many industries soon followed, leaving cities for less crowded sites.

Years of Change: The 1960s and 1970s

The 1950s in America are often described as a time of complacency. By contrast, the 1960s and 1970s were a time of great change. New nations emerged around the world, insurgent movements sought to overthrow existing governments, established countries grew to become economic powerhouses that rivaled the United States, and economic relationships came to predominate in a world that increasingly recognized that military might was not the only means of growth and expansion.

President John F. Kennedy (1961-1963) ushered in a more activist approach to governing. During his 1960 presidential campaign, Kennedy said he would ask Americans to meet the challenges of the "New Frontier." As president, he sought to accelerate economic growth by increasing government spending and cutting taxes, and he pressed for medical help for the elderly, aid for inner cities, and increased funds for education. Many of these proposals were not enacted, although Kennedy's vision of sending Americans abroad to help developing nations did materialize with the creation of the Peace Corps. Kennedy also stepped up American space exploration. After his death, the American space program surpassed Soviet achievements and culminated in the landing of American astronauts on the moon in July 1969.

Kennedy's assassination in 1963 spurred Congress to enact much of his legislative agenda. His successor, Lyndon Baines Johnson (1963-1969), sought to build a "Great Society" by spreading benefits of America's successful economy to more citizens. Federal spending increased dramatically, as the government launched such new programs as Medicare (health care for the elderly), Food Stamps (food assistance for the poor), and numerous education initiatives (assistance to students as well as grants to schools and colleges).

Military spending also increased as America's presence in Vietnam grew. What had started as a small military action under Kennedy mushroomed into a major military initiative during Johnson's presidency. Ironically, spending on both wars — the war on poverty and the fighting war in Vietnam — contributed to prosperity in the short term. But by the end of the 1960s, the government's failure to raise taxes to pay for these efforts led to accelerating inflation, which eroded this prosperity. The 1973-1974 oil embargo by members of the Organization of Petroleum Exporting Countries (OPEC) pushed energy prices rapidly higher and created shortages. Even after the embargo ended, energy prices stayed high, adding to inflation and eventually causing rising rates of unemployment. Federal budget deficits grew, foreign competition intensified, and the stock market sagged.

The Vietnam War dragged on until 1975, President Richard Nixon (1969-1974) resigned under a cloud of impeachment charges, and a group of Americans were taken hostage at the U.S. embassy in Teheran and held for more than a year. The nation seemed unable to control events, including economic affairs. America's trade deficit swelled as low-priced and frequently high-quality imports of everything from automobiles to steel to semiconductors flooded into the United States.

The term "stagflation" — an economic condition of both continuing inflation and stagnant business activity, together with an increasing unemployment rate — described the new economic malaise. Inflation seemed to feed on itself. People began to expect continuous increases in the price of goods, so they bought more. This increased demand pushed up prices, leading to demands for higher wages, which pushed prices higher still in a continuing upward spiral. Labor contracts increasingly came to include automatic cost-of-living clauses, and the government began to peg some payments, such as those for Social Security, to the Consumer Price Index, the best-known gauge of inflation. While these practices helped workers and retirees cope with inflation, they perpetuated inflation. The government's ever-rising need for funds swelled the budget deficit and led to greater government borrowing, which in turn pushed up interest rates and increased costs for businesses and consumers even further. With energy costs and interest rates high, business investment languished and unemployment rose to uncomfortable levels.

In desperation, President Jimmy Carter (1977-1981) tried to combat economic weakness and unemployment by increasing government spending, and he established voluntary wage and price guidelines to control inflation. Both were largely unsuccessful. A perhaps more successful but less dramatic attack on inflation involved the "deregulation" of numerous industries, including airlines, trucking, and railroads. These industries had been tightly regulated, with government controlling routes and fares. Support for deregulation continued beyond the Carter administration. In the 1980s, the government relaxed controls on bank interest rates and long-distance telephone service, and in the 1990s it moved to ease regulation of local telephone service.

But the most important element in the war against inflation was the Federal Reserve Board, which clamped down hard on the money supply beginning in 1979. By refusing to supply all the money an inflation-ravaged economy wanted, the Fed caused interest rates to rise. As a result, consumer spending and business borrowing slowed abruptly. The economy soon fell into a deep recession.

The Economy in the 1980s

The nation endured a deep recession throughout 1982. Business bankruptcies rose 50 percent over the previous year. Farmers were especially hard hit, as agricultural exports declined, crop prices fell, and interest rates rose. But while the medicine of a sharp slowdown was hard to swallow, it did break the destructive cycle in which the economy had been caught. By 1983, inflation had eased, the economy had rebounded, and the United States began a sustained period of economic growth. The annual inflation rate remained under 5 percent throughout most of the 1980s and into the 1990s.

The economic upheaval of the 1970s had important political consequences. The American people expressed their discontent with federal policies by turning out Carter in 1980 and electing former Hollywood actor and California governor Ronald Reagan as president. Reagan (1981-1989) based his economic program on the theory of supply-side economics, which advocated reducing tax rates so people could keep more of what they earned. The theory was that lower tax rates would induce people to work harder and longer, and that this in turn would lead to more saving and investment, resulting in more production and stimulating overall economic growth. While the Reagan-inspired tax cuts served mainly to benefit wealthier Americans, the economic theory behind the cuts argued that benefits would extend to lower-income people as well because higher investment would lead to new job opportunities and higher wages.

The central theme of Reagan's national agenda, however, was his belief that the federal government had become too big and intrusive. In the early 1980s, while he was cutting taxes, Reagan was also slashing social programs. Reagan also undertook a campaign throughout his tenure to reduce or eliminate government regulations affecting the consumer, the workplace, and the environment. At the same time, however, he feared that the United States had neglected its military in the wake of the Vietnam War, so he successfully pushed for big increases in defense spending.

The combination of tax cuts and higher military spending overwhelmed more modest reductions in spending on domestic programs. As a result, the federal budget deficit swelled even beyond the levels it had reached during the recession of the early 1980s. From $74,000 million in 1980, the federal budget deficit rose to $221,000 million in 1986. It fell back to $150,000 million in 1987, but then started growing again. Some economists worried that heavy spending and borrowing by the federal government would re-ignite inflation, but the Federal Reserve remained vigilant about controlling price increases, moving quickly to raise interest rates any time it seemed a threat. Under chairman Paul Volcker and his successor, Alan Greenspan, the Federal Reserve retained the central role of economic traffic cop, eclipsing Congress and the president in guiding the nation's economy.

The recovery that first built up steam in the early 1980s was not without its problems. Farmers, especially those operating small family farms, continued to face challenges in making a living, especially in 1986 and 1988, when the nation's mid-section was hit by serious droughts, and several years later when it suffered extensive flooding. Some banks faltered from a combination of tight money and unwise lending practices, particularly those known as savings and loan associations, which went on a spree of unwise lending after they were partially deregulated. The federal government had to close many of these institutions and pay off their depositors, at enormous cost to taxpayers.

While Reagan and his successor, George Bush (1989-1993), presided as communist regimes collapsed in the Soviet Union and Eastern Europe, the 1980s did not entirely erase the economic malaise that had gripped the country during the 1970s. The United States posted trade deficits in seven of the 10 years of the 1970s, and the trade deficit swelled throughout the 1980s. Rapidly growing economies in Asia appeared to be challenging America as economic powerhouses; Japan, in particular, with its emphasis on long-term planning and close coordination among corporations, banks, and government, seemed to offer an alternative model for economic growth.

In the United States, meanwhile, "corporate raiders" bought various corporations whose stock prices were depressed and then restructured them, either by selling off some of their operations or by dismantling them piece by piece. In some cases, companies spent enormous sums to buy up their own stock or pay off raiders. Critics watched such battles with dismay, arguing that raiders were destroying good companies and causing grief for workers, many of whom lost their jobs in corporate restructuring moves. But others said the raiders made a meaningful contribution to the economy, either by taking over poorly managed companies, slimming them down, and making them profitable again, or by selling them off so that investors could take their profits and reinvest them in more productive companies.

The 1990s and Beyond

The 1990s brought a new president, Bill Clinton (1993-2001). A cautious, moderate Democrat, Clinton sounded some of the same themes as his predecessors. After unsuccessfully urging Congress to enact an ambitious proposal to expand health-insurance coverage, Clinton declared that the era of "big government" was over in America. He pushed to strengthen market forces in some sectors, working with Congress to open local telephone service to competition. He also joined Republicans to reduce welfare benefits. Still, although Clinton reduced the size of the federal work force, the government continued to play a crucial role in the nation's economy. Most of the major innovations of the New Deal, and a good many of the Great Society, remained in place. And the Federal Reserve system continued to regulate the overall pace of economic activity, with a watchful eye for any signs of renewed inflation.

The economy, meanwhile, turned in an increasingly healthy performance as the 1990s progressed. With the fall of the Soviet Union and Eastern European communism in the late 1980s, trade opportunities expanded greatly. Technological developments brought a wide range of sophisticated new electronic products. Innovations in telecommunications and computer networking spawned a vast computer hardware and software industry and revolutionized the way many industries operate. The economy grew rapidly, and corporate earnings rose rapidly. Combined with low inflation and low unemployment, strong profits sent the stock market surging; the Dow Jones Industrial Average, which had stood at just 1,000 in the late 1970s, hit the 11,000 mark in 1999, adding substantially to the wealth of many — though not all — Americans.

Japan's economy, often considered a model by Americans in the 1980s, fell into a prolonged recession — a development that led many economists to conclude that the more flexible, less planned, and more competitive American approach was, in fact, a better strategy for economic growth in the new, globally integrated environment.

America's labor force changed markedly during the 1990s. Continuing a long-term trend, the number of farmers declined. A small portion of workers had jobs in industry, while a much greater share worked in the service sector, in jobs ranging from store clerks to financial planners. If steel and shoes were no longer American manufacturing mainstays, computers and the software that make them run were.

After peaking at $290,000 million in 1992, the federal budget steadily shrank as economic growth increased tax revenues. In 1998, the government posted its first surplus in 30 years, although a huge debt — mainly in the form of promised future Social Security payments to the baby boomers —

remained. Economists, surprised at the combination of rapid growth and continued low inflation, debated whether the United States had a "new economy" capable of sustaining a faster growth rate than seemed possible based on the experiences of the previous 40 years.

Finally, the American economy was more closely intertwined with the global economy than it ever had been. Clinton, like his predecessors, had continued to push for elimination of trade barriers. A North American Free Trade Agreement (NAFTA) had further increased economic ties between the United States and its largest trading partners, Canada and Mexico. Asia, which had grown especially rapidly during the 1980s, joined Europe as a major supplier of finished goods and a market for American exports. Sophisticated worldwide telecommunications systems linked the world's financial markets in a way unimaginable even a few years earlier.

While many Americans remained convinced that global economic integration benefited all nations, the growing interdependence created some dislocations as well. Workers in high-technology industries — at which the United States excelled — fared rather well, but competition from many foreign countries that generally had lower labor costs tended to dampen wages in traditional manufacturing industries. Then, when the economies of Japan and other newly industrialized countries in Asia faltered in the late 1990s, shock waves rippled throughout the global financial system. American economic policy-makers found they increasingly had to weigh global economic conditions in charting a course for the domestic economy.

Still, Americans ended the 1990s with a restored sense of confidence. By the end of 1999, the economy had grown continuously since March 1991, the longest peacetime economic expansion in history. Unemployment totaled just 4.1 percent of the labor force in November 1999, the lowest rate in nearly 30 years. And consumer prices, which rose just 1.6 percent in 1998 (the smallest increase except for one year since 1964), climbed only somewhat faster in 1999 (2.4 percent through October). Many challenges lay ahead, but the nation had weathered the 20th century — and the enormous changes it brought — in good shape.