We've used the term social contract several times already, so let's take a look at what did we mean by this post-World World War II social contract? And why did it work so well for so many?

If you were born between 1946 and 1964, you're a member of what we call the Baby Boom generation. And chances are you did quite well, because you were able to follow your parents advice of working hard, staying in school, and being able to improve on the standard of living you achieve for yourself and for your family compared to what your parents had.

So was this all just a matter of luck? Is there some iron law of economics that achieved it? Well, neither are true. It took a lot of hard work and a lot of invention on the part of labor and management leaders of the time.

America came out of World War II with an enormous amount of pent-up demand for consumer goods, because we were focused on building the economy for the war. So we had to convert from factories that made tanks and military airplanes to factories that made cars and other kinds of goods and services that were in high demand in the post-World War II economy. And that created what we call the post-war social contract.

Now, you've seen this diagram before. It shows that over the post-World War II time period, wages and productivity moved in tandem. And so as the economy got better, so too did wages and living conditions for the vast majority of families of that time. So how did that work? Well, as I said, we've had an enormous amount of growth in construction, in heavy industry, in rebuilding the economy after World War II. We had the rise of mass production. We had automobiles coming out of our ears. Here's a picture of how Ford and General Motors and other companies were able to produce millions of vehicles for the mass market, largely similar kinds of goods and services that people were looking for.

So it was out of this time period that unions began to grow. In the post-World World War II time period, unions grew to about 30% to 35%. But union growth didn't come easily. It took a lot of battles between labor and management in the steel industry, in the auto industry. General Motors had to experience a sit-down strike in their plant in 1937 before unionization was accepted by General Motors. This is an example of what's called the Battle of the Overpass, where the auto workers' leaders-- led by Walter Reuther, who we're going to hear about a little bit more specifically in a moment-- had to fight with paid security guards hired by Ford Motor to try to keep the union out.

So this was a battle that went on not only in autos but in steel and in many other industries. But once it was successful, and once unions were organized, you got something called the postwar social contract.

This is an example of Walter Reuther, here, negotiating and signing an agreement with General Motors which was called the Treaty of Detroit, where the parties agreed that they would increase wages by the rate of growth in the cost of living and the overall average rate of growth in productivity in the economy. And it was that agreement that allowed wages then to grow, and why we got this tandem movement of wages and productivity for so many years in the postwar time period.

But that was just the auto industry. How do we get this to spread across the country? Well, to understand that, we have to introduce another term, something that in labor relations terminology is called pattern bargaining. What would happen is, you negotiated a wage agreement at, let's say, General Motors; and then the union would carry that same agreement to Ford and say, if you don't want a strike, then you should agree to the same wage. And Ford would agree, and the pattern would spread to Chrysler and others in the automobile industry.

While not perfect, it then also spread to other industries across the country at its own rate. So you got oil and gas and household appliances and the steel industry and aerospace, rubber, electronics, all of these growing industries, basically following a similar wage pattern-- not exactly copying but fitted to the economic circumstances of their particular setting.

And so this is what created that tandem movement of wages and productivity. And as the economy got better, so too did the average workforce member and his or her families.

That's the kind of thing that we then lost since 1980. That's the kind of thing we have to find a new solution to create again.

But the key for us today is not to try to go back to the 1940s, '50s, '60s, or '70s, but to ask, how can we create wage norms? How can we create the bargaining power for workers so that we can once again start to get wages moving with the overall growth of the economy? That's our challenge moving forward. We'll talk about how to do that in future sessions.