In 1946, the first year after World War II, the American film industry reached its peak of popularity, influence, and profitability, with 1.7 billion dollars in revenues. Unfortunately for the industry, hard times were immediately ahead. The hard times came from several causes:

**Post-War Economic and Social Changes**

The Truman administration advocated anti-trust legislation that by 1948 had divested the major production companies of their theater chains, ending the era of vertical integration. Vertical integration meant that the major studios controlled all aspects of film making, from production of the film itself to theater distribution. The monopolistic setup allowed the studios to practice block booking, whereby theaters had to accept everything a studios sent them, including shorts and B-movies, in order to get the prestige A-films, featuring the big stars who would bring in the customers. Without vertical integration, studios had fewer guaranteed sources of income.

During the 1930s and WWII, studios had become more heavily unionized, and the various unions demanded higher pay, driving up production costs, which moviegoers were unwilling to subsidize through higher ticket prices. Also, after the war, more and more Americans were moving to the new planned suburbs; fewer families were willing to travel into town for a movie after driving out of it from work.

European countries, desperate to recover from the war by encouraging their own national industries, placed stiff tariffs on the importation of American films. Prior to WWII, the American film industry had been the world-wide standard of excellence, and international distribution was extremely profitable. Now, not only did American producers have to high taxes, in the form of tariffs, to distribute their films internationally, but the content and style of European films supported by these tariffs were fresh, experimental, and less censored than the American product. Europeans also organized film festivals in Cannes, France, and Venice, Italy, to showcase new international films, and prizes at these festivals began to rival the prestige of the American Academy Awards. In short, American film making now had strong and legitimate international competition.

**The Increasing Popularity of Television**

By the late 1940s and early 1950s, “television sets” became more affordable and popular, especially in the big cities, and more and more Americans preferred to stay home with the small screen than to go out to movies. Movie producers totally underestimated the speed with which television would become a dominant media force in American life. In 1947, only about 1% of Americans had a home television set; by the late 1950s, over 90% of homes had a television set.

During the early 1950s, movie producers tried to compete with television by offering imagery that the small screen could not match: 3-D movies (usually horror and monster B-movies); and wide-screen, 70mm musicals and Biblical epics in forms such as Cinemascope and Cinerama. Some of these big-budget “blockbusters” were hits (The Ten Commandments,
Ben Hur), but the production costs were so large that a box-office failure could be ruinous to a studio. By the late 1950s, movie producers finally figured out that television could be an excellent place to show and promote their films, but the damage was done by this time.

The Demoralizing Effects of the “Red Scare”

The so-called Red Scare, led by Senator Joseph McCarthy, however, hurt the morale of the industry almost as much as the financial reverses. McCarthy’s investigations of what he believed were “communist influences” that threatened the American way of life focused on creative people and intellectuals, and many members of the Hollywood community, particularly writers and directors, came under investigation and suspicion.

McCarthy’s investigators did, in fact, have evidence of communist and socialist involvement to work with. During the 1930s, many people had become disillusioned with the unregulated and speculative capitalist economy that had been responsible for the Great Depression. The “New Deal” of President Franklin Roosevelt had promoted union activity and legitimized it to an unprecedented degree. In this atmosphere, many people had become at least tangentially involved with organizations that had ties to communism and socialism, particularly through various forms of labor activism. Plus, during World War II, the USA became allied with the communist Soviet Union against Nazi Germany. At the end of the war, though, the Soviet dictator, Josef Stalin, seized control of the Eastern European countries that his armies occupied, and installed puppet communist regimes which joined with the Soviets in what became known as the Warsaw Pact. The USA countered by forming the North Atlantic Treaty Organization with the rest of Europe, and “Cold War” was on.

Once the Soviet Union obtained nuclear weapons technology with the help of American spies in 1949, full-scale anti-communist paranoia was easy for McCarthy and other politicians (such as future President Richard Nixon) to exploit, and movie people with documented “leftist” or “communist” affiliations during the 1930s and early 1940s became prime targets. Future President Ronald Reagan, who was president of the Screen Actors Guild during the early 1950s, also laid the foundation for his own political career by supporting McCarthy’s “witch hunt.”

Those who fought the investigations or refused to cooperate were blacklisted, and were refused work by the big producers. Those who did cooperate were publicly humiliated at the Senate hearings. Some of those who were investigated, like Elia Kazan, kept their careers (and made some fine movies) only to suffer longstanding resentment for having “named names.” The Hollywood “studio system,” which had depended to a great degree on a sense of shared camaraderie and internal cohesion, was shaken to its foundations when people in the industry felt that they could no longer trust one another.