

Economy of the United States



The United States has the largest national economy in the world, with a GDP for 2005 of 12.41 trillion dollars. In this mixed economy, corporations and other private firms make the vast majority of microeconomic decisions, and governments prefer to take a minimal role in the domestic economy. Because of this, the U.S. has a small social safety net, and business firms in the U.S. face considerably less regulation than those in many other nations. The fiscal policy of the nation since the New Deal has followed the general ideals of Keynesian economics, which replaced Hamiltonian economics following the Great Depression. Neoliberal ideals have become more prominent since the presidency of Ronald Reagan and with the growing influence of globalization. Since the early 1980s, the United States has transformed from being the world's largest creditor to having a substantial current account deficit and a national debt, which is now approximately 64% of the GDP and the highest since the 1950s.

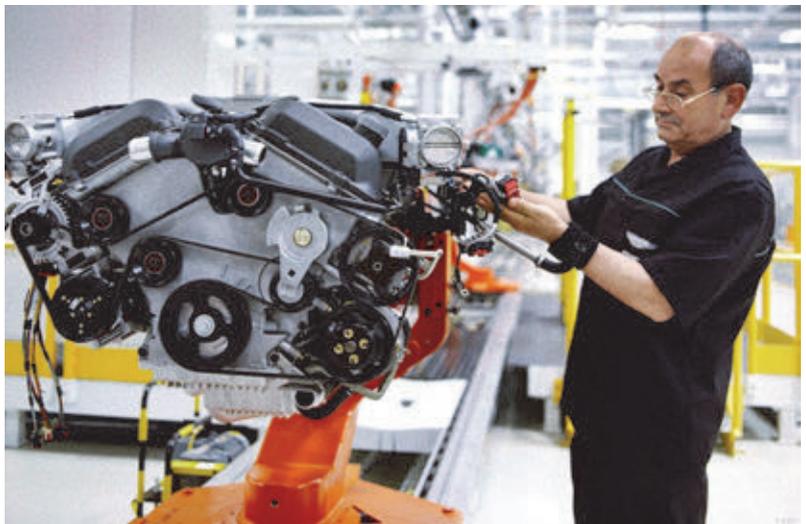
History

With President Harding's post-World War I "Return to Normalcy", the United States enjoyed a period of great prosperity during the 1920s.

The stock market grew by leaps and bounds, fueled by the inflationary policies of the Federal Reserve, and the economy was considered invincible. However, the Great Depression shattered that belief. President Franklin D. Roosevelt introduced an array of social programs and public works,

the labor force. Millions moved to industrial centers in the North and West. Military spending accounted for over 40% of GDP at the peak, driving debt up to record levels. The post-World War II years were a time of great prosperity in the United States. The economy remained stable until the 1970s, when the U.S. suffered stagflation. Richard Nixon took the United States off the Bretton Woods system, and further government attempts to revive the economy failed. As the decade progressed, the situation worsened. In November 1980, Robert G. Anderson wrote, "the death knell is finally sounding for the Keynesian Revolution." Ronald Reagan was elected President in 1980, and was of the opinion that "government is not the solution to our problem, government is the problem." Reagan advocated a program of 'supply-side economics', and in 1981 Congress cut taxes and spending, and reduced regulations. Although the Gross Domestic Product (GDP) declined by 2% in 1982, it proceeded to rebound, and by 1988 had enjoyed a total of 31% growth since Reagan's election. Under Bill Clinton's eight years of presidency, the GDP expanded by 38%. By the end of his tenure the United States had a Gross National Income (GNI) of \$9.7 trillion, and the lowest unemployment rates in 30 years. A

known collectively as the New Deal. The New Deal included a new social safety net involving relief programs like the WPA and the Social Security system. In 1941, the U.S. entered World War II. The homefront saw enormous prosperity, as labor shortages brought millions of housewives, students, farmers and African Americans into





recession began during 2000 in connection to the end of the dot-com bubble.

Throughout, housing starts and purchases remained high, and the economy as of 2005 is considered by many to be strong in general. Some fear high government spending (such as in the Iraq War) as well as high oil prices may accelerate inflation. There are also warnings that the Federal Government needs to re-balance the budget to avoid potential default. While default does not appear a probable outcome, it is highly likely that persistent high budget deficits will drag down the economy in the future. This applies even more so to the current account deficit and external debt. U.S. liabilities to foreigners are estimated at \$15 trillion in 2005, and continue to grow.

Basic ingredients of the U.S. economy

The first ingredient of a nation's economic system is its natural resources. The United States is rich in mineral resources and fertile farm soil, and it is fortunate to have a moderate climate. It also has extensive coastlines on both the Atlantic and Pacific Oceans, as well as on the Gulf of Mexico. Rivers flow from far within the continent, and the Great Lakes - five large, inland lakes along the U.S. border with Canada - provide additional shipping access. These extensive waterways have helped shape the country's economic growth over the years and helped bind America's 50 individual states together in a single economic unit.

The second ingredient is labor. The number of available workers and, more importantly, their productivity help determine the health of an economy. Throughout its history, the United States has experienced steady growth in the labor force, and that, in turn, has helped fuel almost constant economic expansion. Until shortly after World War I, most workers were immigrants from Europe, their immediate descendants, or African Americans who were mostly slaves taken from Africa, or slave descendants. Beginning in the early 20th century, many Latin Americans immigrated; followed by large numbers of Asians following removal of nation - origin based immigration quotas. The promise of high wages brings many highly skilled workers from around the world to the United States. Labor mobility has also been important to the capacity of the American economy to adapt to changing conditions. When immigrants flooded labor markets on the East Coast, many workers moved inland, often to farmland waiting to be tilled. Similarly, economic opportunities in industrial, northern cities attracted black Americans from southern farms in the first half of the 20th century. Third, there is manufacturing and investment. In the United States, the corporation has emerged as an association of owners, known as stockholders, who form a business enterprise governed by a complex set of rules and customs. Brought on by the process of mass production, corporations such as General Electric have been instrumental in shaping the United States. Through the stock market, American banks and investors have grown their economy by investing and withdrawing capital from profitable corporations. Today in the era of globalization American investors and corporations have influence all over the world. The American government has also been instrumental in investing in the economy, in areas such as providing cheap electricity (such as the Hoover Dam), and military contracts in times of war.

While consumers and producers make most deci-



sions that mold the economy, government activities have a powerful effect on the U.S. economy in at least four areas. Strong government regulation in the U.S. economy started in the early 1900s with the rise of the progressive movement; prior to this the government promoted economic growth through protective tariffs and subsidies to industry, built infrastructure, and established banking policies, including the gold standard, to encourage savings and investment in productive enterprises.

Stabilization and growth

Perhaps most importantly, the federal government guides the overall pace of economic activity, attempting to maintain steady growth, high levels of employment, and price stability. Adjusting spending and tax rates (fiscal policy) or managing the money supply and controlling the use of credit (monetary policy), it can slow down or speed up the economy's rate of growth-in the pro-

cess, affecting the level of prices and employment. For many years following the Great Depression of the 1930s, recessions - periods of slow economic growth and high unemployment - were viewed as the greatest of economic threats. When the danger of recession appeared most serious, government sought to strengthen the economy by spending heavily itself or cutting taxes so that consumers would spend more, and by fostering rapid growth in the money supply, which also encouraged more spending. In the 1970s, major price increases, particularly for energy, created a strong fear of inflation - increases in the overall level of prices. As a result, government leaders came to concentrate more on controlling inflation than on combating recession by limiting spending, resisting tax cuts, and reining in growth in the money supply.

Ideas about the best tools for stabilizing the economy changed substantially between the 1960s and the 1990s. In the 1960s, government had

great faith in fiscal policy—manipulation of government revenues to influence the economy. Since spending and taxes are controlled by the president and the U.S. Congress, these elected officials played a leading role in directing the economy. A period of high inflation, high unemployment, and huge government deficits weakened confidence in fiscal policy as a tool for regulating the overall pace of economic activity. Instead, monetary policy—controlling the nation's money supply through such devices as interest rates—assumed growing prominence. Monetary policy is directed by the nation's central bank, known as the Federal Reserve Board, with considerable independence from the president and the Congress.

Regulation and control

The U.S. federal government regulates private enterprise in numerous ways. Regulation falls into two general categories. Economic regulation: Seeks, either directly or indirectly, to control prices. Traditionally, the government has sought to prevent monopolies such as electric utilities from raising prices beyond the level that would ensure them reasonable profits. At times, the government has extended economic control to other kinds of industries as well. In the years following the Great Depression, it devised a complex system to stabilize prices for agricultural goods, which tend to fluctuate wildly in response to rapidly changing supply and demand. A number of other industries—trucking and, later, airlines—successfully sought regulation themselves to limit what they considered as harmful price cutting. Another form of economic regulation, antitrust law, seeks to strengthen market forces so that direct regulation is unnecessary. The government—and, sometimes, private parties—have used antitrust law to prohibit practices or mergers that would unduly limit competition. In 1933, Congress created the Federal Deposit Insurance Corporation (FDIC) which presently guarantees checking and savings deposits in member banks

up to \$100,000 per depositor to prevent bank failures. This was in response to the widespread bank runs of the early 1930s during the Great Depression. Social Regulations: Since the 1970s, government has also exercised control over private companies to achieve social goals, such as protecting the public's health and safety or maintaining a clean and healthy environment. The U.S. Food and Drug Administration tightly regulates what drugs may reach the market. For example, the Occupational Safety and Health Administration protects workers from hazards they may encounter at their workplace and the Environmental Protection Agency seeks to control water and air pollution. Such agencies draw heavy criticism from conservatives, who question the agencies' efficiency and necessity. American attitudes about regulation changed substantially during the final three decades of the 20th century. Beginning in the 1970s, policy makers grew increasingly concerned that economic regulation protected inefficient companies at the expense of consumers in industries such as airlines and trucking. At the same time, technological changes spawned new competitors in some industries, such as telecommunications, that once were considered natural monopolies. Both developments led to a succession of laws easing regulation. While leaders of America's two most influential political parties generally favored economic deregulation during the 1970s, 1980s, and 1990s, there was less agreement concerning regulations designed to achieve social goals. Social regulation had assumed growing importance in the years following the Depression and World War II, and again in the 1960s and 1970s. But during the presidency of Ronald Reagan in the 1980s, the government relaxed rules intended to protect workers, consumers, and the environment, arguing that regulation interfered with free enterprise, increased the costs of doing business, and thus contributed to inflation. Still, many Americans continued to voice concerns about specific events or trends, prompt-



ing the government to issue new regulations in some areas, including environmental protection. As of March 2005, it is estimated that compliance with government regulation costs the U.S. economy \$1.4 trillion a year. Some citizens, meanwhile, have turned to the courts when they feel their elected officials are not addressing certain issues quickly or strongly enough. For instance, in the 1990s, individuals, and eventually government itself, sued tobacco companies over the health risks of cigarette smoking. A large financial settlement provided states with long-term payments to cover medical costs to treat smoking-related illnesses. The money is mostly spent (or will be spent, as checks are often written in anticipation of payments) for other purposes.

Direct services

Each level of government provides many direct services. The federal government, for example, is responsible for national defense, backs research

that often leads to the development of new products, conducts space exploration, and runs numerous programs designed to help workers develop workplace skills and find jobs. Government spending has a significant effect on local and regional economies and even on the overall pace of economic activity.

State governments, meanwhile, are responsible for the construction and maintenance of most highways. State, county, or city governments play the leading role in financing and operating public schools. Local governments are primarily responsible for police and fire protection. Government spending in each of these areas can also affect local and regional economies, although federal decisions generally have the greatest economic impact.

Overall, federal, state, and local spending accounted for almost 28 percent of gross domestic product in 1998.

Direct assistance

Government also provides many kinds of help to businesses and individuals. It offers low-interest loans and technical assistance to small businesses, and it provides loans to help students attend college. Government-sponsored enterprises buy home mortgages from lenders and turn them into securities that can be bought and sold by investors, thereby encouraging home lending. Government also actively promotes exports and seeks to prevent foreign countries from maintaining trade barriers that restrict imports. Government supports individuals who cannot or will not adequately care for themselves. Social Security, which is financed by a tax on employers and employees, accounts for the largest portion of Americans' retirement income. The Medicare program pays for many of the medical costs of the elderly. The Medicaid program finances medical care for low-income families. In many states, government maintains institutions for the mentally ill or people with severe disabilities. The federal government provides food stamps to help poor families obtain food, and the federal and state governments jointly provide welfare grants to support low-income parents with children. Many of these programs, including Social Security, trace their roots to the "New Deal" programs of Franklin D. Roosevelt, who served as the U.S. president from 1933 to 1945. Key to Roosevelt's reforms was a belief that poverty usually resulted from social and economic causes rather than from failed personal morals. This view repudiated a common notion whose roots lay in New England Puritanism that success was a sign of God's favor and failure a sign of God's displeasure. This was an important transformation in American social and economic thought. Even today, however, echoes of the older notions are still heard in debates around certain issues, especially welfare.

Many other assistance programs for individuals and families, including Medicare and Medicaid,

were begun in the 1960s during President Lyndon Johnson's (1963–1969) "War on Poverty." Although some of these programs encountered financial difficulties in the 1990s and various reforms were proposed, they continued to have strong support from both of the United States' major political parties. Critics argued, however, that providing welfare to unemployed but healthy individuals actually created dependency rather than solving problems. Welfare reform legislation enacted in 1996 under President Bill Clinton (1993–2001) requires people to work as a condition of receiving benefits and imposes limits on how long individuals may receive payments.

National debt

The national debt, also known as the U.S. public debt and the gross federal debt, is the overall collective sum of yearly federal budget deficits owed by the United States federal government. The economic significance of this debt and its potential ramifications for future generations of Americans are controversial issues in the United States. The borrowing cap debt ceiling as of 2005 stood at 8.18 trillion. In March of 2006, Congress raised that ceiling an additional .79 trillion to \$8.97 trillion. Congress has used this method to deal with an encroaching debt ceiling in previous years, as the federal borrowing limit was raised in 2002 and 2003. The size of the debt is in the trillions and consequently it has been part of popular culture to parody the growing debt with some type of doomsday clock, graphically showing the growing indebtedness every second. While the U.S. national debt is the world's largest in absolute size, a more accurate measure is that of its size relative to the nation's GDP. When the national debt is put into this perspective it appears considerably less today than in past years, particularly during World War II. By this measure, it is also considerably less than those of other industrialized nations such as Japan and roughly equivalent to those of several Western European nations.

Poverty

This graphic shows the distribution of gross annual household income. The building's thirty exposed floors are easily divided into quintiles, each income quintile is thereby represented by six floors. Each floor represents the tenth of a third (3.33%) of households in the US and each section of 10 floors represent roughly one third of American society. The floors above the top black line represent those households with incomes of or exceeding \$100,000. The floors below the bottom black line, however, represent those households who fell below the poverty threshold. In order to live on the top floor of the American income strata, a household's annual gross income must exceed \$200,000. There is significant disagreement about poverty in the United States, particularly over how poverty ought to be defined. Using radically different definitions, two major groups of advocates have claimed variously that (a) the United States has eliminated poverty over the last century; or (b) it has such a severe poverty crisis that it ought to devote significantly more resources to the problem. The two preceding definitions of poverty are very different because one group defines poverty as a lack of basic resources. Even with over 300 million people, The United States has a very low number of people who lack basic necessities (e.g., food, shelter, clothing). The other group argue that income inequality is providing the richest 10% with a much better standard of living than the poorest 10%.

Much of the debate about poverty comes from groups who either support welfare programs and government regulation of the market or a market which is regulation free and not bound by a big social safety net. Measures of poverty can be either absolute or relative. Absolute poverty is defined in real dollar values, whereas relative poverty is a comparison of the highest to the lowest standard of living at a particular time period.

Income inequality

The United Nations Development Program Report 2005 ranks income distribution in the United States as the 92nd most equal out of 124 countries, as measured by the Gini coefficient. The richest 10% make 15.9 times as much as the poorest 10%, and the richest 20% make 8.4 times as much as the poorest 20%. (See List of countries by income equality.) This does not take into account absolute income levels. If, for instance, one country's poorest are richer than another country's average, then the inequality comparison becomes less meaningful.

Other statistics

Industrial production growth rate: 3.2% (2005 est.). Electricity: production: 3,892 TWh (2003), consumption: 3,656 TWh (2003), exports: 23.97 TWh (2003), imports: 30.39 TWh (2003). Electricity - production by source: fossil fuel: 71.4%, hydro: 5.6%, nuclear: 20.7%, other: 2.3% (2001). Oil: production: 7.61 million barrel/day (2005 est.), consumption: 20.03 million barrel/day (2003 est.), exports: 1.048 million barrel/day (2004 est.), imports: 13.15 million barrel/day (2004 est.), net imports: 12.097 million barrel/day (2004 est.), proved reserves: 22.45 billion barrel (1 January 2002). Natural gas: production: 539 billion m³ (2003 est.), consumption: 633.6 billion m³ (2003 est.), exports: 24.19 billion m³ (2004 est.), imports: 114.1 billion m³ (2004 est.), proved reserves: 5.353 trillion m³ (1 January 2002).

Agriculture - products: wheat, corn, other grains, fruits, vegetables, cotton; beef, pork, poultry, dairy products; forest products; fish. Exports - commodities: capital goods, automobiles, industrial supplies and raw materials, consumer goods, agricultural products.

Imports - commodities: crude oil and refined petroleum products, machinery, automobiles, consumer goods, industrial raw materials, food and beverages.