# American economy of the 20th century

History

The growth of industry in the last half of the 19th century laid the foundation for American economy of the 20th century [1]. The expansion was driven by large-scale industrial development and railroads that led to an urbanized industry primarily in the Northeast, and promoted population increase throughimmigrationat a rate of 300, 000 persons per year. The second half of the 19th century brought an explosion of new discoveries and inventions that amounted to a " second industrial revolution.

" Examples included: petroleum discoveries, typewrites, refrigerated railway cars, telephone, phonograph, car, electric and the airplane. These inventions enabled the rise of the business tycoon who amassed a vast financial empire, and had tremendous influence on the further development of the U. S. economy. The great tycoons were fierce competitors, singleminded in their pursuit of financial success and power. Among the giants were Jay Gould, J. P. Morgan, Andrew Carnegie, John D. Rockefeller and Henry Ford.

Some of these men were honest, according to business standards of their day; others used force, bribery and guile to achieve their wealth and power. Their example and the fact that most Americans -- living in a society with a more fluid class structure -- embraced the idea of moneymaking with enthusiasm created the impetus for the American economic engine at the beginning of the 20th century. The era of progressivism is characterized by the reluctance of the US government to get too involved in the private sector.

This freed everyone to do whatever they could to get ahead, and ultimately proved the downfall of many small and large business men by the time of theGreat Depression(1929-1940). The tremendous growth of the economy was unsustainable, and the lack of regulations meant that the inevitable slow down affected different economic sectors disproportionately and severely. The 1929 stock market crash had brought on the most serious economic dislocation in the nation's history.

The New Deal enacted by Roosevelt's attempt to alleviate the emergency and prevent it in the future by extending federal authority in all fields, notably banking, agriculture, social security and public welfare. It gave immediate attention to labor problems, creating minimum standards for wages, hours, relief and security -- and served as a catalyst for the expansion of labor unions in such industries as steel, automobiles and rubber. During this period organized labor unions were developed as a grass roots response to business past excesses.

The US economy probably would have returned to its original condition with relatively low government interference in the direction it evolved (though with the newly instituted checks and balances put in place by the New Deal) eventually but the outbreak of WWII in which the US played a major role economically and technologically in contrast to WWI. The U. S. government was compelled to intervene in the economy as it never had before. The War Production Board was created to coordinate the nation's productive capabilities so that military priorities would be met.

Converted consumer-products plants filled many military orders. Automakers built tanks and aircraft, for example, making the United States the " arsenal of democracy. " In an effort to limit inflation due to rising national income and scarce consumer products, the newly created Office of Price Administration controlled rents on some dwellings, rationed consumer items ranging from sugar to gasoline, and otherwise tried to restrain price increases. This intervention had several effects.

First it redirected business resources to the military effort, and away from consumer goods. During theDepression, most people were too poor to buy anything, but as the economy sped up in the war effort, it began to put wealth in the pockets of ordinary citizens, who did not have anything to spend it on. Psychologically this created a pent up demand for everything such that when the war was over and business could return to purely consumer interests there was a huge pent up demand for everything.

This pent-up demand was enough to fuel the economy for almost 15 years, and led to the Baby Boom and expansion of suburbs and the middle class. The automobile industry successfully converted from making tanks and bombers, and new industries such as aviation and electronics grew by leaps and bounds. A housing boom, stimulated in part by easily affordable mortgages for returning servicemen, added to the expansion. So did the rise in defense spending, which occurred later with the escalation of theCold War. Business entered a period marked by consolidation.

Firms merged to create huge, diversified " conglomerates": for example, International Telephone and Telegraph Co. bought Sheraton Hotels, Continental Baking, Hartford Fire Insurance, Avis Rent-a-Car and other companies. However the seed of imbalance were being sewn. More people wanted to work at white collar jobs hat paid well, and did not require physical labor, and with the expanding manufacturing it was possible. Farmers on the other hand over produced as a result oftechnologyimprovements which led to a decrease in prices and loss in profitability.

Finally demographic shifts to the Sun Belt states, began to bleed the talent hungry North of trained employees. These changes began a slow but serious sift in the location and focus of business operations. Businesses began to shift their operations to follow the people, and change the job descriptions by shifting undesirable manual labor jobs to minorities and eventually out of the country. The 1960's and 1970's began a period of social malaise as people began to feel thestressof economic changes without really understanding why and how extensive they became.

Before all people had to worry about was their own performance, and perhaps their small community, now everyone was affected by national shifts that were not obvious as they evolved. In somerespectthe public's response was similar to that during the great Depression that led to demand of greater government regulation and labor unions, except that global issues such as theenvironment, poverty, foreign competition, and energy became the focus.

To try to refocus the economy, Kennedy promoted the space program which among other things was to help turn the US economy toward technology rather than manufacturing, but a series of events allowed this to dissipate after several years: Kennedy's assassination, racial riots, the Korean and Vietnam wars, and the 193 Arab Oil embargo. Thus the space program was unable to refocus the economy, and instead spiraling inflation, increased federal budget deficits, intensified foreign competition, high unemployment and stagnant demand arose.

This situation was used politically to shift American political support from Democratic to Republican, since through the widespread availability of TV, radio, and new magazines it was possible to convince the public that regulation of business led to stagnation of business, and only through its freedom, it could re-drive the economy, much like it did at the turn of the century. In the early 1980s, the Reagan administration pushed through a series of tax cuts, at the same time that it proposed huge slashes in social programs, and reduction or elimination of government regulations affecting the consumer, the workplace and the environment.

Tight control of the Federal Reserve help keep inflation low during these changes, and was used to keep social upheavals by the mainstream populace at bay. Those who lost out in the first wave of economic changes in the 1960’s because they could not adapt, were also affected by the “ fixes” of the 19t0’s and 1980’s. Meanwhile the US government had to support agriculture which had totally collapsed, leading to the establishment of the budget deficit.

Another stock market crash in 1987, suggested more corrections on business activities was in order, and the subsequent collapses of the savings and loan industry in the 1990’s, underscored the lessons learned during the Great Depression, namely that unregulated business activities promote the economy initially, but do not prevent imbalances from developing that eventually threaten the overall positive growth, even though by contrast, other sectors of the economy, such as computers, aerospace and export industries generally showed signs of continuing growth.

The US economy of the late 1990’s and beginning of the 21st century is heavily affected by the global economy. The global economic interdependence of the United States and other nations has grown geometrically since the Second World War, and is evidenced in resource utilization, production decisions, raw materials trade and consumer demand. A sign of increased interdependence is the growth of foreign investment. Through foreign investment, the U.

S. industry has helped develop major industries in other countries, attempted to increase demand by serving foreign markets from local plants, and to shift undesired or difficult to fill manufacturing jobs to places where it is cheaper and the workforce is available. About one-third of foreign investment in the United States is also in manufacturing. Meantime, those lost jobs are replaced by new ones in industries with more potential.

In the late 20th century, those jobs were increasingly in such high-technology industries as computers and biotechnology, and in fast-expanding service industries such ashealthcare and computer software. As a result of this interdependence the US economy is entering another period of economic growth, as well as uncertainty. Since the growth of foreign investment in both directions has developed faster than regulations, there is inevitably going to be problems with economic imbalances, except this time on a global scale. Issues of national security overlap with economic issues traceable to a general global imbalance in wealth.

In an attempt to fix these imbalance the US entered into several “ free trade” agreements, aimed a making economic growth equal on both sides. In some cases these agreement have sped up the inevitable job and industry restructuring that was occurring throughout the end of the 20th century. The hope is that in the long run economies of equal partners will work much better than between unequal partners. From Revolution toReconstruction, Dr. George M. Welling, Department of Alfa-Informatica of the University of Groningen (The Netherlands), 2005.