

The economies of japan and the united states of america essay sample

[Economics](#)



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1. The end of World War II saw the beginnings of the Cold War and the rise of the United States as the biggest economic power on the face of the Earth. The rapid growth of the post war US economy is best shown by the figure below (Figure 1). We could also see that the GDP per capita of the United States has kept pace with its economic growth.

It is difficult to pinpoint an exact strategy for America's economic growth for the past 50 years. Aside from the many possible factors, American economic strategy also tends to change with the times and with the different administrations that come and go into office. One thing that has remained constant during the many US Presidents and their strategies are the drivers for US economic production. These driver include government (and military) spending, public consumption and foreign trade. These drivers give a picture of the US economy as that of a Keynesian economy, a state where the private and public sector each play an important role in the economy.

The end of World War II brought qualms that government spending would slow down with the end of the War. However, the subsequent rise of the USSR as a global power and the birth of the Cold War have kept military spending at an elevated level even during peacetime. The cold war ensured that the "military-industrial complex" as referred to by President Eisenhower remained a strong contributor to the US economy. ("The U. S. Economy: A Brief History")

Consumer spending is another key to the postwar growth of the US economy. Returning GIs from foreign lands sparked a housing boom domestically. Housing demand paved the way for the development of

suburbia with Americans moving into mass produced single family homes. A key investment of the government that paid off was spending \$26 Billion for the Highway Act of 1956. The construction of more than 64, 000 kilometers of roads linked together the cities and suburbs, improving trade and the expansion of the cities into suburban towns. Lastly, another factor for the strong postwar consumer spending would be the increase in the US population thanks to the postwar “ baby boom”. (“ The Postwar Economy: 1945-1960”)

The labor landscape of the US also saw a major shift in the post war years, one of the signs for a shift of the economy from a manufacturing based one to one that is service oriented. By 1956, there were more white collar workers than blue collar workers. (“ The U. S. Economy: A Brief History”) The shift to a white collar economy meant a change in values, from manufacturing to a knowledge-based industry which yields more value compared to sheer labor. This trend has continued to this day with most American companies just opting to have their goods manufactured overseas where wage and labor costs are cheaper.

The shift to a knowledge based economy has proven to be another key factor for the economic development of the US. The knowledge economy has given way to the development and industrialization of modern technology based industries which have helped cement the US as a world economic and technological leader. Modern electronics, the Internet, computers, biotechnology, and other high tech high value industries could trace some

parts of its heritage to an American university or research institution at some point.

2. The economy of Japan is the second largest economy in the world next to the United States. Like the United States, it also experienced rapid economic growth after World War II. Given that Japan had the challenge of building its economy out of the ashes of its war torn country, some have lent to calling the post WWII reconstruction of Japan as an economic “ miracle”. This is justifiable seeing how the war destroyed the economic advances of Japan since 1868. (Metraux)

Like the US, a factor for the postwar economic expansion of Japan was owed to the repatriation of its soldiers into civilian life. The labor force at the end of WWII increased by 7. 1 million from soldiers moving back to civilian living, 2. 6 million from Japanese citizens returning to the mainland and 1. 6 million from laborers who were previously employed for the (now defunct) Japanese armaments industries. (Watkins)

With the destruction of Japanese production facilities came an unexpected benefit – the construction of newer and more advanced factories gave Japan a competitive edge over the victors of WWII. Also, one advantage of Japan was its advanced educational system. Japanese education created a highly literate and highly disciplined workforce. (Metraux)

Most of the Japanese economic activity during the early postwar years centered on rebuilding the infrastructure destroyed in WWII. Investments were made in key sectors including coal, steel, power generation and chemical fertilizers (for the agricultural industry). This allowed Japan to reach

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its prewar economic levels by the middle of the 1950s. However, the 1960s-70s brought a boom to the Japanese economy in the form of increased exports. Japanese automobiles, machinery and ships entered the world market during this period. The same trend continued in the 1980s with consumer electronics and computers becoming new key exports for the Japanese. This was fueled by the highly acclaimed innovation and reverse engineering of Japanese scientists and engineers to produce globally superior product offerings. (Metraux)

The economic development of Japan in the 80s has led to the infamous Japanese asset price bubble and the stagnation in the 1990s after the bubble burst. As financial institutions held more and more capital, lending became very easy for Japanese firms and citizens which fueled speculation in long term assets, specifically real estate and the stock market. After the crash, it was apparent that reforms to the financial systems of Japan were in order. However, such reforms were difficult when the banks themselves were not open to admitting flaws in their own operations. Government policies that discouraged the cutting of the labor force were another difficulty faced by firms in cutting their losses. (Watkins)

A major problem that prevented Japan from recovering from the bubble during the 1990s was the immaturity of its financial system. As opposed to the Keynesian system implemented in the US, the Japanese economic model is best described as a superior blending of free market capitalism and socialism. As such, the state remains a strong force in the Japanese economy manifested by the feudalistic Ministry of Finance. The manhandling of the

MOF of the Japanese financial institutions gave rise to very wealthy Japanese banks without the skill or know-how to manage it. (Watkins)

Japanese efforts at rectifying their economy also run against steps that an economy that the US might take. While in a state of recession, the trend would be to cut the tax rate, increase government spending and to promote a weak currency. The Japanese government has only taken one out of these three steps. However, the increased efforts to promote financial transparency, deregulation and privatization shall hopefully help the Japanese economy get back on track. (Evans, 2000)

3. Some of the challenges facing the US economy include an ageing population, a high inflation rate, poor performing elementary and secondary education, and rising inequality among the population. These may threaten the continued economic development of the United States as the 21st century rolls along. While the baby boomers drove the US Economy in the previous century, their retirement is going to place huge pressures on the social security system and the working population that supports social security. Together with the increasing life expectancy of the previous generations, social security is going to be hard pressed to provide for the medical and pension costs of the senior population. The economy will therefore need to depend on increasing productivity to create economic growth that can sustain the rising standard of living for all citizens, retirees and employees alike. (OECD, 2007)

The inflation rate is seen to taper off as the housing bubble slows down. The rising prices of oil in the world market continually threaten a rise in consumer costs however; government policies have mitigated the defrayment of energy costs into inflation. (OECD, 2007) The US should seek to reduce its dependence on foreign energy sources if it plans to contain its inflation rate for the coming decades.

The rising inequality is also a cause for concern. Economic measures that have made the economy more open and trade more dynamic have increased the productivity of the economy and the overall prosperity of the nation. On the other hand, some of these measures have also led to increased inequality. Aside from the social equity aspects of rising inequality, rising inequality may also erode public support for the economic measures that have performed well for the United States for the past few years. (OECD, 2007)

Lastly, a major concern is the lagging of US primary education compared to other first world countries. The role of a highly educated workforce in a modern economy is undeniable, much more so in the knowledge-based economy of the US. The US needs to elevate the standards that students in primary and secondary school are held to. Moreover, schools should prepare students for entering the workforce or entering a tertiary educational institution. While the US has the most esteemed collegiate system in the world, many freshmen fail to graduate due to difficulties with financing and lack of preparation. These concerns could be addressed by improving the student loan system that is currently in place and by improving the quality of secondary school education. (OECD, 2007)

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Figures

Figure 1: Real GDP and GDP per capita from 1945-2000. Graph made with data taken from Economic History Services Website (EH. net)

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