Free essay on effects of world war ii on the american economy

War, World War 2

Section A: Plan of Investigation

Most of the people in the current generation believe that war and essentially investing in the military is good for the economy. This is quite contrary to public acknowledgement and comprehension of the costs involved in case a war takes place. World War II disrupted a lot of systems the world over; America not being an exemption. This paper seeks to elucidate on the extent of damage the American was subjected to as a result of the war. Focus will be given to the macroeconomic implications of U. S policies as a result of the conflict. To achieve a sound conclusion, the paper will lay particular focus to macroeconomic indicators that include but are not limited to: GDP, level of taxation and public debt, Investment as a percent of GDP, Consumption as a percent of GDP, Inflation, Average stock market valuations and income distribution. In this paper, I hope to determine the extent of the effects that accrued from the World War II by examining secondary sources.

Section B: Summary of Evidence

- With the heightened military activity due to World War II, unemployment was virtually eliminated. Many young people were recruited into the army since the old had to be retired in a bid to increase efficiency. A lot of positions came with the war and the American citizens were now virtually unemployed (Congdon 52).
- Economic activities were also elevated by the war since a lot had to be achieved within a very short time span. Aircrafts had to be created and repaired, the military had to be armed, food had to be provided- there was a lot to be done (Harrison 18).

- New technologies were developed. In a bid to remain relevant in the war, the US had to come up with different arms and this required new technology. This was in turn diffused into other industries (Lofgren).
- World War II led to the end of the Great Depression. This was a direct effect of the reduction of income inequality (Feldstein 9).
- The levelling of the inequality in income established the consumer oriented economy of USA (Daggett).
- Debt and higher taxes were used to finance the war and that essentially left the US swimming in debt.
- Consumption and investment was reduced by government control of raw materials and resources (Congdon 52).
- Most of the positive effects that were accrued from the war were only short term. The long term effects were negative and essentially very detrimental to the economy (Harrison 18).
- Rectifying these long term effects just to achieve optimality is an all daunting affair; one that requires more resources (Lofgren).
- Non-military outlays were displaced given the US government was struggling with deficits. Since they would no longer risk to be unprepared for war, they did not have the option to reduce military funding. Having their hands tied meant that civilians had to suffer by paying high taxes that were meant to offset the debts that had been accrued while financing important government activities at the same time (Daggett).
- With the crowding out effect taking a toll on government activities and military spending, infrastructure development and service delivery are naturally affected. This in turn means that growth rates in the long term are

negatively affected.

- War spending has a lot of macroeconomic effects; World War II not an exception. The war proved to the government that it was not only about military capability but also on a stable economy.
- A lot of resources were used by the American government to finance World War II. In turn, the period between 1941 and 1945 marked one of the most momentous short term increases in the growth of the economy. No other moment has been recorded to be like that in the entire American economic history (Congdon 52).
- That historical growth was the likely effect of government spending. This in turn caused a decline in consumption and investment. Due to government funding through taxes and debt (increased 6 and 5 times respectively), the sudden and short term growth was experienced between 1941 and 1945 (Harrison 18).
- Despite the fact that there was clearly a reduced rate of unemployment, the expected consequence of increase in consumption did not happen (Lofgren 20).
- Government spending in 1941 stood at 30% of GDP. By 1944, the government was spending 79% of the entire GDP; this represented a staggering increase of 394% in a period of just three years (Feldstein 29).
- Rationing and price controls prevented the growth of other sectors of the economy. Most of the raw materials were being used to produce goods to aid in the war (Edelstein 20).

Section C: Evaluation of sources

Congdon, Tim. " The Economic Consequences Of War And Terrorism."

Economic Affairs

23. 2 (2003): 52-52. Print.

This book was written by Tim Congdon in 2003. He has drawn a lot of information from other sources hence it is a secondary source. The author discusses the effect war and terrorism on the economy of a country. Given his vast knowledge of economics, he provides his readers with an in-depth analysis on the effects of war. Despite the fact that he discusses war in general, he does so in a way that allows readers to easily make the relevant connections. The book assisted me a lot in my research as the author effectively describes the macroeconomic factors that are in play in the American economy; with particular emphasis on those that were affected by the war.

Lofgren, Michael. " Is War Good for the Economy?." The Huffington Post.

TheHuffingtonPost. com, 30 Apr. 2013. Web. 10 Apr. 2014.

econo_1_b_3185569. html>.

This post was written by Michael Lofgren in direct correspondence to the popular and informative Huffington Post. It is a secondary source in the sense that the author got most of his information from other sources. According to this article on The Huffington Post, war has a lot of effects on any country. The author gives the dynamics involved in evaluating the economic effects of war. The article opened my eyes on a lot of issues including the dynamics of GDP and how it is affected in case of a war- such as World War II. The author is an experienced historian researcher. He is also deeply knowledgeable on economic issues and is as such, worth listening to. The post nonetheless, provides the general effects of war with only a few instances where he makes direct to World War II. As such, it is not an efficient source in itself. All in all, it was instrumental in assisting me conclude on my research question.

Section D: Analysis

It is important to note that there is a positive side to increased military activity. For instance, a lot of jobs are created, there is elevated economic activity and even improvement of technology; this could later diffuse into other sectors of the economy. The economy in turn, experiences a high GDP growth. This is true for all nations the world over except Iraq and Afghanistan who have had to contend with a GDP that is on a constant decline. World War II has also been cited to have put in place the right conditions that would fuel future growth while ending the Great Depression at the same time. World War II came with a lot of opportunities for the American citizens. For instance, those who were jobless now had a real chance to work. The war opened up opportunities in various industries; both military and non-military. With the increased labour, the disparity among workers was toned down to a great extent (Congdon 52).

After World War II, there was a sharp decline in inequality where income was concerned. This reduced inequality began right after World War II commenced; it continued that way till the end of the Cold War when the incongruence made a comeback. The reduced discrepancies within income has been said to lead to the America there is now; a consumer oriented economy. Analysts have attributed the current system to the events that took place during that period since for most of the other times, citizens have to live with very huge gaps between their various incomes. This is normally brought about by different tax brackets that are existent within the system. During the World War II there was no apparent relationship between average stock market valuations. The stock market fell immediately after the onset war and remained that way till the end of the war (Harrison 18).

There were economic indicators that felt the effect of the war immediately after its onset whereas there are others that reacted after the war. The level of Taxation and Public Debt for instance, were greatly elevated by the war. Also, inflation increased as a direct consequence of World War II. On the other hand, consumption as a percent of GDP and Investment as a percent of GDP were both seen to decrease as a result of the war. As has been mentioned there were both long and short term effects of World War II. The long-term effects had more severe effects as compared to the ones that lasted for a relatively short time. The government was now left with the unnerving task of identifying means through which they were going to offset the debt and serve their citizens at the same time (Lofgren).

The high government spending that comes with war only generates positive benefits for a short-time. Economic growth is briefly stirred by the brief conflict spending booms. Conversely, the negative effects occur either during the war or as an aftermath. This essentially means that they will extend their harmful effects to the long-term (Feldstein 29).

After World War II, U. S. gross debt stood at around 120% of the GDP. This happened because the war had been financed through both higher taxes and debt. Additionally, tax revenue rose almost thrice to form about 20% of the GDP. The high tax burden on the citizens did not allow the reduced income disparities to last for long which in essence shows how long term effects work. In 1942, the GDP had skyrocketed to more than 17%. Nonetheless, both investment and consumption contracted to a great level. Such dynamics within macroeconomic indicators try to draw a line between short and long term effects of phenomena such as World War II. Reduction of consumption and investment was greatly influenced by control of raw materials and resources by the government. This principally means that they controlled the market and entry by private investors was impossible (Daggett).

Trend lines for GDP growth, consumption and investment revealed that no growth was experienced immediately after the war. Unemployment was eliminated during the entire period when the war was taking place. There were many gaps to be filled since war is quite labour intensive. While recognizing the benefits of World War II, it becomes crucial to examine the counterfactuals there in. here, consideration is given to the consequences that come with unintended spending by the military and the opportunity cost at the same time (Congdon 52).

Section E: Conclusion

In conclusion, there is no way war will leave the economy just like it was. World War II had a lot of effects on the American economy; both negative and positive. A lot of macroeconomic dynamics such as the level of inflation and taxation are directly affected by war. After the above evaluation, it is clear that the American economy was affected by World War II to a great extent. As has been highlighted above, the nation was left with a debt to service and issues like inflation to contend with.

Works Cited

Congdon, Tim. " The Economic Consequences Of War And Terrorism." Economic Affairs 23. 2 (2003): 52-52. Print.

Daggett, S., Congressional Research Service: Costs of Major U. S. Wars, Federation of American Scientists, (2010) viewed 10 April 2014, http://www. fas. org/sgp/crs/natsec/RS22926. pdf.

Edelstein, Michael. “ War and the American Economy in the Twentieth Century,” pp. 329-405 in S. L. Engerman and R. E. Gallman, eds. The Cambridge Economic History of the United States 2000. Vol. III. The Twentieth Century. Cambridge University Press

Feldstein, Martin S.. The American economy in transition. Chicago: University of Chicago Press, 2009. Print.

Harrison, Mark. The economics of World War II: six great powers in international comparison. Cambridge: Cambridge University Press, 1998. Print.

Lofgren, Michael. " Is War Good for the Economy?." The Huffington Post.

TheHuffingtonPost. com, 30 Apr. 2013. Web. 10 Apr. 2014.

econo_1_b_3185569. html>.